

INLAND REAL ESTATE CORP
Form 424B5
May 28, 2013

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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion
Preliminary Prospectus Supplement dated May 28, 2013

PROSPECTUS SUPPLEMENT
(To Prospectus dated October 12, 2012)

FILED PURSUANT TO RULE 424(b)(5)
REGISTRATION NO. 333-181164

9,000,000 Shares

Inland Real Estate Corporation

Common Stock

We are offering 9,000,000 shares of our common stock, par value \$0.01 per share. Our common stock is listed on the New York Stock Exchange (the "NYSE") under the symbol "IRC." On May 24, 2013, the last reported sale price of our common stock on the NYSE was \$11.33 per share.

On May 17, 2013, we declared a cash distribution of \$0.0475 per share on the outstanding shares of our common stock, payable on June 17, 2013 to common stockholders of record at the close of business on May 31, 2013. Because it is anticipated that the shares sold as part of this offering will not be delivered until after May 31, 2013, you will not be entitled to receive the dividend payment associated with this record date. See "Description of Capital Stock" in the accompanying prospectus.

To preserve our status as a real estate investment trust for U.S. federal income tax purposes we impose certain restrictions on the ownership of our common stock. See "Description of Capital Stock Restrictions on Transfer, Acquisition and Redemption of Shares of Capital Stock" in the accompanying prospectus.

Investing in our common stock involves risks. See "Risk Factors" on page S-5 of this prospectus supplement and in the documents we incorporate by reference, including our most recent Annual Report on Form 10-K for the year ended December 31, 2012, and our subsequent periodic reports filed with the Securities and Exchange Commission (the "SEC").

Per Share

Total

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Public Offering Price	\$	\$
Underwriting Discounts and commissions	\$	\$
Proceeds to Inland Real Estate Corporation from this Offering to the Public (before expenses)	\$	\$

We have granted the underwriters an option to purchase up to 1,350,000 additional shares of common stock at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on or about June , 2013. The underwriters are offering the common stock as set forth under "Underwriting."

Joint Book-Running Managers

BofA Merrill Lynch

Wells Fargo Securities

BMO Capital Markets

KeyBanc Capital Markets

The date of this prospectus supplement is May , 2013

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ABOUT THIS PROSPECTUS SUPPLEMENT

Before you invest in our common stock, you should read this prospectus supplement along with the accompanying prospectus, as well as the information incorporated by reference herein and therein, carefully. These documents contain important information you should consider before making your investment decision. Generally, when we refer to this "prospectus," we are referring to this prospectus supplement and the prospectus. This prospectus supplement and the accompanying prospectus contain the terms of this offering of common stock. The accompanying prospectus contains information about our securities generally, some of which does not apply to the common stock covered by this prospectus supplement. This prospectus supplement may add, update or change information contained in or incorporated by reference in the accompanying prospectus. If the information in this prospectus supplement is inconsistent with any information contained in or incorporated by reference in the accompanying prospectus, the information in this prospectus supplement will apply and will supersede the inconsistent information contained in or incorporated by reference in the accompanying prospectus.

You should rely only on the information contained in, or incorporated by reference in, this prospectus supplement and the accompanying prospectus and any relevant free writing prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in this prospectus supplement, the accompanying prospectus or the documents incorporated by reference herein or any relevant free writing prospectus is accurate as of any date other than its respective date.

Unless we have indicated, or the context otherwise requires, references in this prospectus supplement to "the Company," "we," "us," "our," or similar terms are to Inland Real Estate Corporation and its subsidiaries.

FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus and the documents incorporated by reference herein and therein, including our Annual Report on Form 10-K for the year ended December 31, 2012, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 and our Current Reports filed on Form 8-K, contain forward-looking statements. Forward-looking statements are statements that are not historical, including statements regarding management's intentions, beliefs, expectations, representations, plans or predictions of the future, and are typically identified by words such as "believe," "expect," "anticipate," "intend," "estimate," "may," "will," "should" and "could." We intend that such forward looking statements be subject to the safe harbors created by Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). There are numerous risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements. See "Risk Factors" beginning on page S-4 of this prospectus supplement and in our Annual Report on Form 10-K for the year ended December 31, 2012, and in our subsequent periodic reports filed with the SEC for a more complete discussion of these risks and uncertainties.

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SUMMARY

This summary highlights selected information about us. The summary is not complete and may not contain all of the information that may be important to you in deciding whether to invest in our common stock. You should read this entire prospectus supplement and the accompanying prospectus carefully, as well as the documents incorporated herein and therein by reference, including the "Risk Factors" section of this prospectus supplement and in our most recent Annual Report on Form 10-K and our subsequent reports filed with the SEC, before making an investment decision.

The Company

We are a self-managed, publicly traded real estate investment trust ("REIT") that owns and operates neighborhood, community, power and single tenant retail centers. We also construct or develop properties and render services in connection with construction or development. Through our wholly owned subsidiaries, Inland Commercial Property Management, Inc. and Inland TRS Property Management, Inc., we manage all properties in which we own interests as well as properties for certain related parties and third 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. As of March 31, 2013, we owned interests in 154 investment properties, including 48 properties that we owned indirectly through our unconsolidated joint ventures. Our development joint venture properties are not included as investment properties until they reach what we believe is a stabilized occupancy rate.

We have qualified as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"), for federal income tax purposes commencing with the tax year ended December 31, 1995. So long as we qualify for treatment as a REIT, we generally will not be subject to federal income tax to the extent we meet the requirements of the tests imposed by the Code. If we fail to qualify as a REIT in any taxable year, without the benefit of certain statutory relief provisions, we will be subject to federal and state income taxes on our taxable income at regular corporate tax rates. Even if we qualify for taxation as a REIT, we may be subject to certain state and local taxes on our income, property or net worth and federal income and excise taxes on our undistributed income.

We maintain our principal executive and management office at 2901 Butterfield Road, Oak Brook, Illinois 60523. Our phone number is (630) 218-8000.

Recent Developments

Pending Acquisition. On May 24, 2013, we entered into an agreement with our joint venture partner, New York State Teachers' Retirement System ("NYSTRS"), to acquire NYSTRS' 50% ownership interest in the IN Retail Fund, L.L.C. ("IN Retail") for \$121.0 million, subject to the potential adjustments disclosed below (the "Acquisition"). The closing must occur by June 14, 2013; provided, however, that the purchase price will increase by \$22,500 for each day after May 31, 2013 that closing does not occur up until June 14, 2013. If the closing does not occur on or before this date, for any reason (including, but not limited to, the willful failure or refusal of either party to close the Acquisition transaction), the agreement will terminate and each party would continue to own their respective interest in IN Retail. We expect to fund the Acquisition initially by drawing on our line of credit or by using our existing cash or some combination of the two. As described below, we will use the net proceeds from this offering to repay any draws on our line that we make to fund the Acquisition.

Upon the closing of the Acquisition transaction, we will own 100% of the outstanding membership interests in IN Retail and the assets, liabilities and results of operations of IN Retail will be included in our consolidated financial statements. IN Retail owns 13 shopping centers, aggregating approximately 2.3 million square feet of gross leasable area, with an estimated fair value (agreed upon

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by the parties for purposes of the Acquisition transaction) of approximately \$395.6 million and total outstanding mortgage debt of approximately \$152.2 million, plus other related assets and liabilities. On a pro forma basis, by acquiring NYSTRS' ownership interest in IN Retail, we will increase the amount of total assets on our wholly owned, consolidated balance sheet to \$1.6 billion from \$1.2 billion, as of March 31, 2013. Total weighted average consolidated debt would have increased to \$877.5 million from \$725.0 million and the ratio of total debt to gross assets for the consolidated portfolio would have decreased to 45.5 percent from 47.3 percent, as of March 31, 2013. In connection with the Acquisition, we have agreed to indemnify NYSTRS from and against all losses, liabilities, expenses and obligations in respect of the joint venture to the extent first accruing after the date of the acquisition agreement.

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The Offering

Common stock offered	9,000,000 shares (10,350,000 shares if the underwriters exercise their option to purchase additional shares in full)
Shares Outstanding After the Offering	shares ⁽¹⁾
Recent Dividend Declaration	On May 17, 2013, we declared a cash distribution of \$0.0475 per share on the outstanding shares of our common stock, payable on June 17, 2013 to common stockholders of record at the close of business on May 31, 2013. Because it is anticipated that the shares sold as part of this offering will not be delivered until after May 31, 2013, you will not be entitled to receive the dividend payment associated with this record date. See "Description of Capital Stock" in the accompanying prospectus.
Use of proceeds	We intend to use the net proceeds to repay a portion of the amounts outstanding on our line of credit that are drawn to fund the purchase price of the Acquisition. The purchase price of the Acquisition is approximately \$121.0 million, subject to the potential adjustments disclosed herein. See "Summary Recent Developments." Pending our use of the net offering proceeds for this purpose, we will invest the net proceeds of this offering in short-term marketable securities. See "Use of Proceeds" in this prospectus supplement.
Restriction on Ownership	In order to maintain our qualification as a REIT for U.S. federal income tax purposes, ownership, actually or constructively, by any person of more than 9.8% in number of shares or value of the outstanding shares of any class of our stock is restricted by our charter unless the restrictions are waived by our board. See "Description of Capital Stock Restrictions on Transfer, Acquisition and Redemption of Shares of Capital Stock" in the accompanying prospectus for additional information regarding this limitation.
Risk factors	See "Risk Factors" beginning on page S-4 of this prospectus supplement and our most recent Annual Report on Form 10-K and our subsequent periodic reports filed with the SEC.
NYSE Symbol	IRC
Transfer Agent and Registrar	Registrar & Transfer Company

(1) Based on 90,443,472 shares outstanding on May 28, 2013. This number excludes: (i) 295,000 shares of our common stock reserved for issuance under our 2005 Equity Award Plan and (ii) 15,000 shares of our common stock reserved for issuance under our Independent Director Stock Option Plan, each as of May 28, 2013.

Unless expressly stated otherwise, the information set forth above and throughout this prospectus supplement assumes the underwriters do not exercise their over-allotment option.

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RISK FACTORS

An investment in our common stock involves significant risks. You should consult with your own financial and legal advisers and carefully consider, among other matters, the risks described in our most recent Annual Report on Form 10-K and our subsequent reports filed with the SEC. You should carefully consider the risks described in that report and the other information in this prospectus supplement and accompanying prospectus before you decide to buy our common stock. The value of our common stock could decline due to any of these risks, and you could lose all or part of your investment. In addition, you should consider the additional risk factors set forth below.

We may fail to consummate the Acquisition and have to find alternative uses for the net proceeds of this offering.

We expect to complete this offering prior to closing the Acquisition. The closing of the Acquisition must occur by June 14, 2013; provided, however, that the parties may terminate the agreement if the closing does not occur on or before June 14, 2013 for any reason (including, but not limited to, the willful failure or refusal of either party to close the transaction). We expect to fund the Acquisition with funds drawn from our line of credit and intend to apply all of the net proceeds of this offering to repay a portion of the funds drawn under our line of credit that were used to fund the Acquisition.

This offering is not, however, conditioned on us completing the Acquisition. By purchasing our common stock in this offering, you are investing in us on a standalone basis and recognize that we may not consummate the Acquisition or realize the expected benefits from it if we do. In the event that we do not complete the Acquisition, we will have issued a significant number of additional shares of our common stock and will have to identify alternative investment opportunities and make investments, which may or may not produce the earnings and cash flow we anticipated from the Acquisition. As a result, failure to consummate the Acquisition could adversely affect our earnings per share and our ability to make distributions to shareholders. Additionally, the market price of our common stock may decline to the extent that market prices reflect an assumption that the Acquisition will be completed.

Even if we complete the Acquisition, the properties may not perform as expected

Even if we complete the Acquisition, we may be subject to additional risks, including the risk that the properties acquired may not perform as we expect or as they have performed historically.

Our shareholders may experience dilution as a result of this offering and they may experience further dilution if we issue additional common stock.

The issuance of common stock in this offering may have a dilutive effect on our earnings per share. Any additional future issuances of common stock will reduce the percentage of our common stock owned by investors purchasing common stock in this offering who do not participate in those future issuances. Shareholders will not be entitled to vote on whether or not we issue additional common stock. In addition, depending on the pricing of the issuances in this offering, the terms and pricing of any additional offerings of our common stock and the value of our properties and other assets, including any properties and other assets that may be acquired with the net proceeds of this offering and any future offerings, our shareholders may experience dilution in both the book value and fair value of their common stock.

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The price of our common stock may fluctuate significantly.

The market price of our common stock may fluctuate significantly in response to many factors, many of which are out of our control, including:

general economic conditions, including the recent recession, competition and the supply of and demand for shopping center and single-tenant properties in our markets;

risks that tenants will not remain in occupancy or pay rent, or pay reduced rent due to bankruptcies or declines in their businesses;

prevailing interest rate levels and the availability of financing;

potential environmental liability and other risks associated with owning, developing and acquiring shopping center properties;

greater than anticipated funding costs associated with our joint venture properties or operating costs;

inflationary, deflationary and other general economic trends;

the effects of natural disasters;

actual or anticipated variations in our operating results or distributions;

changes in our funds from operations or earnings;

publication of research reports about us or the real estate industry, generally, and recommendations by financial analysts or actions taken by rating agencies with respect to our securities or those of other REITs;

analysts' estimates of our future performance relative to our actual performance;

the appetite of the market for similar securities issued by REITs generally;

any future issuances of equity securities;

failure to pay our obligations under, or comply with the terms of, our indebtedness;

impairment charges; and

other risks detailed from time to time in the reports filed by us with the SEC.

