INLAND REAL ESTATE CORP
Form 10-Q
August 08, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014
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 August 7, 2014, there were 100,038,589 shares of common stock outstanding.

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INLAND REAL ESTATE CORPORATION
(a Maryland corporation)

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Part I - Financial Information

Item 1. Financial Statements

INLAND REAL ESTATE CORPORATION
Consolidated Balance Sheets
June 30, 2014 and December 31, 2013
(In thousands, except per share data)

	June 30, 2014	December 31, 2013
Assets:	(unaudited)	
Investment properties:		
Land	$391,999	387,010
Construction in progress	18,239	16,856
Building and improvements	1,124,305	1,130,004
Total investment properties	1,534,543	1,533,870
Less accumulated depreciation	329,637	327,684
Net investment properties	1,204,906	1,206,186
Cash and cash equivalents	27,188	11,258
Accounts receivable, net	41,934	37,155
Investment in and advances to unconsolidated joint ventures	142,625	119,476
Acquired lease intangibles, net	98,891	103,576
Deferred costs, net	18,321	19,638
Other assets	37,085	32,648
Total assets	$1,570,950	1,529,937
Liabilities:		
Accounts payable and accrued expenses	$56,785	57,132
Acquired below market lease intangibles, net	41,780	43,191
Distributions payable	5,124	5,110
Mortgages payable	486,635	497,832
Unsecured credit facilities	375,000	325,000
Convertible notes	29,022	28,790
Other liabilities	25,561	17,413
Total liabilities	1,019,907	974,468
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 June 30, 2014 and December 31, 2013, respectively	110,000	110,000
Common stock, $0.01 par value, 500,000 shares authorized; 100,022 and 99,721 Shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	1,000	997
Additional paid-in capital (net of offering costs of $74,915 and $74,749 at June 30, 2014 and December 31, 2013, respectively)	878,906	877,328
Accumulated distributions in excess of net income	(432,796)	(427,953)
Accumulated other comprehensive loss	(6,110)	(4,904)
Total stockholders' equity	551,000	555,468

Noncontrolling interest	43	1
Total equity	551,043	555,469
Total liabilities and equity	$1,570,950	1,529,937

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

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INLAND REAL ESTATE CORPORATION
Consolidated Statements of Operations and Comprehensive Income
For the three and six months ended June 30, 2014 and 2013 (unaudited)
(In thousands except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Revenues:				
Rental income	$34,914	28,836	70,212	55,314
Tenant recoveries	12,127	10,088	32,170	20,479
Other property income	459	419	965	855
Fee income from unconsolidated joint ventures	1,307	1,958	2,566	3,554
Total revenues	48,807	41,301	105,913	80,202
Expenses:				
Property operating expenses	6,580	5,397	18,954	12,552
Real estate tax expense	9,558	8,004	19,639	14,794
Depreciation and amortization	17,817	13,963	36,931	25,988
Provision for asset impairment	222	369	222	369
General and administrative expenses	5,993	5,269	12,085	9,976
Total expenses	40,170	33,002	87,831	63,679
Operating income	8,637	8,299	18,082	16,523
Other income	666	451	768	1,198
Gain from settlement of receivables	—	3,095	—	3,095
Gain from change in control of investment properties	—	95,378	—	95,378
Gain on sale of investment properties, net	9,978	—	22,828	1,440
Gain on sale of joint venture interest	6	393	114	734
Interest expense	(8,900)	(8,278)	(17,890)	(16,263)
Income before income tax expense of taxable REIT subsidiaries, equity in earnings of unconsolidated joint ventures and discontinued operations	10,387	99,338	23,902	102,105
Income tax expense of taxable REIT subsidiaries	(45)	(1,567)	(439)	(1,795)
Equity in earnings of unconsolidated joint ventures	2,263	2,172	4,057	3,512
Income from continuing operations	12,605	99,943	27,520	103,822
Income from discontinued operations	31	4,029	521	7,063
Net income	12,636	103,972	28,041	110,885
Less: Net (income) loss attributable to the noncontrolling interest	10	(2)	30	(14)
Net income attributable to Inland Real Estate Corporation	12,646	103,970	28,071	110,871
Dividends on preferred shares	(2,234)	(2,295)	(4,469)	(4,505)
Net income attributable to common stockholders	$10,412	101,675	23,602	106,366

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

Income from continuing operations	$0.10	1.05	0.23	1.09
Income from discontinued operations	—	0.04	0.01	0.08
Net income attributable to common stockholders per weighted average common share — basic	0.10	1.10	0.24	1.17
Weighted average number of common shares outstanding — basic	99,455	92,803	99,433	91,149
Income from continuing operations	$0.10	1.05	0.23	1.09
Income from discontinued operations	—	0.04	0.01	0.08
Net income attributable to common stockholders per weighted average common share — diluted	0.10	1.09	0.24	1.16
Weighted average number of common shares outstanding — diluted	99,817	93,042	99,780	91,384
Comprehensive income:				
Net income attributable to common stockholders	$10,412	101,675	23,602	106,366
Unrealized loss on investment securities	—	(349)	—	(386)
Unrealized gain (loss) on derivative instruments	(706)	2,813	(1,206)	3,841
Comprehensive income	$9,706	104,139	22,396	109,821

