REALTY INCOME CORP
Form 10-K
February 14, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2012

Commission File Number 1-13374

REALTY INCOME CORPORATION

(Exact name of registrant as specified in its charter)

Maryland	**33-0580106**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)

600 La Terraza Boulevard, Escondido, California 92025-3873

(Address of Principal Executive Offices)

Registrant s telephone number, including area code: (760) 741-2111

Securities registered pursuant to Section 12 (b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, $0.01 Par Value	New York Stock Exchange
Class E Preferred Stock, $0.01 Par Value	New York Stock Exchange
Class F Preferred Stock, $0.01 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12 (g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES x NO o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

At June 30, 2012, the aggregate market value of the Registrant s shares of common stock, $0.01 par value, held by non-affiliates of the Registrant was $5.5 billion based upon the last reported sale price of $41.77 per share on the New York Stock Exchange on June 30, 2012, the last business day of the Registrant s most recently completed second fiscal quarter.

At February 1, 2013, the number of shares of common stock outstanding was 178,921,596, the number of the number of shares of Class E preferred stock outstanding was 8,800,000 and the number of shares of Class F preferred stock outstanding was 16,350,000.

DOCUMENTS INCORPORATED BY REFERENCE

Part III, Items 10, 11, 12, 13 and 14 incorporate by reference certain specific portions of the definitive Proxy Statement for Realty Income Corporation s Annual Meeting to be held on May 7, 2013, to be filed pursuant to Regulation 14A. Only those portions of the proxy statement which are specifically incorporated by reference herein shall constitute a part of this annual report.

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REALTY INCOME CORPORATION

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PART I

Item 1: Business

THE COMPANY

Realty Income Corporation, The Monthly Dividend Company®, or Realty Income, is a publicly traded real estate company with the primary business objective of generating dependable monthly cash dividends from a consistent and predictable level of cash flow from operations. Our monthly distributions or dividends are supported by the cash flow from our portfolio of properties leased to commercial enterprises. We have in-house acquisition, leasing, legal, credit research, real estate research, portfolio management and capital markets expertise. Over the past 44 years, Realty Income and its predecessors have been acquiring and owning freestanding commercial properties that generate rental revenue under long-term lease agreements.

In 1994, Realty Income was listed on the New York Stock Exchange, or NYSE, and we elected to be taxed as a real estate investment trust, or REIT, requiring us to distribute dividends to our stockholders aggregating at least 90% of our taxable income (excluding net capital gains).

We seek to increase distributions to stockholders and funds from operations, or FFO, per share through both active portfolio management and the acquisition of additional properties.

Generally, our portfolio management efforts seek to achieve:

- Contractual rent increases on existing leases;
- Rent increases at the termination of existing leases, when market conditions permit; and
- The active management of our property portfolio, including re-leasing vacant properties, and selectively selling properties, thereby mitigating our exposure to certain tenants and markets.

In acquiring additional properties, our strategy is primarily to acquire properties that are:

- Freestanding, single-tenant locations;
- Leased to regional and national commercial enterprises; and

- Leased under long-term, net-lease agreements.

At December 31, 2012, we owned a diversified portfolio:

- Of 3,013 properties;
- With an occupancy rate of 97.2%, or 2,929 properties leased and only 84 properties available for lease;
- Leased to 150 different commercial enterprises doing business in 44 separate industries;
- Located in 49 states;
- With over 37.6 million square feet of leasable space; and
- With an average leasable space per property of approximately 12,500 square feet.

Of the 3,013 properties in the portfolio, 2,996, or 99.4%, are single-tenant properties, and the remaining 17 are multi-tenant properties. At December 31, 2012, of the 2,996 single-tenant properties, 2,913 were leased with a weighted average remaining lease term (excluding rights to extend a lease at the option of the tenant) of approximately 11.0 years.

We typically acquire properties under long-term leases with regional and national retailers and other commercial enterprises. Our acquisition and investment activities generally focus on businesses providing goods and services that satisfy basic consumer and business needs. In general, our net-lease agreements:

- Are for initial terms of 10 to 20 years;
- Require the tenant to pay minimum monthly rent and property operating expenses (taxes, insurance and maintenance); and
- Provide for future rent increases based on increases in the consumer price index (typically subject to ceilings), additional rent calculated as a percentage of the tenants gross sales above a specified level, or fixed increases.

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We commenced operations as a REIT on August 15, 1994 through the merger of 25 public and private real estate limited partnerships. Each of the partnerships was formed between 1970 and 1989 for the purpose of acquiring and managing long-term, net-leased properties.

Our ten senior officers owned 0.7% of our outstanding common stock with a market value of $56.3 million at February 1, 2013. Our directors and ten senior officers, as a group, owned 0.9% of our outstanding common stock with a market value of $67.0 million at February 1, 2013.

Our common stock is listed on the NYSE under the ticker symbol O with a cusip number of 756109-104. Our central index key number is 726728.

Our 6.75% Monthly Income Class E Cumulative Redeemable Preferred Stock is listed on the NYSE under the ticker symbol OprE with a cusip number of 756109-708.

Our 6.625% Monthly Income Class F Cumulative Redeemable Preferred Stock is listed on the NYSE under the ticker symbol OprF with a cusip number of 756109-807.

In February 2013, we had 97 employees as compared to 83 employees in February 2012.

We maintain a corporate website at www.realtyincome.com. On our website we make available, free of charge, copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, Form 3s, Form 4s, Form 5s, current reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we electronically file these reports with the Securities and Exchange Commission, or SEC. None of the information on our website is deemed to be part of this report.

RECENT DEVELOPMENTS

Increases in Monthly Dividends to Common Stockholders

We have continued our 44-year policy of paying monthly dividends. Monthly dividends per common share increased by $0.0003125 in April 2012 to $0.1458125, increased by $0.0003125 in July 2012 to $0.146125, increased by $0.005 in September 2012 to $0.151125, increased by $0.0003125 in October 2012 to $0.1514375, increased by $0.0003125 in January 2013 to $0.15175, and increased by $0.0291667 in February 2013 to $0.1809167. The increase in January 2013 was our 61st consecutive quarterly increase and the increase in February 2013 was our 70th increase in the amount of our dividend since our listing on the NYSE in 1994. In 2012, we paid three monthly cash dividends per common share in the amount of $0.1455, three in the amount of $0.1458125, two in the amount of $0.146125, one in the amount of $0.151125, and three in the amount of $0.1514375, totaling $1.771625. In December 2012, we declared dividends of $0.15175 per share, which were paid in January 2013. In January 2013 and February 2013, we declared dividends of $0.1809167 per share, which will be paid in February 2013 and March 2013, respectively.

The monthly dividend of $0.1809167 per share represents a current annualized dividend of $2.171 per share, and an annualized dividend yield of approximately 5.0% based on the last reported sale price of our common stock on the NYSE of $43.40 on February 1, 2013. Although we expect to continue our policy of paying monthly dividends, we cannot guarantee that we will maintain our current level of dividends, that we will continue our pattern of increasing dividends per share, or what our actual dividend yield will be in any future period.

Acquisitions During 2012

During 2012, Realty Income invested $1.16 billion in real estate, acquiring 423 properties, and properties under development, with an initial weighted average contractual lease rate of 7.2%. The majority of the lease revenue from these properties is generated from investment grade tenants. These 423 properties, and properties under development, are located in 37 states, will contain over 10.5 million leasable square feet, and are 100% leased with an average lease term of 14.6 years. The tenants of the 423 properties acquired operate in 23 industries: aerospace, apparel stores, automotive collision services, automotive parts, consumer appliances, consumer goods, convenience stores, crafts and novelties, diversified industrial, dollar stores, drug stores, equipment services, food processing, health and fitness, insurance, machinery, motor vehicle dealerships, packaging,

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paper, restaurants quick service, theaters, transportation services, and wholesale clubs. None of the investments in these properties caused any one tenant to be 10% or more of our total assets at December 31, 2012.

The initial weighted average contractual lease rate is computed as estimated contractual net operating income (in a net-leased property that is equal to the aggregate base rent or, in the case of a property under development, the estimated base rent) for the first year of each lease, divided by the estimated total cost of the properties. Since it is possible that a tenant could default on the payment of contractual rent, we cannot provide assurance that the actual return on the funds invested will remain at the percentages listed above.

January 2013 Acquisition of American Realty Capital Trust, Inc.

On January 22, 2013, we completed our acquisition of American Realty Capital Trust, Inc., or ARCT, in a transaction valued at approximately $3.1 billion. Pursuant to the terms and subject to the conditions set forth in the Agreement and Plan of Merger dated as of September 6, 2012, as amended on January 6, 2013, at the effective time of the acquisition, each outstanding share of ARCT common stock was converted into the right to receive a combination of (i) $0.35 in cash and (ii) 0.2874 shares of our common stock. In connection with the acquisition, at the closing we terminated and repaid the amounts then outstanding of approximately $552.9 million under ARCT s revolving credit facility and term loan. In conjunction with our acquisition of ARCT in January 2013, we assumed approximately $516.3 million of mortgages payable. With this acquisition, we added 515 properties to our portfolio. Through 2012, we have incurred $7.9 million of merger costs. We anticipate that the total merger costs will be approximately $19 million.

In January 2013, in connection with our acquisition of ARCT, we entered into a $70 million senior unsecured term loan maturing January 21, 2018. Borrowing under the term loan bears interest at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 1.20%. In conjunction with this term loan, we also acquired an interest rate swap which essentially fixes our per annum interest rate on the term loan at 2.15%.

Portfolio Discussion

Leasing Results

At December 31, 2012, we had 84 properties available for lease out of 3,013 properties in our portfolio, which represents a 97.2% occupancy rate. Since December 31, 2011, when we reported 87 properties available for lease and a 96.7% occupancy rate, we:

- Leased 47 properties;
- Sold 20 properties available for lease; and
- Have 64 new properties available for lease.

During 2012, 124 properties with expiring leases were leased to either existing or new tenants. The rent on these leases was $10.6 million, as compared to the previous rent on these same properties of $10.9 million. At December 31, 2012, our average annualized rental revenue was approximately $14.56 per square foot on the 2,929 leased properties in our portfolio. At December 31, 2012, we classified 14 properties with a carrying amount of $19.2 million as held for sale on our balance sheet.

Investments in Existing Properties

In 2012, we capitalized costs of $6.6 million on existing properties in our portfolio, consisting of $1.62 million for re-leasing costs and $4.93 million for building and tenant improvements. In 2011, we capitalized costs of $4.2 million on existing properties in our portfolio, consisting of $1.7 million for re-leasing costs and $2.5 million for building and tenant improvements.

As part of our re-leasing costs, we pay leasing commissions and sometimes provide tenant rent concessions. Leasing commissions are paid based on the commercial real estate industry standard and any rent concessions provided are minimal. We do not consider the collective impact of the leasing commissions or tenant rent concessions to be material to our financial position or results of operations.

The majority of our building and tenant improvements are related to roof repairs, HVAC improvements, and parking lot resurfacing and replacements. It is not customary for us to offer significant tenant improvements on our properties as tenant incentives. The amounts of our capital expenditures can vary significantly, depending on the rental market, tenant credit worthiness, and the willingness of tenants to pay higher rents over the terms of the leases.

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Note Issuance

In October 2012, we issued $350 million in aggregate principal amount of 2.00% senior unsecured notes due January 2018, or the 2018 Notes, and $450 million in aggregate principal amount of 3.25% senior unsecured notes due October 2022, or the 2022 Notes. The price to the investors for the 2018 Notes was 99.910% of the principal amount for an effective yield of 2.017% per annum. The price to the investors for the 2022 Notes was 99.382% of the principal amount for an effective yield of 3.323% per annum. The total net proceeds of $790.1 million from these offerings were used to repay all outstanding borrowings under our acquisition credit facility, and the remaining proceeds were used for general corporate purposes, including additional property acquisitions.

Universal Shelf Registration

In October 2012, we filed a shelf registration statement with the SEC, which is effective for a term of three years and will expire in October 2015. This replaces our prior shelf registration statement. In accordance with SEC rules, the amount of securities to be issued pursuant to this shelf registration statement was not specified when it was filed and there is no specific dollar limit. The securities covered by this registration statement include (1) common stock, (2) preferred stock, (3) debt securities, (4) depositary shares representing fractional interests in shares of preferred stock, (5) warrants to purchase debt securities, common stock, preferred stock or depositary shares, and (6) any combination of these securities. We may periodically offer one or more of these securities in amounts, prices, and on terms to be announced when and if the securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of any offering.

Environmental Insurance Policies

In July 2012, we entered into new ten-year environmental primary and excess insurance policies that expire in July 2022. The limits on our new primary policy are $10 million per occurrence and $60 million in the aggregate. The limits on the excess policy are $5 million per occurrence and $10 million in the aggregate. Therefore, the primary and excess ten-year policies together provide a total limit of $15 million per occurrence and $70 million in the aggregate.

Authorized Shares

In June 2012, our stockholders approved an increase in the number of authorized shares of our common stock to 370,100,000 and the number of authorized shares of our preferred stock to 69,900,000.

$1 Billion Acquisition Credit Facility

In May 2012, we entered into a new $1 billion unsecured acquisition credit facility, which replaced our $425 million acquisition credit facility that was scheduled to expire in March 2014. The initial term of the new credit facility expires in May 2016 and includes, at our option, a one-year extension. Under this new credit facility, our current investment grade credit ratings provide for financing at LIBOR plus 1.075% with a facility commitment fee of 0.175%, for all-in drawn pricing of 1.25% over LIBOR. The borrowing rate is not subject to an interest rate floor or ceiling. We also have other interest rate options available to us. Our credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation.

2012 Incentive Award Plan

In March 2012, our Board of Directors adopted, and in May 2012, our stockholders approved the Realty Income Corporation 2012 Incentive Award Plan, or the 2012 Plan, to enable us to attract and retain the services of directors, employees and consultants considered essential to our long-term success. The 2012 Plan offers our directors, employees and consultants an opportunity to own stock in Realty Income or rights that will reflect our growth, development and financial success. The 2012 Plan replaced the 2003 Incentive Award Plan of Realty Income Corporation (as amended and restated February 21, 2006), which was set to expire in March 2013.

Issuance and Redemption of Preferred Stock

In February 2012, we issued 14.95 million shares of 6.625% Monthly Income Class F Cumulative Redeemable Preferred Stock at a price of $25.00 per share, including 1.95 million shares purchased by the underwriters upon the exercise of their overallotment option. In April 2012, we issued an additional 1.4 million shares of our Class F preferred stock at a price of $25.2863 per share. Of the aggregate net proceeds of approximately $395.4 million from these issuances, $127.5 million was used to redeem all of our outstanding 7.375% Class D Cumulative Redeemable Preferred Stock and the balance was used to repay borrowings under our credit facility. The dividend rate difference of 0.75% between the Class D and Class F preferred stock provides us

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savings of $956,000 annually on the Class D redemption amount of $127.5 million. Beginning February 15, 2017, the Class F preferred shares are redeemable at our option for $25.00 per share. The initial dividend of $0.1702257 per share was paid on March 15, 2012, and covered 37 days. Thereafter, dividends of $0.138021 per share will be paid monthly, in arrears.

We redeemed all of the 5.1 million shares of our 7.375% Monthly Income Class D Cumulative Redeemable Preferred Stock in March 2012 for $25.00 per share, plus accrued dividends. We incurred a charge of $3.7 million, representing the Class D preferred stock original issuance costs that we paid in 2004.

Net Income Available to Common Stockholders

Net income available to common stockholders was $114.5 million in 2012, compared to $132.8 million in 2011, a decrease of $18.3 million. On a diluted per common share basis, net income was $0.86 in 2012, as compared to $1.05 in 2011. Net income available to common stockholders for 2012 includes $7.9 million of merger-related costs, which represents $0.06 on a diluted per common share basis, for the acquisition of ARCT. Additionally, net income available to common stockholders in 2012 includes a $3.7 million charge for the excess of redemption value over carrying value of the shares of our Class D preferred stock, which represents $0.03 on a diluted per common share basis.

The calculation to determine net income available to common stockholders includes gains from the sale of properties and excess real estate. The amount of gains varies from period to period based on the timing of property sales and can significantly impact net income available to common stockholders.

Gains from the sale of properties during 2012 were $9.9 million, as compared to gains from the sale of properties and excess real estate of $5.7 million during 2011.

Funds from Operations Available to Common Stockholders (FFO) and Normalized Funds from Operations Available to Common Stockholders (Normalized FFO)

In 2012, our FFO increased by $11.5 million, or 4.6%, to $260.9 million versus $249.4 million in 2011. On a diluted per common share basis, FFO was $1.96 in 2012, compared to $1.98 in 2011, a decrease of $0.02, or 1.0%. FFO in 2012 includes $7.9 million of merger-related costs, which represents $0.06 on a diluted per common share basis, and includes a $3.7 million charge for the excess of redemption value over carrying value of the shares of our Class D preferred stock, which represents $0.03 on a diluted per common share basis.

We define normalized FFO as FFO excluding the merger-related costs for our acquisition of ARCT. In 2012, our normalized FFO increased by $19.4 million, or 7.8%, to $268.8 million, versus $249.4 million in 2011. On a diluted common share basis, normalized FFO was $2.02 in 2012, compared to $1.98 in 2011, an increase of $0.04, or 2.0%.

See our discussion of FFO and normalized FFO (which are not financial measures under U.S. generally accepted accounting principles, or GAAP), in the section entitled Management s Discussion and Analysis of Financial Condition and Results of

Operations in this annual report, which includes a reconciliation of net income available to common stockholders to FFO and normalized FFO.

Adjusted Funds from Operations Available to Common Stockholders (AFFO)

In 2012, our AFFO increased by $20.8 million, or 8.2%, to $274.2 million versus $253.4 million in 2011. On a diluted per common share basis, AFFO was $2.06 in 2012, compared to $2.01 in 2011, an increase of $0.05, or 2.5%.

See our discussion of AFFO (which is not a financial measure under GAAP), in the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations in this annual report, which includes a reconciliation of net income available to common stockholders to FFO, normalized FFO and AFFO.

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DIVIDEND POLICY

Distributions are paid monthly to our common, Class E preferred and Class F preferred stockholders if, and when, declared by our Board of Directors.

In order to maintain our tax status as a REIT for federal income tax purposes, we generally are required to distribute dividends to our stockholders aggregating annually at least 90% of our taxable income (excluding net capital gains), and we are subject to income tax to the extent we distribute less than 100% of our taxable income (including net capital gains). In 2012, our cash distributions to preferred and common stockholders totaled $275.8 million, or approximately 131.4% of our estimated taxable income of $209.9 million. Our estimated taxable income reflects non-cash deductions for depreciation and amortization. Our estimated taxable income is presented to show our compliance with REIT dividend requirements and is not a measure of our liquidity or operating performance. We intend to continue to make distributions to our stockholders that are sufficient to meet this dividend requirement and that will reduce or eliminate our exposure to income taxes. Furthermore, we believe our funds from operations are more than sufficient to support our current level of cash distributions to our stockholders. Our 2012 cash distributions to common stockholders totaled $236.3 million, representing 86.2% of our adjusted funds from operations available to common stockholders of $274.2 million.

The Class E preferred stockholders receive cumulative distributions at a rate of 6.75% per annum on the $25.00 per share liquidation preference (equivalent to $1.6875 per annum per share). The Class F preferred stockholders receive cumulative distributions at a rate of 6.625% per annum on the $25.00 per share liquidation preference (equivalent to $1.65625 per annum per share). Dividends on our Class E and Class F preferred stock are current.

Future distributions will be at the discretion of our Board of Directors and will depend on, among other things, our results of operations, FFO, normalized FFO, AFFO, cash flow from operations, financial condition and capital requirements, the annual dividend requirements under the REIT provisions of the Internal Revenue Code of 1986, as amended, our debt service requirements and any other factors our Board of Directors may deem relevant. In addition, our credit facility contains financial covenants that could limit the amount of distributions paid by us in the event of a default, and which prohibit the payment of distributions on the common or preferred stock in the event that we fail to pay when due (subject to any applicable grace period) any principal or interest on borrowings under our credit facility.

Distributions of our current and accumulated earnings and profits for federal income tax purposes generally will be taxable to stockholders as ordinary income, except to the extent that we recognize capital gains and declare a capital gains dividend, or that such amounts constitute   qualified dividend income   subject to a reduced rate of tax. The maximum tax rate of non-corporate taxpayers for   qualified dividend income   is generally 20% (15% for 2012 dividends). In general, dividends payable by REITs are not eligible for the reduced tax rate on qualified dividend income, except to the extent that certain holding requirements have been met with respect to the REIT s stock and the REIT s dividends are attributable to dividends received from certain taxable corporations (such as our taxable REIT subsidiary, Crest Net Lease, Inc., or Crest) or to income that was subject to tax at the corporate or REIT level (for example, if we distribute taxable income that we retained and paid tax on in the prior taxable year).

Distributions in excess of earnings and profits generally will be treated as a non-taxable reduction in the stockholders   basis in their stock, but not below zero. Distributions in excess of that basis, generally, will be taxable as a capital gain to stockholders who hold their shares as a capital asset. Approximately 24.5% of the distributions to our common stockholders, made or deemed to have been made in 2012, were classified as a return of capital for federal income tax purposes. We estimate that in 2013, between 15% and 25% of the distributions may be classified as a return of capital.

BUSINESS PHILOSOPHY AND STRATEGY

Capital Philosophy

Historically, we have met our long-term capital needs by issuing common stock, preferred stock and long-term unsecured notes and bonds. Over the long term, we believe that common stock should be the majority of our capital structure. However, we may issue additional preferred stock or debt securities from time to time. We may issue common stock when we believe that our share price is at a level that allows for the proceeds of any offering to be accretively invested into additional properties. In addition, we may issue common stock to permanently finance properties that were financed by our credit facility or debt securities. However, we cannot assure you that we will have access to the capital markets at times and at terms that are acceptable to us.

Our primary cash obligations, for the current year and subsequent years, are included in the Table of Obligations, which is presented in the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations. We expect to fund our operating expenses and other short-term liquidity requirements, including property acquisitions and development costs, payment of principal and interest on our outstanding indebtedness, property improvements, re-leasing costs and cash distributions to common and preferred stockholders, primarily through cash provided by operating activities, borrowing on our $1 billion credit facility and occasionally through public securities offerings.

Conservative Capital Structure

We believe that our stockholders are best served by a conservative capital structure. Therefore, we seek to maintain a conservative debt level on our balance sheet and solid interest and fixed charge coverage ratios. At December 31, 2012, our total outstanding borrowings of senior unsecured notes, mortgages payable and credit facility borrowings were $2.88 billion, or approximately 32.5% of our total market capitalization of $8.88 billion.

We define our total market capitalization at December 31, 2012 as the sum of:

- Shares of our common stock outstanding of 133,452,411 multiplied by the last reported sales price of our common stock on the NYSE of $40.21 per share on December 31, 2012, or $5.37 billion;
- Aggregate liquidation value (par value of $25.00 per share) of the Class E preferred stock of $220 million;
- Aggregate liquidation value (par value of $25.00 per share) of the Class F preferred stock of $408.8 million;
- Outstanding borrowings of $158.0 million on our credit facility;
- Outstanding mortgages payable of $175.9 million; and
- Outstanding senior unsecured notes and bonds of $2.55 billion.

At the close of the acquisition of ARCT on January 22, 2013, our total market capitalization increased to over $12 billion.

Investment Philosophy

We believe that owning an actively managed, diversified portfolio of commercial properties under long-term, net leases produces consistent and predictable income. Net leases typically require the tenant to be responsible for monthly rent and property operating expenses including property taxes, insurance and maintenance. In addition, tenants are typically subject to future rent increases based on increases in the consumer price index (typically subject to ceilings), additional rent calculated as a percentage of the tenants gross sales above a specified level, or fixed increases. We believe that a portfolio of properties under long-term leases, coupled with the tenant s responsibility for property expenses, generally produces a more predictable income stream than many other types of real estate portfolios, while continuing to offer the potential for growth in rental income.

Investment Strategy

When identifying new properties for acquisition, we generally focus on providing capital to owners and operators of commercial enterprises by acquiring the real estate they consider important to the successful operation of their business.

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We primarily focus on acquiring properties leased to commercial enterprises based on the following guidelines:

- Tenants with reliable and sustainable cash flow;
- Tenants with revenue and cash flow from multiple sources;
- Large owners and users of real estate;
- Real estate that is critical to the tenant s ability to generate revenue (i.e. they need the property in which they operate in order to conduct their business);
- Real estate and tenants that are willing to sign a long-term lease (10 or more years); and
- Property transactions where we can achieve an attractive spread over our cost of capital.

Historically, our investment focus has primarily been on commercial enterprises that have a service component because we believe the lease revenue from these types of businesses is more stable. Because of this investment focus, for the quarter ended December 31, 2012, approximately 70.1% of our retail rental revenue was derived from tenants with a service component in their business. We believe these service-oriented businesses would generally be difficult to duplicate over the Internet and that our properties continue to perform well relative to competition from Internet-based businesses.

Credit Strategy

We typically acquire and lease properties to regional and national commercial enterprises and believe that within this market we can achieve an attractive risk-adjusted return. Since 1970, our occupancy rate at the end of each year has never been below 96%.

We believe the principal financial obligations of most commercial enterprises typically include their bank and other debt, payment obligations to suppliers and real estate lease obligations. Because we typically own the land and building in which a tenant conducts its business or which are critical to the tenant s ability to generate revenue, we believe the risk of default on a tenant s lease obligations is less than the tenant s unsecured general obligations. It has been our experience that since tenants must retain their profitable and critical locations in order to survive, in the event of reorganization they are less likely to reject a lease for a profitable and critical location because this would terminate their right to use the property. Thus, as the property owner, we believe we will fare better than unsecured creditors of the same tenant in the event of reorganization. If a property is rejected by the tenant during reorganization, we own the property and can either lease it to a new tenant or sell the property. In addition, we believe that the risk of default on real estate leases can be further mitigated by monitoring the performance of the tenants individual locations and considering whether to sell locations that are weaker performers.

In order to qualify for inclusion in our portfolio, new property acquisitions must meet stringent investment and credit requirements. The properties must generate attractive current yields and the tenant must meet our credit profile. We have established a four-part analysis that examines each potential investment based on:

- Industry, company, market conditions and credit profile;
- Store profitability for retail locations, if profitability data is available;
- The importance of the real estate location to the operations of the company s business; and
- Overall real estate characteristics, including property value and comparative rental rates.

Acquisition Strategy

We seek to invest in industries in which several, well-organized, regional and national commercial enterprises are capturing market share through service, quality control, economies of scale, strong consumer brands, advertising, and the selection of prime locations. Our acquisition strategy is to act as a source of capital to regional and national commercial enterprises by acquiring and leasing back their real estate locations. In addition, we frequently acquire large portfolios of properties net leased to multiple tenants in a variety of industries. We undertake thorough research and analysis to identify what we consider to be appropriate industries, tenants and property locations for investment. Our research expertise is instrumental to uncovering net-lease opportunities in markets where our real estate financing program adds value. In selecting potential investments, we generally seek to acquire real estate that has the following characteristics:

- Properties that are freestanding, commercially-zoned with a single tenant;
- Properties that are important locations for regional and national commercial enterprises;

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- Properties that we deem to be profitable for the tenants and/or can generally be characterized as important to the operations of the company s business;

- Properties that are located within attractive demographic areas, relative to the business of our tenants, with high visibility and easy access to major thoroughfares; and

- Properties that can be purchased with the simultaneous execution or assumption of long-term, net-lease agreements, offering both current income and the potential for rent increases.

Impact of Real Estate and Credit Markets

In the commercial real estate market, property prices generally continue to fluctuate. Likewise, during certain periods, the U.S. credit markets have experienced significant price volatility, dislocations and liquidity disruptions, which may impact our access to and cost of capital. We continually monitor the commercial real estate and U.S. credit markets carefully and, if required, will make decisions to adjust our business strategy accordingly.

Portfolio Management Strategy

The active management of the property portfolio is an essential component of our long-term strategy. We continually monitor our portfolio for any changes that could affect the performance of the industries, tenants and locations in which we have invested. We also regularly analyze our portfolio with a view toward optimizing its returns and enhancing our credit quality.

Our executives regularly review and analyze:

- The performance of the various industries of our tenants; and

- The operation, management, business planning, and financial condition of our tenants.

We have an active portfolio management program that incorporates the sale of assets when we believe the reinvestment of the sale proceeds will:

- Generate higher returns;

- Enhance the credit quality of our real estate portfolio;

- Extend our average remaining lease term; or

- Decrease tenant or industry concentration.

At December 31, 2012, we classified real estate with a carrying amount of $19.2 million as held for sale on our balance sheet. In 2013, we intend to continue implementing more active disposition efforts to further enhance the credit quality of our real estate portfolio. As a result, we anticipate selling investment properties from our portfolio that have not yet been specifically identified, from which we anticipate receiving between $50 million and $125 million in proceeds during the next 12 months. We intend to invest these proceeds into new property acquisitions, if there are attractive opportunities available. However, we cannot guarantee that we will sell properties during the next 12 months at our estimated values or be able to invest the property sale proceeds in new properties.

Universal Shelf Registration

In October 2012, we filed a shelf registration statement with the SEC, which is effective for a term of three years and will expire in October 2015. This replaces our prior shelf registration statement. In accordance with SEC rules, the amount of securities to be issued pursuant to this shelf registration statement was not specified when it was filed and there is no specific dollar limit. The securities covered by this registration statement include (1) common stock, (2) preferred stock, (3) debt securities, (4) depositary shares representing fractional interests in shares of preferred stock, (5) warrants to purchase debt securities, common stock, preferred stock or depositary shares, and (6) any combination of these securities. We may periodically offer one or more of these securities in amounts, prices and on terms to be announced when and if the securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of any offering.

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$1 Billion Acquisition Credit Facility

In May 2012, we entered into a new $1 billion unsecured acquisition credit facility, which replaced our $425 million acquisition credit facility that was scheduled to expire in March 2014. The initial term of the new credit facility expires in May 2016 and includes, at our option, a one-year extension. Under this new credit facility, our current investment grade credit ratings provide for financing at LIBOR, plus 1.075% with a facility commitment fee of 0.175%, for all-in drawn pricing of 1.25% over LIBOR. The borrowing rate is not subject to an interest rate floor or ceiling. We also have other interest rate options available to us. Our credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation. At December 31, 2012, we had a borrowing capacity of $842 million available on our credit facility (subject to customary conditions to borrowing) and an outstanding balance of $158 million. The interest rate on borrowings outstanding under our new credit facility, at December 31, 2012, was 1.3% per annum. We must comply with various financial and other covenants in our credit facility. At December 31, 2012, we remain in compliance with these covenants.

We expect to use our credit facility to acquire additional properties and for other corporate purposes. Any additional borrowings will increase our exposure to interest rate risk. We have the right to request an increase in the borrowing capacity of the credit facility, up to $500 million, to a total borrowing capacity of $1.5 billion. Any increase in the borrowing capacity is subject to approval by the lending banks participating in our credit facility.

We generally use our credit facility for the short-term financing of new property acquisitions. Thereafter, when capital is available on acceptable terms, we generally seek to refinance those borrowings with the net proceeds of long-term or permanent financing, which may include the issuance of common stock, preferred stock or debt securities. We cannot assure you, however, that we will be able to obtain any such refinancing, or that market conditions prevailing at the time of the refinancing will enable us to issue equity or debt securities upon acceptable terms.

Cash Reserves

We acquire and lease properties and distribute to stockholders, in the form of monthly cash dividends, a substantial portion of our net cash flow generated from leases on our properties. We intend to retain an appropriate amount of cash as working capital. At December 31, 2012, we had cash and cash equivalents totaling $5.2 million.

We believe that our cash and cash equivalents on hand, cash provided from operating activities, and borrowing capacity is sufficient to meet our liquidity needs for the foreseeable future. We intend, however, to use additional sources of capital to fund property acquisitions and to repay future borrowings under our credit facility.

Credit Agency Ratings

The borrowing interest rates under our credit facility are based upon our credit ratings. We are currently assigned the following investment grade corporate credit ratings on our senior unsecured notes and bonds: Fitch Ratings has assigned a rating of BBB+ with a stable outlook, Moody s Investors Service has assigned a rating of Baa1 with a negative outlook, and Standard & Poor s Ratings Group has assigned a rating of BBB with a stable outlook to our senior notes.

Based on our current ratings, the credit facility interest rate is LIBOR plus 1.075% with a facility commitment fee of 0.175%, for all-in drawn pricing of 1.25% basis points over LIBOR. The credit facility provides that the interest rate can range between: (i) LIBOR plus 1.85% if our credit facility is lower than BBB-/Baa3 and (ii) LIBOR plus 1.00% if our credit rating is A-/A3 or higher. In addition, our credit facility provides for a facility commitment fee based on our credit ratings, which range from: (i) 0.45% for a rating lower than BBB-/Baa3, and (ii) 0.15% for a credit rating of A-/A3 or higher.

We also issue senior debt securities from time to time and our credit ratings can impact the interest rates on these transactions. In addition, if our credit ratings or ratings outlook change, our cost to obtain debt financing could increase or decrease.

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The credit ratings assigned to us could change based upon, among other things, our results of operations and financial condition. These ratings are subject to ongoing evaluation by credit rating agencies, and we cannot assure you that our ratings will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. Moreover, a rating is not a recommendation to buy, sell or hold our debt securities, preferred stock or common stock.

Mortgage Debt

As of December 31, 2012, we had $165.9 million of mortgages payable, which were assumed in connection with our property acquisitions in 2012 and 2011. Additionally, at December 31, 2012, we had net premiums totaling $9.9 million on these mortgages. During 2012, we paid $11.7 million in principal payments, which includes $10.7 million to pay off one mortgage in March 2012.

We expect to pay off the mortgages payable as soon as prepayment penalties and costs make it economically feasible to do so. We intend to continue our policy of primarily identifying property acquisitions that are free from mortgage indebtedness.

No Unconsolidated Investments

We have no unconsolidated investments, nor do we engage in trading activities involving energy or commodity contracts. Additionally, we have no joint ventures or mandatorily redeemable preferred stock. As such, our financial position and results of operations are not affected by accounting regulations regarding the classification of financial instruments with characteristics of both liabilities and equity.

Competitive Strategy

To successfully pursue our investment philosophy and strategy, we seek to maintain the following competitive advantages:

- *Type of Investment Properties:* We believe net-leased properties, whether purchased individually or as part of larger portfolio purchases, represent an attractive investment opportunity in today s real estate environment. The less intensive day-to-day property management required by net-lease agreements, coupled with the active management of a large portfolio of properties, is an effective investment strategy. The tenants of our freestanding properties generally provide goods and services that satisfy basic consumer needs. In order to grow and expand, they generally need capital. Since the acquisition of real estate is typically the single largest capital expenditure of many of these tenants, our method of purchasing the property and then leasing it back, under a net-lease arrangement, allows the commercial enterprise to free up capital.

- *Investment in New Industries:* We seek to further diversify our portfolio among a variety of industries. We believe diversification will allow us to invest in industries that currently are growing and have characteristics we find attractive. When analyzing new industries, we seek to acquire properties that are critical to the success of a commercial enterprise, through its distribution of the product or service. Other characteristics may include, but are not limited to, industries that are dominated by local store operators where regional and national commercial enterprises can increase market share and dominance by consolidating local operators and streamlining their operations, as well as capitalizing on major demographic shifts in a population base.

- *Diversification:* Diversification of the portfolio by industry type, tenant, and geographic location is key to our objective of providing predictable investment results for our stockholders, therefore further diversification of our portfolio is a continuing objective. At December 31, 2012, we owned a diversified property portfolio that consisted of 3,013 properties located in 49 states, leased to 150 different commercial enterprises doing business in 44 industry segments. Each of the 44 industry segments, represented in our property portfolio, individually accounted for no more than 14.9% of our rental revenue for the quarter ended December 31, 2012.

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• *Management Specialization:* We believe that our management s specialization in acquiring and managing single-tenant properties, operated under net-lease agreements, purchased individually or as part of a larger portfolio, is important to meeting our objectives. We plan to maintain this specialization and will seek to employ and train high-quality professionals in this specialized area of real estate ownership, finance and management.

• *Technology:* We intend to stay at the forefront of technology in our efforts to carry out our operations efficiently and economically. We maintain sophisticated information systems that allow us to analyze our portfolio s performance and actively manage our investments. We believe that technology and information-based systems play an important role in our competitiveness as an investment manager and source of capital to a variety of industries and tenants.

Corporate Responsibility

Realty Income is committed to providing an enjoyable, diverse and safe working atmosphere for our employees, to upholding our responsibilities as a public company operating for the benefit of our shareholders and to being mindful of the environment. As The Monthly Dividend Company®, we believe our primary responsibility is to provide a dividend return to our shareholders. How we manage and use the physical, human and financial resources that enable us to acquire and own the real estate, which provides us with the lease revenue to pay monthly dividends, demonstrates our commitment to corporate responsibility.

Social Responsibility and Ethics. We are committed to being socially responsible and conducting our business according to the highest ethical standards. Our employees enjoy compensation that is in line with those of our peers and competitors, including generous healthcare benefits for employees and their families; participation in a 401K plan with a matching contribution by Realty Income; competitive vacation and time-off benefits; paid maternity leave and an infant-at-work program for new parents. Our employees also have access to members of our Board of Directors to report any suspicion of misconduct, by any member of our senior management or executive team. We also have a long-standing commitment to equal employment opportunity and adhere to all Equal Employer Opportunity Policy guidelines.

With respect to our vendors and tenants we apply the principles of full and fair disclosure in all of our business dealings, as outlined in our Corporate Code of Business Ethics. We are also committed to dealing fairly with all of our customers, suppliers and competitors.

Corporate Governance. We believe that nothing is more important than a company s reputation for integrity and serving as a responsible fiduciary for its shareholders. We are committed to managing the company for the benefit of our shareholders and are focused on maintaining good corporate governance. Practices that illustrate this commitment include:

• Our Board of Directors is comprised of six independent, non-employee directors and one employee director (the Chief Executive Officer and Vice Chairman of the Board)

• Our Board of Directors is elected on an annual basis

• We employ a majority vote standard for elections

- Our Compensation Committee of the Board of Directors works with independent consultants, in conducting annual compensation reviews for our key executives, and compensates each individual based on reaching certain performance metrics that determine the success of our company

- We adhere to all other corporate governance principles outlined in our Corporate Governance Guidelines document.

Environmental Practices. Our focus on energy related matters is demonstrated by how we manage our day-to-day activities in our corporate headquarters building. With respect to other properties that we own, which are net-leased to our tenants who are responsible for maintaining the buildings, we encourage energy conservation and environmental sustainability practices wherever possible. In our headquarters building we promote energy conservation and encourage the following practices:

- Powering down office equipment at the end of the day

- Setting fax and copier machines to energy saver mode

- Encouraging employees to use duplex copy mode to reduce paper usage whenever possible

- Employing an automated lights out system that is activated 24/7

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- Programming HVAC to only operate during normal business operating hours

In addition, our headquarters building was constructed according to the State of California energy standards and we have installed solar panels on our roof to fulfill our energy requirements. All of the windows on our building are dual-paned to increase energy efficiency and reduce our carbon footprint.

With respect to recycling and reuse practices, we encourage the use of recycled products and the recycling of materials during our operations. Recycling bins are placed in all areas where materials are regularly disposed of and at the individual desks of our employees. Cell phones, wireless devices and office equipment is recycled or donated whenever possible. We also continue to pursue a paperless environment since this reduces costs and saves trees. As a result, we encourage file-sharing networks and environments to produce and edit documents in order to reduce the dissemination of hard copy documents.

PROPERTY PORTFOLIO INFORMATION

At December 31, 2012, we owned a diversified portfolio:

- Of 3,013 properties;
- With an occupancy rate of 97.2%, or 2,929 properties leased and only 84 properties available for lease;
- Leased to 150 different commercial enterprises doing business in 44 separate industries;
- Located in 49 states;
- With over 37.6 million square feet of leasable space; and
- With an average leasable space per property of approximately 12,500 square feet.

At December 31, 2012, of our 3,013 properties, 2,913 were leased under net-lease agreements. A net lease typically requires the tenant to be responsible for minimum monthly rent and certain property operating expenses including property taxes, insurance and maintenance. In addition, our tenants are typically subject to future rent increases based on increases in the consumer price index (typically subject to ceilings), additional rent calculated as a percentage of the tenants gross sales above a specified level, or fixed increases.

In order to more accurately reflect our exposure to various industries, the following industry table has been modified from similar tables we have prepared in the past to reflect the changes below:

- Some properties previously included in the general merchandise industry were reclassified to the dollar stores industry to better reflect the industry in which the tenant operates; and
- The aviation industry was renamed aerospace.

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Industry Diversification

The following table sets forth certain information regarding Realty Income s property portfolio classified according to the business of the respective tenants, expressed as a percentage of our total rental revenue:

	Percentage of Rental Revenue(1)						
	For the Quarter Ended December 31, 2012	For the Years Ended					
		Dec 31, 2012	Dec 31, 2011	Dec 31, 2010	Dec 31, 2009	Dec 31, 2008	Dec 31, 2007
Retail Industries							
Apparel stores	2.4%	1.7 %	1.4%	1.2%	1.1%	1.1%	1.2%
Automotive collision services	1.1	1.1	0.9	1.0	1.1	1.0	1.1
Automotive parts	1.1	1.0	1.2	1.4	1.5	1.6	2.1
Automotive service	2.9	3.1	3.7	4.7	4.8	4.8	5.2
Automotive tire services	4.3	4.7	5.6	6.4	6.9	6.7	7.3
Book stores	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Business services	*	*	*	*	*	*	0.1
Child care	4.1	4.5	5.2	6.5	7.3	7.6	8.4
Consumer electronics	0.5	0.5	0.5	0.6	0.7	0.8	0.9
Convenience stores	14.9	16.3	18.5	17.1	16.9	15.8	14.0
Crafts and novelties	0.7	0.3	0.2	0.3	0.3	0.3	0.3
Dollar stores	4.3	2.2	--	--	--	--	--
Drug stores	3.3	3.5	3.8	4.1	4.3	4.1	2.7
Education	0.6	0.7	0.7	0.8	0.9	0.8	0.8
Entertainment	0.9	0.9	1.0	1.2	1.3	1.2	1.4
Equipment services	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Financial services	0.2	0.2	0.2	0.2	0.2	0.2	0.2
General merchandise	0.5	0.6	0.6	0.8	0.8	0.8	0.7
Grocery stores	3.3	3.7	1.6	0.9	0.7	0.7	0.7
Health and fitness	6.7	6.8	6.4	6.9	5.9	5.6	5.1
Home furnishings	1.0	1.0	1.1	1.3	1.3	2.4	2.6
Home improvement	1.3	1.5	1.7	2.0	2.2	2.1	2.4
Motor vehicle dealerships	2.0	2.1	2.2	2.6	2.7	3.2	3.1
Office supplies	0.7	0.8	0.9	0.9	1.0	1.0	1.1
Pet supplies and services	0.5	0.6	0.7	0.9	0.9	0.8	0.9
Restaurants - casual dining	6.7	7.3	10.9	13.4	13.7	14.3	14.9
Restaurants - quick service	5.7	5.9	6.6	7.7	8.3	8.2	6.6
Shoe stores	0.1	0.1	0.2	0.1	--	--	--
Sporting goods	2.3	2.5	2.7	2.7	2.6	2.3	2.6
Theaters	8.7	9.4	8.8	8.9	9.2	9.0	9.0
Transportation services	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Video rental	0.0	0.0	0.0	0.2	1.0	1.1	1.7
Wholesale clubs	4.4	3.2	0.7	--	--	--	--
Other	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Retail Industries	85.6%	86.7 %	88.6%	95.4%	98.3%	98.2%	97.8%

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Industry Diversification (Continued)

	Percentage of Rental Revenue(1)						
	For the Quarter Ended December 31,	For the Years Ended					
	2012	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010	Dec 31, 2009	Dec 31, 2008	Dec 31, 2007
Non-retail Industries							
Aerospace	1.0	0.9	0.5	--	--	--	--
Beverages	4.7	5.1	5.6	3.0	--	--	--
Consumer appliances	0.3	0.1	--	--	--	--	--
Consumer goods	0.3	0.1	--	--	--	--	--
Diversified industrial	0.2	0.1	--	--	--	--	--
Equipment services	0.5	0.3	0.2	--	--	--	--
Financial services	0.4	0.4	0.3	--	--	--	--
Food processing	1.6	1.3	0.7	--	--	--	--
Insurance	0.1	*	--	--	--	--	--
Machinery	0.3	0.1	--	--	--	--	--
Packaging	1.0	0.7	0.4	--	--	--	--
Paper	0.1	0.1	0.1	--	--	--	--
Telecommunications	0.8	0.8	0.7	--	--	--	--
Transportation services	2.1	2.2	1.6	--	--	--	--
Other	1.0	1.1	1.3	1.6	1.7	1.8	2.2
Non-retail Industries	14.4%	13.3 %	11.4%	4.6%	1.7%	1.8%	2.2%
Totals	100.0%	100.0 %	100.0%	100.0%	100.0%	100.0%	100.0%

* Less than 0.1%

(1) Includes rental revenue for all properties owned by Realty Income at the end of each period presented, including revenue from properties reclassified as discontinued operations. Excludes revenue from properties owned by Crest.

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Property Type Diversification

The following table sets forth certain property type information regarding Realty Income s property portfolio as of December 31, 2012 (dollars in thousands):

Property Type	Number of Properties	Approximate Leasable Square Feet	Rental Revenue for the Quarter Ended December 31, 2012(1)	Percentage of Rental Revenue
Retail	2,941	27,520,200	$ 111,218	84.9%
Distribution	23	5,181,200	6,131	4.7
Agriculture	15	184,500	5,138	3.9
Manufacturing	10	3,117,100	3,775	2.9
Office	9	824,000	3,110	2.4
Industrial	15	850,500	1,570	1.2
Totals	3,013	37,677,500	$ 130,942	100.0%

(1) Includes rental revenue for all properties owned by Realty Income at December 31, 2012, including revenue from properties reclassified as discontinued operations of $1,347. Excludes revenue of $24 from properties owned by Crest.

