INLAND REAL ESTATE CORP
Form 10-Q
November 07, 2013
Table of Contents

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

FORM 10-Q

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

For the quarterly period ended September 30, 2013
or

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

For the transition period from to

Commission File Number 001-32185

(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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (do not check if a smaller reporting company)	Smaller reporting company o

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

As of November 7, 2013, there were 99,689,974 shares of common stock outstanding.

Table of Contents

INLAND REAL ESTATE CORPORATION
(a Maryland corporation)

TABLE OF CONTENTS

		Page
	Part I — Financial Information	
Item 1.	Financial Statements	
	Consolidated Balance Sheets at September 30, 2013 (unaudited) and December 31, 2012	2
	Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2013 and 2012 (unaudited)	3
	Consolidated Statements of Equity for the nine months ended September 30, 2013 (unaudited)	4
	Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012 (unaudited)	5
	Notes to Consolidated Financial Statements (unaudited)	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	26
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	47
Item 4.	Controls and Procedures	49
	Part II — Other Information	
Item 1.	Legal Proceedings	50
Item 1A.	Risk Factors	50
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	50
Item 3.	Defaults Upon Senior Securities	50
Item 4.	Mine Safety Disclosures	50
Item 5.	Other Information	50
Item 6.	Exhibits	50
	Signatures	52
	Exhibit Index	53

Table of Contents

Part I - Financial Information

Item 1. Financial Statements

INLAND REAL ESTATE CORPORATION
Consolidated Balance Sheets
September 30, 2013 and December 31, 2012
(In thousands, except per share data)

	September 30, 2013 (unaudited)	December 31, 2012
Assets:		
Investment properties:		
Land	$397,981	313,261
Construction in progress	16,582	20,837
Building and improvements	1,157,434	957,794
	1,571,997	1,291,892
Less accumulated depreciation	342,807	329,997
Net investment properties	1,229,190	961,895
Cash and cash equivalents	18,891	18,505
Investment in securities	4,587	8,711
Accounts receivable, net	36,723	25,076
Mortgages receivable	—	12,955
Investment in and advances to unconsolidated joint ventures	127,539	129,196
Acquired lease intangibles, net	112,136	41,692
Deferred costs, net	20,949	19,436
Other assets	20,917	25,939
Total assets	$1,570,932	1,243,405
Liabilities:		
Accounts payable and accrued expenses	$53,152	36,918
Acquired below market lease intangibles, net	44,179	12,976
Distributions payable	5,107	4,606
Mortgages payable	514,873	412,361
Unsecured credit facilities	335,000	305,000
Convertible notes	28,674	28,327
Other liabilities	13,328	33,014
Total liabilities	994,313	833,202
Stockholders' Equity:		
Preferred stock, $0.01 par value, 12,000 shares authorized; 4,400 8.125% Series A Cumulative Redeemable shares, with a $25.00 per share Liquidation Preference, issued and outstanding at September 30, 2013 and December 31, 2012, respectively	110,000	110,000
Common stock, $0.01 par value, 500,000 shares authorized; 99,672 and 89,366 Shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	997	894
Additional paid-in capital (net of offering costs of $74,748 and $70,238 at September 30, 2013 and December 31, 2012, respectively)	876,612	784,139
Accumulated distributions in excess of net income	(406,627)	(476,185)

Accumulated other comprehensive loss	(6,116)	(9,269)
Total stockholders' equity	574,866	409,579
Noncontrolling interest	1,753	624
Total equity	576,619	410,203
Total liabilities and equity	$1,570,932	1,243,405

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

Table of Contents

INLAND REAL ESTATE CORPORATION
Consolidated Statements of Operations and Comprehensive Income
For the three and nine months ended September 30, 2013 and 2012 (unaudited)
(In thousands except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Revenues:				
Rental income	$34,504	28,815	91,556	84,288
Tenant recoveries	13,394	8,621	34,613	27,133
Other property income	2,360	512	3,348	1,786
Fee income from unconsolidated joint ventures	1,578	1,486	5,133	3,554
Total revenues	51,836	39,434	134,650	116,761
Expenses:				
Property operating expenses	6,121	5,353	19,205	16,994
Real estate tax expense	10,419	7,328	25,856	21,545
Depreciation and amortization	20,151	13,502	47,089	41,939
Provision for asset impairment	—	—	369	479
General and administrative expenses	4,843	4,314	14,817	13,273
Total expenses	41,534	30,497	107,336	94,230
Operating income	10,302	8,937	27,314	22,531
Other income	534	391	1,733	2,853
Gain from settlement of receivables	—	—	3,095	—
Gain from change in control of investment properties	—	—	95,378	1,043
Loss on sale of investment properties	—	(105)	(202)	(104)
Gain on sale of joint venture interest	475	112	1,209	176
Interest expense	(9,291)	(9,088)	(25,811)	(26,993)
Income (loss) before income tax benefit (expense) of taxable REIT subsidiaries, equity in earnings of unconsolidated joint ventures and discontinued operations	2,020	247	102,716	(494)
Income tax benefit (expense) of taxable REIT subsidiaries	296	(334)	(1,499)	4,347
Equity in earnings of unconsolidated joint ventures	2,128	842	5,641	1,631
Income from continuing operations	4,444	755	106,858	5,484
Income from discontinued operations	1,219	904	9,691	1,738
Net income	5,663	1,659	116,549	7,222
Net loss attributable to the noncontrolling interest	33	28	19	103
Net income attributable to Inland Real Estate Corporation	5,696	1,687	116,568	7,325
Dividends on preferred shares	(2,209)	(2,185)	(6,715)	(5,663)
Net income (loss) attributable to common stockholders	$3,487	(498)	109,853	1,662

Basic and diluted earnings attributable to common shares per weighted average common share:

Income (loss) from continuing operations	$0.02	(0.02)	1.07	—
Income from discontinued operations	0.01	0.01	0.10	0.02
Net income (loss) attributable to common stockholders per weighted average common share — basic	0.04	(0.01)	1.17	0.02
Weighted average number of common shares outstanding — basic	99,317	89,049	93,901	88,973
Income (loss) from continuing operations	$0.02	(0.02)	1.06	—
Income from discontinued operations	0.01	0.01	0.10	0.02
Net income (loss) attributable to common stockholders per weighted average common share — diluted	0.03	(0.01)	1.17	0.02
Weighted average number of common shares outstanding — diluted	99,648	89,049	94,169	89,109
Comprehensive income:				
Net income (loss) attributable to common stockholders	$3,487	(498)	109,853	1,662
Unrealized gain (loss) on investment securities	$(413)	190	(799)	(138)
Unrealized gain (loss) on derivative instruments	111	(602)	3,952	(1,869)
Comprehensive income (loss)	$3,185	(910)	113,006	(345)

Note: Basic and diluted Earnings Per Share may not foot due to rounding.

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

3

Table of Contents

INLAND REAL ESTATE CORPORATION
Consolidated Statements of Equity
For the nine months ended September 30, 2013 (unaudited)
(Dollars in thousands, except per share data)

	Preferred Stock		Common Stock		Additional paid-in capital	Accumulated distributions in excess of net income	Accumulated other comprehensive income (loss)	Total stockholders' equity	Noncontrolling interest	Total equity
	Issued	Amount	Issued	Amount						
Balance December 31, 2012	4,400	$110,000	89,366	$894	$784,139	$(476,185)	$(9,269)	$409,579	$624	$410,203
Issuance of common stock, including DRP	—	—	10,132	101	108,401	—	—	108,502	—	108,502
Exercise of stock options	—	—	7	—	54	—	—	54	—	54
Deferred stock compensation	—	—	167	2	(938)	—	—	(936)	—	(936)
Amortization of debt issue costs	—	—	—	—	23	—	—	23	—	23
Offering costs	—	—	—	—	(4,510)	—	—	(4,510)	—	(4,510)
Net income	—	—	—	—	—	116,568	—	116,568	(19)	116,549
Dividends on preferred shares	—	—	—	—	—	(6,715)	—	(6,715)	—	(6,715)
Distributions declared, common	—	—	—	—	—	(40,295)	—	(40,295)	—	(40,295)
Unrealized gain (loss) on investment securities	—	—	—	—	—	—	(799)	(799)	—	(799)
Unrealized gain on derivative instruments	—	—	—	—	—	—	3,952	3,952	—	3,952
Distributions to noncontrolling interest	—	—	—	—	—	—	—	—	(7,917)	(7,917)
Contributions to noncontrolling interest	—	—	—	—	—	—	—	—	7,149	7,149
Purchase of noncontrolling interest	—	—	—	$—	(10,557)	$—	—	(10,557)	1,916	(8,641)
Balance September 30, 2013	4,400	$110,000	99,672	$997	$876,612	$(406,627)	$(6,116)	$574,866	$1,753	$576,619

The accompanying notes are an integral part of these financial statements

Table of Contents

INLAND REAL ESTATE CORPORATION
Consolidated Statements of Cash Flows
For the nine months ended September 30, 2013 and 2012 (unaudited)
(In thousands)

	Nine months ended September 30,			
	2013		2012	
Cash flows from operating activities:				
Net income	$116,549		7,222	
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for asset impairment	369		479	
Depreciation and amortization	47,586		43,427	
Amortization of deferred stock compensation	(936	)	(404	)
Amortization on acquired above/below market leases and lease inducements	616		(547	)
Gain on sale of investment properties	(6,121	)	(326	)
Gain from change in control of investment properties	(95,378	)	(1,043	)
Impairment of investment securities	98		—	
Gain from settlement of receivables	(3,095	)	—	
Realized gain on investment securities, net	(1,090	)	(1,396	)
Equity in earnings of unconsolidated ventures	(5,641	)	(1,631	)
Gain on sale of joint venture interest	(1,209	)	(176	)
Straight line rent	(476	)	(616	)
Amortization of loan fees	907		2,388	
Amortization of convertible note discount	347		348	
Distributions from unconsolidated joint ventures	—		281	
Changes in assets and liabilities:				
Restricted cash	113		1,400	
Accounts receivable and other assets, net	6,831		(4,337	)
Accounts payable and accrued expenses	(11,232	)	1,181	
Prepaid rents and other liabilities	(2,123	)	(2,027	)
Net cash provided by operating activities	46,115		44,223	
Cash flows from investing activities:				
Restricted cash	(3,022	)	2,435	
Proceeds from sale of interest in joint venture, net	52,978		9,816	
Purchase of investment securities	—		(2,614	)
Sale of investment securities	4,316		7,208	
Purchase of investment properties	(157,928	)	(176,116	)
Additions to investment properties, net of accrued additions	(12,787	)	(18,105	)
Proceeds from sale of investment properties, net	18,495		17,519	
Proceeds from land condemnation	167		133	
Distributions from unconsolidated joint ventures	10,657		28,687	
Investment in unconsolidated joint ventures	(27,303	)	(11,591	)
Funding of mortgages receivable	(1,287	)	(10,743	)
Repayments of mortgages receivable	—		515	
Payment of leasing fees	(2,087	)	(2,283	)
Net cash used in investing activities	(117,801	)	(155,139	)
Cash flows from financing activities:				
Issuance of shares, including DRP, net of offering costs	104,046		60,825	

Purchase of noncontrolling interest, net	(8,641)	—
Loan proceeds	21,840	111,787
Payoff of debt	(26,809)	(9,904)
Proceeds from term loan	5,000	25,000
Proceeds from the unsecured line of credit facility	110,000	123,000
Repayments on the unsecured line of credit facility	(85,000)	(148,000)
Loan fees	(329)	(3,348)
Distributions paid	(46,509)	(43,574)
Distributions to noncontrolling interest partners	(351)	(453)
Contributions to noncontrolling interest	50	100
Margin loan payable	—	(1,403)
Payment of earnout liability	(1,225)	—
Net cash provided by financing activities	72,072	114,030
Net increase in cash and cash equivalents	386	3,114
Cash and cash equivalents at beginning of period	18,505	7,751
Cash and cash equivalents at end of period	$18,891	10,865
Supplemental disclosure of cash flow information		
Cash paid for interest	$19,221	21,011
Non-cash accrued additions to investment properties	$(1,335)	657
Non-cash distributions to noncontrolling interest partners	$(7,566)	—
Non-cash contributions to noncontrolling interest partners	$7,099	—

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

INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
September 30, 2013 (unaudited)

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. Readers of this Quarterly Report should refer to the audited financial statements of Inland Real Estate Corporation (the "Company") for the year ended December 31, 2012, which are included in the Company's 2012 Annual Report, as certain footnote disclosures contained in such audited financial statements have been omitted from this Report on Form 10-Q. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included in this Quarterly Report.

1) Organization and Basis of Accounting

Inland Real Estate Corporation (the "Company"), a Maryland corporation, was formed on May 12, 1994. The Company is a publicly held real estate investment trust ("REIT") that owns, operates and develops (directly or through its unconsolidated entities) open-air neighborhood, community and power shopping centers and single tenant retail properties located primarily in Midwest markets. Through wholly-owned subsidiaries, Inland Commercial Property Management, Inc. ("ICPM") and Inland TRS Property Management, Inc., the Company manages all properties it owns interests in and properties for certain third parties and related parties.

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

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

The accompanying consolidated financial statements of the Company include the accounts of its wholly-owned subsidiaries and consolidated joint ventures. The Company consolidates the operations of a joint venture if it determines that the Company is the primary beneficiary of the joint venture, which management has determined to be a VIE in accordance with ASC 810. The primary beneficiary is the party that has a controlling financial interest in the VIE, which is defined by the entity having both of the following characteristics: 1) the power to direct the activities that, when taken together, most significantly impact the VIE's performance, and 2) the obligation to absorb losses and right to receive the returns from the VIE that would be significant to the VIE. There are significant judgments and estimates involved in determining the primary beneficiary of a VIE or the determination of who has control and influence of the entity. When the Company consolidates a VIE, the assets, liabilities and results of operations of the VIE are included in our consolidated financial statements and all inter-company balances and transactions are eliminated.