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These factors may cause the market price of our common stock to decline, regardless of our financial condition, results of operations, business or prospects.

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The following table sets forth our estimated cash and cash equivalents and capitalization as of March 31, 2013, as adjusted to give effect to:

the offering and sale of 9,000,000 million shares of our common stock in this offering (assuming no exercise of the underwriters' option to purchase additional shares) at an offering price of \$ per share, after deducting underwriting discounts and commissions and estimated transaction expenses payable by us; and

the intended application of the net proceeds of the offering as set forth under "Use of Proceeds."

The capitalization table should be read in conjunction with our consolidated financial statements and the related notes incorporated by reference in this prospectus supplement and the accompanying prospectus.

March 31, 2013	Actual	Adjustments	Pro Forma
	(\$ in thousands)	(\$ in thousands)	As Adjusted
			(\$ in thousands)
Cash and cash equivalents	8,903		
Mortgages Payable	390,774		
Convertible Notes	28,442		
Unsecured credit facilities (including line of credit and term loan)	305,000		
Total debt:	724,216		
Stockholders' equity:			
Preferred stock, \$.01 par value per share	110,000		
Common stock \$.01 par value per share	900		
Additional paid in capital	789,632		
Accumulated other comprehensive loss	(8,278)		
Accumulated distributions in excess of net income	(484,285)		
Total stockholders' equity	407,969		
Noncontrolling Interest	(1,810)		
Total Equity	406,159		

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USE OF PROCEEDS

We estimate that our net proceeds from this offering, after deducting estimated offering expenses payable by us, will be approximately \$ (approximately \$ if the underwriters exercises their option to purchase additional shares in full). We intend to use the net proceeds to repay a portion of the amounts outstanding on our line of credit that are drawn to fund the purchase price of the Acquisition. If we do not close the Acquisition, we will use the net proceeds for working capital and other general corporate purposes. The purchase price of the Acquisition is approximately \$121.0 million, subject to the potential adjustments disclosed herein. See "Summary Recent Developments." Outstanding balances drawn on our line of credit accrue interest at a variable rate equal to up to 125 basis points over the prime rate or 165 to 225 basis points over LIBOR. This line matures on August 20, 2016. Pending application of the net proceeds from this offering as described above, we will invest such proceeds in short-term marketable securities that are consistent with our intention to qualify as a REIT.

SUPPLEMENTAL FEDERAL INCOME TAX CONSEQUENCES

This discussion is a supplement to, and is intended to be read together with, the discussion contained under the heading "Material United States Federal Income Tax Consequences" in the Form S-3 that we filed with the SEC on October 12, 2012 and which is incorporated by reference in this prospectus supplement. This discussion is for general information only and is not tax advice.

The following discussion should replace the discussion under the heading "Material United States Federal Income Tax Consequences Taxation of Non-U.S. Holders Additional Withholding and Reporting Requirements Relating to Foreign Accounts" in the October 12 Form S-3.

Recently enacted amendments to the Code generally impose a U.S. federal withholding tax of 30% on certain types of payments made to a foreign financial institution or a non-financial foreign entity. The required withholding would not begin until January 1, 2014 with respect to dividends paid on our capital stock, and January 1, 2017 with respect to gross proceeds from sales or exchanges of our capital stock. After the applicable effective date with respect to a payment, the 30% withholding tax will apply (i) to a foreign financial institution unless the foreign financial institution enters into an agreement with the U.S. government to undertake to obtain and provide to the U.S. tax authorities substantial information regarding certain direct and indirect U.S. accountholders and to collect the withholding tax on payments to certain accountholders (generally where the actions of the accountholders prevent compliance with reporting and other requirements), and the foreign financial institution meets certain other specified requirements or (ii) to a non-financial foreign entity unless the non-financial foreign entity certifies that it does not have any direct or indirect substantial U.S. owners or provides the name, address and taxpayer identification number of each direct and indirect substantial U.S. owner, and the non-financial foreign entity meets certain other specified requirements. Under certain circumstances, a non-U.S. holder might be eligible for refunds or credits of any withholding taxes. Non-U.S. holders are encouraged to consult their tax advisors regarding the possible implications of these new provisions of the Code on their investment in our capital stock.

Recent Legislative Changes

The American Taxpayer Relief Act of 2012, or ATRA, was enacted on January 2, 2013. Certain provisions of U.S. federal income tax law relating to individual ordinary income tax rates, capital gain taxation (including the taxation of capital gain dividends) and the applicability of capital gain rates to dividends designated as "qualified dividend income" were scheduled to "sunset" and revert to provisions of prior law for taxable years beginning after December 31, 2012. ATRA has modified those rules. For taxable years beginning after 2012, for noncorporate taxpayers, the highest ordinary income tax rate is 39.6% and both the maximum capital gain tax rate (for gain other than "unrecaptured section 1250 gain") and the maximum rate applicable to qualified dividend income generally is 20%, without taking into account the 3.8% Medicare tax, discussed in "Material United States Federal Income Tax Consequences Taxation of U.S. Holders Net Investment Income" in the October 12 Form S-3.

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UNDERWRITING

We intend to offer the shares of our common stock through the underwriters. Merrill Lynch, Pierce, Fenner & Smith Incorporated, Wells Fargo Securities, LLC and BMO Capital Markets Corp. are acting as the representatives of each of the underwriters named below. Subject to the terms and conditions described in the underwriting agreement among us and the underwriters, we have agreed to sell to the underwriters, and the underwriters severally have agreed to purchase from us, the number of shares listed opposite their names below.

<u>Underwriter</u>	<u>Number of Shares</u>
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Wells Fargo Securities, LLC	
BMO Capital Markets Corp.	
KeyBanc Capital Markets Inc.	
Total	

The underwriters have agreed, severally and not jointly, to purchase all of the shares sold under the underwriting agreement if any of these shares are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Option to Purchase Additional Shares

We have granted to the underwriters an option, exercisable for 30 days after the date of this prospectus, to purchase up to 1,350,000 additional shares at the same price per share as they are paying for the shares shown in the table below. The underwriters may exercise this option at any time and from time to time, in whole or in part, within 30 days after the date of this prospectus supplement. To the extent that the underwriters exercise this option, each underwriter will purchase additional shares from us in approximately the same proportion as it purchased the shares shown in the table above. We will pay the expenses associated with the exercise of this option.

Commissions and Discounts

The representatives have advised us that the underwriters propose initially to offer the shares to the public at the public offering price on the cover page of this prospectus supplement and to dealers at that price less a concession not in excess of \$ per share. After the public offering, the public offering price and concession may be changed.

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The following table shows the public offering price, underwriting discount and proceeds before expenses to us. The information assumes either no exercise or full exercise by the underwriters of their option to purchase additional shares.

	Per Share	Without Option	With Option
Public offering price			
Underwriting discount			
Proceeds, before expenses, to us			

The expenses of the offering, not including the underwriting discount, are estimated at \$ and are payable by us.

No Sales of Similar Securities

We and our executive officers and directors have agreed not to sell or transfer any common stock or securities convertible into, exchangeable for, exercisable for, or repayable with common stock, for 60 days after the date of this prospectus without first obtaining the written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated, Wells Fargo Securities, LLC and BMO Capital Markets Corp. Specifically, we and these other persons have agreed, with certain limited exceptions, not to directly or indirectly

offer, pledge, sell or contract to sell any common stock,

sell any option or contract to purchase any common stock,

purchase any option or contract to sell any common stock,

grant any option, right or warrant for the sale of any common stock,

lend or otherwise dispose of or transfer any common stock,

request or demand that we file a registration statement related to the common stock, or

enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any common stock whether any such swap or transaction is to be settled by delivery of shares or other securities, in cash or otherwise.

This lock-up provision applies to common stock and to securities convertible into or exchangeable or exercisable for or repayable with common stock. It also applies to common stock owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition. In the event that either (x) during the last 17 days of the lock-up period referred to above, we issue an earnings release or material news or a material event relating to us occurs or (y) prior to the expiration of the lock-up period, we announce that we will release earnings results or become aware that material news or a material event will occur during the 16-day period beginning on the last day of the lock-up period, the restrictions described above shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

New York Stock Exchange Listing

Our shares are listed on the New York Stock Exchange under the symbol "IRC."

Price Stabilization and Short Positions

Until the distribution of the shares is completed, SEC rules may limit underwriters from bidding for and purchasing our shares. However, the representatives may engage in transactions that stabilize the price of the shares, such as bids or purchases to peg, fix or maintain that price.

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In connection with the offering, the underwriters may purchase and sell our common stock in the open market. These transactions may include short sales, purchases on the open market to cover positions created by short sales and stabilizing transactions. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares described above. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the option granted to them. "Naked" short sales are sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of our common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of shares of common stock made by the underwriters in the open market prior to the completion of the offering.

Similar to other purchase transactions, the underwriters' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. The underwriters may conduct these transactions on the New York Stock Exchange, in the over-the-counter market or otherwise.

Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our shares. In addition, neither we nor any of the underwriters makes any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Electronic Distributions

In connection with the offering, certain of the underwriters or securities dealers may distribute this prospectus supplement and the accompanying prospectus by electronic means, such as e-mail. Certain of the underwriters may facilitate Internet distribution for this offering to certain of their respective Internet subscription customers. In addition, certain of the underwriters may allocate a limited number of shares of common stock for sale to their respective online brokerage customers. An electronic prospectus supplement and the accompanying prospectus will be made available on the Internet Website maintained by any such underwriter. Other than the prospectus supplement and the accompanying prospectus in electronic format, the information on any such Internet Website is not part of this prospectus supplement.

Conflicts of Interest

Affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated, Wells Fargo Securities, LLC and certain of the other underwriters are lenders under our line of credit and our term loan. As we intend to use a portion of the net proceeds of this offering to reduce amounts outstanding under such line of credit and may use the net proceeds of this offering for the repayment of our term loans, these affiliates may receive a portion of the net proceeds of this offering proportionate to their respective commitments under such line of credit and term loans. The amount received by any underwriter and its affiliates from the repayment of those borrowings may exceed 5% of the proceeds of this offering (not including underwriting discounts). Nonetheless, in accordance with Rule 5121 of FINRA, the

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appointment of a qualified independent underwriter is not necessary in connection with this offering because REITs are excluded from that requirement.

Other Relationships

Certain of the underwriters and their affiliates have provided in the past to us and our affiliates and may provide from time to time in the future certain commercial banking, financial advisory, investment banking and other services for us and such affiliates in the ordinary course of their business, for which they have received and may continue to receive customary fees and commissions. In addition, from time to time, certain of the underwriters and their affiliates may effect transactions for their own account or the account of customers, and hold on behalf of themselves or their customers, long or short positions in our debt or equity securities or loans, and may do so in the future.

Notice to Prospective Investors in the European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), no offer of shares may be made to the public in that Relevant Member State other than:

- A. to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- B. to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representatives; or
- C. in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of shares shall require the Company or the representative[s] to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

Each person in a Relevant Member State who initially acquires any shares or to whom any offer is made will be deemed to have represented, acknowledged and agreed that (A) it is a "qualified investor" within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive, and (B) in the case of any shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, the shares acquired by it in the offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than "qualified investors" as defined in the Prospectus Directive, or in circumstances in which the prior consent of the representatives has been given to the offer or resale. In the case of any shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, each such financial intermediary will be deemed to have represented, acknowledged and agreed that the shares acquired by it in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any shares to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the representatives has been obtained to each such proposed offer or resale.

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The Company, the representatives and their affiliates will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement.

This prospectus has been prepared on the basis that any offer of shares in any Relevant Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of shares. Accordingly any person making or intending to make an offer in that Relevant Member State of shares which are the subject of the offering contemplated in this prospectus may only do so in circumstances in which no obligation arises for the Company or any of the underwriters to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither the Company nor the underwriters have authorized, nor do they authorize, the making of any offer of shares in circumstances in which an obligation arises for the Company or the underwriters to publish a prospectus for such offer.

For the purpose of the above provisions, the expression "an offer to the public" in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe the shares, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member States) and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Notice to Prospective Investors in the United Kingdom

In addition, in the United Kingdom, this document is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are "qualified investors" (as defined in the Prospectus Directive) (i) who have professional experience in matters relating to investments falling within Article 19 (5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order") and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). This document must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which this document relates is only available to, and will be engaged in with, relevant persons.

Notice to Prospective Investors in Switzerland

The shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("SIX") or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the offering, the Company, the shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA (FINMA), and the offer of shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes ("CISA").

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The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of shares.

Notice to Prospective Investors in the Dubai International Financial Centre

This prospectus supplement relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority ("DFSA"). This prospectus supplement is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this prospectus supplement nor taken steps to verify the information set forth herein and has no responsibility for the prospectus supplement. The shares to which this prospectus supplement relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the shares offered should conduct their own due diligence on the shares. If you do not understand the contents of this prospectus supplement you should consult an authorized financial advisor.