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

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

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INLAND REAL ESTATE CORPORATION
Consolidated Statements of Equity
For the six months ended June 30, 2014 (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, 2013	4,400	$110,000	99,721	$997	$877,328	$(427,953)	$(4,904)	$555,468	$1	$555,469
Issuance of common stock, including DRP	—	—	86	1	3,103	—	—	3,104	—	3,104
Exercise of stock options	—	—	3	—	20	—	—	20	—	20
Deferred stock compensation, net	—	—	212	2	(1,394)	—	—	(1,392)	—	(1,392)
Amortization of debt issue costs	—	—	—	—	15	—	—	15	—	15
Offering costs	—	—	—	—	(166)	—	—	(166)	—	(166)
Net income	—	—	—	—	—	28,071	—	28,071	(30)	28,041
Dividends on preferred shares	—	—	—	—	—	(4,469)	—	(4,469)	—	(4,469)
Distributions declared, common	—	—	—	—	—	(28,445)	—	(28,445)	—	(28,445)
Unrealized loss on derivative instruments	—	—	—	—	—	—	(1,206)	(1,206)	—	(1,206)
Distributions to noncontrolling interest	—	—	—	—	—	—	—	—	(14)	(14)
Contributions from noncontrolling interest	—	—	—	—	—	—	—	—	86	86
Balance June 30, 2014	4,400	$110,000	100,022	$1,000	$878,906	$(432,796)	$(6,110)	$551,000	$43	$551,043

The accompanying notes are an integral part of these financial statements

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INLAND REAL ESTATE CORPORATION
Consolidated Statements of Cash Flows
For the six months ended June 30, 2014 and 2013 (unaudited)
(In thousands)

	Six months ended June 30, 2014	2013
Cash flows from operating activities:		
Net income	$28,041	110,885
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for asset impairment	222	369
Depreciation and amortization	37,128	27,618
Amortization of deferred stock compensation	(1,392)	(1,147)
Amortization on acquired above/below market leases and lease inducements	193	459
Gain on sale of investment properties	(23,322)	(4,734)
Gain from change in control of investment properties	—	(95,378)
Impairment of investment securities	—	98
Gain from settlement of receivables	—	(3,095)
Realized gain on investment securities, net	—	(819)
Equity in earnings of unconsolidated ventures	(4,057)	(3,512)
Gain on sale of joint venture interest	(114)	(734)
Straight line rent	(1,010)	303
Amortization of loan fees	1,452	1,449
Amortization of debt premium/discount, net	(396)	232
Changes in assets and liabilities:		
Restricted cash	123	(237)
Accounts receivable and other assets, net	(649)	(4,149)
Accounts payable and accrued expenses	1,069	1,221
Prepaid rents and other liabilities	(248)	(3,251)
Net cash provided by operating activities	37,040	25,578
Cash flows from investing activities:		
Restricted cash	(665)	(1,937)
Proceeds from sale of interest in joint venture, net	7,871	34,620
Sale of investment securities	—	3,190
Purchase of investment properties	(72,926)	(143,039)
Additions to investment properties, net of accrued additions	(9,505)	(4,770)
Proceeds from sale of investment properties, net	58,415	8,601
Proceeds from land condemnation	—	167
Distributions from unconsolidated joint ventures	7,038	8,589
Investment in unconsolidated joint ventures	(22,333)	(9,592)
Funding of mortgages receivable	—	(1,287)
Payment of leasing fees	(1,489)	(1,350)
Net cash used in investing activities	(33,594)	(106,808)
Cash flows from financing activities:		
Issuance of shares, including DRP, net of offering costs	2,958	103,832
Loan proceeds	29,739	18,800
Payoff of debt	(36,822)	(863)
Proceeds from the unsecured line of credit facility	115,000	47,000

Repayments on the unsecured line of credit facility	(65,000)	(62,000)
Loan fees	(256)	(287)
Distributions paid	(32,900)	(30,075)
Distributions to noncontrolling interest	—	(300)
Contributions from noncontrolling interest	86	—
Payment of earnout liability	(321)	(1,225)
Net cash provided by financing activities	12,484	74,882
Net increase (decrease) in cash and cash equivalents	15,930	(6,348)
Cash and cash equivalents at beginning of period	11,258	18,505
Cash and cash equivalents at end of period	$27,188	12,157
Supplemental disclosure of cash flow information		
Cash paid for interest, net of capitalized interest	$13,853	11,216
Non-cash accrued additions to investment properties	$665	(3,596)
Non-cash distributions to noncontrolling interest partners	$(14)	(2,297)

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

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 the 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, 2013, which are included in the Company's 2013 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.