The consolidated results of the Company include the accounts of Inland Ryan LLC and IRC-IREX Venture II, LLC, which are both VIE's for which the Company is the primary beneficiary. The Company has determined that the interests in these entities are noncontrolling interests to be included in permanent equity, separate from the Company's shareholders' equity, in the consolidated balance sheets and statements of equity. Net income or loss related to these noncontrolling interests is included in net income or loss in the consolidated statements of operations and comprehensive income. During the three months ended September 30, 2013, the Company repurchased the remaining outstanding membership units of Inland Ryan LLC for $8,641, resulting in the Company owning 100% of Inland Ryan LLC.

Recent Accounting Principles

In February 2013, the FASB issued ASU 2013-02 to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendment requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For amounts not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendment is effective prospectively for reporting periods beginning after December 15, 2012. In adopting the amendment, the Company added a new footnote containing the required disclosure.

Table of Contents
INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
September 30, 2013 (unaudited)

(2) Investment Securities

At September 30, 2013 and December 31, 2012, investment in securities includes $3,587 and $7,711, respectively, of perpetual preferred securities and common securities classified as available-for-sale securities, which are recorded at fair value. In addition, $1,000 in each period of preferred securities are recorded at cost. The Company determined that these securities should be held at cost because the fair value is not readily determinable and there is no active market for these securities.

Unrealized holding gains and losses on available-for-sale securities are excluded from earnings and reported as a separate component of comprehensive income until realized. The Company has recorded a net unrealized loss of $37 on the accompanying consolidated balance sheets as of September 30, 2013, and a net unrealized gain of $762 as of December 31, 2012, respectively. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis. Sales of investment securities available-for-sale during the three and nine months ended September 30, 2013 resulted in gains on sale of $271 and $1,090, respectively, and during the three and nine months ended September 30, 2012, these gains were $305 and $1,396, respectively. These gains are included in other income in the accompanying consolidated statements of operations and comprehensive income. Dividend income is recognized when received.

The Company evaluates its investments for impairment quarterly. The Company's policy for assessing near term recoverability of its available for sale securities is to record a charge against net earnings when the Company determines that a decline in the fair value of a security drops below the cost basis and it believes it to be other than temporary. During the nine months ended September 30, 2013, the Company recognized an impairment charge of $98, with respect to its investment in perpetual preferred and common securities in the accompanying consolidated financial statements. Due to various factors, including the extent and duration during which the market price had been below cost, the Company concluded the decline in value was other than temporary. No such losses were required or recorded for the nine months ended September 30, 2012.

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, 2013 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	$1,585	(167)	—	—	1,585	(167)
Non-REIT Stock	$—	—	63	(10)	63	(10)

(3) Unconsolidated Joint Ventures

General Joint Venture Discussion

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

Joint Venture Entity	Company’s Profit/Loss Allocation Percentage at September 30, 2013	Investment in and advances to unconsolidated joint ventures at September 30, 2013	Investment in and advances to unconsolidated joint ventures at December 31, 2012
IN Retail Fund LLC (a)	— %	$—	18,007
Oak Property and Casualty	20 %	1,487	1,494
TMK/Inland Aurora Venture LLC (b)	40 %	(279)	2,088
PTI Boise LLC, PTI Westfield, LLC (c)	85 %	12,949	11,507
INP Retail LP (d)	55 %	105,201	91,438
IRC/IREX Venture II LLC (e)	(f)	8,181	4,662
Investment in and advances to unconsolidated joint ventures		$127,539	129,196

(a) Joint venture with New York State Teachers Retirement System (“NYSTRS”). As of June 3, 2013, the Company owns 100% of the outstanding interests in this joint venture.

Table of Contents
INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
September 30, 2013 (unaudited)

(b) The profit/loss allocation percentage is allocated after the calculation of the Company's preferred return.
(c) Joint venture with Pine Tree Institutional Realty, LLC ("Pine Tree")
(d) Joint venture with PGGM Private Real Estate Fund ("PGGM")
(e) Joint venture with Inland Private Capital Corporation ("IPCC"). Investment in joint venture balance represents the Company's share of the tenant in common ("TIC") or Delaware Statutory Trust ("DST") interests.
(f) The Company's profit/loss allocation percentage varies based on the ownership interest it holds in the entity that owns a particular property that is in the process of selling ownership interest to outside investors.

The unconsolidated joint ventures had total outstanding debt in the amount of $311,956 (total debt, not the Company's pro rata share) at September 30, 2013 that matures as follows:

Joint Venture Entity	2013	2014	2015	2016	2017	Thereafter	Total
PTI Boise LLC (a)	$—	3,966	—	—	—	—	3,966
PTI Westfield LLC (b)	5,745	—	—	—	—	—	5,745
INP Retail LP	—	—	5,800	—	26,466	208,760	241,026
IRC/IREX Venture II LLC	—	—	—	—	—	61,219	61,219
Total unconsolidated joint venture debt (c)	$5,745	3,966	5,800	—	26,466	269,979	311,956

(a) The Company is the lender to the joint venture.
(b) This loan matures in December 2013. The Company has guaranteed approximately $500 of this outstanding loan. The PTI Westfield joint venture will attempt to extend or restructure this joint venture debt, as it has done in the past, although there is no assurance that the Company, or its joint venture partner, will be able to restructure this debt on terms and conditions the Company finds acceptable, if at all.
(c) The total debt above reflects the total principal amount outstanding. The unconsolidated joint ventures' balance sheets at September 30, 2013 reflect the value of the debt including the remaining unamortized mortgages premium/discount of $4,152.

The Company has guaranteed approximately $500 of unconsolidated joint venture debt as of September 30, 2013. The guarantee is in effect for the entire term of the loan as set forth in the loan documents. The Company is required to pay on a guarantee upon the default of any of the provisions in the loan documents, unless the default is otherwise waived. The Company is required to estimate the fair value of the guarantee and, if material, record a corresponding liability. The Company has determined that the fair value of the guarantee is immaterial as of September 30, 2013 and accordingly has not recorded a liability related to the guarantees on the accompanying consolidated balance sheets.

The Company earns fees for providing asset management, property management, leasing and acquisition services to its joint ventures. The Company recognizes fee income equal to the Company's joint venture partner's share of the expense or commission, which is reflected as fee income from unconsolidated joint ventures in the accompanying consolidated statements of operations and comprehensive income. Fee income earned for the three and nine months ended September 30, 2013 and 2012 are reflected in the table below.

	Three months ended September 30,		Nine months ended September 30,	
Joint Venture with:	2013	2012	2013	2012
PGGM	$542	482	1,739	1,339
NYSTRS	—	326	390	867
IPCC	1,036	677	3,001	1,340
Other	—	1	3	8

Fee income from unconsolidated joint ventures	$1,578	1,486	5,133	3,554

The fee income from the joint venture with PGGM has increased due to the increase in assets under management. The fee income from the joint venture with IPCC increased due primarily to acquisition fees earned in conjunction with the sales of ownership interests in the properties available for sale during each period. The fee income from the joint venture with NYSTRS decreased due to the consolidation during the nine months ended September 30, 2013 of the properties formerly held by the joint venture.

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 investment properties. 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 property assets. During the three and nine months ended September 30, 2013, the Company recorded $517 and $2,174, respectively, of amortization of this basis difference, as compared to $888 and $2,590 during the three and nine months ended September 30, 2012, respectively, which is included in equity in earnings of unconsolidated joint ventures in the accompanying consolidated statements of operations and comprehensive income.

The Company’s proportionate share of the earnings or losses related to its unconsolidated joint ventures is reflected as equity in earnings of unconsolidated joint ventures on the accompanying consolidated statements of operations and comprehensive income.

Joint Venture with PGGM

The Company formed a joint venture with PGGM, a leading Dutch pension fund administrator and asset manager in 2010 and completed an amendment to the partnership agreement in 2012 to increase the maximum equity contributions of each partner. In conjunction with the formation, the joint venture established two separate REIT entities to hold title to the properties included in the joint venture. The joint venture may acquire up to a total of $900,000 of grocery-anchored and community retail centers located in Midwestern U.S. markets. The Company's maximum total contribution is approximately $280,000 and PGGM's maximum total equity contribution is approximately $230,000.

As of September 30, 2013, the joint venture has acquired a total of approximately $570,000 of retail assets, including those properties contributed by the Company. As of September 30, 2013, PGGM's remaining maximum potential equity contribution was approximately $75,000 and the Company's was approximately $91,000.

As properties were contributed to the joint venture, the net assets were removed from the Company's consolidated financial statements. The table below reflects those properties that were deconsolidated during the nine months ended September 30, 2012. The Company did not contribute additional assets to the joint venture during the nine months ended September 30, 2013 and is not required to do so in the future.

	September 30, 2012
Net investment properties	$(50,845)
Acquired lease intangibles, net	(149)
Deferred costs, net	(1,120)
Other assets	(1,675)
Mortgages payable	20,891
Other liabilities	193
Net assets contributed	$(32,705)

PGGM owns a forty-five percent equity ownership interest and the Company owns a fifty-five percent interest in the venture. The Company is the managing partner of the venture and is responsible for the day-to-day activities of the venture. The Company determined that this joint venture was not a VIE. Both partners have the ability to participate in major decisions, as detailed in the joint venture agreement, and therefore, neither partner is deemed to have control of the joint venture. Therefore, this joint venture is accounted for using the equity method of accounting.

During the nine months ended September 30, 2013, the joint venture with PGGM entered into a limited liability company agreement with Pine Tree and IBT Group, LLC ("IBT"). This agreement forms a joint venture between the three parties to acquire, develop, operate and manage the property known as Evergreen Park Promenade, located in Evergreen Park, Illinois. The venture acquired the vacant land parcel for $5,500 and intends to construct approximately 92,500 square feet of gross leasable area, of which approximately 95% has been pre-leased to national retailers. The joint venture determined that this newly created venture is not a VIE. All parties have the ability to participate in major decisions, as detailed in the agreement, and therefore, no partner is deemed to have control of the venture. Therefore, the joint venture with PGGM will account for this new venture using the equity method of

accounting.

During the nine months ended September 30, 2013, the Company recorded approximately $1,384 of gain from the portion of the investment properties deemed sold to third-party venture partners.

Joint Venture with NYSTRS

On June 3, 2013, the Company completed the acquisition of the 50 percent ownership interest of NYSTRS in the joint venture entity. The Company acquired the 50% interest of NYSTRS in the joint venture for approximately $121,100 in cash. The Company funded the acquisition utilizing $91,600 received from selling 9,000 shares of its common stock during the period, cash on hand and funds received from a draw on its line of credit facility. The Company now owns all of the outstanding interests in the joint venture. The Company's decision to acquire the joint venture interest was based on advancing its strategic goals to increase the size and quality of its consolidated portfolio, simplify the ownership structure and strengthen the

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Company's balance sheet. See additional discussion of this transaction under the heading "Change in Control Transactions" in this footnote 3.

Joint Venture with IPCC

In January 2013, Inland Exchange Venture Corporation ("IEVC"), a taxable REIT subsidiary ("TRS") of the Company, extended its joint venture with IPCC, a wholly-owned subsidiary of The Inland Group, Inc. ("TIGI"), through December 31, 2014 to continue the joint venture relationship that began in 2006 and to change the fee structure. The joint venture provides replacement properties for investors wishing to complete a tax-deferred exchange through private placement offerings, using properties made available to the joint venture by IEVC. These offerings are structured to sell TIC interests or DST interests, together the "ownership interests," in the identified property. IEVC performs the joint venture's acquisition function and ICPM performs the asset management, property management and leasing functions. Both entities earn fees for providing these services to the joint venture.

The Company agreed to lower its initial acquisition fee, which is a one-time transaction fee and slightly decrease the fee charged for property management. In exchange for these reduced fees, the Company is now paid an asset management fee on each property acquired that will be earned throughout the management period. The Company believes this new fee structure will be a benefit because the Company is increasing its long-term recurring fee income stream in exchange for reduced one-time fees. The Company will continue to earn asset management, property management and leasing fees on all properties acquired for this venture, including after all ownership interests have been sold to the investors.

The joint venture was determined to be a VIE under ASC Topic 810 and is consolidated by the Company. Prior to the sale of any ownership interests, the joint venture owns 100% of the ownership interests in the property and controls the major decisions that affect the underlying property; and therefore upon initial acquisition, the joint venture consolidates the property. At the time of first sale of an ownership interest, the joint venture no longer controls the underlying property as the activities and decisions that most significantly impact the property's economic performance are now subject to joint control among the co-owners or lender; and therefore, at such time, the property is deconsolidated and accounted for under the equity method (unconsolidated). Once the operations are deconsolidated, the income is included in equity in earnings of unconsolidated joint ventures until all ownership interests have been sold. The table below reflects those properties that were deconsolidated during the nine months ended September 30, 2013 and 2012, and therefore no longer represent the consolidated assets and liabilities of the VIE.