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LEGAL MATTERS

Shesky & Froelich Ltd., Chicago, Illinois, has passed upon certain tax matters for us, including those described under "Material United States Federal Income Tax Consequences" in the accompanying prospectus. Certain legal matters with respect to the validity of the securities offered under this prospectus supplement will be passed upon for us by Venable LLP, Baltimore, Maryland. The underwriters are represented by Sidley Austin LLP, New York, New York.

EXPERTS

The consolidated financial statements and the related financial statement schedule of Inland Real Estate Corporation as of December 31, 2012 and 2011, and for each of the years in the three-year period ended December 31, 2012, and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2012, have been incorporated by reference herein and in the accompanying prospectus in reliance upon the reports of KPMG LLP, an independent registered public accounting firm, also incorporated by reference herein and in the accompanying prospectus, and upon the authority of said firm as experts in accounting and auditing.

The consolidated balance sheet of IN Retail Fund, L.L.C. as of December 31, 2012, and the related consolidated statements of operations, members' equity, and cash flows for the year then ended, have been incorporated by reference herein and in the accompanying prospectus in reliance upon the reports of KPMG LLP, independent auditors, which are also incorporated by reference herein and in the accompanying prospectus, and upon the authority of said firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We file current, quarterly and annual reports, proxy statements and other information required by the Exchange Act with the SEC. You may read and copy any of these filed documents at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public from the SEC's internet site at <http://www.sec.gov>. Our SEC filings are also available at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

We have filed with the SEC a shelf registration statement on Form S-3 (Registration File No. 333-181164) under the Securities Act with respect to the securities offered by this prospectus supplement. This prospectus supplement does not include all the information contained or incorporated by reference in that registration statement and its exhibits. For further information with respect to us and our securities, you should consult the registration statement and its exhibits.

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PROSPECTUS

Inland Real Estate Corporation

Debt Securities, Preferred Stock, Depositary Shares, Common Stock and Securities Warrants

We may from time-to-time offer to sell our common stock, preferred stock (which we may issue in one or more series), depositary shares representing shares of preferred stock, debt securities (which we may issue in one or more series) or warrants entitling the holders to purchase common stock, preferred stock, depositary shares or debt securities, at an initial aggregate offering price which will not exceed \$606,121,000. We may also offer units comprising one or more of the other securities described in this prospectus in any combination. We will determine when we sell securities, the amount of securities to be sold and the prices and other terms on which such securities will be sold. We may sell securities to or through underwriters, through dealers, through agents, directly to purchasers on a continuous or delayed basis and as otherwise described in this prospectus.

We will describe in a prospectus supplement, which we will deliver with this prospectus, the terms of particular securities which we offer in the future. We may describe the terms of those securities in a term sheet, which will precede the prospectus supplement.

In each prospectus supplement we will include the following information:

The names of the underwriters, dealers or agents, if any, through which we will sell the securities.

The terms of the plan of distribution for the sale of the securities.

The proposed amount of securities, if any, which the underwriters will purchase.

The compensation, if any, of those underwriters, dealers or agents.

The public offering price of the securities.

Information about securities exchanges, electronic communications networks or automated quotation systems on which the securities will be listed or traded.

Any other material information about the offering and sale of the securities.

Our common stock is traded on the New York Stock Exchange under the symbol "IRC." Our 8.125% Series A Cumulative Redeemable Preferred Stock, \$0.01 par value is traded on the New York Stock Exchange under the symbol "IRC.PRA."

Investment in these securities involves a high degree of risk. See "Risk Factors" on page 2.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is October 12, 2012

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We have not authorized any dealer, salesman or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus, any applicable prospectus supplement or any free writing prospectus filed by the Company. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus, any applicable prospectus supplement or any such free writing prospectus. This prospectus, any applicable prospectus supplement or any such free writing prospectus do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the registered securities to which they relate, nor do this prospectus, any applicable prospectus supplement or any such free writing prospectus constitute an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. The information contained in this prospectus, any applicable prospectus supplement or any such free writing prospectus and the documents incorporated by reference herein or therein is accurate only as of their respective dates. When we deliver this prospectus, any applicable prospectus supplement or any such free writing prospectus or make a sale pursuant to this prospectus, any applicable prospectus supplement or any such free writing prospectus, we are not implying that the information is current as of the date of the delivery or sale.

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When used in this prospectus "the Company," "we," "us," or "our" refers to Inland Real Estate Corporation and its direct and indirect subsidiaries on a consolidated basis.

ABOUT THIS PROSPECTUS

This prospectus is part of a shelf registration statement on Form S-3 that we filed with the Securities and Exchange Commission, or the SEC, using a "shelf" registration process for the delayed offering and sale of securities pursuant to Rule 415 under the Securities Act of 1933, as amended, or the Securities Act. Using this shelf registration statement, we may sell any combination of common stock, preferred stock, depositary shares representing shares of preferred stock, debt securities or warrants entitling the holders to purchase common stock, preferred stock, depositary shares, debt securities or units in one or more offerings for an aggregate initial public offering price of up to \$606,121,000. In addition, we may use this prospectus and the applicable prospectus supplement in a remarketing or other resale transaction involving the securities after their initial sale. This prospectus provides you with a general description of the securities we may offer. Each time we sell securities under this shelf registration statement, we will provide a prospectus supplement that will contain specific information about the terms of that particular offering. That prospectus supplement or any free writing prospectus filed in connection with that offering may also add, update or change information contained or incorporated by reference in this prospectus. The rules of the SEC allow us to incorporate by reference information into this prospectus. The information incorporated by reference is considered to be a part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. See "Incorporation of Certain Documents by Reference." You should read both this prospectus, any prospectus supplement and any free writing prospectus together with additional information described below in the section entitled "Where You Can Find More Information."

ABOUT US

We are a Maryland corporation formed on May 12, 1994. We are a self-managed, publicly traded real estate investment trust ("REIT") that owns and operates neighborhood, community, power and single tenant retail centers. We also may construct or develop properties or render services in connection with such development or construction. As of June 30, 2012, we owned interests in 149 investment properties, including 38 owned through our unconsolidated joint ventures. Our development joint venture properties are not included as investment properties until they reach what we believe is a stabilized occupancy rate.

We engage in certain activities through Inland Venture Corporation and Inland Exchange Venture Corporation, each of which is a wholly-owned taxable REIT subsidiary ("TRS") entity. These entities engage in activities that produce income that otherwise would not be REIT qualifying income, such as managing properties owned by ventures in which we are not a partner. The TRS entities are subject to federal and state income and franchise taxes from these activities.

We have qualified and elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code") for U.S. federal income tax purposes commencing with the tax year ended December 31, 1995. Since we qualify for taxation as a REIT, we generally are not subject to U.S. federal income tax on taxable income that is distributed to stockholders. As a REIT, we are subject to a number of organizational and operational requirements, including a requirement that we distribute at least 90% of our taxable income to our stockholders, subject to certain adjustments. If we fail to qualify as a REIT in any taxable year, without the benefit of certain relief provisions, we will be subject to federal and state income taxes on our taxable income at regular corporate tax rates. Even if we qualify for taxation as a REIT, we may be subject to certain state and local taxes on our income, property or net worth and federal income and excise taxes on our undistributed income.

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Our principal executive offices are located at 2901 Butterfield Road, Oak Brook, Illinois 60523, and our telephone number at that address is (630) 218-8000. Our web site is located at www.inlandrealestate.com. We also post our key corporate governance documents, including our board committee charters, our ethics policy and our principles of corporate governance on this web site. The information on, or linked to from, the web site is not part of and is not incorporated by reference into this prospectus.

RISK FACTORS

Investing in our securities involves various risks. Before making an investment decision, you should carefully consider any risk factors set forth in the applicable prospectus supplement and the documents incorporated by reference in this prospectus and the applicable prospectus supplement, as well as other information we include or incorporate by reference in this prospectus and the applicable prospectus supplement, including the risks described in our Annual Report on Form 10-K for the fiscal year ended on December 31, 2011, subsequent Quarterly Reports on Form 10-Q or Current Reports on Form 8-K, as well as other information and data set forth in this prospectus and the documents incorporated by reference herein.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges for the periods indicated.

For the purpose of computing the ratio of earnings to combined fixed charges and preferred dividends, and the amount of coverage deficiency, earnings (loss) have been calculated by adding fixed charges, excluding capitalized interest, to net income (loss). Fixed charges and preferred dividends consist of interest costs, whether expensed or capitalized, amortization of deferred financing costs, whether expensed or capitalized, preferred dividends and estimated interest within rental expense. This information below is given on an unaudited historical basis.

	Six Months Ended		Year Ended December 31			
	June 30		2010	2009	2008	2007
	2012	2011				
Ratio of earnings (loss) to combined fixed charges and preferred dividends(1)	0.85(2)	1.02	1.16	1.65	1.54	1.80

(1) The company did not have any preferred stock outstanding for the periods prior to the year ended December 31, 2011.

(2) For this period, earnings were less than fixed charges. The amount of the deficiency, or the amount of fixed charges in excess of earnings, was approximately \$3,283,000.

STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

In addition to historical information, we have made forward-looking statements in this prospectus and the documents incorporated by reference within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including those pertaining to anticipated closings of transactions and uses of proceeds and our capital resources, portfolio performance and results of operations. Forward-looking statements involve numerous risks and uncertainties and should not be relied upon as predictions of future events and there can be no assurance that the events or circumstances reflected in these statements will be achieved or will occur. You can identify forward-looking statements by the use of forward-looking terminology including "believes," "expects," "may," "will," "should," "seeks," "intends," "plans," "estimates," or "anticipates" or the negative of these words and phrases or other variations of these words and phrases or

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comparable terminology, or by discussions of strategy, plans or intentions. Forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and may be incapable of being realized.

The factors that could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements include those set forth in the risk factors incorporated by reference in this prospectus and any accompanying prospectus supplement from our most recent Annual Report on Form 10-K, subsequent Quarterly Reports on Form 10-Q or Current Reports on Form 8-K. You are cautioned not to place undue reliance on forward-looking statements, which reflect only our management's analysis. We assume no obligation to update forward-looking statements.

USE OF PROCEEDS

Unless otherwise described in the applicable prospectus supplement, we intend to use the net proceeds from the sale of the securities offered by this prospectus for general corporate purposes. If we identify any specific use for the net proceeds from the sale of securities, we will describe such use in the accompanying prospectus supplement.

DESCRIPTION OF CAPITAL STOCK

General

Our authorized capital stock consists of 500,000,000 shares of common stock, \$0.01 par value per share, and 12,000,000 shares of preferred stock, \$0.01 par value per share, 4,400,000 of which are classified as 8.125% Series A Preferred Cumulative Redeemable Preferred Stock ("Series A Preferred Stock"). As of October 12, 2012, we had 89,257,877 shares of common stock issued and outstanding and 4,400,000 shares of Series A Preferred Stock issued and outstanding.

With respect to payment of dividends and amounts due upon liquidation, dissolution, or winding up, our preferred stock will rank senior to our common stock. Our common stock and our Series A Preferred Stock are listed on the NYSE under the symbols "IRC" and "IRCPRA," respectively. Registrar and Transfer Company is the transfer agent and registrar of our common stock and our Series A Preferred Stock.

Common Stock

Voting Rights. Each share of common stock has the same rights and is identical in all respects with every other share of common stock. Each share of common stock entitles the holder to one vote per share on each matter submitted to a vote of the stockholders except (1) to the extent voting rights may be limited as discussed in "Restrictions on Transfer, Acquisition and Redemption of Shares" and (2) that, with respect to shares of common stock owned by members of our board of directors or an "Affiliate" (as that term is defined in our charter, as amended ("charter")), neither the members of our board of directors, nor any Affiliate, can vote or consent on matters submitted to the stockholders regarding the removal of any member of our board of directors or any Affiliate or any transaction between us and any member of the board of directors or any Affiliate. With respect to the preceding clause (2) only, shares of common stock held by any member of our board of directors or any Affiliate will not be included in determining the number of outstanding shares of common stock entitled to vote on the matters described in that clause. Stockholders are entitled to vote by written or electronic or telephonic proxies and do not have cumulative voting rights.

Distributions. We currently pay distributions to our stockholders on a monthly basis in an amount determined by our board of directors out of funds legally available therefor. Our preferred stockholders have priority over the common stockholders with respect to receiving distributions. Notwithstanding the

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foregoing, holders of shares of "Excess Stock" (as that term is defined in "Restrictions on Transfer, Acquisition and Redemption of Shares" below) are not entitled to receive distributions paid by us.

Liquidation. If we liquidate or dissolve, each issued and outstanding share of common stock would be entitled to participate, pro rata, in any assets remaining after paying, or providing for payment of, all of our known debts and liabilities. Our preferred stockholders will have priority over the common stockholders to any assets distributed in a liquidation or dissolution. Notwithstanding the foregoing, holders of shares of Excess Stock are not entitled to receive liquidating distributions.

Restrictions on Acquisition of the Common Stock. See "Restrictions on Transfer, Acquisition and Redemption of Shares" and "Certain Provisions of the MGCL, Our Charter and Our Bylaws" below for discussions of the restrictions and other limitations on the acquisition of shares of common stock.