Recent Accounting Principles

In April 2014, the FASB issued Accounting Standards Update 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The standard requires the disposal of a component of an entity or a group of components of an entity to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. This standard is effective for all disposals of components of an entity that occur within annual periods beginning on or after December 15, 2014 and requires prospective application. Early adoption is permitted, but only for disposals, or classifications as held for sale, that have not been reported as discontinued operations in the financial statements previously issued or available to be issued. The Company adopted this standard effective January 1, 2014 and therefore, investment properties that were sold during the six months ended June 30, 2014 have not been classified as discontinued operations in the accompanying consolidated financial statements, as these sales do not represent a strategic shift in the Company's business plan or primary markets.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU No. 2014-09 will have on its consolidated financial statements and related disclosures. The Company

has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

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INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
June 30, 2014 (unaudited)

(2) Acquisitions

Date Acquired	Property	City	State	GLA Sq. Ft.	Approximate Purchase Price
01/01/14	CVS (a)	Port St. Joe	FL	13,225	$4,303
01/01/14	O'Reilly (a)	Kokomo	IN	7,210	1,475
01/02/14	Walgreens (a)	Trenton	OH	14,820	4,462
02/12/14	BJ's Wholesale Club (a)	Framingham	MA	114,481	26,500
02/26/14	Academy Sports (a)	Olathe	KS	71,927	11,024
03/19/14	Mountain View Square (a) (b)	Wausau	WI	86,584	11,425
03/27/14	Mokena Marketplace	Mokena	IL	49,058	13,737
	Total			357,305	$72,926

(a) Acquired through the Company's joint venture with IPCC.
(b) This property was deconsolidated during the six months ended June 30, 2014 as a result of sales of ownership interests to investors.

During the six months ended June 30, 2014, 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.

The following table presents certain additional information regarding the Company's acquisitions during the six months ended June 30, 2014. 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
CVS (a)	$890	2,824	589	—
O'Reilly (a)	244	976	255	—
Walgreens (a)	1,064	3,191	207	—
BJ's Wholesale Club (a)	6,700	17,180	2,620	—
Academy Sports (a)	1,696	6,944	2,468	(84)
Mountain View Square (a)	3,863	7,208	1,813	(1,459)
Mokena Marketplace	6,321	5,009	2,528	(121)
Total	$20,778	43,332	10,480	(1,664)

(a) Acquired through the Company's joint venture with IPCC.

The Company has not included pro forma financial information related to the above properties acquired during the six months ended June 30, 2014. Properties acquired through our joint venture with IPCC are only consolidated for a short period of time until the first sale to investors at which point, they become unconsolidated. The Company acquired Mokena Marketplace with the intention to sell in the near term.

(3) Joint Ventures

Consolidated Joint Ventures

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 variable interest entity ("VIE") in accordance with ASC 810. The primary beneficiary is the party that has a controlling financial interest in the VIE, which is defined as 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 IRC-IREX Venture II, LLC, while the properties are consolidated, and IRC-MAB Southeast, 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.

Joint Venture with IPCC (IRC-IREX Venture II, LLC)

In January 2013, Inland Exchange Venture LLC ("IEV LLC"), formerly known as Inland Exchange Venture Corporation, 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 IEV LLC. These offerings are structured to sell Delaware Statutory Trust ("DST") interests in the identified property. IEV LLC 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 joint venture was determined to be a VIE under ASC Topic 810 and is consolidated by the Company. Prior to the sale of any DST interests, the joint venture owns 100% of the DST 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 a DST 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 DST interests have been sold. The table below reflects those properties that were deconsolidated during the six months ended June 30, 2014 and 2013, and therefore no longer represent the consolidated assets and liabilities of the VIE.

	June 30, 2014	June 30, 2013
Investment properties	$(11,071)	$(58,018)
Acquired lease intangibles	(1,813)	(8,236)
Below market lease intangibles	1,459	828
Mortgages payable	—	39,985
Net change to investment in and advances to unconsolidated joint ventures	$(11,425)	$(25,441)

During the six months ended June 30, 2014 and 2013, the joint venture with IPCC acquired six and seven investment properties, respectively. In conjunction with the sales of DST interests, the Company recorded gains of approximately $6 and $114 for the three and six months ended June 30, 2014, respectively, as compared to $393 and $734 for the three and six months ended June 30, 2013, respectively. These gains are included in gain on sale of joint venture interests on the accompanying consolidated statements of operations and comprehensive income.

Joint Venture with MAB (IRC-MAB Southeast, LLC)

In November 2013, the Company entered into a joint venture to develop grocery-anchored shopping centers in select markets throughout the southeastern U.S. with MAB, an affiliate of Melbourne, Australia-based MAB Corporation.

The five-year development program is expected to target metropolitan areas in the Carolinas, Georgia, Florida, Virginia and Washington D.C. MAB Corporation is a privately owned property development company and fund manager that has completed retail, office, multi-family and industrial projects at locations in Australia, New Zealand and the U.S. Under the terms of the joint venture agreement, the Company has exclusive rights to all grocery-anchored, build-to-suit opportunities in the southeastern U.S. sourced by MAB. Upon site approval by the Company, the Company will provide 90% of the equity required to fund approved project costs, while MAB will be responsible for the remaining 10% of the equity, plus venture management, sourcing and acquisition of sites, project financing and all property and development duties. The joint venture agreement also provides that the Company will purchase each grocery-anchored center at a discount to fair market value after stabilization. A typical project likely will consist of a 50,000-square-foot grocery store with approximately 20,000 square feet of additional retail space.

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INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
June 30, 2014 (unaudited)

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 June 30, 2014. There were no consolidated VIE assets and liabilities as of December 31, 2013. 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 are eliminated in consolidation.