	September 30, 2013	September 30, 2012
Investment properties	$(92,122)	(45,145)
Acquired lease intangibles	(12,924)	(8,458)
Below market lease intangibles	3,064	3,524
Mortgages payable	61,915	28,196
Net change to investment in and advances to unconsolidated joint ventures	$(40,067)	(21,883)

During the nine months ended September 30, 2013 and 2012, the joint venture with IPCC acquired seventeen and twelve investment properties, respectively. In conjunction with the sales of ownership interests, the Company recorded gains of approximately $475 and $1,209 for the three and nine months ended September 30, 2013, respectively, as compared to $112 and $176 for the three and nine months ended September 30, 2012, respectively. These gains are included in gain on sale of joint venture interests on the accompanying consolidated statements of operations and comprehensive income.

Variable Interest Entity Financial Information

The following table presents certain assets and liabilities of consolidated variable interest entities ("VIEs"), which are included in the Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012. The assets in the table below include only those assets that can be used to settle obligations of consolidated VIEs. The liabilities in the table below include third-party liabilities of consolidated VIEs only, and exclude intercompany balances that eliminate in consolidation.

Table of Contents
INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
September 30, 2013 (unaudited)

	September 30, 2013	December 31, 2012
Assets of consolidated VIEs that can only be used to settle obligations of consolidated VIEs:		
Net investment properties	$1,413	55,823
Other assets	87	8,589
Total assets of consolidated VIEs that can only be used to settle obligations of consolidated VIEs	$1,500	64,412
Liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of the Company:		
Mortgages payable	$—	33,085
Other liabilities	37	1,638
Total liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of the Company	$37	34,723

Change in Control Transactions

Prior to the change in control transactions, the Company accounted for its investment in each of the properties discussed below as equity method investees. The change in control transactions were accounted for as business combinations, which required the Company to record the assets and liabilities of each property at its fair value, which was derived using Level 3 inputs. Upon consolidation, the Company valued these properties utilizing information obtained from third party sources and internal valuation calculations, comprised of a discounted cash flow model, including discount rates and capitalization rates applied to the expected future cash flows of the property. The Company estimated the fair value of the remaining debt by discounting the future cash flows of the instrument at rates currently offered for similar debt instruments (Level 2). The gains resulting from the fair value adjustments of the respective assets acquired and liabilities assumed are reflected as gain from change in control of investment properties on the accompanying consolidated statements of operations and comprehensive income.

On June 3, 2013, the Company acquired NYSTRS interest in the IN Retail Fund, LLC joint venture and as a result owns 100 percent of the ownership interest in the 13 properties previously part of the joint venture. The assets, liabilities and results of operations of the related properties are now included in the Company's consolidated financial statements from the date of acquisition. The fair value of the portfolio was determined to be approximately $396,000 with the face value of total outstanding mortgage debt of approximately $152,204, which are both net of $3,742 of related premiums and discounts, plus other related assets and liabilities. The consolidation of these properties resulted in a gain of approximately $95,378.

During the nine months ended September 30, 2012, the Company, on behalf of the NARE/Inland North Aurora LLC joint ventures, negotiated with the lender of the North Aurora Town Center development properties to repay the mortgage payable, which matured in July 2011, at a discount. The Company contributed $10,000 to repay the entire $30,537 outstanding mortgage, resulting in a gain on extinguishment of debt in the amount of $20,537. In conjunction with this debt repayment, the joint ventures previously established to develop these properties were dissolved and the development properties and remaining indebtedness were consolidated by the Company. The consolidation of these

properties resulted in a loss of approximately $19,494. The Company recorded a net gain on the change in control of $1,043 related to this transaction.

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

11

Table of Contents
INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
September 30, 2013 (unaudited)

	IN Retail Fund, LLC September 30, 2013	North Aurora Town Center September 30, 2012
Investment properties:		
Land	$103,430	1,127
Building and improvements (a)	238,482	3,512
Construction in progress	—	7,970
Investment properties	341,912	12,609
Cash	5,609	—
Accounts receivable	7,668	—
Acquired lease intangibles	89,871	2,876
Deferred costs	1,134	—
Other assets	587	74
Total assets acquired	446,781	15,559
Accounts payable and accrued expenses	12,482	—
Mortgages payable, net (a)	155,946	4,300
Acquired below market lease intangibles	32,415	—
Other liabilities	1,529	85
Net assets acquired	$244,409	11,174

(a) Includes $3,742 of unamortized mortgage premiums and discounts.

The following table summarizes the investment in the joint ventures:

	IN Retail Fund, LLC September 30, 2013	North Aurora Town Center September 30, 2012
Investments in and advances to unconsolidated joint ventures prior to change in control transaction	$28,328	—
Investments in and advances to unconsolidated joint ventures activity	(365)	10,131
Gain from change in control of investment properties	95,378	1,043
Cash paid	121,068	—
Net assets acquired	$244,409	11,174

The following condensed pro forma consolidated financial statements for the three and nine months ended September 30, 2013 and 2012 include adjustments related to the acquisition of the ownership interest in IN Retail Fund, LLC which is considered material to the consolidated financial statements, assuming the acquisition had been consummated as of January 1, 2012. On a pro forma basis, the Company assumes shares outstanding as of September 30, 2013 were outstanding as of January 1, 2012. The following condensed pro forma financial information is not necessarily indicative of what the actual results of operations of the Company would have been assuming this acquisition had been consummated as of January 1, 2012 nor does it purport to represent the results of operations for future periods.

	Three months ended September 30, 2013	Nine months ended September 30, 2013

	Historical	Pro Forma Adjustments (a)	As Adjusted (unaudited)	Historical	Pro Forma Adjustments	As Adjusted (unaudited)
Total revenues	$51,836	—	51,836	134,650	18,703	153,353
Net income attributable to Inland Real Estate Corporation	$5,696	—	5,696	116,568	(7,245)	109,323
Net income attributable to common stockholders	$3,487	—	3,487	109,853	(7,245)	102,608
Net income attributable to common stockholders per weighted average common share - basic	$0.04		0.04	1.17		1.04
Net income attributable to common stockholders per weighted average common share - diluted	$0.03		0.03	1.17		1.05
Weighted average number of common shares outstanding - basic	99,317		99,317	93,901		98,945
Weighted average number of common shares outstanding - diluted	99,648		99,648	94,169		98,109

Table of Contents
INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
September 30, 2013 (unaudited)

	Three months ended September 30, 2012			Nine months ended September 30, 2012		
	Historical	Pro Forma Adjustments	As Adjusted (unaudited)	Historical	Pro Forma Adjustments	As Adjusted (unaudited)
Total revenues	$39,434	10,616	50,050	116,761	32,757	149,518
Net income (loss) attributable to Inland Real Estate Corporation	$1,687	(4,339)	(2,652)	7,325	(14,220)	(6,895)
Net income (loss) attributable to common stockholders	$(498)	(4,339)	(4,837)	1,662	(14,220)	(12,558)
Net income (loss) attributable to common stockholders per weighted average common share - basic and diluted	$(0.01)		(0.05)	0.02		(0.13)
Weighted average number of common shares outstanding - basic	89,049		98,049	88,973		97,973
Weighted average number of common shares outstanding - diluted	89,049		98,229	89,109		98,109

(a) No pro forma adjustments are necessary for the three months ended September 30, 2013 because the transaction occurred prior to the third quarter and the current period financial statements include a full three months of operations of the acquired portfolio.

Development Joint Ventures

When circumstances indicate there may have been a loss in value of an equity method investment, the Company evaluates the investment for impairment by estimating its ability to recover its investments from future expected cash flows. If the Company determines the loss in value is other than temporary, the Company will recognize an impairment charge to reflect the investment at its fair value, which was derived using Level 3 inputs.

The impairment of assets during the nine months ended September 30, 2013 at the joint venture level and the Company's pro-rata share are included in the below table. The Company's pro-rata share of the loss is included in equity in earnings of unconsolidated joint ventures on the accompanying consolidated statements of operations and comprehensive income. No impairment losses were required or recorded during the nine months ended September 30, 2012.

	Nine months ended September 30, 2013	
Joint Venture Entity	Total impairment	Company’s pro rata share
TMK/Inland Aurora Venture LLC	$1,730	692

Joint Venture Financial Statements

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

	As of September 30, 2013	December 31, 2012
Balance Sheets:		
Assets:		
Investment in real estate, net	$670,930	888,476
Other assets	68,543	84,921
Total assets	$739,473	973,397
Liabilities:		
Mortgage payable (a)	$316,108	460,116
Other liabilities	63,962	90,989
Total liabilities	$380,070	551,105
Total equity	$359,403	422,292
Total liabilities and equity	$739,473	973,397
Investment in and advances to unconsolidated joint ventures	$127,539	129,196

Table of Contents

INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
September 30, 2013 (unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Statements of Operations:				
Total revenues	$2,025	26,229	81,554	76,368
Total expenses (b)	(1,750)	(27,760)	(77,336)	(80,532)
Income (loss) from operations	$275	(1,531)	4,218	(4,164)
Inland's pro rata share of income (loss) from operations (c)	$2,128	842	5,641	1,631

(a) Includes $4,152 of unamortized mortgage premiums and discounts.

(b) Total expenses for the nine months ended September 30, 2013 include impairment charges in the amount of $1,730. No impairment charges were recorded during the three months ended September 30, 2013 and 2012 and the nine months ended September 30, 2012.

(c) IRC's pro rata share includes the amortization of certain basis differences and an elimination of IRC's pro rata share of the management fee expense.

(4) Acquisitions

Date Acquired	Property	City	State	GLA Sq. Ft.	Approximate Purchase Price
01/24/13	Family Dollar (a)	Abilene	TX	9,180	$1,142
01/24/13	Family Dollar (a)	Colorado City	TX	8,320	1,009
02/12/13	Mariano's (a)	Palatine	IL	71,324	22,675
02/12/13	Mariano's (a) (b)	Vernon Hills	IL	71,248	27,883
04/17/13	Family Dollar (a)	Cameron	TX	8,320	938
04/17/13	Family Dollar (a)	Charleston	MO	8,320	1,107
04/17/13	Family Dollar (a)	Wausaukee	WI	8,000	1,137
04/17/13	Winfield Pointe Center (c)	Winfield	IL	19,888	(c)
04/17/13	Eola Commons (c)	Aurora	IL	23,080	(c)
04/24/13	Warsaw Commons (d)	Warsaw	IN	87,826	11,393
07/26/13	Freedom Commons (a)	Naperville	IL	42,218	24,400
09/10/13	Dollar General (a)	Lafayette	WI	9,026	944
09/10/13	Dollar General (a)	Gale	WI	9,026	945
09/11/13	Dollar General (a) (e)	Mobile	AL	9,100	1,219
09/11/13	Dollar General (a) (e)	LaGrange	GA	9,100	1,145
09/11/13	Dollar General (a) (e)	Midland City	AL	12,382	1,393
09/11/13	Dollar General (a) (e)	Woodville	AL	9,026	1,067
09/11/13	Dollar General (a) (e)	Fortson	GA	9,100	1,173
09/11/13	Dollar General (a) (e)	Warrior	AL	9,100	1,089
09/25/13	Family Dollar	Marion	IL	8,000	1,474
	Total			441,584	$102,133

(a) These properties were deconsolidated during the nine months ended September 30, 2013 as a result of sales of ownership interests to investors.

(b) Subsequent to the original purchase, on March 14, 2013, the Company acquired an additional 82,328 square foot parking lot for approximately $4,238, which is included in the purchase price above.

(c) The Company acquired title to these properties through foreclosure proceedings. The Company had acquired the notes encumbering these properties in 2012 at a discount to their face value. In conjunction with the acquisition, the notes were extinguished. The Company recorded Winfield Pointe Center at $2,583 and Eola Commons at $3,994, representing the respective fair value of each property at the time of acquisition.

(d) This property is subject to future earnout payments of approximately $1,800, the fair value as calculated based on anticipated payments, of which $1,225 has already been paid.

(e) These properties were contributed to the joint venture with IPCC in September 2013, however, the Company did not contribute the equity to acquire the properties.

During the nine months ended September 30, 2013, consistent with the Company’s growth initiative, the Company acquired the investment properties listed above, which were consolidated upon acquisition. The Company acquired 100% of the beneficial interests of each property for an aggregate purchase price of approximately $102,133.

The following table presents certain additional information regarding the Company’s acquisitions during the nine months ended September 30, 2013. The amounts recognized for major assets acquired and liabilities assumed as of the acquisition date were as follows:

Property	Land	Building and Improvements	Acquired Lease Intangibles	Acquired Below Market Lease Intangibles
Family Dollar	$145	907	93	3
Family Dollar	6	993	21	11
Mariano's	4,239	14,846	3,590	—
Mariano's	6,688	17,194	4,001	—
Family Dollar	39	781	127	9
Family Dollar	195	799	113	—
Family Dollar	92	905	140	—
Winfield Pointe Center	697	1,364	661	139
Eola Commons	1,078	2,017	1,016	117
Warsaw Commons	1,519	8,418	2,394	938
Freedom Commons	10,880	11,854	3,891	2,225
Dollar General	96	819	30	1
Dollar General	119	795	32	1
Dollar General	213	947	59	—
Dollar General	97	992	56	—
Dollar General	135	1,188	70	—
Dollar General	68	948	51	—
Dollar General	188	929	56	—
Dollar General	382	644	63	—
Family Dollar	400	1,013	61	—
Total	$27,276	68,353	16,525	3,444

The Company has not included pro forma financial information related to the above properties acquired during the nine months ended September 30, 2013. Properties acquired through our joint venture with IPCC are only consolidated for a short period of time until the first sale to TIC or DST investors at which point, they become unconsolidated. The acquisitions of Eola Commons and Winfield Point Center were the result of the settlement of outstanding notes receivable. During the three months ended September 30, 2013, the Company sold Eola Commons and it is the Company's intention to sell Winfield Point Center in the near term. The Company acquired Warsaw Commons with the intention of holding this property long-term, however, management has deemed pro forma information immaterial to the overall consolidated financial statements.