Tenant Diversification

The largest tenants based on percentage of total portfolio rental revenue at December 31, 2012 include the following:

L.A. Fitness	5.1%	NPC International/Pizza Hut	2.3%
AMC Theatres	4.6%	Rite Aid	2.2%
Family Dollar	4.4%	Friendly s Ice Cream	2.1%
Diageo	4.4%	Smart & Final	2.1%
BJ s Wholesale Clubs	4.3%	Fed-Ex	2.0%
Northern Tier Energy/Super America	3.8%	FreedomRoads/Camping World	2.0%
Regal Cinemas	3.2%	National Tire & Battery	1.9%
The Pantry	2.7%		

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Service Category Diversification for our Retail Properties

The following table sets forth certain information regarding the 2,941 retail properties, included in the 3,013 total properties, owned by Realty Income at December 31, 2012, classified according to the business types and the level of services they provide (dollars in thousands):

Retail Industries	**Number of Retail Properties**	**Retail Rental Revenue for the Quarter Ended December 31, 2012(1)**	**Percentage of Retail Rental Revenue**
Tenants Providing Services			
Automotive collision services	22	$ 1,430	1.3%
Automotive service	230	3,778	3.4
Child care	229	5,308	4.8
Education	15	827	0.7
Entertainment	9	1,199	1.1
Equipment services	2	150	0.1
Financial services	16	219	0.2
Health and fitness	53	8,801	7.9
Theaters	44	11,451	10.3
Transportation services	1	187	0.2
Other	14	132	0.1
	635	33,482	30.1
Tenants Selling Goods and Services			
Automotive parts (with installation)	27	481	0.4
Automotive tire services	158	5,642	5.1
Business services	1	4	*
Convenience stores	717	19,415	17.4
Motor vehicle dealerships	17	2,623	2.4
Pet supplies and services	14	666	0.6
Restaurants - casual dining	305	8,199	7.4
Restaurants - quick service	358	7,441	6.7
Video rental	3	-	0.0
	1,600	44,471	40.0
Tenants Selling Goods			
Apparel stores	20	3,197	2.9
Automotive parts	44	975	0.9
Book stores	1	83	0.1
Consumer electronics	8	605	0.5
Crafts and novelties	9	883	0.8
Dollar stores	358	5,579	5.0
Drug stores	60	4,251	3.8
General merchandise	32	697	0.6
Grocery stores	57	4,379	3.9
Home furnishings	43	1,258	1.1
Home improvement	27	1,506	1.4
Office supplies	11	933	0.8
Shoe stores	1	168	0.2
Sporting goods	21	2,944	2.7
Wholesale clubs	14	5,807	5.2
	706	33,265	29.9
Total Retail Properties	2,941	$ 111,218	100.0%

* Less than 0.1%

(1) Includes rental revenue for all retail properties owned by Realty Income at December 31, 2012, including revenue from properties reclassified as discontinued operations of $1,347. Excludes revenue of $19,724 from non-retail properties and $24 from properties owned by Crest.

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Lease Expirations

The following table sets forth certain information regarding Realty Income s property portfolio regarding the timing of the lease term expirations (excluding rights to extend a lease at the option of the tenant) on our 2,913 net leased, single-tenant properties as of December 31, 2012 (dollars in thousands):

	Total Portfolio				Initial Expirations(3)			Subsequent Expirations(4)		
Year	Number of Leases Expiring(1)	Approx. Leasable Sq. Feet	Rental Revenue for the Quarter Ended Dec. 31, 2012(2)	% of Total Rental Revenue	Number of Leases Expiring	Rental Revenue for the Quarter Ended Dec. 31, 2012	% of Total Rental Revenue	Number of Leases Expiring	Rental Revenue for the Quarter Ended Dec. 31, 2012	% of Total Rental Revenue
2013	157	1,209,200	$ 3,879	3.0%	39	$1,319	1.0%	118	$ 2,560	2.0%
2014	155	1,019,400	3,717	2.9	52	1,652	1.3	103	2,065	1.6
2015	161	859,500	3,690	2.9	67	1,774	1.4	94	1,916	1.5
2016	176	1,144,300	3,840	3.0	115	2,380	1.9	61	1,460	1.1
2017	165	1,940,200	5,633	4.4	44	2,902	2.3	121	2,731	2.1
2018	144	2,116,600	6,411	5.0	90	4,691	3.7	54	1,720	1.3
2019	143	1,511,800	7,298	5.7	132	6,815	5.3	11	483	0.4
2020	86	1,986,500	5,455	4.2	76	5,109	4.0	10	346	0.2
2021	163	2,353,000	8,426	6.5	155	7,916	6.1	8	510	0.4
2022	127	3,713,600	7,396	5.7	119	7,153	5.5	8	243	0.2
2023	257	2,294,400	10,634	8.3	250	10,106	7.9	7	528	0.4
2024	62	686,900	2,764	2.1	62	2,764	2.1	--	--	0.0
2025	253	2,707,700	13,478	10.5	248	13,363	10.4	5	115	0.1
2026	153	2,311,400	8,335	6.5	150	8,253	6.4	3	82	0.1
2027-2043	711	10,152,200	37,694	29.3	702	37,509	29.2	9	185	0.1
Totals	2,913	36,006,700	$128,650	100.0%	2,301	$113,706	88.5%	612	$ 14,944	11.5%

(1) Excludes 16 multi-tenant properties and 84 vacant unleased properties, one of which is a multi-tenant property. The lease expirations for properties under construction are based on the estimated date of completion of those properties.

(2) Includes rental revenue of $1,347 from properties reclassified as discontinued operations and excludes revenue of $2,292 from 16 multi-tenant properties and from 84 vacant and unleased properties at December 31, 2012. Excludes revenue of $24 from four properties owned by Crest.

(3) Represents leases to the initial tenant of the property that are expiring for the first time.

(4) Represents lease expirations on properties in the portfolio, which have previously been renewed, extended or re-tenanted.

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Geographic Diversification

The following table sets forth certain state-by-state information regarding Realty Income s property portfolio as of December 31, 2012 (dollars in thousands):

State	Number of Properties	Percent Leased	Approximate Leasable Square Feet	Rental Revenue for the Quarter Ended December 31, 2012(1)	Percentage of Rental Revenue	
Alabama	71	96%	500,500	$ 1,831	1.4	%
Alaska	2	100	128,500	307	0.2	
Arizona	96	98	710,300	3,496	2.7	
Arkansas	21	95	135,000	340	0.3	
California	142	100	3,821,700	18,204	13.9	
Colorado	57	96	497,700	1,985	1.5	
Connecticut	25	92	456,500	2,037	1.6	
Delaware	16	100	29,500	391	0.3	
Florida	211	98	2,229,600	8,364	6.4	
Georgia	152	94	1,342,400	5,040	3.8	
Hawaii	--	--	--	--	--	
Idaho	12	92	80,700	329	0.3	
Illinois	111	99	1,428,900	6,264	4.8	
Indiana	87	98	858,400	3,858	2.9	
Iowa	28	89	1,878,400	2,331	1.8	
Kansas	67	96	920,600	1,905	1.5	
Kentucky	26	96	202,200	733	0.6	
Louisiana	44	100	428,500	1,449	1.1	
Maine	3	100	22,500	139	0.1	
Maryland	30	100	492,500	2,661	2.0	
Massachusetts	63	92	572,700	2,279	1.7	
Michigan	69	100	421,900	1,579	1.2	
Minnesota	151	100	1,019,000	6,807	5.2	
Mississippi	77	95	775,300	1,982	1.5	
Missouri	78	99	1,057,800	3,861	2.9	
Montana	2	100	30,000	77	0.1	
Nebraska	22	100	220,400	604	0.5	
Nevada	16	100	333,700	1,054	0.8	
New Hampshire	17	94	234,000	961	0.7	
New Jersey	33	94	267,300	1,941	1.5	
New Mexico	19	100	154,700	421	0.3	
New York	46	98	918,900	4,614	3.5	
North Carolina	99	96	895,400	3,127	2.4	
North Dakota	6	100	36,600	78	0.1	
Ohio	151	97	2,192,200	5,231	4.0	
Oklahoma	57	98	961,500	1,742	1.3	
Oregon	20	100	384,200	1,325	1.0	
Pennsylvania	105	98	1,092,500	4,740	3.6	
Rhode Island	3	100	11,000	37	*	
South Carolina	102	97	564,500	2,571	2.0	
South Dakota	10	100	89,800	186	0.1	
Tennessee	136	96	1,351,500	3,240	2.5	
Texas	328	97	4,271,900	12,205	9.3	
Utah	9	100	159,300	413	0.3	
Vermont	4	100	12,700	133	0.1	
Virginia	115	97	2,429,400	5,351	4.1	
Washington	34	97	293,000	1,147	0.9	
West Virginia	4	100	87,400	134	0.1	
Wisconsin	33	94	653,400	1,375	1.1	
Wyoming	3	100	21,100	63	*	
Totals/Average	3,013	97%	37,677,500	$ 130,942	100.0	%

*Less than 0.1%

(1)Includes rental revenue for all properties owned by Realty Income at December 31, 2012, including revenue from properties reclassified as discontinued operations of $1,347. Excludes revenue of $24 from properties owned by Crest.

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FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K, including the documents incorporated by reference herein, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934, as amended. When used in this annual report, the words estimated , anticipated , expect , believe , intend and similar expressions are intended to identify forward-looking statements. Forward-looking statements include discussions of strategy, plans, or intentions of management. Forward-looking statements are subject to risks, uncertainties, and assumptions about Realty Income Corporation, including, among other things:

- Our anticipated growth strategies;
- Our intention to acquire additional properties and the timing of these acquisitions;
- Our intention to sell properties and the timing of these property sales;
- Our intention to re-lease vacant properties;
- Anticipated trends in our business, including trends in the market for long-term net-leases of freestanding, single-tenant properties; and
- Future expenditures for development projects.

Future events and actual results, financial and otherwise, may differ materially from the results discussed in the forward-looking statements. In particular, some of the factors that could cause actual results to differ materially are:

- Our continued qualification as a real estate investment trust;
- General business and economic conditions;
- Our recent acquisition of American Realty Capital Trust, Inc.;
- Competition;
- Fluctuating interest rates;
- Access to debt and equity capital markets;
- Continued volatility and uncertainty in the credit markets and broader financial markets;
- Other risks inherent in the real estate business including tenant defaults, potential liability relating to environmental matters, illiquidity of real estate investments, and potential damages from natural disasters;

- Impairments in the value of our real estate assets;
- Changes in the tax laws of the United States of America;
- The outcome of any legal proceedings to which we are a party or which may occur in the future; and
- Acts of terrorism and war.

Additional factors that may cause risks and uncertainties include those discussed in the sections entitled Business , Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations in this annual report.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date that this annual report was filed with the SEC. While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date of this annual report or to reflect the occurrence of unanticipated events. In light of these risks and uncertainties, the forward-looking events discussed in this annual report might not occur.

Item 1A: **Risk Factors**

This Risk Factors section contains references to our capital stock and to our stockholders. Unless expressly stated otherwise, the references to our capital stock represent our common stock and any class or series of our preferred stock, while the references to our stockholders represent holders of our common stock and any class or series of our preferred stock.

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In order to grow we need to continue to acquire investment properties. The acquisition of investment properties may be subject to competitive pressures.

We face competition in the acquisition, operation and sale of property. We expect competition from:

- Businesses;
- Individuals;
- Fiduciary accounts and plans; and
- Other entities engaged in real estate investment and financing.

Some of these competitors are larger than we are and have greater financial resources. This competition may result in a higher cost for properties we wish to purchase.

Negative market conditions or adverse events affecting our existing or potential tenants, or the industries in which they operate, could have an adverse impact on our ability to attract new tenants, re-lease space, collect rent or renew leases, which could adversely affect our cash flow from operations and inhibit growth.

Cash flow from operations depends in part on the ability to lease space to tenants on economically favorable terms. We could be adversely affected by various facts and events over which we have limited or no control, such as:

- Lack of demand in areas where our properties are located;
- Inability to retain existing tenants and attract new tenants;
- Oversupply of space and changes in market rental rates;
- Declines in our tenants creditworthiness and ability to pay rent, which may be affected by their operations, the current economic situation and competition within their industries from other operators;
- Defaults by and bankruptcies of tenants, failure of tenants to pay rent on a timely basis, or failure of tenants to comply with their contractual obligations;
- Economic or physical decline of the areas where the properties are located; and
- Deterioration of physical condition of our properties.

At any time, any tenant may experience a downturn in its business that may weaken its operating results or overall financial condition. As a result, a tenant may delay lease commencement, fail to make rental payments when due, decline to extend a lease upon its expiration, become insolvent or declare bankruptcy. Any tenant bankruptcy or insolvency, leasing delay or failure to make rental payments when due could result in the termination of the tenant s lease and material losses to us.

If tenants do not renew their leases as they expire, we may not be able to rent or sell the properties. Furthermore, leases that are renewed, and some new leases for properties that are re-leased, may have terms that are less economically favorable than expiring lease terms, or may require us to incur significant costs, such as renovations, tenant improvements or lease transaction costs. Negative market conditions may cause us to sell vacant properties for less than their carrying value, which could result in impairments. Any of these events could adversely affect cash flow from operations and our ability to make distributions to shareholders and service indebtedness. A significant portion of the costs of owning property, such as real estate taxes, insurance and maintenance, are not necessarily reduced when circumstances cause a decrease in rental revenue from the properties. In a weakened financial condition, tenants may not be able to pay these costs of ownership and we may be unable to recover these operating expenses from them.

Further, the occurrence of a tenant bankruptcy or insolvency could diminish the income we receive from the tenant s lease or leases. In addition, a bankruptcy court might authorize the tenant to terminate its leases with us. If that happens, our claim against the bankrupt tenant for unpaid future rent would be subject to statutory limitations that most likely would result in rent payments that would be substantially less than the remaining rent we are owed under the leases or we may elect not to pursue claims against the tenant for terminated leases. In addition, any claim we have for unpaid past rent, if any, may not be paid in full, or at all. Moreover, in the case of a tenant s leases that are not terminated as a result of its bankruptcy, we may be required or elect to reduce the rent payable under those leases or provide other concessions, reducing amounts we receive under those leases. As a result, tenant bankruptcies may have a material adverse effect on our results of operations. Any of these events could adversely affect cash from operations and our ability to make distributions to stockholders and service indebtedness.

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Eighty-four of our properties were available for lease or sale at December 31, 2012, all but one of which were single-tenant properties. At December 31, 2012, 32 of our properties under lease were unoccupied and available for sublease by the tenants, all of which were current with their rent and other obligations. During 2012, each of our tenants accounted for less than 10% of our rental revenue.

For the fourth quarter of 2012, our tenants in the convenience stores industry accounted for 14.9% of our rental revenue. A downturn in this industry, whether nationwide or limited to specific sectors of the United States, could adversely affect tenants in this industry, which in turn could have a material adverse affect on our financial position, results of operations and our ability to pay the principal of and interest on our debt securities and other indebtedness and to make distributions on our common stock and preferred stock.

We believe that the ongoing economic recession has also had an adverse effect on many casual dining restaurants. The impact of bankruptcy filings by any tenants in the casual dining industry could adversely affect us. Individually, each of the other industries in our property portfolio accounted for less than 10% of our rental revenue for the fourth quarter of 2012. Nevertheless, downturns in these other industries could also adversely affect our tenants, which in turn could also have a material adverse effect on our financial position, results of operations and our ability to pay the principal of and interest on our debt securities and other indebtedness and to make distributions on our common and preferred stock. In addition, we may in the future make additional investments in the convenience stores industry, which would increase this industry s percentage of our rental revenues, thereby increasing the effect that such a downturn in this industry would have on us.

In addition, a substantial number of our properties are leased to middle-market retail and other commercial enterprises that generally have more limited financial and other resources than certain upper-market retail and other commercial enterprises, and therefore, they are more likely to be adversely affected by a downturn in their respective businesses or in the regional, national or international economy.

Furthermore, we have made and may continue to make selected acquisitions of properties that fall outside our historical focus on freestanding, single-tenant, net-lease retail locations in the United States. We may be exposed to a variety of new risks by expanding into new property types and/or new jurisdictions outside the United States and properties leased to tenants engaged in non-retail businesses. These risks may include a limited knowledge and understanding of the industry in which the tenant operates, limited experience in managing certain types of new properties, new types of real estate locations and lease structures, and the laws and culture of any non-U.S. jurisdiction.

The acquisition of American Realty Capital Trust, Inc. presents certain risks to our business and operations.

On January 22, 2013, we completed our acquisition of American Realty Capital Trust, Inc., or ARCT, in a transaction valued at approximately $3.1 billion. Pursuant to the terms and subject to the conditions set forth in the agreement, at the effective time of the acquisition, each outstanding share of ARCT common stock was converted into $0.35 of cash and 0.2874 shares of our common stock. In connection with the acquisition, we paid $552.9 million at closing to repay amounts then outstanding and terminated the commitments under ARCT s revolving credit facility. In conjunction with our acquisition of ARCT in January 2013, we assumed approximately $516.3 million of mortgages payable. With this acquisition, we added 515 properties to our portfolio.

The acquisition presents certain risks to our business and operations, including, among other things, the following:

- We may encounter difficulties and incur substantial expenses in integrating ARCT s properties and systems into our operations and systems and, in any event, the integration may require a substantial amount of time on the part of both our management and employees and therefore divert their attention from other aspects of our business;

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- ARCT s real estate portfolio includes a number of industries which are new to us, including U.S. General Services Administration assets, as well as tenants in the aerospace, financial services, freight, health care, home maintenance, manufacturing, pharmacy, retail banking, technology and telecommunications businesses;

- We may not be able to realize the anticipated benefits of our acquisition of ARCT, or those benefits may be less than we and securities and industry analysts had anticipated, which may adversely affect the market price of our common stock, preferred stock and debt securities;

- Our level of indebtedness has increased in conjunction with the acquisition of ARCT;

- Our future results will suffer if we do not effectively manage our expanded portfolio;

- The market price of our common stock, preferred stock and debt securities may decline, particularly if we do not achieve the perceived benefits of the ARCT acquisition as rapidly or to the extent anticipated by securities or industry analysts or if the effect of the acquisition on our results of operations and financial condition is not consistent with the expectations of these analysts;

- We cannot assure you that we will be able to continue paying dividends on our common stock or preferred stock at the current rates;

- If ARCT failed to qualify as a REIT for U.S. federal income tax purposes, Realty Income may inherit significant tax liabilities, and Realty Income could lose its REIT status should disqualifying activities continue after the acquisition;

- We may incur unanticipated capital expenditures in order to maintain or improve the properties and businesses of ARCT;

- We may encounter difficulties in managing a substantially larger and more complex business with properties in new geographic areas;

- Many of ARCT s tenants operated in industries where we do not have any prior experience, which may make it difficult for us to evaluate their business and operations, and the ARCT acquisition increased our tenant concentration in certain industries;

- We may need to implement or improve internal controls, procedures, policies and systems with respect to ARCT s properties and businesses, which may require substantial time and expenditure;

- We may continue to incur substantial expenses related to the acquisition, including legal, accounting, and financial advisory expenses;

- We may be required to recognize write-offs, impairment charges or amortization charges resulting from the ARCT acquisition; and

- We may encounter unanticipated or unknown liabilities relating to the acquired businesses and properties.

In addition, eight lawsuits were filed in conjunction with the acquisition of ARCT. All of the below actions name as defendants ARCT, members of the ARCT board of directors, Realty Income, and Tau Acquisition LLC, a Delaware limited liability company and wholly owned subsidiary of Realty Income, or Merger Sub. In each case, the plaintiffs allege that the ARCT directors breached their fiduciary duties to ARCT and/or its stockholders in negotiating and approving the agreement, that the acquisition consideration negotiated in the agreement improperly values ARCT, that the ARCT stockholders will not receive fair value for their ARCT common stock in the acquisition, and that the terms of the agreement impose improper deal-protection devices that purportedly preclude competing offers. The complaints further allege that Realty Income, Merger Sub, and, in some cases, ARCT aided and abetted those alleged breaches of fiduciary duty. The various amended complaints add allegations that disclosures regarding the merger in the joint proxy statement/prospectus filed on October 1, 2012, or the definitive proxy statement/prospectus filed on December 6, 2012, are inadequate. Plaintiffs seek

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injunctive relief, including enjoining or rescinding the acquisition, and an award of other unspecified attorneys and other fees and costs, in addition to other relief. Realty Income believes that these actions have no merit and intends to respond to them in due course:

Maryland Actions. Since the announcement of the proposed acquisition of ARCT on September 6, 2012, six alleged class actions and/or shareholder derivative actions were filed on behalf of alleged ARCT stockholders and/or ARCT itself in the Circuit Court for Baltimore City, Maryland, under the following captions: *Quaal v. American Realty Capital Trust Inc., et al.*, No. 24-C-12-005306, filed September 7, 2012; *Hill v. American Realty Capital Trust, Inc., et al.*, No. 24-C-12-005502, filed September 19, 2012; *Goldwurm v. American Realty Capital Trust, Inc., et al.*, No. 24-C-12-005524, filed September 20, 2012; *Gordon v. Schorsch, et al.*, No. 24-C-12-005571, filed September 21, 2012; *Gregor v. Kahane, et al.*, No. 24-C-12-005563, filed September 21, 2012; and *Rooker v. American Realty Capital Trust, Inc., et al.*, No. 24-C-12-005924, filed October 5, 2012. On October 23, 2012, defendants moved to dismiss the actions and, on November 8, 2012, moved to stay discovery pending disposition of the motions to dismiss. On November 13, 2012, all plaintiffs except Sydelle Goldwurm filed motions to compel discovery and to expedite discovery. On November 16, 2012, the court consolidated the actions into a single action captioned *In re American Capital Realty Trust, Inc. Shareholder Litigation*, No. 24-C-12-005306 (the Maryland State Action). On November 21, 2012, the court appointed plaintiff Randell Quaal as lead plaintiff and Brower Piven, P.C. as lead counsel for plaintiffs. On December 3, 2012, plaintiff Goldwurm voluntarily dismissed her action in Maryland state court without prejudice. On December 11, 2012, plaintiffs moved for a preliminary injunction and to compel expedited discovery. On December 13, 2012, the court granted defendants motion to stay discovery and denied plaintiffs motion to expedite discovery. On December 14, 2012, plaintiffs filed a consolidated amended complaint, and defendants filed amended motions to dismiss the amended complaint on December 21, 2012.

On January 6, 2013, the parties in the Maryland State Action entered into a memorandum of understanding regarding settlement of all claims asserted on behalf of the alleged class of ARCT stockholders. In connection with the settlement contemplated by the memorandum of understanding, the Maryland State Action and all claims asserted in the litigation will be dismissed, subject to court approval. The proposed settlement terms required ARCT to make certain additional disclosures related to the merger, as set forth in a Current Report on Form 8-K filed by ARCT on January 8, 2013. The parties also agreed that plaintiffs may seek attorneys fees and costs in an as-yet undetermined amount, with ARCT to pay such fees and costs if and to the extent they are approved by the Maryland state court. The memorandum of understanding further contemplates that the parties will enter into a stipulation of settlement, which will be subject to customary conditions, including confirmatory discovery and court approval following notice to ARCT s stockholders. If the parties enter into a stipulation of settlement, a hearing will be scheduled at which the court will consider the fairness, reasonableness, and adequacy of the settlement. There can be no assurance that the parties will ultimately enter into a stipulation of settlement, that the court will approve any proposed settlement, or that any eventual settlement will be under the same terms as those contemplated by the memorandum of understanding.

After the Maryland state court denied plaintiff Goldwurm s motion for appointment of lead plaintiff and lead counsel in the Maryland State Action, plaintiff Goldwurm filed a class action and shareholder derivative action on November 29, 2012, in the United States District Court for the District of Maryland, captioned *Goldwurm v. American Realty Capital Trust, Inc., et al.*, No. 1:12-cv-03516-JKB (the Maryland Federal Action). On December 12, 2012, plaintiff Goldwurm moved for expedited discovery. Defendants moved to stay the federal case on December 13, 2012, and moved to dismiss it on December 19, 2012. On January 11, 2013, plaintiff Goldwurm moved for a temporary restraining order seeking to enjoin the shareholder vote on the proposed merger set to take place on January 16, 2013.

On January 14, 2013, the parties in the Maryland Federal Action entered into an agreement to settle all claims. In connection with the settlement, on January 25, 2013, the parties agreed to voluntarily dismiss the case with prejudice. On January 28, 2013, the Maryland federal court dismissed the action.

<u>New York Actions</u>. Two alleged class actions were filed on behalf of alleged ARCT stockholders in the Supreme Court of the State of New York for New York, New York, under the following captions: *The Carol L. Possehl Living Trust v. American Realty Capital Trust, Inc., et al.*, No. 653300-2012, filed September 20, 2012; and *Salenger v. American Realty Capital Trust, Inc. et al.*, No. 353355-2012, filed September 25, 2012. On October 19, 2012, the court consolidated the actions into a single action captioned *In re American Realty Capital Trust Shareholders Litigation*, No. 653300-2012 (the New York Action) and appointed Robbins Geller Rudman

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& Dowd LLP as lead counsel for plaintiffs. On October 19, 2012, defendants moved for a stay of proceedings. Plaintiffs filed an amended complaint on October 23, 2012. On November 9, 2012, the Court granted defendants motion to stay the New York Action pending the Maryland state actions.

As a property owner, we may be subject to unknown environmental liabilities.

Investments in real property can create a potential for environmental liability. An owner of property can face liability for environmental contamination created by the presence or discharge of hazardous substances on the property. We can face such liability regardless of:

- Our knowledge of the contamination;
- The timing of the contamination;
- The cause of the contamination; or
- The party responsible for the contamination of the property.

There may be environmental problems associated with our properties of which we are unaware. In that regard, a number of our properties are leased to operators of convenience stores that sell petroleum-based fuels, as well as to operators of oil change and tune-up facilities and operators that use chemicals and other waste products. These facilities, and some other of our properties, use, or may have used in the past, underground lifts or underground tanks for the storage of petroleum-based or waste products, which could create a potential for the release of hazardous substances.

The presence of hazardous substances on a property may adversely affect our ability to lease or sell that property and we may incur substantial remediation costs. Although our leases generally require our tenants to operate in compliance with all applicable federal, state and local environmental laws, ordinances and regulations, and to indemnify us against any environmental liabilities arising from the tenants activities on the property, we could nevertheless be subject to strict liability by virtue of our ownership interest. There also can be no assurance that our tenants could or would satisfy their indemnification obligations under their leases. The discovery of environmental liabilities attached to our properties could have an adverse effect on our results of operations, our financial condition or our ability to make distributions to stockholders and to pay the principal of and interest on our debt securities and other indebtedness.

In addition, several of our properties were built during the period when asbestos was commonly used in building construction and other buildings with asbestos may be acquired by us in the future. Environmental laws govern the presence, maintenance and removal of asbestos-containing materials, or ACMs, and require that owners or operators of buildings containing asbestos properly manage and maintain the asbestos, that they adequately inform or train those who may come into contact with asbestos and that they undertake special precautions, including removal or other abatement in the event that asbestos is disturbed during renovation or demolition of a building. These laws may impose fines and penalties on building owners or operators for failure to comply with these requirements and may allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos fibers.

It is also possible that some of our properties may contain or develop harmful mold, which could lead to liability for adverse health effects and costs of remediation of the problem. When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Concern about indoor exposure to mold has been increasing, as exposure to mold may cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, should our tenants or their employees or customers be exposed to mold at any of our properties we could be required to undertake a costly remediation program to contain or remove the mold from the affected property, which would reduce our cash available for distribution. In addition, exposure to mold by our tenants or others could expose us to liability if property damage or health concerns arise.

Compliance. We have not been notified by any governmental authority, and are not otherwise aware, of any material noncompliance, liability or claim relating to hazardous substances, toxic substances, or petroleum products in connection with any of our properties. In addition, we believe we are in compliance in all material respects with all present federal, state and local laws relating to ACMs. Nevertheless, if environmental contamination should exist, we could be subject to strict liability by virtue of our ownership interest.

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Insurance and Indemnity. In July 2012, we entered into a ten-year environmental insurance policy which expires in July 2022 and replaced our previous seven-year environmental insurance policy. The limits on our current policy are $10 million per occurrence and $60 million in the aggregate. The limits on the excess policy are $5 million per occurrence and $10 million in the aggregate. Therefore, the primary and excess ten-year policies together provide a total limit of $15 million per occurrence and $70 million in the aggregate.

It is possible that our insurance could be insufficient to address any particular environmental situation and that, in the future, we could be unable to obtain insurance for environmental matters at a reasonable cost, or at all. Our tenants are generally responsible for, and indemnify us against, liabilities for environmental matters that occur on our properties. For properties that have underground storage tanks, in addition to providing an indemnity in our favor, the tenants generally obtain environmental insurance or rely upon the state funds in the states where these properties are located to reimburse tenants for environmental remediation.

If we fail to qualify as a real estate investment trust, the amount of dividends we are able to pay would decrease, which could adversely affect the market price of our capital stock and could adversely affect the value of our debt securities.

Commencing with our taxable year ended December 31, 1994, we believe that we have been organized and have operated, and we intend to continue to operate, so as to qualify as a REIT under Sections 856 through 860 of the Code. However, we cannot assure you that we have been organized or have operated in a manner that has satisfied the requirements for qualification as a REIT, or that we will continue to be organized or operate in a manner that will allow us to continue to qualify as a REIT.

Qualification as a REIT involves the satisfaction of numerous requirements under highly technical and complex Code provisions, for which there are only limited judicial and administrative interpretations, as well as the determination of various factual matters and circumstances not entirely within our control.

For example, in order to qualify as a REIT, at least 95% of our gross income in each year must be derived from qualifying sources, and we must pay distributions to stockholders aggregating annually at least 90% of our taxable income (excluding net capital gains).

In the future, it is possible that legislation, new regulations, administrative interpretations or court decisions will change the tax laws with respect to qualification as a REIT, or the federal income tax consequences of such qualification.

If we fail to satisfy all of the requirements for qualification as a REIT, we may be subject to certain penalty taxes or, in some circumstances, we may fail to qualify as a REIT. If we were to fail to qualify as a REIT in any taxable year:

- We would be required to pay federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates;
- We would not be allowed a deduction in computing our taxable income for amounts distributed to our stockholders;

- We could be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost;

- We would no longer be required to make distributions to stockholders; and

- This treatment would substantially reduce amounts available for investment or distribution to stockholders because of the additional tax liability for the years involved, which could have a material adverse effect on the market price of our capital stock and the value of our debt securities.

Even if we qualify for and maintain our REIT status, we may be subject to certain federal, state and local taxes on our income and property. For example, if we have net income from a prohibited transaction, that income will be subject to a 100% tax. In addition, our taxable REIT subsidiaries, including Crest, are subject to federal and state taxes at the applicable tax rates on their income and property.

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Distributions requirements imposed by law limit our flexibility.

To maintain our status as a REIT for federal income tax purposes, we generally are required to distribute to our stockholders at least 90% of our taxable income, excluding net capital gains, each year. We also are subject to tax at regular corporate rates to the extent that we distribute less than 100% of our taxable income (including net capital gains) each year.

In addition, we are subject to a 4% nondeductible excise tax to the extent that we fail to distribute during any calendar year at least the sum of 85% of our ordinary income for that calendar year, 95% of our capital gain net income for the calendar year, and any amount of that income that was not distributed in prior years.

We intend to continue to make distributions to our stockholders to comply with the distribution requirements of the Code as well as to reduce our exposure to federal income taxes and the nondeductible excise tax. Differences in timing between the receipt of income and the payment of expenses to arrive at taxable income, along with the effect of required debt amortization payments, could require us to borrow funds on a short-term basis to meet the distribution requirements that are necessary to achieve the tax benefits associated with qualifying as a REIT.

Future issuances of equity securities could dilute the interest of holders of our common stock.

Our future growth will depend, in large part, upon our ability to raise additional capital. If we were to raise additional capital through the issuance of equity securities, we could dilute the interests of holders of our common stock. The interests of our common stockholders could also be diluted by the issuance of shares of common stock upon the exercise of outstanding options or pursuant to stock incentive plans. Likewise, our Board of Directors is authorized to cause us to issue preferred stock of any class or series (with dividend, voting and other rights as determined by the Board of Directors). Accordingly, the Board of Directors may authorize the issuance of preferred stock with voting, dividend and other similar rights that could dilute, or otherwise adversely affect, the interest of holders of our common stock.

We are subject to risks associated with debt and capital stock financing.

We intend to incur additional indebtedness in the future, including borrowings under our $1 billion acquisition credit facility. At December 31, 2012, we had $158 million of outstanding borrowings under our acquisition credit facility, a total of $2.55 billion of outstanding unsecured senior debt securities and $175.9 million of outstanding mortgage debt. To the extent that new indebtedness is added to our current debt levels, the related risks that we now face would increase. As a result, we are and will be subject to risks associated with debt financing, including the risk that our cash flow could be insufficient to meet required payments on our debt. We also face variable interest rate risk as the interest rate on our acquisition credit facility is variable and could therefore increase over time. We also face the risk that we may be unable to refinance or repay our debt as it comes due. Given past disruptions in the financial markets and the ongoing global financial crisis (which includes concerns that certain European countries may be unable to repay their national debt), we also face the risk that one or more of the participants in our acquisition credit facility may not be able to lend us money.

In addition, our acquisition credit facility contains provisions that could limit or, in certain cases, prohibit the payment of distributions on our common stock and preferred stock. In particular, our acquisition credit facility provides that, if an event of default (as defined in the credit facility) exists, neither we nor any of our subsidiaries may make any distributions on (except distributions payable in shares of a given class of our stock to the shareholders of that class), or repurchase or redeem, among other things, any shares of our common stock or preferred stock, during any period of four consecutive fiscal quarters in an aggregate amount in excess of the greater of:

- The sum of (a) 95% of our adjusted funds from operations (as defined by the credit facility agreement) for that period plus (b) the aggregate amount of cash distributions on our preferred stock for that period, and

- The minimum amount of cash distributions required to be made to our shareholders in order to maintain our status as a REIT for federal income tax purposes,

except that we may repurchase or redeem preferred stock with the net proceeds from the issuance of our common stock or preferred stock. The acquisition credit facility further provides that, in the event of a failure to pay principal, interest or any other amount payable thereunder when due or upon the occurrence of certain events of bankruptcy, insolvency or reorganization with respect to us or with respect to any of our subsidiaries

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that have guaranteed amounts payable under the credit facility or that meet a significance test set forth in the credit facility, we and our subsidiaries may not pay any distributions on (except distributions payable in shares of a given class of our stock to the shareholders of that class), or repurchase or redeem, among other things, any shares of our common stock or preferred stock. If any such event of default under our acquisition credit facility were to occur, it would likely have a material adverse effect on the market price of our outstanding common and preferred stock and on the market value of our debt securities, could limit the amount of distributions payable on our common stock and preferred stock or prevent us from paying those distributions altogether, and may adversely affect our ability to qualify, or prevent us from qualifying, as a REIT.

Our indebtedness could also have other important consequences to holders of our common and preferred stock, including:

- Increasing our vulnerability to general adverse economic and industry conditions;
- Limiting our ability to obtain additional financing to fund future working capital, acquisitions, capital expenditures and other general corporate requirements;
- Requiring the use of a substantial portion of our cash flow from operations for the payment of principal and interest on our indebtedness, thereby reducing our ability to use our cash flow to fund working capital, acquisitions, capital expenditures and general corporate requirements;
- Limiting our flexibility in planning for, or reacting to, changes in our business and our industry; and
- Putting us at a disadvantage compared to our competitors with less indebtedness.

If we default under a mortgage loan, we will automatically be in default of any other loan that has cross-default provisions, and we may lose the properties securing these loans.

Our business operations may not generate the cash needed to make distributions on our capital stock or to service our indebtedness.

Our ability to make distributions on our common stock and preferred stock and payments on our indebtedness, and to fund planned acquisitions and capital expenditures will depend on our ability to generate cash in the future. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to make distributions on our common stock and preferred stock, to pay our indebtedness, or to fund our other liquidity needs.

The market value of our capital stock and debt securities could be substantially affected by various factors.

The market value of our capital stock and debt securities will depend on many factors, which may change from time to time, including:

- Prevailing interest rates, increases in which may have an adverse effect on the market value of our capital stock and debt securities;
- The market for similar securities issued by other REITs;
- General economic and financial market conditions;
- The financial condition, performance and prospects of us, our tenants and our competitors;
- Changes in financial estimates or recommendations by securities analysts with respect to us, our competitors or our industry;
- Changes in our credit ratings; and
- Actual or anticipated variations in quarterly operating results of us and our competitors.

In addition, over the last several years, prices of common stock and debt securities in the U.S. trading markets have been experiencing extreme price fluctuations, and the market values of our common stock and debt securities have also fluctuated significantly during this period. As a result of these and other factors, investors who purchase our capital stock and debt securities may experience a decrease, which could be substantial and rapid, in the market value of our capital stock and debt securities, including decreases unrelated to our operating performance or prospects.

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Real estate ownership is subject to particular economic conditions that may have a negative impact on our revenue.

We are subject to all of the inherent risks associated with the ownership of real estate. In particular, we face the risk that rental revenue from our properties may be insufficient to cover all corporate operating expenses, debt service payments on indebtedness we incur and distributions on our capital stock. Additional real estate ownership risks include:

- Adverse changes in general or local economic conditions;
- Changes in supply of, or demand for, similar or competing properties;
- Changes in interest rates and operating expenses;
- Competition for tenants;
- Changes in market rental rates;
- Inability to lease properties upon termination of existing leases;
- Renewal of leases at lower rental rates;
- Inability to collect rents from tenants due to financial hardship, including bankruptcy;
- Changes in tax, real estate, zoning and environmental laws that may have an adverse impact upon the value of real estate;
- Uninsured property liability;
- Property damage or casualty losses;
- Unexpected expenditures for capital improvements or to bring properties into compliance with applicable federal, state and local laws;
- The need to periodically renovate and repair our properties;
- Physical or weather-related damage to properties;
- The potential risk of functional obsolescence of properties over time;
- Acts of terrorism and war; and
- Acts of God and other factors beyond the control of our management.

An uninsured loss or a loss that exceeds the policy limits on our properties could subject us to lost capital or revenue on those properties.

Under the terms and conditions of the leases currently in force on our properties, tenants generally are required to indemnify and hold us harmless from liabilities resulting from injury to persons, air, water, land or property, due to activities conducted on the properties, except for claims arising from the negligence or intentional misconduct of us or our agents. Additionally, tenants are generally required, at the tenant s expense, to obtain and keep in full force during the term of the lease, liability and property damage insurance policies. The insurance policies our tenants are required to maintain for property damage are generally in amounts not less than the full replacement cost of the improvements less slab, foundations, supports and other customarily excluded improvements. Our tenants are generally required to maintain general liability coverage varying between $1,000,000 and $10,000,000 depending on the tenant and the industry in which the tenant operates.

In addition to the indemnities and required insurance policies identified above, many of our properties are also covered by flood and earthquake insurance policies (subject to substantial deductibles) obtained and paid for by the tenants as part of their risk management programs. Additionally, we have obtained blanket liability, flood and earthquake (subject to substantial deductibles) and property damage insurance policies to protect us and our properties against loss should the indemnities and insurance policies provided by the tenants fail to restore the properties to their condition prior to a loss. However, should a loss occur that is uninsured or in an amount exceeding the combined aggregate limits for the policies noted above, or in the event of a loss that is subject to a substantial deductible under an insurance policy, we could lose all or part of our capital invested in, and anticipated revenue from, one or more of the properties, which could have a material adverse effect on our results of operations or financial condition and on our ability to pay the principal of and interest on our debt securities and other indebtedness and to make distributions to our stockholders. Given the recent disruptions in the insurance industry, we also face the risk that our insurance carriers may not be able to provide payment under any potential claims that might arise under the terms of our insurance policies, and we may not have the ability to purchase insurance policies we desire.

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Compliance with the Americans with Disabilities Act of 1990 and fire, safety, and other regulations may require us to make unintended expenditures that could adversely impact our results of operations.

Our properties are generally required to comply with the Americans with Disabilities Act of 1990, or the ADA. The ADA has separate compliance requirements for public accommodations and commercial facilities, but generally requires that buildings be made accessible to people with disabilities. Compliance with the ADA requirements could require removal of access barriers and non-compliance could result in imposition of fines by the U.S. government or an award of damages to private litigants. The retailers to whom we lease properties are obligated by law to comply with the ADA provisions, and we believe that these retailers may be obligated to cover costs associated with compliance. If required changes involve greater expenditures than anticipated, or if the changes must be made on a more accelerated basis than anticipated, the ability of these retailers to cover costs could be adversely affected and we could be required to expend our own funds to comply with the provisions of the ADA, which could materially adversely affect our results of operations or financial condition and our ability to pay the principal of and interest on our debt securities and other indebtedness and to make distributions to our stockholders. In addition, we are required to operate our properties in compliance with fire and safety regulations, building codes and other land use regulations, as they may be adopted by governmental agencies and bodies and become applicable to our properties. We may be required to make substantial capital expenditures to comply with those requirements and these expenditures could have a material adverse effect on our results of operations or financial condition and our ability to pay the principal of and interest on our debt securities and other indebtedness and to make distributions to our stockholders.

Property taxes may increase without notice.

The real property taxes on our properties and any other properties that we develop or acquire in the future may increase as property tax rates change and as those properties are assessed or reassessed by tax authorities.

We depend on key personnel.

We depend on the efforts of our executive officers and key employees. The loss of the services of our executive officers and key employees could have a material adverse effect on our results of operations or financial condition and on our ability to pay the principal and interest on our debt securities and other indebtedness and to make distributions to our stockholders. It is possible that we will not be able to recruit additional personnel with equivalent experience in the net-lease industry.

Terrorist attacks and other acts of violence or war may affect the value of our debt and equity securities, the markets in which we operate and our results of operations.

Terrorist attacks may negatively affect our operations, the market price of our capital stock and the value of our debt securities. There can be no assurance that there will not be further terrorist attacks against the United States or U.S. businesses. These attacks, or armed conflicts, may directly impact our physical facilities or the businesses of our tenants.

If events like these were to occur, they could cause consumer confidence and spending to decrease or result in increased volatility in the U.S. and worldwide financial markets and economy. They also could result in or prolong an economic recession in the U.S. or abroad. Any of these occurrences could have a significant adverse impact on our operating results and revenues and on the market price of our capital stock and on the value of our debt securities. It could also have an adverse effect on our ability to pay principal and interest on our debt securities or other indebtedness and to make distributions to our stockholders.

Disruptions in the financial markets could affect our ability to obtain financing on reasonable terms and have other adverse effects on us and the market price of our common stock.

Over the last several years, the United States stock and credit markets have experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks and debt securities to fluctuate substantially and the spreads on prospective debt financings to widen considerably. In addition, the ongoing global financial crisis (which includes concerns that certain European countries may be unable to pay their national debt) has had a similar effect. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in certain cases have resulted in the unavailability of certain types of financing. Unrest in certain Middle Eastern countries and resultant fluctuation in petroleum prices have added to the uncertainty in the capital markets. Continued uncertainty in the stock and credit markets may negatively impact our ability to access additional financing at

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reasonable terms, which may negatively affect our ability to make acquisitions. A prolonged downturn in the stock or credit markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. In addition, these factors may make it more difficult for us to sell properties or may adversely affect the price we receive for properties that we do sell, as prospective buyers may experience increased costs of financing or difficulties in obtaining financing. These events in the stock and credit markets may make it more difficult or costly for us to raise capital through the issuance of our common stock or preferred stock or debt securities. These disruptions in the financial markets also may have a material adverse effect on the market value of our common stock, preferred stock and debt securities, the income we receive from our properties and the lease rates we can charge for our properties, as well as other unknown adverse effects on us or the economy in general.

Inflation may adversely affect our financial condition and results of operations.

Although inflation has not materially impacted our results of operations in the recent past, increased inflation could have a more pronounced negative impact on any variable rate debt we incur in the future and on our results of operations. During times when inflation is greater than increases in rent, as provided for in our leases, rent increases may not keep up with the rate of inflation. Likewise, even though net leases reduce our exposure to rising property expenses due to inflation, substantial inflationary pressures and increased costs may have an adverse impact on our tenants if increases in their operating expenses exceed increases in revenue, which may adversely affect the tenants   ability to pay rent.

Current volatility in market and economic conditions may impact the accuracy of the various estimates used in the preparation of our financial statements and footnotes to the financial statements.

Various estimates are used in the preparation of our financial statements, including estimates related to asset and liability valuations (or potential impairments), and various receivables. Often these estimates require the use of market data values which are currently difficult to assess, as well as estimates of future performance or receivables collectability which can also be difficult to accurately predict. Although management believes it has been prudent and used reasonable judgment in making these estimates, it is possible that actual results may differ from these estimates.

Changes in accounting standards may adversely impact our financial condition and results of operations.

The SEC is currently considering whether issuers in the U.S. should be required to prepare financial statements in accordance with International Financial Reporting Standards, or IFRS, instead of U.S. generally accepted accounting principles, or GAAP. IFRS is a comprehensive set of accounting standards promulgated by the International Accounting Standards Board, or IASB, which are rapidly gaining worldwide acceptance. If the SEC decides to require IFRS, it expects that U.S. issuers would first report under the new standards beginning in approximately 2015 or later, although the timeframe has not been finalized. Additionally, the Financial Accounting Standards Board, or FASB, is considering various changes to GAAP, some of which may be significant, as part of a joint effort with the IASB to converge accounting standards. Although the FASB and IASB currently have a project on their agenda to examine the accounting for leases, the project may not result in the issuance of a final standard or a standard that would be comparable to current GAAP. If IFRS is adopted, the potential issues associated with lease accounting, along with other potential changes associated with the adoption or convergence with IFRS, may adversely impact our financial condition and results of operations.

Item 1B: Unresolved Staff comments

There are no unresolved staff comments.

Item 2: **Properties**

Information pertaining to our properties can be found under Item 1.

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Item 3: Legal Proceedings

We are subject to certain claims and lawsuits in the ordinary course of business, the outcome of which cannot be determined at this time. In the opinion of management, any liability we might incur upon the resolution of these claims and lawsuits will not, in the aggregate, have a material adverse effect on our consolidated financial position or results of operations.

The information contained in note 4.C., Litigation , of our notes to consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K is incorporated by reference into this Item 3. Except as set forth therein, there have been no material legal proceedings for the year ended December 31, 2012.

Item 4: Mine Safety Disclosures

None.

PART II

Item 5: Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

A. Our common stock is traded on the NYSE under the ticker symbol O. The following table shows the high and low sales prices per share for our common stock as reported by the NYSE, and distributions declared per share of common stock for the periods indicated.