	June 30, 2014
Assets of consolidated VIEs that can only be used to settle obligations of consolidated VIEs:	
Net investment properties	$41,250
Other assets	12,956
Total assets of consolidated VIEs that can only be used to settle obligations of consolidated VIEs	$54,206
Liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of the Company:	
Mortgages payable	$28,132
Other liabilities	355
Total liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of the Company	$28,487

Unconsolidated Joint Ventures

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 VIE. 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 June 30, 2014		Investment in and advances to unconsolidated joint ventures at June 30, 2014		Investment in and advances to unconsolidated joint ventures at December 31, 2013	
INP Retail LP (a)	55	%	$131,781		112,141	
Oak Property and Casualty	20	%	1,338		1,522	
TMK/Inland Aurora Venture LLC (b)	40	%	(294	)	(283	)
IRC/IREX Venture II LLC (c)	(d)		9,800		6,096	
Investment in and advances to unconsolidated joint ventures			$142,625		119,476	

(a) Joint venture with PGGM Private Real Estate Fund ("PGGM")
(b) The profit/loss allocation percentage is allocated after the calculation of the Company's preferred return.
(c) Joint venture with Inland Private Capital Corporation ("IPCC"). Investment in joint venture balance represents the Company's share of the Delaware Statutory Trust ("DST") interests.
(d)

The Company’s profit/loss allocation percentage varies based on the ownership interest it holds in the entity that owns a particular property and is in the process of selling ownership interests in that property to outside investors.

The unconsolidated joint ventures had total outstanding debt in the amount of $295,854 (total debt, not the Company’s pro rata share) at June 30, 2014 that matures as follows:

Joint Venture Entity	2014	2015	2016	2017	2018	Thereafter	Total
INP Retail LP (a) (b)	$—	23,892	4,071	26,307	10,520	231,064	295,854

(a) The total debt above reflects the total principal amount outstanding. The unconsolidated joint ventures' balance sheets at June 30, 2014 reflect the value of the debt including the remaining unamortized mortgages premium/discount of $4,680.

(b) Includes the mortgage payable for Evergreen Promenade. Amount not included in Joint Venture Financial Information because INP Retail LLP
accounts for its Evergreen Promenade joint venture under the equity method of accounting.

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 six months ended June 30, 2014 and 2013 are reflected in the following table.

	Three months ended June 30,		Six months ended June 30,	
Joint Venture with:	2014	2013	2014	2013
PGGM	$715	635	1,289	1,197
IPCC	592	1,153	1,277	1,964
NYSTRS	—	169	—	390
Other	—	1	—	3
Fee income from unconsolidated joint ventures	$1,307	1,958	2,566	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 increases as assets under management increase, however, total fee income may also vary based on the timing of acquisition fees earned based on the number of properties sold, the original acquisition prices of the properties and the timing of sales in each period. The fee income from the joint venture with NYSTRS was eliminated due to the consolidation on June 3, 2013 of the properties formerly held by the joint venture.

The operations of properties contributed to the joint ventures by the Company were not recorded as discontinued operations because of the Company’s continuing involvement with these investment properties. 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. During the three and six months ended June 30, 2014, the Company recorded $517 and $1,033, respectively, of amortization of basis difference between the Company’s investment in the joint ventures and the amount of the underlying equity in net assets of the joint ventures, as compared to $767 and $1,657 during the three and six months ended June 30, 2013, respectively. The amortization of this basis difference is included in equity in earnings of unconsolidated joint ventures in the accompanying consolidated statements of operations and comprehensive income. Differences in basis result from the recording of 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 the respective depreciable lives of the joint venture property assets.

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 $281,000 and PGGM's maximum total equity contribution is approximately $230,000.

As of June 30, 2014, the joint venture has acquired a total of approximately $681,000 of retail assets, including those properties contributed by the Company. As of June 30, 2014, PGGM's remaining maximum potential equity contribution was approximately $48,936 and the Company's was approximately $59,810.

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.

In June 2013, the joint venture with PGGM entered into a limited liability company agreement with Pine Tree and IBT Group, LLC. 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 96% 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 six months ended June 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% 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 former 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 Company's balance sheet.

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.

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

	IN Retail Fund, LLC June 30, 2013
Investment properties:	
Land	$ 103,430
Building and improvements (a)	238,482
Construction in progress	—
Investment properties	341,912
Cash	5,609
Accounts receivable	7,668

Acquired lease intangibles	89,871
Deferred costs	1,134
Other assets	587
Total assets acquired	446,781
Accounts payable and accrued expenses	12,482
Mortgages payable, net (a)	155,946
Acquired below market lease intangibles	32,415
Other liabilities	1,529
Net assets acquired	$244,409

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

The following table summarizes the investment in the joint venture:

	IN Retail Fund, LLC June 30, 2013
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)
Gain from change in control of investment properties	95,378
Cash paid	121,068
Net assets acquired	$244,409

The following unaudited condensed pro forma consolidated financial statements for the three and six months ended June 30, 2013, 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 June 30, 2013 were outstanding as of January 1, 2012. The following unaudited 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 June 30, 2013			Six months ended June 30, 2013		
	Historical	Pro Forma Adjustments	As Adjusted (unaudited)	Historical	Pro Forma Adjustments	As Adjusted (unaudited)
Total revenues	$41,301	7,249	48,550	80,202	18,703	98,905
Net income attributable to Inland Real Estate Corporation	$103,970	(2,827)	101,143	110,871	(7,245)	103,626
Net income attributable to common stockholders	$101,675	(2,827)	$98,848	106,366	(7,245)	99,121
Net income attributable to common stockholders per weighted average common share - basic	$1.10		$1.00	1.17		1.00
Net income attributable to common stockholders per weighted average common share - diluted	$1.09		$1.00	1.16		1.01
Weighted average number of common shares outstanding - basic	92,803		99,034	91,149		98,756
Weighted average number of common shares outstanding - diluted	93,042		99,273	91,384		98,049

Development Joint Venture

The company currently has one unconsolidated development joint venture, which was formed for the development or sale of the property commonly known as Savannah Crossing. This property consists of approximately 5 acres of vacant land, which the joint venture is holding for future sale or potential development.