(5) Fair Value Disclosures

In some instances, certain of the Company’s assets and liabilities are required to be measured or disclosed at fair value according to a fair value hierarchy pursuant to relevant accounting literature. This hierarchy ranks the quality and reliability of the inputs used to determine fair values, which are then classified and disclosed in one of three categories. The three levels of the fair value hierarchy are:

- Level 1 — quoted prices in active markets for identical assets or liabilities.
- Level 2 — quoted prices in active markets for similar assets or liabilities; quoted prices in markets that are not active; and model-derived valuations whose inputs are observable.
- Level 3 — model-derived valuations with unobservable inputs that are supported by little or no market activity

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their classifications within the fair value hierarchy levels.

INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
September 30, 2013 (unaudited)

For assets and liabilities measured at fair value on a recurring basis, quantitative disclosure of the fair value for each major category of assets and liabilities is presented below:

	Fair value measurements at September 30, 2013 using		
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	$3,587	—	—
Total assets	$3,587	—	—
Derivative interest rate instruments liabilities (a)	$—	6,080	—
Variable rate debt (b)	—	—	372,896
Fixed rate debt (b)	—	—	527,964
Total liabilities	$—	6,080	900,860

	Fair value measurements at December 31, 2012 using		
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	$7,711	—	—
Total assets	$7,711	—	—
Derivative interest rate instruments liabilities (a)	$—	10,031	—
Variable rate debt (b)	—	—	359,089
Fixed rate debt (b)	—	—	398,752
Total liabilities	$—	10,031	757,841

(a) The Company entered into these interest rate swaps as a requirement under certain secured mortgage loans.

(b) The disclosure is included to provide information regarding the inputs used to determine the fair value of the outstanding debt, in accordance with existing accounting guidance and is not presented in the accompanying consolidated balance sheets at fair value.

Level 1

The fair value of available-for-sale securities was estimated based on quoted market prices. Unrealized gains or losses on investment are reflected in unrealized gains in other comprehensive income on the consolidated statements of operations and comprehensive income.

Level 2

The fair value of derivative instruments was estimated based on data observed in the forward yield curve which is widely observed in the marketplace. The Company also incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the counterparty's nonperformance risk in the fair value measurements which utilizes Level 3 inputs, such as estimates of current credit spreads. The Company has determined that the credit valuation adjustments are not significant to the overall valuation of its derivative and therefore has classified this in Level 2 of the hierarchy.

Level 3

The fair value of debt is the amount at which the instrument could be exchanged in a current transaction between willing parties. The Company estimates the fair value of its total debt by discounting the future cash flows of each instrument at rates currently offered for similar debt instruments of comparable maturities by the Company's lenders. At September 30, 2013 and December 31, 2012, the Company used rates of 3.6% and 4.2%, respectively, for fixed rate debt and 2.2% and 2.6%, respectively, for variable rate debt. The Company has not elected the fair value option with respect to its debt. The Company's financial instruments, principally escrow deposits, accounts payable and accrued expenses, and working capital items, are short term in nature and their carrying amounts approximate their fair value at September 30, 2013 and December 31, 2012.

(6) Mortgages and Notes Receivable

In April 2012, the Company entered into a loan agreement with a developer of the Warsaw Commons Shopping Center in Warsaw, Indiana. The loan provided construction financing to the developer to complete the development of 87,826 square feet of rentable space. The loan accrued interest at a rate of 7.0% per annum and was added to the balance of the loan on a monthly basis until the interest reserve was met, at which point the borrower began making cash payments. The maximum loan amount under the agreement was $11,545. The total outstanding balance, plus accrued interest was due upon the May 31, 2013 maturity date. In conjunction with this loan agreement, the Company earned a fee of $115, equal to 1.0% of the maximum allowed under the loan. Total interest income earned during the nine months ended September 30, 2013 was $234. Upon completion of the development, the Company had the obligation to acquire the property at a pre-determined price, expected to be approximately $13,000. Due to the Company's purchase obligation, the loan fee and interest income earned have not been reflected as income in the accompanying consolidated statements of operations and comprehensive income.

On April 24, 2013, the Company acquired title to the Warsaw Commons Shopping Center for a price of $11,393, subject to future earnout payments. Future earnout payments are estimated to be approximately $1,800, of which approximately $1,200 has already been paid. The balance of the outstanding note was $10,957, and for financial statement purposes was $10,272, at the time of closing. The settlement of this outstanding note resulted in a gain of $685 during the nine months ended September 30, 2013.

In May 2012, the Company, through its TRS, paid approximately $3,969 to acquire the notes on two properties which were in default. The loans were acquired at a discount to the outstanding balance. The TRS acquired for $1,800, the $3,720 note encumbering the Winfield Pointe Shopping Center, located in Winfield, Illinois and acquired for $2,169, the $4,500 note encumbering the Eola Commons Shopping Center located in Aurora, Illinois. The TRS obtained title to each of these properties through foreclosure proceedings during the nine months ended September 30, 2013.

Upon the April 17, 2013 ownership transfer, the Company valued these properties utilizing information obtained from third party sources and internal valuation calculations, comprised of a discounted cash flow model, using discount rates and capitalization rates applied to the expected future cash flows of the property. In conjunction with the acquisitions, the notes

were extinguished. The fair value of Eola Commons was determined to be $3,994 and the fair value of Winfield Pointe Center was $2,583. The title transfer resulted in a gain of $2,410.

During the three months ended September 30, 2013, the TRS sold the Eola Commons Shopping Center, and intends to sell Winfield Pointe Shopping Center.

(7) Transactions with Related Parties

The Company pays affiliates of TIGI for real estate-related brokerage services, investment advisory services and various administrative services, including, but not limited to, payroll preparation and management, data processing, insurance consultation and placement, property tax reduction services and mail processing. These TIGI affiliates provide these services at cost, with the exception of the investment advisor fees and the broker commissions. The investment advisor fees are charged as a percentage of total assets under management and the broker commissions are charged as a percentage of the gross transaction amount. TIGI, through its affiliates, beneficially owns approximately 12.5% of the Company's outstanding common stock. Daniel L. Goodwin, one of our directors, owns a controlling amount of the stock of TIGI.

Amounts paid to TIGI or its affiliates for services and office space provided to the Company are set forth below.

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Investment advisor	$12	35	52	79
Loan servicing	43	31	95	99
Property tax payment/reduction work	122	102	196	176
Computer services	192	140	500	377
Other service agreements	58	41	150	130
Broker commissions	19	110	118	472
Office rent and reimbursements	120	120	359	351
Total	$566	579	1,470	1,684

During the nine months ended September 30, 2012, the Company paid a total of $292 in mortgage brokerage fees to Grubb & Ellis Company ("Grubb & Ellis"). No mortgage brokerage fees were paid to Grubb & Ellis during the three months ended September 30, 2012 or during the three and nine months ended September 30, 2013. Thomas P. D'Arcy, one of the Company's independent directors, served as the president, chief executive officer and a member of the board of directors of Grubb & Ellis until April 2012. Mr. D'Arcy did not participate in these transactions and did not have a material interest in them. Joel Simmons, one of the Company's directors, had an indirect personal interest as a broker in these transactions. Mr. Simmons served as an executive vice president of Grubb & Ellis until April 2012. Currently, Mr. Simmons is the Executive Managing Director of BGC Partners, a global provider of real estate services. The Company paid mortgage brokerage fees to BGC Partners of $223 for the three and nine months ended September 30, 2012. No mortgage brokerage fees were paid to BGC Partners during the three and nine months ended September 30, 2013.

(8) Discontinued Operations

During the nine months ended September 30, 2013 and 2012, the Company sold a total of seven and three investment properties, respectively. The following table summarizes the properties sold, date of sale, indebtedness repaid, if any, approximate sales proceeds (net of closing costs), gain (loss) on sale, whether the sale qualified as part of a tax deferred exchange and applicable asset impairments.

Property Name	Date of Sale	Indebtedness repaid	Sales Proceeds (net of closing costs)	Gain (loss) on Sale	Tax Deferred Exchange	Provision for Asset Impairment
Grand Traverse Crossings	June 7, 2012	$—	$ 1,018	$—	No	$123
Riverplace Center	June 15, 2012	—	4,067	—	No	356
Walgreens - Jennings, MO	August 1, 2012	—	2,134	349	No	—
Quarry Outlot	February 20, 2013	—	3,081	1,999	No	—
Oak Lawn Town Center	March 5, 2013	—	3,005	681	No	—
Winnetka Commons	May 14, 2013	—	3,573	556	No	—
Cub Foods - Buffalo Grove	May 31, 2013	3,838	2,241	—	No	369
Berwyn Plaza	July 3, 2013	—	1,448	(101)	No	—
Eola Commons	July 25, 2013	—	4,111	(537)	No	—
Orland Greens	August 15, 2013	—	4,429	1,162	No	—

If the Company determines that an investment property meets the criteria to be classified as held for sale, it suspends depreciation on the assets held for sale, including depreciation for tenant improvements and additions, as well as on the amortization of acquired in-place leases and customer relationship values. The assets and liabilities associated with those assets would be classified separately on the consolidated balance sheets for the most recent reporting period. As of September 30, 2013, there were no properties classified as held for sale.

On the accompanying consolidated balance sheets at September 30, 2013 and December 31, 2012, the Company has recorded $205 and $231, respectively, of assets related to discontinued operations and $50 and $51, 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, 2013, the Company has recorded income from discontinued operations of $1,219 and $9,691, respectively. One property sold during the nine months ended September 30, 2013 was sold at a price below its current carrying value and as a result, a provision for asset impairment totaling $369 was recorded. The three and nine months ended September 30, 2013 includes gains on sale of $524 and $3,760, respectively. Additionally, for the three and nine months ended September 30, 2012, the Company has recorded income from discontinued operations of $904 and $1,738, respectively. Two properties sold during the nine months ended September 30, 2012 were sold at prices below their current carrying value and as a result, a provision for asset impairment totaling $479 was recorded. The three and nine months ended September 30, 2012 includes a gain on sale of $349.

(9) 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 $779 and $476 for the three and nine months ended September 30, 2013, respectively and increases of $106 and $616 for the three and nine months ended September 30, 2012, respectively of rental income for the period of occupancy for which stepped rent increases apply and $21,019 and $20,543 in related accounts receivable as of September 30, 2013 and December 31, 2012, respectively. The Company anticipates collecting these amounts over the terms of the leases as scheduled rent payments are made.

(10) Income Taxes

The Company is qualified and has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (“the Code”), for federal income tax purposes commencing with the tax year ended December 31, 1995. Since the Company qualifies for taxation as a REIT, the Company generally is not subject to federal income tax on taxable income that is distributed to stockholders. A REIT is subject to a number of organizational and operational requirements, including a requirement that it distribute at least 90% of its taxable income to stockholders, subject to certain adjustments. If the Company fails to qualify as a REIT in any taxable year, without the benefit of certain relief provisions, the Company will be subject to federal and state income 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, property or net worth and federal income and excise taxes on its undistributed income.

The Company engages in certain activities through Inland Venture Corporation (“IVC”), IEVC and Inland TRS Property Management, Inc., wholly-owned TRS entities. These entities engage in activities that would otherwise produce income that would not be REIT qualifying income, including, but not limited to, managing properties owned through

certain of the Company's joint ventures and the sale of ownership interests through the Company's IPCC joint venture. The TRS entities are subject to federal and state income and franchise taxes from these activities.

The Company had no uncertain tax positions as of September 30, 2013. The Company expects no significant increases or decreases in uncertain tax positions due to changes in tax positions within one year of September 30, 2013. The Company has no material interest or penalties relating to income taxes recognized in the consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2013 and 2012 or in the consolidated balance sheets as of September 30, 2013 and December 31, 2012. As of September 30, 2013, returns for the calendar years 2009 through 2012 remain subject to examination by U.S. and various state and local tax jurisdictions.

Table of Contents
INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
September 30, 2013 (unaudited)

Income taxes have been provided for on the asset and liability method, as required by existing guidance. Under the asset and liability method, deferred income taxes are recognized for the temporary differences between the financial reporting basis and the tax basis of assets and liabilities.

(11) Secured and Unsecured Debt

Total Debt Maturity Schedule

The following table presents the principal amount of total debt maturing each year, including amortization of principal, based on debt outstanding at September 30, 2013:

	2013 (a) (a)		2014 (a) (a)		2015		2016		2017		Thereafter		Total	
Fixed rate debt	$90,806		88,162	(b)	37,798		8,974		46,168		227,674		499,582	(c)
Weighted average interest rate	5.41	%	5.29	%	6.11	%	5.00	%	5.05	%	5.10	%	5.26	%
Variable rate debt	$—		6,200		—		35,000		105,000	(d)	230,000	(e)(f)	376,200	(c)
Weighted average interest rate	—	%	0.30	%	—	%	2.63	%	1.69	%	2.04	%	1.97	%

(a) Approximately $142,616 of the Company's mortgages payable matures in the next twelve months. Included in the debt maturing in 2013 is approximately $90,247 secured by the Company's Algonquin Commons property. Although these loans do not mature until November 2014, the Company has included them in 2013 because the lender has accelerated the due date of the loans in connection with their decision to initiate foreclosure proceedings. The Company intends to repay the other remaining maturing debt upon maturity using available cash and/or borrowings under its unsecured line of credit facility.