Other Characteristics. Holders of the common stock do not have preemptive rights to purchase or subscribe for any additional shares of common stock or any other security that may be issued by us. Shares of common stock generally are not subject to calls for redemption. Shares of Excess Stock will, however, be deemed to have been offered for sale to us, or our designee, in accordance with the terms of the charter. See "Restrictions on Transfer, Acquisition and Redemption of Shares" below.

Issuance of Additional Shares. Our board of directors is authorized to issue additional shares of common stock or securities convertible into common stock and to classify or reclassify, as the case may be, any unissued shares of common stock without prior stockholder approval subject to complying with the rules of the NYSE.

Preferred Stock

Authorized and Outstanding. Under our charter, the board of directors is authorized, subject to certain limitations prescribed by reference to Maryland General Corporation Law (the "MGCL") and the New York Stock Exchange rules, without further stockholder approval, from time to time to issue up to an aggregate of 12,000,000 shares of preferred stock, 4,400,000 of which are classified as Series A Preferred Stock. 4,400,000 shares of Series A Preferred Stock are issued and outstanding.

Series A Preferred Stock. The Series A Preferred Stock is entitled to receive cumulative cash dividends at the rate of 8.125% per annum of the \$25.00 per share liquidation preference (equal to \$2.0313 per annum per share). Generally, we may not redeem the shares of Series A Preferred Stock until October 6, 2016. On and after October 6, 2016, we may, at our option, redeem the shares of Series A Preferred Stock, for cash, in whole or from time to time in part, by paying \$25.00 per share, plus any accumulated and unpaid dividends to, but not including, the date of redemption. In addition, upon the occurrence of a change of control the result of which our common stock, par value \$0.01 per share ("common stock"), and the common securities (or their equivalent, including American Depositary Receipts ("ADRs") representing such securities) of the acquiring or surviving entity are not listed on the New York Stock Exchange (the "NYSE"), the NYSE Amex Equities (the "NYSE Amex") or the NASDAQ Stock Market ("NASDAQ") or listed or quoted on a successor exchange or quotation system, we may, at our option, redeem the shares of Series A Preferred Stock, for cash, in whole or in part and within 120 days after the first date on which such change of control occurred, by paying \$25.00 per share, plus any accumulated and unpaid dividends to, but not including, the date of redemption. If we exercise any of our redemption rights relating to any shares of Series A Preferred Stock, the holders of those shares of Series A Preferred Stock will no longer have the conversion rights with respect to those shares as described in the next sentence. The Series A Preferred Stock has no maturity date and will remain outstanding indefinitely unless redeemed by us or converted in connection with a change of control by the holders of Series A Preferred Stock. Holders of Series A Preferred Stock generally have no voting rights. However, if we do not pay dividends on the Series A Preferred Stock for eighteen or more monthly periods, whether or not consecutive, the holders of the Series A Preferred Stock, voting

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as a single class with the holders of any other Parity Preferred Stock upon which like voting rights have been conferred and are exercisable, will be entitled to vote for the election of two additional directors to serve on our Board of Directors until we pay or set aside for payment all undeclared and unpaid dividends on the Series A Preferred Stock for all prior dividend periods and the then current dividend period. In addition, the affirmative vote of the holders of at least two-thirds of the outstanding shares of Series A Preferred Stock is required for us to authorize, create or increase shares ranking senior to the Series A Preferred Stock or to amend our charter in a manner that materially and adversely affects the rights of the Series A Preferred Stock. Among other things, we may, without any vote of the holders of the Series A Preferred Stock, issue additional shares of Series A Preferred Stock and preferred stock ranking on a parity with the Series A Preferred Stock. The Series A Preferred Stock is listed on the NYSE under the symbol "IRCPRA."

General. The statements below describing the preferred stock are in all respects subject to and qualified by reference to the applicable provisions of our charter and bylaws and any applicable articles supplementary to our charter classifying and designating the terms of a series of preferred stock.

Authorized but unissued preferred stock may be issued in one or more series. Subject to the provisions of our charter regarding beneficial ownership of shares of our common stock or shares of each other outstanding class of our capital stock in excess of the aggregate stock ownership limits per class, each series may have different preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms or conditions of redemption that may be established by our board of directors without approval from the stockholders. Unless provided in a supplement to this prospectus, the shares of preferred stock to be issued will have no preemptive rights. Reference is made to any supplement to this prospectus relating to the preferred stock offered thereby for specific items, including:

the number of shares of preferred stock to be issued and the offering price of the preferred stock;

the title and stated value of the preferred stock;

dividend rights, rates, periods, payment dates, and methods of calculating the dividends applicable to the preferred stock;

the date from which distributions on the preferred stock will accumulate, if applicable;

conversion rights;

voting rights;

rights and preferences on liquidation;

redemption terms;

the procedures for any auction and remarketing, if any;

sinking fund provisions;

any listing of the preferred stock;

federal income tax consequences applicable to the preferred stock;

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the relative ranking and preferences of the preferred stock as to distribution rights (including whether any liquidation preference as to the preferred stock will be treated as a liability for purposes of determining the availability of assets for distributions to holders of stock ranking junior to the shares of preferred stock as to distribution rights);

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any limitations on issuance of any series of preferred stock ranking senior to or on a parity with such series of preferred stock as to distribution rights and rights upon the liquidation, dissolution or winding up of our affairs; and

any other specific terms, preferences, rights, limitations or restrictions of the preferred stock.

Rank. Unless otherwise indicated in the applicable supplement to this prospectus, shares of our preferred stock will rank, with respect to payment of distributions and rights upon our liquidation, dissolution or winding up:

senior to all classes or series of common stock, and to all equity securities issued by us, the terms of which specifically provide that the equity securities rank junior to the preferred stock; and

on a parity with all equity securities issued by us, the terms of which specifically provide that the equity securities rank on a parity with the preferred stock.

Distributions. Subject to any preferential rights of any outstanding stock or series of stock and to the provisions of our charter regarding beneficial ownership of shares of our common stock or shares of each other outstanding class of our capital stock in excess of the aggregate ownership limits per class, preferred stockholders, if any, will be entitled to receive distributions, when and as authorized by our board of directors and declared by us, out of legally available funds, and will share in these distributions *pro rata* with other outstanding parity equity securities, if any.

Voting Rights. Unless otherwise indicated in the applicable supplement to this prospectus, holders of preferred stock will not have voting rights.

Liquidation Preference. Upon the liquidation, dissolution or winding up of our affairs, before any distribution or payment is made to the holders of any common stock or any other class or series of stock ranking junior to the preferred stock, the holders of each series of preferred stock are entitled to receive, after payment or provision for payment of our debts and other liabilities, out of our assets legally available for distribution to stockholders, liquidating distributions in the amount of the liquidation preference per share (set forth in the applicable supplement to this prospectus), plus an amount, if applicable, equal to all distributions accrued and unpaid thereon (which will not include any accumulation in respect of unpaid distributions for prior distribution periods if the preferred stock does not have a cumulative distribution provision). After paying the full amount of the liquidating distributions to which they are entitled, the holders of preferred stock will have no right or claim to any of our remaining assets.

Conversion Rights. The terms and conditions, if any, upon which shares of any series of preferred stock are convertible into other securities will be set forth in the applicable supplement to this prospectus. Such terms will include the amount and type of security into which the shares of preferred stock are convertible, the conversion price (or manner of calculation thereof), the conversion period, provisions as to whether conversion will be at the option of the holders of the preferred stock or us, the events requiring an adjustment of the conversion price and provisions affecting conversion in the event of the redemption of such preferred stock.

Redemption. If so provided in the applicable supplement to this prospectus, our preferred stock will be subject to mandatory redemption or redemption at our or the holders' option, in whole or in part, in each case upon the terms, at the times and at the redemption prices set forth in such supplement to this prospectus.

Registrar and Transfer Agent. The registrar and transfer agent for our preferred stock will be set forth in the applicable supplement to this prospectus.

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If our board of directors decides to issue any preferred stock, it may discourage or make more difficult a merger, tender offer, business combination or proxy contest, assumption of control by a holder of a large block of our securities or the removal of incumbent management, even if these events were favorable to the interests of stockholders. The board of directors, without stockholder approval, may issue preferred stock with voting and conversion rights and dividend and liquidation preferences which may adversely affect the holders of common stock.

Certain Provisions of the MGCL, Our Charter and Our Bylaws

The following summary of certain provisions of the MGCL, our charter and our Amended and Restated bylaws ("bylaws") does not purport to be complete and is subject to, and qualified in its entirety by reference to, applicable MGCL provisions, our charter and our bylaws.

As a Maryland corporation, we are subject to certain restrictions concerning certain "business combinations" (including a merger, consolidation, share exchange or, in certain circumstances, an asset transfer or issuance or reclassification of equity securities) between us and an "interested stockholder" or an affiliate of an interested stockholder. Interested stockholders are persons (1) who beneficially own ten percent or more of the voting power of our outstanding voting stock, or (2) who are Affiliates or associates of us who, at any time within the two-year period prior to the date in question, were the beneficial owners of ten percent or more of the voting power of our outstanding stock. A person is not an interested stockholder if the board of directors approved in advance, the transaction by which the person otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may condition its approval by making it subject to compliance, at or after the time of approval, with any terms and conditions determined by the board. Business combinations are prohibited for five years after the most recent date on which the interested stockholder became an interested stockholder. Thereafter, business combinations must be recommended by our board of directors and approved by the affirmative vote of at least (1) 80% of the votes entitled to be cast by holders of the outstanding voting shares voting together as a single voting group, and (2) two-thirds of the votes entitled to be cast by holders of the outstanding voting shares other than voting shares held by the interested stockholder or an affiliate or associate of the interested stockholder with whom the business combination is to be effected, unless, among other things, the corporation's common stockholders receive a minimum price for their shares and the consideration is received in cash or other consideration in the same form as previously paid by the interested stockholder for its shares. These provisions of the MGCL do not apply, however, to business combinations that are approved or exempted by the board of directors prior to the time that the interested stockholder becomes an interested stockholder.

The MGCL also provides that "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares owned by the acquirer or by officers or by employees who are directors of the corporation. "Control shares" are shares of stock which, if aggregated with all other shares of stock owned by the acquirer or shares of stock for which the acquirer is able to exercise or direct the exercise of voting power except solely by virtue of a revocable proxy, would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power:

one-tenth or more but less than one-third,

one-third or more but less than a majority, or

a majority or more of all voting power.

Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A "control share acquisition" means, subject to certain exceptions, the acquisition of, ownership of, or the power to direct the exercise of voting power with respect to, issued and outstanding control shares.

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The control share acquisition statute does not apply to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or to acquisitions approved or exempted by the charter or bylaws of the corporation. Our charter states that the control share acquisition statute will not apply to any acquisition of shares of each class of capital stock by an existing holder that is not prohibited or restricted by the restrictions on transfer, acquisition and redemption of our shares contained in Article VIII of our charter. Our charter defines an "existing holder" as (1) a person who was, upon the exchange of any security of the Company, the beneficial owner of a class of our capital stock in excess of the Ownership Limit, as defined below in "Restrictions on Transfer, Acquisition and Redemption of Shares," both upon and immediately after our initial public offering so long as, but only so long as, the person beneficially owns, or would beneficially own, upon the exchange of any security of the Company, any class of our capital stock in excess of the Ownership Limit and (2) any person to whom such an existing holder transfers, subject to the limitations provided by our charter, beneficial ownership of capital stock causing the transferee to beneficially own any class of our capital stock in excess of the Ownership Limit.

Under the MGCL, a Maryland corporation that has a class of equity securities registered under the Exchange Act and that has at least three directors who (1) are not officers or employees of the corporation, (2) are not acquiring persons, (3) are not directors, officers, affiliates or associates of any acquiring person or (4) are not nominated or designated as a director by an acquiring person, may elect in its charter or bylaws or by resolution of its board of directors, notwithstanding any contrary charter or bylaw provision, to be subject to certain provisions of the MGCL that may have the effect of delaying or preventing a change in control of the corporation. These provisions relate to a classified board of directors, removal of directors, establishing the number of directors, filling vacancies on the board of directors and calling special meetings of the corporation's stockholders. We have not made the election to be governed by these provisions of the MGCL. However, our charter and our bylaws permit our board of directors to determine the number of directors subject to a minimum and maximum number, among other provisions.

Certain Anti-Takeover Provisions in Our Charter and Our Bylaws

The following discussion is a general summary of certain provisions of our charter and our bylaws that may be deemed to have an "anti-takeover" effect. The description of these provisions is necessarily general and reference should be made in each case to the charter and bylaws.

Availability of Preferred Stock. Our charter authorizes the issuance of up to 12,000,000 shares of preferred stock, which may be issued with rights and preferences that could impede an acquisition. This preferred stock, together with authorized but unissued shares of our common stock, could also represent additional capital stock required to be purchased by an acquirer.