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 is derived using Level 3 inputs.

The impairment of assets during the six months ended June 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 six months ended June 30, 2014.

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

Joint Venture Financial Information

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

	As of	
	June 30, 2014	December 31, 2013
Balance Sheets:		
Assets:		
Investment in real estate, net	$664,462	658,562
Other assets	73,990	75,969
Total assets	$738,452	734,531
Liabilities:		
Mortgage payable (a) (b)	$296,463	322,184
Other liabilities	73,415	70,393
Total liabilities	$369,878	392,577
Total equity	$368,574	341,954
Total liabilities and equity	$738,452	734,531
Investment in and advances to unconsolidated joint ventures	$142,625	119,476

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Statements of Operations:				
Total revenues	$20,308	$27,427	45,054	59,452
Total expenses (c)	(18,534)	(25,735)	(41,293)	(58,482)
Income from operations	$1,774	1,692	3,761	970
Inland's pro rata share of income from operations (d)	$2,263	2,172	4,057	3,512

(a) Includes $4,680 of unamortized mortgage premiums and discounts.
(b) Amount excludes the mortgage payable for Evergreen Promenade, because that property is owned through an unconsolidated joint venture of INP Retail LP and is accounted for by that joint venture using the equity method of accounting.
(c) Total expenses for the six months ended June 30, 2013 include impairment charges in the amount of $1,730. No impairment charges were recorded during the three months ended June 30, 2014 and 2013 and the six months

ended June 30, 2014.

(d) 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) Discontinued Operations

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 June 30, 2014, there were no properties classified as held for sale.

The following table summarizes the properties sold, date of sale, indebtedness repaid, if any, approximate cash received (paid) net of closing costs, gain (loss) on sale, whether the sale qualified as part of a tax deferred exchange and applicable asset impairments.

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Property Name	Date of Sale	Indebtedness repaid	Cash Received (Paid) net of closing costs	Gain (loss) on Sale	Tax Deferred Exchange	Provision for Asset Impairment
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	—
Regal Showplace (partial)	October 1, 2013	—	1,838	334	No	—
Naper West	October 30, 2013	—	20,140	4,031	No	—
Park Square (partial)	December 4, 2013	10,000	(868)	—	No	2,612
Lansing Square (partial)	December 20, 2013	—	5,052	962	No	—
Rite-Aid	December 23, 2013	—	2,379	602	No	—

For the three and six months ended June 30, 2014, the Company has recorded income from discontinued operations of $31 and $521, respectively. The six months ended June 30, 2014 includes a gain on sale of $493. No gains on sale were recorded within discontinued operations during the three months ended June 30, 2014. Additionally, for the three and six months ended June 30, 2013, the Company has recorded income from discontinued operations of $4,029 and $7,063, respectively. One property sold during the three and six months ended June 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 during each period. The three and six months ended June 30, 2013 includes gains on sale of $556 and $3,236, respectively.

(5) 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 June 30, 2014:

	2014 (a)	2015 (a)	2016	2017	2018	Thereafter	Total
Fixed rate debt	$125,547 (b)	36,325	9,358	46,570	789	253,666	472,255 (c)
Weighted average interest rate	5.33 %	6.08 %	5.00 %	5.05 %	— %	5.05 %	5.20 %
Variable rate debt	$6,200	—	35,000	145,000 (d)	230,000 (e)(f)	—	416,200 (c)
Weighted average interest rate	0.16 %	— %	2.60 %	1.89 %	2.20 %	— %	2.09 %
Total	$131,747	36,325	44,358	191,570	230,789	253,666	888,455

(a) Approximately $136,294 of the Company’s mortgages payable matures in the next twelve months. Included in the debt maturing in 2014 is outstanding principal of approximately $90,247 secured by the Company's Algonquin Commons property, which is currently subject to foreclosure litigation and the Company cannot currently predict

the outcome of the litigation. The Company intends to repay the other 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 June 30, 2014 reflect the value of the notes including the remaining unamortized discount of $193.

(c) The total debt above reflects the total principal amount outstanding. The consolidated balance sheets at June 30, 2014 reflect the value of the debt including the remaining unamortized mortgages premium/discount of $2,395.

(d) Included in the debt maturing during 2017 is the Company's unsecured line of credit facility, totaling $145,000. 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 June 30, 2014, the weighted average interest rate on outstanding draws on the line of credit facility was 1.89%. This credit facility requires compliance with certain covenants, such as debt service ratios, minimum net worth requirements, distribution limitations and investment restrictions. As of June 30, 2014, the Company was in compliance with these financial covenants.