	Price Per Share of Common Stock		
	High	**Low**	**Distributions Declared(1)**
2012			
First quarter	$ 39.03	$ 34.31	$ 0.4368125
Second quarter	41.89	36.88	0.4377500
Third quarter	44.17	40.35	0.4486875
Fourth quarter	41.70	37.35	0.4546250
Total			$ 1.777875
2011			
First quarter	$ 36.12	$ 33.40	$ 0.4330625

Second quarter	36.35	32.19	0.4340000
Third quarter	35.03	27.95	0.4349375
Fourth quarter	35.76	29.79	0.4358750
Total			$ 1.7378750

(1) Common stock cash distributions currently are declared monthly by us based on financial results for the prior months. At December 31, 2012, a distribution of $0.15175 per common share had been declared and was paid in January 2013.

There were 8,128 registered holders of record of our common stock as of December 31, 2012. We estimate that our total number of shareholders is over 115,000 when we include both registered and beneficial holders of our common stock.

During the fourth quarter of 2012, no shares of stock were withheld for state and federal payroll taxes on the vesting of stock awards, as permitted under the 2012 Incentive Award Plan of Realty Income Corporation.

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Item 6: Selected Financial Data

(not covered by Report of Independent Registered Public Accounting Firm)

(dollars in thousands, except for per share data)

As of or for the years ended December 31,	**2012**	**2011**	**2010**	**2009**	**2008**
Total assets (book value)	$ 5,443,363	$ 4,419,389	$ 3,535,590	$ 2,914,787	$ 2,994,179
Cash and cash equivalents	5,248	4,165	17,607	10,026	46,815
Total debt	2,883,868	2,055,181	1,600,000	1,354,600	1,370,000
Total liabilities	3,030,569	2,164,535	1,688,625	1,426,778	1,439,518
Total stockholders equity	2,412,794	2,254,854	1,846,965	1,488,009	1,554,661
Net cash provided by operating activities	326,469	298,952	243,368	226,707	246,155
Net change in cash and cash equivalents	1,083	(13,442)	7,581	(36,789)	(146,286)
Total revenue	475,510	410,252	333,437	311,965	310,813
Income from continuing operations	145,971	144,625	115,201	112,596	100,979
Income from discontinued operations	13,181	12,407	15,583	18,531	30,862
Net income	159,152	157,032	130,784	131,127	131,841
Preferred stock dividends	(40,918)	(24,253)	(24,253)	(24,253)	(24,253)
Excess of redemption value over carrying value of preferred shares redeemed	(3,696)	--	--	--	--
Net income available to common stockholders	114,538	132,779	106,531	106,874	107,588
Cash distributions paid to common stockholders	236,348	219,297	182,500	178,008	169,655
Basic and diluted net income per common share	0.86	1.05	1.01	1.03	1.06
Cash distributions paid per common share	1.771625	1.736625	1.721625	1.706625	1.662250
Cash distributions declared per common share	1.777875	1.737875	1.722875	1.707875	1.667250
Basic weighted average number of common shares outstanding	132,817,472	126,142,696	105,869,637	103,577,507	101,178,191
Diluted weighted average number of common shares outstanding	132,884,933	126,189,399	105,942,721	103,581,053	101,209,883

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Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

Realty Income, The Monthly Dividend Company®, is a publicly traded real estate company with the primary business objective of generating dependable monthly cash dividends from a consistent and predictable level of cash flow from operations. Our monthly distributions or dividends are supported by the cash flow from our portfolio of properties leased to commercial enterprises. We have in-house acquisition, leasing, legal, credit research, real estate research, portfolio management and capital markets expertise. Over the past 44 years, Realty Income and its predecessors have been acquiring and owning freestanding commercial properties that generate rental revenue under long-term lease agreements.

In 1994, Realty Income was listed upon the New York Stock Exchange and we elected to be taxed as a real estate investment trust, or REIT, requiring us to distribute dividends to our stockholders aggregating at least 90% of our taxable income (excluding net capital gains).

We seek to increase distributions to stockholders and FFO per share through both active portfolio management and the acquisition of additional properties.

At December 31, 2012, we owned a diversified portfolio:

- Of 3,013 properties;
- With an occupancy rate of 97.2%, or 2,929 properties leased and only 84 properties available for lease;
- Leased to 150 different commercial enterprises doing business in 44 separate industries;
- Located in 49 states;
- With over 37.6 million square feet of leasable space; and
- With an average leasable space per property of approximately 12,500 square feet.

Of the 3,013 properties in the portfolio, 2,996, or 99.4%, are single-tenant properties, and the remaining 17 are multi-tenant properties. At December 31, 2012, of the 2,996 single-tenant properties, 2,913 were leased with a weighted average remaining lease term (excluding rights to extend a lease at the option of the tenant) of approximately 11.0 years.

LIQUIDITY AND CAPITAL RESOURCES

Capital Philosophy

Historically, we have met our long-term capital needs by issuing common stock, preferred stock and long-term unsecured notes and bonds. Over the long term, we believe that common stock should be the majority of our capital structure. However, we may issue additional preferred stock or debt securities from time to time. We may issue common stock when we believe that our share price is at a level that allows for the proceeds of any offering to be accretively invested into additional properties. In addition, we may issue common stock to permanently finance properties that were financed by our credit facility or debt securities. However, we cannot assure you that we will have access to the capital markets at times and at terms that are acceptable to us.

Our primary cash obligations, for the current year and subsequent years, are included in the Table of Obligations, which is presented later in this section. We expect to fund our operating expenses and other short-term liquidity requirements, including property acquisitions and development costs, payment of principal and interest on our outstanding indebtedness, property improvements, re-leasing costs and cash distributions to common and preferred stockholders, primarily through cash provided by operating activities, borrowing on our $1 billion credit facility and occasionally through public securities offerings.

Conservative Capital Structure

We believe that our stockholders are best served by a conservative capital structure. Therefore, we seek to maintain a conservative debt level on our balance sheet and solid interest and fixed charge coverage ratios. At December 31, 2012, our total outstanding borrowings of senior unsecured notes and bonds, mortgages payable and credit facility borrowings were $2.88 billion, or approximately 32.5% of our total market capitalization of $8.88 billion.

We define our total market capitalization at December 31, 2012 as the sum of:

- Shares of our common stock outstanding of 133,452,411 multiplied by the last reported sales price of our common stock on the NYSE of $40.21 per share on December 31, 2012, or $5.37 billion;
- Aggregate liquidation value (par value of $25.00 per share) of the Class E preferred stock of $220 million;
- Aggregate liquidation value (par value of $25.00 per share) of the Class F preferred stock of $408.8 million;
- Outstanding borrowings of $158.0 million on our credit facility;
- Outstanding mortgages payable of $175.9 million; and
- Outstanding senior unsecured notes and bonds of $2.55 billion.

At the close of the acquisition of American Realty Capital Trust, Inc., or ARCT, on January 22, 2013, our total market capitalization increased to over $12 billion.

Notes Receivable

As of December 31, 2012, we had $63.2 million in notes receivable, which are secured by the properties on which the note receivables were placed. Included in this amount are $35.1 million of notes receivable acquired in 2012, $8.8 million of notes receivable acquired in 2011, $18.9 million of notes receivable held by our wholly-owned taxable REIT subsidiary, Crest, and $0.4 million of notes receivable from a property sale.

Mortgage Debt

As of December 31, 2012, we had $165.9 million of mortgages payable, which were assumed in connection with our property acquisitions in 2012 and 2011. Additionally, at December 31, 2012, we had net premiums totaling $9.9 million on these mortgages. During 2012, we paid $11.7 million in principal payments, which includes $10.7 million to pay off one mortgage in March 2012. In conjunction with our acquisition of ARCT in January 2013, we assumed approximately $516.3 million of mortgages payable.

We expect to pay off the mortgages payable as soon as prepayment penalties and costs make it economically feasible to do so. We intend to continue our policy of primarily identifying property acquisitions that are free from mortgage indebtedness.

$1 Billion Acquisition Credit Facility

In May 2012, we entered into a new $1 billion unsecured acquisition credit facility, which replaced our $425 million acquisition credit facility that was scheduled to expire in March 2014. The initial term of the new credit facility expires in May 2016 and includes, at our option, a one-year extension. Under this new credit facility, our current investment grade credit ratings provide for financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 1.075% with a facility commitment fee of 0.175%, for all-in drawn pricing of 1.25% over LIBOR. The borrowing rate is not subject to an interest rate floor or ceiling. We also have other interest rate options available to us. Our credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation. At December 31, 2012, we had a borrowing capacity of $842 million available on our credit facility (subject to customary conditions to borrowing) and an outstanding balance of $158 million. The interest rate on borrowings outstanding under our new credit facility, at December 31, 2012, was 1.3% per annum. We must comply with various financial and other covenants in our credit facility. At December 31, 2012, we remain in compliance with these covenants.

We expect to use our credit facility to acquire additional properties and for other corporate purposes. Any additional borrowings will increase our exposure to interest rate risk. We have the right to request an increase in the borrowing capacity of the credit facility, up to $500 million, to a total borrowing capacity of $1.5 billion. Any increase in the borrowing capacity is subject to approval by the lending banks participating in our credit facility.

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Cash Reserves

We are organized to operate as an equity REIT that acquires and leases properties and distributes to stockholders, in the form of monthly cash distributions, a substantial portion of our net cash flow generated from leases on our properties. We intend to retain an appropriate amount of cash as working capital. At December 31, 2012, we had cash and cash equivalents totaling $5.2 million.

We believe that our cash and cash equivalents on hand, cash provided from operating activities, and borrowing capacity is sufficient to meet our liquidity needs for the next twelve months. We intend, however, to use additional sources of capital to fund property acquisitions and to repay future borrowings under our credit facility.

Acquisitions During 2012

During 2012, Realty Income invested $1.16 billion in real estate, acquiring 423 properties, and properties under development, with an initial weighted average contractual lease rate of 7.2%. The majority of the lease revenue from these properties is generated from investment grade tenants. These 423 properties, and properties under development, are located in 37 states, will contain over 10.5 million leasable square feet, and are 100% leased with an average lease term of 14.6 years. The tenants of the 423 properties acquired operate in 23 industries: aerospace, apparel stores, automotive collision services, automotive parts, consumer appliances, consumer goods, convenience stores, crafts and novelties, diversified industrial, dollar stores, drug stores, equipment services, food processing, health and fitness, insurance, machinery, motor vehicle dealerships, packaging, paper, restaurants quick service, theaters, transportation services, and wholesale clubs. None of the investments in these properties caused any one tenant to be 10% or more of our total assets at December 31, 2012.

The initial weighted average contractual lease rate is computed as estimated contractual net operating income (in a net-leased property that is equal to the aggregate base rent or, in the case of a property under development, the estimated base rent) for the first year of each lease, divided by the estimated total cost of the properties. Since it is possible that a tenant could default on the payment of contractual rent, we cannot provide assurance that the actual return on the funds invested will remain at the percentages listed above.

Of the $1.16 billion Realty Income invested in 2012, approximately $35.1 million was used to originate a note receivable, which is secured by the properties on which the note receivable was placed.

During 2012, Crest invested $890,000 in one property in the restaurant casual industry.

January 2013 Acquisition of American Realty Capital Trust, Inc.

On January 22, 2013, we completed our acquisition of ARCT, in a transaction valued at approximately $3.1 billion. Pursuant to the terms and subject to the conditions set forth in the Agreement and Plan of Merger dated as of September 6, 2012, as amended on January 6, 2013, at the effective time of the acquisition, each outstanding share of ARCT common stock was converted into the right to receive a combination of: (i) $0.35 in cash and (ii) 0.2874 shares of our common stock. In connection with the acquisition, at the closing we terminated and repaid the amounts then outstanding of approximately $552.9 million under ARCT s revolving credit facility and term loan. In conjunction with our acquisition of ARCT in January 2013, we assumed approximately $516.3

million of mortgages payable. With this acquisition, we added 515 properties to our portfolio. Through 2012, we have incurred $7.9 million of merger costs. We anticipate that the total merger costs will be approximately $19 million.

In January 2013, in conjunction with our acquisition of ARCT, we entered into a $70 million senior unsecured term loan maturing January 21, 2018. Borrowing under the term loan bears interest at LIBOR, plus 1.20%. In conjunction with this term loan, we also acquired an interest rate swap which essentially fixes our per annum interest rate on the term loan at 2.15%.

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Portfolio Discussion

Leasing Results

At December 31, 2012, we had 84 properties available for lease out of 3,013 properties in our portfolio, which represents a 97.2% occupancy rate. Since December 31, 2011, when we reported 87 properties available for lease and a 96.7% occupancy rate, we:

- Leased 47 properties;
- Sold 20 properties available for lease; and
- Have 64 new properties available for lease.

During 2012, 124 properties with expiring leases were leased to either existing or new tenants. The rent on these leases was $10.6 million, as compared to the previous rent on these same properties of $10.9 million. At December 31, 2012, our average annualized rental revenue per square foot was approximately $14.56 per square foot on the 2,929 leased properties in our portfolio. At December 31, 2012, we classified 14 properties with a carrying amount of $19.2 million as held for sale on our balance sheet.

Investments in Existing Properties

In 2012, we capitalized costs of $6.6 million on existing properties in our portfolio, consisting of $1.62 million for re-leasing costs and $4.93 million for building and tenant improvements. In 2011, we capitalized costs of $4.2 million on existing properties in our portfolio, consisting of $1.7 million for re-leasing costs and $2.5 million for building improvements.

As part of our re-leasing costs, we pay leasing commissions and sometimes provide tenant rent concessions. Leasing commissions are paid based on the commercial real estate industry standard and any rent concessions provided are minimal. We do not consider the collective impact of the leasing commissions or tenant rent concessions to be material to our financial position or results of operations.

The majority of our building and tenant improvements are related to roof repairs, HVAC improvements, and parking lot resurfacing and replacements. It is not customary for us to offer significant tenant improvements on our properties as tenant incentives. The amounts of our capital expenditures can vary significantly, depending on the rental market, credit worthiness, and the willingness of tenants to pay higher rents over the terms of the leases.

Impact of Real Estate and Credit Markets

In the commercial real estate market, property prices generally continue to fluctuate. Likewise, during certain periods, the U.S. credit markets have experienced significant price volatility, dislocations and liquidity disruptions, which may impact our access to and cost of capital. We continually monitor the commercial real estate and U.S. credit markets carefully and, if required, make decisions to adjust our business strategy accordingly. See our discussion of Risk Factors in this annual report.

Increases in Monthly Dividends to Common Stockholders

We continue our 44-year policy of paying monthly dividends. Monthly dividends per common share increased by $0.0003125 in April 2012 to $0.1458125, increased by $0.0003125 in July 2012 to $0.146125, increased by $0.005 in September 2012 to $0.151125, increased by $0.0003125 in October 2012 to $0.1514375, increased by $0.0003125 in January 2013 to $0.15175, and increased by $0.0291667 in February 2013 to $0.1809167. The increase in January 2013 was our 61st consecutive quarterly increase and the increase in February 2013 was our 70th increase in the amount of our dividend since our listing on the NYSE in 1994. In 2012, we paid three monthly cash dividends per common share in the amount of $0.1455, three in the amount of $0.1458125, two in the amount of $0.146125, one in the amount of $0.151125, and three in the amount of $0.1514375 totaling $1.771625. In December 2012, we declared dividends of $0.15175 per share, which were paid in January 2013. In January 2013 and February 2013, we declared dividends of $0.1809167 per share, which will be paid in February 2013 and March 2013, respectively.

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The current monthly dividend of $0.1809167 per share represents a current annualized dividend of $2.171 per share, and an annualized dividend yield of approximately 5.0% based on the last reported sale price of our common stock on the NYSE of $43.40 on February 1, 2013. Although we expect to continue our policy of paying monthly dividends, we cannot guarantee that we will maintain our current level of dividends, that we will continue our pattern of increasing dividends per share, or what our actual dividend yield will be in any future period.

Note Issuance

In October 2012, we issued $350 million in aggregate principal amount of 2.00% senior unsecured notes due January 2018, or the 2018 Notes, and $450 million in aggregate principal amount of 3.25% senior unsecured notes due October 2022, or the 2022 Notes. The price to the investors for the 2018 Notes was 99.910% of the principal amount for an effective yield of 2.017% per annum. The price to the investors for the 2022 Notes was 99.382% of the principal amount for an effective yield of 3.323% per annum. The total net proceeds of approximately $790.1 million from these offerings were used to repay all outstanding borrowings under our acquisition credit facility, and the remaining proceeds will be used for general corporate purposes, which may include additional property acquisitions.

Universal Shelf Registration

In October 2012, we filed a shelf registration statement with the SEC, which is effective for a term of three years and will expire in October 2015. This replaces our prior shelf registration statement. In accordance with SEC rules, the amount of securities to be issued pursuant to this shelf registration statement was not specified when it was filed and there is no specific dollar limit. The securities covered by this registration statement include (1) common stock, (2) preferred stock, (3) debt securities, (4) depositary shares representing fractional interests in shares of preferred stock, (5) warrants to purchase debt securities, common stock, preferred stock or depositary shares, and (6) any combination of these securities. We may periodically offer one or more of these securities in amounts, prices and on terms to be announced when and if the securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of any offering.

Environmental Insurance Policies

In July 2012, we entered into new ten-year environmental primary and excess insurance policies that expire in July 2022. The limits on our new primary policy are $10 million per occurrence and $60 million in the aggregate. The limits on the excess policy are $5 million per occurrence and $10 million in the aggregate. Therefore, the primary and excess ten-year policies together provide a total limit of $15 million per occurrence and $70 million in the aggregate.

Authorized Shares

In June 2012, our stockholders approved an increase in the number of authorized shares of our common stock to 370,100,000 and the number of authorized shares of our preferred stock to 69,900,000.

2012 Incentive Award Plan

In March 2012, our Board of Directors adopted, and in May 2012, our stockholders approved the Realty Income Corporation 2012 Incentive Award Plan, or the 2012 Plan, to enable us to attract and retain the services of directors, employees and consultants considered essential to our long-term success. The 2012 Plan offers our directors, employees and consultants an opportunity to own stock in Realty Income or rights that will reflect our growth, development and financial success. The 2012 Plan replaced the 2003 Incentive Award Plan of Realty Income Corporation (as amended and restated February 21, 2006), which was set to expire in March 2013.

Issuances and Redemption of Preferred Stock

In February 2012, we issued 14.95 million shares of our 6.625% Monthly Income Class F Cumulative Redeemable Preferred Stock at a price of $25.00 per share, including 1.95 million shares purchased by the underwriters upon the exercise of their overallotment option. In April 2012, we issued an additional 1.4 million shares of our Class F preferred stock at a price $25.2863 per share. Of the aggregate net proceeds of approximately $395.4 million from these issuances, $127.5 million was used to redeem all of our outstanding 7.375% Monthly Income Class D Cumulative Redeemable Preferred Stock and the balance was used to repay

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borrowings under our credit facility. The dividend rate difference of 0.75% between the Class D and Class F preferred stock provides us savings of $956,000 annually on the Class D redemption amount of $127.5 million. Beginning February 15, 2017, the Class F preferred shares are redeemable at our option, for $25.00 per share. The initial dividend of $0.1702257 per share was paid on March 15, 2012, and covered 37 days. Thereafter, dividends of $0.138021 per share will be paid monthly, in arrears.

We redeemed all of the 5.1 million shares of our 7.375% Monthly Income Class D Cumulative Redeemable Preferred Stock in March 2012 for $25.00 per share, plus accrued dividends. We incurred a charge of $3.7 million, representing the Class D preferred stock original issuance costs that we paid in 2004.

Dividend Reinvestment and Stock Purchase Plan

In March 2011, we established a Dividend Reinvestment and Stock Purchase Plan, or the DSPP, to provide our common shareholders, as well as new investors, with a convenient and economical method of purchasing our common stock and reinvesting their distributions. The DSPP also allows our current stockholders to buy additional shares of common stock by reinvesting all or a portion of their distributions. The DSPP authorizes up to 6,000,000 common shares to be issued. During 2012, we issued 55,598 shares and raised approximately $2.2 million under the DSPP. From the inception of the DSPP through December 31, 2012, we have issued 115,203 shares and raised approximately $4.2 million.

Credit Agency Ratings

The borrowing interest rates under our credit facility are based upon our credit ratings. We are currently assigned the following investment grade corporate credit ratings on our senior unsecured notes and bonds: Fitch Ratings has assigned a rating of BBB+ with a stable outlook, Moody s Investors Service has assigned a rating of Baa1 with a negative outlook, and Standard & Poor s Ratings Group has assigned a rating of BBB with a stable outlook to our senior notes.

Based on our current ratings, the credit facility interest rate is LIBOR plus 1.075% with a facility commitment fee of 0.175%, for all-in drawn pricing of 1.25% over LIBOR. The credit facility provides that the interest rate can range between: (i) LIBOR plus 1.85% if our credit facility is lower than BBB-/Baa3 and (ii) LIBOR plus 1.00% if our credit rating is A-/A3 or higher. In addition, our credit facility provides for a facility commitment fee based on our credit ratings, which range from: (i) 0.45% for a rating lower than BBB-/Baa3, and (ii) 0.15% for a credit rating of A-/A3 or higher.

We also issue senior debt securities from time to time and our credit ratings can impact the interest rates charged in those transactions. In addition, if our credit ratings or ratings outlook change, our cost to obtain debt financing could increase or decrease.

The credit ratings assigned to us could change based upon, among other things, our results of operations and financial condition. These ratings are subject to ongoing evaluation by credit rating agencies and we cannot assure you that our ratings will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. Moreover, a rating is not a recommendation to buy, sell or hold our debt securities, preferred stock or common stock.

Notes Outstanding

Our senior unsecured note and bond obligations consist of the following as of December 31, 2012, sorted by maturity date (dollars in millions):

5.375% notes, issued in March 2003 and due in March 2013	$ 100
5.5% notes, issued in November 2003 and due in November 2015	150
5.95% notes, issued in September 2006 and due in September 2016	275
5.375% notes, issued in September 2005 and due in September 2017	175
2.00% notes, issued in October 2012 and due in January 2018	350
6.75% notes, issued in September 2007 and due in August 2019	550
5.75% notes, issued in June 2010 and due in January 2021	250
3.25% notes, issued in October 2012 and due in October 2022	450
5.875% bonds, $100 issued in March 2005 and $150 issued in June 2011, both due in March 2035	250
	$ 2,550

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All of our outstanding notes and bonds have fixed interest rates. Interest on all of our senior note and bond obligations is paid semiannually. All of these notes and bonds contain various covenants, including: (i) a limitation on incurrence of any debt which would cause our debt to total adjusted assets ratio to exceed 60%; (ii) a limitation on incurrence of any secured debt which would cause our secured debt to total adjusted assets ratio to exceed 40%; (iii) a limitation on incurrence of any debt which would cause our debt service coverage ratio to be less than 1.5 times; and (iv) the maintenance at all times of total unencumbered assets not less than 150% of our outstanding unsecured debt. At December 31, 2012, we remain in compliance with these covenants.

In March 2013, we expect to repay $100 million of our 5.375% notes by utilizing our credit facility.

The following is a summary of the key financial covenants for our senior unsecured notes, as defined and calculated per the terms of our notes. These calculations, which are not based on U.S. GAAP measurements, are presented to investors to show our ability to incur additional debt under the terms of our notes only and are not measures of our liquidity or performance. The actual amounts as of December 31, 2012 are:

Note Covenants	**Required**	**Actual**
Limitation on incurrence of total debt	≤ 60% of adjusted assets	47.6%
Limitation on incurrence of secured debt	≤ 40% of adjusted assets	2.9%
Debt service coverage (trailing 12 months)	≥ 1.5 x	3.6 x
Maintenance of total unencumbered assets	≥ 150% of unsecured debt	214.4%

The following table summarizes the maturity of each of our obligations as of December 31, 2012 (dollars in millions):

Table of Obligations

Year of Maturity	Credit Facility(1)	Notes and Bonds	Mortgages Payable(2)	Interest (3)	Ground Leases Paid by Realty Income(4)	Ground Leases Paid by Our Tenants(5)	Other (6)	Totals
2013	$ --	$ 100.0	$ 23.1	$ 138.9	$ 0.2	$ 4.3	$ --	$ 266.5
2014	--	--	13.7	132.8	0.2	4.1	16.9	167.7
2015	--	150.0	26.1	130.5	0.2	4.1	--	310.9
2016	158.0	275.0	14.4	127.0	0.2	4.0	--	578.6
2017	--	175.0	45.3	111.9	0.2	3.9	--	336.3
Thereafter	--	1,850.0	43.3	437.5	0.4	48.8	--	2,380.0
Totals	$158.0	$ 2,550.0	$ 165.9	$ 1,078.6	$1.4	$ 69.2	$ 16.9	$ 4,040.0

(1) The initial term of the credit facility expires in May 2016 and includes, at our option, a one-year extension.

(2) Excludes net premiums recorded on the mortgages payable. The balance of these net premiums at December 31, 2012, is $9.9 million.

(3) Interest on the credit facility, notes, bonds and mortgages payable has been calculated based on outstanding balances as of December 31, 2012 through their respective maturity dates.

(4) Realty Income currently pays the ground lessors directly for the rent under the ground leases.

(5) Our tenants, who are generally sub-tenants under ground leases, are responsible for paying the rent under these ground leases. In the event a tenant fails to pay the ground lease rent, we are primarily responsible.

(6) Other consists of $16.0 million of commitments under construction contracts and $944,000 of contingent payments for tenant improvements and leasing costs.

Our credit facility and notes payable obligations are unsecured. Accordingly, we have not pledged any assets as collateral for these obligations.

Preferred Stock Outstanding

In 2006, we issued 8.8 million shares of 6.75% Class E Cumulative Redeemable Preferred Stock. Beginning December 7, 2011, shares of Class E preferred stock were redeemable at our option for $25.00 per share, plus any accrued and unpaid dividends. Dividends on shares of Class E preferred stock are paid monthly in arrears.

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In February 2012, we issued 14.95 million shares of our 6.625% Monthly Income Class F Cumulative Redeemable Preferred Stock at $25.00 per share, including 1.95 million shares purchased by the underwriters upon the exercise of their overallotment option. In April 2012, we issued an additional 1.4 million shares of Class F Cumulative Redeemable Preferred Stock at $25.2863 per share. Beginning February 15, 2017, shares of our Class F preferred stock are redeemable at our option for $25.00 per share, plus any accrued and unpaid dividends. Dividends on the shares of Class F preferred shares will be paid monthly in arrears.

We are current on our obligations to pay dividends on our Class E and Class F preferred stock.

No Unconsolidated Investments

We have no unconsolidated investments, nor do we engage in trading activities involving energy or commodity contracts. Additionally, we have no joint ventures or mandatorily redeemable preferred stock. As such, our financial position and results of operations are not affected by accounting regulations regarding the classification of financial instruments with characteristics of both liabilities and equity.

RESULTS OF OPERATIONS

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles, or GAAP, and are the basis for our discussion and analysis of financial condition and results of operations. Preparing our consolidated financial statements requires us to make a number of estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. We believe that we have made these estimates and assumptions in an appropriate manner and in a way that accurately reflects our financial condition. We continually test and evaluate these estimates and assumptions using our historical knowledge of the business, as well as other factors, to ensure that they are reasonable for reporting purposes. However, actual results may differ from these estimates and assumptions. This summary should be read in conjunction with the more complete discussion of our accounting policies and procedures included in note 2 to our consolidated financial statements.

In order to prepare our consolidated financial statements according to the rules and guidelines set forth by GAAP, many subjective judgments must be made with regard to critical accounting policies. One of these judgments is our estimate for useful lives in determining depreciation expense for our properties. Depreciation on a majority of our buildings and improvements is computed using the straight line method over an estimated useful life of 25 to 35 years. If we use a shorter or longer estimated useful life, it could have a material impact on our results of operations. We believe that 25 to 35 years is an appropriate estimate of useful life.

When acquiring a property, we allocate the fair value of real estate acquired to: (1) land, (2) building and improvements, and (3) identified intangible assets and liabilities, based in each case on their estimated fair values. Intangible assets and liabilities consist of above-market or below-market lease value of in-place leases, the value of in-place leases, and tenant relationships, as applicable. In addition, any assumed mortgages receivable or payable are recorded at their estimated fair values.

Another significant judgment must be made as to if, and when, impairment losses should be taken on our properties when events or a change in circumstances indicate that the carrying amount of the asset may not be recoverable. A provision is made for impairment if estimated future operating cash flows (undiscounted and without interest charges) plus estimated disposition proceeds (undiscounted) are less than the current book value of the property. Key inputs that we estimate in this analysis include projected rental rates, estimated holding periods, capital expenditures, and property sales capitalization rates. If a property is held for sale, it is carried at the lower of carrying cost or estimated fair value, less estimated cost to sell. The carrying value of our real estate is the largest component of our consolidated balance sheet. Our strategy of primarily holding properties, long-term, directly decreases the likelihood of their carrying values not being recoverable, thus requiring the recognition of an impairment. However, if our strategy, or one or more of the above assumptions were to change in the future, an impairment may need to be recognized. If events should occur that require us to reduce the carrying value of our real estate by recording provisions for impairment, they could have a material impact on our results of operations.

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The following is a comparison of our results of operations for the years ended December 31, 2012, 2011 and 2010.

Rental Revenue

Rental revenue was $473.7 million for 2012 versus $408.6 million for 2011, an increase of $65.1 million, or 15.9%. Rental revenue was $332.8 million in 2010. The increase in rental revenue in 2012 compared to 2011 is primarily attributable to:

- The 423 properties (10.6 million square feet) acquired by Realty Income in 2012, which generated $22.7 million of rent in 2012;

- The 164 properties (6.2 million square feet) acquired by Realty Income in 2011, which generated $79.0 million of rent in 2012 compared to $31.5 million in 2011, an increase of $47.5 million;

- Same store rents generated on 2,220 properties (18.6 million square feet) during the entire years of 2012 and 2011, increased by $364,000, or 0.1%, to $360.4 million from $360.0 million;

- A net decrease of $8.4 million relating to the aggregate of (i) rental revenue from properties (1.3 million square feet) that were available for lease during part of 2012 or 2011, (ii) rental revenue related to 70 properties sold during 2012 and 2011, and (iii) lease termination settlements which, in aggregate, totaled $7.8 million in 2012 compared to $16.2 million in 2011; and

- A net increase in straight-line rent and other non-cash adjustments to rent of $2.3 million in 2012 as compared to 2011.

For purposes of determining the same store rent property pool, we include all properties that were owned for the entire year-to-date period, for both the current and prior year except for properties during the current or prior year that; (i) were available for lease at any time, (ii) were under development, (iii) we have made an additional investment in, (iv) were involved in eminent domain and rent was reduced, and (v) were re-leased with rent-free periods. Each of the exclusions from the same store pool is separately addressed within the applicable sentences above explaining the changes in rental revenue for the period.

Of the 3,013 properties in the portfolio at December 31, 2012, 2,996, or 99.4%, are single-tenant properties and the remaining 17 are multi-tenant properties. Of the 2,996 single-tenant properties, 2,913, or 97.2%, were net leased with a weighted average remaining lease term (excluding rights to extend a lease at the option of the tenant) of approximately 11.0 years at December 31, 2012. Of our 2,913 leased single-tenant properties, 2,681 or 92.0% were under leases that provide for increases in rents through:

- Primarily base rent increases tied to a consumer price index (typically subject to ceilings);

- Percentage rent based on a percentage of the tenants gross sales;

- Fixed increases; or

- A combination of two or more of the above rent provisions.

Percentage rent, which is included in rental revenue, was $2.0 million in 2012, $1.4 million in 2011 and $1.3 million in 2010 (excluding percentage rent reclassified to discontinued operations of $124,000 in 2012, $60,000 in 2011 and $104,000 in 2010). Percentage rent in 2012 was less than 1% of rental revenue and we anticipate percentage rent to be less than 1% of rental revenue in 2013.

Our portfolio of real estate, leased primarily to regional and national commercial enterprises under net leases, continues to perform well and provides dependable lease revenue supporting the payment of monthly dividends to our stockholders. At December 31, 2012, our portfolio of 3,013 properties was 97.2% leased with 84 properties available for lease as compared to 87 at December 31, 2011. It has been our experience that approximately 2% to 4% of our property portfolio will be unleased at any given time; however, it is possible that the number of properties available for lease could exceed these levels in the future.

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Depreciation and Amortization

Depreciation and amortization was $149.6 million in 2012, compared to $118.9 million in 2011 and $91.6 million in 2010. The increases in depreciation and amortization in 2012 and 2011 were primarily due to the acquisition of properties in 2012 and 2011, which was partially offset by property sales in those same years. As discussed in the sections entitled Funds from Operations Available to Common Stockholders and Normalized Funds from Operations Available to Common Stockholders and Adjusted Funds from Operations Available to Common Stockholders, depreciation and amortization is a non-cash item that is added back to net income available to common stockholders for our calculation of FFO, normalized FFO and AFFO.

Interest Expense

Interest expense was $122.5 million in 2012, compared to $108.3 million in 2011 and $93.2 million in 2010. The increase in interest expense from 2011 to 2012 was primarily due to an increase in borrowings attributable to the $150 million re-opening of our 5.875% senior unsecured bonds due 2035 in June 2011, the issuance of our 2.00% senior unsecured notes due January 2018 in October 2012, and the issuance of our 3.25% senior unsecured notes due October 2022 in October 2012, interest on our mortgages payable, and higher credit facility borrowings, which were partially offset by lower average interest rates.

As a result of entering into our new credit facility, we incurred credit facility origination costs of $7.1 million. At December 31, 2012, $5.9 million of the $7.1 million is included in other assets, net, on our consolidated balance sheet, along with $2.2 million incurred as a result of entering into our previous credit facilities. These costs are being amortized over the remaining term of our current $1 billion credit facility.

The following is a summary of the components of our interest expense (dollars in thousands):

	2012	**2011**	**2010**
Interest on our credit facility, notes, bonds and mortgages	$ 117,401	$ 104,452	$ 89,916
Interest included in discontinued operations	(601)	(785)	(557)
Credit facility commitment fees	1,684	1,508	1,017
Amortization of credit facility origination costs, deferred financing costs and net mortgage premiums	4,556	3,564	2,871
Interest capitalized	(498)	(438)	(10)
Interest expense	$ 122,542	$ 108,301	$ 93,237

Credit facility, mortgages and notes outstanding	**2012**	**2011**	**2010**
Average outstanding balances (dollars in thousands)	$ 2,144,690	$ 1,754,935	$ 1,496,150
Average interest rates	5.5%	6.0%	6.0%

At December 31, 2012, the weighted average interest rate on our:

- Notes and bonds payable of $2.55 billion was 4.99%;
- Mortgages payable of $175.9 million was 4.38%;

- Credit facility outstanding borrowings of $158.0 million was 1.28%; and
- Combined outstanding notes, bonds, mortgages and credit facility borrowings of $2.9 billion was 4.75%.

EBITDA and Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization)

EBITDA and Adjusted EBITDA are non-GAAP financial measures. Our EBITDA and Adjusted EBITDA computation may not be comparable to EBITDA and Adjusted EBITDA reported by other companies that interpret the definitions of EBITDA and Adjusted EBITDA differently than we do. Management believes EBITDA and Adjusted EBITDA to be meaningful measures of a REIT s performance because they are widely followed by industry analysts, lenders and investors and are used by management as measures of performance. In addition, management utilizes Adjusted EBITDA because our $1 billion credit facility uses a similar metric to measure our compliance with certain covenants. EBITDA and Adjusted EBITDA should be considered along with, but not as alternatives to, net income as measures of our operating performance.

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The following is a reconciliation of net income, our most directly comparable GAAP measure, to Adjusted EBITDA (dollars in thousands):

	2012	2011	2010
Net income	$ 159,152	$ 157,032	$ 130,784
Interest expense	122,542	108,301	93,237
Interest expense included in discontinued operations	601	785	557
Income taxes	1,430	1,470	1,393
Income tax benefit included in discontinued operations	(369)	(351)	(344)
Depreciation and amortization	149,597	118,874	91,641
Depreciation and amortization in discontinued operations	1,710	3,305	4,508
EBITDA	434,663	389,416	321,776
Provisions for impairment	5,139	405	213
Amortization of net premiums on mortgages payable	(665)	(189)	--
Merger-related costs	7,899	--	--
Gain on property sales	--	(540)	--
Gain on property sales in discontinued operations	(9,873)	(5,193)	(8,676)
Adjusted EBITDA	$ 437,163	$ 383,899	$ 313,313

Interest Coverage Ratio

Interest coverage ratio is calculated as: Adjusted EBITDA divided by interest expense, including interest recorded as discontinued operations and amortization of net premiums on mortgages payable. We consider interest coverage ratio to be an appropriate supplemental measure of a company s ability to meet its interest expense obligations. Our calculation of interest coverage ratio may be different from the calculation used by other companies and, therefore, comparability may be limited. This information should not be considered as an alternative to any GAAP liquidity measures.

Dollars in thousands	2012	2011	2010
Adjusted EBITDA	$ 437,163	$ 383,899	$ 313,313
Divided by interest expense(1)	$ 122,478	$ 108,897	$ 93,794
Interest coverage ratio	3.6	3.5	3.3

(1) See below reconciliation of interest expense used for calculation of interest coverage ratio (dollars in thousands):

	2012	2011	2010
Interest expense	$ 122,542	$ 108,301	$ 93,237
Interest expense included in discontinued operations	601	785	557
Amortization of net premiums on mortgages payable	(665)	(189)	--
	$ 122,478	$ 108,897	$ 93,794

Fixed Charge Coverage Ratio

Fixed charge coverage ratio is calculated in exactly the same manner as interest coverage ratio, except that preferred stock dividends are also added to the denominator. We consider fixed charge coverage ratio to be an appropriate supplemental measure of a company s ability to make its interest and preferred stock dividend payments. Our calculation of the fixed charge coverage ratio may be different from the calculation used by other companies and, therefore, comparability may be limited. This information should not be considered as an alternative to any GAAP liquidity measures or information presented in Exhibit 12.1 to this Annual Report.

Dollars in thousands	2012	2011	2010
Adjusted EBITDA	$ 437,163	$ 383,899	$ 313,313
Divided by interest expense plus preferred stock dividends(1)	$ 163,396	$ 133,150	$ 118,047
Fixed charge coverage ratio	2.7	2.9	2.7

(1) See footnote 1 above for reconciliation of interest expense used for calculation of fixed charge coverage ratio. This calculation excludes the charge of $3.7 million for the excess of redemption value over carrying value of the Class D preferred shares redeemed during 2012.

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General and Administrative Expenses

General and administrative expenses increased by $7.0 million to $38.0 million in 2012, as compared to $31.0 million in 2011. General and administrative expenses were $25.3 million in 2010. Included in general and administrative expenses are acquisition transaction costs of $2.4 million for 2012, $1.5 million for 2011 and $368,000 for 2010. General and administrative expenses increased during 2012 primarily due to increases in employee costs, acquisition transaction costs and proxy costs. In February 2013, we had 97 employees, as compared to 83 employees in February 2012 and 79 employees in February 2011.

Dollars in thousands	**2012**	**2011**	**2010**
General and administrative expenses	$ 37,998	$ 30,954	$ 25,311
Total revenue, including discontinued operations(1)	483,691	422,226	346,540
General and administrative expenses as a percentage of total revenue	7.9%	7.3%	7.3%

(1)Excludes gain on sales.

Property Expenses

Property expenses consist of costs associated with unleased properties, non-net leased properties and general portfolio expenses. Expenses related to unleased properties and non-net leased properties include, but are not limited to, property taxes, maintenance, insurance, utilities, property inspections, bad debt expense and legal fees. General portfolio costs include, but are not limited to, insurance, legal, property inspections, and title search fees. At December 31, 2012, 84 properties were available for lease, as compared to 87 at December 31, 2011 and 84 at December 31, 2010.

Property expenses were $7.3 million in 2012, $6.0 million in 2011 and $5.8 million in 2010. The increase in property expenses in 2012 is primarily attributable to higher insurance costs, maintenance and utilities, and legal fees associated with properties available for lease, partially offset by a decrease in bad debt expense.

Merger-Related Costs

Merger-related costs include, but are not limited to, advisor fees, legal fees, accounting fees, printing fees and transfer taxes related to our acquisition of ARCT. Merger-related costs, were $7.9 million in 2012. On a diluted per common share basis, this expense represented $0.06.

Income Taxes

Income taxes were $1.4 million in 2012, as compared to $1.5 million in 2011 and $1.4 million in 2010. These amounts are for city and state income and franchise taxes paid by Realty Income.

Discontinued Operations

Operations from 14 investment properties classified as held for sale at December 31, 2012, plus properties previously sold, have been classified as discontinued operations. The following is a summary of income from discontinued operations on our consolidated statements of income (dollars in thousands):

Income from discontinued operations	**2012**	**2011**	**2010**
Gain on sales of investment properties	$ 9,873	$ 5,193	$ 8,676
Rental revenue	7,938	11,881	13,071
Other revenue	243	93	32
Depreciation and amortization	(1,710)	(3,305)	(4,508)
Property expenses	(1,649)	(1,902)	(2,463)
Provisions for impairment	(2,335)	(395)	(171)
Crest s income from discontinued operations	821	842	946
Income from discontinued operations	$ 13,181	$ 12,407	$ 15,583
Per common share, basic and diluted(1)	$ 0.10	$ 0.10	$ 0.15

(1) The per share amounts for income from discontinued operations above and the income from continuing operations and net income reported on the consolidated statements of income have each been calculated independently.

Crest s Assets and Property Sales

At December 31, 2012, Crest had an inventory of four properties, three of which are classified as held for investment. In addition to the four properties, Crest also held notes receivable of $18.9 million at December 31, 2012 and $19.0 million at December 31, 2011. During 2011, the principal balance of one note receivable was paid in full, from which we received proceeds of approximately $2.9 million.

During 2012, Crest acquired one property for $890,000, but did not sell any properties. During 2011 and 2010, Crest did not buy or sell any properties.

Gain on Sales of Investment Properties by Realty Income

During 2012, we sold 44 investment properties for $50.6 million, which resulted in a gain of $9.9 million. The results of operations for these properties have been reclassified as discontinued operations for all periods presented.

During 2011, we sold 26 investment properties for $22.0 million, which resulted in a gain of $5.2 million. The results of operations for these properties have been reclassified as discontinued operations. Additionally, we sold excess real estate from five properties for $2.1 million, which resulted in a gain of $540,000. This gain is included in other revenue on our consolidated statement of income for 2011, because this excess real estate was associated with properties that continue to be owned as part of our core operations.

During 2010, we sold 28 investment properties and excess land from one property for $27.2 million, which resulted in a gain of $8.7 million. The results of operations for these properties have been reclassified as discontinued operations.

We have an active portfolio management program that incorporates the sale of assets when we believe the reinvestment of the sale proceeds will:

- Generate higher returns;
- Enhance the credit quality of our real estate portfolio;
- Extend our average remaining lease term; or
- Decrease tenant or industry concentration.

At December 31, 2012, we classified real estate with a carrying amount of $19.2 million as held for sale on our balance sheet. In 2013, we intend to continue implementing more active disposition efforts to further enhance the credit quality of our real estate portfolio. As a result, we anticipate selling investment properties from our portfolio that have not yet been specifically identified, from which we anticipate receiving between $50 million and $125 million in proceeds during the next 12 months. We intend to invest these proceeds into new property acquisitions, if there are attractive opportunities available. However, we cannot guarantee that we will sell properties during the next 12 months at our estimated values or be able to invest the proceeds from the sales of any properties in new properties.

Provisions for Impairment on Real Estate Acquired for Resale by Crest

During 2012 and 2011, Crest did not record any provisions for impairment.

During 2010, Crest recorded total provisions for impairment of $807,000 on three properties held for investment at December 31, 2010. These provisions for impairment are included in continuing operations on our consolidated statement of income for 2010.

Provisions for Impairment on Realty Income Investment Properties

During 2012, Realty Income recorded total provisions for impairment of $5.1 million. Provisions for impairment of $2.3 million are included in income from discontinued operations on seven properties. Additionally, during 2012, Realty Income recorded provisions for impairment of $2.8 million on three properties held for investment at December 31, 2012. These provisions for impairment are included in income from continuing operations.

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During 2011, Realty Income recorded total provisions for impairment of $405,000 on four properties. These provisions for impairment are included in income from discontinued operations, except for $10,000 which is included in income from continuing operations.

During 2010, Realty Income recorded total provisions for impairment of $213,000 on four properties. Provisions for impairment of $171,000 are included in income from discontinued operations. Since one of these properties was subsequently reclassified from held for sale to held for investment during 2011, a provision for impairment of $42,000 is included in income from continuing operations.

Preferred Stock Dividends

Preferred stock dividends totaled $40.9 million in 2012 and $24.3 million in 2011 and 2010.

Excess of Redemption Value over Carrying Value of Preferred Shares Redeemed

When we redeemed our Class D preferred stock in March 2012, we incurred a charge of $3.7 million for the excess of redemption value over the carrying value. This charge, representing the Class D preferred stock original issuance cost that was paid in 2004, was recorded as a reduction to net income available to common stockholders when the shares were redeemed during 2012. On a diluted per common share basis, this charge was $0.03.

Net Income Available to Common Stockholders

Net income available to common stockholders was $114.5 million in 2012, a decrease of $18.3 million as compared to $132.8 million in 2011. Net income available to common stockholders in 2010 was $106.5 million. Net income available to common stockholders for 2012 includes $7.9 million of merger-related costs, which represents $0.06 on a diluted per common share basis, for the acquisition of ARCT. Additionally, net income available to common stockholders in 2012 includes a $3.7 million charge for the excess of redemption value over carrying value of the shares of our Class D preferred stock, which represents $0.03 on a diluted per common share basis.

The calculation to determine net income available to common stockholders includes gains from the sale of properties and excess real estate. The amount of gains varies from period to period based on the timing of property sales and can significantly impact net income available to common stockholders.

Gains from the sale of properties during 2012 were $9.9 million, as compared to gains from the sale of properties and excess real estate of $5.7 million during 2011 and an $8.7 million gain from the sale of properties during 2010.

FUNDS FROM OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS (FFO) AND NORMALIZED FUNDS FROM OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS (Normalized FFO)

FFO for 2012 increased by $11.5 million, or 4.6%, to $260.9 million, as compared to $249.4 million in 2011 and $193.9 million in 2010. FFO for 2012 includes $7.9 million for merger-related costs, and also includes a $3.7 million charge associated with the Class D preferred stock redemption.

We define normalized FFO as FFO excluding the merger-related costs for our 2013 acquisition of ARCT. Normalized FFO for 2012 increased by $19.4 million, or 7.8%, to $268.8 million, as compared to $249.4 million in 2011 and $193.9 million in 2010.