Advance Notice Requirement for Nominations. With respect to an annual meeting of stockholders, our bylaws require that nominations of persons for election to our board of directors and the proposal of business to be considered by stockholders may be made only (1) pursuant to the notice of the meeting, (2) by or at the direction of our board of directors or (3) by any stockholder who is a stockholder of record at the time of giving the notice required by our bylaws, who is entitled to vote at the meeting and who has complied with the advance notice procedures set forth in our bylaws. These advance notice procedures generally require stockholders to submit written notice, in the form set forth in our bylaws, to our corporate secretary at our principal executive offices not less than forty-five days before the anniversary of the date on which we first mailed the notice of meeting for the prior year's annual meeting. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of persons for election to our board of directors at a special meeting may be made only (1) pursuant to the notice of the meeting, (2) by or at the direction of our board of directors or (3) provided that our board of directors has determined that directors will be elected at the meeting, by a stockholder who is a stockholder of

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record at the time of giving the notice required by our bylaws, who is entitled to vote at the meeting and who has complied with the advance notice procedures set forth in our bylaws.

Board of Directors. Pursuant to our charter, we must have at least three but not more than nine directors, a majority of which must be "independent directors." An "independent director" for purposes of our charter means a director who performs no other services for us, except as a director. Our charter requires that at least one of our independent directors must have had at least three years of relevant real estate experience demonstrating the knowledge and experience required to successfully acquire and manage the type of assets being acquired by us. For purposes of our bylaws, we have adopted the definition of director "independence" required for independence by the Listed Company Manual of the New York Stock Exchange.

Amendment of Bylaws. Our bylaws may be altered, amended or repealed in a manner not inconsistent with the charter or the MGCL at any properly constituted meeting of our board of directors by a majority vote of the directors present at the meeting except for matters requiring a greater vote; provided that any bylaw adopted by the stockholders may not be altered, amended or repealed without a stockholder vote.

Amendment of the Charter; Extraordinary Actions. We reserve the right from time to time to amend our charter; provided that the concurrence of a majority of the outstanding shares of common stock must be obtained for the board to (1) amend the charter, except for amendments to change our name, to change the name or other designation or the par value of any class or series of our stock and the aggregate par value of our stock or to effect certain reverse stock splits, including amendments to provisions relating to director qualifications, fiduciary duty, liability and indemnification, conflicts of interest, investment policies or investment restrictions, (2) sell all or substantially all of our assets other than in the ordinary course of business or in connection with liquidation and dissolution, (3) cause a merger or other reorganization of the Company or (4) dissolve or liquidate the Company, other than before the initial investment in a property by us. For purposes of the preceding clause (2), a sale of all or substantially all of our assets means the sale of two-thirds or more of our assets based on the total number of properties or the current fair market value of those assets.

Conversion Transactions and Roll-Ups. Our charter requires that certain exchange offers, mergers, consolidations or similar transactions involving us in which the holders of shares of common stock receive securities in a surviving entity having a substantially longer duration or materially different investment objectives and policies, or that provides significantly greater compensation to management be approved by all of our independent directors and by the holders of 66% in interest of the shares of common stock, except for any transaction effected because of changes in applicable law, or to preserve tax advantages for a majority in interest of the holders of common stock. Standards such as "substantially longer life," "materially different investment objectives and policies" or "provides significantly greater compensation to management" are not defined and are by their nature potentially ambiguous. Any ambiguities will be resolved by our board of directors, a majority of whom are independent.

In connection with a proposed "Roll-Up" (as that term is defined below and in the charter), an appraisal of all of our assets must be obtained from an "Independent Expert" (as that term is defined in the charter). The appraisal must be included in a prospectus used to offer the securities of a "Roll-Up Entity" (as that term is defined in the charter) and filed with the SEC as an exhibit to the registration statement for the offering. Accordingly, an issuer using the appraisal will be subject to liability for violating Section 11 of the Securities Act and comparable provisions under state laws for any material misrepresentations or material omissions in the appraisal. Our assets must be appraised in a consistent manner and the appraisal must be based on an evaluation of all relevant information indicating the value of our assets as of a date immediately prior to the announcement of the proposed Roll-Up transaction. The appraisal must assume an orderly liquidation of our assets over a

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twelve-month period. The terms of the engagement of the Independent Expert must clearly state that the engagement is for our benefit and our holders of common stock. A summary of the independent appraisal, indicating all material assumptions underlying the appraisal, must be included in a report to our stockholders in connection with a proposed Roll-Up. A "Roll-Up" is a transaction involving the acquisition, merger, conversion or consolidation, either directly or indirectly, of us and the issuance of securities of a Roll-Up Entity. A Roll-Up does not include (1) a transaction involving any of our securities that have been listed on a national securities exchange for at least twelve months or (2) a transaction involving the conversion by us to corporate, trust or association form if, as a consequence of the transaction, there will be no significant adverse change in any of the following: (a) voting rights of holders of common stock; (b) our term and existence; or (c) our investment objectives.

Notwithstanding the foregoing, we may not participate in any proposed Roll-Up which would:

result in the holders of common stock having rights to meetings less frequently or which are more restrictive than those provided in the charter;

result in the holders of common stock having voting rights that are less than those provided in the charter;

result in the holders of common stock having greater liability than as provided in the charter;

result in the holders of common stock having rights to receive reports that are less than those provided in the charter;

result in the holders of common stock having access to records that are more limited than those provided in the charter;

include provisions which would operate to materially impede or frustrate the accumulation of shares by any purchaser of the securities of the Roll-Up Entity (except to the minimum extent necessary to preserve the tax status of the Roll-Up Entity);

limit the ability of an investor to exercise the voting rights of its securities in the Roll-Up Entity on the basis of the number of the shares held by that investor;

result in investors in the Roll-Up Entity having rights of access to the records of the Roll-Up Entity that are less than those provided in the charter; or

place any of the costs of the transaction on us if the Roll-Up is not approved by the stockholders.

We may participate in a proposed Roll-Up if the holders of common stock would have rights, and be subject to restrictions, comparable to those contained in the charter, with the prior approval of the holders of a majority of the outstanding shares of common stock.

Stockholders who vote "no" on a proposed Roll-Up must have the choice of (1) accepting the securities of the Roll-Up Entity offered in the proposed Roll-Up or (2) one of either: (a) remaining as our stockholders and preserving their interests therein on the same terms and conditions as previously existed; or (b) receiving cash in an amount equal to the stockholders' pro rata share of the appraised value of our net assets.

The foregoing provisions in the charter and bylaws could have the effect of discouraging a takeover or other transaction in which holders of some, or a majority, of the shares might receive a premium for their shares over the then-prevailing market price or which these holders might believe to be otherwise in their best interests.

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Restrictions on Transfer, Acquisition and Redemption of Shares of Capital Stock

The following discussion is a general summary of certain provisions of our charter that restrict the transfer and acquisition of our capital stock. The description of these provisions is necessarily general and reference should be made in each case to our charter.

For us to qualify as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"), our shares of capital stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of twelve months (other than the first year) or during a proportionate part of a shorter taxable year. Further, not more than 50% of the value of the issued and outstanding shares of capital stock may be beneficially owned, directly or indirectly, by five or fewer individuals during the last half of a taxable year (other than the first year) or during a proportionate part of a shorter taxable year.

Because our board of directors believes it is essential for us to continue qualifying as a REIT and for other purposes, our charter provides that no person may beneficially own, or be deemed to beneficially own by virtue of the attribution provisions of the Code, more than 9.8% (the "Ownership Limit") of the number or value of shares of our common stock or shares of any other outstanding separate class of our capital stock, unless approved by the board. Our board of directors, upon receipt of a ruling from the Internal Revenue Service ("IRS"), an opinion of counsel or other evidence satisfactory to our board of directors and upon other conditions as our board of directors may direct, may also exempt a proposed transferee from the Ownership Limit. As a condition of this exemption, the intended transferee must give us written notice of the proposed transfer no later than fifteen days prior to any transfer which, if effected, would result in the intended transferee owning shares of a class of our capital stock in excess of the Ownership Limit. Our board of directors may require any opinions of counsel, affidavits, undertakings or agreements it deems necessary or advisable to determine or ensure our status as a REIT. Any transfer of shares that would:

create a direct or indirect beneficial ownership of shares of a class of our capital stock in excess of the Ownership Limit;

result in shares of a class of our capital stock being beneficially owned by fewer than 100 persons; or

result in us being "closely-held" within the meaning of Code Section 856(h), or otherwise failing to qualify as a REIT,

will be null and void, and the intended transferee will acquire no right to these shares. Notwithstanding the foregoing, any purported transfer of shares of a class of our capital stock that would result in a person beneficially owning such shares in excess of the Ownership Limit or cause us to become "closely-held" under Code Section 856(h) that is not otherwise permitted as provided above will constitute excess stock ("Excess Stock"). In addition to other consequences provided in our charter, shares of Excess Stock will be deemed to have been offered for sale to us. We have the right to accept the offer for a period of 90 days after the later of (a) the date of transfer which resulted in the Excess Stock, and (b) the date our board of directors determines, in good faith, that a transfer resulting in Excess Stock has occurred if we do not receive a notice of the transfer pursuant to the terms of our charter. These ownership limitations could have the effect of discouraging a takeover or other transaction in which holders of some, or a majority, of the shares of capital stock might receive a premium for their shares over the then prevailing market price or a price which these holders might believe to be otherwise in their best interest.

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DESCRIPTION OF DEPOSITARY SHARES

General

We may issue depositary shares, each of which will represent a fractional interest of a share of a particular class or series of our preferred stock, as specified in the applicable prospectus supplement which will more fully describe the terms of those depositary shares. Shares of a class or series of preferred stock represented by depositary shares will be deposited under a separate deposit agreement among us, the depositary named therein and the holders from time to time of the depositary receipts issued by the preferred stock depositary which will evidence the depositary shares. Subject to the terms of the deposit agreement, each owner of a depositary receipt will be entitled, in proportion to the fractional interest of a share of a particular class or series of preferred stock represented by the depositary shares evidenced by that depositary receipt, to all the rights and preferences of the class or series of preferred stock represented by those depositary shares (including dividend, voting, conversion, redemption and liquidation rights).

The depositary shares to be issued will be evidenced by depositary receipts issued pursuant to the applicable deposit agreement. Immediately following the issuance and delivery of a class or series of preferred stock by us to the preferred stock depositary, we will cause the preferred stock depositary to issue, on our behalf, the depositary receipts. The following description of the depositary shares, and any description of the depositary shares in a prospectus supplement, may not be complete and is subject to, and qualified in its entirety by reference to, the underlying deposit agreement and the depositary receipt, which we will file with the SEC at or prior to the time of the sale of the depositary shares. You should refer to, and read this summary together with, the deposit agreement and related depositary receipt. You can obtain copies of any form of deposit agreement or other agreement pursuant to which the depositary shares are issued by following the directions described under the caption "Where You Can Find More Information."

Dividends and Other Distributions

The preferred stock depositary will distribute all dividends (cash or otherwise) received in respect of a class or series of preferred stock to the record holders of depositary receipts evidencing the related depositary shares in proportion to the number of those depositary receipts owned by those holders, subject to certain obligations of holders to file proofs, certificates and other information and to pay certain charges and expenses to the preferred stock depositary.

Withdrawal of Preferred Stock

Upon surrender of the depositary receipts at the corporate trust office of the preferred stock depositary (unless the related depositary shares have previously been called for redemption or converted into excess preferred stock or otherwise), the holders thereof will be entitled to delivery at that office, to or upon that holder's order, of the number of whole or fractional shares of the class or series of preferred stock and any money or other property represented by the depositary shares evidenced by those depositary receipts. Holders of depositary receipts will be entitled to receive whole or fractional shares of the related class or series of preferred stock on the basis of the proportion of preferred stock represented by each depositary share as specified in the applicable prospectus supplement, but holders of those shares of preferred stock will not thereafter be entitled to receive depositary shares therefor. If the depositary receipts delivered by the holder evidence a number of depositary shares in excess of the number of depositary shares representing the number of shares of preferred stock to be withdrawn, the preferred stock depositary will deliver to that holder at the same time a new depositary receipt evidencing the excess number of depositary shares.

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Redemption of Depositary Shares

If we redeem shares of a class or series of preferred stock held by the preferred stock depositary, the preferred stock depositary will redeem, as of the same redemption date, the number of depositary shares representing shares of the class or series of preferred stock so redeemed, provided we must have paid the redemption price of the preferred stock to be redeemed plus an amount equal to any accrued and unpaid dividends thereon to the date fixed for redemption. The redemption price per depositary share will be equal to the corresponding proportion of the redemption price and any other amounts per share payable with respect to that class or series of preferred stock. If fewer than all the depositary shares are to be redeemed, the depositary shares to be redeemed will be selected pro rata (as nearly as may be practicable without creating fractional depositary shares) or by any other equitable method determined by us that will not result in the issuance of any excess preferred stock.

From and after the date fixed for redemption, all dividends in respect of the shares of a class or series of preferred stock called for redemption will cease to accrue, the depositary shares called for redemption will no longer be deemed to be outstanding and all rights of the holders of the depositary receipts evidencing the depositary shares called for redemption will cease, except the right to receive any moneys payable upon their redemption and any money or other property to which the holders of those depositary receipts were entitled upon their redemption and surrender thereof to the preferred stock depositary.