(b) Included in the debt maturing in 2014 are the Company's convertible notes issued during 2010, which mature in 2029. They are included in 2014 because that is the earliest date these notes can be redeemed or the note holders can require the Company to repurchase their notes. The total for convertible notes above reflects the total principal amount outstanding, in the amount of $29,215. The consolidated balance sheets at September 30, 2013 reflect the value of the notes including the remaining unamortized discount of $541.

(c) The total debt above reflects the total principal amount outstanding. The consolidated balance sheets at September 30, 2013 reflect the value of the debt including the remaining unamortized mortgages premium/discount of $3,306.

(d) Included in the debt maturing during 2017 is the Company's unsecured line of credit facility, totaling $105,000. The Company pays interest only during the term of this facility at a variable rate equal to a spread over LIBOR, in effect at the time of the borrowing, which fluctuates with the Company's leverage ratio. As of September 30, 2013, the weighted average interest rate on outstanding draws on the line of credit facility was 1.69%. This credit facility requires compliance with certain covenants, such as debt service ratios, minimum net worth requirements, distribution limitations and investment restrictions. As of September 30, 2013, the Company was in compliance with these financial covenants.

(e) Included in the thereafter column is the Company's $180,000 unsecured term loan which matures in August 2018. The Company pays interest only during the term of this loan at a variable rate equal to a spread over LIBOR, in effect at the time of the borrowing, which fluctuates with the Company's leverage ratio. As of September 30, 2013, the weighted average interest rate on the term loan was 1.64%. This term loan requires compliance with certain covenants, such as debt service ratios, minimum net worth requirements, distribution limitations and investment restrictions. As of September 30, 2013, the Company was in compliance with these financial covenants.

(f) Included in the thereafter column is the Company's $50,000 unsecured term loan which matures in November 2018. The Company pays interest only during the term of this loan at a variable rate, with an interest rate floor of 3.50%. As of September 30, 2013, the interest rate on this term loan was 3.50%. This term loan requires compliance with certain covenants, such as debt service ratios, minimum net worth requirements, distribution limitations and investment restrictions. As of September 30, 2013, the Company was in compliance with these financial covenants.

Mortgages Payable

The Company's mortgages payable are secured by certain of the Company's investment properties. The face value of mortgage loans outstanding as of September 30, 2013 was $511,567 and they bore interest at a weighted average interest rate of 5.03% per annum. The consolidated balance sheets at September 30, 2013 reflect the fair value of the mortgage debt, including the remaining unamortized mortgages premium/discount of $3,306. Of this amount, $470,367 bore interest at fixed rates ranging from 4.00% to 6.50% per annum and a weighted average fixed rate of 5.27% per annum as of September 30, 2013. The remaining $41,200 of mortgage debt bears interest at variable rates with a weighted average interest rate of 2.28% per annum as of September 30, 2013. As of September 30, 2013, scheduled maturities for the Company's outstanding mortgage indebtedness had various due dates through February 2023. 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.

In June 2012, the Company ceased paying the monthly debt service on the mortgage loans encumbering Algonquin Commons. The Company had hoped to reach an agreement with the special servicer that would revise the loan structure to make continued ownership of the property economically feasible. In January 2013, the Company received notice that a complaint had been filed by the lender to Algonquin Commons, alleging events of default under the loan documents and seeking to foreclose on the property. In connection with the complaint, the plaintiff filed a motion for appointment of a receiver and the court granted the motion and issued an order effective March 1, 2013, appointing a receiver for the property. As a result, the receiver and its

affiliated management company are now managing and operating Algonquin Commons and are now collecting all rents for the property. The Company cannot currently estimate the impact the dispute will have on its consolidated financial statements and may not be able to do so until a final outcome has been reached. The Company believes the payment guaranty has, however, ceased and is of no further force and effect as a result of the conditions for termination having been met when the performance metrics set forth in the payment guaranty were met. As the Company has previously disclosed, if it is required to pay the full $18,600 outstanding under the guarantee, such payment could have a material adverse effect on its consolidated statements of cash flows for the period and the year in which it would be made and it could have a material adverse effect on its consolidated statements of operations and comprehensive income for the period and the year in which the disposal of the property and related debt occur. The Company believes that this payment would not have a material effect on its consolidated balance sheets. If the Company is required to pay under the payment guarantee, it would expect to fund this payment using available cash and/or a draw on its unsecured line of credit facility.

Derivative Instruments and Hedging Activities

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risk, including interest rate, liquidity and credit risk primarily by managing the amount, sources, and duration of its debt funding and, to a limited extent, the use of derivative instruments.

Specifically, the Company has entered into derivative instruments to manage exposures that arise from business activities that result in the payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative instruments, described below, are used to manage differences in the amount, timing, and duration of the Company's known or expected cash payments principally related to certain of the Company's borrowings.

Cash Flow Hedges of Interest Rate Risk

The Company's objective in using interest rate derivatives is to manage exposure to interest rate movements and add stability to interest expense. To accomplish this objective, the Company uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The Company currently has one interest rate swap outstanding that is used to hedge the variable cash flows associated with its variable-rate debt. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in comprehensive income (expense) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives, if any, is recognized directly in earnings. The Company has entered into one interest rate swap contract as a requirement under a secured mortgage and the hedging relationship is considered to be highly effective as of September 30, 2013.

Amounts reported in comprehensive income (expense) related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. The Company estimates that an additional $2,069 will be reclassified from comprehensive income (expense) as an increase to interest expense over the next twelve months.

In December 2010, the Company entered into a floating-to-fixed interest rate swap agreement with an original notional value of $60,000 and a maturity date of December 21, 2020 associated with the debt secured by first mortgages on a pool of eight investment properties. This interest rate swap fixed the floating LIBOR based debt under a variable rate loan to a fixed rate debt at an interest rate of 3.627% per annum plus the applicable margin to manage the risk exposure to interest rate fluctuations, or an effective fixed rate of 6.027% per annum. Also included in the December 31, 2012 balance is a floating-to-fixed interest rate swap agreement the Company's joint venture with IPCC entered into with an original notional value of $9,545, associated with the debt secured by a first mortgage on the Dick's Sporting Goods property. During the nine months ended September 30, 2013, this property was deconsolidated.

As of September 30, 2013 and December 31, 2012, the Company had the following outstanding interest rate derivatives that are designated as a cash flow hedge of interest rate risk:

Table of Contents
INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
September 30, 2013 (unaudited)

Interest Rate Derivative	Notional	
	September 30, 2013	December 31, 2012
Interest Rate Swaps	$60,000	$69,545

The table below presents the fair value of the Company's derivative financial instrument as well as its classification on the consolidated balance sheets as of September 30, 2013 and December 31, 2012.

	Liability Derivatives As of September 30, 2013		Liability Derivatives As of December 31, 2012	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as cash flow hedges:				
Interest rate swaps	Other liabilities	$6,080	Other liabilities	$10,031

The table below presents the effect of the Company's derivative financial instruments on comprehensive income for the three and nine months ended September 30, 2013 and 2012.

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Amount of gain (loss) recognized in comprehensive income on derivative, net	$(416)	(1,121)	2,391	(3,412)
Amount of loss reclassified from accumulated comprehensive income into interest expense	527	519	1,561	1,543
Unrealized gain (loss) on derivative	$111	(602)	3,952	(1,869)

Credit-risk-related Contingent Features

Derivative financial investments expose the Company to credit risk in the event of non-performance by the counterparties under the terms of the interest rate hedge agreements. The Company believes it minimizes the credit risk by transacting with major creditworthy financial institutions.

As of September 30, 2013, the fair value of derivatives in a liability position related to this agreement was $6,080. If the Company breached any of the contractual provisions of the derivative contract, it would be required to settle its obligation under the agreement at its termination value of $6,619.

Unsecured Credit Facilities

In 2012, the Company entered into amendments to its existing unsecured line of credit facility and term loan, together the "Credit Agreements." Under the term loan agreement, the Company borrowed, on an unsecured basis, $175,000. The aggregate commitment of the Company's line of credit facility is $275,000, which includes a $100,000 accordion feature. The access to the accordion feature is at the discretion of the current lending group. If approved, the terms for the funds borrowed under the accordion feature would be market terms at the time of the borrowing and not the terms of the existing line of credit facility. The lending group is not obligated to approve access to the additional funds.

The line of credit facility was scheduled to mature on August 20, 2016 and the term loan was scheduled to mature on August 20, 2017. Borrowings under the Credit Agreements bear interest at a base rate applicable to any particular borrowing (e.g., LIBOR) plus a graduated spread that varies with the Company's leverage ratio.

On August 23, 2013, the Company entered into amendments to the Credit Agreements to, among other things, (1) extend the maturity date of the line of credit facility to August 22, 2017 and of the term loan to August 22, 2018; (2) increase the amount borrowed under the term loan to $180,000 and increase the aggregate commitment of the Company's line of credit facility to $280,000, which includes the $100,000 accordion feature; and (3) reduce the graduated spread that varies with the Company's leverage ratio. In conjunction with these amendments, the Company paid approximately $1,260 in fees and costs.

The Company pays interest only, on a monthly basis during the term of the Credit Agreements, with all outstanding principal and unpaid interest due upon termination of the Credit Agreements. 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. As of September 30, 2013 and December 31, 2012, the outstanding balance on the line of credit facility was $105,000 and $80,000, respectively. As of September 30, 2013, the Company had up to $75,000 available under its line of credit facility, not including the accordion feature. Availability under the line of credit facility may be limited due to covenant compliance requirements in the Credit Agreements.

On November 15, 2011, the Company entered into an unsecured loan agreement with Wells Fargo Bank, National Association as lender pursuant to which the company received $50,000 of loan proceeds. The loan matures on November 15, 2018. The Company pays interest only, on a monthly basis, with all outstanding principal and unpaid interest due upon the maturity date. The loan accrues interest at an effective rate calculated in accordance with the loan documents, provided, however, that in no event will the interest rate on the outstanding principal balance be less than 3.5% per annum. The Company may not prepay the loan in whole or in part prior to November 15, 2014. On or after that date, the Company may prepay the loan in its entirety or in part, together with all interest accrued and may incur a prepayment penalty in conjunction with such prepayment.

Convertible Notes

In August 2010, the Company issued $29,215 in face value of 5.0% convertible senior notes due 2029 (the "Notes"), all of which remained outstanding at September 30, 2013.

Interest on the Notes is payable semi-annually. The Notes mature on November 15, 2029 unless repurchased, redeemed or converted in accordance with their terms prior to that date. The earliest date holders of the Notes may require the Company to repurchase their Notes in whole or in part is November 15, 2014. Prior to November 21, 2014, the Company may not redeem the Notes prior to the date on which they mature except to the extent necessary to preserve its status as a REIT. However, on or after November 21, 2014, the Company may redeem the Notes, in whole or in part, subject to the redemption terms in the Note. Following the occurrence of certain change in control transactions, the Company may be required to repurchase the Notes in whole or in part for cash at 100% of the principal amount of the Notes to be repurchased plus accrued and unpaid interest.

Holders of the Notes 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, 2029, but prior to the close of business on the second business day immediately preceding November 15, 2029, 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 its common stock, if any, based on a daily conversion value calculated on a proportionate basis for each trading day of the relevant 30 day trading period. The conversion rate as of September 30, 2013, for each $1 principal amount of Notes was 102.8807 shares of the Company's common stock, subject to adjustment under certain circumstances. This is equivalent to a conversion price of approximately $9.72 per share of common stock.

At September 30, 2013 and December 31, 2012, the Company has recorded $548 and $183, respectively of accrued interest related to the convertible notes. This amount is included in accounts payable and accrued expenses on the Company's consolidated balance sheets.

The Company accounts for its convertible notes by separately accounting for the debt and equity components of the notes. The value assigned to the debt component is the estimated fair value of a similar bond without the conversion

feature, which results in the debt being recorded at a discount. The debt is subsequently accreted to its par value over the conversion period with a rate of interest being reflected in earnings that reflects the market rate at issuance. The Company initially recorded $9,412 to additional paid in capital on the accompanying consolidated balance sheets, to reflect the equity portion of the convertible notes. The debt component is recorded at its fair value, which reflects an unamortized debt discount. The following table sets forth the net carrying values of the debt and equity components included in the consolidated balance sheets at September 30, 2013 and December 31, 2012.

	September 30, 2013	December 31, 2012
Equity Component (a)	$9,376	9,353
Debt Component	$29,215	29,215
Unamortized Discount (b)	(541)	(888)
Net Carrying Value	$28,674	28,327

22

(a) The equity component is net of unamortized equity issuance costs of $36 and $59 at September 30, 2013 and December 31, 2012, respectively.
(b) The unamortized discount will be amortized into interest expense on a monthly basis through November 2014.

Total interest expense related to the convertible notes for the three and nine months ended September 30, 2013 and 2012 was calculated as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Interest expense at coupon rate	$368	368	1,104	1,104
Discount amortization	116	116	347	348
Total interest expense (a)	$484	484	1,451	1,452

(a) The effective interest rate of these convertible notes is 7.0%, which is the rate at which a similar instrument without the conversion feature could have been obtained in August 2010.

(12) Earnings per Share

Basic earnings (loss) per share ("EPS") is computed by dividing net income (loss) by the basic weighted average number of common shares outstanding for the period (the "common shares"). Diluted EPS is computed by dividing net income (loss) by the common shares plus shares issuable upon exercise of existing options or other contracts. As of September 30, 2013 and December 31, 2012, options to purchase 73 and 83 shares of common stock, respectively, at exercise prices ranging from $6.85 to $19.96 per share were outstanding. Convertible notes are included in the computation of diluted EPS using the if-converted method, to the extent the impact of conversion is dilutive. These options and convertible notes were not included in the computation of basic or diluted EPS as the effect would be immaterial or anti-dilutive for the periods presented.