The following is a reconciliation of net income available to common stockholders (which we believe is the most comparable GAAP measure) to FFO and normalized FFO. Also presented is information regarding distributions paid to common stockholders and the weighted average number of common shares used for the basic and diluted computation per share (dollars in thousands, except per share amounts):

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	2012	2011	2010
Net income available to common stockholders	$ 114,538	$ 132,779	$ 106,531
Depreciation and amortization:			
Continuing operations	149,597	118,874	91,641
Discontinued operations	1,710	3,305	4,508
Depreciation of furniture, fixtures and equipment	(249)	(238)	(291)
Provisions for impairment on Realty Income investment properties	5,139	405	213
Gain on sale of excess real estate and investment properties:			
Continuing operations	--	(540)	--
Discontinued operations	(9,873)	(5,193)	(8,676)
FFO available to common stockholders	260,862	249,392	193,926
Merger-related costs	7,899	--	--
Normalized FFO available to common stockholders	$ 268,761	$ 249,392	$ 193,926
FFO per common share, basic and diluted:	$ 1.96	$ 1.98	$ 1.83
Normalized FFO per common share, basic and diluted:	$ 2.02	$ 1.98	$ 1.83
Distributions paid to common stockholders	$ 236,348	$ 219,297	$ 182,500
Normalized FFO in excess of distributions paid to common stockholders	$ 32,413	$ 30,095	$ 11,426
Weighted average number of common shares used for computation per share:			
Basic	132,817,472	126,142,696	105,869,637
Diluted	132,884,933	126,189,399	105,942,721

We define FFO, a non-GAAP measure, consistent with the National Association of Real Estate Investment Trust s definition, as net income available to common stockholders, plus depreciation and amortization of real estate assets, plus impairments of depreciable real estate assets, reduced by gains on the sale of investment properties and extraordinary items. We define normalized FFO, a non-GAAP measure, as FFO excluding the merger-related costs for our 2013 acquisition of ARCT.

We consider FFO and normalized FFO to be appropriate supplemental measures of a REIT s operating performance as they are based on a net income analysis of property portfolio performance that adds back items such as depreciation and impairments for FFO, and adds back merger-related costs, for normalized FFO. The historical accounting convention used for real estate assets requires straight-line depreciation of buildings and improvements, which implies that the value of real estate assets diminishes predictably over time. Since real estate values historically rise and fall with market conditions, presentations of operating results for a REIT, using historical accounting for depreciation, could be less informative. The use of FFO is recommended by the REIT industry as a supplemental performance measure. In addition, FFO is used as a measure of our compliance with the financial covenants of our credit facility.

ADJUSTED FUNDS FROM OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS (AFFO)

AFFO for 2012 increased by $20.8 million, or 8.2%, to $274.2 million, as compared to $253.4 million in 2011 and $197.3 million in 2010. We consider AFFO to be an appropriate supplemental measure of our performance. Most companies in our industry use a similar measurement, but they may use the term CAD (for Cash Available for Distribution), FAD (for Funds Available for Distribution), or other terms.

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The following is a reconciliation of net income available to common stockholders (which we believe is the most comparable GAAP measure) to FFO, normalized FFO and AFFO. Also presented is information regarding distributions paid to common stockholders and the weighted average number of common shares used for the basic and diluted computation per share (dollars in thousands, except per share amounts):

	2012	2011	2010
Net income available to common stockholders	$ 114,538	$ 132,779	$ 106,531
Cumulative adjustments to calculate FFO(1)	146,324	116,613	87,395
FFO available to common stockholders	260,862	249,392	193,926
Merger-related costs	7,899	--	--
Normalized FFO available to common stockholders	268,761	249,392	193,926
Excess of redemption value over carrying value of Class D preferred share redemption	3,696	--	--
Amortization of share-based compensation	10,001	7,873	6,166
Amortization of deferred financing costs(2)	2,177	1,881	1,548
Provisions for impairment on real estate acquired for resale by Crest	--	--	807
Capitalized leasing costs and commissions	(1,619)	(1,722)	(1,501)
Capitalized building improvements	(4,935)	(2,450)	(2,077)
Other adjustments(3)	(3,898)	(1,602)	(1,613)
Total AFFO available to common stockholders	$ 274,183	$ 253,372	$ 197,256
AFFO per common share, basic and diluted:	$ 2.06	$ 2.01	$ 1.86
Distributions paid to common stockholders	$ 236,348	$ 219,297	$ 182,500
AFFO in excess of distributions paid to common stockholders	$ 37,835	$ 34,075	$ 14,756
Weighted average number of common shares used for computation per share:			
Basic	132,817,472	126,142,696	105,869,637
Diluted	132,884,933	126,189,399	105,942,721

(1) See reconciling items for FFO presented under Funds from Operations Available To Common Stockholders (FFO) and Normalized Funds from Operations Available to Common Stockholders (Normalized FFO).

(2) Includes the amortization of costs incurred and capitalized when our senior notes were issued in March 2003, November 2003, March 2005, September 2005, September 2006, September 2007, June 2010, June 2011 and October 2012. Additionally, this includes the amortization of deferred financing costs incurred and capitalized in connection with our assumption of the mortgages payable. These costs are being amortized over the lives of the respective mortgages. No costs associated with our credit facility agreements or annual fees paid to credit rating agencies have been included.

(3) Includes straight-line rent revenue and the amortization of above and below-market leases.

We believe the non-GAAP financial measure AFFO provides useful information to investors because it is a widely accepted industry measure of the operating performance of real estate companies that is used by industry analysts and investors who look at and compare those companies. In particular, AFFO provides an additional measure by which to compare the operating performance of different REITs without having to account for differing depreciation assumptions and other unique revenue and expense items which are not pertinent to the measurement of the particular company s on-going operating performance. Therefore, we believe that AFFO is an appropriate supplemental performance metric, and that the most appropriate GAAP performance metric to which AFFO should be reconciled is net income available to common stockholders.

Presentation of the information regarding FFO, normalized FFO and AFFO is intended to assist the reader in comparing the operating performance of different REITs, although it should be noted that not all REITs calculate FFO, normalized FFO and AFFO in the same way, so comparisons with other REITs may not be meaningful. Furthermore, FFO, normalized FFO and AFFO are not necessarily indicative of cash flow available to fund cash needs and should not be considered as alternatives to net income as an indication of our performance. FFO, normalized FFO and AFFO should not be considered as alternatives to reviewing our cash flows from operating,

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investing, and financing activities. In addition, FFO, normalized FFO and AFFO should not be considered as measures of liquidity, of our ability to make cash distributions, or of our ability to pay interest payments.

IMPACT OF INFLATION

Tenant leases generally provide for limited increases in rent as a result of increases in the tenants   sales volumes, increases in the consumer price index (typically subject to ceilings), and/or fixed increases. We expect that inflation will cause these lease provisions to result in rent increases over time. During times when inflation is greater than increases in rent, as provided for in the leases, rent increases may not keep up with the rate of inflation.

Of our 3,013 properties in our portfolio, approximately 96.7% or 2,913 are leased to tenants under net leases where the tenant is responsible for property expenses. Net leases tend to reduce our exposure to rising property expenses due to inflation. Inflation and increased costs may have an adverse impact on our tenants if increases in their operating expenses exceed increases in revenue.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

As of December 31, 2012, the impact of recent accounting pronouncements on our business is not considered to be material.

Item 7A: Quantitative and Qualitative Disclosures about Market Risk

We are exposed to interest rate changes primarily as a result of our credit facility and long-term notes and bonds used to maintain liquidity and expand our real estate investment portfolio and operations. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flow and to lower our overall borrowing costs. To achieve these objectives we issue long-term notes and bonds, primarily at fixed rates.

In order to mitigate and manage the effects of interest rate risks on our operations, we may utilize a variety of financial instruments, including interest rate swaps and caps. The use of these types of instruments to hedge our exposure to changes in interest rates carries additional risks, including counterparty credit risk, the enforceability of hedging contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in the contract. To limit counterparty credit risk we will seek to enter into such agreements with major financial institutions with favorable credit ratings. There can be no assurance that we will be able to adequately protect against the foregoing risks or realize an economic benefit that exceeds the related amounts incurred in connection with engaging in such hedging activities. We do not enter into any derivative transactions for speculative or trading purposes.

The following table presents by year of expected maturity, the principal amounts, average interest rates and estimated fair values of our fixed and variable rate debt as of December 31, 2012. This information is presented to evaluate the expected cash flows and sensitivity to interest rate changes (dollars in millions):

Expected Maturity Data

Year of maturity	Fixed rate debt	Average interest rate on fixed rate debt	Variable rate debt	Average interest rate on variable rate debt
2013(1)	$ 122.9	5.68%	$ 0.1	2.56%
2014(2)	13.5	6.21	0.2	2.56
2015(3)	152.3	5.51	23.8	4.70
2016(4)	289.3	5.95	158.2	1.29
2017(5)	220.1	5.45	0.2	2.56
Thereafter(6)	1,885.8	4.78	7.5	2.56
Totals(7)	$ 2,683.9	5.01%	$190.0	1.77%
Fair Value(8)	$ 2,972.1		$189.7	

(1) $100 million of fixed rate senior notes mature in March 2013, $22.9 million of fixed rate mortgages mature and $152,000 of a variable rate mortgage mature in 2013.

(2) $13.5 million of fixed rate mortgages and $161,000 of a variable rate mortgage mature in 2014.

(3) $150 million of fixed rate senior notes mature in November 2015, $2.3 million of fixed rate mortgages and $23.8 million of variable rate

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mortgages mature in 2015. The interest rate on variable rate mortgages of $23.6 million is capped at 5.5%.

(4) $275 million of fixed rate senior notes mature in September 2016, $14.3 million of fixed rate mortgages and $181,000 of a variable rate mortgage mature in 2016. Additionally, the credit facility expires in May 2016.

(5) $175 million of fixed rate senior notes mature in September 2017, $45.1 million of fixed rate mortgages and $194,000 of a variable rate mortgage mature in 2017.

(6) As it relates to fixed rate senior notes, $350 million matures in January 2018, $550 million matures in August 2019, $250 million matures in January 2021, $450 million matures in October 2022 and $250 million matures in March 2035. Additionally, $35.8 million of fixed rate mortgages and $7.5 million of a variable rate mortgage mature at dates thereafter.

(7) Excludes net premiums recorded on mortgages payable. The balance of these net premiums is $9.9 million at December 31, 2012.

(8) We base the estimated fair value of the fixed rate senior notes at December 31, 2012 on the indicative market prices and recent trading activity of our notes payable. We base the estimated fair value of our fixed rate and variable rate mortgages at December 31, 2012 on the current 5-year, 7-year or 10-year Treasury yield curve, plus an applicable credit-adjusted spread. We believe that the carrying value of the credit facility balance reasonably approximates its estimated fair value at December 31, 2012.

The table incorporates only those exposures that exist as of December 31, 2012. It does not consider those exposures or positions that could arise after that date. As a result, our ultimate realized gain or loss, with respect to interest rate fluctuations, would depend on the exposures that arise during the period, our hedging strategies at the time, and interest rates.

All of our outstanding notes and bonds have fixed interest rates. All of our mortgages payable, except two, have fixed interest rates. Interest on our credit facility balance is variable. Based on our credit facility balance of $158.0 million at December 31, 2012, a 1% change in interest rates would change our interest costs by $1.6 million per year.

Item 8: Financial Statements and Supplementary Data

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Schedules not filed: All schedules, other than that indicated in the Table of Contents, have been omitted as the required information is either not material, inapplicable or the information is presented in the financial statements or related notes.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Realty Income Corporation:

We have audited the accompanying consolidated balance sheets of Realty Income Corporation and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2012. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedule III. These consolidated financial statements and financial statement schedule are the responsibility of Realty Income Corporation s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Realty Income Corporation and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Realty Income Corporation s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 14, 2013 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

San Diego, California

February 14, 2013

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Realty Income Corporation:

We have audited Realty Income Corporation s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Realty Income Corporation s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management s Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on Realty Income Corporation s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Realty Income Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Realty Income Corporation and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2012, and our report dated February 14, 2013 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

San Diego, California

February 14, 2013

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REALTY INCOME CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2012 and 2011

(dollars in thousands, except per share data)

	2012	**2011**
ASSETS		
Real estate, at cost:		
Land	$ 1,999,820	$ 1,749,378
Buildings and improvements	3,920,865	3,222,603
Total real estate, at cost	5,920,685	4,971,981
Less accumulated depreciation and amortization	(897,767)	(814,126)
Net real estate held for investment	5,022,918	4,157,855
Real estate held for sale, net	19,219	2,153
Net real estate	5,042,137	4,160,008
Cash and cash equivalents	5,248	4,165
Accounts receivable, net	21,659	15,375
Goodwill	16,945	17,206
Other assets, net	357,374	222,635
Total assets	$ 5,443,363	$ 4,419,389
LIABILITIES AND STOCKHOLDERS EQUITY		
Distributions payable	$ 23,745	$ 21,405
Accounts payable and accrued expenses	70,426	58,770
Other liabilities, net	52,530	29,179
Lines of credit payable	158,000	237,400
Mortgages payable, net	175,868	67,781
Notes payable	2,550,000	1,750,000
Total liabilities	3,030,569	2,164,535
Commitments and contingencies		
Stockholders equity:		
Preferred stock and paid in capital, par value $0.01 per share, 69,900,000 shares authorized and 25,150,000 shares issued and outstanding as of December 31, 2012, and 20,000,000 shares authorized and 13,900,000 shares issued and outstanding as of December 31, 2011	609,363	337,790
Common stock and paid in capital, par value $0.01 per share, 370,100,000 shares authorized and 133,452,411 shares issued and outstanding as of December 31, 2012, and 200,000,000 shares authorized and 133,223,338 shares issued and outstanding as of December 31, 2011	2,572,092	2,563,048
Distributions in excess of net income	(768,661)	(645,984)
Total stockholders equity	2,412,794	2,254,854
Total liabilities and stockholders equity	$ 5,443,363	$ 4,419,389

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

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REALTY INCOME CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2012, 2011 and 2010

(dollars in thousands, except per share data)

	2012	**2011**	**2010**
REVENUE			
Rental	$ 473,741	$ 408,640	$ 332,780
Other	1,769	1,612	657
Total revenue	475,510	410,252	333,437
EXPENSES			
Depreciation and amortization	149,597	118,874	91,641
Interest	122,542	108,301	93,237
General and administrative	37,998	30,954	25,311
Property	7,269	6,018	5,805
Income taxes	1,430	1,470	1,393
Merger-related costs	7,899	--	--
Provisions for impairment	2,804	10	849
Total expenses	329,539	265,627	218,236
Income from continuing operations	145,971	144,625	115,201
Income from discontinued operations	13,181	12,407	15,583
Net income	159,152	157,032	130,784
Preferred stock dividends	(40,918)	(24,253)	(24,253)
Excess of redemption value over carrying value of preferred shares redeemed	(3,696)	--	--
Net income available to common stockholders	$ 114,538	$ 132,779	$ 106,531
Amounts available to common stockholders per common share:			
Income from continuing operations:			
Basic	$ 0.76	$ 0.95	$ 0.86
Diluted	$ 0.76	$ 0.95	$ 0.86
Net income:			
Basic	$ 0.86	$ 1.05	$ 1.01
Diluted	$ 0.86	$ 1.05	$ 1.01
Weighted average common shares outstanding:			
Basic	132,817,472	126,142,696	105,869,637
Diluted	132,884,933	126,189,399	105,942,721

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

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REALTY INCOME CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Years Ended December 31, 2012, 2011 and 2010

(dollars in thousands)

	Shares of preferred stock	Shares of common stock	Preferred stock and paid in capital	Common stock and paid in capital	Distributions in excess of net income	Total
Balance, December 31, 2009	13,900,000	104,286,705	$ 337,790	$ 1,629,237	$ (479,018)	$ 1,488,009
Net income	--	--	--	--	130,784	130,784
Distributions paid and payable	--	--	--	--	(208,878)	(208,878)
Shares issued in stock offerings, net of offering costs of $22,471	--	13,558,500	--	432,591	--	432,591
Share-based compensation	--	213,783	--	4,459	--	4,459
Balance, December 31, 2010	13,900,000	118,058,988	337,790	2,066,287	(557,112)	1,846,965
Net income	--	--	--	--	157,032	157,032
Distributions paid and payable	--	--	--	--	(245,904)	(245,904)
Shares issued in stock offerings, net of offering costs of $25,200	--	14,925,000	--	489,236	--	489,236
Shares issued pursuant to dividend reinvestment and stock purchase plan, net	--	59,605	--	1,930	--	1,930
Share-based compensation	--	179,745	--	5,595	--	5,595
Balance, December 31, 2011	13,900,000	133,223,338	337,790	2,563,048	(645,984)	2,254,854
Net income	--	--	--	--	159,152	159,152
Distributions paid and payable	--	--	--	--	(278,133)	(278,133)
Shares issued in stock offerings, net of offering costs of $13,773	16,350,000	--	395,377	--	--	395,377
Shares issued pursuant to dividend reinvestment and stock purchase plan, net	--	55,598	--	2,051	--	2,051
Preferred shares redeemed	(5,100,000)	--	(123,804)	--	(3,696)	(127,500)
Share-based compensation	--	173,475	--	6,993	--	6,993
Balance, December 31, 2012	25,150,000	133,452,411	$ 609,363	$ 2,572,092	$ (768,661)	$ 2,412,794

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

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REALTY INCOME CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2012, 2011 and 2010

(dollars in thousands)

	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 159,152	$ 157,032	$ 130,784
Adjustments to net income:			
Depreciation and amortization	149,597	118,874	91,641
Income from discontinued operations	(13,181)	(12,407)	(15,583)
Gain on sale of real estate	--	(540)	--
Amortization of share-based compensation	10,001	7,873	6,166
Amortization of net premiums on mortgages payable	(665)	(189)	--
Provisions for impairment on real estate held for investment	2,804	10	849
Other non-cash adjustments	(301)	--	--
Cash provided by discontinued operations:			
Real estate	7,353	10,914	11,586
Collection of notes receivable by Crest	90	3,032	138
Changes in assets and liabilities:			
Accounts receivable and other assets	2,775	5,209	5,270
Accounts payable, accrued expenses and other liabilities	8,844	9,144	12,517
Net cash provided by operating activities	326,469	298,952	243,368
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investment properties	(1,015,725)	(953,175)	(713,198)
Improvements to real estate, including leasing costs	(6,554)	(4,172)	(3,578)
Loans receivable	(34,876)	(1,593)	--
Proceeds from sales of real estate:			
Continuing operations	23	2,078	--
Discontinued operations	50,563	22,049	25,779
Restricted escrow deposits	(1,805)	(50)	(6,361)
Net cash used in investing activities	(1,008,374)	(934,863)	(697,358)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash distributions to common stockholders	(236,348)	(219,297)	(182,500)
Cash dividends to preferred stockholders	(39,445)	(24,253)	(24,253)
Borrowings on lines of credit	1,074,000	612,800	612,200
Payments on lines of credit	(1,153,400)	(375,400)	(616,800)
Principal payments on mortgages	(11,729)	(279)	--
Proceeds from preferred stock offerings, net	395,377	--	--
Redemption of preferred stock	(127,500)	--	--
Proceeds from common stock offerings, net	--	489,236	432,591
Proceeds from bonds issued	800,000	150,000	--
Proceeds from notes payable issued, net	--	--	246,131
Debt issuance costs	(16,979)	(9,864)	(4,091)
Proceeds from dividend reinvestment and stock purchase plan, net	2,159	1,894	--
Other items	(3,147)	(2,368)	(1,707)
Net cash provided by financing activities	682,988	622,469	461,571

Net increase (decrease) in cash and cash equivalents	1,083	(13,442)	7,581
Cash and cash equivalents, beginning of year	4,165	17,607	10,026
Cash and cash equivalents, end of year	$ 5,248	$ 4,165	$ 17,607

For supplemental disclosures, see note 16.

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

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REALTY INCOME CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012, 2011 and 2010

1. Organization and Operation

Realty Income Corporation (Realty Income, the Company, we, our or us) is organized as a Maryland corporation. We invest in commercial real estate and have elected to be taxed as a real estate investment trust, or REIT.

At December 31, 2012, we owned 3,013 properties, located in 49 states, containing over 37.6 million leasable square feet, along with four properties owned by our wholly-owned taxable REIT subsidiary, Crest Net Lease, Inc., or Crest.

Information with respect to number of properties, square feet, average initial lease term and weighted average contractual lease rate is unaudited.

2. Summary of Significant Accounting Policies and Procedures and Recent Accounting Pronouncements

Federal Income Taxes. We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or the Code. We believe we have qualified and continue to qualify as a REIT. Under the REIT operating structure, we are permitted to deduct dividends paid to our stockholders in determining our taxable income. Assuming our dividends equal or exceed our net income, we generally will not be required to pay federal corporate income taxes on such income. Accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements, except for the federal income taxes of Crest, which are included in discontinued operations. The income taxes recorded on our consolidated statements of income represent amounts paid by Realty Income for city and state income and franchise taxes.

Earnings and profits that determine the taxability of distributions to stockholders differ from net income reported for financial reporting purposes due to differences in the estimated useful lives and methods used to compute depreciation and the carrying value (basis) of the investments in properties for tax purposes, among other things.

The following reconciles our net income available to common stockholders to taxable income (dollars in thousands):

	2012(1)	2011	2010
Net income available to common stockholders	$ 114,538	$ 132,779	$ 106,531
Preferred stock dividends	40,918	24,253	24,253
Depreciation and amortization timing differences	45,398	32,215	23,024
Merger-related costs	7,877	--	--
Excess of redemption value over carrying value of preferred shares redeemed	3,696	--	--
Tax loss on the sale of real estate less than book gain	(12,559)	(7,772)	(10,063)
Elimination of net revenue and expenses from Crest	444	418	1,337
Compensation deduction per Section 162(m) of the Code	7,599	4,896	2,915
Adjustment for share-based compensation	(351)	(622)	562
Adjustment for straight-line rent and above/below-market lease amortization	(3,899)	(1,562)	(1,613)
Adjustment for acquisition expenses	2,211	1,503	368
Adjustment for an increase in prepaid rent	2,773	3,584	4,223
Other adjustments	1,286	(565)	(30)
Taxable net income, before our dividends paid deduction	$ 209,931	$ 189,127	$ 151,507

(1) The 2012 information presented is a reconciliation of our net income available to common stockholders to estimated taxable net income.

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We regularly analyze our various federal and state filing positions and only recognize the income tax effect in our financial statements when certain criteria regarding uncertain income tax positions have been met. We believe that our income tax positions would more likely than not be sustained upon examination by all relevant taxing authorities. Therefore, no provisions for uncertain income tax positions have been recorded in our financial statements.

Absent an election to the contrary, if a REIT acquires property that is or has been owned by a C corporation in a transaction in which the tax basis of the property in the hands of the REIT is determined by reference to the tax basis of the property in the hands of the C corporation, and the REIT recognizes gain on the disposition of such property during the 10 year period beginning on the date on which it acquired the property, then the REIT will be required to pay tax at the highest regular corporate tax rate on this gain to the extent of the excess of the fair value of the property over the REIT s adjusted basis in the property, in each case determined as of the date the REIT acquired the property. The 10 year period described above has been reduced to 5 years for property dispositions occurring in 2013 (but not with respect to dispositions in later years). In August 2007, we acquired 100% of the stock of a C corporation that owned real property. At the time of acquisition, the C corporation became a Qualified REIT Subsidiary, and was deemed to be liquidated for Federal income tax purposes; the real property was deemed to be transferred to us with a carryover tax basis. As of December 31, 2012, we have built-in gains of $70.3 million with respect to such property. We do not expect that we will be required to pay income tax on the built-in gains in these properties. It is our intent, and we have the ability, to defer any dispositions of these properties to periods when the related gains would not be subject to the built-in gain income tax or otherwise to defer the recognition of the built-in gain related to these properties. However, our plans could change and it may be necessary to dispose of one or more of these properties in a taxable transaction after 2013 but before August 28, 2017, in which case we would be required to pay corporate level tax with respect to the built-in gains on these properties as described above.

Net Income Per Common Share. Basic net income per common share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during each period. Diluted net income per common share is computed by dividing net income available to common stockholders for the period by the weighted average number of common shares that would have been outstanding assuming the issuance of common shares for all potentially dilutive common shares outstanding during the reporting period.

The following is a reconciliation of the denominator of the basic net income per common share computation to the denominator of the diluted net income per common share computation:

	2012	**2011**	**2010**
Weighted average shares used for the basic net income per share computation	132,817,472	126,142,696	105,869,637
Incremental shares from share-based compensation	67,461	46,703	73,084
Adjusted weighted average shares used for diluted net income per share computation	132,884,933	126,189,399	105,942,721
Unvested shares from share-based compensation that were anti-dilutive	17,570	13,020	87,600

Discontinued Operations. Operations from 14 investment properties classified as held for sale at December 31, 2012, plus properties previously sold, are reported as discontinued operations. Their respective results of operations have been reclassified as income from discontinued operations on our consolidated statements of income. We do not depreciate properties that are classified as held for sale.

If the property was previously reclassified as held for sale but the applicable criteria for this classification are no longer met, the property is reclassified to real estate held for investment. A property that is reclassified to held for investment is measured and recorded at the lower of (i) its carrying amount before the property was classified as held for sale, adjusted for any depreciation expense that would have been recognized had the property been continuously classified as held for investment, or (ii) the fair value at the date of the subsequent decision not to sell.

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No debt was assumed by buyers of our investment properties, or repaid as a result of our investment property sales, and we do not allocate interest expense to discontinued operations related to real estate held for investment. We allocate interest expense related to borrowings specifically attributable to Crest. The interest expense amounts allocated to Crest are included in income from discontinued operations.

The following is a summary of income from discontinued operations on our consolidated statements of income (dollars in thousands):

Income from discontinued operations	**2012**	**2011**	**2010**
Gain on sales of investment properties	$ 9,873	$ 5,193	$ 8,676
Rental revenue	7,938	11,881	13,071
Other revenue	243	93	32
Depreciation and amortization	(1,710)	(3,305)	(4,508)
Property expenses	(1,649)	(1,902)	(2,463)
Provisions for impairment	(2,335)	(395)	(171)
Crest s income from discontinued operations	821	842	946
Income from discontinued operations	$ 13,181	$ 12,407	$ 15,583
Per common share, basic and diluted(1)	$ 0.10	$ 0.10	$ 0.15

(1) The per share amounts for income from discontinued operations above and the income from continuing operations and net income reported on the consolidated statements of income have each been calculated independently.

Revenue Recognition and Accounts Receivable. All leases are accounted for as operating leases. Under this method, leases that have fixed and determinable rent increases are recognized on a straight-line basis over the lease term. Any rental revenue contingent upon a tenant s sales is recognized only after the tenant exceeds their sales breakpoint. Rental increases based upon changes in the consumer price indexes are recognized only after the changes in the indexes have occurred and are then applied according to the lease agreements.

We recognize an allowance for doubtful accounts relating to accounts receivable for amounts deemed uncollectible. We consider tenant specific issues, such as financial stability and ability to pay, when determining collectability of accounts receivable and appropriate allowances to record. The allowance for doubtful accounts was $448,000 at December 31, 2012 and $507,000 at December 31, 2011.

Other revenue includes non-operating interest earned from notes receivable and investments in money market funds of $1.2 million in 2012, $502,000 in 2011 and $96,000 in 2010.

Principles of Consolidation. The accompanying consolidated financial statements include the accounts of Realty Income, Crest, and other entities for which we make operating and financial decisions (i.e. control), after elimination of all material intercompany balances and transactions. We have no unconsolidated investments.

Cash Equivalents. We consider all short-term, highly liquid investments that are readily convertible to cash and have an original maturity of three months or less at the time of purchase to be cash equivalents. Our cash equivalents are primarily investments in United States Treasury or government money market funds.

Gain on Sales of Properties. When real estate is sold, the related net book value of the applicable assets is removed and a gain from the sale is recognized in our consolidated statements of income. We record a gain from the sale of real estate provided that various criteria, relating to the terms of the sale and any subsequent involvement by us with the real estate, have been met.

Allocation of the Purchase Price of Real Estate Acquisitions. When acquiring a property, we allocate the fair value of real estate acquired to: (1) land, (2) building and improvements, and (3) identified intangible assets and liabilities, based in each case on their estimated fair values. Intangible assets and liabilities consist of above-market or below-market lease value of in-place leases, the value of in-place leases, and tenant relationships, as applicable. In addition, any assumed mortgages payable are recorded at their estimated fair values.

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Our estimated fair value determinations are based on management s judgment, which is based on various factors, including: (1) market conditions, (2) industry that the tenant operates in, (3) characteristics of the real estate, i.e.: location, size, demographics, value and comparative rental rates, (4) tenant credit profile, (5) store profitability and the importance of the location of the real estate to the operations of the tenant s business, and/or (6) real estate valuations, prepared either internally or by an independent valuation firm. When real estate valuations are utilized, the measurement of fair value related to the allocation of the purchase price of real estate acquisitions is derived principally from observable market data (and thus should be categorized as level 2 on FASB s three-level valuation hierarchy). Our other methodologies for measuring fair value related to the allocation of the purchase price of real estate acquisitions (except for independent third-party real estate valuations) include unobservable inputs that reflect our own internal assumptions and calculations (and thus should be categorized as level 3 on FASB s three-level valuation hierarchy).

The fair value of the tangible assets of an acquired property with an in-place operating lease (which includes land and buildings/improvements) is determined by valuing the property as if it were vacant, and the as-if-vacant value is then allocated to land and buildings/improvements based on our determination of the fair value of these assets. Our fair value determinations are based on a real estate valuation for each property, prepared either internally or by an independent valuation firm, and consider estimates of carrying costs during the expected lease-up periods, current market conditions, as well as costs to execute similar leases. In allocating the fair value to identified intangibles for above-market or below-market leases, an amount is recorded based on the present value of the difference between (i) the contractual amount to be paid pursuant to the in-place lease and (ii) our estimate of fair market lease rate for the corresponding in-place lease, measured over the remaining term of the lease.

Capitalized above-market lease values are amortized as a reduction of rental income over the remaining terms of the respective leases. Capitalized below-market lease values are amortized as an increase to rental income over the remaining terms of the respective leases and expected below-market renewal option periods.

The aggregate value of other acquired intangible assets consists of the fair value of in-place leases and tenant relationships, as applicable. The value of in-place leases, exclusive of the value of above-market and below-market in-place leases, is amortized to expense over the remaining periods of the respective leases.

The following table presents the impact during the next five years and thereafter related to the net decrease to rental revenue from the amortization of the acquired above-market and below-market lease intangibles and the increase to amortization expense from the amortization of the in-place lease intangibles for properties owned at December 31, 2012 (in thousands):

	Net decrease to rental revenue	**Increase to amortization expense**
2013	$ (1,314)	$ 22,110
2014	(1,399)	21,899
2015	(1,345)	21,105
2016	(1,341)	21,026
2017	(1,332)	20,475
Thereafter	(2,610)	99,698
Totals	$ (9,341)	$ 206,313

In allocating the fair value to assumed mortgages, amounts are recorded to debt premiums or discounts based on the present value of the estimated cash flows, which is calculated to account for either above or below-market interest rates. These assumed mortgage payables are amortized as a reduction to interest expense over the remaining term of the respective mortgages.

Depreciation and Amortization. Land, buildings and improvements are recorded and stated at cost. Major replacements and betterments, which improve or extend the life of the asset, are capitalized and depreciated over their estimated useful lives, while ordinary repairs and maintenance are expensed as incurred. Buildings and improvements that are under redevelopment, or are being developed, are carried at cost and no depreciation is recorded on these assets. Additionally, amounts essential to the development of the property, such as pre-construction, development, construction, interest and any other costs incurred during the period of

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development are capitalized. We cease capitalization when the property is available for occupancy upon substantial completion of tenant improvements, but in any event no later than one year from the completion of major construction activity.

Properties are depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

Buildings	25 years or 35 years
Building improvements	4 to 15 years
Tenant improvements and lease commissions	The shorter of the term of the related lease or useful life
Acquired in-place leases	Remaining terms of the respective leases

Provisions for Impairment. We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. A provision is made for impairment if estimated future operating cash flows (undiscounted and without interest charges) plus estimated disposition proceeds (undiscounted) are less than the current book value of the property. Key inputs that we estimate in this analysis include projected rental rates, estimated holding periods, capital expenditures and property sales capitalization rates. If a property is classified as held for sale, it is carried at the lower of carrying cost or estimated fair value, less estimated cost to sell.

In 2012, Realty Income recorded total provisions for impairment of $5.1 million. Provisions for impairment of $2.3 million are included in income from discontinued operations on seven properties in the following industries: one in the automotive parts industry, one in the automotive tire services industry, one in the automotive service industry, one in the child care industry, one in the convenience store industry, one in the home improvement industry, and one in the restaurant-casual industry. Additionally, during 2012, Realty Income recorded provisions for impairment of $2.8 million on three properties held for investment at December 31, 2012 in the restaurant-casual industry. These provisions for impairment are included in income from continuing operations.

In 2011, Realty Income recorded total provisions for impairment of $405,000 on two properties in the automotive service industry, one property in the motor vehicle dealerships industry, and one property in the pet supplies and services industry. These provisions for impairment are included in income from discontinued operations, except for $10,000 which is included in income from continuing operations.

In 2010, Realty Income recorded total provisions for impairment of $213,000 on three properties in the restaurant industry and one property in the child care industry. Provisions for impairment of $171,000 are included in income from discontinued operations. Since one of these properties was subsequently reclassified from held for sale to held for investment during 2011, a provision for impairment of $42,000 is included in income from continuing operations. Additionally, during 2010, Crest recorded total provisions for impairment of $807,000 on three properties held for investment at December 31, 2010 and 2011. These provisions for impairment are included in income from continuing operations.

Asset Retirement Obligations. We analyze our future legal obligations associated with the other-than-temporary removal of tangible long-lived assets, also referred to as asset retirement obligations. When we determine that we have a legal obligation to provide services upon the retirement of a tangible long-lived asset, we record a liability for this obligation based on the estimated fair value of this obligation and adjust the carrying amount of the related long-lived asset by the same amount. This asset is amortized over its estimated useful life. The estimated fair value of the asset retirement obligation is calculated by discounting the future cash flows using a credit-adjusted risk-free interest rate.

Goodwill. Goodwill is tested for impairment during the second quarter of each year as well as when events or circumstances occur indicating that our goodwill might be impaired. Under the amendments issued in conjunction with *ASU No. 2011-08, Intangibles Goodwill and Other (Topic 350)*, an entity, through an assessment of qualitative factors, is not required to calculate the estimated fair value of a reporting unit, in connection with the two-step goodwill impairment test, unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. We elected to continue testing goodwill for impairment during the second quarter of each year as well as when events or circumstances occur, indicating that our goodwill might be impaired. During our tests for impairment of goodwill, during the second quarters of 2012, 2011 and 2010, we determined that the estimated fair values of our reporting units exceeded their carrying values. We did not record any impairment on our existing goodwill during 2012, 2011 or 2010.

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Government Taxes. We collect and remit sales and property taxes assessed by different governmental authorities that are both imposed on and concurrent with a revenue-producing transaction between us and our tenants. We report the collection of these taxes on a net basis (excluded from revenues). The amounts of these taxes are not significant to our financial position or results of operations.

Use of Estimates. The consolidated financial statements were prepared in conformity with U.S. generally accepted accounting principles, or GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Par Value Change. In August 2011, we changed the par value of our common and preferred stock from $1.00 per share to $0.01 per share. This change did not have an impact on the amount of our total stockholders equity.

Reclassifications. We report, in discontinued operations, the results of operations of properties that either have been disposed of or are classified as held for sale. As a result of these discontinued operations, certain of the 2011 and 2010 balances have been reclassified to conform to the 2012 presentation.

3. Supplemental Detail for Certain Components of Consolidated Balance Sheets

A. Other Assets, Net. Other assets, net, consist of the following (dollars in thousands) at:

December 31,	**2012**	**2011**
Value of in-place leases, net	$ 206,313	$ 123,255
Value of above-market leases, net	35,812	30,081
Loans receivable	35,126	2,178
Deferred bond financing costs, net	29,687	22,209
Notes receivable issued in connection with property sales	19,300	19,401
Prepaid expenses	9,489	9,833
Note receivable acquired in connection with an acquisition	8,780	8,780
Credit facility origination costs, net	8,188	3,141
Restricted escrow deposits	1,805	50
Deferred financing costs on mortgages payable, net	1,541	751
Corporate assets, net	909	849
Other items	424	2,107
	$ 357,374	$ 222,635

B. Distributions Payable. Distributions payable consist of the following declared distributions (dollars in thousands) at:

December 31,	**2012**	**2011**

Common stock distributions	$ 20,251	$ 19,384
Preferred stock dividends	3,494	2,021
	$ 23,745	$ 21,405

C. Accounts Payable and Accrued Expenses. Accounts payable and accrued expenses consist of the following (dollars in thousands) at:

December 31,	**2012**	**2011**
Bond interest payable	$ 40,061	$ 35,195
Accrued costs on properties under development	8,595	4,766
Other items	21,770	18,809
	$ 70,426	$ 58,770

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D. Other Liabilities, Net. Other liabilities, net, consist of the following (dollars in thousands) at:

December 31,	**2012**	**2011**
Value of in-place below-market leases, net	$ 26,471	$ 6,423
Rent received in advance	20,929	18,149
Security deposits	5,130	4,607
	$ 52,530	$ 29,179

4. American Realty Capital Trust

A. Acquisition

On January 22, 2013, we completed our acquisition of American Realty Capital Trust, Inc., or ARCT. Pursuant to the terms and subject to the conditions set forth in the Agreement and Plan of Merger dated as of September 6, 2012, as amended on January 6, 2013, at the effective time of the acquisition, each outstanding share of ARCT common stock was converted into the right to receive a combination of: (i) $0.35 in cash and (ii) 0.2874 shares of our common stock. In connection with the acquisition, at the closing we terminated and repaid the amounts then outstanding of approximately $552.9 million under ARCT s revolving credit facility and term loan. With this acquisition, we added 515 properties to our portfolio. Below is the preliminary allocation of the purchase price of the ARCT acquisition, based on the closing price of our common stock of $44.04 per share on January 22, 2013:

Consideration associated with equity issued	$	2,027,753
Cash consideration paid to previous owners of ARCT		59,142
Total preliminary purchase consideration	$	2,086,895

We will account for the ARCT acquisition in accordance with *ASC 805, Business Combinations*, and are in the process of completing our allocation of the purchase price for this acquisition, which we expect to finalize during 2013. The following table summarizes our preliminary purchase price allocation, which represents our current best estimate of fair value. These estimates could change significantly as we complete our purchase price allocation analysis.

Assets:		
Total real estate and related intangible assets	$	3,178,862
Cash and cash equivalents, accounts receivable, and other assets, net		45,667
Total Assets		3,224,529
Liabilities:		
Lines of credit payable		317,207
Term loan		235,000
Mortgage notes payable		538,888
Accounts payable, accrued expenses, and other liabilities, net		32,577

Total Liabilities		1,123,672
Non-controlling interest		13,962
Estimated fair value of net assets acquired	$	2,086,895

B. Transaction Costs

In connection with our acquisition of ARCT, we expect to incur total merger-related transaction costs of approximately $19 million, which include, but are not limited to, advisor fees, legal fees, accounting fees, printing fees and transfer taxes. We incurred $7.9 million of the estimated $19 million of total merger-related transaction costs, during 2012, which are included in income from continuing operations. At December 31, 2012, we had contingent payments of approximately $6 million due to various banks for fairness opinions related to our acquisition of ARCT, which is included as part of the estimated $19 million of merger-related costs disclosed above.

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C. Litigation

All of the below actions name as defendants ARCT, members of the ARCT board of directors, Realty Income, and Tau Acquisition LLC, a Delaware limited liability company and wholly owned subsidiary of Realty Income, or Merger Sub. In each case, the plaintiffs allege that the ARCT directors breached their fiduciary duties to ARCT and/or its stockholders in negotiating and approving the agreement, that the acquisition consideration negotiated in the agreement improperly values ARCT, that the ARCT stockholders will not receive fair value for their ARCT common stock in the acquisition, and that the terms of the agreement impose improper deal-protection devices that purportedly preclude competing offers. The complaints further allege that Realty Income, Merger Sub, and, in some cases, ARCT aided and abetted those alleged breaches of fiduciary duty. The various amended complaints add allegations that disclosures regarding the proposed merger in the joint proxy statement/prospectus filed on October 1, 2012, or the definitive proxy statement/prospectus filed on December 6, 2012, are inadequate. Plaintiffs seek injunctive relief, including enjoining or rescinding the acquisition, and an award of other unspecified attorneys and other fees and costs, in addition to other relief.

Realty Income believes that these actions have no merit and intends to respond to them in due course.

Maryland Actions. Since the announcement of the proposed acquisition of ARCT on September 6, 2012, six alleged class actions and/or shareholder derivative actions were filed on behalf of alleged ARCT stockholders and/or ARCT itself in the Circuit Court for Baltimore City, Maryland, under the following captions: *Quaal v. American Realty Capital Trust Inc., et al.*, No. 24-C-12-005306, filed September 7, 2012; *Hill v. American Realty Capital Trust, Inc., et al.*, No. 24-C-12-005502, filed September 19, 2012; *Goldwurm v. American Realty Capital Trust, Inc., et al.*, No. 24-C-12-005524, filed September 20, 2012; *Gordon v. Schorsch, et al.*, No. 24-C-12-005571, filed September 21, 2012; *Gregor v. Kahane, et al.*, No. 24-C-12-005563, filed September 21, 2012; and *Rooker v. American Realty Capital Trust, Inc., et al.*, No. 24-C-12-005924, filed October 5, 2012. On October 23, 2012, defendants moved to dismiss the actions and, on November 8, 2012, moved to stay discovery pending disposition of the motions to dismiss. On November 13, 2012, all plaintiffs except Sydelle Goldwurm filed motions to compel discovery and to expedite discovery. On November 16, 2012, the court consolidated the actions into a single action captioned *In re American Capital Realty Trust, Inc. Shareholder Litigation*, No. 24-C-12-005306 (the Maryland State Action). On November 21, 2012, the court appointed plaintiff Randell Quaal as lead plaintiff and Brower Piven, P.C. as lead counsel for plaintiffs. On December 3, 2012, plaintiff Goldwurm voluntarily dismissed her action in Maryland state court without prejudice. On December 11, 2012, plaintiffs moved for a preliminary injunction and to compel expedited discovery. On December 13, 2012, the court granted defendants motion to stay discovery and denied plaintiffs motion to expedite discovery. On December 14, 2012, plaintiffs filed a consolidated amended complaint, and defendants filed amended motions to dismiss the amended complaint on December 21, 2012.

On January 6, 2013, the parties in the Maryland State Action entered into a memorandum of understanding regarding settlement of all claims asserted on behalf of the alleged class of ARCT stockholders. In connection with the settlement contemplated by the memorandum of understanding, the Maryland State Action and all claims asserted in the litigation will be dismissed, subject to court approval. The proposed settlement terms required ARCT to make certain additional disclosures related to the merger, as set forth in a Current Report on Form 8-K filed by ARCT on January 8, 2013. The parties also agreed that plaintiffs may seek attorneys fees and costs in an as-yet undetermined amount, with ARCT to pay such fees and costs if and to the extent they are approved by the Maryland state court. The memorandum of understanding further contemplates that the parties will enter into a stipulation of settlement, which will be subject to customary conditions, including confirmatory discovery and court approval following notice to ARCT s stockholders. If the parties enter into a stipulation of settlement, a hearing will be scheduled at which the court will consider the fairness, reasonableness, and adequacy of the settlement. There can be no assurance that the parties will ultimately enter into a stipulation of settlement, that the court will approve any proposed settlement, or that any eventual settlement will be under the same terms as those contemplated by the memorandum of understanding.

After the Maryland state court denied plaintiff Goldwurm s motion for appointment of lead plaintiff and lead counsel in the Maryland State Action, plaintiff Goldwurm filed a class action and shareholder derivative action on November 29, 2012, in the United States District Court for the District of Maryland, captioned *Goldwurm v. American Realty Capital Trust, Inc., et al.*, No. 1:12-cv-03516-JKB (the Maryland Federal Action). On December 12, 2012, plaintiff Goldwurm moved for expedited discovery. Defendants moved to stay the federal case on December 13, 2012, and moved to dismiss it on December 19, 2012. On January 11, 2013, plaintiff

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Goldwurm moved for a temporary restraining order seeking to enjoin the shareholder vote on the proposed merger set to take place on January 16, 2013.

On January 14, 2013, the parties in the Maryland Federal Action entered into an agreement to settle all claims. In connection with the settlement, on January 25, 2013, the parties agreed to voluntarily dismiss the case with prejudice. On January 28, 2013, the Maryland federal court dismissed the action.

New York Actions. Two alleged class actions were filed on behalf of alleged ARCT stockholders in the Supreme Court of the State of New York for New York, New York, under the following captions: *The Carol L. Possehl Living Trust v. American Realty Capital Trust, Inc., et al.*, No. 653300-2012, filed September 20, 2012; and *Salenger v. American Realty Capital Trust, Inc. et al.*, No. 353355-2012, filed September 25, 2012. On October 19, 2012, the court consolidated the actions into a single action captioned *In re American Realty Capital Trust Shareholders Litigation*, No. 653300-2012 (the New York Action) and appointed Robbins Geller Rudman & Dowd LLP as lead counsel for plaintiffs. On October 19, 2012, defendants moved for a stay of proceedings. Plaintiffs filed an amended complaint on October 23, 2012. On November 9, 2012, the Court granted defendants motion to stay the New York Action pending the Maryland state actions.

5. Investments in Real Estate

We acquire the land, buildings and improvements that are necessary for the successful operations of commercial enterprises.

A. 2012 and 2011 Acquisitions

During 2012, Realty Income invested $1.16 billion in real estate, acquiring 423 properties, and properties under development, with an initial weighted average contractual lease rate of 7.2%. The initial weighted average contractual lease rate is computed by dividing the estimated aggregate base rent for the first year of each lease by the estimated total cost of the properties. The 423 properties, and properties under development, are located in 37 states, will contain over 10.5 million leasable square feet, and are 100% leased with an average lease term of 14.6 years. The tenants of the 423 properties acquired operate in 23 industries: aerospace, apparel stores, automotive collision services, automotive parts, consumer appliances, consumer goods, convenience stores, crafts and novelties, diversified industrial, dollar stores, drug stores, equipment services, food processing, health and fitness, insurance, machinery, motor vehicle dealerships, packaging, paper, restaurants - quick service, theaters, transportation services, and wholesale clubs. None of the investments in these properties caused any one tenant to be 10% or more of our total assets at December 31, 2012. Acquisition transaction costs of $2.4 million were recorded to general and administrative expense on our consolidated statement of income for 2012.