Voting

Upon receipt of notice of any meeting at which the holders of a class or series of preferred stock deposited with the preferred stock depositary are entitled to vote, the preferred stock depositary will mail the information contained in that notice of meeting to the record holders of the depositary receipts evidencing the depositary shares which represent that class or series of preferred stock. Each record holder of depositary receipts evidencing depositary shares on the record date (which will be the same date as the record date for that class or series of preferred stock) will be entitled to instruct the preferred stock depositary as to the exercise of the voting rights pertaining to the amount of preferred stock represented by that holder's depositary shares. The preferred stock depositary will vote the amount of that class or series of preferred stock represented by those depositary shares in accordance with those instructions, and we will agree to take all reasonable action which may be deemed necessary by the preferred stock depositary in order to enable the preferred stock depositary to do so. The preferred stock depositary will abstain from voting the amount of that class or series of preferred stock represented by those depositary shares to the extent it does not receive specific instructions from the holders of depositary receipts evidencing those depositary shares. The preferred stock depositary will not be responsible for any failure to carry out any instruction to vote, or for the manner or effect of any vote made, as long as that action or non-action is in good faith and does not result from negligence or willful misconduct of the preferred stock depositary.

Liquidation Preference

If we liquidate, dissolve or wind up, whether voluntary or involuntary, the holders of each depositary receipt will be entitled to the fraction of the liquidation preference accorded each share of preferred stock represented by the depositary shares evidenced by that depositary receipt, as set forth in the applicable prospectus supplement.

Conversion

The depositary shares will not be convertible directly into our common stock or any other of our securities or property, except in connection with exchanges to preserve our status as a REIT. Holders of depositary receipts evidencing convertible preferred stock may surrender the depositary receipts to the

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depository with instructions directing us to convert the class or series of preferred stock represented by the related depository shares into whole shares of common stock, other shares of a class or series of preferred stock or other securities if specified in the prospectus supplement relating to the offering of the depository shares. Upon receipt of these instructions, and payment of any applicable fees, we will convert or exchange the preferred stock using the same procedures we use for delivery of preferred stock. If a holder is converting only part of the depository shares represented by a depository receipt, new depository receipts will be issued for any depository shares that are not converted. We will not issue any fractional shares of our common stock upon conversion, and if a conversion would result in a fractional share being issued, we will pay in cash an amount equal to the value of the fractional interest based upon the closing price of our common stock on the last business day prior to the conversion.

Amendment and Termination of the Deposit Agreement

The form of depository receipt evidencing the depository shares which represent the preferred stock and any provision of the deposit agreement may at any time be amended by agreement between us and the preferred stock depository. However, any amendment that materially and adversely alters the rights of the holders of depository receipts or that would be materially and adversely inconsistent with the rights granted to the holders of the related class or series of preferred stock will not be effective unless that amendment has been approved by the existing holders of at least two thirds of the depository shares evidenced by the depository receipts then outstanding. No amendment may impair the right, subject to certain exceptions in the deposit agreement, of any holder of depository receipts to surrender any depository receipt with instructions to deliver to the holder the related class or series of preferred stock and all money and other property, if any, represented thereby, except in order to comply with law. Every holder of an outstanding depository receipt at the time any of those types of amendments becomes effective will be deemed, by continuing to hold that depository receipt, to consent and agree to that amendment and to be bound by the deposit agreement as amended thereby.

We may terminate the deposit agreement upon not less than 30 days' prior written notice to the preferred stock depository if:

termination is necessary to preserve our status as a REIT, or

a majority of each class or series of preferred stock subject to that deposit agreement consents to that termination, whereupon the preferred stock depository will deliver or make available to each holder of depository receipts, upon surrender of the depository receipts held by that holder, that number of whole or fractional shares of each class or series of preferred stock as are represented by the depository shares evidenced by those depository receipts together with any other property held by the preferred stock depository with respect to those depository receipts.

In addition, the deposit agreement will automatically terminate if:

all outstanding depository shares issued thereunder have been redeemed,

there has been a final distribution in respect of each class or series of preferred stock subject to that deposit agreement in connection with our liquidation, dissolution or winding up and the distribution has been distributed to the holders of depository receipts evidencing the depository shares representing that class or series of preferred stock, or

each share of preferred stock subject to that deposit agreement has been converted into our stock not so represented by depository shares.

Charges of Preferred Stock Depository

We will pay all transfer and other taxes and governmental charges arising solely from the existence of the deposit agreement. In addition, we will pay the fees and expenses the preferred stock depository

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incurs while performing its duties under the deposit agreement. However, holders of depositary receipts will pay the fees and expenses of the preferred stock depositary for any duties requested by those holders to be performed which are outside of those expressly provided for in the deposit agreement.

Resignation and Removal of Preferred Stock Depositary

The preferred stock depositary may resign at any time by delivering notice to us of its election to do so, and we may at any time remove the preferred stock depositary, upon the appointment of a successor preferred stock depositary. A successor preferred stock depositary must be appointed within sixty days after delivery of the notice of resignation or removal and must be a bank or trust company having its principal office in the United States and having a combined capital and surplus of at least \$50 million.

Miscellaneous

The preferred stock depositary will forward to holders of depositary receipts any reports and communications from us which are received by it with respect to the related preferred stock.

Neither we nor the preferred stock depositary will be liable if it is prevented from or delayed in, by law or any circumstances beyond its control, performing its obligations under the deposit agreement. Our obligations and those of the preferred stock depositary under the deposit agreement will be limited to performing our respective duties thereunder in good faith and without negligence (in the case of any action or inaction in the voting of a class or series of preferred stock represented by the depositary shares), gross negligence or willful misconduct, and neither we nor the preferred stock depositary will be obligated to prosecute or defend any legal proceeding in respect of any depositary receipts, depositary shares or shares of a class or series of preferred stock represented thereby unless satisfactory indemnity is furnished. We and the preferred stock depositary may rely on written advice of counsel or accountants, or information provided by persons presenting shares of a class or series of preferred stock represented thereby for deposit, holders of depositary receipts or other persons believed in good faith to be competent to give that information, and on documents believed in good faith to be genuine and signed by a proper party.

In the event the preferred stock depositary will receive conflicting claims, requests or instructions from any holders of depositary receipts, on the one hand, and us, on the other hand, the preferred stock depositary will be entitled to act on those claims, requests or instructions received from us.

DESCRIPTION OF DEBT SECURITIES

We may issue debt securities under one or more trust indentures to be executed by us and a specified trustee. The terms of the debt securities will include those stated in the indenture and those made a part of the indenture by reference to the Trust Indenture Act of 1939. The indentures will be qualified under the Trust Indenture Act.

The following description sets forth certain anticipated general terms and provisions of the debt securities to which any prospectus supplement may relate. The particular terms of the debt securities offered by any prospectus supplement (which terms may be different than those stated below) and the extent, if any, to which such general provisions may apply to the debt securities so offered will be described in the prospectus supplement relating to such debt securities. Accordingly, for a description of the terms of a particular issue of debt securities, investors should review both the prospectus supplement relating thereto and the following description. A form of the indenture (as discussed herein) has been filed as an exhibit to the registration statement of which this prospectus is a part.

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The debt securities will be our direct obligations and may be either senior debt securities or subordinated debt securities. The indebtedness represented by subordinated securities will be subordinated in right of payment to the prior payment in full of our senior debt (as defined in the applicable indenture).

Except as set forth in the applicable indenture and described in a prospectus supplement relating thereto, the debt securities may be issued without limit as to aggregate principal amount, in one or more series, secured or unsecured, in each case as established from time to time in or pursuant to authority granted by a resolution of the board of directors or as established in the applicable indenture. All debt securities of one series need not be issued at the same time and, unless otherwise provided, a series may be reopened, without the consent of the holders of the debt securities of such series, for issuance of additional debt securities of such series.

The prospectus supplement relating to any series of debt securities being offered will contain their specific terms, including, without limitation:

their title and whether they are senior securities or subordinated securities;

their initial aggregate principal amount and any limit on their aggregate principal amount;

the percentage of the principal amount at which they will be issued and, if other than 100% of the principal amount, the portion of the principal amount payable upon declaration of acceleration of their maturity;

the terms, if any, upon which they may be convertible into shares of our common stock or preferred stock and the terms and conditions upon which a conversion will be effected, including the initial conversion price or rate and the conversion period;

if convertible, the portion of the principal amount that is convertible into common stock or preferred stock, or the method by which any portion will be determined;

if convertible, any applicable limitations on the ownership or transferability of the common stock or preferred stock into which they are convertible;

the date or dates, or the method for determining the date or dates, on which the principal will be payable;

the rate or rates (which may be fixed or variable), or the method for determining the rate or rates, at which they will bear interest, if any;

the date or dates, or the method for determining the date or dates, from which any interest will accrue, the interest payment dates on which any interest will be payable, the regular record dates for the interest payment dates, or the method by which the date will be determined, the person to whom the interest will be payable, and the basis upon which interest will be calculated if other than that of a 360-day year of twelve 30-day months;

the place or places where the principal of (and premium, if any) and interest, if any, will be payable, where they may be surrendered for conversion or registration of transfer or exchange and where notices or demands to or upon us may be served;

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the period or periods within which, the price or prices at which and the terms and conditions upon which they may be redeemed, as a whole or in part, at our option, if we are to have the option;

our obligation, if any, to redeem, repay or purchase them pursuant to any sinking fund or analogous provision or at the option of a holder, and the period or periods within which, the price or prices at which and the terms and conditions upon which they will be redeemed, repaid or purchased, as a whole or in part, pursuant to this obligation;

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if other than U.S. dollars, the currency or currencies in which they are denominated and payable, which may be a foreign currency or units of two or more foreign currencies or a composite currency or currencies, and the related terms and conditions;

whether the payments of principal of (and premium, if any) or interest, if any, may be determined with reference to an index, formula or other method (which index, formula or method may, but need not be, based on a currency, currencies, currency unit or units or composite currencies) and the manner in which the amounts will be determined;

any additions to, modifications of or deletions from their terms with respect to the events of default or covenants set forth in the indenture;

any provisions for collateral security for their repayment;

whether they will be issued in certificated or book-entry form;

whether they will be in registered or bearer form and, if in registered form, the denominations if other than \$1,000 and any integral multiple thereof and, if in bearer form, the denominations and related terms and conditions;

the applicability, if any, of defeasance and covenant defeasance provisions of the applicable indenture;

whether and under what circumstances we will pay additional amounts as contemplated in the applicable indenture in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem them in lieu of making the payment; and

any other terms and any deletions from or modifications or additions to the applicable indenture.

The debt securities may provide for less than the entire principal amount thereof to be payable upon declaration of acceleration of the maturity thereof. Special federal income tax, accounting and other considerations applicable to debt securities will be described in the applicable prospectus supplement.

The applicable indenture may contain provisions that would limit our ability to incur indebtedness or that would afford holders of debt securities protection in the event of a highly leveraged or similar transaction involving us or in the event of a change of control.

Restrictions on ownership and transfer of our common stock and preferred stock are designed to preserve our status as a REIT and, therefore, may act to prevent or hinder a change of control. See "Restrictions on Transfer, Acquisition and Redemption of Shares." Investors should review the applicable prospectus supplement for information with respect to any deletions from, modifications of or additions to the events of default or covenants that are described below, including any addition of a covenant or other provision providing event risk or similar protection.

Merger, Consolidation or Sale

The applicable indenture will provide that we may consolidate with, or sell, lease or convey all or substantially all of our assets to, or merge with or into, any other corporation, provided that:

we are the continuing corporation, or the successor corporation (if other than IRC) formed by or resulting from any consolidation or merger or which has received the transfer of our assets will be organized and existing under U.S. or state law and expressly assumes payment of the principal of (and premium, if any), and interest on, all of the applicable debt

securities and the due and punctual performance and observance of all of the covenants and conditions contained in the applicable indenture;

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immediately after giving effect to the transaction and treating any indebtedness which becomes our obligation or the obligation of any subsidiary as a result thereof as having been incurred by us or such subsidiary at the time of the transaction, no event of default under the applicable indenture, and no event which, after notice or the lapse of time, or both, would become an event of default, will have occurred and be continuing; and

an officer's certificate and legal opinion covering these conditions will be delivered to the trustee.

Covenants

The applicable indenture will contain covenants requiring us to take certain actions and prohibiting us from taking certain actions. The covenants with respect to any series of debt securities will be described in the applicable prospectus supplement.

Events of Default, Notice and Waiver

Each indenture will describe specific "events of default" with respect to a series of debt securities issued under the indenture. These "events of default" are likely to include (with grace and cure periods):

our failure to pay any installment of interest;

our failure to pay their principal (or premium, if any) at their maturity;

our failure to make any required sinking fund payment;

our breach of any other covenant or warranty contained in the applicable indenture (other than a covenant added to the indenture solely for the benefit of a different series of debt securities); and

certain events of bankruptcy, insolvency or reorganization, or court appointment of a receiver, liquidator or trustee of us or any substantial part of our property.