As of September 30, 2013, 576 shares of common stock have been issued pursuant to employment agreements, employment incentives and as director compensation. Of the total shares issued, 239 have vested and 6 have been cancelled. The unvested shares are excluded from the computation of basic EPS but reflected in diluted EPS by application of the treasury stock method unless the effect would be immaterial or anti-dilutive.

The following is a reconciliation between weighted average shares used in the basic and diluted EPS calculations, excluding amounts attributable to noncontrolling interests:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Numerator:				
Income from continuing operations	$4,444	755	106,858	5,484
Income from discontinued operations	1,219	904	9,691	1,738
Net income	5,663	1,659	116,549	7,222
Net loss attributable to the noncontrolling interest	33	28	19	103
Net income attributable to Inland Real Estate Corporation	5,696	1,687	116,568	7,325
Dividends on preferred shares	(2,209)	(2,185)	(6,715)	(5,663)
	$3,487	(498)	109,853	1,662

Net income (loss) attributable to common stockholders								
Denominator:								
Denominator for net income per common share — basic:								
Weighted average number of common shares outstanding	99,317		89,049		93,901		88,973	
Effect of dilutive securities:								
Unvested restricted shares	331	(a)	—	(b)	268	(a)	136	(a)
Denominator for net income per common share — diluted:								
Weighted average number of common and common equivalent shares outstanding	99,648		89,049		94,169		89,109	

(a) Unvested restricted shares of common stock have a dilutive impact, although it is not material to the periods presented.

(b) Unvested restricted shares of common stock, the effect of which would be anti-dilutive, were 180 for the three months ended September 30, 2012. These shares were not included in the computation of diluted EPS as a loss from continuing operations was reported after subtracting dividends on preferred shares.

In November 2012, the Company entered into a three-year Sales Agency Agreement with BMO Capital Markets Corp., Jefferies & Company, Inc. and KeyBanc Capital Markets, Inc. (together the "Agents"). The Sales Agency Agreement provides that the Company may offer and sell shares of its common stock having an aggregate offering price up to $150 million from time to time through the Agents. Offers and sales of shares of its common stock, if any, may be made in privately negotiated

transactions or by any other method deemed to be an "at the market" offering as defined in Rule 415 under the Securities Act, including sales made directly on the New York Stock Exchange or to or through a market maker. The Company has referred to this arrangement with the Agents in this report on Form 10-Q as its ATM issuance program. As of September 30, 2013, the Company has issued an aggregate of approximately 996 shares of its common stock through the ATM issuance program. The Company received net proceeds of approximately $9,948 from the issuance of these shares, comprised of approximately $10,100 in gross proceeds, offset by approximately $152 in commissions and fees. The Company intends to use the proceeds in accordance with the "Use of Proceeds" disclosure in the corresponding prospectus and any supplements to the prospectus, as filed with the Securities and Exchange Commission. As of September 30, 2013, approximately $139,900 remained available for sale under this issuance program.

(13) Accumulated other comprehensive loss

The following table indicates the changes and reclassifications affecting other comprehensive loss by component for the nine months ended September 30, 2013.

	Unrealized gain (loss) on available for sale securities	Gain (loss) on derivative instruments	Total
Balance at December 31, 2012	$762	(10,031)	(9,269)
Other comprehensive income (loss) before reclassifications	(84)	2,391	2,307
Reclassification of gain on sale of investment securities	(715)	—	(715)
Amounts reclassified from accumulated other comprehensive income	—	1,561	1,561
Net other comprehensive income	(799)	3,952	3,153
Balance at September 30, 2013	$(37)	(6,079)	(6,116)

The following table indicates the changes and reclassifications affecting other comprehensive loss by component for the three months ended September 30, 2013.

	Unrealized gain (loss) on available for sale securities	Gain (loss) on derivative instruments	Total
Balance at June 30, 2013	$376	(6,190)	(5,814)
Other comprehensive income (loss) before reclassifications	(183)	(416)	(599)
Reclassification of gain on sale of investment securities	(230)	—	(230)
Amounts reclassified from accumulated other comprehensive income	—	527	527
Net other comprehensive income	(413)	111	(302)
Balance at September 30, 2013	$(37)	(6,079)	(6,116)

(14) Segment Reporting

Guidance regarding the disclosures about segments of an enterprise and related information requires disclosure of certain operating and financial data with respect to separate business activities within an enterprise. The Company owns and acquires well located open air retail centers. The Company currently owns investment properties located in the States of Alabama, Florida, Georgia, Illinois, Indiana, Kentucky, 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. The Company aggregates its properties into one reportable segment since all properties are open air retail centers. Accordingly, the Company has concluded that it has a single reportable segment.

(15) 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.

(16) Subsequent Events

On October 1, 2013, the Company sold a portion of Regal Showplace, located in Crystal Lake, Illinois to an unaffiliated third party for $1,950, a price above its current carrying value.

On October 8, 2013, the Company's joint venture with PGGM purchased Cedar Center South from an unaffiliated third party for $24,900. The property is located in University Heights, Ohio and contains 138,891 square feet of leasable area. In conjunction with the acquisition, the PGGM joint venture assumed a first mortgage loan in the amount of approximately $18,300.

On October 15, 2013, the Company paid a cash distribution of $0.169271 per share on the outstanding shares of its 8.125% Series A Cumulative Redeemable Preferred Stock to stockholders of record at the close of business on October 1, 2013.

On October 15, 2013, the Company announced that it had declared a cash distribution of $0.169271 per share on the outstanding shares of its 8.125% Series A Cumulative Redeemable Preferred Stock. This distribution is payable on November 15, 2013 to the stockholders of record at the close of business on November 1, 2013.

On October 17, 2013, the Company paid a cash distribution of $0.0475 per share on the outstanding shares of its common stock to stockholders of record at the close of business on September 30, 2013.

On October 17, 2013, the Company announced that it had declared a cash distribution of $0.0475 per share on the outstanding shares of its common stock. This distribution is payable on November 18, 2013 to the stockholders of record at the close of business on October 31, 2013.

On October 18, 2013, the Company's joint venture with IPCC purchased a single tenant investment property from an unaffiliated third party for approximately $20,359. Simultaneously with the closing, the joint venture obtained secured financing on the property in the amount of $14,400. The property is located in Elmhurst, Illinois and contains 76,236 square feet of leasable area that is 100% leased by Mariano's, a division of Roundy's.

On October 30, 2013, the Company sold Naper West, located in Naperville, Illinois to an unaffiliated third party for $21,150, a price above its current carrying value.

On November 4, 2013, the Company's joint venture with IPCC purchased a portfolio of twelve single tenant properties, each 100 percent leased to 7-Eleven from an unaffiliated third party for $29,000. Simultaneously with the closing, the joint venture obtained secured financing on the portfolio in the amount of $17,400.

Table of Contents

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 (including documents incorporated herein by reference) constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Federal Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that do not reflect historical facts and instead reflect our management's intentions, beliefs, expectations, plans or predictions of the future. Forward-looking statements can often be identified by words such as "seek," "believe," "expect," "anticipate," "intend," "estimate," "may," "will," "should" an
Examples of forward-looking statements include, but are not limited to, statements that describe or contain information related to matters such as management's intent, belief or expectation with respect to our financial performance, investment strategy or our portfolio, our ability to address debt maturities, our cash flows, our growth prospects, the value of our assets, our joint venture commitments and the amount and timing of anticipated future cash distributions. Forward-looking statements reflect the intent, belief or expectations of our management based on their knowledge and understanding of the business and industry and their assumptions, beliefs and expectations with respect to the market for commercial real estate, the U.S. economy and other future conditions. These statements are not guarantees of future performance, and investors should not place undue reliance on forward-looking statements. Actual results may differ materially from those expressed or forecasted in forward-looking statements due to a variety of risks, uncertainties and other factors, including but not limited to the factors listed and described under Item 1A"Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the Securities and Exchange Commission (the "SEC") on February 28, 2013 as they may be revised or supplemented by us in subsequent Reports on Form 10-Q and other filings with the SEC. Among such risks, uncertainties and other factors are market and economic challenges experienced by the U.S. economy or real estate industry as a whole, including dislocations and liquidity disruptions in the credit markets; the inability of tenants to continue paying their rent obligations due to bankruptcy, insolvency or a general downturn in their business; competition for real estate assets and tenants; impairment charges; the availability of cash flow from operating activities for distributions and capital expenditures; our ability to refinance maturing debt or to obtain new financing on attractive terms; future increases in interest rates; actions or failures by our joint venture partners, including development partners; and factors that could affect our ability to qualify as a real estate investment trust. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results.

In this report, all references to "we," "our" and "us" refer collectively to Inland Real Estate Corporation and its consolidated subsidiaries. All amounts in this Form 10-Q are stated in thousands with the exception of per share amounts, per square foot amounts, number of properties, and number of leases.

Executive Summary

We strive to be a leading owner and operator of high quality, necessity and value based retail centers in prime locations throughout the United States. We seek to provide predictable, sustainable cash flows and continually enhance shareholder value through the expert management and strategic improvement of our portfolio of premier retail properties.

We have elected to be taxed as a real estate investment trust ("REIT"). We are a Maryland corporation formed on May 12, 1994. To date, we have focused on open-air neighborhood, community and power shopping centers and single-tenant retail properties located primarily in the Midwestern United States. Through wholly-owned subsidiaries, Inland Commercial Property Management, Inc. and Inland TRS Property Management, Inc., we manage all properties we own interests in and properties for certain third parties and related parties. Our investment properties are typically anchored by grocery, drug or discount stores, which provide everyday goods and services to consumers, rather than

stores that sell discretionary items. We seek to acquire properties with high quality tenants and attempt to mitigate our risk of tenant defaults by maintaining a diversified tenant base. As of September 30, 2013, no single tenant accounted for more than approximately 3.9% of annual base rent in our total portfolio, excluding properties owned through our joint venture with Inland Private Capital Corporation ("IPCC").

As of September 30, 2013, we owned interests in 161 investment properties, including 52 properties owned by our unconsolidated joint ventures.

2013 Goals and Objectives

- Continue to enhance the value of our portfolio through additional repositioning and redevelopment initiatives.
- Redeploy capital from dispositions of non-core, limited growth assets into acquisitions of high quality retail assets.

26

Table of Contents

- Continue to reduce the cost and extend the term of our debt and reduce our overall leverage over time, which will improve our financial flexibility and liquidity by providing better access to multiple sources of capital.

In executing our 2013 goals, during the nine months ended September 30, 2013, we sold seven non-core assets for approximately $25,246, the proceeds from which were used to partially fund the acquisition of the 50% ownership interest of New York State Teacher's Retirement Systems ("NYSTRS") in our joint venture. Our decision to acquire the joint venture interest was based on advancing our strategic goals to increase the size and quality of our consolidated portfolio, simplify our ownership structure and strengthen our balance sheet. Additionally, we repaid approximately $25,420 of consolidated mortgages payable, and prior to acquiring NYSTRS' interest, the joint venture repaid approximately $20,900 of secured debt when it matured, using equity contributions from each partner, resulting in a decrease of our total outstanding debt.

As part of our overall growth strategy, management implemented external growth initiatives through unconsolidated joint ventures. Because these joint ventures are unconsolidated, our consolidated financial statements do not present a complete picture of the impact of these ventures. As a result, we have included pro rata consolidated financial statements in the Non-GAAP Financial Measures section of the Quarterly Report on Form 10-Q to present our consolidated financial statements including our share of the joint venture balance sheets and statements of operations.

We managed approximately $2,812,027 in total assets as of September 30, 2013, including properties owned by unconsolidated joint ventures and those managed on behalf of third parties, and earned $85,063 and $251,565 for three and nine months ended September 30, 2013, respectively in total revenues. We believe providing this information allows investors to better compare our overall performance and operating metrics to those of other REITs in our peer group.

Strategies and Objectives

Current Strategies

Our primary business objective is to enhance the performance and value of our investment properties through management strategies that address the needs of retailers in an evolving retail marketplace. Our success in operating our centers efficiently and effectively is, we believe, a direct result of our expertise in the acquisition, management, leasing and development/re-development of properties held either directly or through a joint venture.

Acquisition Strategies

We seek to selectively acquire well-located open air retail centers that meet our investment criteria. We will, from time to time, acquire properties either without financing contingencies or by assuming existing debt to provide us with a competitive advantage over other potential purchasers requiring financing or financing contingencies. Additionally, we concentrate our property acquisitions in areas where we have, or seek to 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.

Joint Ventures

We have formed joint ventures to acquire stabilized retail properties as well as properties to be redeveloped and vacant land to be developed. We structure these ventures to earn fees from the joint ventures for providing property management, asset management, acquisition and leasing services. We will continue to receive management and leasing fees for those investment properties under management, however acquisition fees may fluctuate with acquisition activity through these ventures.

We believe that joint ventures support our strategic goals of expanding our footprint to improve diversification, while utilizing our partner's capital and preserving liquidity on our balance sheet. Additionally, the joint ventures provide us with ongoing fee income that enhances our results of operations from our core portfolio.

Additionally, we have formed a joint venture to acquire properties that are ultimately sold to investors through a private offering of tenant-in-common (“TIC”) interests or interests in Delaware Statutory Trusts (“DST”). We earn fees from the joint venture for providing asset management, property management, acquisition and leasing services. We will continue to receive management and leasing fees for those properties under management; even after all of the TIC or DST interests have been sold.