These 2012 aggregate acquisitions were allocated as follows: $284.5 million to land, $770.0 million to buildings and improvements, $107.2 million to intangible assets, $34.9 million to other assets, net, and $32.5 million to intangible and assumed liabilities, which includes mortgage premiums of $10.0 million. The majority of our 2012 acquisitions were cash purchases, except for eight transactions that included the assumption of $110.5 million of mortgages payable. There was no contingent consideration associated with these acquisitions.

The properties acquired during 2012 generated total revenues of $23.9 million and income from continuing operations of $9.8 million.

The purchase price allocation for $106.4 million of the $1.16 billion invested by us in 2012 is based on a preliminary measurement of fair value that is subject to change. The allocation for these properties represents our current best estimate of fair value and we expect to finalize the valuations and complete the purchase price allocation in the first quarter of 2013.

In comparison, during 2011, Realty Income invested $1.02 billion in new real estate, including 164 new properties, and properties under development, with an initial weighted average contractual lease rate of 7.8%. These 164 new properties, and properties under development, are located in 26 states, contain over 6.2 million leasable square feet, and are 100% leased with an average lease term of 13.4 years. The tenants of the 164 properties acquired operate in 16 industries: aerospace, automotive collision services, beverages, drug store, equipment services, financial services, food processing, grocery stores, health and fitness, packaging, paper, restaurants quick service, telecommunications, theaters, transportation services, and wholesale club.

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Acquisition transaction costs of $1.5 million were recorded to general and administrative expense on our consolidated statement of income for 2011.

The 2011 aggregate acquisitions were allocated as follows: $239.3 million to land, $645.0 million to buildings and improvements, $137.0 million to intangible assets and $5.1 million to intangible and assumed liabilities, which includes mortgage premiums of $820,000. The majority of our 2011 acquisitions were cash purchases, except for one that also included the assumption of $8.8 million in notes receivable and four that also included the assumption of $67.4 million of mortgages payable. There was no contingent consideration associated with these acquisitions.

In 2012, we capitalized costs of $6.6 million on existing properties in our portfolio, consisting of $1.62 million for re-leasing costs and $4.93 million for building and tenant improvements. In 2011, we capitalized costs of $4.2 million on existing properties in our portfolio, consisting of $1.7 million for re-leasing costs and $2.5 million for building improvements.

B. Unaudited Pro Forma Information

The following pro forma total revenue and income from continuing operations, for 2012 and 2011, assumes all of our 2012 property acquisitions, and our acquisition of ARCT in January 2013, occurred on January 1, 2011 (in millions). This pro forma supplemental information does not include the impact of any synergies or lower borrowing costs that we have or may achieve as a result of the acquisitions or any strategies that management has or may consider in order to continue to efficiently manage our operations. Additionally, this information does not purport to be indicative of what our operating results would have been had the acquisitions occurred on January 1, 2011, and may not be indicative of future operating results. For purposes of calculating these pro-forma amounts, we assumed that the following transaction occurred on January 1, 2011: (1) the issuance of our $350 million of 2% notes due January 2018 and our $450 million of 3.25% notes due in October 2022, and (2) payment of the estimated merger-related costs of $19 million related to our acquisition of ARCT. Other than these items specified above, no material, non-recurring pro-forma adjustments were included in the calculation of this information.

	Total revenue	Income from continuing operations
Supplemental pro forma for the year ended December 31, 2012	$ 717.9	$ 188.2
Supplemental pro forma for the year ended December 31, 2011	$ 669.3	$ 156.4

C. Properties With Existing Leases

Of the $1.16 billion Realty Income invested in 2012, approximately $552.5 million was used to acquire 129 properties with existing leases. Associated with these 129 properties, we recorded $98.6 million as the intangible value of the in-place leases, $8.5 million as the intangible value of above-market leases and $21.1 million as the intangible value of below-market leases. Of the $1.02 billion we invested in 2011, approximately $592.1 million was used to acquire 94 properties with existing leases. Associated with these 94 properties, we recorded $109.9 million as the intangible value of the in-place leases, $27.1 million as the intangible value of above-market leases and $3.5 million as the intangible value of below-market leases.

The value of the in-place and above-market leases is recorded to other assets, net, on our consolidated balance sheet, and the value of the below-market leases is recorded to other liabilities, net, on our consolidated balance sheet. The value of the in-place leases is amortized as depreciation and amortization expense. The amount amortized to expense for 2012 was $15.6 million, for 2011 was $8.3 million and for 2010 was $1.4 million. If a lease were to be terminated prior to its stated expiration, all unamortized amounts relating to that lease would be recorded to revenue or expense as appropriate.

The value of the above-market and below-market leases is amortized as rental revenue on our consolidated statements of income. All of these amounts are amortized over the expected lives of the respective leases. The amounts amortized as a net (decrease) increase to rental income for capitalized above-market and below-market leases for 2012 was $(1.8) million, for 2011 was $(1.1) million and for 2010 was $154,000.

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D. Crest

During 2012, Crest invested $890,000 in one property in the restaurant casual industry, while Crest did not invest in any properties during 2011. At December 31, 2012, Crest owned four properties for $3.9 million, of which $3.0 million was classified as held for investment. At December 31, 2011, Crest owned three properties for $3.0 million. Additionally, Crest also held notes receivable of $18.9 million at December 31, 2012 and $19.0 million at December 31, 2011.

6. Notes Receivable

Of the $1.16 billion Realty Income invested in 2012, approximately $35.1 million was loaned in the form of a note receivable, which is secured by the properties on which the note receivable was placed. The note receivable is recorded to other assets, net, on our consolidated balance sheet as of December 31, 2012 and matures in March 2014. We receive monthly interest income on this note receivable at an interest rate of 7.6%. As part of the origination of the note receivable, we received a fee of $260,000, which is recorded in accounts payable and accrued expenses on our consolidated balance sheet as of December 31, 2012. This loan origination fee is being amortized to interest income over the remaining term of the note receivable, using a method that approximates the effective-interest method.

In 2011, Realty Income assumed a note receivable in conjunction with a property acquisition, which is secured by the property on which the note receivable was placed. This note receivable is recorded to other assets, net, on our consolidated balance sheets as of December 31, 2012 and 2011, and matures in December 2013. We receive interest income on this note receivable at an interest rate of 8.1%.

7. Credit Facility

In May 2012, we entered into a new $1 billion unsecured acquisition credit facility, which replaced our $425 million acquisition credit facility that was scheduled to expire in March 2014. The initial term of the new credit facility expires in May 2016 and includes, at our option, a one-year extension option. Under this new credit facility, our current investment grade credit ratings provide for financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 1.075% with a facility commitment fee of 0.175%, for all-in drawn pricing of 1.25% over LIBOR. The borrowing rate is not subject to an interest rate floor or ceiling. We also have other interest rate options available to us. Our credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation.

As a result of entering into our new credit facility, we incurred credit facility origination costs of $7.1 million. At December 31, 2012, $5.9 million of the $7.1 million is included in other assets, net, on our consolidated balance sheet, along with $2.2 million incurred as a result of entering into our previous credit facilities. These costs are being amortized over the remaining term of our current $1 billion credit facility.

At December 31, 2012, we had a borrowing capacity of $842 million available on our credit facility (subject to customary conditions to borrowing) and an outstanding balance of $158 million, as compared to an outstanding balance of $237.4 million at December 31, 2011.

The average interest rate on outstanding borrowings under our credit facilities was 1.6% during 2012, 2.1% during 2011, and was 1.3% during 2010. At December 31, 2012, the effective interest rate was 1.3%. Our current and prior credit facilities are and were subject to various leverage and interest coverage ratio limitations. At December 31, 2012, we remain in compliance with these covenants.

8. Mortgages Payable

During 2012 and 2011, we assumed mortgages totaling $110.5 million and $67.4 million, respectively. These mortgages are secured by the properties on which the debt was placed. Although this mortgage debt is non-recourse, there are limited customary exceptions for items such as bankruptcy, misrepresentation, fraud, misapplication of payments, environmental liabilities, failure to pay taxes, insurance premiums, liens on the property, and uninsured losses. We expect to pay off the mortgages as soon as prepayment penalties and costs make it economically feasible to do so. We intend to continue our policy of primarily identifying property acquisitions that are free from mortgage indebtedness. In 2012, we repaid one mortgage in full for $10.7 million.

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During 2012, aggregate net premiums totaling $10.0 million were recorded upon assumption of the mortgages for above-market interest rates, as compared to net premiums totaling $820,000 recorded in 2011. Amortization of these net premiums is recorded as a reduction to interest expense over the remaining term of the respective notes, using a method that approximates the effective-interest method. These mortgages contain customary covenants, such as limiting our ability to further mortgage each applicable property or to discontinue insurance coverage, without the prior consent of the lender. At December 31, 2012, we remain in compliance with these covenants.

As a result of assuming these mortgages payable, we incurred deferred financing costs of $1.1 million during 2012 and $917,000 during 2011, which were classified as part of other assets, net, on our consolidated balance sheets. The balance of these deferred financing costs was $1.5 million at December 31, 2012, and $751,000 at December 31, 2011, which is being amortized over the remaining term of each mortgage.

The following is a summary of our mortgages payable as of December 31, 2012 and 2011, sorted by maturity date (dollars in thousands):

At December 31, 2012

Maturity Date(1)	Stated Interest Rate(2)	Effective Interest Rate	Remaining Principal Balance(1)	Amortized Premium (Discount) Balance	Mortgage Payable Balance
12/1/13	6.3%	4.6%	$ 11,987	$ 172	$ 12,159
12/28/13(3)	8.3%	8.3%	4,510	--	4,510
12/28/13(3)	8.3%	8.3%	4,270	--	4,270
9/1/14	6.3%	5.1%	11,509	196	11,705
6/10/15	4.7%	4.8%	23,625	(48)	23,577
1/10/16	6.0%	3.7%	12,982	794	13,776
1/8/17	5.7%	3.8%	6,883	454	7,337
2/8/17	5.8%	4.0%	29,510	1,829	31,339
6/6/17	5.7%	2.7%	10,150	1,201	11,351
10/1/20	6.0%	4.2%	8,765	907	9,672
9/3/21(4)	2.6%	4.0%	8,359	(771)	7,588
7/8/22	6.4%	4.0%	29,308	4,675	33,983
4/1/25	6.9%	5.1%	4,069	532	4,601
			$ 165,927	$ 9,941	$ 175,868

At December 31, 2011

Maturity Date(1)	Stated Interest Rate(2)	Effective Interest Rate	Remaining Principal Balance(1)	Amortized Premium (Discount) Balance	Mortgage Payable Balance
5/6/12	5.9%	5.2%	$ 10,664	$ 26	$ 10,690
12/1/13	6.3%	4.6%	12,410	314	12,724
12/28/13(3)	8.3%	8.3%	4,510	--	4,510
12/28/13(3)	8.3%	8.3%	4,270	--	4,270

9/1/14	6.3%	5.1%	11,671	359	12,030
6/10/15	4.7%	4.8%	23,625	(68)	23,557
			$ 67,150	$ 631	$ 67,781

(1) The mortgages require monthly payments, with a principal payment due at maturity.

(2) The mortgages are at fixed interest rates, except for: (1) the mortgage maturing on June 10, 2015 with a floating variable interest rate calculated as the sum of the current 1 month LIBOR plus 4.5%, not to exceed an all-in interest rate of 5.5%, and (2) the mortgage maturing on September 3, 2021 with a floating interest rate calculated as the sum of the current 1 month LIBOR plus 2.4%.

(3) As part of the assumption of these mortgages payable related to our 2011 acquisitions, we also acquired an $8.8 million note receivable, upon which we will receive interest income at a stated rate of 8.14% through December 28, 2013.

(4) As part of the assumption of this mortgage payable related to our 2012 acquisitions, we also acquired an interest rate swap which essentially fixes the interest rate on this mortgage payable at 6.0%.

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9. Notes Payable

A. General

Our senior unsecured notes and bonds consisted of the following, sorted by maturity date (dollars in millions):

December 31,	**2012**	**2011**
5.375% notes, issued in March 2003 and due in March 2013	$ 100	$ 100
5.5% notes, issued in November 2003 and due in November 2015	150	150
5.95% notes, issued in September 2006 and due in September 2016	275	275
5.375% notes, issued in September 2005 and due in September 2017	175	175
2.0% notes, issued in October 2012 and due in January 2018	350	--
6.75% notes, issued in September 2007 and due in August 2019	550	550
5.75% notes, issued in June 2010 and due in January 2021	250	250
3.25% notes, issued in October 2012 and due in October 2022	450	--
5.875% bonds, $100 issued in March 2005 and $150 issued in June 2011, both due in March 2035	250	250
	$ 2,550	$ 1,750

The following table summarizes the maturity of our notes and bonds payable as of December 31, 2012 (dollars in millions):

Year of Maturity	Notes and Bonds
2013	$ 100
2014	--
2015	150
2016	275
2017	175
Thereafter	1,850
Totals	$ 2,550

Interest incurred on all of the notes and bonds was $110.4 million for 2012, $101.5 million for 2011 and $89.7 million for 2010. The interest rate on each of these notes and bonds is fixed.

Our outstanding notes and bonds are unsecured; accordingly, we have not pledged any assets as collateral for these or any other obligations. Interest on all of the senior note and bond obligations is paid semiannually.

All of these notes and bonds contain various covenants, including: (i) a limitation on incurrence of any debt which would cause our debt to total adjusted assets ratio to exceed 60%; (ii) a limitation on incurrence of any secured debt which would cause our secured debt to total adjusted assets ratio to exceed 40%; (iii) a limitation on incurrence of any debt which would cause our debt service coverage ratio to be less than 1.5 times; and (iv) the maintenance at all times of total unencumbered assets not less than 150% of our outstanding unsecured debt. At December 31, 2012, we remain in compliance with these covenants.

B. Note Issuances

In October 2012, we issued $350 million in aggregate principal amount of 2.00% senior unsecured notes due January 2018, or the 2018 Notes, and $450 million in aggregate principal amount of 3.25% senior unsecured notes due October 2022, or the 2022 Notes. The price to the investors for the 2018 Notes was 99.910% of the principal amount for an effective yield of 2.017% per annum. The price to the investors for the 2022 Notes was 99.382% of the principal amount for an effective yield of 3.323% per annum. The total net proceeds of approximately $790.1 million from these offerings were used to repay all outstanding borrowings under our acquisition credit facility, and the remaining proceeds were used for general corporate purposes, including additional property acquisitions. Interest is paid semiannually on both the 2018 and 2022 Notes.

In June 2010, we issued $250 million in aggregate principal amount of 5.75% senior unsecured notes due January 2021, or the 2021 Notes. The price to the investor for the 2021 Notes was 99.404% of the principal amount for an effective yield of 5.826% per annum. The net proceeds of $246.1 million from this offering were used to repay borrowings under our acquisition credit facility, which were incurred to fund property acquisitions. Interest is paid semiannually on the 2021 Notes.

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C. Re-opening of Unsecured Bonds due 2035

In June 2011, we re-opened our 5.875% senior unsecured bonds due 2035, or the 2035 Bonds, and issued $150 million in aggregate principal amount of these 2035 Bonds. The public offering price for the additional 2035 Bonds was 94.578% of the principal amount for an effective yield of 6.318% per annum. Those 2035 Bonds constituted an additional issuance of, and a single series with, the $100 million in aggregate principal amount of the 2035 Bonds that we issued in March 2005. The net proceeds of $140.1 million were used to fund property acquisitions. Interest is paid semiannually on the 2035 Bonds.

10. Issuance and Redemption of Preferred Stock

A. In 2004, we issued 5.1 million shares of 7.375% Monthly Income Class D Cumulative Redeemable Preferred stock. In March 2012, we redeemed all of the 5.1 million shares of our 7.375% Monthly Income Class D Cumulative Redeemable Preferred Stock for $25.00 per share, plus accrued dividends. We incurred a charge of $3.7 million, representing the Class D preferred stock original issuance costs that we paid in 2004. In 2012, we paid dividends to holders of our Class D preferred stock totaling $0.3841147 per share, or $2.0 million. During 2011 and 2010, we paid twelve monthly dividends to holders of our Class D preferred stock totaling $1.8437508 per share, or $9.4 million.

B. In 2006, we issued 8.8 million shares of 6.75% Monthly Income Class E Cumulative Redeemable Preferred Stock. Since December 2011, the Class E preferred shares are redeemable at our option, for $25.00 per share. During 2012, 2011 and 2010, we paid twelve monthly dividends to holders of our Class E preferred stock totaling $1.6875 per share, or $14.9 million, and at December 31, 2012, a monthly dividend of $0.140625 per share was payable and was paid in January 2013.

C. In February 2012, we issued 14.95 million shares of our 6.625% Monthly Income Class F Cumulative Redeemable Preferred Stock at a price of $25.00 per share, including 1.95 million shares purchased by the underwriters upon the exercise of their overallotment option. In April 2012, we issued an additional 1.4 million shares of our Class F preferred stock at a price of $25.2863 per share. After aggregate underwriting discounts and other offering costs totaling $13.8 million, we received total net proceeds of $395.4 million for the February and April offerings combined, of which $127.5 million was used to redeem all of our outstanding 7.375% Monthly Income Class D Cumulative Redeemable Preferred Stock and the balance was used to repay a portion of the borrowings under our credit facility. Beginning February 15, 2017, the Class F preferred shares are redeemable at our option, for $25.00 per share. The initial dividend of $0.1702257 per share was paid on March 15, 2012 and covered 37 days. Thereafter, dividends of $0.138021 per share will be paid monthly in arrears on the Class F preferred stock. During 2012, we paid ten monthly dividends to holders of our Class F preferred stock totaling $1.4124147, or $22.6 million, and at December 31, 2012, a monthly dividend of $0.138021 per share was payable and was paid in January 2013.

We are current in our obligations to pay dividends on our Class E and Class F preferred stock.

11. Issuance of Common Stock

In September 2011, we issued 6,300,000 shares of common stock at a price of $34.00 per share. After underwriting discounts and other offering costs of $10.6 million, the net proceeds of $203.6 million were used to repay borrowings under our acquisition credit facility, which were used to fund property acquisitions.

In March 2011, we issued 8,625,000 shares of common stock at a price of $34.81 per share. After underwriting discounts and other offering costs of $14.6 million, the net proceeds of $285.6 million were used to fund property acquisitions.

In December 2010, we issued 7,360,000 shares of common stock at a price of $33.70 per share. The net proceeds of $235.7 million were used to repay borrowings of $179.8 million under our acquisition credit facility and to fund property acquisitions during December 2010. The remaining net proceeds were used for general corporate purposes and working capital.

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In September 2010, we issued 6,198,500 shares of common stock at a price of $33.40 per share. The net proceeds of $196.9 million were used to repay borrowings of $49.7 million under our acquisition credit facility and to fund $126.5 million of property acquisitions during October 2010. The remaining net proceeds were used for general corporate purposes and working capital.

12. Distributions Paid and Payable

A. Common Stock

We pay monthly distributions to our common stockholders. The following is a summary of monthly distributions paid per common share for the years:

Month	**2012**	**2011**	**2010**
January	$ 0.1455000	$ 0.1442500	$ 0.1430000
February	0.1455000	0.1442500	0.1430000
March	0.1455000	0.1442500	0.1430000
April	0.1458125	0.1445625	0.1433125
May	0.1458125	0.1445625	0.1433125
June	0.1458125	0.1445625	0.1433125
July	0.1461250	0.1448750	0.1436250
August	0.1461250	0.1448750	0.1436250
September	0.1511250	0.1448750	0.1436250
October	0.1514375	0.1451875	0.1439375
November	0.1514375	0.1451875	0.1439375
December	0.1514375	0.1451875	0.1439375
Total	$ 1.7716250	$ 1.7366250	$ 1.7216250

The following presents the federal income tax characterization of distributions paid or deemed to be paid per common share for the years:

	2012	**2011**	**2010**
Ordinary income	$ 1.3367481	$ 1.3787863	$ 1.2598879
Nontaxable distributions	0.4348769	0.3578387	0.4617371
Totals	$ 1.7716250	$ 1.7366250	$ 1.7216250

At December 31, 2012, a distribution of $0.15175 per common share was payable and was paid in January 2013. At December 31, 2011, a distribution of $0.1455 per common share was payable and was paid in January 2012.

B. Class D Preferred Stock

Prior to the redemption of the Class D Preferred Stock in March 2012, dividends of $0.1536459 per share were paid monthly in arrears on the Class D preferred stock. We declared dividends to holders of our Class D preferred stock totaling $2.0 million in 2012 and $9.4 million in 2011 and 2010. For 2012, 2011 and 2010, dividends paid per share in the amounts of $0.3841147, $1.8437508, and $1.8437508, respectively, were characterized as ordinary income for federal income tax purposes.

C. Class E Preferred Stock

Dividends of $0.140625 per share are paid monthly in arrears on the Class E preferred stock. We declared dividends to holders of our Class E preferred stock totaling $14.9 million in 2012, 2011 and 2010. For 2012, 2011 and 2010, dividends paid per share in the amount of $1.6875 were characterized as ordinary income for federal income tax purposes.

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D. Class F Preferred Stock

Dividends of $0.138021 per share are paid monthly in arrears on the Class F preferred stock. We declared dividends to holders of our Class F preferred stock totaling $22.6 million in 2012. For 2012, the dividends paid per share of $1.4124147 to our Class F preferred stockholders were characterized as ordinary income for federal income tax purposes.

13. Operating Leases

A. At December 31, 2012, we owned 3,013 properties in 49 states, plus an additional four properties owned by Crest. Of the 3,013 properties, 2,996, or 99.4%, are single-tenant properties, and the remaining 17 are multi-tenant properties. At December 31, 2012, 84 properties were vacant and available for lease or sale.

Substantially all leases are net leases where the tenant pays property taxes and assessments, maintains the interior and exterior of the building and leased premises, and carries insurance coverage for public liability, property damage, fire and extended coverage.

Rent based on a percentage of a tenants gross sales (percentage rents) was $2.1 million for 2012 and $1.4 million for 2011 and 2010, including amounts recorded to discontinued operations of $124,000 in 2012, $60,000 in 2011 and $104,000 in 2010.

At December 31, 2012, minimum future annual rents to be received on the operating leases for the next five years and thereafter are as follows (dollars in thousands):

2013	$	526,616
2014		512,274
2015		497,075
2016		483,389
2017		464,982
Thereafter		3,399,120
Total	$	5,883,456

B. Major Tenants - No individual tenant s rental revenue, including percentage rents, represented more than 10% of our total revenue for each of the years ended December 31, 2012, 2011 or 2010.

14. Gain on Sales of Investment Properties

During 2012, we sold 44 investment properties for $50.6 million, which resulted in a gain of $9.9 million. The results of operations for these properties have been reclassified as discontinued operations for all periods presented.

During 2011, we sold 26 investment properties for $22.0 million, which resulted in a gain of $5.2 million. The results of operations for these properties have been reclassified as discontinued operations for all periods presented. Additionally, we sold excess real estate from five properties for $2.1 million, which resulted in a gain of $540,000. This gain is included in other revenue on our consolidated statement of income for 2011, because this excess real estate was associated with properties that continue to be owned as part of our core operations.

During 2010, we sold 28 investment properties and excess land from one property for $27.2 million, which resulted in a gain of $8.7 million. The results of operations for these properties have been reclassified as discontinued operations.

During 2012, 2011 and 2010, Crest did not sell any properties.

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15. Fair Value of Financial Instruments

Fair value is defined as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The disclosure for assets and liabilities measured at fair value requires allocation to a three-level valuation hierarchy. This valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Categorization within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

We believe that the carrying values reflected in our consolidated balance sheets reasonably approximate the fair values for cash and cash equivalents, accounts receivable, escrow deposits, loans receivable, lines of credit payable and all other liabilities, due to their short-term nature or interest rates and terms that are consistent with market, except for our notes receivable issued in connection with property sales or acquired in connection with an acquisition, mortgages payable and our senior notes and bonds payable, which are disclosed below (dollars in millions):

At December 31, 2012	**Carrying value per balance sheet**	**Estimated fair value**
Notes receivable issued in connection with property sales	$ 18.9	$ 20.1
Note receivable issued in connection with an acquisition	$ 8.8	$ 8.8
Mortgages payable assumed in connection with acquisitions	$ 175.9	$ 176.7
Notes payable	$ 2,550.0	$ 2,827.1

At December 31, 2011	**Carrying value per balance sheet**	**Estimated fair value**
Notes receivable issued in connection with property sales	$ 19.0	$ 19.6
Note receivable issued in connection with an acquisition	$ 8.8	$ 8.8
Mortgages payable assumed in connection with acquisitions	$ 67.8	$ 68.2
Notes payable	$ 1,750.0	$ 1,901.9

The estimated fair values of our notes receivable issued in connection with property sales or acquired in connection with an acquisition, and our mortgages payable have been calculated by discounting the future cash flows using an interest rate based upon the current 5-year, 7-year or 10-year Treasury yield curve, plus an applicable credit-adjusted spread. Because this methodology includes unobservable inputs that reflect our own internal assumptions and calculations, the measurement of estimated fair values related to our notes receivable and mortgages payable is categorized as level 3 on the three-level valuation hierarchy.

The estimated fair values of our senior notes and bonds payable is based upon indicative market prices and recent trading activity of our senior notes and bonds payable. Because this methodology includes inputs that are less observable by the public and are not necessarily reflected in active markets, the measurement of the estimated fair values related to our notes and bonds payable is categorized as level 2 on the three-level valuation hierarchy.

16. Supplemental Disclosures of Cash Flow Information

Interest paid was $112.5 million in 2012, $102.0 million in 2011 and $82.6 million in 2010.

Interest capitalized to properties under development was $498,000 in 2012, $438,000 in 2011 and $10,000 in 2010.

Income taxes paid were $1.0 million in 2012, $871,000 in 2011 and $907,000 in 2010.

The following non-cash investing and financing activities are included in the accompanying consolidated financial statements:

A. Share-based compensation expense was $10.0 million for 2012, $7.9 million for 2011 and $6.2 million for 2010.

B. See Provisions for Impairment in note 2 for a discussion of provisions for impairments recorded by Realty Income and Crest.

C. For eight properties we acquired during 2012, we assumed $110.5 million of mortgages payable to third-party lenders and recorded $10.0 million of net premiums. See note 8 for a discussion of these transactions.

D. For four properties we acquired during 2011, we assumed $67.4 million of mortgages payable to third-party lenders and recorded $820,000 of net premiums. Additionally, we assumed an $8.8 million note receivable. See note 8 for a discussion of these transactions.

E. In 2010, we recorded a $799,000 receivable for the sale of an investment property as a result of an eminent domain action. We received cash for this eminent domain action in 2012. The $799,000 receivable is included in other assets, net, on our consolidated balance sheet at December 31, 2011.

F. In 2010, we recorded a $600,000 receivable for the sale of excess land, which was included on our consolidated balance sheet at that time. We received cash for this excess land in 2011.

G. In accordance with our policy, we recorded increases to our estimated legal obligations related to asset retirement obligations on two land leases in the following amounts: $31,000 in 2012, $152,000 in 2011 and $82,000 in 2010. These asset retirement obligations account for the difference between our obligations to the landlord under the two land leases and our subtenant s obligations to us under the subleases.

H. Accrued costs on properties under development resulted in an increase in buildings and improvements and accounts payable of $3.8 million at December 31, 2012 and $3.7 million at December 31, 2011.

17. Employee Benefit Plan

We have a 401(k) plan covering substantially all of our employees. Under our 401(k) plan, employees may elect to make contributions to the plan up to a maximum of 60% of their compensation, subject to limits under the Code. We match 50% of our employee s contributions, up to 3% of the employee s compensation. Our aggregate matching contributions each year have been immaterial to our results of operations.

18. Common Stock Incentive Plan

In March 2012, our Board of Directors adopted, and in May 2012, our stockholders approved the Realty Income Corporation 2012 Incentive Award Plan, or the 2012 Plan, to enable us to motivate, attract and retain the services of directors, employees and consultants considered essential to our long-term success. The 2012 Plan offers our directors, employees and consultants an opportunity to own stock in Realty Income or rights that will reflect our growth, development and financial success. Under the terms of the 2012 plan, the aggregate number of shares of our common stock subject to options, restricted stock, stock appreciation rights, or SARs, restricted stock units and other awards, will be no more than 3,985,734 shares. The 2012 Plan, which has a term of 10 years from the date it was adopted by our Board of Directors, replaced the 2003 Incentive Award Plan of Realty Income Corporation (as amended and restated February 21, 2006), or the 2003 Plan, which was set to expire in March 2013. No further awards will be granted under the 2003 Plan. The disclosures below incorporate activity for both the 2003 Plan and the 2012 Plan.

The amount of share-based compensation costs recognized in general and administrative expense on our consolidated statements of income was $10.0 million during 2012, was $7.9 million during 2011 and was $6.2 million during 2010.

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The following table summarizes our common stock grant activity under our 2003 Plan and 2012 Plan, or the Incentive Award Plans. Our common stock grants vest over periods ranging from immediately to 10 years.

	2012		2011		2010	
	Number of shares	Weighted average price(1)	Number of shares	Weighted average price(1)	Number of shares	Weighted average price(1)
Outstanding nonvested shares, beginning of year	925,526	$ 20.21	924,294	$ 19.69	853,234	$ 19.14
Shares granted	261,811	35.06	247,214	33.94	278,200	28.99
Shares vested	(290,877)	27.47	(245,487)	25.26	(206,153)	23.70
Shares forfeited	(910)	31.67	(495)	31.37	(987)	26.03
Outstanding nonvested shares, end of year	895,550	$ 19.94	925,526	$ 20.21	924,294	$ 19.69

(1) Grant date fair value.

During 2012, we issued 261,811 shares of common stock under our Incentive Award Plans. These shares vest over the following service periods: 26,484 vested immediately, 68,600 vest over a service period of two years, 16,000 vest over a service period of three years and 150,727 vest over a service period of five years.

The vesting schedule for shares granted to non-employee directors is as follows:

For directors with less than six years of service at the date of grant, shares vest in 33.33% increments on each of the first three anniversaries of the date the shares of stock are granted;

For directors with six years of service at the date of grant, shares vest in 50% increments on each of the first two anniversaries of the date the shares of stock are granted;

For directors with seven years of service at the date of grant, shares are 100% vested on the first anniversary of the date the shares of stock are granted; and

For directors with eight or more years of service at the date of grant, there is immediate vesting as of the date the shares of stock are granted.

The vesting schedule for shares granted to employees is as follows:

For employees age 55 and below at the grant date, shares vest in 20% increments on each of the first five anniversaries of the grant date;

For employees age 56 at the grant date, shares vest in 25% increments on each of the first four anniversaries of the grant date;

For employees age 57 at the grant date, shares vest in 33.33% increments on each of the first three anniversaries of the grant date;

For employees age 58 at the grant date, shares vest in 50% increments on each of the first two anniversaries of the grant date;

For employees age 59 at the grant date, shares are 100% vested on the first anniversary of the grant date; and

For employees age 60 and above at the grant date, shares vest immediately on the grant date.

After they have been employed for six full months, all non-executive employees receive 200 shares of nonvested stock which vests over a five year period. Additionally, depending on certain company performance metrics, non-executive employees may receive grants of nonvested stock which vests over a five year period.

As of December 31, 2012, the remaining unamortized share-based compensation expense totaled $17.9 million, which is being amortized on a straight-line basis over the service period of each applicable award. The amount of share-based compensation is based on the fair value of the stock at the grant date. We define the grant date as the date the recipient and Realty Income have a mutual understanding of the key terms and condition of the award, and the recipient of the grant begins to benefit from, or be adversely affected by, subsequent changes in the price of the shares.

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Due to a historically low turnover rate, we do not estimate a forfeiture rate for our nonvested shares. Accordingly, unexpected forfeitures will lower share-based compensation expense during the applicable period. Under the terms of our Incentive Award Plans, we pay non-refundable dividends to the holders of our nonvested shares. Applicable accounting guidance requires that the dividends paid to holders of these nonvested shares be charged as compensation expense to the extent that they relate to nonvested shares that do not or are not expected to vest. However, since we do not estimate forfeitures given our historical trends, we did not record any amount to compensation expense related to dividends paid in 2012, 2011 or 2010.

As of December 31, 2012 and 2011, there were no remaining stock options outstanding. All outstanding options were fully vested as of December 31, 2006. Stock options, none of which were granted after January 1, 2002, were granted with an exercise price equal to the underlying stock s fair value at the date of grant.

The following table summarizes our stock option activity for the years:

	2011		2010	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding options, beginning of year	2,454	$14.70	5,846	$14.70
Options exercised	(2,454)	14.70	(3,392)	14.70
Outstanding and exercisable options, end of year	--	$ --	2,454	$14.70

The intrinsic value of a stock option is the amount by which the market value of the underlying stock at December 31 of each year exceeds the exercise price of the option. The market value of our stock was $34.20 at December 31, 2010. The total intrinsic value of options exercised during the years ended December 31, 2011 and 2010 was $48,000 and $61,000, respectively. The aggregate intrinsic value of options outstanding and exercisable was $48,000 at December 31, 2010.

19. Dividend Reinvestment and Stock Purchase Plan

In March 2011, we established a Dividend Reinvestment and Stock Purchase Plan, or the DSPP, to provide our common stockholders, as well as new investors, with a convenient and economical method of purchasing our common stock and reinvesting their distributions. The DSPP also allows our current stockholders to buy additional shares of common stock by reinvesting all or a portion of their distributions. The DSPP authorizes up to 6,000,000 common shares to be issued. During 2012, we issued 55,598 shares and raised approximately $2.2 million under the DSPP. During 2011, we issued 59,605 shares and raised approximately $2.0 million under the DSPP. From the inception of the DSPP through December 31, 2012, we have issued 115,203 shares and raised approximately $4.2 million.

20. Segment Information

We evaluate performance and make resource allocation decisions on an industry by industry basis. For financial reporting purposes, we have grouped our tenants into 45 activity segments. All of the properties are incorporated into one of the applicable segments. Because almost all of our leases require the tenant to pay operating expenses, revenue is the only component of segment profit and loss we measure.

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The following tables set forth certain information regarding the properties owned by us, classified according to the business of the respective tenants, as of December 31, 2012 (dollars in thousands):

Assets, as of December 31:	**2012**	**2011**
Segment net real estate:		
Automotive service	$ 96,830	$ 99,974
Automotive tire services	184,601	191,797
Beverages	310,555	314,832
Child care	61,747	66,213
Convenience stores	670,103	690,246
Dollar stores	450,566	1,327
Drug stores	159,482	154,015
Food Processing	102,964	52,349
Grocery stores	219,216	224,893
Health and fitness	330,503	293,624
Restaurants - casual dining	450,182	469,025
Restaurants - quick service	251,084	277,648
Sporting goods	77,737	80,351
Theaters	381,123	383,452
Transportation services	130,203	107,632
Wholesale clubs	308,202	154,964
29 non-reportable segments	857,039	597,666
Total segment net real estate	5,042,137	4,160,008
Intangible assets:		
Automotive tire services	470	529
Beverages	3,313	3,571
Dollar stores	12,475	--
Drug stores	14,885	14,422
Food Processing	21,785	15,899
Grocery stores	5,650	6,096
Health and fitness	15,056	1,566
Restaurants - quick service	3,464	4,037
Sporting goods	4,862	5,324
Theaters	28,475	31,162
Transportation services	27,997	28,944
Other - non-reportable segments	103,693	41,786
Goodwill:		
Automotive service	471	472
Automotive tire services	865	866
Child care	5,276	5,353
Convenience stores	2,064	2,073
Restaurants - casual dining	2,430	2,461
Restaurants - quick service	1,176	1,318
Other - non reportable segments	4,663	4,663
Other corporate assets	142,156	88,839
Total assets	$ 5,443,363	$ 4,419,389

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For the years ended December 31,	Revenue 2012	2011	2010
Segment rental revenue:			
Automotive service	$ 14,961	$ 15,168	$ 15,308
Automotive tire services	22,604	22,595	22,345
Beverages	24,553	23,458	10,292
Child care	21,342	21,508	21,487
Convenience stores	77,905	77,481	58,514
Dollar stores	10,324	143	143
Drug stores	16,594	15,809	13,962
Food Processing	6,213	2,953	--
Grocery stores	17,836	7,149	3,204
Health and fitness	32,782	26,769	23,730
Restaurants - casual dining	34,510	44,632	44,649
Restaurants - quick service	28,109	24,671	23,565
Sporting goods	11,798	11,176	9,144
Theaters	45,073	36,812	30,634
Transportation services	11,516	7,586	750
Wholesale clubs	15,217	3,059	--
29 non-reportable segments	82,404	67,671	55,053
Total rental revenue	473,741	408,640	332,780
Other revenue	1,769	1,612	657
Total revenue	$ 475,510	$ 410,252	$ 333,437

21. Commitments and Contingencies

In the ordinary course of business, we are party to various legal actions which we believe are routine in nature and incidental to the operation of our business. We believe that the outcome of the proceedings will not have a material adverse effect upon our consolidated financial position or results of operations.

At December 31, 2012, we had contingent payments of $944,000 for tenant improvements and leasing costs. In addition, as of December 31, 2012, we had committed $16.0 million under construction contracts, which is expected to be paid in the next twelve months.

We have certain properties that are subject to ground leases which are accounted for as operating leases. At December 31, 2012, minimum future rental payments for the next five years and thereafter are as follows (dollars in thousands):

	Ground Leases Paid by Realty Income (1)	Ground Leases Paid by Our Tenants (2)	Total
2013	$ 181	$ 4,249	$ 4,430
2014	189	4,111	4,300
2015	191	4,074	4,265
2016	201	4,038	4,239
2017	210	3,944	4,154
Thereafter	424	48,769	49,193
Total	$ 1,396	$ 69,185	$ 70,581

(1) Realty Income currently pays the ground lessors directly for the rent under the ground leases.

(2) Our tenants, who are generally sub-tenants under the ground leases, are responsible for paying the rent under these ground leases. In the event a tenant fails to pay the ground lease rent, we are primarily responsible.

22. Subsequent Events

In January 2013 and February 2013, we declared the following dividends, which will be paid in February 2013 and March 2013, respectively:

- $0.1809167 per share to our common stockholders;
- $0.140625 per share to our Class E preferred stockholders; and
- $0.138021 per share to our Class F preferred stockholders.

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Our stockholders and ARCT stockholders approved our acquisition of ARCT at special meetings of common stockholders on January 16, 2013. The acquisition of ARCT was completed on January 22, 2013. See note 4 for additional information.

In conjunction with our acquisition of ARCT, we assumed approximately $516.3 million of mortgages payable, which are secured by the properties on which the debt was placed. Of this amount, approximately $495.1 million is considered non-recourse with limited customary exceptions for items such as bankruptcy, misrepresentation, fraud, misapplication of payments, environmental liabilities, failure to pay taxes, insurance premiums, liens on the property, and uninsured losses. Approximately $6.6 million of the assumed mortgage debt from ARCT has full recourse to Realty Income and the remaining $14.6 million of the assumed debt is not guaranteed by Realty Income.

In January 2013, in conjunction with our acquisition of ARCT, we entered into a $70 million senior unsecured term loan maturing January 21, 2018. Borrowing under the term loan bears interest at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 1.20%. In conjunction with this term loan, we also acquired an interest rate swap which essentially fixes our per annum interest rate on the term loan at 2.15%.

REALTY INCOME CORPORATION AND SUBSIDIARIES

CONSOLIDATED QUARTERLY FINANCIAL DATA

(dollars in thousands, except per share data)

(not covered by Report of Independent Registered Public Accounting Firm)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year(2)
2012(1)					
Total revenue	$ 112,639	$ 114,023	$ 118,710	$ 130,139	$ 475,510
Depreciation and amortization expense	34,686	35,046	37,552	42,313	149,597
Interest expense	28,952	28,806	29,720	35,065	122,542
Other expenses	11,745	11,437	16,902	17,315	57,400
Income from continuing operations	37,256	38,734	34,536	35,446	145,971
Income from discontinued operations	2,007	4,673	2,922	3,578	13,181
Net income	39,263	43,407	37,458	39,024	159,152
Net income available to common stockholders	26,071	32,950	26,976	28,542	114,538
Net income per common share:					
Basic and diluted	0.20	0.25	0.20	0.21	0.86
Dividends paid per common share	0.4365000	0.4374375	0.4433750	0.4543125	1.7716250
2011(1)					
Total revenue	$ 94,703	$ 99,102	$ 104,692	$ 111,755	$ 410,252
Depreciation and amortization expense	25,878	28,168	31,114	33,714	118,874
Interest expense	25,122	25,647	28,550	28,983	108,301
Other expenses	9,632	9,653	8,897	10,270	38,452
Income from continuing operations	34,071	35,634	36,131	38,788	144,625

Income from discontinued operations	1,928	3,614	4,649	2,216	12,407
Net income	35,999	39,248	40,780	41,004	157,032
Net income available to common stockholders	29,936	33,185	34,717	34,941	132,779
Net income per common share:					
Basic and diluted	0.25	0.26	0.27	0.26	1.05
Dividends paid per common share	0.4327500	0.4336875	0.4346250	0.4355625	1.7366250

(1) The consolidated quarterly financial data includes revenues and expenses from our continuing and discontinued operations. The results of operations related to certain properties, classified as held for sale or disposed of, have been reclassified to income from discontinued operations. Therefore, some of the information may not agree to our previously filed 10-Qs.

(2) Amounts for each period are calculated independently. The sum of the quarters may differ from the annual amount.

Item 9: **Changes In and Disagreements With Accountants on Accounting and Financial Disclosure**

We have had no disagreements with our independent registered public accounting firm on accounting matters or financial disclosure, nor have we changed accountants in the two most recent fiscal years.

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Item 9A: Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of and for the year ended December 31, 2012, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective and were operating at a reasonable assurance level.

Management s Report on Internal Control Over Financial Reporting

Internal control over financial reporting refers to the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

(1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company.

Management has used the framework set forth in the report entitled Internal Control Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of the Company s internal control over financial reporting. Management has concluded that the Company s internal control over financial reporting was effective as of the end of the most recent fiscal year. KPMG LLP has issued an attestation report on the effectiveness of the Company s internal control over financial reporting.

Submitted on February 14, 2013 by,

Thomas A Lewis, Chief Executive Officer and Vice Chairman

Paul M. Meurer, Chief Financial Officer, Executive Vice President and Treasurer

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Changes in Internal Controls

There were no changes to our internal control over financial reporting that occurred during the quarter ended December 31, 2012 that have materially affected, or are reasonably likely to material affect, our internal control over financial reporting. As of December 31, 2012, there were no material weaknesses in our internal controls, and therefore, no corrective actions were taken.

Limitations on the Effectiveness of Controls

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Item 9B: **Other Information**

None.

PART III

Item 10: **Directors, Executive Officers and Corporate Governance**

The information required by this item is set forth under the captions Board of Directors and Executive Officers of the Company and Section 16(a) Beneficial Ownership Reporting Compliance in our definitive Proxy Statement for the 2013 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference. The Annual Meeting of Stockholders is presently scheduled to be held on May 7, 2013.

Item 11: **Executive Compensation**

The information required by this item is set forth under the caption Executive Compensation in our definitive Proxy Statement for the 2013 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference.

Item 12: **Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this item is set forth under the caption Security Ownership of Certain Beneficial Owners and Management in our definitive Proxy Statement for the 2013 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference.

Item 13: **Certain Relationships, Related Transactions and Director Independence**

The information required by this item is set forth under the caption Related Party Transactions in our definitive Proxy Statement for the 2013 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference.

Item 14: **Principal Accounting Fees and Services**

The information required by this item is set forth under the caption Independent Registered Public Accounting Firm Fees and Services in our definitive Proxy Statement for the 2013 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference.

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PART IV

Item 15: **Exhibits and Financial Statement Schedules**

A. The following documents are filed as part of this report.

1. Financial Statements (see Item 8)

a. Reports of Independent Registered Public Accounting Firm

b. Consolidated Balance Sheets,

December 31, 2012 and 2011

c. Consolidated Statements of Income,

Years ended December 31, 2012, 2011 and 2010

d. Consolidated Statements of Stockholders Equity,

Years ended December 31, 2012, 2011 and 2010

e. Consolidated Statements of Cash Flows,

Years ended December 31, 2012, 2011 and 2010

f. Notes to Consolidated Financial Statements

g. Consolidated Quarterly Financial Data, (unaudited) for 2012 and 2011

2. Financial Statement Schedule. Reference is made to page F-1 of this report for Schedule III Real Estate and Accumulated Depreciation (electronically filed with the Securities and Exchange Commission).

Schedules not Filed: All schedules, other than those indicated in the Table of Contents, have been omitted as the required information is either not material, inapplicable or the information is presented in the financial statements or related notes.

3. Exhibits

Articles of Incorporation and By-Laws

Exhibit No.	**Description**
2.1	Agreement and Plan of Merger, dated as of September 6, 2012, by and among Realty Income Corporation, Tau Acquisition LLC and American Realty Capital Trust, Inc. (filed as exhibit 2.1 to the Company s Form 8-K, filed on September 6, 2012 and incorporated herein by reference).
2.2	First Amendment to Agreement and Plan of Merger, dated as of January 6, 2013, by and among Realty Income Corporation, Tau Acquisition LLC and American Realty Capital Trust, Inc. (filed as exhibit 2.1 to the Company s Form 8-K, filed on January 7, 2013 and incorporated herein by reference).
3.1	Articles of Incorporation of the Company, as amended by amendment No. 1 dated May 10, 2005 and amendment No. 2 dated May 10, 2005 (filed as exhibit 3.1 to the Company s Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference), amendment No. 3 dated July 29, 2011 (filed as exhibit 3.1 to the Company s Form 8-K, filed on August 2, 2011 and incorporated herein by reference); and amendment No. 4 dated June 21, 2012 (filed as exhibit 3.1 to the Company s Form 8-K, filed on June 21, 2012 and incorporated herein by reference).