(e) Included in the debt maturing during 2018 is the Company's $180,000 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 June 30, 2014, the weighted average interest rate on the term loan was 1.84%. This term loan requires compliance with certain covenants, such as debt service ratios, minimum net worth requirements, distribution limitations and investment restrictions. As of June 30, 2014, the Company was in compliance with these financial covenants.

(f) Included in the debt maturing during 2018 is the Company's $50,000 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 June 30, 2014, 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 June 30, 2014, 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 June 30, 2014 was $484,240 and they bore interest at a weighted average interest rate of 4.96% per annum. Of this amount, $443,040 bore interest at fixed rates ranging from 4.00% to 6.50% per annum and a weighted average fixed rate of 5.21% per annum as of June 30, 2014. The remaining $41,200 of mortgage debt bears interest at variable rates with a weighted average interest rate of 2.23% per annum as of June 30, 2014. The consolidated balance sheets at June 30, 2014 reflect the fair value of the mortgage debt, including the remaining unamortized mortgages premium/discount of $2,395. As of June 30, 2014, scheduled maturities for the Company’s outstanding mortgage indebtedness had various due dates through May 2024. 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, a Company subsidiary ceased paying the monthly debt service on the two mortgage loans secured by both phases of Algonquin Commons. The Company subsidiary 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 subsidiary 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 February 28, 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 subsidiary 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, or a foreclosure occurs, there could be a material adverse effect on its cash flows and results of operations for the period and the year in which it occurs. The Company believes these events would not have a material effect on its consolidated balance sheets because there would be a corresponding reduction in both assets and liabilities. 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 June 30, 2014.

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 $2,090 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.

As of June 30, 2014 and December 31, 2013, the Company had the following outstanding interest rate derivatives that are designated as a cash flow hedge of interest rate risk:

Interest Rate Derivative	Notional	
	June 30, 2014	December 31, 2013
Interest Rate Swaps	$60,000	60,000

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 June 30, 2014 and December 31, 2013.

	Derivative Liability As of June 30, 2014		Derivative Liability As of December 31, 2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as cash flow hedges:				
Interest rate swap	Other liabilities	$6,110	Other liabilities	4,904

The table below presents the effect of the Company's derivative financial instruments on comprehensive income for the three and six months ended June 30, 2014 and 2013.

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Amount of gain (loss) recognized in comprehensive income on derivative, net	$(1,233)	2,293	(2,253)	2,808
Amount of loss reclassified from accumulated comprehensive income into interest expense	527	520	1,047	1,033
Unrealized gain (loss) on derivative	$(706)	2,813	(1,206)	3,841

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 June 30, 2014, the fair value of derivatives in a liability position related to this agreement was $6,110. 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 $6,662.

Unsecured Credit Facilities

In 2013, 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, $180,000. The aggregate commitment of the Company's line of credit facility is $180,000. The facility also provides for a $100,000 accordion feature, access to which is at the discretion of the current lending group. If approved, the terms for the funds borrowed under the accordion feature would be current 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 matures on August 22, 2017 and the term loan matures on August 22, 2018. 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.

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 June 30, 2014 and December 31, 2013, the outstanding balance on the line of credit facility was $145,000 and $95,000, respectively. As of June 30, 2014, the Company had up to $35,000 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 June 30, 2014.

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 June 30, 2014, 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 June 30, 2014 and December 31, 2013, the Company has recorded $183, in each period 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 June 30, 2014 and December 31, 2013.

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	June 30, 2014	December 31, 2013
Equity Component (a)	$9,399	9,384
Debt Component	$29,215	29,215
Unamortized Discount (b)	(193)	(425)
Net Carrying Value	$29,022	28,790

(a) The equity component is net of unamortized equity issuance costs of $13 and $28 at June 30, 2014 and December 31, 2013, 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 six months ended June 30, 2014 and 2013 was calculated as follows:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Interest expense at coupon rate	$368	368	736	736
Discount amortization	116	116	232	232
Total interest expense (a)	$484	484	968	968

(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.

(6) 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.

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

	Fair value measurements at June 30, 2014 using	
Description	Significant Other Observable Inputs	Significant Unobservable

	(Level 2)	Inputs (Level 3)
Derivative interest rate instruments liabilities (a)	$6,110	—
Variable rate debt (b)	—	415,884
Fixed rate debt (b)	—	499,603
Total liabilities	$6,110	915,487

	Fair value measurements at December 31, 2013 using	
Description	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative interest rate instruments liabilities (a)	$ 4,904	—
Variable rate debt (b)	—	363,788
Fixed rate debt (b)	—	509,929
Total liabilities	$ 4,904	873,717

(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. These instruments are not presented in the accompanying consolidated balance sheets at fair value.

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 June 30, 2014 and December 31, 2013, the Company used rates of 3.6% and 3.7%, respectively, for fixed rate debt and 2.2% and 2.3%, respectively, for variable rate debt in each period. 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 June 30, 2014 and December 31, 2013.

(7) Accumulated other comprehensive loss

The following table indicates the changes and reclassifications affecting other comprehensive loss by component for the six months ended June 30, 2014.