Operations

Table of Contents

We actively manage costs to minimize operating expenses by centralizing all management, leasing, marketing, financing, accounting and data processing activities to provide operating efficiencies. We seek to improve rental income and cash flow by aggressively marketing rentable space. We emphasize regular maintenance and periodic renovation to meet the needs of tenants and to maximize long-term returns. We maintain a diversified tenant base consisting primarily of retail tenants providing consumer goods and services. We proactively review our existing portfolio for potential re-development opportunities.

Liquidity and Capital Resources

Our most liquid asset is cash and cash equivalents that consist of cash and short-term investments. Cash and cash equivalents at September 30, 2013 and December 31, 2012 were $18,891 and $18,505, respectively. See our discussion of the statements of cash flows for a description of our cash activity during the nine months ended September 30, 2013 and 2012.

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 could 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. However, we do not believe the risk is significant based on our review of the rating of the institutions where our cash is deposited. FDIC insurance currently covers up to $250 per depositor at each insured bank.

Sources of cash

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, including shares of our common stock sold under our DRP and ongoing ATM issuance program, draws on our unsecured line of credit facility, which may be limited due to covenant compliance requirements, proceeds from financings secured by our investment properties, cash flows we retain that are not distributed to our stockholders and fee income received from our unconsolidated joint venture properties. As of September 30, 2013, we were in compliance with all financial covenants applicable to us. We had up to $75,000 available under our $180,000 line of credit facility and an additional $100,000 available under an accordion feature. The access to the accordion feature requires approval of the lending group. If approved, the terms for the funds borrowed under the accordion feature would be market terms at the time of the borrowing and not the terms of the other borrowings under the line of credit facility. The lending group is not obligated to approve access to funds under the accordion feature. We use our cash primarily to pay distributions to our stockholders, for operating expenses at our investment properties, for interest expense on our debt obligations, for purchasing additional investment properties and capital commitments at existing investment properties, to meet joint venture commitments, to repay draws on the line of credit facility and for retiring mortgages payable.

In the aggregate, our investment properties are currently generating sufficient cash flow to pay our operating expenses, monthly debt service requirements, certain capital expenditures and current distributions. Monthly debt service requirements consist primarily of interest payments on our debt obligations although certain of our secured mortgages require monthly principal amortization.

We also own marketable securities of other entities, including REITs. These investments are generally liquid and could be sold to generate cash. These investments in available-for-sale securities totaled $3,587 at September 30, 2013, consisting of preferred and common stock investments. At September 30, 2013, we had recorded an accumulated net unrealized loss of $37 on these investment securities. Realized gains and losses from the sale of available-for-sale securities are specifically identified and determined. During the three and nine months ended

September 30, 2013, we realized gains on sale of $271 and $1,090, respectively, as compared to $305 and $1,396 during the three and nine months ended September 30, 2012, respectively.

As noted above, we also fund certain of our liquidity needs through the sale of our common stock in "at the market" or "ATM" issuances. Under this program, we may issue up to $150,000 of our shares of common stock through the ATM issuances. BMO Capital Markets Corp., Jefferies & Company, Inc. and KeyBanc Capital Markets, Inc. (together the "Agents") act as our sales agent(s) for these issuances which may be made in privately negotiated transactions or by any other method deemed to be an "at the market" offering as defined in Rule 415 under the Securities Act, including sales made directly on the New York Stock Exchange or to or through a market maker. We refer to the arrangement with the Agents in this report on Form 10-Q as our "ATM issuance program." During the nine months ended September 30, 2013, we issued approximately 996 shares of our common stock through the ATM issuance program, generating net proceeds of approximately $9,948, comprised of approximately $10,100 in gross proceeds, offset by approximately $152 in commissions and fees.

Additionally, during the nine months ended September 30, 2013, we issued 9,000 shares of common stock through an underwritten equity offering, generating net proceeds after the underwriting discount of approximately $91,600. These proceeds were used to partially fund our acquisition of our partner's interest in the IN Retail Fund LLC joint venture.

Uses of Cash

Our largest cash outlays relate to the payment of distributions to our preferred and common stockholders, the operation of our properties and interest expense on our mortgages payable and other debt obligations. Property operation outlays include, but are not limited to, real estate taxes, utilities, insurance, regular maintenance, landscaping, snow removal and periodic renovations to meet tenant needs. Pursuant to lease arrangements, most tenants are required to reimburse us for some or all of their pro rata share of the real estate taxes and operating expenses of the property.

Since the most recent economic downturn, we have been successful in restoring stability to our portfolio. We believe that the stability of our portfolio, the lack of new supply of retail space, and the continued demand from growing retailers has put us in excellent position to be proactive in upgrading the quality of our tenancy and increasing rents. We continue to focus on leasing vacant spaces, but we are also focusing on right-sizing certain retailers and repositioning other centers to manage tenant exposures and open up space to accommodate larger tenants. These activities may require us to take tenants off-line during construction that may have a temporary adverse effect on our results of operations during the period the tenant is not paying rent. We are proactive in moving forward with these activities, as we believe the long term benefits outweigh the temporary decline in cash flows and net operating income.

In 2013, we expanded our program to re-position select centers in our portfolio to accommodate in-demand retail concepts and increase asset value. We currently have several projects underway and others under consideration. At various points throughout 2013, a total of approximately 350,000 square feet has been or will be out of service in conjunction with planned repositioning projects, which we expect to come back on line in 2014. The loss in revenue from taking this space off-line will be partially offset by revenue coming on-line for leases signed during 2012 and 2013. During 2012, we invested approximately $25,000 in capital for tenant improvements and leasing commission on new leases and building improvements related to some of these repositioning efforts. We funded these improvements using cash from operations and draws on our unsecured line of credit facility. We expect to invest approximately the same amount in 2013 using the same sources of cash.

Reference is made to the Total Debt Maturity Schedule in Note 11, “Secured and Unsecured Debt” to the accompanying consolidated financial statements for a discussion of our total debt outstanding as of September 30, 2013, which is incorporated into this Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Approximately $142,616 of consolidated debt matures in the next twelve months. Included in the debt maturing in 2013 is approximately $90,247 secured by our Algonquin Commons property. Although these loans do not mature until November 2014, we have included them in 2013 because the lender has accelerated the due date of the loans in connection with its decision to initiate foreclosure proceedings. We intend to repay the other remaining maturing debt upon maturity using available cash and/or borrowings under our unsecured line of credit facility.

In June 2012, we ceased paying the monthly debt service on the mortgage loans encumbering Algonquin Commons. We had hoped to reach an agreement with the special servicer that would have revised the loan structure to make continued ownership

Table of Contents

of the property economically feasible. In January 2013, we received notice that a complaint had been filed by the successors to the lender, alleging events of default under the loan documents and, among other things, seeking to foreclose on the property. In connection with the complaint, the plaintiff filed a motion for appointment of a receiver and the court granted the motion and issued an order effective March 1, 2013, appointing a receiver for the property. As a result, the receiver and its affiliated management company are now managing and operating Algonquin Commons and are collecting all rents for the property. We cannot currently estimate the impact the dispute will have on our consolidated financial statements and may not be able to do so until a final outcome has been reached. We believe the payment guaranty under the loan documents has, however, ceased and is of no further force and effect as a result of the conditions for termination of the guaranty having been met when the property met the performance metrics set forth in the guaranty. As we have previously disclosed, if we are required to pay the full $18,600 outstanding under the guaranty, then making that payment could have a material adverse effect on our consolidated statements of cash flows for the period and the year in which it would be made and it could have a material adverse effect on our consolidated statements of operations and comprehensive income for the period and the year in which the disposal of the property and related debt occur. We believe that this payment would not have a material effect on our consolidated balance sheets. If we are required to pay under the payment guaranty, we expect to fund this payment using available cash and/or a draw on our unsecured line of credit facility.

In October, 2012, we entered into a First Amendment (the “Amendment”) to the Limited Partnership Agreement of our joint venture with PGGM. Subject to the terms and conditions of the Amendment, the partners increased the potential maximum equity contributions to allow for the acquisition of up to an additional $400,000 of grocery-anchored and community retail centers located in Midwestern U.S. markets, using partner equity and secured debt. The Amendment increased our potential maximum equity contribution to $280,000 and PGGM’s potential maximum equity contribution to $230,000. The Amendment allows for a two-year investment period and no contributions are required unless and until both partners approve an additional acquisition. We will fund our equity contributions with draws on our line of credit facility, proceeds from sales of investment properties, proceeds from financing unencumbered properties or the sale of preferred or common stock. As of September 30, 2013, PGGM's remaining maximum potential contribution was approximately $75,000 and ours was approximately $91,000.

Acquisitions and Dispositions

The table below presents investment property acquisitions, including those acquired by our unconsolidated joint venture, during the nine months ended September 30, 2013 and the year ended December 31, 2012.

Table of Contents

Date	Property	City	State	GLA Sq.Ft.	Purchase Price	Cap Rate (a)		Financial Occupancy at time of Acquisition	
Consolidated Portfolio									
4/24/2013	Warsaw Commons (b)	Warsaw	IN	87,826	$11,393	8.00	%	96	%
4/17/2013	Eola Commons (c)	Aurora	IL	23,080	(c)	(c)		78	%
4/17/2013	Winfield Pointe Center (c)	Winfield	IL	19,888	(c)	(c)		75	%
12/21/2012	Valparaiso Walk	Valparaiso	IN	137,500	21,900	8.00	%	100	%
4/18/2012	Orland Park Place Outlots II	Orland Park	IL	22,966	8,750	7.40	%	100	%
PGGM Joint Venture									
9/11/2013	Timmerman Plaza (d)	Milwaukee	WI	40,343	5,257	7.90	%	84	%
9/11/2013	Capitol and 124th	Wauwatosa	WI	54,198	10,265	6.50	%	100	%
9/11/2013	Pilgrim Village (e)(f)	Menomonee Falls	WI	31,331	8,723	6.70	%	69	%
8/20/2013	Evergreen Promenade (g)	Evergreen Park	IL	—	5,500	(g)		(g)	
12/11/2012	Westgate Shopping Center (h)	Fairview Park	OH	241,838	73,405	7.60	%	86	%
4/13/2012	Woodbury Commons (i)	Woodbury	MN	116,196	10,300	6.50	%	66	%
2/29/2012	Stone Creek Towne Center (j)	Cincinnati	OH	142,824	36,000	8.00	%	97	%
2/24/2012	Silver Lake Village (k)	St. Anthony	MN	159,303	36,300	6.90	%	87	%
IPCC Joint Venture									
9/25/2013	Family Dollar	Marion	IL	8,000	1,474	7.81	%	100	%
9/11/2013	Dollar General	Warrior	AL	9,100	1,089	8.68	%	100	%
9/11/2013	Dollar General	Fortson	GA	9,100	1,173	7.41	%	100	%
9/11/2013	Dollar General	Woodville	AL	9,026	1,067	7.41	%	100	%
9/11/2013	Dollar General	Midland City	AL	12,382	1,393	7.41	%	100	%
9/11/2013	Dollar General	LaGrange	GA	9,100	1,145	7.40	%	100	%
9/11/2013	Dollar General	Mobile	AL	9,100	1,219	7.40	%	100	%
9/10/2013	Dollar General	Gale	WI	9,026	945	7.85	%	100	%
9/10/2013	Dollar General	Lafayette	WI	9,026	944	7.85	%	100	%
7/26/2013	Freedom Commons (l)	Naperville	IL	42,218	24,400	6.74	%	87	%
4/17/2013	Family Dollar	Wausaukee	WI	8,000	1,137	8.14	%	100	%
4/17/2013	Family Dollar	Charleston	MO	8,320	1,107	8.13	%	100	%
4/17/2013	Family Dollar	Cameron	TX	8,320	938	8.11	%	100	%
2/12/2013	Mariano's	Palatine	IL	71,324	22,675	6.70	%	100	%
2/12/2013	Mariano's	Vernon Hills	IL	71,248	27,883	6.84	%	100	%
1/24/2013	Family Dollar	Colorado City	TX	8,320	1,009	8.12	%	100	%
1/24/2013	Family Dollar	Abilene	TX	9,180	1,142	7.64	%	100	%
12/21/2012	Dick's Sporting Goods	Cranberry Township	PA	81,780	19,100	7.71	%	100	%
12/20/2012	Walgreens	El Paso	TX	15,120	4,200	7.11	%	100	%
12/20/2012	Walgreens	Benton Harbor	MI	14,820	4,920	6.72	%	100	%

12/19/2012	Dollar General Portfolio (m)	(m)	(m)	54,230	6,337	(m)		100	%
11/16/2012	BJ's Wholesale Club	Gainesville	VA	76,267	16,000	6.48	%	100	%
10/30/2012	Family Dollar	Lorain	OH	8,400	1,246	8.25	%	100	%
10/30/2012	Family Dollar	Cisco	TX	8,000	939	8.50	%	100	%
9/26/2012	Walgreens	New Bedford	MA	10,350	2,650	8.14	%	100	%
8/15/2012	Walgreens	Villa Park	IL	12,154	4,863	7.51	%	100	%
6/13/2012	Walgreens	Milwaukee	WI	13,905	3,025	7.65	%	100	%
3/27/2012	CVS/Walgreens Portfolio (n)	(n)	(n)	55,465	23,711	6.50	%	100	%
3/19/2012	CVS/Walgreens Portfolio (o)	(o)	(o)	40,113	17,059	6.50	%	100	%
3/16/2012	Pick N Save	Sheboygan	WI	62,138	11,700	7.44	%	100	%
3/13/2012	Mt. Pleasant Shopping Center (p)	Mt. Pleasant	WI	83,334	21,320	7.20	%	98	%
				1,924,159	$455,603				

(a) The Cap Rate disclosed is as of the time of acquisition and is calculated by dividing the forecasted net operating income ("NOI") by the purchase price. Forecasted NOI is defined as forecasted net income for the twelve months following the acquisition of the property, calculated in accordance with U.S. GAAP, excluding straight-line rental income, amortization of lease intangibles, interest, depreciation, amortization and bad debt expense, less a vacancy factor to allow for potential tenant move-outs or defaults.