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3.2	Amended and Restated Bylaws of the Company dated December 12, 2007 (filed as exhibit 3.1 to the Company s Form 8-K, filed on December 13, 2007 and incorporated herein by reference), as amended on May 13, 2008 (amendment filed as exhibit 3.1 to the Company s Form 8-K, filed on May 14, 2008 and incorporated herein by reference), February 7, 2012 (filed as exhibit 3.1 to the Company s Form 8-K, filed on February 13, 2012 and incorporated herein by reference) and February 21, 2012 (filed as exhibit 3.1 to the Company s Form 8-K, filed on February 22, 2012 and incorporated herein by reference).
3.3	Articles Supplementary to the Articles of Incorporation of the Company classifying and designating the 6.75% Monthly Income Class E Cumulative Redeemable Preferred Stock, dated November 30, 2006 (filed as exhibit 3.5 to the Company s Form 8-A, filed on December 5, 2006 and incorporated herein by reference).
3.4	Articles Supplementary to the Articles of Incorporation of the Company classifying and designating the 6.625% Monthly Income Class F Cumulative Redeemable Preferred Stock, dated February 3, 2012 (the First Class F Articles Supplementary) (filed as exhibit 3.1 to the Company s Form 8-K, filed on February 3, 2012 and incorporated herein by reference).
3.5	Certificate of Correction to the First Class F Articles Supplementary, dated April 11, 2012 (filed as exhibit 3.2 to the Company s Form 8-K, filed on April 17, 2012 and incorporated herein by reference).
3.6	Articles Supplementary to the Articles of Incorporation of the Company classifying and designating additional shares of the 6.625% Monthly Income Class F Cumulative Redeemable Preferred Stock, dated April 17, 2012 (filed as exhibit 3.3 to the Company s Form 8-K, filed on April 17, 2012 and incorporated herein by reference).

Instruments defining the rights of security holders, including indentures

4.1	Indenture dated as of October 28, 1998 between the Company and The Bank of New York (filed as exhibit 4.1 to the Company s Form 8-K, filed on October 28, 1998 and incorporated herein by reference).
4.2	Form of 5.375% Senior Notes due 2013 (filed as exhibit 4.2 to the Company s Form 8-K, filed on March 7, 2003 and incorporated herein by reference).
4.3	Officer s Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York, as Trustee, establishing a series of securities entitled 5.375% Senior Notes due 2013 (filed as exhibit 4.3 to the Company s Form 8-K, filed on March 7, 2003 and incorporated herein by reference).
4.4	Form of 5.50% Senior Notes due 2015 (filed as exhibit 4.2 to the Company s Form 8-K, filed on November 24, 2003 and incorporated herein by reference).
4.5	Officer s Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York, as Trustee, establishing a series of securities entitled 5.50% Senior Notes due 2015 (filed as exhibit 4.3 to the Company s Form 8-K, filed on

	November 24, 2003 and incorporated herein by reference).
4.6	Form of 5.875% Senior Notes due 2035 (filed as exhibit 4.2 to the Company s Form 8-K, filed on March 11, 2005 and incorporated herein by reference).
4.7	Officer s Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York, as Trustee, establishing a series of securities entitled 5.875% Senior Debentures due 2035 (filed as exhibit 4.3 to the Company s Form 8-K, filed on March 11, 2005 and incorporated herein by reference).

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4.8	Form of 5.375% Senior Notes due 2017 (filed as exhibit 4.2 to the Company s Form 8-K, filed on September 16, 2005 and incorporated herein by reference).
4.9	Officer s Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York, as Trustee, establishing a series of securities entitled 5.375% Senior Notes due 2017 (filed as exhibit 4.3 to the Company s Form 8-K, filed on September 16, 2005 and incorporated herein by reference).
4.10	Form of 5.95% Senior Notes due 2016 (filed as exhibit 4.2 to the Company s Form 8-K, filed on September 18, 2006 and incorporated herein by reference).
4.11	Officer s Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York, as Trustee, establishing a series of securities entitled 5.95% Senior Notes due 2016 (filed as exhibit 4.3 to the Company s Form 8-K, filed on September 18, 2006 and incorporated herein by reference).
4.12	Form of 6.75% Notes due 2019 (filed as exhibit 4.2 to Company s Form 8-K, filed on September 5, 2007 and incorporated herein by reference).
4.13	Officer s Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York Trust Company, N.A., as Trustee, establishing a series of securities entitled 6.75% Senior Notes due 2019 (filed as exhibit 4.3 to the Company s Form 8-K, filed on September 5, 2007 and incorporated herein by reference).
4.14	Form of 5.750% Notes due 2021 (filed as exhibit 4.2 to Company s Form 8-K, filed on June 29, 2010 and incorporated herein by reference).
4.15	Officer s Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York Mellon Trust Company, N.A., as Successor Trustee, establishing a series of securities entitled 5.750% Notes due 2021 (filed as exhibit 4.3 to the Company s Form 8-K, filed on June 29, 2010 and incorporated herein by reference).
4.16	Form of Common Stock Certificate (filed as exhibit 4.16 to the Company s Form 10-Q for the quarter ended September 30, 2011 and incorporated herein by reference).
4.17	Form of Preferred Stock Certificate representing the 6.75% Monthly Income Class E Cumulative Redeemable Preferred Stock (filed as exhibit 4.1 to the Company s Form 8-A, filed on December 5, 2006 and incorporated herein by reference).
4.18	Form of Preferred Stock Certificate representing the 6.625% Monthly Income Class F Cumulative Redeemable Preferred Stock (filed as exhibit 4.1 to the Company s Form 8-K, filed on February 3, 2012 and incorporated herein by reference).
4.19	Officer s Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee, establishing a series of securities entitled 2.000% Notes due 2018 and establishing a series of securities entitled 3.250% Notes due 2022 (filed as exhibit 4.4 to the Company s Form 8-K, filed on October 10, 2012 and incorporated herein by reference).
4.20	Form of 2.000% Note due 2018 (filed as exhibit 4.2 to Company s Form 8-K, filed on October 10, 2012 and incorporated herein by reference).

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4.21	Form of 3.250% Note due 2022 (filed as exhibit 4.3 to Company s Form 8-K, filed on October 10, 2012 and incorporated herein by reference).

Material Contracts

10.1	Form indemnification agreement between the Company and each executive officer and each director of the Board of Directors of the Company (filed as exhibit 10.1 to the Company s Form 8-K, filed on May 4, 2011 and dated May 3, 2011 and incorporated herein by reference).
10.2	1994 Stock Option and Incentive Plan (filed as Exhibit 4.1 to the Company s Registration Statement on Form S-8 (registration number 33-95708), dated August 11, 1995 and incorporated herein by reference).
10.3	First Amendment to the 1994 Stock Option and Incentive Plan, dated June 12, 1997 (filed as Exhibit 10.9 to the Company s Form 8-B, filed on July 29, 1997 and incorporated herein by reference).
10.4	Second Amendment to the 1994 Stock Option and Incentive Plan, dated December 16, 1997 (filed as Exhibit 10.9 to the Company s Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).
10.5	Management Incentive Plan (filed as Exhibit 10.10 to the Company s Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).
10.6	Form of Nonqualified Stock Option Agreement for Independent Directors (filed as Exhibit 10.11 to the Company s Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).
10.7	Form of Restricted Stock Agreement between the Company and Executive Officers under the 2003 Stock Incentive Award Plan of Realty Income Corporation (filed as exhibit 10.11 to the Company s Form 8-K, filed on January 6, 2005 and dated January 1, 2005 and incorporated herein by reference).
10.8	2003 Stock Incentive Award Plan of Realty Income Corporation, as amended and restated February 21, 2006 (filed as exhibit 10.10 to the Company s Form 10-K for the year ended December 31, 2005 and incorporated herein by reference).
10.9	Amendment dated May 15, 2007 to the Amended and Restated 2003 Stock Incentive Award Plan of Realty Income Corporation (filed as exhibit 10.1 to the Company s Form 10-Q, for the quarter ended June 30, 2007 and incorporated herein by reference).
10.10	Form of Restricted Stock Agreement under the 2003 Stock Incentive Award Plan of Realty Income Corporation (filed as exhibit 10.2 to the Company s Form 10-Q, for the quarter ended June 30, 2007 and incorporated herein by reference).
10.11	Amended and Restated Form of Employment Agreement between the Company and its Executive Officers (filed as exhibit 10.1 to the Company s Form 8-K, filed on January 7, 2010 and dated January 5, 2010 and incorporated herein by reference).

10.12	Form of Restricted Stock Agreement for John P. Case (filed as exhibit 10.1 to the Company s Form 10-Q, for the quarter ended March 31, 2010 and incorporated herein by reference).
10.13	Credit Agreement dated December 13, 2010 (filed as exhibit 10.1 to the Company s Form 8-K, filed on December 13, 2010 and incorporated herein by reference).
10.14	Dividend Reinvestment and Stock Purchase Plan (filed as Company s Registration Statement 333-158169 on Form 424B5, filed on and dated March 23, 2011 and incorporated herein by reference).

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10.15	The First Amendment to Credit Agreement among the Company, as Borrower, each of the Lenders party thereto (as defined in the original Credit Agreement, dated December 13, 2010), and Wells Fargo Bank, National Association (filed as exhibit 10.1 to the Company s Form 8-K, filed on March 29, 2011 and dated March 25, 2011 and incorporated herein by reference).
10.16	Dividend Reinvestment and Stock Purchase Plan (filed pursuant to Rule 424(b)5) under the Securities Act of 1933, as amended, on March 22, 2012, as a prospectus supplement to the Company s prospectus dated March 2, 2012 (File No. 333-179872) and incorporated herein by reference).
10.17	Realty Income Corporation 2012 Incentive Award Plan (filed as Appendix B to the Company s Proxy Statement on Schedule 14A filed on March 30, 2012 and incorporated herein by reference).
10.18	Amended and Restated Credit Agreement dated May 10, 2012 (filed as exhibit 10.1 to the Company s Form 8-K, filed on May 11, 2012 and incorporated herein by reference).
10.19	Form of Restricted Stock Agreement for Employees under the Realty Income Corporation 2012 Incentive Award Plan (filed as exhibit 10.1 to the Company s Form 8-K, filed on January 8, 2013 and incorporated herein by reference).
10.20	Form of Restricted Stock Agreement for Non-Employee Directors under the Realty Income Corporation 2012 Incentive Award Plan (filed as exhibit 10.2 to the Company s Form 8-K, filed on January 8, 2013 and incorporated herein by reference).
10.21	Term Loan Agreement, dated as of January 22, 2013, by and among Tau Operating Partnership, L.P. and Lenders (as defined therein) (filed as exhibit 10.1 to the Company s Form 8-K, filed on January 22, 2013 and incorporated herein by reference).

Statement of Ratios

*12.1	Statements re computation of ratios.

Subsidiaries of the Registrant

*21.1	Subsidiaries of the Company as of February 14, 2013.

Consents of Experts and Counsel

*23.1	Consent of Independent Registered Public Accounting Firm.

Certifications

*31.1	Rule 13a-14(a) Certifications as filed by the Chief Executive Officer pursuant to SEC release No. 33-8212 and 34-47551.
*31.2	Rule 13a-14(a) Certifications as filed by the Chief Financial Officer pursuant to SEC release No. 33-8212 and 34-47551.
*32	Section 1350 Certifications as furnished by the Chief Executive Officer and the Chief Financial Officer pursuant to SEC release No. 33-8212 and

	34-47551.

Interactive Data Files

*101	The following materials from Realty Income Corporation s Annual Report on Form 10-K for the year ended December 31, 2012, formatted in Extensible Business Reporting Language: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Stockholders Equity, (iv) Consolidated Statements of Cash Flows, (v) Notes to Consolidated Financial Statements, and (vi) Schedule III Real Estate and Accumulated Depreciation.

* Filed herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

REALTY INCOME CORPORATION

By: /s/THOMAS A. LEWIS Date: February 14, 2013
Thomas A. Lewis
Vice Chairman of the Board of Directors,
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/MICHAEL D. MCKEE Date: February 14, 2013
Michael D. McKee
Non-Executive Chairman of the Board of Directors

By: /s/THOMAS A. LEWIS Date: February 14, 2013
Thomas A. Lewis
Vice Chairman of the Board of Directors,
Chief Executive Officer
(Principal Executive Officer)

By: /s/KATHLEEN R. ALLEN, Ph.D. Date: February 14, 2013
Kathleen R. Allen, Ph.D.
Director

By: /s/A. LARRY CHAPMAN Date: February 14, 2013
A. Larry Chapman
Director

By: /s/PRIYA CHERIAN HUSKINS Date: February 14, 2013
Priya Cherian Huskins
Director

By: /s/GREGORY T. MCLAUGHLIN Date: February 14, 2013
Gregory T. McLaughlin
Director

By: /s/RONALD L. MERRIMAN Date: February 14, 2013
Ronald L. Merriman
Director

By: /s/PAUL M. MEURER Date: February 14, 2013
Paul M. Meurer
Executive Vice President, Chief Financial Officer and Treasurer

(Principal Financial Officer)

By:	/s/GREGORY J. FAHEY Gregory J. Fahey Senior Vice President, Controller (Principal Accounting Officer)	Date: February 14, 2013

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REALTY INCOME CORPORATION AND SUBSIDIARIES

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7)				
Description (Note 1)		Encumbrances (Note 2)	Land	Buildings, Improvements and Acquisition Fees	Improvements	Carrying Costs	Land	Buildings, Improvements and Acquisition Fees	Total	Accumulated Depreciation (Note 5)	Date of Construction
Aerospace											
Batesville	MS	8,765,446	2,160,849	17,219,291	None	None	2,160,849	17,219,291	19,380,140	258,289	
DFW Airport	TX	23,496,251	0	37,503,886	13,600	None	0	37,517,486	37,517,486	2,310,596	
Apparel											
Mesa	AZ	None	619,035	867,013	6,484	43,549	619,035	917,046	1,536,081	527,798	
Elk Grove	CA	None	804,327	2,668,492	None	None	804,327	2,668,492	3,472,819	31,132	
Hanford	CA	None	562,812	3,468,215	None	None	562,812	3,468,215	4,031,027	40,463	
Lodi	CA	None	3,153,559	2,661,260	None	None	3,153,559	2,661,260	5,814,819	31,048	
Manteca	CA	None	1,565,672	4,440,141	None	None	1,565,672	4,440,141	6,005,813	37,802	
Moreno Valley	CA	None	1,699,937	3,113,035	None	None	1,699,937	3,113,035	4,812,972	36,319	
Redlands	CA	None	3,006,680	2,242,430	None	None	3,006,680	2,242,428	5,249,108	26,162	
Sacramento	CA	None	3,446,351	4,460,201	None	None	3,446,351	4,460,201	7,906,552	52,036	
South Lake Tahoe	CA	None	3,110,000	3,176,091	None	None	3,110,000	3,176,091	6,286,091	280,555	
Sun Valley	CA	None	4,631,964	4,710,912	None	None	4,631,964	4,710,912	9,342,876	54,961	
Vacaville	CA	None	1,299,816	3,375,574	None	None	1,299,816	3,375,574	4,675,390	39,382	
Danbury	CT	None	1,096,861	6,217,688	116,255	56	1,096,861	6,333,999	7,430,860	3,851,964	
Manchester	CT	None	771,660	3,653,539	1,661	161	771,660	3,655,361	4,427,021	2,162,361	
Manchester	CT	None	1,250,464	5,917,037	3,555	None	1,250,464	5,920,592	7,171,056	3,502,378	
Deerfield Beach	FL	None	3,160,000	4,832,848	6,603	None	3,160,000	4,839,451	7,999,451	427,411	
Missoula	MT	None	163,100	362,249	None	10	163,100	362,259	525,359	362,250	
Staten Island	NY	None	4,202,093	3,385,021	14,018	None	4,202,093	3,399,039	7,601,132	2,003,719	
Dallas	TX	None	1,210,000	2,675,265	None	None	1,210,000	2,675,265	3,885,265	236,315	
The Colony	TX	None	2,580,000	2,214,133	20,700	None	2,580,000	2,234,833	4,814,833	198,428	
Automotive collision services											
Colorado Springs	CO	None	1,085,560	2,137,425	None	None	1,085,560	2,137,425	3,222,985	78,293	
Denver	CO	None	480,348	2,127,792	None	None	480,348	2,127,792	2,608,140	51,743	06/08/12
Highlands Ranch	CO	None	583,289	2,139,057	None	None	583,289	2,139,057	2,722,346	744,394	07/10/07
Littleton	CO	None	601,388	2,169,898	None	None	601,388	2,169,898	2,771,286	608,359	02/02/06
Parker	CO	None	868,768	2,653,745	None	None	868,768	2,653,745	3,522,513	747,806	09/07/12
Thornton	CO	None	693,323	1,896,616	None	128	693,323	1,896,744	2,590,067	608,229	10/05/04
Cumming	GA	None	661,624	1,822,363	None	None	661,624	1,822,363	2,483,987	672,568	09/18/03
Douglasville	GA	None	679,868	1,935,515	None	None	679,868	1,935,515	2,615,383	720,072	08/11/03
Macon	GA	None	1,400,000	1,317,435	None	None	1,400,000	1,317,435	2,717,435	30,716	05/11/12
Morrow	GA	None	725,948	1,846,315	None	None	725,948	1,846,315	2,572,263	692,303	07/07/03
Peachtree City	GA	None	1,190,380	689,284	None	None	1,190,380	689,284	1,879,664	275,407	12/16/02
Roswell	GA	None	1,825,000	1,934,495	None	None	1,825,000	1,934,495	3,759,495	76,129	12/22/11

Warner Robins	GA	None	1,250,000	1,012,258	None	None	1,250,000	1,012,258	2,262,258	36,792	01/11/12
Ham Lake	MN	None	192,610	1,930,958	None	None	192,610	1,930,958	2,123,568	621,337	07/01/04
Stillwater	MN	None	656,250	1,218,750	None	None	656,250	1,218,750	1,875,000	6,094	
Olive Branch	MS	None	350,000	1,965,718	None	None	350,000	1,965,718	2,315,718	118,077	06/29/11
Cary	NC	None	610,389	1,492,235	None	None	610,389	1,492,235	2,102,624	395,442	
Durham	NC	None	680,969	1,323,140	None	24	680,969	1,323,164	2,004,133	350,654	
Wilmington	NC	None	378,813	1,150,679	None	None	378,813	1,150,679	1,529,492	342,333	07/15/05
Bartlett	TN	None	648,526	1,960,733	None	None	648,526	1,960,733	2,609,259	630,924	08/03/04
Riverton	UT	None	1,100,000	1,525,708	None	None	1,100,000	1,525,708	2,625,708	20	In-progress
Salt Lake City	UT	None	2,900,000	1,598,391	None	None	2,900,000	1,598,391	4,498,391	51,509	02/17/12

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REALTY INCOME CORPORATION AND SUBSIDIARIES

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7)					
Description (Note 1)		Encumbrances (Note 2)	Land	Buildings, Improvements and Acquisition Fees	Improvements	Carrying Costs	Land	Buildings, Improvements and Acquisition Fees	Total	Accumulated Depreciation (Note 5)	Date of Construction	Da Acqu
Automotive parts												
Birmingham	AL	None	355,823	660,814	None	None	355,823	660,814	1,016,637	1,101		12/0
Millbrook	AL	None	108,000	518,741	88,207	211	108,000	607,159	715,159	294,116	12/10/98	01/2
Montgomery	AL	None	254,465	502,350	10,819	295	254,465	513,464	767,929	296,721		06/3
Phoenix	AZ	None	231,000	513,057	None	62	231,000	513,119	744,119	513,059		11/0
Phoenix	AZ	None	222,950	495,178	None	102	222,950	495,280	718,230	459,418		11/0
Tucson	AZ	None	194,250	431,434	None	None	194,250	431,434	625,684	431,434		10/3
Grass Valley	CA	None	325,000	384,955	None	None	325,000	384,955	709,955	379,385		05/2
Sacramento	CA	None	210,000	466,419	None	127	210,000	466,546	676,546	466,547		11/2
Turlock	CA	None	222,250	493,627	None	None	222,250	493,627	715,877	493,627		12/3
Denver	CO	None	141,400	314,056	None	82	141,400	314,138	455,538	314,075		11/1
Denver	CO	None	315,000	699,623	None	290	315,000	699,913	1,014,913	689,735		05/1
Littleton	CO	None	252,925	561,758	None	181	252,925	561,939	814,864	559,881		02/1
Smyrna	DE	None	232,273	472,855	15,774	None	232,273	488,629	720,902	272,118		08/0
Deerfield Beach	FL	None	475,000	871,738	2,420	31,798	475,000	905,956	1,380,956	499,395		01/2
Merritt Island	FL	None	309,652	482,459	25,854	21,831	309,652	530,144	839,796	318,239		11/2
Atlanta	GA	None	652,551	763,360	27,163	45,476	652,551	835,999	1,488,550	439,881		12/1
Council Bluffs	IA	None	194,355	431,668	None	None	194,355	431,668	626,023	425,470		05/1
Boise	ID	None	158,400	351,812	None	5,428	158,400	357,240	515,640	347,793		05/0
Lewiston	ID	None	138,950	308,612	None	None	138,950	308,612	447,562	308,612		09/1
Moscow	ID	None	117,250	260,417	None	None	117,250	260,417	377,667	260,417		09/1
Peoria	IL	None	193,868	387,737	(85,899)	85	193,868	301,923	495,791	256,946		11/2
Brazil	IN	None	183,952	453,831	8,942	173	183,952	462,946	646,898	253,701		03/3
Muncie	IN	None	148,901	645,660	147,678	28,327	148,901	821,665	970,566	496,907		11/2
Plainfield	IN	None	453,645	908,485	42,619	47,114	453,645	998,218	1,451,863	551,556		01/3
Princeton	IN	None	134,209	560,113	None	211	134,209	560,324	694,533	309,170		03/3
Vincennes	IN	None	185,312	489,779	10,598	173	185,312	500,550	685,862	270,410		03/3
Kansas City	KS	None	222,000	455,881	18,738	146	222,000	474,765	696,765	460,084		05/1
Alma	MI	None	155,000	600,282	13,902	122	155,000	614,306	769,306	329,066	04/29/99	02/1
Lansing	MI	None	265,000	574,931	132,237	303	265,000	707,471	972,471	361,823	04/30/99	12/0
Sturgis	MI	None	109,558	550,274	10,272	94	109,558	560,640	670,198	310,387		12/3
Batesville	MS	None	190,124	485,670	None	173	190,124	485,843	675,967	280,936		07/2
Horn Lake	MS	None	142,702	514,779	3,945	211	142,702	518,935	661,637	299,696		06/3
Richland	MS	None	243,565	558,645	10,302	211	243,565	569,158	812,723	293,584		12/2
Omaha	NE	None	196,000	435,321	None	32	196,000	435,353	631,353	429,074		05/2
Omaha	NE	None	199,100	412,042	None	32	199,100	412,074	611,174	406,087		05/2
Rio Rancho	NM	None	211,577	469,923	None	None	211,577	469,923	681,500	468,230		02/2
Las Vegas	NV	None	161,000	357,585	260,000	None	161,000	617,585	778,585	504,919		10/2
Canton	OH	None	396,560	597,553	None	25,682	396,560	623,235	1,019,795	348,783		08/1
Centerville	OH	None	601,408	758,192	9,017	38,193	601,408	805,402	1,406,810	446,279		06/3
Hamilton	OH	None	183,000	515,727	2,941	122	183,000	518,790	701,790	284,714	04/07/99	12/0
Del City	OK	None	634,664	1,178,662	None	None	634,664	1,178,662	1,813,326	1,964		12/0
Albany	OR	None	152,250	338,153	None	None	152,250	338,153	490,403	338,153		08/2
Beaverton	OR	None	210,000	466,419	None	None	210,000	466,419	676,419	466,419		08/2

Portland	OR	None	190,750	423,664	None	None	190,750	423,664	614,414	423,664	08/1
Portland	OR	None	147,000	326,493	None	None	147,000	326,493	473,493	326,493	08/2
Salem	OR	None	136,500	303,170	None	None	136,500	303,170	439,670	303,170	08/2
Butler	PA	None	339,929	633,078	20,558	230	339,929	653,866	993,795	375,431	08/0

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REALTY INCOME CORPORATION AND SUBSIDIARIES

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

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Description (Note 1)		Encumbrances (Note 2)	Land	Buildings, Improvements and Acquisition Fees	Improvements	Carrying Costs	Land	Buildings, Improvements and Acquisition Fees	Total	Accumulated Depreciation (Note 5)	Date of Construction	Da Acqu
Dover	PA	None	265,112	593,341	None	None	265,112	593,341	858,453	345,126		06/3
Enola	PA	None	220,228	546,026	11,416	172	220,228	557,614	777,842	310,715		11/1
Hanover	PA	None	132,500	719,511	None	232	132,500	719,743	852,243	385,295	07/26/99	05/1
Harrisburg	PA	None	327,781	608,291	7,138	172	327,781	615,601	943,382	355,141		06/3
Harrisburg	PA	None	283,417	352,473	3,100	172	283,417	355,745	639,162	201,788		09/3
Lancaster	PA	None	199,899	774,838	24,235	None	199,899	799,073	998,972	457,204		08/1
New Castle	PA	None	180,009	525,774	91,802	230	180,009	617,806	797,815	320,875		06/3
Reading	PA	None	379,000	658,722	10,100	232	379,000	669,054	1,048,054	365,567	06/09/99	12/0
Arlington	TN	None	381,083	707,726	None	None	381,083	707,726	1,088,809	1,180		12/0
Columbia	TN	None	273,120	431,716	None	211	273,120	431,927	705,047	234,024		06/3
Laredo	TX	None	807,044	1,498,795	None	None	807,044	1,498,795	2,305,839	2,498		12/0
Bellevue	WA	None	185,500	411,997	None	107	185,500	412,104	597,604	412,026		08/0
Bellingham	WA	None	168,000	373,133	None	107	168,000	373,240	541,240	373,161		08/2
Hazel Dell	WA	None	168,000	373,135	None	None	168,000	373,135	541,135	367,685		05/2
Kenmore	WA	None	199,500	443,098	None	107	199,500	443,205	642,705	443,127		08/2
Kent	WA	None	199,500	443,091	None	107	199,500	443,198	642,698	443,120		08/0
Lakewood	WA	None	191,800	425,996	None	107	191,800	426,103	617,903	426,024		08/1
Moses Lake	WA	None	138,600	307,831	None	107	138,600	307,938	446,538	307,860		08/1
Renton	WA	None	185,500	412,003	None	107	185,500	412,110	597,610	412,032		09/1
Seattle	WA	None	162,400	360,697	None	107	162,400	360,804	523,204	360,726		08/2
Silverdale	WA	None	183,808	419,777	None	107	183,808	419,884	603,692	419,806		09/1
Tacoma	WA	None	196,000	435,324	None	107	196,000	435,431	631,431	435,353		10/1
Vancouver	WA	None	180,250	400,343	None	None	180,250	400,343	580,593	400,343		08/2
Wenatchee	WA	None	148,400	329,602	None	107	148,400	329,709	478,109	329,631		08/2
<u>Automotive service</u>												
Flagstaff	AZ	None	144,821	417,485	6,150	10	144,821	423,645	568,466	240,217	04/11/02	08/2
Mesa	AZ	None	210,620	475,072	None	None	210,620	475,072	685,692	201,901		05/1
Phoenix	AZ	None	189,341	546,984	None	110	189,341	547,094	736,435	232,575		05/1
Phoenix	AZ	None	384,608	279,824	None	None	384,608	279,824	664,432	118,923		05/1
Sierra Vista	AZ	None	175,114	345,508	None	None	175,114	345,508	520,622	146,839		05/1
Tucson	AZ	None	226,596	437,972	None	None	226,596	437,972	664,568	186,136		05/1
Tucson	AZ	None	287,369	533,684	None	None	287,369	533,684	821,053	59,595		03/2
Bakersfield	CA	None	65,165	206,927	None	None	65,165	206,927	272,092	87,942		05/1
Chula Vista	CA	None	313,293	409,654	None	None	313,293	409,654	722,947	272,420	05/01/96	01/1
Dublin	CA	None	415,620	1,153,928	None	None	415,620	1,153,928	1,569,548	490,417		05/1
Folsom	CA	None	471,813	325,610	None	None	471,813	325,610	797,423	138,382		05/1
Indio	CA	None	264,956	265,509	None	None	264,956	265,509	530,465	112,839		05/1
Los Angeles	CA	None	580,446	158,876	None	None	580,446	158,876	739,322	67,520		05/1
Oxnard	CA	None	186,980	198,236	None	None	186,980	198,236	385,216	84,249		05/1
Simi Valley	CA	None	213,920	161,012	None	None	213,920	161,012	374,932	68,428		05/1
Vacaville	CA	None	358,067	284,931	None	None	358,067	284,931	642,998	121,094		05/1
Aurora	CO	None	231,314	430,495	None	115	231,314	430,610	661,924	91,179		09/0
Broomfield	CO	None	154,930	503,626	None	2,564	154,930	506,190	661,120	330,010	08/22/96	03/1
Denver	CO	None	79,717	369,587	None	208	79,717	369,795	449,512	369,724		10/0

Denver	CO	None	239,024	444,785	None	115	239,024	444,900	683,924	94,203	09/0
Lakewood	CO	None	70,422	132,296	None	None	70,422	132,296	202,718	28,003	09/0
Longmont	CO	None	87,385	163,169	None	115	87,385	163,284	250,669	34,595	09/0

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REALTY INCOME CORPORATION AND SUBSIDIARIES

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

Description (Note 1)		Encumbrances (Note 2)	Initial Cost to Company: Land	Initial Cost to Company: Buildings, Improvements and Acquisition Fees	Cost Capitalized Subsequent to Acquisition: Improvements	Cost Capitalized Subsequent to Acquisition: Carrying Costs	Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7): Land	Gross Amount: Buildings, Improvements and Acquisition Fees	Gross Amount: Total	Accumulated Depreciation (Note 5)	Date of Construction	Date Acquire
Thornton	CO	None	276,084	415,464	None	115	276,084	415,579	691,663	265,104	12/31/96	10/31/9
Hartford	CT	None	248,540	482,460	35,465	1,034	248,540	518,959	767,499	315,798		09/30/9
Southington	CT	None	225,882	672,910	None	172	225,882	673,082	898,964	418,256		06/06/9
Vernon	CT	None	81,529	300,518	None	None	81,529	300,518	382,047	126,718		06/27/0
Jacksonville	FL	None	76,585	355,066	6,980	420	76,585	362,466	439,051	358,410		12/23/8
Lauderdale Lakes	FL	None	65,987	305,931	None	79	65,987	306,010	371,997	305,972		02/19/8
Miami Gardens	FL	None	163,239	262,726	None	None	163,239	262,726	425,965	110,783		06/27/0
Orange City	FL	None	99,613	139,008	None	None	99,613	139,008	238,621	59,076		05/14/0
Pensacola	FL	None	308,067	573,708	23,430	2,874	308,067	600,012	908,079	154,657		11/22/0
Seminole	FL	None	68,000	315,266	None	None	68,000	315,266	383,266	315,266		12/23/8
Sunrise	FL	None	80,253	372,070	None	None	80,253	372,070	452,323	372,070		02/14/8
Tampa	FL	None	70,000	324,538	None	None	70,000	324,538	394,538	324,538		12/27/8
Tampa	FL	None	67,000	310,629	None	None	67,000	310,629	377,629	310,629		12/27/8
Tampa	FL	None	86,502	401,041	None	79	86,502	401,120	487,622	401,082		07/23/8
Atlanta	GA	None	309,474	574,737	None	None	309,474	574,737	884,211	64,179		03/25/1
Bogart	GA	None	66,807	309,733	None	None	66,807	309,733	376,540	309,733		12/20/8
Douglasville	GA	None	214,771	129,519	None	None	214,771	129,519	344,290	55,044		05/14/0
Duluth	GA	None	222,275	316,925	368	2,393	222,275	319,686	541,961	190,365	10/24/97	06/20/9
Duluth	GA	None	290,842	110,056	None	None	290,842	110,056	400,898	46,772		05/14/0
Gainesville	GA	None	53,589	248,452	None	None	53,589	248,452	302,041	248,452		12/19/8
Kennesaw	GA	None	266,865	139,425	None	None	266,865	139,425	406,290	59,254		05/14/0
Marietta	GA	None	60,900	293,461	67,871	499	60,900	361,831	422,731	313,138		12/26/8
Marietta	GA	None	69,561	346,024	None	41	69,561	346,065	415,626	346,039		06/03/8
Norcross	GA	None	244,124	151,831	None	None	244,124	151,831	395,955	64,526		05/14/0
Norcross	GA	None	503,773	937,121	39,032	21,600	503,773	997,753	1,501,526	254,268		11/22/0
Riverdale	GA	None	58,444	270,961	None	None	58,444	270,961	329,405	270,961		01/15/8
Rome	GA	None	56,454	261,733	None	None	56,454	261,733	318,187	261,733		12/19/8
Snellville	GA	None	253,316	132,124	None	None	253,316	132,124	385,440	56,151		05/14/0
Tucker	GA	None	78,646	364,625	514	None	78,646	365,139	443,785	364,640		12/18/8
Arlington Hts	IL	None	441,437	215,983	None	None	441,437	215,983	657,420	91,791		05/14/0
Chicago	IL	None	329,076	255,294	None	None	329,076	255,294	584,370	108,498		05/14/0
Round Lake Beach	IL	None	472,132	236,585	None	None	472,132	236,585	708,717	100,547		05/14/0
Westchester	IL	None	421,239	184,812	None	None	421,239	184,812	606,051	78,543		05/14/0
Anderson	IN	None	232,170	385,661	None	179	232,170	385,840	618,010	232,075		12/19/9
Indianapolis	IN	None	231,384	428,307	None	130	231,384	428,437	659,821	279,174		09/27/9
Michigan City	IN	None	392,638	297,650	(3,065)	None	389,573	297,650	687,223	126,500		05/14/0
Warsaw	IN	None	140,893	228,116	None	None	140,893	228,116	369,009	96,948		05/14/0
Olathe	KS	None	217,995	367,055	None	21	217,995	367,076	585,071	229,412	04/22/97	11/11/9
Topeka	KS	None	32,022	60,368	None	None	32,022	60,368	92,390	12,778		09/04/0
Louisville	KY	None	56,054	259,881	None	None	56,054	259,881	315,935	259,881		12/17/8
Newport	KY	None	323,511	289,017	49,586	85	323,511	338,688	662,199	180,802		09/17/9
East Falmouth	MA	None	191,302	340,539	None	None	191,302	340,539	531,841	144,727		05/14/0

East Wareham	MA	None	149,680	278,669	None	None	149,680	278,669	428,349	118,432	05/14/0
Fairhaven	MA	None	138,957	289,294	None	None	138,957	289,294	428,251	122,948	05/14/0
Gardner	MA	None	138,990	289,361	None	None	138,990	289,361	428,351	122,976	05/14/0
Hyannis	MA	None	180,653	458,522	None	None	180,653	458,522	639,175	193,344	06/27/0
Lenox	MA	None	287,769	535,273	None	232	287,769	535,505	823,274	295,478	03/31/9
Newburyport	MA	None	274,698	466,449	None	None	274,698	466,449	741,147	196,686	06/27/0

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REALTY INCOME CORPORATION AND SUBSIDIARIES

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7)					
Description (Note 1)		Encumbrances (Note 2)	Land	Buildings, Improvements and Acquisition Fees	Improvements	Carrying Costs	Land	Buildings, Improvements and Acquisition Fees	Total	Accumulated Depreciation (Note 5)	Date of Construction	Dat Acqui
North Reading	MA	None	180,546	351,161	None	None	180,546	351,161	531,707	149,241		05/14
Orleans	MA	None	138,212	394,065	None	None	138,212	394,065	532,277	167,475		05/14
Aberdeen	MD	None	223,617	225,605	None	None	223,617	225,605	449,222	95,130		06/27
Bethesda	MD	None	282,717	525,928	None	None	282,717	525,928	808,645	111,321		09/04
Capital Heights	MD	None	547,173	219,979	(12,319)	None	534,854	219,979	754,833	93,487		05/14
Clinton	MD	None	70,880	328,620	11,440	None	70,880	340,060	410,940	332,719		11/15
Lexington Park	MD	None	111,396	335,288	(7,600)	None	103,796	335,288	439,084	142,494		05/14
Kalamazoo	MI	None	391,745	296,975	(2,196)	None	389,549	296,975	686,524	126,213		05/14
Portage	MI	None	402,409	286,441	(2,112)	None	400,297	286,441	686,738	121,736		05/14
Southfield	MI	None	275,952	350,765	None	None	275,952	350,765	626,717	149,073		05/14
Troy	MI	None	214,893	199,299	None	None	214,893	199,299	414,192	84,700		05/14
St. Cloud	MN	None	203,338	258,626	None	None	203,338	258,626	461,964	109,054		06/27
Independence	MO	None	297,641	233,152	None	53	297,641	233,205	530,846	149,617		12/20
Asheville	NC	None	441,746	242,565	None	None	441,746	242,565	684,311	103,088		05/14
Concord	NC	None	237,688	357,976	None	None	237,688	357,976	595,664	207,115		11/05
Durham	NC	None	55,074	255,336	None	1,490	55,074	256,826	311,900	256,370		11/13
Durham	NC	None	354,676	361,203	3,400	168	354,676	364,771	719,447	224,405	08/29/97	03/31
Fayetteville	NC	None	224,326	257,733	None	337	224,326	258,070	482,396	155,279		12/03
Greensboro	NC	None	286,068	244,606	None	None	286,068	244,606	530,674	103,949		05/14
Matthews	NC	None	295,580	338,472	10,000	13,703	295,580	362,175	657,755	208,759	08/28/98	02/27
Pineville	NC	None	254,460	355,630	None	10	254,460	355,640	610,100	217,488	08/28/97	04/16
Raleigh	NC	None	89,145	413,301	None	None	89,145	413,301	502,446	413,301		10/28
Raleigh	NC	None	398,694	263,621	None	None	398,694	263,621	662,315	160,334		10/01
Salisbury	NC	None	235,614	150,592	None	None	235,614	150,592	386,206	64,000		05/14
Fargo	ND	None	53,973	100,262	None	None	53,973	100,262	154,235	21,222		09/04
Lincoln	NE	None	337,138	316,958	None	None	337,138	316,958	654,096	134,704		05/14
Scotts Bluff	NE	None	33,307	63,355	None	None	33,307	63,355	96,662	13,410		09/04
Cherry Hill	NJ	None	463,808	862,240	None	None	463,808	862,240	1,326,048	182,507		09/04
Edison	NJ	None	448,936	238,773	None	None	448,936	238,773	687,709	101,475		05/14
Glassboro	NJ	None	182,013	312,480	None	None	182,013	312,480	494,493	131,762		06/27
Hamilton Square	NJ	None	422,477	291,555	None	None	422,477	291,555	714,032	123,907		05/14
Hamilton Township	NJ	None	265,238	298,167	None	None	265,238	298,167	563,405	126,717		05/14
Pleasantville	NJ	None	77,105	144,693	None	None	77,105	144,693	221,798	30,627		09/04
Randolph	NJ	None	452,629	390,163	None	None	452,629	390,163	842,792	165,817		05/14
Westfield	NJ	None	705,337	288,720	None	None	705,337	288,720	994,057	122,701		05/14
Albuquerque	NM	None	231,553	430,026	None	None	231,553	430,026	661,579	48,020		03/25
Las Vegas	NV	None	326,879	359,101	None	None	326,879	359,101	685,980	152,616		05/14
Las Vegas	NV	None	316,441	369,768	None	None	316,441	369,768	686,209	157,150		05/14
Las Vegas	NV	None	252,169	562,715	None	None	252,169	562,715	814,884	239,152		05/14
Sparks	NV	None	326,813	306,311	None	None	326,813	306,311	633,124	130,180		05/14
Albion	NY	None	170,589	317,424	None	None	170,589	317,424	488,013	175,104		03/31
Bethpage	NY	None	334,120	621,391	None	None	334,120	621,391	955,511	131,528		09/04
Commack	NY	None	400,427	744,533	None	None	400,427	744,533	1,144,960	157,593		09/04

Dansville	NY	None	181,664	337,991	None	None	181,664	337,991	519,655	186,450	03/31
East Amherst	NY	None	260,708	484,788	None	156	260,708	484,944	745,652	267,534	03/31
East Syracuse	NY	None	250,609	466,264	None	156	250,609	466,420	717,029	257,312	03/31
Freeport	NY	None	134,828	251,894	None	None	134,828	251,894	386,722	53,317	09/04
Johnson City	NY	None	242,863	451,877	None	156	242,863	452,033	694,896	249,375	03/31

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

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Description (Note 1)		Encumbrances (Note 2)	Land	Buildings, Improvements and Acquisition Fees	Improvements	Carrying Costs	Land	Buildings, Improvements and Acquisition Fees	Total	Accumulated Depreciation (Note 5)	Date of Construction	Date Acquir
Queens Village	NY	None	242,775	451,749	None	None	242,775	451,749	694,524	95,620		09/04/
Riverhead	NY	None	143,929	268,795	None	None	143,929	268,795	412,724	56,895		09/04/
Wellsville	NY	None	161,331	300,231	None	None	161,331	300,231	461,562	165,619		03/31/
West Amherst	NY	None	268,692	499,619	None	156	268,692	499,775	768,467	275,716		03/31/
Akron	OH	None	139,126	460,334	None	139	139,126	460,473	599,599	281,573		09/18/
Beaver Creek	OH	None	349,091	251,127	None	None	349,091	251,127	600,218	83,290		09/17/
Beavercreek	OH	None	205,000	492,538	None	None	205,000	492,538	697,538	311,119	02/13/97	09/09/
Canal Winchester	OH	None	443,751	825,491	None	None	443,751	825,491	1,269,242	329,866	12/19/02	08/21/
Centerville	OH	None	305,000	420,448	None	None	305,000	420,448	725,448	276,795	07/24/96	06/28/
Cincinnati	OH	None	293,005	0	(124,330)	85	293,005	(124,245)	168,760	20		09/17/
Cincinnati	OH	None	211,185	392,210	None	None	211,185	392,210	603,395	143,157		11/03/
Cincinnati	OH	None	305,556	244,662	None	None	305,556	244,662	550,218	81,146		09/17/
Cincinnati	OH	None	589,286	160,932	None	None	589,286	160,932	750,218	53,375		09/17/
Cincinnati	OH	None	159,375	265,842	None	None	159,375	265,842	425,217	88,171		09/17/
Cincinnati	OH	None	350,000	300,217	None	None	350,000	300,217	650,217	96,570		12/20/
Cleveland	OH	None	215,111	216,517	None	None	215,111	216,517	431,628	91,298		06/27/
Columbus	OH	None	71,098	329,627	None	None	71,098	329,627	400,725	329,627		10/02/
Columbus	OH	None	75,761	351,247	None	None	75,761	351,247	427,008	351,247		10/24/
Columbus	OH	None	432,110	386,553	None	None	432,110	386,553	818,663	148,822		05/27/
Columbus	OH	None	466,696	548,133	None	None	466,696	548,133	1,014,829	211,030		05/27/
Columbus	OH	None	337,679	272,484	None	None	337,679	272,484	610,163	90,373		09/17/
Columbus	OH	None	190,000	260,162	None	None	190,000	260,162	450,162	86,287		09/17/
Columbus	OH	None	371,429	278,734	None	None	371,429	278,734	650,163	92,446		09/17/
Cuyahoga Falls	OH	None	253,750	271,400	None	None	253,750	271,400	525,150	90,014		09/17/
Dayton	OH	None	70,000	324,538	None	122	70,000	324,660	394,660	324,639		10/31/
Dublin	OH	None	437,887	428,046	None	None	437,887	428,046	865,933	164,797		05/27/
Eastlake	OH	None	321,347	459,774	None	209	321,347	459,983	781,330	313,557		12/22/
Fairfield	OH	None	323,408	235,024	44,232	3,330	323,408	282,586	605,994	147,316		09/17/
Fairlawn	OH	None	280,000	270,150	None	None	280,000	270,150	550,150	89,599		09/17/
Findlay	OH	None	283,515	397,004	None	114	283,515	397,118	680,633	238,906		12/24/
Hamilton	OH	None	252,608	413,279	None	None	252,608	413,279	665,887	256,919	03/31/97	10/04/
Huber Heights	OH	None	282,000	449,381	None	None	282,000	449,381	731,381	286,854	12/03/96	07/18/
Lima	OH	None	241,132	114,085	None	None	241,132	114,085	355,217	37,838		09/17/
Marion	OH	None	100,000	275,162	None	None	100,000	275,162	375,162	88,511		12/20/
Mason	OH	None	310,990	405,373	None	None	310,990	405,373	716,363	156,068		05/27/
Middleburg Hghts	OH	None	317,308	307,842	None	None	317,308	307,842	625,150	102,101		09/17/
Milford	OH	None	353,324	269,997	(36,723)	85	314,484	272,199	586,683	165,383		09/18/
Mt. Vernon	OH	None	216,115	375,357	None	114	216,115	375,471	591,586	225,878		12/30/
Norwalk	OH	None	200,205	366,000	None	114	200,205	366,114	566,319	220,247		12/19/
Parma	OH	None	268,966	381,184	None	None	268,966	381,184	650,150	126,426		09/17/
Reynoldsburg	OH	None	267,750	497,371	None	None	267,750	497,371	765,121	164,961		09/15/
Reynoldsburg	OH	None	374,000	176,162	None	None	374,000	176,162	550,162	58,427		09/17/

S. Euclid	OH	None	337,593	451,944	None	None	337,593	451,944	789,537	173,998	05/27/
Sandusky	OH	None	264,708	404,011	None	343	264,708	404,354	669,062	243,347	12/19/
Solon	OH	None	794,305	222,797	None	None	794,305	222,797	1,017,102	85,777	05/27/
Springboro	OH	None	191,911	522,902	None	None	191,911	522,902	714,813	330,141	03/07/
Springfield	OH	None	320,000	280,217	None	None	320,000	280,217	600,217	92,938	09/17/
Springfield	OH	None	189,091	136,127	None	None	189,091	136,127	325,218	45,148	09/17/
Stow	OH	None	310,000	415,150	None	None	310,000	415,150	725,150	137,691	09/17/