If an event of default under any indenture with respect to debt securities of any series at the time outstanding occurs and is continuing, then the applicable trustee or the holders of not less than 25% of the principal amount of the outstanding debt securities of that series may declare the principal amount (or, if the debt securities of that series are original issue discount securities or indexed securities, such portion of the principal amount as may be specified in the terms thereof) of all the debt securities of that series to be due and payable immediately by written notice thereof to us (and to the applicable trustee if given by the holders). However, at any time after such a declaration of acceleration with respect to debt securities of such series (or of all debt securities then outstanding under any indenture, as the case may be) has been made, but before a judgment or decree for payment of the money due has been obtained by the applicable trustee, the holders of not less than a majority in principal amount of outstanding debt securities of such series (or of all debt securities then outstanding under the applicable indenture, as the case may be) may rescind and annul such declaration and its consequences if:

we shall have deposited with the applicable trustee all required payments of the principal of (and premium, if any) and interest on the debt securities of such series (or of all debt securities then outstanding under the applicable indenture, as the case may be), plus certain fees, expenses, disbursements and advances of the applicable trustee; and

all events of default, othent-family:Times New Roman" SIZE="3"> (7)

Noncurrent:

Equity securities

137,635 152,310 14,675

Corporate and government bonds

1,701 1,728 27

Other debt securities

18 18

139,354 154,056 14,702

**Yen (millions) March 31, 2012 Cost Fair value Net unrealized
holding gains
(losses)**

Current:

Other debt securities

473 483 10

473 483 10

Noncurrent:

Equity securities

171,412 225,433 54,021

Corporate and government bonds

1,689 1,711 22

Other debt securities

80 110 30

173,181 227,254 54,073

The carrying amounts of the Company's cost method investments totaled 23,698 million yen and 24,553 million yen at June 30 and March 31, 2012, respectively.

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(4) Leases

The Company has operating leases for certain land, buildings, machinery and equipment, and finite-lived intangible assets. Future minimum lease payments under operating leases at June 30, 2012 are as follows:

	Yen (millions)
Due within 1 year	45,290
Due after 1 year within 2 years	29,564
Due after 2 years within 3 years	14,179
Due after 3 years within 4 years	5,692
Due after 4 years within 5 years	3,668
Thereafter	13,706
 Total minimum lease payments	 112,099

(5) Long-Lived Assets

The Company periodically reviews the recorded value of its long-lived assets to determine if the future cash flows to be derived from these assets will be sufficient to recover the remaining recorded asset values. Impairment losses are included in other deductions in the consolidated statements of operations, and are not charged to segment profit.

The Company recognized impairment losses in the aggregate of 162 million yen of long-lived assets mainly related to Eco Solutions segment for the three months ended June 30, 2012.

The Company recognized impairment losses in the aggregate of 882 million yen of long-lived assets mainly related to Eco Solutions segment for the three months ended June 30, 2011.

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(6) Number of Common Shares

Number of common shares authorized and issued and number of treasury common shares as of June 30 and March 31, 2012 are as follows:

	Number of shares	
	June 30, 2012	March 31, 2012
Common stock:		
Authorized	4,950,000,000	4,950,000,000
Issued	2,453,053,497	2,453,053,497
Treasury stock	141,360,988	141,351,296

(7) Panasonic Corporation Shareholders' Equity per Share

Panasonic Corporation shareholders' equity per share as of June 30 and March 31, 2012 are as follows:

	Yen	
	June 30, 2012	March 31, 2012
Panasonic Corporation shareholders' equity per share	807.71	834.79

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(8) Net Income (Loss) per Share Attributable to Panasonic Corporation Common Shareholders

A reconciliation of the numerators and denominators of the basic net income (loss) per share attributable to Panasonic Corporation common shareholders computation for the three months ended June 30, 2012 and 2011 are as follows:

	Yen (millions)	
	Three months ended June 30	
	2012	2011
Net income (loss) attributable to Panasonic Corporation common shareholders	12,809	(30,351)
	Number of shares	
	Three months ended June 30	
	2012	2011
Average common shares outstanding	2,311,696,994	2,312,259,218
	Yen	
	Three months ended June 30	
	2012	2011
Net income (loss) per share attributable to Panasonic Corporation common shareholders:		
Basic	5.54	(13.13)

Diluted net income (loss) per share attributable to Panasonic Corporation common shareholders has been omitted because the Company did not have potentially dilutive common shares that were outstanding for the period.

(9) Cash Dividends

On May 11, 2012, the board of directors approved a year-end dividend of 5.0 yen per share, totaling 11,559 million yen on outstanding common stock as of March 31, 2012. The dividends, which became effective on June 8, 2012, were sourced out of retained earnings.

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(10) Equity

The change in the carrying amount of Panasonic Corporation shareholders' equity, noncontrolling interests and total equity in the consolidated balance sheets for the three months ended June 30, 2012 and 2011 are as follows:

	Yen (millions)		
	Three months ended June 30, 2012		
	Panasonic Corporation shareholders equity	Noncontrolling interests	Total equity
Balance at April 1, 2012	1,929,786	47,780	1,977,566
Dividends paid to Panasonic Corporation shareholders	(11,559)		(11,559)
Dividends paid to noncontrolling interests		(6,642)	(6,642)
Repurchase of common stock	(9)		(9)
Sale of treasury stock	2		2
Equity transactions with noncontrolling interests	(83)	(603)	(686)
Other		2,050	2,050
Comprehensive income (loss):			
Net income (loss)	12,809	(1,734)	11,075
Other comprehensive income (loss), net of tax:			
Translation adjustments	(47,163)	(3,584)	(50,747)
Unrealized holding losses of available-for-sale securities	(26,224)	(19)	(26,243)
Unrealized holding gains of derivative instruments	5,185		5,185
Pension liability adjustments	4,431	26	4,457
Total comprehensive loss	(50,962)	(5,311)	(56,273)
Balance at June 30, 2012	1,867,175	37,274	1,904,449

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	Yen (millions)		
	Three months ended June 30, 2011		
	Panasonic Corporation shareholders equity	Noncontrolling interests	Total equity
Balance at April 1, 2011	2,558,992	387,343	2,946,335
Dividends paid to Panasonic Corporation shareholders	(10,351)		(10,351)
Dividends paid to noncontrolling interests		(5,796)	(5,796)
Repurchase of common stock	(55)		(55)
Sale of treasury stock	256,037		256,037
Equity transactions with noncontrolling interests	16,472	(277,664)	(261,192)
Other		(165)	(165)
Comprehensive income (loss):			
Net loss	(30,351)	(2,273)	(32,624)
Other comprehensive income (loss), net of tax:			
Translation adjustments	(26,983)	(1,344)	(28,327)
Unrealized holding losses of available-for-sale securities	(1,810)	(76)	(1,886)
Unrealized holding gains of derivative instruments	1,459		1,459
Pension liability adjustments	2,770	15	2,785
Total comprehensive loss	(54,915)	(3,678)	(58,593)
Balance at June 30, 2011	2,766,180	100,040	2,866,220

Net income (loss) attributable to Panasonic Corporation and transfers (to) from the noncontrolling interests for the three months ended June 30, 2012 and 2011 are as follows:

	Yen (millions)	
	Three months ended June 30 2012	2011
Net income (loss) attributable to Panasonic Corporation	12,809	(30,351)
Transfers (to) from the noncontrolling interests:		
Decrease in capital surplus for purchase of additional shares in consolidated subsidiaries primarily for the purpose of conversion into wholly-owned subsidiaries	(83)	17,310
Total	(83)	17,310
	12,726	(13,041)

Change from net income (loss) attributable to Panasonic Corporation and Transfers (to) from the noncontrolling interests

On April 1, 2011, Panasonic Electric Works Co., Ltd. and SANYO Electric Co., Ltd. became wholly-owned subsidiaries through share exchange. The difference between the fair value of the shares of the Company delivered to the noncontrolling interests and the decrease in the carrying amount of the noncontrolling interests was recognized as an adjustment to capital surplus.

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(11) Supplementary Information

Included in other deductions for the three months ended June 30, 2012 and 2011 are as follows:

	Yen (millions)	
	Three months ended June 30 2012	2011
Expenses associated with the implementation of the early retirement programs in the domestic and overseas subsidiaries	392	3,571
Write-down of investment securities	596	133
Foreign exchange losses	7,137	4,229

Net loss related to the Great East Japan Earthquake included in other deductions for the three months ended June 30, 2011 amounted to 5,515 million yen, which was net of insurance recovery from loss due to the earthquake of 6,910 million yen.

Net gain from insurance recovery related to the flooding in Thailand included in other income for the three months ended June 30, 2012 amounted to 330 million yen, which was net of loss of 344 million yen incurred due to the flooding.

Net periodic benefit cost for the three months ended June 30, 2012 and 2011 are 14,938 million yen and 17,281 million yen, respectively.

326,000 million yen and 369,489 million yen of short-term bonds are included in Short-term debt, including current portion of long-term debt on the consolidated balance sheets as of June 30 and March 31, 2012, respectively.

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(12) Derivatives and Hedging Activities

The Company operates internationally, giving rise to significant exposure to market risks arising from changes in foreign exchange rates, interests rates and commodity prices. The Company assesses these risks by continually monitoring changes in these exposures and by evaluating hedging opportunities. Derivative financial instruments utilized by the Company to hedge these risks are comprised principally of foreign exchange contracts, interests rate swaps, cross currency swaps and commodity derivatives. The Company does not hold or issue derivative financial instruments for trading purposes.

The Company accounts for derivative instruments in accordance with ASC 815, Derivatives and Hedging. Amounts included in accumulated other comprehensive income (loss) at June 30, 2012 are expected to be recognized in earnings principally over the next twelve months. The maximum term over which the Company is hedging exposures to the variability of cash flows for foreign currency exchange risk is approximately five months.

The Company is exposed to credit risk in the event of non-performance by counterparties to the derivative contracts, but such risk is considered mitigated by the high credit rating of the counterparties.

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The fair values of derivative instruments at June 30, 2012 are as follows:

	Yen (millions)			
	Asset derivatives Consolidated balance sheet location	Fair value	Liability derivatives Consolidated balance sheet location	Fair value
Derivatives designated as hedging instruments under ASC 815:				
Foreign exchange contracts	Other current assets	4,178	Other current liabilities	(176)
Commodity futures	Other current assets	6	Other current liabilities	(955)
Total derivatives designated as hedging instruments under ASC 815		4,184		(1,131)
Derivatives not designated as hedging instruments under ASC 815:				
Foreign exchange contracts	Other current assets	3,185	Other current liabilities	(1,202)
Cross currency swaps			Other current liabilities	(2,477)
Commodity futures	Other current assets	8,395	Other current liabilities	(8,395)
Total derivatives not designated as hedging instruments under ASC 815		11,580		(12,074)
Total derivatives		15,764		(13,205)

The fair values of derivative instruments at March 31, 2012 are as follows:

	Yen (millions)			
	Asset derivatives Consolidated balance sheet location	Fair value	Liability derivatives Consolidated balance sheet location	Fair value
Derivatives designated as hedging instruments under ASC 815:				
Foreign exchange contracts	Other current assets	56	Other current liabilities	(10,209)
Commodity futures	Other current assets	1,599	Other current liabilities	(231)

Total derivatives designated as hedging instruments under ASC 815		1,655		(10,440)
Derivatives not designated as hedging instruments under ASC 815:				
Foreign exchange contracts	Other current assets	6,774	Other current liabilities	(1,524)
Cross currency swaps	Other current assets	304		
Commodity futures	Other current assets	979	Other current liabilities	(979)
Total derivatives not designated as hedging instruments under ASC 815		8,057		(2,503)
Total derivatives		9,712		(12,943)

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The effect of derivative instruments on the consolidated statement of operations for the three months ended June 30, 2012 is as follows:

	Yen (millions)	Amount of gain or (loss) recognized in operations
Hedging instruments in ASC 815 fair value hedging relationships	Location of gain or (loss) recognized in operations	
Commodity futures	Other income (deductions)	(36)
Total		(36)

	Yen (millions)	Amount of gain or (loss) recognized in operations
Related hedged items in ASC 815 fair value hedging relationships	Location of gain or (loss) recognized in operations	
Trade accounts receivable (payable)	Other income (deductions)	38
Total		38

Fair value hedges resulted in gains of 2 million yen of ineffectiveness.

	Yen (millions)		Amount of gain (loss) reclassified from accumulated OCI into operations (effective portion)
Derivatives in ASC 815 cash flow hedging relationships	Amount of gain (loss) recognized in OCI on derivative (effective portion)	Location of gain (loss) reclassified from accumulated OCI into operations (effective portion)	
Foreign exchange contracts	7,518	Other income (deductions)	(3,800)
Commodity futures	(1,558)	Cost of sales	867

Total	5,960	(2,933)
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	Yen (millions)	
Derivatives in ASC 815 cash flow hedging relationships	Location of gain (loss) recognized in operations on derivative (ineffective portion and amount excluded from effectiveness testing)	Amount of gain (loss) recognized in operations on derivative (ineffective portion and amount excluded from effectiveness testing)
Foreign exchange contracts	Other income (deductions)	157
Commodity futures		
Total		157

	Yen (millions)	
Derivatives not designated as hedging instruments under ASC 815	Location of gain (loss) recognized in operations on derivative	Amount of gain (loss) recognized in operations on derivative
Foreign exchange contracts	Other income (deductions)	3,747
Cross currency swaps	Other income (deductions)	(2,781)
Commodity futures	Other income (deductions)	0
Total		966

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The effect of derivative instruments on the consolidated statement of operations for the three months ended June 30, 2011 is as follows:

Hedging instruments in ASC 815 fair value hedging relationships	Yen (millions)		Amount of gain or (loss) recognized in operations
	Location of gain or (loss) recognized in operations		
Commodity futures	Other income (deductions)		(1,348)
Total			(1,348)

Related hedged items in ASC 815 fair value hedging relationships	Yen (millions)		Amount of gain or (loss) recognized in operations
	Location of gain or (loss) recognized in operations		
Trade accounts receivable (payable)	Other income (deductions)		1,702
Total			1,702

Fair value hedges resulted in gains of 354 million yen of ineffectiveness.