(b) This property is subject to future earnout payments of approximately $1,800, of which $1,225 has already been paid.

(c) We acquired title to these properties through foreclosure proceedings. We had acquired the notes encumbering these properties in 2012 at a discount to their face value. In conjunction with the acquisition, the notes were extinguished. We recorded Winfield Pointe Center at $2,583 and Eola Commons at $3,994, representing the respective fair value of each property at the time of acquisition.

(d) This property is subject to future earnout payments of approximately $1,260.

(e) This property is subject to future earnout payments of approximately $400.

(f) The purchase price of this property includes approximately 40,600 square feet subject to ground leases. Ground lease square footage is not included in our GLA.

(g) Our joint venture with PGGM acquired vacant land to develop a 92,512 square foot retail building through a development partnership that is 96% pre-leased to Mariano's Fresh Market and PetSmart.

Table of Contents

(h) The purchase price of this property includes approximately 229,000 square feet subject to ground leases. Ground lease square footage is not included in our GLA.

(i) The purchase price of this property includes approximately 6,200 square feet subject to ground leases. Ground lease square footage is not included in our GLA.

(j) The purchase price of this property includes approximately 6,600 square feet subject to ground leases. Ground lease square footage is not included in our GLA.

(k) The purchase price of this property includes approximately 154,000 square feet subject to ground leases. Ground lease square footage is not included in our GLA.

(l) The purchase price of this property includes approximately 40,300 square feet subject to ground leases. Ground lease square footage is not included in our GLA.

(m) This portfolio consists of six Dollar General stores, located in Baldwin, Wisconsin; Mercer, Wisconsin; Nekoosa, Wisconsin; Oxford, Wisconsin; Spooner, Wisconsin and Wittenberg, Wisconsin. The cap rates for the various properties ranged from 7.60% to 7.75%.

(n) This portfolio consists of one CVS store and three Walgreens stores, located in Nampa, Idaho; St. George, Utah; Lee's Summit, Missouri and McPherson, Kansas.

(o) This portfolio consists of two CVS stores and one Walgreens store, located in Newport News, Virginia; McAllen, Texas and Dunkirk, New York.

(p) The purchase price of this property includes approximately 6,700 square feet subject to a ground lease. Ground lease square footage is not included in our GLA.

The table below presents investment property dispositions, including properties disposed of by our unconsolidated joint ventures, during the nine months ended September 30, 2013 and the year ended December 31, 2012.

Date	Property	City	State	GLA Sq. Ft.	Sale Price	Gain (loss) on Sale	Provision for Asset Impairment
8/28/2013	BJ's Wholesale Club (a)	Gainesville	VA	76,267	$ 17,466	—	—
8/23/2013	Dick's Sporting Goods (a)	Cranberry Township	PA	81,780	20,951	—	—
8/15/2013	Orland Greens	Orland Park	IL	45,031	4,700	1,162	—
7/25/2013	Eola Commons	Aurora	IL	23,080	4,382	(537)	—
7/23/2013	Pick N Save (a)	Sheboygan	WI	62,138	13,302	—	—
7/3/2013	Berwyn Plaza	Berwyn	IL	15,726	1,700	(101)	—
5/31/2013	Cub Foods	Buffalo Grove	IL	56,192	4,100	—	369
5/14/2013	Winnetka Commons	New Hope	MN	42,415	3,800	556	—
4/30/2013	Mt. Pleasant Shopping Center (a)	Mt. Pleasant	WI	83,334	24,061	—	—
4/8/2013	CVS/Walgreens Portfolio (a) (b)	(b)	(b)	55,465	26,466	—	—
3/5/2013	Oak Lawn Town Center	Oak Lawn	IL	12,506	3,264	681	—
2/29/2013	Walgreen's Portfolio (a) (c)	(c)	(c)	66,359	21,807	—	—
2/20/2013	Quarry Outlot	Hodgkins	IL	9,650	3,300	1,999	—
12/28/2012	CVS/Walgreens Portfolio (a) (d)	(d)	(d)	40,113	19,361	—	—
12/6/2012	10th Street Center	Indianapolis	IN	67,541	1,800	—	2,139
12/6/2012	Butera Market	Naperville	IL	67,632	5,700	1,749	—
10/11/2012	Hartford Plaza	Naperville	IL	43,762	4,520	1,281	—
8/1/2012	Walgreens	Jennings	MO	15,120	2,250	349	—
6/15/2012	Riverplace Center	Noblesville	IN	74,414	4,450	—	356
6/7/2012	Grand Traverse Crossings	Traverse City	MI	21,337	1,150	—	1,068

2/29/2012	Walgreens Portfolio (a) (e)	(e)	(e)	85,920	36,272	—	—
				1,045,782	$224,802	7,139	3,932

(a) This property is included as a disposition because all of the TIC or DST interests have been sold through our joint venture with IPCC. No gain or loss is reflected in this table because the disposition of these properties is not considered a property sale, but rather a sale of ownership interest in the properties. The gains from these properties are included in gain from sale of joint venture interests on the accompanying consolidated statements of operations and comprehensive income.

(b) This portfolio consists of one CVS store and three Walgreens stores, located in Nampa, Idaho; St. George, Utah; Lee's Summit, Missouri and McPherson, Kansas.

(c) This portfolio consists of five Walgreens stores, located in El Paso, Texas; Benton Harbor, Michigan; New Bedford, Massachusetts; Villa Park, Illinois; and Milwaukee, Wisconsin.

(d) This portfolio consists of two CVS stores and one Walgreens store, located in Newport News, Virginia; McAllen, Texas and Dunkirk, New York.

(e) This portfolio consists of six Walgreens stores, located in Normal, Illinois' Spokane, Washington; Villa Rica, Georgia; Waynesburg, Pennsylvania; Somerset, Massachusetts and Gallup, New Mexico.

The table below presents development property dispositions during the nine months ended September 30, 2013. There were no development property dispositions during the year ended December 31, 2012.

Table of Contents

Date	Property	City	State	GLA Sq. Ft.	Acres	Sale Price	Gain on Sale (a)	Provision for Asset Impairment (a)
09/12/13	North Aurora Towne Center III	North Aurora	IL	—	66	4,000	863	—
04/05/13	Savannah Crossings	Aurora	IL	7,380	1.56	$2,000	$9	$ 186
				7,380	67.56	6,000	872	186

(a) Amounts shown are our pro-rata share.

Critical Accounting Policies

Disclosures discussing all critical accounting policies are set forth in our Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on February 28, 2013, under the heading “Critical Accounting Policies.” No significant changes have been made to the critical accounting policies subsequent to December 31, 2012.

Statements of Cash Flows

The following table summarizes our consolidated statements of cash flows for the nine months ended September 30, 2013 and 2012:

	2013	2012
Net cash provided by operating activities	$46,115	44,223
Net cash used in investing activities	$(117,801)	(155,139)
Net cash provided by financing activities	$72,072	114,030

2013 Compared to 2012

Net cash provided by operating activities was $46,115 for the nine months ended September 30, 2013, as compared to $44,223 for the nine months ended September 30, 2012. The increase in cash provided by operating activities is due to an improvement in property operations, which is primarily due to the consolidation during the nine months ended September 30, 2013 of the properties that were formally held in our joint venture with NYSTR. See our discussion below under Results of Operations for an explanation related to property operations.

Net cash used in investing activities was $117,801 for the nine months ended September 30, 2013, as compared to $155,139 for the nine months ended September 30, 2012. The primary reason for the decrease in cash used in investing activities was the receipt of $52,978 from the sale of joint venture interests related to properties owned in our joint venture with IPCC during the nine months ended September 30, 2013, as compared to $9,816 during the nine months ended September 30, 2012. We used $157,928 to purchase investment properties and spent $12,787 in additions to investment properties during the nine months ended September 30, 2013, as compared to the use of $176,116 to purchase investment properties and $18,105 of additions to investment properties during the nine months ended September 30, 2012. Additionally, we invested $16,632 in unconsolidated joint ventures, net of distributions received for the nine months ended September 30, 2013, as compared to receiving $17,096 in distributions from

unconsolidated joint ventures, net of investment in unconsolidated joint ventures for the nine months ended September 30, 2012.

Net cash provided by financing activities was $72,072 for the nine months ended September 30, 2013, as compared to $114,030 during the nine months ended September 30, 2012. The primary reason for the decrease in cash provided by financing activities was the use of $719 to repay debt, net of loan proceeds, the receipt of$25,000 in net proceeds on our unsecured line of credit facility, and $5,000 in proceeds from our term loan during the nine months ended September 30, 2013, as compared to the receipt of $101,883 of loan proceeds, net of debt payoffs, $25,000 in net pay downs from our unsecured line of credit facility, and $25,000 in proceeds from our term loan during the nine months ended September 30, 2012. Additionally, we received $104,046 from the issuance of shares, net of offering costs, during the nine months ended September 30, 2013, as compared to $60,825 from the issuance of shares, net of offering costs, during the nine months ended September 30, 2012.

Results of Operations

Table of Contents

This section describes and compares our results of operations for the three and nine months ended September 30, 2013 and 2012. At September 30, 2013, we had ownership interests in 41 single-user retail properties, 57 Neighborhood Centers, 24 Community Centers, 38 Power Centers and 1 Lifestyle Center. We generate almost all of our net operating income from property operations. One metric that management uses to evaluate our overall portfolio is same store net operating income in which management analyzes the net operating income of properties that we have owned and operated for the same three and nine month periods during each year. These properties are referred to herein as “same store” properties. Property net operating income is a non-GAAP measure that allows management to monitor the operations of our existing properties for comparable periods to measure the performance of our current portfolio and determine the effects of our new acquisitions on net income. We believe that net operating income is also meaningful as an indicator of the effectiveness of our management of properties because net operating income excludes certain items that are not reflective of management, such as depreciation and interest expense.

A total of 90 of our investment properties were “same store” properties during the periods presented. These properties comprise approximately 8.7 million square feet. In the table below, “other investment properties” includes activity from properties acquired during the nine months ended September 30, 2013 (including the consolidation of assets formerly in the NYSTRS joint venture) and the year ended December 31, 2012, properties contributed to our joint ventures and activity from properties owned through our joint venture with IPCC while these properties were consolidated. Operations from properties acquired through this joint venture are recorded as consolidated until those properties become unconsolidated with the first sale of ownership interest to investors. Once the operations are deconsolidated, the income is included in equity in earnings of unconsolidated joint ventures in the accompanying consolidated statements of operations and comprehensive income. The “same store” investment properties represent 77% of the square footage of our consolidated portfolio at September 30, 2013. The following table presents the net operating income, 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, 2013 and 2012 along with reconciliation to net income attributable to common stockholders, calculated in accordance with U.S. GAAP.

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Rental income and tenant recoveries:				
"Same store" investment properties, 90 properties				
Rental income	$25,590	25,594	77,099	75,401
Tenant recovery income	9,438	8,222	28,827	25,712
Other property income	2,324	451	3,206	1,674
"Other investment properties"				
Rental income	8,928	2,655	14,517	7,808
Tenant recovery income	3,956	399	5,786	1,421
Other property income	36	61	142	112
Total property income	$50,272	37,382	129,577	112,128
Property operating expenses:				
"Same store" investment properties, 90 properties				
Property operating expenses	$4,561	4,271	15,407	13,653
Real estate tax expense	7,088	6,974	21,083	20,212
"Other investment properties"				
Property operating expenses	1,249	263	2,169	973
Real estate tax expense	3,331	354	4,773	1,333
Total property operating expenses	$16,229	11,862	43,432	36,171
Property net operating income				
"Same store" investment properties	$25,703	23,022	72,642	68,922
"Other investment properties"	8,340	2,498	13,503	7,035
Total property net operating income	$34,043	25,520	86,145	75,957
Other income:				
Straight-line rents	129	71	485	538
Amortization of lease intangibles	(143)	495	(545)	541
Other income	534	391	1,733	2,853
Fee income from unconsolidated joint ventures	1,578	1,486	5,133	3,554
Gain from settlement of receivables	—	—	3,095	—
Gain from change in control of investment properties	—	—	95,378	1,043
Loss on sale of investment properties	—	(105)	(202)	(104)
Gain on sale of joint venture interest	475	112	1,209	176
Equity in earnings of unconsolidated ventures	2,128	842	5,641	1,631
Other expenses:				
Income tax benefit (expense) of taxable REIT subsidiaries	296	(334)	(1,499)	4,347
Bad debt expense	(311)	(819)	(1,629)	(2,368)
Depreciation and amortization	(20,151)	(13,502)	(47,089)	(41,939)
General and administrative expenses	(4,843)	(4,314)	(14,817)	(13,273)

Interest expense	(9,291)	(9,088)	(25,811)	(26,993)
Provision for asset impairment	—	—	(369)	(479)
Income from continuing operations	4,444	755	106,858	5,484
Income from discontinued operations	1,219	904	9,691	1,738
Net income	5,663	1,659	116,549	7,222
Net loss attributable to the noncontrolling interest	33	28	19	103
Net income attributable to Inland Real Estate Corporation	5,696	1,687	116,568	7,325
Dividends on preferred shares	(2,209)	(2,185)	(6,715)	(5,663)
Net income (loss) attributable to common stockholders	$3,487			