	Gain (loss) on derivative instruments
Balance at December 31, 2013	$(4,904)
Other comprehensive income (loss) before reclassifications	(2,253)
Amounts reclassified from accumulated other comprehensive income	1,047
Net other comprehensive loss	(1,206)
Balance at June 30, 2014	$(6,110)

The following table indicates the changes and reclassifications affecting other comprehensive loss by component for the three months ended June 30, 2014.

	Gain (loss) on derivative instruments
Balance at March 31, 2014	$(5,404)
Other comprehensive income (loss) before reclassifications	(1,233)
Amounts reclassified from accumulated other comprehensive income	527
Net other comprehensive loss	(706)

Balance at June 30, 2014	$(6,110)

(8) 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 includes increases of $275 and $1,010 for the three and six months ended June 30, 2014, respectively, and decreases of $183 and $303 for the three and six months ended June 30, 2013, respectively of rental income for the period of occupancy for which stepped rent increases apply and $22,875 and $21,865 in related accounts receivable as of June 30, 2014 and December 31, 2013, respectively. The Company anticipates collecting these amounts over the terms of the leases as scheduled rent payments are made.

(9) 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 LLC ("IV LLC"), formerly known as Inland Venture Corporation, IEV LLC 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 June 30, 2014. The Company expects no significant increases or decreases in uncertain tax positions due to changes in tax positions within one year of June 30, 2014. 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 six months ended June 30, 2014 and 2013 or in the consolidated balance sheets as of June 30, 2014 and December 31, 2013. As of June 30, 2014, returns for the calendar years 2010 through 2013 remain subject to examination by U.S. and various state and local tax jurisdictions.

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.

(10) 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

June 30, 2014 and December 31, 2013, options to purchase 67 and 70 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 June 30, 2014, 788 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.

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The following is a reconciliation of the numerator and denominator used in the basic and diluted EPS calculations, excluding amounts attributable to noncontrolling interests:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Numerator:				
Income from continuing operations	$12,605	99,943	27,520	103,822
Income from discontinued operations	31	4,029	521	7,063
Net income	12,636	103,972	28,041	110,885
Less: Net (income) loss attributable to the noncontrolling interest	10	(2)	30	(14)
Net income attributable to Inland Real Estate Corporation	12,646	103,970	28,071	110,871
Dividends on preferred shares	(2,234)	(2,295)	(4,469)	(4,505)
Net income attributable to common stockholders	$10,412	101,675	23,602	106,366
Denominator:				
Denominator for net income per common share — basic:				
Weighted average number of common shares outstanding	99,455	92,803	99,433	91,149
Effect of dilutive securities:				
Unvested restricted shares	362 (a)	239 (a)	347 (a)	235 (a)
Denominator for net income per common share — diluted:				
Weighted average number of common and common equivalent shares outstanding	99,817	93,042	99,780	91,384

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

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. No shares were issued during the six months ended June 30, 2014. As of June 30, 2014, approximately $139,900 remained available for sale under this issuance program.

(11) Transactions with Related Parties

The Company pays or has paid affiliates of TIGI for real estate-related brokerage 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 broker commissions, which 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.

Effective July 1, 2014, the Company terminated its contracts with TIGI and its affiliates for insurance consultation and placement, mortgage/loan servicing and property tax reduction services. The Company has hired an internal staff who will now handle loan servicing and property tax reduction services and has engaged a third party broker to handle its insurance consultation and placement services. Additionally, the Company will no longer incur investment advisor fees since it divested its securities portfolio as of December 31, 2013.

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Investment advisor	$—	22	—	40
Loan servicing	34	21	67	52
Property tax payment/reduction work	86	64	141	73
Computer services	147	156	325	309
Other service agreements	52	42	115	93
Broker commissions	—	—	102	98
Office rent and reimbursements	163	120	312	239
Total	$482	425	1,062	904

(12) 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 Arkansas, Florida, Illinois, Indiana, Kansas, Kentucky, Massachusetts, Minnesota, Nebraska, Ohio 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.

(13) 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.

(14) Subsequent Events

The Company has evaluated events subsequent to June 30, 2014 through August 7, 2014, the date of the financial statement issuance.

Distributions
On July 15, 2014, 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 July 1, 2014.

On July 15, 2014, 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 August 15, 2014 to the stockholders of record at the close of business on August 1, 2014.

On July 17, 2014, 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 June 30, 2014.

On July 17, 2014, 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 August 18, 2014 to the stockholders of record at the close of business on July 31, 2014.

Financings

On July 31, 2014, the Company entered into a Second Amendment to Fifth Amended and Restated Credit Agreement (the "Credit Facility Amendment") and a Second Amendment to Second Amended and Restated Term Loan Agreement (the "Term Loan Amendment" and together, the "Amendments"). The Credit Facility Amendment increased the aggregate commitment of the bank group from $180,000 to $275,000, now includes a $200,000 accordion feature and extends the maturity by one-year, to July 31, 2018, among other things. The Term Loan Amendment increased the aggregate commitment from $180,000 to $200,000 and extends the maturity date by one-year, to July 31, 2019, among other things.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Quarterly Report on Form 10-Q (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, 2013, as filed with the Securities and Exchange Commission (the "SEC") on February 28, 2014 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 Central and Southeastern 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"). Inland Real Estate Corporation is 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 June 30, 2014, 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 June 30, 2014, we owned interests in 135 investment properties, including 31 properties owned by our unconsolidated joint ventures.