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REALTY INCOME CORPORATION AND SUBSIDIARIES

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7)					
Description (Note 1)		Encumbrances (Note 2)	Land	Buildings, Improvements and Acquisition Fees	Improvements	Carrying Costs	Land	Buildings, Improvements and Acquisition Fees	Total	Accumulated Depreciation (Note 5)	Date of Construction	Dat Acqui
Toledo	OH	None	120,000	230,217	None	None	120,000	230,217	350,217	76,355		09/17
Toledo	OH	None	250,000	175,217	None	25	250,000	175,242	425,242	58,134		09/17
Toledo	OH	None	320,000	280,217	None	None	320,000	280,217	600,217	92,938		09/17
Toledo	OH	None	250,000	530,217	None	None	250,000	530,217	780,217	175,855		09/17
West Chester	OH	None	446,449	768,644	None	None	446,449	768,644	1,215,093	289,908	06/27/03	03/11
Zanesville	OH	None	125,000	300,162	None	None	125,000	300,162	425,162	99,553		09/17
Midwest City	OK	None	106,312	333,551	None	5	106,312	333,556	439,868	191,874	08/06/98	08/08
Tulsa	OK	None	133,648	249,702	None	None	133,648	249,702	383,350	52,853		09/04
Portland	OR	None	251,499	345,952	None	None	251,499	345,952	597,451	141,839		09/26
Salem	OR	None	337,711	253,855	None	None	337,711	253,855	591,566	107,887		05/14
Bethel Park	PA	None	299,595	331,264	None	114	299,595	331,378	630,973	199,356		12/19
Bethlehem	PA	None	275,328	389,067	None	629	275,328	389,696	665,024	234,593		12/19
Bethlehem	PA	None	229,162	310,526	None	172	229,162	310,698	539,860	186,870		12/24
Bridgeville	PA	None	275,000	375,150	None	None	275,000	375,150	650,150	124,424		09/17
Coraopolis	PA	None	225,000	375,150	None	None	225,000	375,150	600,150	124,424		09/17
Harrisburg	PA	None	131,529	220,317	(2,515)	None	129,013	220,318	349,331	93,631		05/14
Monroeville	PA	None	275,000	250,150	None	None	275,000	250,150	525,150	82,966		09/17
Philadelphia	PA	None	858,500	877,744	2,319	1,701	858,500	881,764	1,740,264	658,188	05/19/95	12/05
Pittsburgh	PA	None	378,715	685,374	None	None	378,715	685,374	1,064,089	279,073	08/22/02	01/17
Pittsburgh	PA	None	219,938	408,466	None	None	219,938	408,466	628,404	149,090		11/03
Pittsburgh	PA	None	175,000	300,150	None	None	175,000	300,150	475,150	99,549		09/17
Pittsburgh	PA	None	243,750	406,400	None	None	243,750	406,400	650,150	134,789		09/17
Pittsburgh	PA	None	208,333	416,817	None	None	208,333	416,817	625,150	138,244		09/17
Pittsburgh	PA	None	121,429	303,721	None	None	121,429	303,721	425,150	100,734		09/17
Warminster	PA	None	323,847	216,999	(3,929)	None	319,918	216,999	536,917	92,221		05/14
Wexford	PA	None	284,375	240,775	None	None	284,375	240,775	525,150	79,857		09/17
York	PA	None	249,436	347,424	None	404	249,436	347,828	597,264	209,273		12/30
Charleston	SC	None	217,250	294,079	6,700	159	217,250	300,938	518,188	181,377	07/14/97	03/13
Columbia	SC	None	267,622	298,594	None	428	267,622	299,022	566,644	176,137	03/31/98	11/05
Greenville	SC	None	221,946	315,163	None	168	221,946	315,331	537,277	191,808	09/05/97	03/31
Lexington North	SC	None	241,534	342,182	None	302	241,534	342,484	584,018	188,032		09/24
Charleston	SC	None	174,980	341,466	5,875	5,413	174,980	352,754	527,734	203,816	08/06/98	03/12
Sioux Falls	SD	None	48,833	91,572	None	None	48,833	91,572	140,405	19,383		09/04
Brentwood	TN	None	305,546	505,728	None	None	305,546	505,728	811,274	302,586	03/13/98	05/28
Hendersonville	TN	None	175,764	327,096	None	None	175,764	327,096	502,860	130,293		01/21
Hermitage	TN	None	204,296	172,695	None	None	204,296	172,695	376,991	73,393		05/14
Madison	TN	None	175,769	327,068	None	None	175,769	327,068	502,837	130,282		01/21
Memphis	TN	None	108,094	217,079	None	None	108,094	217,079	325,173	92,256		05/14
Memphis	TN	None	214,110	193,591	None	None	214,110	193,591	407,701	82,273		05/14
Memphis	TN	None	215,017	216,794	None	None	215,017	216,794	431,811	91,415		06/27
Murfreesboro	TN	None	150,411	215,528	None	None	150,411	215,528	365,939	91,597		05/14
Nashville	TN	None	342,960	227,440	None	None	342,960	227,440	570,400	139,067		09/17
Carrollton	TX	None	174,284	98,623	None	None	174,284	98,623	272,907	41,913		05/14
Carrolton	TX	None	177,041	199,088	None	None	177,041	199,088	376,129	84,611		05/14
Dallas	TX	None	234,604	325,951	12,719	15,373	234,604	354,043	588,647	216,697	08/09/96	02/19
Fort Worth	TX	None	83,530	111,960	None	None	83,530	111,960	195,490	47,581		05/14

Houston	TX	None	285,000	369,697	None	234	285,000	369,931	654,931	224,902	08/08/97	08/08
Humble	TX	None	257,169	325,652	None	None	257,169	325,652	582,821	138,400		05/14

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REALTY INCOME CORPORATION AND SUBSIDIARIES

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

Description (Note 1)		Encumbrances (Note 2)	Initial Cost to Company: Land	Initial Cost to Company: Buildings, Improvements and Acquisition Fees	Cost Capitalized Subsequent to Acquisition: Improvements	Cost Capitalized Subsequent to Acquisition: Carrying Costs	Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7): Land	Gross Amount: Buildings, Improvements and Acquisition Fees	Gross Amount: Total	Accumulated Depreciation (Note 5)	Date of Construction	D Acc
Lake Jackson	TX	None	197,170	256,376	None	None	197,170	256,376	453,546	108,958		05/
Lewisville	TX	None	199,942	324,736	None	149	199,942	324,885	524,827	212,764	08/02/96	02/
Lewisville	TX	None	130,238	207,683	None	None	130,238	207,683	337,921	87,573		06/
Mansfield	TX	None	420,000	780,000	None	None	420,000	780,000	1,200,000	87,100		03/
Waco	TX	None	232,105	431,053	None	None	232,105	431,053	663,158	48,134		03/
Wylie	TX	None	252,000	468,000	None	None	252,000	468,000	720,000	52,260		03/
Richmond	VA	None	403,549	876,981	None	None	403,549	876,981	1,280,530	313,191	07/08/04	10/
Roanoke	VA	None	349,628	322,545	None	153	349,628	322,698	672,326	194,126		12/
Warrenton	VA	None	186,723	241,173	None	None	186,723	241,173	427,896	102,495		05/
Bremerton	WA	None	261,172	373,080	None	2,621	261,172	375,701	636,873	240,912	03/19/97	07/
Tacoma	WA	None	109,127	202,691	None	None	109,127	202,691	311,818	42,903		09/
Milwaukee	WI	None	173,005	499,244	None	None	173,005	499,244	672,249	340,318		12/
Milwaukee	WI	None	152,509	475,480	None	197	152,509	475,677	628,186	309,946		09/
New Berlin	WI	None	188,491	466,268	None	586	188,491	466,854	655,345	318,101		12/
Racine	WI	None	184,002	114,167	None	None	184,002	114,167	298,169	48,519		05/
Automotive tire services												
Athens	AL	None	760,031	1,413,494	None	None	760,031	1,413,494	2,173,525	346,302		11/
Auburn	AL	None	660,210	1,228,112	None	500	660,210	1,228,612	1,888,822	301,258		11/
Birmingham	AL	None	635,111	1,180,909	None	500	635,111	1,181,409	1,816,520	289,694		11/
Daphne	AL	None	876,139	1,629,123	None	500	876,139	1,629,623	2,505,762	399,506		11/
Decatur	AL	None	635,111	1,181,499	None	500	635,111	1,181,999	1,817,110	289,838		11/
Dothan	AL	None	455,651	565,343	None	None	455,651	565,343	1,020,994	93,841	10/17/08	06/
Foley	AL	None	870,031	1,617,357	None	500	870,031	1,617,857	2,487,888	396,623		11/
Gardendale	AL	None	610,055	1,134,554	None	500	610,055	1,135,054	1,745,109	277,815		11/
Hoover	AL	None	504,396	938,299	None	None	504,396	938,299	1,442,695	229,879		11/
Hoover	AL	None	620,270	1,153,493	None	None	620,270	1,153,493	1,773,763	282,602		11/
Huntsville	AL	None	499,843	929,863	None	500	499,843	930,363	1,430,206	228,187		11/
Huntsville	AL	None	635,111	1,181,499	None	None	635,111	1,181,499	1,816,610	289,463		11/
Madison	AL	None	635,111	1,181,532	None	None	635,111	1,181,532	1,816,643	289,471		11/
Mobile	AL	None	635,111	1,181,499	None	None	635,111	1,181,499	1,816,610	289,463		11/
Mobile	AL	None	525,750	977,810	None	None	525,750	977,810	1,503,560	239,559		11/
Montgomery	AL	None	544,181	654,046	None	500	544,181	654,546	1,198,727	119,836		01/
Orange Beach	AL	None	630,244	1,172,036	None	500	630,244	1,172,536	1,802,780	287,520		11/
Pelham	AL	None	635,111	1,180,909	None	None	635,111	1,180,909	1,816,020	289,319		11/
Phenix City	AL	None	630,244	1,172,024	None	500	630,244	1,172,524	1,802,768	287,517		11/
Tucson	AZ	None	178,297	396,004	None	None	178,297	396,004	574,301	362,637		01/
Arvada	CO	None	301,489	931,092	None	None	301,489	931,092	1,232,581	451,617	09/22/00	11/
Aurora	CO	None	221,691	492,382	None	None	221,691	492,382	714,073	450,895		01/
Aurora	CO	None	353,283	1,135,051	None	None	353,283	1,135,051	1,488,334	535,403	01/03/01	03/
Colorado Springs	CO	None	280,193	622,317	None	None	280,193	622,317	902,510	569,881		01/
	CO	None	192,988	433,542	None	None	192,988	433,542	626,530	349,002		05/

Colorado Springs												
Denver	CO	None	688,292	1,331,224	None	None	688,292	1,331,224	2,019,516	532,265	01/10/03	05/
Westminster	CO	None	526,620	1,099,523	None	None	526,620	1,099,523	1,626,143	518,643	01/12/01	01/
Destin	FL	None	1,034,411	1,922,591	None	None	1,034,411	1,922,591	2,957,002	471,031		11/
Ft. Walton Bch	FL	None	635,111	1,181,032	None	500	635,111	1,181,532	1,816,643	289,724		11/
Ft. Walton Bch	FL	None	635,111	1,181,032	None	500	635,111	1,181,532	1,816,643	289,724		11/
Lakeland	FL	None	500,000	645,402	None	None	500,000	645,402	1,145,402	369,143	06/04/98	12/

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REALTY INCOME CORPORATION AND SUBSIDIARIES

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

Description (Note 1)		Encumbrances (Note 2)	Initial Cost to Company: Land	Initial Cost to Company: Buildings, Improvements and Acquisition Fees	Cost Capitalized Subsequent to Acquisition: Improvements	Cost Capitalized Subsequent to Acquisition: Carrying Costs	Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7): Land	Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7): Buildings, Improvements and Acquisition Fees	Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7): Total	Accumulated Depreciation (Note 5)	Date of Construction	D Ac
Milton	FL	None	635,111	1,181,145	None	None	635,111	1,181,145	1,816,256	289,377		11/
Niceville	FL	None	920,803	1,711,621	None	None	920,803	1,711,621	2,632,424	419,343		11/
Orlando	FL	None	635,111	1,181,076	None	500	635,111	1,181,576	1,816,687	289,734		11/
Orlando	FL	None	630,244	1,172,023	None	None	630,244	1,172,023	1,802,267	287,142		11/
Oviedo	FL	None	971,996	1,806,780	None	None	971,996	1,806,780	2,778,776	442,657		11/
Pace	FL	None	630,244	1,171,993	None	500	630,244	1,172,493	1,802,737	287,509		11/
Panama City	FL	None	635,111	1,181,076	None	500	635,111	1,181,576	1,816,687	289,734		11/
Pensacola	FL	None	635,111	1,181,063	None	None	635,111	1,181,063	1,816,174	289,356		11/
Pensacola	FL	None	588,305	1,094,130	None	None	588,305	1,094,130	1,682,435	268,058		11/
Sanford	FL	None	630,244	1,172,023	None	None	630,244	1,172,023	1,802,267	287,142		11/
St. Cloud	FL	None	525,207	976,968	None	None	525,207	976,968	1,502,175	239,353		11/
Tallahassee	FL	None	419,902	781,405	None	None	419,902	781,405	1,201,307	191,440		11/
Tallahassee	FL	None	611,916	1,137,986	None	500	611,916	1,138,486	1,750,402	279,178		11/
Tampa	FL	None	427,395	472,030	None	None	427,395	472,030	899,425	270,004	06/10/98	12/
Union Park	FL	None	1,004,103	1,866,287	None	None	1,004,103	1,866,287	2,870,390	457,236		11/
Alpharetta	GA	None	630,244	1,171,870	None	500	630,244	1,172,370	1,802,614	287,479		11/
Atlanta	GA	None	55,840	258,889	16,005	14,141	55,840	289,035	344,875	263,122		11/
Columbus	GA	None	630,244	1,171,988	None	None	630,244	1,171,988	1,802,232	287,133		11/
Conyers	GA	None	531,935	1,180,296	None	None	531,935	1,180,296	1,712,231	505,245	03/28/02	11/
Conyers	GA	None	635,111	1,181,027	None	None	635,111	1,181,027	1,816,138	289,348		11/
Duluth	GA	None	638,509	1,186,594	None	None	638,509	1,186,594	1,825,103	433,103		11/
Hiram	GA	None	635,111	1,181,017	None	None	635,111	1,181,017	1,816,128	289,345		11/
Kennesaw	GA	None	519,903	967,180	None	None	519,903	967,180	1,487,083	236,955		11/
Lawrenceville	GA	None	635,111	1,181,137	None	500	635,111	1,181,637	1,816,748	289,750		11/
Marietta	GA	None	500,293	930,657	None	None	500,293	930,657	1,430,950	228,007		11/
McDonough	GA	None	635,111	1,181,032	None	500	635,111	1,181,532	1,816,643	289,724		11/
Peachtree City	GA	None	625,316	1,162,827	None	None	625,316	1,162,827	1,788,143	284,889		11/
Roswell	GA	None	515,617	959,138	None	None	515,617	959,138	1,474,755	234,985		11/
Sandy Springs	GA	None	586,211	1,090,241	None	None	586,211	1,090,241	1,676,452	267,105		11/
Stockbridge	GA	None	632,128	1,175,478	None	500	632,128	1,175,978	1,808,106	288,363		11/
Aurora	IL	None	513,204	953,885	None	None	513,204	953,885	1,467,089	348,164		11/
Joliet	IL	None	452,267	840,716	None	None	452,267	840,716	1,292,983	306,857		11/
Lombard	IL	None	428,170	795,965	None	2,000	428,170	797,965	1,226,135	291,366		11/
Niles	IL	None	366,969	682,306	None	None	366,969	682,306	1,049,275	249,038		11/
Orland Park	IL	None	663,087	1,232,240	None	None	663,087	1,232,240	1,895,327	449,763		11/
Vernon Hills	IL	None	524,948	975,668	None	None	524,948	975,668	1,500,616	356,115		11/
West Dundee	IL	None	530,835	986,628	None	None	530,835	986,628	1,517,463	360,115		11/
Overland Park	KS	None	1,101,841	2,047,067	None	None	1,101,841	2,047,067	3,148,908	747,175		11/
Winchester	KY	None	355,474	929,177	20,045	22,651	355,474	971,873	1,327,347	545,863		06/
Allston	MA	None	576,505	1,071,520	None	None	576,505	1,071,520	1,648,025	391,099		11/
Billerica	MA	None	399,043	462,240	None	172	399,043	462,412	861,455	290,384		04/
Shrewsbury	MA	None	721,065	1,339,913	None	None	721,065	1,339,913	2,060,978	489,064		11/
Waltham	MA	None	338,955	630,279	None	None	338,955	630,279	969,234	230,048		11/
Weymouth	MA	None	752,234	1,397,799	None	None	752,234	1,397,799	2,150,033	510,192		11/

Woburn	MA	None	676,968	1,258,018	None	None	676,968	1,258,018	1,934,986	459,172	11/
Annapolis	MD	None	780,806	1,450,860	None	None	780,806	1,450,860	2,231,666	529,560	11/
Bowie	MD	None	734,558	1,364,970	None	None	734,558	1,364,970	2,099,528	498,210	11/

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7)					
Description (Note 1)		Encumbrances (Note 2)	Land	Buildings, Improvements and Acquisition Fees	Improvements	Carrying Costs	Land	Buildings, Improvements and Acquisition Fees	Total	Accumulated Depreciation (Note 5)	Date of Construction	Da Acqu
Capitol Heights	MD	None	701,705	1,303,958	None	None	701,705	1,303,958	2,005,663	475,940		11/2
Germantown	MD	None	808,296	1,501,913	None	None	808,296	1,501,913	2,310,209	548,194		11/2
Waldorf	MD	None	427,033	793,854	None	None	427,033	793,854	1,220,887	289,752		11/2
Eagan	MN	None	902,443	845,536	None	None	902,443	845,536	1,747,979	486,209	06/19/98	02/2
Ferguson	MO	None	386,112	717,856	None	None	386,112	717,856	1,103,968	262,013		11/2
Grandview	MO	None	347,150	711,024	None	None	347,150	711,024	1,058,174	406,502	08/20/98	02/2
Independence	MO	None	721,020	1,339,829	None	None	721,020	1,339,829	2,060,849	489,033		11/2
Charlotte	NC	None	508,100	457,295	None	None	508,100	457,295	965,395	176,058		05/2
Charlotte	NC	None	181,662	338,164	None	None	181,662	338,164	519,826	123,426		11/2
Clemmons	NC	None	630,000	1,100,160	None	None	630,000	1,100,160	1,730,160	225,533		11/0
Jamestown	NC	None	650,000	857,823	None	None	650,000	857,823	1,507,823	175,854		11/0
Matthews	NC	None	489,063	909,052	None	None	489,063	909,052	1,398,115	331,800		11/2
Omaha	NE	None	253,128	810,922	None	32	253,128	810,954	1,064,082	431,192	07/22/99	03/0
Manchester	NH	None	722,532	1,342,636	None	None	722,532	1,342,636	2,065,168	490,058		11/2
Newington	NH	None	690,753	1,283,624	None	None	690,753	1,283,624	1,974,377	468,519		11/2
Salem	NH	None	597,833	1,111,059	None	None	597,833	1,111,059	1,708,892	405,532		11/2
Deptford	NJ	None	619,376	1,151,062	None	None	619,376	1,151,062	1,770,438	420,134		11/2
Maple Shade	NJ	None	508,285	944,750	None	None	508,285	944,750	1,453,035	344,830		11/2
Woodbury	NJ	None	212,788	320,283	None	None	212,788	320,283	533,071	136,117		05/1
Akron	OH	None	242,133	450,467	None	None	242,133	450,467	692,600	164,416		11/2
Cambridge	OH	None	103,368	192,760	None	None	103,368	192,760	296,128	70,353		11/2
Canton	OH	None	337,161	626,948	None	None	337,161	626,948	964,109	228,832		11/2
Cleveland	OH	None	582,107	1,081,848	None	None	582,107	1,081,848	1,663,955	394,871		11/2
Columbus	OH	None	385,878	717,422	None	None	385,878	717,422	1,103,300	261,855		11/2
Oklahoma City	OK	None	509,370	752,691	None	None	509,370	752,691	1,262,061	407,878	04/14/99	09/2
Oklahoma City	OK	None	404,815	771,625	None	None	404,815	771,625	1,176,440	418,119	04/09/99	10/1
Greensburg	PA	None	594,891	1,105,589	None	None	594,891	1,105,589	1,700,480	403,536		11/2
Lancaster	PA	None	431,050	801,313	None	None	431,050	801,313	1,232,363	292,475		11/2
Mechanicsburg	PA	None	455,854	847,377	None	None	455,854	847,377	1,303,231	309,288		11/2
Monroeville	PA	None	723,660	1,344,733	None	None	723,660	1,344,733	2,068,393	490,823		11/2
Philadelphia	PA	None	334,939	622,821	None	None	334,939	622,821	957,760	227,326		11/2
Pittsburgh	PA	None	384,756	715,339	None	None	384,756	715,339	1,100,095	261,095		11/2
York	PA	None	389,291	723,760	None	None	389,291	723,760	1,113,051	264,168		11/2
Columbia	SC	None	343,785	295,001	183,130	None	343,785	478,131	821,916	338,959	05/27/97	02/0
Sioux Falls	SD	None	332,979	498,108	None	None	332,979	498,108	831,087	286,426	06/01/99	02/2
Goodlettsville	TN	None	601,306	1,117,504	None	None	601,306	1,117,504	1,718,810	407,885		11/2
Hermitage	TN	None	560,443	1,011,799	None	None	560,443	1,011,799	1,572,242	421,379	10/15/01	05/0
Arlington	TX	None	599,558	1,114,256	None	None	599,558	1,114,256	1,713,814	406,699		11/2
Austin	TX	None	185,454	411,899	None	None	185,454	411,899	597,353	375,784		02/0
Austin	TX	None	710,485	1,320,293	None	None	710,485	1,320,293	2,030,778	481,902		11/2
Austin	TX	None	590,828	1,098,073	None	None	590,828	1,098,073	1,688,901	400,792		11/2
Austin	TX	None	569,909	1,059,195	None	None	569,909	1,059,195	1,629,104	386,602		11/2
Austin	TX	None	532,497	989,715	None	None	532,497	989,715	1,522,212	361,242		11/2
Carrollton	TX	None	568,401	1,056,394	None	None	568,401	1,056,394	1,624,795	385,580		11/2
Conroe	TX	None	396,068	736,346	None	None	396,068	736,346	1,132,414	268,762		11/2
Dallas	TX	None	191,267	424,811	None	73	191,267	424,884	616,151	389,080		01/2
Fort Worth	TX	None	543,950	1,010,984	None	None	543,950	1,010,984	1,554,934	369,005		11/2

Garland	TX	None	242,887	539,461	None	None	242,887	539,461	782,348	494,006	01/1

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7)				
Description (Note 1)		Encumbrances (Note 2)	Land	Buildings, Improvements and Acquisition Fees	Improvements	Carrying Costs	Land	Buildings, Improvements and Acquisition Fees	Total	Accumulated Depreciation (Note 5)	Date of Construction
Harlingen	TX	None	134,599	298,948	None	None	134,599	298,948	433,547	273,759	
Houston	TX	None	151,018	335,417	None	None	151,018	335,417	486,435	307,155	
Houston	TX	None	392,113	729,002	None	None	392,113	729,002	1,121,115	266,082	
Houston	TX	None	1,030,379	1,914,353	None	None	1,030,379	1,914,353	2,944,732	698,735	
Houston	TX	None	619,101	1,150,551	None	None	619,101	1,150,551	1,769,652	419,947	
Houston	TX	None	642,495	1,193,997	None	None	642,495	1,193,997	1,836,492	435,805	
Houston	TX	None	872,866	1,621,829	None	None	872,866	1,621,829	2,494,695	591,964	
Humble	TX	None	612,414	1,138,132	None	None	612,414	1,138,132	1,750,546	415,414	
Leon Valley	TX	None	178,221	395,834	None	None	178,221	395,834	574,055	362,481	
Leon Valley	TX	None	529,967	985,046	None	None	529,967	985,046	1,515,013	359,537	
Mesquite	TX	None	591,538	1,099,363	None	None	591,538	1,099,363	1,690,901	401,263	
Pasadena	TX	None	107,391	238,519	None	None	107,391	238,519	345,910	218,421	
Plano	TX	None	187,564	417,157	700	None	187,564	417,857	605,421	381,828	
Plano	TX	None	494,407	918,976	None	None	494,407	918,976	1,413,383	335,422	
Richardson	TX	None	555,188	1,031,855	None	None	555,188	1,031,855	1,587,043	376,623	
San Antonio	TX	None	245,164	544,518	None	None	245,164	544,518	789,682	496,774	
San Antonio	TX	None	688,249	1,278,967	None	None	688,249	1,278,967	1,967,216	466,819	
Stafford	TX	None	706,786	1,313,395	None	None	706,786	1,313,395	2,020,181	479,385	
Waco	TX	None	401,999	747,362	None	None	401,999	747,362	1,149,361	272,783	
Webster	TX	None	600,261	1,115,563	None	None	600,261	1,115,563	1,715,824	407,176	
Bountiful	UT	None	183,750	408,115	None	111	183,750	408,226	591,976	373,807	
Alexandria	VA	None	542,791	1,008,832	None	None	542,791	1,008,832	1,551,623	368,220	
Alexandria	VA	None	592,698	1,101,517	None	None	592,698	1,101,517	1,694,215	402,049	
Chesapeake	VA	None	770,000	1,112,334	None	None	770,000	1,112,334	1,882,334	228,028	
Lynchburg	VA	None	342,751	637,329	None	None	342,751	637,329	980,080	232,621	
Virginia Beach	VA	None	780,000	1,026,384	None	None	780,000	1,026,384	1,806,384	210,409	
Woodbridge	VA	None	774,854	1,439,806	None	None	774,854	1,439,806	2,214,660	525,525	
Tacoma	WA	None	187,111	415,579	None	None	187,111	415,579	602,690	380,563	
Brown Deer	WI	None	257,408	802,141	None	None	257,408	802,141	1,059,549	450,598	12/15/98
Delafield	WI	None	324,574	772,702	None	None	324,574	772,702	1,097,276	410,165	07/29/99
Madison	WI	None	452,630	811,977	None	None	452,630	811,977	1,264,607	461,530	10/20/98
Oak Creek	WI	None	420,465	852,408	None	None	420,465	852,408	1,272,873	484,511	08/07/98
Beverages											
Calistoga	CA	None	12,677,285	2,750,715	None	None	12,677,285	2,750,715	15,428,000	285,732	
Calistoga	CA	None	5,445,030	21,154,970	None	None	5,445,030	21,154,970	26,600,000	2,150,755	
Calistoga	CA	None	6,039,131	1,576,869	None	None	6,039,131	1,576,869	7,616,000	160,315	
Calistoga	CA	None	4,988,527	1,999,473	None	None	4,988,527	1,999,473	6,988,000	204,414	
Calistoga	CA	None	8,146,907	2,067,093	None	None	8,146,907	2,067,093	10,214,000	210,154	
Calistoga	CA	None	12,675,172	4,907,828	None	None	12,675,172	4,907,828	17,583,000	500,043	
Calistoga	CA	None	45,184,528	10,437,472	None	None	45,184,528	10,437,472	55,622,000	1,063,979	
Calistoga	CA	None	10,630,191	5,580,929	None	None	10,630,191	5,580,929	16,211,120	456,297	
Napa	CA	None	6,000,000	25,000,000	None	None	6,000,000	25,000,000	31,000,000	2,541,667	
Napa	CA	None	11,253,989	2,846,011	None	None	11,253,989	2,846,011	14,100,000	291,613	
Napa	CA	None	17,590,091	5,898,149	None	None	17,590,091	5,898,149	23,488,240	625,246	

Napa	CA	None	10,777,485	390,515	None	None	10,777,485	390,515	11,168,000	38,291
Napa	CA	None	4,675,262	298,928	None	None	4,675,262	298,928	4,974,190	24,412

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REALTY INCOME CORPORATION AND SUBSIDIARIES

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7)				
Description (Note 1)		Encumbrances (Note 2)	Land	Buildings, Improvements and Acquisition Fees	Improvements	Carrying Costs	Land	Buildings, Improvements and Acquisition Fees	Total	Accumulated Depreciation (Note 5)	Date of Construction
Napa	CA	None	6,860,862	524,117	None	None	6,860,862	524,117	7,384,979	21,838	
Paicines	CA	None	12,058,127	1,607,783	None	None	12,058,127	1,607,783	13,665,910	170,800	
St. Helena	CA	None	15,254,700	4,150,300	None	None	15,254,700	4,150,300	19,405,000	429,660	
St. Helena	CA	None	23,471,336	6,589,664	None	None	23,471,336	6,589,664	30,061,000	674,000	
Shreveport	LA	None	1,320,003	8,130,438	None	147	1,320,003	8,130,585	9,450,588	555,622	
Book stores											
Tampa	FL	None	998,250	3,696,707	124,751	79	998,250	3,821,537	4,819,787	2,337,874	
Business services											
Midland	TX	None	45,500	101,058	None	None	45,500	101,058	146,558	101,058	
Child care											
Birmingham	AL	None	63,800	295,791	None	84	63,800	295,875	359,675	295,820	
Avondale	AZ	None	242,723	1,129,139	None	None	242,723	1,129,139	1,371,862	611,704	04/20/99
Chandler	AZ	None	291,720	647,923	None	171	291,720	648,094	939,814	648,066	
Chandler	AZ	None	271,695	603,446	9,758	19,469	271,695	632,673	904,368	605,849	
Glendale	AZ	None	115,000	285,172	39,971	22,341	115,000	347,484	462,484	328,846	
Mesa	AZ	None	308,951	1,025,612	None	None	308,951	1,025,612	1,334,563	545,321	07/26/99
Phoenix	AZ	None	318,500	707,397	35,595	70	318,500	743,062	1,061,562	692,390	
Phoenix	AZ	None	260,719	516,181	None	32,296	260,719	548,477	809,196	466,302	
Scottsdale	AZ	None	291,993	648,529	None	171	291,993	648,700	940,693	648,672	
Scottsdale	AZ	None	264,504	587,471	None	27,528	264,504	614,999	879,503	536,676	
Tempe	AZ	None	292,200	648,989	None	16,676	292,200	665,665	957,865	655,822	
Tucson	AZ	None	304,500	676,303	None	123	304,500	676,426	980,926	657,011	
Tucson	AZ	None	283,500	546,878	None	316	283,500	547,194	830,694	531,428	
Calabasas	CA	None	156,430	725,248	100,838	58,741	156,430	884,827	1,041,257	794,361	
Carmichael	CA	None	131,035	607,507	50,368	10,947	131,035	668,822	799,857	613,743	
Chino	CA	None	155,000	634,071	None	22	155,000	634,093	789,093	634,087	
Chula Vista	CA	None	350,563	778,614	None	43,353	350,563	821,967	1,172,530	796,296	
El Cajon	CA	None	157,804	731,621	2,540	44,802	157,804	778,963	936,767	740,596	
Escondido	CA	None	276,286	613,638	5,000	44,389	276,286	663,027	939,313	637,447	
Folsom	CA	None	281,563	625,363	None	46	281,563	625,409	906,972	625,385	
Mission Viejo	CA	None	353,891	744,367	12,500	None	353,891	756,867	1,110,758	610,849	
Oceanside	CA	None	145,568	674,889	17,000	None	145,568	691,889	837,457	683,449	
Palmdale	CA	None	249,490	554,125	9,864	None	249,490	563,989	813,479	547,098	
Rancho Cordova	CA	None	276,328	613,733	24,967	None	276,328	638,700	915,028	600,331	
Rancho Cucamonga	CA	None	471,733	1,047,739	49,000	80	471,733	1,096,819	1,568,552	1,063,334	
Roseville	CA	None	297,343	660,411	27,496	None	297,343	687,907	985,250	679,205	
Sacramento	CA	None	290,734	645,732	None	127	290,734	645,859	936,593	645,859	

Simi Valley	CA	None	208,585	967,055	65,400	31	208,585	1,032,486	1,241,071	992,202
Valencia	CA	None	301,295	669,185	67,995	46	301,295	737,226	1,038,521	682,665
Walnut	CA	None	217,365	1,007,753	1,200	51,164	217,365	1,060,117	1,277,482	1,026,442
Aurora	CO	None	287,000	637,440	None	278	287,000	637,718	924,718	637,611
Broomfield	CO	None	155,306	344,941	25,000	211	155,306	370,152	525,458	360,308
Colorado Springs	CO	None	58,400	271,217	25,000	211	58,400	296,428	354,828	286,418
Fort Collins	CO	None	55,200	256,356	None	79	55,200	256,435	311,635	256,369
Greenwood Village	CO	None	131,216	608,372	6,862	21,268	131,216	636,502	767,718	623,006
Littleton	CO	None	161,617	358,956	None	82	161,617	359,038	520,655	358,976

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

Description (Note 1)		Encumbrances (Note 2)	Initial Cost to Company: Land	Initial Cost to Company: Buildings, Improvements and Acquisition Fees	Cost Capitalized Subsequent to Acquisition: Improvements	Cost Capitalized Subsequent to Acquisition: Carrying Costs	Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7): Land	Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7): Buildings, Improvements and Acquisition Fees	Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7): Total	Accumulated Depreciation (Note 5)	Date of Construction	Date Acquire
Longmont	CO	None	115,592	535,931	None	71	115,592	536,002	651,594	535,948		03/25/8
Louisville	CO	None	58,089	269,313	18,159	82	58,089	287,554	345,643	269,455		06/22/8
Parker	CO	None	153,551	341,042	None	211	153,551	341,253	494,804	341,186		10/19/8
Westminster	CO	None	306,387	695,737	None	504	306,387	696,241	1,002,628	654,148		09/27/8
Bradenton	FL	None	160,060	355,501	25,000	79	160,060	380,580	540,640	368,024		05/05/8
Clearwater	FL	None	42,223	269,380	None	79	42,223	269,459	311,682	269,421		12/22/8
Jacksonville	FL	None	48,000	243,060	None	420	48,000	243,480	291,480	243,280		12/22/8
Jacksonville	FL	None	184,800	410,447	22,872	189	184,800	433,508	618,308	405,098		03/30/8
Margate	FL	None	66,686	309,183	None	240	66,686	309,423	376,109	309,342		12/16/8
Melbourne	FL	None	256,439	549,345	None	79	256,439	549,424	805,863	446,919		04/16/9
Niceville	FL	None	73,696	341,688	None	420	73,696	342,108	415,804	341,907		12/03/8
Orlando	FL	None	68,001	313,922	None	189	68,001	314,111	382,112	314,092		09/04/8
Orlando	FL	None	159,177	353,538	None	154	159,177	353,692	512,869	353,584		07/02/8
Orlando	FL	None	190,050	422,107	5,707	342	190,050	428,156	618,206	405,444		03/30/8
Oviedo	FL	None	166,409	369,598	None	154	166,409	369,752	536,161	369,645		11/20/8
Panama City	FL	None	69,500	244,314	82,701	4,560	69,500	331,575	401,075	270,715		06/15/8
Pensacola	FL	None	147,000	326,492	20,000	240	147,000	346,732	493,732	316,744		03/28/8
Royal Palm Beach	FL	None	194,193	431,309	25,000	None	194,193	456,309	650,502	428,297		11/15/8
St. Augustine	FL	None	44,800	213,040	23,090	189	44,800	236,319	281,119	222,612		12/22/8
Sunrise	FL	None	245,000	533,280	92,266	28,616	245,000	654,162	899,162	560,051		05/25/8
Tampa	FL	None	53,385	199,846	None	154	53,385	200,000	253,385	199,893		12/22/8
Duluth	GA	None	310,000	1,040,008	None	None	310,000	1,040,008	1,350,008	549,520	08/25/99	06/07/9
Ellenwood	GA	None	119,678	275,414	58,545	479	119,678	334,438	454,116	276,167		11/16/8
Lawrenceville	GA	None	141,449	314,161	133,888	14,614	141,449	462,663	604,112	336,443		07/07/8
Lithia Springs	GA	None	187,444	363,358	None	84	187,444	363,442	550,886	335,249		12/28/8
Lithonia	GA	None	239,715	524,459	24,410	26,132	239,715	575,001	814,716	489,346		08/20/9
Marietta	GA	None	148,620	330,090	25,000	205	148,620	355,295	503,915	338,455		09/16/8
Marietta	GA	None	292,250	649,095	71,161	10,464	292,250	730,720	1,022,970	629,474		12/02/8
Marietta	GA	None	295,750	596,299	None	17,678	295,750	613,977	909,727	584,181		12/30/8
Marietta	GA	None	301,000	668,529	71,474	19,961	301,000	759,964	1,060,964	656,989		12/30/8
Smyrna	GA	None	274,750	610,229	None	415	274,750	610,644	885,394	588,809		11/15/8
Stockbridge	GA	None	168,700	374,688	47,047	84	168,700	421,819	590,519	372,612		03/28/8
Cedar Rapids	IA	None	194,950	427,085	None	None	194,950	427,085	622,035	357,968		09/24/9
Iowa City	IA	None	186,900	408,910	None	None	186,900	408,910	595,810	342,647		09/24/9
Addison	IL	None	125,780	583,146	None	134	125,780	583,280	709,060	583,213		03/25/8
Algonquin	IL	None	241,500	509,629	28,260	134	241,500	538,023	779,523	459,271		07/10/9
Aurora	IL	None	165,679	398,738	27,450	21,087	165,679	447,275	612,954	414,117		12/21/8
Aurora	IL	None	468,000	1,259,926	None	None	468,000	1,259,926	1,727,926	657,352	10/26/99	06/14/9
Bartlett	IL	None	120,824	560,166	54,360	8,536	120,824	623,062	743,886	562,792		03/25/8
Carol Stream	IL	None	122,831	586,416	None	134	122,831	586,550	709,381	586,484		03/25/8
Crystal Lake	IL	None	400,000	1,259,424	None	None	400,000	1,259,424	1,659,424	661,278	09/28/99	05/14/9
Glendale Heights	IL	None	318,500	707,399	None	172	318,500	707,571	1,026,071	682,330		11/16/8
Hoffman Estates	IL	None	318,500	707,399	None	257	318,500	707,656	1,026,156	672,422		03/31/8
Homer Glen	IL	None	189,477	442,018	None	85	189,477	442,103	631,580	442,038		10/29/8

Lake in the Hills	IL	None	375,000	1,127,678	None	None	375,000	1,127,678	1,502,678	592,108	09/03/99	05/14/9
Naperville	IL	None	425,000	1,230,654	None	None	425,000	1,230,654	1,655,654	642,074	10/06/99	05/19/9
O Fallon	IL	None	141,250	313,722	None	232	141,250	313,954	455,204	313,787		10/30/8
Oswego	IL	None	380,000	1,165,818	None	None	380,000	1,165,818	1,545,818	615,994	08/18/99	06/30/9
Palatine	IL	None	121,911	565,232	None	134	121,911	565,366	687,277	565,300		03/25/8
Roselle	IL	None	297,541	561,037	None	172	297,541	561,209	858,750	539,210		12/30/8

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REALTY INCOME CORPORATION AND SUBSIDIARIES

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7)					
Description (Note 1)		Encumbrances (Note 2)	Land	Buildings, Improvements and Acquisition Fees	Improvements	Carrying Costs	Land	Buildings, Improvements and Acquisition Fees	Total	Accumulated Depreciation (Note 5)	Date of Construction	Date Acquire
Schaumburg	IL	None	218,798	485,955	20,461	None	218,798	506,416	725,214	493,948		12/17/8
Vernon Hills	IL	None	132,523	614,430	None	134	132,523	614,564	747,087	614,498		03/25/8
Westmont	IL	None	124,742	578,330	None	266	124,742	578,596	703,338	578,489		03/25/8
Fishers	IN	None	212,118	419,958	None	372	212,118	420,330	632,448	369,184		12/27/9
Highland	IN	None	220,460	436,476	None	314	220,460	436,790	657,250	383,634		12/26/9
Indianapolis	IN	None	245,000	544,153	None	211	245,000	544,364	789,364	489,209		06/29/9
Lenexa	KS	None	318,500	707,399	14,200	None	318,500	721,599	1,040,099	682,788		03/31/8
Olathe	KS	None	304,500	676,308	66,918	186	304,500	743,412	1,047,912	676,660		09/28/8
Overland Park	KS	None	357,500	1,115,171	None	None	357,500	1,115,171	1,472,671	592,936	07/23/99	05/14/9
Shawnee	KS	None	315,000	699,629	None	302	315,000	699,931	1,014,931	677,371		10/27/8
Shawnee	KS	None	288,246	935,875	None	None	288,246	935,875	1,224,121	519,451	12/29/98	08/24/9
Wichita	KS	None	108,569	352,287	(70,181)	109	108,569	282,215	390,784	48,717		12/16/8
Wichita	KS	None	209,890	415,549	33,984	16,592	209,890	466,125	676,015	380,737		12/26/9
Lexington	KY	None	210,427	420,883	None	187	210,427	421,070	631,497	363,057		08/20/9
Acton	MA	None	315,533	700,813	None	278	315,533	701,091	1,016,624	681,042		09/30/8
Marlborough	MA	None	352,765	776,488	None	232	352,765	776,720	1,129,485	749,008		11/04/8
Westborough	MA	None	359,412	773,877	63,037	22,543	359,412	859,457	1,218,869	754,775		11/01/8
Ellicott City	MD	None	219,368	630,839	26,550	None	219,368	657,389	876,757	621,542		12/19/8
Frederick	MD	None	203,352	1,017,109	None	302	203,352	1,017,411	1,220,763	588,278		07/06/9
Olney	MD	None	342,500	760,701	4,400	41,605	342,500	806,706	1,149,206	779,340		12/18/8
Waldorf	MD	None	130,430	604,702	None	580	130,430	605,282	735,712	605,012		09/26/8
Waldorf	MD	None	237,207	526,844	None	172	237,207	527,016	764,223	526,885		12/31/8
Canton	MI	None	55,000	378,848	2,913	11,071	55,000	392,832	447,832	388,312		10/06/8
Apple Valley	MN	None	113,523	526,319	None	197	113,523	526,516	640,039	526,411		03/26/8
Brooklyn Park	MN	None	118,111	547,587	None	197	118,111	547,784	665,895	547,679		03/26/8
Eden Prairie	MN	None	124,286	576,243	None	197	124,286	576,440	700,726	576,335		03/27/8
Maple Grove	MN	None	313,250	660,149	None	278	313,250	660,427	973,677	592,070		07/11/9
Plymouth	MN	None	134,221	622,350	None	197	134,221	622,547	756,768	622,442		12/12/8
White Bear Lake	MN	None	242,165	537,856	None	278	242,165	538,134	780,299	479,986		08/30/9
Florissant	MO	None	181,300	402,672	34,635	12,499	181,300	449,806	631,106	399,443		03/29/8
Florissant	MO	None	318,500	707,399	78,556	10,975	318,500	796,930	1,115,430	695,526		03/30/8
Gladstone	MO	None	294,000	652,987	None	9,295	294,000	662,282	956,282	638,177		09/29/8
Lee s Summit	MO	None	239,627	532,220	None	179	239,627	532,399	772,026	494,725		09/27/8
Lee s Summit	MO	None	330,000	993,787	None	None	330,000	993,787	1,323,787	528,393	07/26/99	06/17/9
Lee s Summit	MO	None	313,740	939,367	None	None	313,740	939,367	1,253,107	496,346	09/08/99	06/30/9
North Kansas City	MO	None	307,784	910,401	None	None	307,784	910,401	1,218,185	510,821	09/28/99	08/21/9
Jackson	MS	None	248,483	572,522	17,627	17,780	248,483	607,929	856,412	312,369		11/16/9
Pearl	MS	None	121,801	270,524	18,837	4,207	121,801	293,568	415,369	274,768		11/15/8
Tupelo	MS	None	121,697	637,691	26,216	9,587	121,697	673,494	795,191	421,503		11/26/9
Cary	NC	None	75,200	262,973	15,000	187	75,200	278,160	353,360	267,285		01/25/8
Charlotte	NC	None	134,582	268,222	24,478	139	134,582	292,839	427,421	275,359		11/16/8
Concord	NC	None	32,441	190,859	None	326	32,441	191,185	223,626	191,102		12/23/8
Durham	NC	None	175,700	390,234	26,312	187	175,700	416,733	592,433	389,305		03/29/8

Durham	NC	None	220,728	429,380	None	321	220,728	429,701	650,429	396,414	12/29/8
Kernersville	NC	None	162,216	316,300	None	223	162,216	316,523	478,739	292,160	12/14/8
Bellevue	NE	None	60,568	280,819	None	179	60,568	280,998	341,566	280,971	12/16/8
Omaha	NE	None	60,500	280,491	None	211	60,500	280,702	341,202	280,646	08/01/8
Omaha	NE	None	53,000	245,720	22,027	211	53,000	267,958	320,958	254,214	10/11/8
Omaha	NE	None	142,867	317,315	None	178	142,867	317,493	460,360	317,464	12/09/8
Londonderry	NH	None	335,467	745,082	None	278	335,467	745,360	1,080,827	695,380	08/18/8