Derivatives in ASC 815 cash flow hedging relationships	Yen (millions)		Amount of gain (loss) reclassified from accumulated OCI into operations (effective portion)
	Amount of gain (loss) recognized in OCI on derivative (effective portion)	Location of gain (loss) reclassified from accumulated OCI into operations (effective portion)	
Foreign exchange contracts	3,087	Other income (deductions)	(2,376)
Commodity futures	(2,698)	Cost of sales	1,196
Total	389		(1,180)

Yen (millions)

Derivatives in ASC 815 cash flow hedging relationships	Location of gain (loss) recognized in operations on derivative (ineffective portion and amount excluded from effectiveness testing)	Amount of gain (loss) recognized in operations on derivative (ineffective portion and amount excluded from effectiveness testing)
Foreign exchange contracts	Other income (deductions)	208
Commodity futures		
Total		208

Derivatives not designated as hedging instruments under ASC 815	Yen (millions) Location of gain (loss) recognized in operations on derivative	Amount of gain (loss) recognized in operations on derivative
Foreign exchange contracts	Other income (deductions)	2,996
Cross currency swaps	Other income (deductions)	808
Interest rate swaps	Other income (deductions)	0
Commodity futures	Other income (deductions)	0
Total		3,804

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(13) Fair Value

ASC 820, Fair Value Measurements and Disclosures defines fair value and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets.
- Level 2 Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Unobservable inputs for the asset or liability.

Assets and liabilities measured at fair value on a recurring basis

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30 and March 31, 2012:

	Yen (millions)			
	June 30, 2012			
	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-sale securities:				
Equity securities	152,310			152,310
Corporate and government bonds		1,728		1,728
Other debt securities		484		484
Total available-for-sale securities	152,310	2,212		154,522
Derivatives:				
Foreign exchange contracts		7,363		7,363
Commodity futures	198	8,203		8,401
Total derivatives	198	15,566		15,764
Total	152,508	17,778		170,286

Liabilities:			
Derivatives:			
Foreign exchange contracts		(1,378)	(1,378)
Cross currency swaps		(2,477)	(2,477)
Commodity futures	(9,158)	(192)	(9,350)
Total derivatives	(9,158)	(4,047)	(13,205)
Total	(9,158)	(4,047)	(13,205)

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	Yen (millions)			
	March 31, 2012			
	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-sale securities:				
Equity securities	225,433			225,433
Corporate and government bonds		1,711		1,711
Other debt securities		593		593
Total available-for-sale securities	225,433	2,304		227,737
Derivatives:				
Foreign exchange contracts		6,830		6,830
Cross currency swaps		304		304
Commodity futures	2,056	522		2,578
Total derivatives	2,056	7,656		9,712
Total	227,489	9,960		237,449
Liabilities:				
Derivatives:				
Foreign exchange contracts		(11,733)		(11,733)
Commodity futures	(753)	(457)		(1,210)
Total derivatives	(753)	(12,190)		(12,943)
Total	(753)	(12,190)		(12,943)

The Company's existing marketable equity securities and commodity futures are included in Level 1, which are valued using an unadjusted quoted market price in active markets with sufficient volume and frequency of transactions.

Level 2 available-for-sale securities include all debt securities, which are valued using inputs other than quoted prices that are observable. Level 2 derivatives including foreign exchange contracts and commodity futures are valued using quotes obtained from brokers, which are periodically validated by pricing models using observable market inputs, such as foreign currency exchange rates and market prices for commodity futures.

Assets and liabilities measured at fair value on a nonrecurring basis

For the three months ended June 30, 2012 and 2011, there were no circumstances that required any significant assets and liabilities that are not measured at fair value on an ongoing basis to be measured and recognized at fair value.

The fair value of financial instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Available-for-sale securities

The carrying amount is equal to the fair value which is estimated based on quoted market prices. The fair value is also described in Note 3.

Long-term debt, including current portion

The fair value of long-term debt is estimated based on quoted market prices or the present value of future cash flows using appropriate current discount rates. The Company classified long-term debt in Level 2.

Derivative financial instruments

The fair value of derivative financial instruments is estimated based on unadjusted market prices or quotes obtained from brokers, which are periodically validated by pricing models using observable inactive market inputs. The fair value is equal to the carrying amount and also described in Note 12.

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Advances

The fair value of advances is estimated based on the present value of future cash flows using appropriate current discount rates. The Company classified advances in Level 2. The following table excludes advances for which carrying amount approximates fair value.

Financial instruments other than listed above (such as Cash and cash equivalents, Time deposits, Trade receivables, Short-term debt, Trade payables, Accrued expenses)

The carrying amount approximates fair value because of the short maturity of these instruments. The following table excludes these financial instruments.

	Yen (millions)			
	June 30, 2012		March 31, 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivatives:				
Assets:				
Available-for-sale securities	154,522	154,522	227,737	227,737
Liabilities:				
Long-term debt, including current portion	(1,142,248)	(1,161,363)	(1,157,393)	(1,175,868)
Derivatives:				
Assets:				
Foreign exchange contracts	7,363	7,363	6,830	6,830
Cross currency swaps			304	304
Commodity futures:	8,401	8,401	2,578	2,578
Liabilities:				
Foreign exchange contracts	(1,378)	(1,378)	(11,733)	(11,733)
Cross currency swaps	(2,477)	(2,477)		
Commodity futures:	(9,350)	(9,350)	(1,210)	(1,210)

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgments and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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(14) Commitments and Contingent Liabilities

The Company provides guarantees to third parties mainly on bank loans provided to associated companies and customers. The guarantees are made to enhance their credit. For each guarantee provided, the Company is required to perform under the guarantee if the guaranteed party defaults on a payment. Also, the Company sold certain trade receivables to independent third parties, some of which are with recourse. If the collectibility of those receivables with recourse becomes doubtful, the Company is obligated to assume the liabilities. At June 30, 2012, the maximum amount of undiscounted payments the Company would have to make in the event of default was 31,588 million yen. The carrying amount of the liabilities recognized for the Company's obligations as a guarantor under those guarantees at June 30, 2012 was immaterial.

In connection with the sale and lease back of certain machinery and equipment, the Company guarantees a specific value of the leased assets. For each guarantee provided, the Company is required to perform under the guarantee if certain conditions are met during or at the end of the lease term. At June 30, 2012, the maximum amount of undiscounted payments the Company would have to make in the event that these conditions were met was 8,960 million yen. The carrying amount of the liabilities recognized for the Company's obligations as guarantors under those guarantees at June 30, 2012 was 3,083 million yen.

The Company and certain subsidiaries are under the term of leasehold interest contracts for land of domestic factories and have obligations for restitution on their leaving. The asset retirement obligations cannot be reasonably estimated because the durations of use of the leased assets are not specified and there are no plans to undertake relocation in the future. Therefore, the Company did not recognize asset retirement obligations.

The Company and certain of its subsidiaries are subject to a number of legal proceedings including civil litigations related to tax, products or intellectual properties, or governmental investigations.

Since November 2007, the Company and MT Picture Display Co., Ltd. (MTPD), a subsidiary of the Company, are subject to investigations by government authorities, including the Japan Fair Trade Commission, the U.S. Department of Justice and the European Commission, in respect of alleged antitrust violations relating to cathode ray tubes (CRTs). Subsequent to these actions by the authorities, a number of class action lawsuits have been filed in the U.S. and Canada against the Company and certain of its subsidiaries. In fiscal 2010, the Japan Fair Trade Commission issued a cease and desist order against MTPD and assessed a fine against its three subsidiaries in South East

Asia, but each named company filed for a hearing to challenge the orders which is currently subject to proceedings. Since February 2009, the Company is subject to investigations by government authorities, including the U.S. Department of Justice and the European Commission, in respect to alleged antitrust violations relating to compressors for refrigerator use. Subsequent to these actions by the authorities, a number of class action lawsuits have been filed in the U.S. and Canada against the Company and certain of its subsidiaries. The Company has paid a fine to the U.S. Department of Justice and the Competition Bureau Canada in fiscal 2011 to resolve alleged antitrust violations relating to compressors for refrigerator use. In fiscal 2012, the Company received notification of a European Commission Decision and accepted a fine on refrigerator compressors. The Company has been cooperating with the various governmental investigations. Depending upon the outcome of these different proceedings, the Company and certain of its subsidiaries may be subject to an uncertain amount of fines, and accordingly the Company has accrued for certain probable and reasonable estimated amounts for the fines. The ability to predict the outcome of these actions and proceedings is difficult to assess given that certain of the investigations and legal proceedings are still at an early stage, present novel legal theories, involve a large number of parties or taking place in jurisdictions outside of Japan where the laws are complex or unclear. Accordingly, the Company is unable to estimate the losses or range of losses for the actions and proceedings where there is only a reasonable possibility that a loss exceeding amounts already recognized may have been incurred.

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Other than those above, there are a number of legal actions against the Company and certain subsidiaries. Management is of the opinion that damages, if any, resulting from these actions will not have a material effect on the Company's consolidated financial statements.

(15) Segment Information

In accordance with the provisions of ASC 280, Segment Reporting, the segments reported below are the components of the Company for which separate financial information is available that is evaluated regularly by the chief operating decision maker of the Company in deciding how to allocate resources and in assessing performance.

Segments correspond to categories of activity classified primarily by markets, products and brand names. The Company restructured its Group organization on January 1, 2012 resulting in eight reportable segments. AVC Networks provides imaging equipment such as flat-panel TVs, AVC network equipment including Blu-ray Disc recorders, digital cameras and PCs as well as in-flight entertainment systems and other business-use AV equipment; Appliances delivers the homemaking, cooking, beauty and grooming, health, air-conditioning equipment, and cooling and heating equipment; Systems & Communications delivers products and services of the system networks and mobile communications; Eco Solutions is comprised of four business groups, which are the lighting business, the energy systems business, the housing systems business, and the environmental systems business; Automotive Systems operates car-use-multimedia-related equipment, eco-car-related equipment and electrical component; Industrial Devices covers a wide range of products such as electronic components, semiconductors and optical devices; Energy develops a broad energy-based business including solar photovoltaic systems and lithium-ion batteries; and Other consists of Healthcare Company, Manufacturing Solutions Company, PanaHome Corporation and others.

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By Segment:

Segment information for the three months ended June 30, 2011 has been reclassified to conform to the presentation for the three months ended June 30, 2012. Information by segment for each period is shown in the tables below:

	Yen (millions)	
	Three months ended June 30	
	2012	2011
Sales:		
AVC Networks:		
Customers	304,194	385,330
Intersegment	55,461	64,536
Total	359,655	449,866
Appliances:		
Customers	333,317	303,730
Intersegment	98,087	114,024
Total	431,404	417,754
System & Communications:		
Customers	109,670	133,864
Intersegment	54,805	47,704
Total	164,475	181,568
Eco Solutions:		
Customers	293,113	296,368
Intersegment	62,054	60,170
Total	355,167	356,538
Automotive Systems:		
Customers	186,883	104,461
Intersegment	3,844	7,266
Total	190,727	111,727
Industrial Devices:		
Customers	277,369	303,585
Intersegment	60,882	60,395
Total	338,251	363,980
Energy:		

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Customers	83,423	78,650
Intersegment	59,221	66,490
Total	142,644	145,140
Other:		
Customers	226,529	323,560
Intersegment	116,982	160,915
Total	343,511	484,475
Eliminations	(511,336)	(581,500)
Consolidated total	1,814,498	1,929,548

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	Yen (millions)	
	Three months ended June 30	
	2012	2011
Segment profit (loss):		
AVC Networks	7,400	(3,824)
Appliances	37,375	34,893
System & Communications	(8,310)	(9,907)
Eco Solutions	3,872	6,115
Automotive Systems	4,229	(3,644)
Industrial Devices	7,346	(2,667)
Energy	119	(7,487)
Other	4,113	3,864
Corporate and eliminations	(17,541)	(11,767)
 Total segment profit	 38,603	 5,576
 Interest income	 2,803	 3,426
Dividends received	2,228	2,815
Other income	24,208	3,752
Interest expense	(5,626)	(7,345)
Other deductions	(24,391)	(25,657)
 Consolidated income (loss) before income taxes	 37,825	 (17,433)

Corporate expenses include certain corporate R&D expenditures and general corporate expenses.

By Geographical Area:

Sales attributed to countries based upon the customer's location are as follows:

	Yen (millions)	
	Three months ended June 30	
	2012	2011
Sales:		
Japan	922,144	967,596
North and South America	244,020	240,140
Europe	168,121	197,207
Asia and Others	480,213	524,605

Consolidated total	1,814,498	1,929,548
United States included in North and South America	206,296	201,995
China included in Asia and Others	252,708	270,782

There are no individually material countries of which should be separately disclosed in North and South America, Europe, and Asia and Others, except for the United States of America and China on sales.

Transfers between business segments or geographic segments are made at arms-length prices. There is no material concentration of sales to a single external major customer for the three months ended June 30, 2012 and 2011.