2014 Goals and Objectives

- Continue to improve our tenant diversification and expand our geographic concentration, with increased footprints in the Central and Southeastern U.S.

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- 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.
- 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 maintaining access to multiple sources of capital.

In executing our 2014 goals, during the six months ended June 30, 2014, we sold seven non-core assets for approximately $65,150, the proceeds from which were used to partially fund the acquisition of investment properties. Additionally, we repaid approximately $39,400 of consolidated mortgages payable, resulting in a decrease in outstanding secured debt.

As part of our growth strategy, management implemented external growth initiatives consisting of unconsolidated joint venture activities. Because certain joint ventures are unconsolidated, we are not able to present a complete picture of the impact these ventures have on our consolidated financial statements. We have included pro rata consolidated information in the Non-GAAP Financial Measures section of this Quarterly Report on Form 10-Q to present certain pro rata consolidated information, which includes adjustments for the portion related to noncontrolling interests and unconsolidated joint ventures accounted for under the equity method of accounting. 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.

Including the accounts of our unconsolidated joint ventures at 100 percent, we managed approximately $2,948,179 in total assets as of June 30, 2014 and earned $84,605 and $180,994 for the three and six months ended June 30, 2014, respectively in total revenues.

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 an evolving retail marketplace. We believe our success in operating our centers efficiently and effectively is 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 achieve operating efficiencies and possibly lease several locations to retailers expanding in our markets.

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.

To support our ongoing effort to expand our footprint into new markets, in November 2013, we entered into a joint venture to develop grocery-anchored shopping centers in select markets throughout the southeastern United States in metropolitan areas in the Carolinas, Georgia, Florida, Virginia and Washington D.C. The joint venture agreement also provides that we will purchase each grocery-anchored center at a discount to fair market value after stabilization. A typical project likely will consist of a 50,000 square foot grocery store with approximately 20,000 square feet of additional retail space.

Additionally, we participate in a joint venture with IPCC that acquires properties which are ultimately sold to investors through a private offering of 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 interests have been sold.

Operations

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 assets are cash and cash equivalents, which consists of cash and short-term investments. Cash and cash equivalents at June 30, 2014 and December 31, 2013 were $27,188 and $11,258, respectively. The higher cash balance at June 30, 2014, is due to sales proceeds received at the end of the quarter, that were subsequently used to pay down the balance of our unsecured line of credit facility. See our discussion of the statements of cash flows for a description of our cash activity during the six months ended June 30, 2014 and 2013.

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 June 30, 2014, we were in compliance with all financial covenants applicable to us. We had up to $35,000 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.

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 ATM program, we may issue up to $150,000 of our shares of common stock. 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." No shares were issued during the six months ended June 30, 2014 and approximately $139,900 remains available for sale under this issuance program.

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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.

One of our goals continues to be to enhance the value of our portfolio through additional repositioning and redevelopment initiatives. 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. We currently have several projects underway and others under consideration. During 2014, we expect to invest approximately $27,000 in capital for tenant improvements and leasing commission on new leases and building improvements related to some of these repositioning efforts, which is similar in spend to prior years. We expect to fund these improvements using cash from operations and draws on our unsecured line of credit facility.

Approximately $136,294 of consolidated debt, including required monthly principal amortization, matures in the next twelve months. Included in the debt maturing in 2014 is an aggregate of approximately $90,247 of outstanding principal, secured by our Algonquin Commons property, which is subject to an $18,600 Payment Guaranty and carve-out guarantees, but generally is non-recourse to us. Algonquin Commons is currently subject to foreclosure litigation through which the plaintiff is also seeking to enforce the Payment Guaranty. We believe the Payment Guaranty has terminated, but we cannot predict the outcome of the litigation or provide assurance that the Payment Guaranty will not be performed. We intend to repay the other maturing debt upon maturity using available cash and/or borrowings under our unsecured line of credit facility. Reference is made to the Total Debt Maturity Schedule in Note 5, “Secured and Unsecured Debt” to the accompanying consolidated financial statements for a discussion of our total debt outstanding as of June 30, 2014, which is incorporated into this Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

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 $281,000 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 June 30, 2014, PGGM's remaining maximum potential contribution was approximately $48,936 and ours was approximately $59,810.

Acquisitions and Dispositions

The table below presents investment property acquisitions, including those acquired by our unconsolidated joint ventures, during the six months ended June 30, 2014 and the year ended December 31, 2013.

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Date	Property	City	State	GLA Sq.Ft.	Approx. Ground Lease Sq.Ft. (a)	Purchase Price	Cap Rate (b)	Financial Occupancy at time of Acquisition
Consolidated Portfolio								
3/27/2014	Mokena Marketplace	Mokena	IL	49,058	4,300	$ 13,737	7.25 %	76 %
12/20/2013	Goldenrod Marketplace (c)	Orlando	FL	91,497	6,000	16,580	7.16 %	86 %
4/24/2013	Warsaw Commons (d)	Warsaw	IN	87,826	—	11,393	8.00 %	96 %
4/17/2013	Eola Commons (e)	Aurora	IL	23,080	—	(e)	(e)	78 %
4/17/2013	Winfield Pointe Center (e)	Winfield	IL	19,888	—	(e)	(e)	75 %