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7)					
Description (Note 1)		Encumbrances (Note 2)	Land	Buildings, Improvements and Acquisition Fees	Improvements	Carrying Costs	Land	Buildings, Improvements and Acquisition Fees	Total	Accumulated Depreciation (Note 5)	Date of Construction	Date Acquire
Clementon	NJ	None	279,851	554,060	18,899	None	279,851	572,959	852,810	472,966		09/09/9
Las Vegas	NV	None	201,250	446,983	None	126	201,250	447,109	648,359	401,819		06/29/9
Beavercreek	OH	None	179,552	398,786	None	122	179,552	398,908	578,460	398,887		06/30/8
Centerville	OH	None	174,519	387,613	None	237	174,519	387,850	562,369	387,770		07/23/8
Dublin	OH	None	84,000	389,446	None	230	84,000	389,676	473,676	389,671		10/08/8
Englewood	OH	None	74,000	343,083	None	258	74,000	343,341	417,341	343,276		10/23/8
Forest Park	OH	None	170,778	379,305	None	85	170,778	379,390	550,168	379,325		09/28/8
Huber Heights	OH	None	245,000	544,153	None	122	245,000	544,275	789,275	483,607		09/27/9
Pickerington	OH	None	87,580	406,055	None	116	87,580	406,171	493,751	406,111		12/11/8
Westerville	OH	None	82,000	380,173	None	122	82,000	380,295	462,295	380,274		10/08/8
Westerville	OH	None	294,350	646,557	None	122	294,350	646,679	941,029	575,541		09/26/9
Broken Arrow	OK	None	78,705	220,434	None	None	78,705	220,434	299,139	220,434		01/27/8
Midwest City	OK	None	67,800	314,338	None	None	67,800	314,338	382,138	314,338		08/14/8
Oklahoma City	OK	None	50,800	214,474	None	173	50,800	214,647	265,447	214,621		06/15/8
Oklahoma City	OK	None	79,000	366,261	17,659	173	79,000	384,093	463,093	382,032		11/14/8
Yukon	OK	None	61,000	282,812	27,000	173	61,000	309,985	370,985	301,696		05/02/8
Charleston	SC	None	125,593	278,947	None	514	125,593	279,461	405,054	275,327		05/26/8
Charleston	SC	None	140,700	312,498	25,000	376	140,700	337,874	478,574	313,740		03/28/8
Columbia	SC	None	58,160	269,643	None	139	58,160	269,782	327,942	269,781		11/14/8
Columbia	SC	None	160,831	313,600	None	223	160,831	313,823	474,654	289,668		12/14/8
Goose Creek	SC	None	61,635	192,905	None	376	61,635	193,281	254,916	193,152		12/22/8
Summerville	SC	None	44,400	174,500	None	321	44,400	174,821	219,221	174,648		12/22/8
Sumter	SC	None	56,010	268,903	59,453	641	56,010	328,997	385,007	269,457		06/18/8
Memphis	TN	None	238,263	504,897	None	None	238,263	504,897	743,160	490,466		09/29/8
Memphis	TN	None	238,000	528,608	2,734	111	238,000	531,453	769,453	515,780		09/30/8
Arlington	TX	None	82,109	380,677	12,321	197	82,109	393,195	475,304	383,496		12/13/8
Arlington	TX	None	238,000	528,604	(23,265)	605	238,000	505,944	743,944	520,350		09/26/8
Arlington	TX	None	241,500	550,559	33,725	101	241,500	584,385	825,885	552,684		09/22/8
Austin	TX	None	103,600	230,532	8,750	16	103,600	239,298	342,898	238,627		10/29/8
Austin	TX	None	88,872	222,684	54,562	15,026	88,872	292,272	381,144	260,340		01/12/8
Austin	TX	None	134,383	623,103	2,379	13,967	134,383	639,449	773,832	628,126		12/23/8
Austin	TX	None	236,733	640,023	39,352	139	236,733	679,514	916,247	564,516		09/27/8
Austin	TX	None	191,636	425,629	15,530	294	191,636	441,453	633,089	422,282		12/22/8
Austin	TX	None	217,878	483,913	29,469	None	217,878	513,382	731,260	473,826		06/22/8
Bedford	TX	None	241,500	550,559	34,949	73	241,500	585,581	827,081	540,603		09/22/8
Carrollton	TX	None	277,850	617,113	12,086	18,544	277,850	647,743	925,593	637,928		12/11/8
Cedar Park	TX	None	168,857	375,036	5,200	282	168,857	380,518	549,375	365,786		11/21/8
Colleyville	TX	None	250,000	1,070,360	None	102	250,000	1,070,462	1,320,462	565,555	08/17/99	05/14/9
Converse	TX	None	217,000	481,963	None	294	217,000	482,257	699,257	468,426		09/28/8
Corinth	TX	None	285,000	1,041,626	None	None	285,000	1,041,626	1,326,626	557,265	06/04/99	05/19/9
Euless	TX	None	234,111	519,962	None	217	234,111	520,179	754,290	520,170		05/08/8
	TX	None	202,773	442,845	32,069	16,315	202,773	491,229	694,002	457,081		04/20/8

Flower Mound Flower Mound	TX	None	281,735	1,099,726	3,500	37	281,735	1,103,263	1,384,998	595,673	04/23/99	01/13/9
Fort Worth	TX	None	85,518	396,495	33,279	6,266	85,518	436,040	521,558	418,550		12/03/8
Fort Worth	TX	None	238,000	528,608	73,662	4,191	238,000	606,461	844,461	521,934		09/26/8
Fort Worth	TX	None	216,160	427,962	None	149	216,160	428,111	644,271	373,192		02/07/9
Garland	TX	None	211,050	468,749	19,867	95	211,050	488,711	699,761	436,383		12/12/8
Grand Prairie	TX	None	167,164	371,276	58,206	16,412	167,164	445,894	613,058	385,071		12/13/8
Houston	TX	None	60,000	278,175	22,168	725	60,000	301,068	361,068	285,918		05/01/8
Houston	TX	None	139,125	308,997	19,128	229	139,125	328,354	467,479	319,944		05/22/8

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7)					
Description (Note 1)		Encumbrances (Note 2)	Land	Buildings, Improvements and Acquisition Fees	Improvements	Carrying Costs	Land	Buildings, Improvements and Acquisition Fees	Total	Accumulated Depreciation (Note 5)	Date of Construction	D Ac
Houston	TX	None	141,296	313,824	12,442	5,289	141,296	331,555	472,851	324,359		07
Houston	TX	None	219,100	486,631	None	261	219,100	486,892	705,992	472,874		09
Houston	TX	None	149,109	323,314	27,979	10,061	149,109	361,354	510,463	308,733		06
Houston	TX	None	294,582	919,276	None	None	294,582	919,276	1,213,858	507,183	01/11/99	08
Humble	TX	None	278,915	1,034,868	None	None	278,915	1,034,868	1,313,783	550,235	07/19/99	05
Katy	TX	None	309,898	983,041	None	None	309,898	983,041	1,292,939	548,890	11/30/98	08
Lewisville	TX	None	192,777	428,121	36,000	95	192,777	464,216	656,993	430,953		01
Mansfield	TX	None	181,375	402,839	46,878	17,274	181,375	466,991	648,366	400,643		12
Mesquite	TX	None	85,000	394,079	9,855	12,885	85,000	416,819	501,819	409,076		10
Mesquite	TX	None	139,466	326,525	39,638	13,047	139,466	379,210	518,676	316,355		10
Pasadena	TX	None	60,000	278,173	21,315	15,075	60,000	314,563	374,563	289,116		10
Plano	TX	None	261,912	581,658	30,831	18,268	261,912	630,757	892,669	611,824		01
Plano	TX	None	250,514	556,399	19,869	10,306	250,514	586,574	837,088	566,772		12
Round Rock	TX	None	80,525	373,347	None	19,117	80,525	392,464	472,989	383,500		12
Round Rock	TX	None	186,380	413,957	33,093	None	186,380	447,050	633,430	413,500		04
San Antonio	TX	None	130,833	606,596	14,000	192	130,833	620,788	751,621	606,671		03
San Antonio	TX	None	102,512	475,288	35,211	None	102,512	510,499	613,011	475,447		12
San Antonio	TX	None	81,530	378,007	None	266	81,530	378,273	459,803	378,196		12
San Antonio	TX	None	139,125	308,997	30,885	13,386	139,125	353,268	492,393	330,747		05
San Antonio	TX	None	181,412	402,923	None	396	181,412	403,319	584,731	403,192		07
San Antonio	TX	None	234,500	520,831	None	282	234,500	521,113	755,613	521,006		12
San Antonio	TX	None	217,000	481,967	32,529	115	217,000	514,611	731,611	486,690		10
San Antonio	TX	None	182,868	406,155	18,940	None	182,868	425,095	607,963	406,786		12
San Antonio	TX	None	220,500	447,108	None	115	220,500	447,223	667,723	424,991		03
Sugar Land	TX	None	339,310	1,000,876	None	None	339,310	1,000,876	1,340,186	538,803	05/30/99	01
Layton	UT	None	136,574	269,008	None	314	136,574	269,322	405,896	247,052		02
Sandy	UT	None	168,089	373,330	None	314	168,089	373,644	541,733	340,879		02
Centreville	VA	None	371,000	824,003	None	592	371,000	824,595	1,195,595	766,116		09
Chesapeake	VA	None	190,050	422,107	24,568	None	190,050	446,675	636,725	417,629		03
Glen Allen	VA	None	74,643	346,060	None	283	74,643	346,343	420,986	346,207		06
Portsmouth	VA	None	171,575	381,073	24,932	None	171,575	406,005	577,580	382,551		12
Virginia Beach	VA	None	69,080	320,270	29,024	13,825	69,080	363,119	432,199	335,186		11
Federal Way	WA	None	150,785	699,101	None	107	150,785	699,208	849,993	699,129		12
Federal Way	WA	None	261,943	581,782	27,500	107	261,943	609,389	871,332	577,631		11
Kent	WA	None	128,300	539,141	None	None	128,300	539,141	667,441	539,141		06
Kent	WA	None	140,763	678,809	36,500	None	140,763	715,309	856,072	694,518		12
Kirkland	WA	None	301,000	668,534	None	107	301,000	668,641	969,641	663,752		03
Puyallup	WA	None	195,552	434,327	27,000	107	195,552	461,434	656,986	435,093		12
Redmond	WA	None	279,830	621,513	None	107	279,830	621,620	901,450	621,542		07
Renton	WA	None	111,183	515,490	None	None	111,183	515,490	626,673	515,490		03
Appleton	WI	None	196,000	424,038	None	581	196,000	424,619	620,619	380,508		07
Waukesha	WI	None	233,100	461,500	None	581	233,100	462,081	695,181	405,663		12
Waukesha	WI	None	215,950	427,546	None	581	215,950	428,127	644,077	375,836		12

Consumer

appliances											
Greenville	OH	None	820,230	12,985,433	None	None	820,230	12,985,433	13,805,663	238,066	07
Consumer electronics											
Mary Esther	FL	None	149,696	363,263	62,464	76	149,696	425,803	575,499	249,338	11

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Description (Note 1)		Encumbrances (Note 2)	Land	Buildings, Improvements and Acquisition Fees	Improvements	Carrying Costs	Land	Buildings, Improvements and Acquisition Fees	Total	Accumulated Depreciation (Note 5)	Date of Construction
Tampa	FL	None	401,874	933,768	103,336	31,913	401,874	1,069,017	1,470,891	609,523	
Smyrna	GA	None	1,094,058	3,090,236	None	None	1,094,058	3,090,236	4,184,294	1,920,982	
Richmond	IN	None	93,999	193,753	2,822	179	93,999	196,754	290,753	126,878	
Jackson	MI	None	550,162	571,590	None	None	550,162	571,590	1,121,752	317,356	01/15/9
Pineville	NC	None	567,864	840,284	37,249	39,217	567,864	916,750	1,484,614	507,590	
Westbury	NY	None	6,333,590	3,952,773	20,493	None	6,333,590	3,973,266	10,306,856	2,429,846	
Bartlett	TN	None	420,000	674,437	49,629	6,323	420,000	730,389	1,150,389	374,017	05/12/9
Consumer goods											
West Branch	IA	12,982,457	969,797	19,896,576	None	None	969,797	19,896,576	20,866,373	232,127	
Convenience stores											
Daphne	AL	None	140,000	391,637	None	None	140,000	391,637	531,637	137,723	
Mobile	AL	None	190,000	301,637	None	None	190,000	301,637	491,637	106,073	
Mobile	AL	None	180,000	421,637	None	None	180,000	421,637	601,637	148,273	
Florence	AZ	None	150,000	371,637	None	None	150,000	371,637	521,637	130,690	
Gilbert	AZ	None	680,000	1,111,637	None	None	680,000	1,111,637	1,791,637	390,923	
Litchfield Park	AZ	None	610,000	531,637	None	None	610,000	531,637	1,141,637	186,956	
Marana	AZ	None	180,000	331,637	None	None	180,000	331,637	511,637	116,623	
Marana	AZ	None	330,000	911,637	None	None	330,000	911,637	1,241,637	320,590	
Maricopa	AZ	None	170,000	361,637	None	None	170,000	361,637	531,637	127,173	
Mesa	AZ	None	560,000	821,637	None	None	560,000	821,637	1,381,637	288,940	
Mesa	AZ	None	750,000	1,071,637	None	None	750,000	1,071,637	1,821,637	376,856	
Mesa	AZ	None	810,000	1,061,637	None	None	810,000	1,061,637	1,871,637	373,340	
Mesa	AZ	None	890,000	1,081,637	None	None	890,000	1,081,637	1,971,637	380,373	
Mesa	AZ	None	780,000	1,071,637	None	None	780,000	1,071,637	1,851,637	376,856	
Mesa	AZ	None	900,000	1,191,637	None	None	900,000	1,191,637	2,091,637	419,056	
Payson	AZ	None	210,000	351,637	None	None	210,000	351,637	561,637	123,656	
Payson	AZ	None	260,000	311,637	None	None	260,000	311,637	571,637	109,590	
Peoria	AZ	None	520,000	751,637	None	None	520,000	751,637	1,271,637	264,323	
Phoenix	AZ	None	440,000	511,637	None	None	440,000	511,637	951,637	179,923	
Phoenix	AZ	None	360,000	421,637	None	None	360,000	421,637	781,637	148,273	
Phoenix	AZ	None	710,000	591,637	None	None	710,000	591,637	1,301,637	208,056	
Phoenix	AZ	None	320,000	661,637	None	None	320,000	661,637	981,637	232,673	
Phoenix	AZ	None	450,000	651,637	None	None	450,000	651,637	1,101,637	229,156	
Phoenix	AZ	None	430,000	711,637	None	None	430,000	711,637	1,141,637	250,256	
Phoenix	AZ	None	730,000	931,637	None	None	730,000	931,637	1,661,637	327,623	
Phoenix	AZ	None	400,000	931,637	None	None	400,000	931,637	1,331,637	327,623	
Phoenix	AZ	None	790,000	1,051,637	None	None	790,000	1,051,637	1,841,637	369,823	
Pinetop	AZ	None	170,000	311,637	None	None	170,000	311,637	481,637	109,590	
Queen Creek	AZ	None	520,000	891,637	None	None	520,000	891,637	1,411,637	313,556	
Scottsdale	AZ	None	210,000	201,637	None	None	210,000	201,637	411,637	70,906	
Scottsdale	AZ	None	660,000	1,031,637	None	None	660,000	1,031,637	1,691,637	362,790	

Sierra Vista	AZ	None	110,000	301,637	None	None	110,000	301,637	411,637	106,073
Tempe	AZ	None	620,000	1,071,637	None	None	620,000	1,071,637	1,691,637	376,856
Tempe	AZ	None	270,000	461,637	None	None	270,000	461,637	731,637	162,340
Tolleson	AZ	None	460,000	1,231,637	None	None	460,000	1,231,637	1,691,637	433,123

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REALTY INCOME CORPORATION AND SUBSIDIARIES

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7)					
Description (Note 1)		Encumbrances (Note 2)	Land	Buildings, Improvements and Acquisition Fees	Improvements	Carrying Costs	Land	Buildings, Improvements and Acquisition Fees	Total	Accumulated Depreciation (Note 5)	Date of Construction	Date Acquired
Tombstone	AZ	None	110,000	381,637	None	None	110,000	381,637	491,637	134,206		03/18/04
Tucson	AZ	None	220,000	311,637	None	None	220,000	311,637	531,637	109,590		03/18/04
Tucson	AZ	None	240,000	341,637	None	None	240,000	341,637	581,637	120,140		03/18/04
Tucson	AZ	None	550,000	511,637	None	None	550,000	511,637	1,061,637	179,923		03/18/04
Tucson	AZ	None	126,000	234,565	None	None	126,000	234,565	360,565	81,707		04/14/04
Wellton	AZ	None	120,000	291,637	None	None	120,000	291,637	411,637	102,556		03/18/04
Wickenburg	AZ	None	150,000	291,637	None	None	150,000	291,637	441,637	102,556		03/18/04
Manchester	CT	None	118,262	305,510	None	None	118,262	305,510	423,772	217,421		03/03/95
Vernon	CT	None	179,646	319,372	None	None	179,646	319,372	499,018	227,286		03/09/95
Westbrook	CT	None	98,247	373,340	None	None	98,247	373,340	471,587	265,693		03/09/95
Camden	DE	None	113,811	174,435	None	None	113,811	174,435	288,246	68,313		03/19/03
Camden	DE	None	250,528	379,165	None	None	250,528	379,165	629,693	148,499		03/19/03
Dewey	DE	None	147,465	224,665	None	None	147,465	224,665	372,130	87,987		03/19/03
Dover	DE	None	278,804	421,707	None	None	278,804	421,707	700,511	165,161		03/19/03
Dover	DE	None	367,137	554,207	None	None	367,137	554,207	921,344	217,057		03/19/03
Dover	DE	None	367,425	554,884	None	None	367,425	554,884	922,309	217,322		03/19/03
Felton	DE	None	307,260	464,391	None	None	307,260	464,391	771,651	181,879		03/19/03
Greenwood	DE	None	632,303	1,176,711	None	None	632,303	1,176,711	1,809,014	241,224		11/29/07
Harrington	DE	None	563,812	849,220	None	None	563,812	849,220	1,413,032	332,604		03/19/03
Milford	DE	None	310,049	468,575	None	None	310,049	468,575	778,624	183,518		03/19/03
Newcastle	DE	None	589,325	887,488	None	None	589,325	887,488	1,476,813	347,592		03/19/03
Smyrna	DE	None	121,774	186,436	None	None	121,774	186,436	308,210	73,013		03/19/03
Smyrna	DE	None	401,135	605,332	None	None	401,135	605,332	1,006,467	237,081		03/19/03
Townsend	DE	None	241,416	365,749	None	None	241,416	365,749	607,165	143,244		03/19/03
Wilmington	DE	None	280,682	424,525	None	None	280,682	424,525	705,207	166,265		03/19/03
Archer	FL	None	296,238	578,145	None	None	296,238	578,145	874,383	315,088		05/07/99
Bushnell	FL	None	130,000	291,637	None	None	130,000	291,637	421,637	102,556		03/18/04
Clearwater	FL	None	359,792	311,845	None	None	359,792	311,845	671,637	109,663		03/18/04
Cocoa	FL	None	323,827	287,810	None	None	323,827	287,810	611,637	101,211		03/18/04
Deltona	FL	None	140,000	321,637	None	None	140,000	321,637	461,637	113,106		03/18/04
Ellenton	FL	None	250,000	261,637	None	None	250,000	261,637	511,637	92,006		03/18/04
Englewood	FL	None	270,000	331,637	None	None	270,000	331,637	601,637	116,623		03/18/04
Gainesville	FL	None	515,834	873,187	None	None	515,834	873,187	1,389,021	475,886		05/07/99
Gainesville	FL	None	480,318	600,633	None	None	480,318	600,633	1,080,951	327,344		05/07/99
Gainesville	FL	None	347,310	694,859	None	None	347,310	694,859	1,042,169	378,697		05/07/99
Gainesville	FL	None	339,263	658,807	None	None	339,263	658,807	998,070	359,049		05/07/99
Gainesville	FL	None	351,921	552,557	None	None	351,921	552,557	904,478	301,142		05/07/99
Gainesville	FL	None	500,032	850,291	None	None	500,032	850,291	1,350,323	463,407		05/07/99
Homosassa Springs	FL	None	740,000	621,637	None	None	740,000	621,637	1,361,637	218,606		03/18/04
Hudson	FL	None	300,000	351,637	None	None	300,000	351,637	651,637	123,656		03/18/04
Intercession City	FL	None	161,776	319,861	None	None	161,776	319,861	481,637	112,482		03/18/04
Jacksonville	FL	None	522,188	371,885	None	None	522,188	371,885	894,073	202,676		05/07/99
Jacksonville	FL	None	266,111	494,206	None	None	266,111	494,206	760,317	172,148		04/01/04
Key West	FL	None	873,700	627,937	None	None	873,700	627,937	1,501,637	220,822		03/18/04
Key West	FL	None	492,785	208,852	None	None	492,785	208,852	701,637	73,444		03/18/04

Lakeland	FL	None	527,076	464,561	None	None	527,076	464,561	991,637	163,368	03/18/04
Lakeland	FL	None	300,000	321,637	None	None	300,000	321,637	621,637	113,106	03/18/04

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7)					
Description (Note 1)		Encumbrances (Note 2)	Land	Buildings, Improvements and Acquisition Fees	Improvements	Carrying Costs	Land	Buildings, Improvements and Acquisition Fees	Total	Accumulated Depreciation (Note 5)	Date of Construction	D Acc
Lakeport	FL	None	180,342	331,295	None	None	180,342	331,295	511,637	116,503		03/
Land O Lakes	FL	None	120,000	361,637	None	None	120,000	361,637	481,637	127,173		03/
Lutz	FL	None	480,000	421,637	None	None	480,000	421,637	901,637	148,273		03/
Naples	FL	None	150,000	301,637	None	None	150,000	301,637	451,637	106,073		03/
Naples	FL	None	620,000	381,637	None	None	620,000	381,637	1,001,637	134,206		03/
New Port Richey	FL	None	190,000	601,637	None	None	190,000	601,637	791,637	211,573		03/
North Fort Meyers	FL	None	140,000	281,637	None	None	140,000	281,637	421,637	99,040		03/
Okeechobee	FL	None	195,075	346,562	None	None	195,075	346,562	541,637	121,872		03/
Orlando	FL	None	240,000	301,637	None	None	240,000	301,637	541,637	106,073		03/
Palm Bay	FL	None	230,880	300,757	None	None	230,880	300,757	531,637	105,764		03/
Palm Harbor	FL	None	510,000	381,637	None	None	510,000	381,637	891,637	134,206		03/
Panama City	FL	None	210,000	431,637	None	None	210,000	431,637	641,637	151,790		03/
Pensacola	FL	None	168,000	312,727	None	None	168,000	312,727	480,727	108,931		04/
Port Charlotte	FL	None	170,000	311,637	None	None	170,000	311,637	481,637	109,590		03/
Port Charlotte	FL	None	200,000	356,637	None	None	200,000	356,637	556,637	125,415		03/
Port Orange	FL	None	609,438	512,199	None	None	609,438	512,199	1,121,637	180,121		03/
Punta Gorda	FL	None	400,000	511,637	None	None	400,000	511,637	911,637	179,923		03/
Riverview	FL	None	1,930,000	487,876	None	None	1,930,000	487,876	2,417,876	44	In-progress	08/
Tallahassee	FL	None	600,000	341,637	None	None	600,000	341,637	941,637	120,140		03/
Tampa	FL	None	300,000	301,637	None	None	300,000	301,637	601,637	106,073		03/
Tampa	FL	None	380,000	361,637	None	None	380,000	361,637	741,637	127,173		03/
Tampa	FL	None	320,000	591,637	None	None	320,000	591,637	911,637	208,056		03/
Webster	FL	None	640,000	1,071,637	None	None	640,000	1,071,637	1,711,637	376,856		03/
Winter Springs	FL	None	150,000	291,637	None	None	150,000	291,637	441,637	102,556		03/
Augusta	GA	None	620,000	383,232	None	None	620,000	383,232	1,003,232	206,301		07/
Augusta	GA	None	540,000	337,853	None	None	540,000	337,853	877,853	181,873		07/
Augusta	GA	None	510,000	392,929	None	None	510,000	392,929	902,929	211,522		07/
Augusta	GA	None	180,000	422,020	None	None	180,000	422,020	602,020	227,184		07/
Augusta	GA	None	260,000	392,171	None	None	260,000	392,171	652,171	211,116		07/
Augusta	GA	None	240,000	451,637	None	None	240,000	451,637	691,637	158,823		03/
Cahutta	GA	None	437,500	813,742	None	None	437,500	813,742	1,251,242	299,722		10/
Calhoun	GA	None	122,500	228,742	None	None	122,500	228,742	351,242	84,247		10/
Calhoun	GA	None	262,500	488,742	None	None	262,500	488,742	751,242	180,014		10/
Cartersville	GA	None	262,500	488,742	None	None	262,500	488,742	751,242	180,014		10/
Chatsworth	GA	None	140,000	261,242	None	47	140,000	261,289	401,289	96,254		10/
Chatsworth	GA	None	140,000	261,242	None	47	140,000	261,289	401,289	96,254		10/
Chatsworth	GA	None	140,000	261,242	None	47	140,000	261,289	401,289	96,254		10/
Chickamauga	GA	None	181,731	338,742	None	None	181,731	338,742	520,473	124,764		10/
Dalton	GA	None	171,500	319,742	None	None	171,500	319,742	491,242	117,765		10/
Dalton	GA	None	87,500	163,742	None	None	87,500	163,742	251,242	60,305		10/
Dalton	GA	None	485,650	903,162	None	None	485,650	903,162	1,388,812	332,659		10/
Dalton	GA	None	146,000	272,385	None	None	146,000	272,385	418,385	100,322		10/
Dalton	GA	None	420,000	781,242	None	None	420,000	781,242	1,201,242	287,751		10/
Dalton	GA	None	210,000	391,242	None	None	210,000	391,242	601,242	144,101		10/

Dalton	GA	None	332,500	618,742	None	None	332,500	618,742	951,242	227,897	10/
Decatur	GA	None	529,383	532,429	None	296	529,383	532,725	1,062,108	330,977	06/
Dunwoody	GA	None	545,462	724,254	None	296	545,462	724,550	1,270,012	450,220	06/

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7)					
Description (Note 1)		Encumbrances (Note 2)	Land	Buildings, Improvements and Acquisition Fees	Improvements	Carrying Costs	Land	Buildings, Improvements and Acquisition Fees	Total	Accumulated Depreciation (Note 5)	Date of Construction	Date Acquired
Flintstone	GA	None	157,500	293,742	None	None	157,500	293,742	451,242	108,189		10/16/03
Lafayette	GA	None	122,500	228,742	None	None	122,500	228,742	351,242	84,247		10/16/03
Lithonia	GA	None	386,784	776,436	None	None	386,784	776,436	1,163,220	482,627		06/27/97
Mableton	GA	None	491,069	355,957	None	None	491,069	355,957	847,026	221,239		06/27/97
Martinez	GA	None	450,000	402,777	None	None	450,000	402,777	852,777	216,824		07/22/99
Martinez	GA	None	830,000	871,637	None	None	830,000	871,637	1,701,637	306,523		03/18/04
Norcross	GA	None	384,162	651,273	None	None	384,162	651,273	1,035,435	404,815		06/27/97
Ringgold	GA	None	234,500	1,168,914	None	None	234,500	1,168,914	1,403,414	379,320		10/16/03
Ringgold	GA	None	385,000	716,242	(21,175)	None	363,825	716,242	1,080,067	263,809		10/16/03
Ringgold	GA	None	482,251	896,851	None	None	482,251	896,851	1,379,102	330,334		10/16/03
Rocky Face	GA	None	164,231	306,241	None	None	164,231	306,241	470,472	112,793		10/16/03
Rome	GA	None	210,000	391,242	None	None	210,000	391,242	601,242	144,101		10/16/03
Rome	GA	None	199,199	371,183	None	None	199,199	371,183	570,382	136,713		10/16/03
Rome	GA	None	201,791	375,997	(22,030)	None	179,761	375,997	555,758	138,486		10/16/03
Rome	GA	None	315,000	586,242	None	None	315,000	586,242	901,242	215,926		10/16/03
Rossville	GA	None	157,500	293,742	None	None	157,500	293,742	451,242	108,189		10/16/03
Summerville	GA	None	66,231	124,242	None	None	66,231	124,242	190,473	45,756		10/16/03
Trenton	GA	None	129,231	241,242	None	None	129,231	241,242	370,473	88,851		10/16/03
Belvidere	IL	None	768,748	1,426,176	1,500	None	768,748	1,427,676	2,196,424	173,968		12/28/09
Dekalb	IL	None	661,500	1,226,500	2,000	None	661,500	1,228,500	1,890,000	149,824		12/28/09
Godfrey	IL	None	374,586	733,190	None	314	374,586	733,504	1,108,090	455,948		06/27/97
Granite City	IL	None	362,287	737,255	None	314	362,287	737,569	1,099,856	458,476		06/27/97
Harford	IL	None	599,172	1,110,747	2,000	None	599,172	1,112,747	1,711,919	135,741		12/28/09
Loves Park	IL	None	547,582	1,016,523	1,500	None	547,582	1,018,023	1,565,605	205,747		12/20/07
Loves Park	IL	None	760,725	1,410,775	2,000	None	760,725	1,412,775	2,173,500	172,244		12/28/09
Machesney Park	IL	None	562,275	1,043,225	1,000	None	562,275	1,044,225	1,606,500	127,226		12/28/09
Madison	IL	None	173,812	625,030	None	314	173,812	625,344	799,156	388,728		06/27/97
Marengo	IL	None	501,948	930,688	1,500	None	501,948	932,188	1,434,136	113,684		12/28/09
Rochelle	IL	None	607,418	1,128,145	1,000	None	607,418	1,129,145	1,736,563	228,008		12/20/07
Rockford	IL	None	463,050	858,450	1,500	None	463,050	859,950	1,323,000	104,895		12/28/09
Rockford	IL	None	388,631	720,244	1,500	None	388,631	721,744	1,110,375	88,080		12/28/09
Tuscola	IL	None	752,456	1,394,419	3,000	None	752,456	1,397,419	2,149,875	170,554		12/28/09
Albany	IN	None	427,437	794,632	2,000	None	427,437	796,632	1,224,069	179,906		05/25/07
Alexandria	IN	None	139,219	259,369	None	None	139,219	259,369	398,588	58,355		05/25/07
Anderson	IN	None	147,263	274,307	None	None	147,263	274,307	421,570	61,716		05/25/07
Anderson	IN	None	283,430	527,190	2,000	None	283,430	529,190	812,620	119,731		05/25/07
Elkhart	IN	None	495,914	922,471	1,500	None	495,914	923,971	1,419,885	208,390		05/25/07
Frankfort	IN	None	208,666	388,345	2,000	None	208,666	390,345	599,011	88,491		05/25/07
Greenwood	IN	None	173,250	323,022	None	None	173,250	323,022	496,272	72,677		05/25/07
Hartford City	IN	None	250,310	465,702	2,000	None	250,310	467,702	718,012	105,896		05/25/07
Indianapolis	IN	None	129,938	242,134	None	None	129,938	242,134	372,072	54,477		05/25/07
Indianapolis	IN	None	269,294	500,939	1,500	None	269,294	502,439	771,733	113,546		05/25/07
Indianapolis	IN	None	318,432	592,193	1,500	None	318,432	593,693	912,125	134,078		05/25/07
Knox	IN	None	341,250	633,499	1,500	None	341,250	634,999	976,249	132,766		10/09/07
Lafayette	IN	None	147,263	274,309	None	None	147,263	274,309	421,572	61,716		05/25/07
Lafayette	IN	None	112,613	209,959	None	None	112,613	209,959	322,572	47,237		05/25/07

Marion	IN	None	209,196	389,995	1,500	None	209,196	391,495	600,691	88,583	05/25/07

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REALTY INCOME CORPORATION AND SUBSIDIARIES

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

Description (Note 1)		Encumbrances (Note 2)	Initial Cost to Company: Land	Initial Cost to Company: Buildings, Improvements and Acquisition Fees	Cost Capitalized Subsequent to Acquisition: Improvements	Cost Capitalized Subsequent to Acquisition: Carrying Costs	Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7): Land	Gross Amount: Buildings, Improvements and Acquisition Fees	Gross Amount: Total	Accumulated Depreciation (Note 5)	Date of Construction	D Ac
Michigan City	IN	None	227,500	422,249	1,500	None	227,500	423,749	651,249	88,756		10
Mishawaka	IN	None	123,983	231,743	2,000	None	123,983	233,743	357,726	53,255		05
Morristown	IN	None	366,590	682,082	2,000	None	366,590	684,082	1,050,672	154,582		05
Muncie	IN	None	103,950	193,870	None	None	103,950	193,870	297,820	43,617		05
Muncie	IN	None	184,237	342,974	2,000	None	184,237	344,974	529,211	78,282		05
New Albany	IN	None	181,459	289,353	None	211	181,459	289,564	471,023	206,103		03
New Albany	IN	None	262,465	331,796	None	211	262,465	332,007	594,472	236,308		03
New Castle	IN	None	138,600	258,672	None	None	138,600	258,672	397,272	58,198		05
New Castle	IN	None	79,854	149,572	1,000	None	79,854	150,572	230,426	34,209		05
New Castle	IN	None	203,941	380,019	1,500	None	203,941	381,519	585,460	86,338		05
Richmond	IN	None	281,248	523,589	1,500	None	281,248	525,089	806,337	118,642		05
Richmond	IN	None	255,908	476,528	2,000	None	255,908	478,528	734,436	108,332		05
Rushville	IN	None	138,600	258,672	None	None	138,600	258,672	397,272	58,198		05
Rushville	IN	None	121,275	226,497	None	None	121,275	226,497	347,772	50,958		05
South Bend	IN	None	372,387	693,064	2,000	None	372,387	695,064	1,067,451	157,053		05
Wabash	IN	None	430,437	800,871	2,000	None	430,437	802,871	1,233,308	181,309		05
Wabash	IN	None	334,923	623,488	1,500	None	334,923	624,988	959,911	141,119		05
Warsaw	IN	None	415,275	772,713	1,500	None	415,275	774,213	1,189,488	174,695		05
West Lafayette	IN	None	1,052,628	1,340,855	2,000	None	1,052,628	1,342,855	2,395,483	302,582		05
Zionsville	IN	None	910,595	1,691,926	2,000	None	910,595	1,693,926	2,604,521	381,797		05
Berea	KY	None	252,077	360,815	None	197	252,077	361,012	613,089	256,932		03
Elizabethtown	KY	None	286,106	286,106	None	364	286,106	286,470	572,576	203,827		03
Lebanon	KY	None	158,052	316,105	None	350	158,052	316,455	474,507	225,149		03
Louisville	KY	None	198,926	368,014	None	211	198,926	368,225	567,151	262,083		03
Louisville	KY	None	216,849	605,697	None	187	216,849	605,884	822,733	400,740	06/18/96	11
Mt. Washington	KY	None	327,245	479,593	None	None	327,245	479,593	806,838	309,369	12/06/96	05
Owensboro	KY	None	360,000	590,000	None	None	360,000	590,000	950,000	410,050		08
Alexandria	LA	None	170,000	371,637	None	None	170,000	371,637	541,637	130,690		03
Baton Rouge	LA	None	500,000	521,637	None	None	500,000	521,637	1,021,637	183,440		03
Baton Rouge	LA	None	210,000	361,637	None	None	210,000	361,637	571,637	127,173		03
Bossier City	LA	None	230,000	431,637	None	None	230,000	431,637	661,637	151,790		03
Destrehan	LA	None	200,000	411,637	None	None	200,000	411,637	611,637	144,756		03
Lafayette	LA	None	240,000	391,637	None	None	240,000	391,637	631,637	137,723		03
Shreveport	LA	None	192,500	358,227	None	None	192,500	358,227	550,727	124,780		04
Amherst	MA	None	110,969	639,806	None	None	110,969	639,806	750,775	239,927		08
North Reading	MA	None	574,601	756,174	None	None	574,601	756,174	1,330,775	283,565		08
Seekonk	MA	None	298,354	268,518	None	None	298,354	268,518	566,872	191,095		03
Berlin	MD	None	255,951	387,395	None	None	255,951	387,395	643,346	151,722		03
Crisfield	MD	None	219,704	333,024	None	None	219,704	333,024	552,728	130,427		03
Hebron	MD	None	376,251	567,844	None	None	376,251	567,844	944,095	222,398		03
La Plata	MD	None	1,017,544	2,706,729	None	None	1,017,544	2,706,729	3,724,273	1,123,045		08
Mechanicsville	MD	None	1,540,335	2,860,928	None	None	1,540,335	2,860,928	4,401,263	1,206,298		06
Millersville	MD	None	830,737	2,696,245	None	None	830,737	2,696,245	3,526,982	1,136,963		06
Breckenridge	MI	None	437,500	811,968	1,500	None	437,500	813,468	1,250,968	169,947		10
Carson City	MI	None	262,500	486,468	2,000	None	262,500	488,468	750,968	102,397		10

Charlevoix	MI	None	385,000	713,013	2,500	None	385,000	715,513	1,100,513	149,857	10
Cheboygan	MI	None	280,000	518,013	2,500	None	280,000	520,513	800,513	109,232	10
Clare	MI	None	306,250	567,718	2,000	None	306,250	569,718	875,968	119,325	10

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REALTY INCOME CORPORATION AND SUBSIDIARIES

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7)					
Description (Note 1)		Encumbrances (Note 2)	Land	Buildings, Improvements and Acquisition Fees	Improvements	Carrying Costs	Land	Buildings, Improvements and Acquisition Fees	Total	Accumulated Depreciation (Note 5)	Date of Construction	Date Acquired
Clare	MI	None	229,250	426,218	500	None	229,250	426,718	655,968	89,058		10/09/07
Comstock	MI	None	315,000	583,761	2,500	None	315,000	586,261	901,261	122,929		10/09/07
Farwell	MI	None	437,500	811,468	2,000	None	437,500	813,468	1,250,968	170,106		10/09/07
Flint	MI	None	194,492	476,504	None	348	194,492	476,852	671,344	325,031		12/21/95
Gladwin	MI	None	140,000	259,013	1,500	None	140,000	260,513	400,513	54,749		10/09/07
Grand Rapids	MI	None	437,500	812,261	1,500	None	437,500	813,761	1,251,261	170,008		10/09/07
Kalamazoo	MI	None	238,000	442,249	1,000	None	238,000	443,249	681,249	92,660		10/09/07
Kalkaska	MI	None	437,500	809,513	3,500	None	437,500	813,013	1,250,513	170,486		10/09/07
Lake City	MI	None	115,500	213,513	1,500	None	115,500	215,013	330,513	45,269		10/09/07
Lakeview	MI	None	96,250	177,718	2,000	None	96,250	179,718	275,968	38,075		10/09/07
Mackinaw City	MI	None	455,000	844,513	1,000	None	455,000	845,513	1,300,513	176,465		10/09/07
Mecosta	MI	None	122,500	227,468	1,000	None	122,500	228,468	350,968	47,914		10/09/07
Midland	MI	None	437,500	811,013	2,000	None	437,500	813,013	1,250,513	170,011		10/09/07
Mount Pleasant	MI	None	162,750	300,794	2,500	None	162,750	303,294	466,044	63,977		10/09/07
Mount Pleasant	MI	None	463,750	860,718	1,500	None	463,750	862,218	1,325,968	180,104		10/09/07
Mount Pleasant	MI	None	210,000	388,968	2,000	None	210,000	390,968	600,968	82,085		10/09/07
Mount Pleasant	MI	None	437,500	810,968	2,500	None	437,500	813,468	1,250,968	170,264		10/09/07
Mount Pleasant	MI	None	350,000	649,468	1,500	None	350,000	650,968	1,000,968	136,093		10/09/07
Mount Pleasant	MI	None	175,000	324,468	1,500	None	175,000	325,968	500,968	68,385		10/09/07
Petoskey	MI	None	490,000	909,513	1,000	None	490,000	910,513	1,400,513	190,007		10/09/07
Prudenville	MI	None	133,000	245,013	2,500	None	133,000	247,513	380,513	52,357		10/09/07
Saginaw	MI	None	262,500	486,513	1,500	None	262,500	488,013	750,513	102,144		10/09/07
Standish	MI	None	92,750	171,263	1,500	None	92,750	172,763	265,513	36,467		10/09/07
Traverse City	MI	None	210,000	389,002	2,000	None	210,000	391,002	601,002	82,092		10/09/07
Walker	MI	None	586,250	1,088,499	1,500	None	586,250	1,089,999	1,676,249	227,558		10/09/07
Alexandria	MN	None	132,924	244,858	2,000	None	132,924	246,858	379,782	20,413		12/01/10
Andover	MN	None	888,706	1,648,454	2,000	None	888,706	1,650,454	2,539,160	135,040		12/01/10
Apple Valley	MN	None	350,000	648,000	2,000	None	350,000	650,000	1,000,000	53,337		12/01/10
Baxter	MN	None	350,000	648,000	2,000	None	350,000	650,000	1,000,000	53,337		12/01/10
Blaine	MN	None	767,270	1,422,929	2,000	None	767,270	1,424,929	2,192,199	116,623		12/01/10
Bloomington	MN	None	262,500	485,500	2,000	None	262,500	487,500	750,000	40,066		12/01/10
Bloomington	MN	None	676,771	1,255,359	1,500	None	676,771	1,256,859	1,933,630	102,833		12/01/10
Brainerd	MN	None	490,000	907,000	3,000	None	490,000	910,000	1,400,000	74,697		12/01/10
Brooklyn Center	MN	None	979,764	1,818,061	1,500	None	979,764	1,819,561	2,799,325	148,787		12/01/10
Brooklyn Center	MN	None	979,764	1,817,561	2,000	None	979,764	1,819,561	2,799,325	148,851		12/01/10
	MN	None	979,764	1,817,561	2,000	None	979,764	1,819,561	2,799,325	148,851		12/01/10

Brooklyn Center											
Brooklyn Park	MN	None	830,336	1,540,052	2,000	None	830,336	1,542,052	2,372,388	126,188	12/01/10
Brooklyn Park	MN	None	578,964	1,073,220	2,000	None	578,964	1,075,220	1,654,184	88,063	12/01/10
Burnsville	MN	None	615,240	1,141,089	1,500	None	615,240	1,142,589	1,757,829	93,501	12/01/10
Burnsville	MN	None	515,298	954,981	2,000	None	515,298	956,981	1,472,279	78,407	12/01/10
Burnsville	MN	None	350,000	648,000	2,000	None	350,000	650,000	1,000,000	53,337	12/01/10
Burnsville	MN	None	932,558	1,729,892	2,000	None	932,558	1,731,892	2,664,450	141,691	12/01/10
Chaska	MN	None	979,764	1,817,561	2,000	None	979,764	1,819,561	2,799,325	148,851	12/01/10
Chaska	MN	None	490,000	908,000	2,000	None	490,000	910,000	1,400,000	74,570	12/01/10
Columbia Heights	MN	None	673,068	1,248,483	1,500	None	673,068	1,249,983	1,923,051	102,272	12/01/10
Coon Rapids	MN	None	490,000	908,000	2,000	None	490,000	910,000	1,400,000	74,570	12/01/10
Cottage Grove	MN	None	805,888	1,494,650	2,000	None	805,888	1,496,650	2,302,538	122,480	12/01/10

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REALTY INCOME CORPORATION AND SUBSIDIARIES

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7)					
Description (Note 1)		Encumbrances (Note 2)	Land	Buildings, Improvements and Acquisition Fees	Improvements	Carrying Costs	Land	Buildings, Improvements and Acquisition Fees	Total	Accumulated Depreciation (Note 5)	Date of Construction	Date Acquired
Crystal	MN	None	552,641	1,024,332	2,000	None	552,641	1,026,332	1,578,973	84,070		12/01/10
Crystal	MN	None	740,518	1,373,248	2,000	None	740,518	1,375,248	2,115,766	112,565		12/01/10
Eagan	MN	None	906,287	1,680,604	2,500	None	906,287	1,683,104	2,589,391	137,770		12/01/10
Eagan	MN	None	699,277	1,296,658	2,000	None	699,277	1,298,658	1,997,935	106,310		12/01/10
Eden Prairie	MN	None	947,702	1,758,519	1,500	None	947,702	1,760,019	2,707,721	143,925		12/01/10
Eden Prairie	MN	None	485,526	899,690	2,000	None	485,526	901,690	1,387,216	73,891		12/01/10
Edina	MN	None	568,893	1,054,516	2,000	None	568,893	1,056,516	1,625,409	86,535		12/01/10
Elk River	MN	None	613,113	1,137,137	1,500	None	613,113	1,138,637	1,751,750	93,179		12/01/10
Elk River	MN	None	456,850	846,435	2,000	None	456,850	848,435	1,305,285	69,542		12/01/10
Excelsior	MN	None	262,500	485,500	2,000	None	262,500	487,500	750,000	40,066		12/01/10
Falcon Heights	MN	None	494,415	916,199	2,000	None	494,415	918,199	1,412,614	75,240		12/01/10
Farmington	MN	None	437,500	810,500	2,000	None	437,500	812,500	1,250,000	66,608		12/01/10
Forest Lake	MN	None	398,985	739,473	1,500	None	398,985	740,973	1,139,958	60,703		12/01/10
Fridley	MN	None	519,325	962,461	2,000	None	519,325	964,461	1,483,786	79,018		12/01/10
Fridley	MN	None	706,295	1,309,691	2,000	None	706,295	1,311,691	2,017,986	107,375		12/01/10
Fridley	MN	None	175,000	323,000	2,000	None	175,000	325,000	500,000	26,795		12/01/10
Golden Valley	MN	None	979,764	1,817,561	2,000	None	979,764	1,819,561	2,799,325	148,851		12/01/10
Ham Lake	MN	None	979,764	1,817,561	2,000	None	979,764	1,819,561	2,799,325	148,851		12/01/10
Hastings	MN	None	979,764	1,817,561	2,000	None	979,764	1,819,561	2,799,325	148,851		12/01/10
Inver Grove Hghts	MN	None	134,705	248,666	1,500	None	134,705	250,166	384,871	20,620		12/01/10
Inver Grove Hghts	MN	None	979,764	1,817,561	2,000	None	979,764	1,819,561	2,799,325	148,851		12/01/10
Lakeville	MN	None	631,855	1,171,446	2,000	None	631,855	1,173,446	1,805,301	96,085		12/01/10
Lakeville	MN	None	654,912	1,214,266	2,000	None	654,912	1,216,266	1,871,178	99,582		12/01/10
Litchfield	MN	None	388,788	720,536	1,500	None	388,788	722,036	1,110,824	59,156		12/01/10
Little Falls	MN	None	175,000	323,500	1,500	None	175,000	325,000	500,000	26,732		12/01/10
Long Lake	MN	None	808,543	1,499,579	2,000	None	808,543	1,501,579	2,310,122	122,882		12/01/10
Maplewood	MN	None	931,427	1,728,293	1,500	None	931,427	1,729,793	2,661,220	141,456		12/01/10
Maplewood	MN	None	175,000	323,000	2,000	None	175,000	325,000	500,000	26,795		12/01/10
Mendota Heights	MN	None	827,026	1,533,906	2,000	None	827,026	1,535,906	2,362,932	125,686		12/01/10
Mendota Heights	MN	None	717,808	1,331,072	2,000	None	717,808	1,333,072	2,050,880	109,121		12/01/10
Minneapolis	MN	None	967,640	1,795,045	2,000	None	967,640	1,797,045	2,764,685	147,012		12/01/10
Minneapolis	MN	None	856,122	1,587,941	2,000	None	856,122	1,589,941	2,446,063	130,099		12/01/10
Minneapolis	MN	None	979,764	1,817,561	2,000	None	979,764	1,819,561	2,799,325	148,851		12/01/10
Minneapolis	MN	None	979,764	1,817,561	2,000	None	979,764	1,819,561	2,799,325	148,851		12/01/10
Minneapolis	MN	None	938,237	1,740,440	2,000	None	938,237	1,742,440	2,680,677	142,553		12/01/10
Minneapolis	MN	None	365,977	678,171	1,500	None	365,977	679,671	1,045,648	55,696		12/01/10
Minneapolis	MN	None	979,764	1,817,561	2,000	None	979,764	1,819,561	2,799,325	148,851		12/01/10
Minneapolis	MN	None	738,535	1,370,064	1,500	None	738,535	1,371,564	2,110,099	112,201		12/01/10
Minneapolis	MN	None	811,510	1,505,590	1,500	None	811,510	1,507,090	2,318,600	123,269		12/01/10

Minneapolis	MN	None	539,242	999,450	2,000	None	539,242	1,001,450	1,540,692	82,038	12/01/10
Minneapolis	MN	None	577,070	1,069,702							