

Dividends Unleashed!

REALTY  INCOME

The Monthly Dividend Company®

2012 Annual Report





510 Monthly Dividends Since 1970

\$2.4 Billion Paid to Shareholders

70 Total Dividend Increases

141.2% Dividend Growth Since 1994

5.0% Current Dividend Yield
(as of 1/31/13)

But our true mission and passion is providing *you* with the monthly dividends that allow you to unleash your dreams.

As The Monthly Dividend Company®, for the past 44 years we have been dedicated to acquiring commercial real estate that generates lease revenue to support the payment of monthly dividends to our shareholders. Our long-term commitment to acquiring properties that enable us to increase our lease revenue and dividends, over time, coincides with our underlying hope that you achieve the financial freedom to do all that you've dreamed in your lifetime.



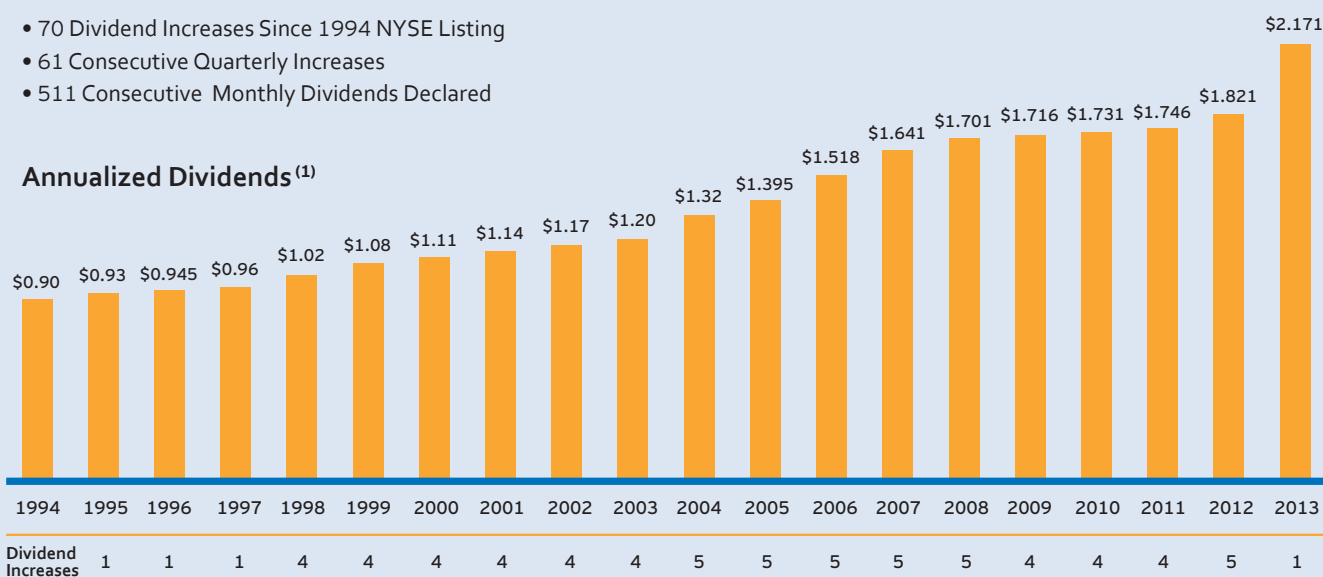




Dividend Increases

- 70 Dividend Increases Since 1994 NYSE Listing
- 61 Consecutive Quarterly Increases
- 511 Consecutive Monthly Dividends Declared

Annualized Dividends ⁽¹⁾



⁽¹⁾ Annualized dividend amount reflects the December declared dividend rate per share multiplied by twelve, with the exception of the 2013 column, which reflects the 1/22/13 declared dividend rate per share multiplied by twelve.

Historical Financial Perform

For the Years Ended December 31,	2012	2011	2010	2009
Total revenue⁽¹⁾	\$ 483,557,000	\$ 421,644,000	\$ 346,437,000	\$ 328,794,000
Net income available to common stockholders	\$ 114,538,000	\$ 132,779,000	\$ 106,531,000	\$ 106,874,000
Funds from operations ("FFO") ⁽²⁾	\$ 268,761,000	\$ 249,392,000	\$ 193,926,000	\$ 190,554,000
Adjusted funds from operations ("AFFO")⁽²⁾	\$ 274,183,000	\$ 253,372,000	\$ 197,256,000	\$ 192,739,000
Dividends paid to common stockholders	\$ 236,348,000	\$ 219,297,000	\$ 182,500,000	\$ 178,008,000
Special dividend paid				
AT YEAR END				
Real estate at cost, before accumulated depreciation ⁽³⁾	\$ 5,920,685,000	\$ 4,971,981,000	\$ 4,112,862,000	\$ 3,439,456,000
Number of properties	3,013	2,634	2,496	2,339
Gross leasable square feet	37,677,500	27,369,000	21,215,800	19,182,000
Properties acquired ⁽⁴⁾	423	164	186	16
Cost of properties acquired ⁽⁴⁾	\$ 1,164,924,000	\$ 1,016,100,000	\$ 713,534,000	\$ 57,937,000
Properties sold	44	26	28	25
Number of industries	44	38	32	30
Number of states	49	49	49	49
Portfolio occupancy rate	97.2%	96.7%	96.6%	96.8%
Remaining weighted average lease term in years	11.0	11.3	11.4	11.2
PER COMMON SHARE DATA⁽⁵⁾				
Net income (diluted)	\$ 0.86	\$ 1.05	\$ 1.01	\$ 1.03
Funds from operations ("FFO") ⁽²⁾	\$ 2.02	\$ 1.98	\$ 1.83	\$ 1.84
Adjusted funds from operations ("AFFO")⁽²⁾	\$ 2.06	\$ 2.01	\$ 1.86	\$ 1.86
Dividends paid	\$ 1.772	\$ 1.737	\$ 1.722	\$ 1.707
Special dividend				
Annualized dividend amount ⁽⁶⁾	\$ 1.821	\$ 1.746	\$ 1.731	\$ 1.716
Common shares outstanding	133,452,411	133,223,338	118,058,988	104,286,705
INVESTMENT RESULTS				
Closing price on December 31,	\$ 40.21	\$ 34.96	\$ 34.20	\$ 25.91
Dividend yield ⁽⁷⁾⁽⁸⁾⁽⁹⁾	5.1%	5.1%	6.6%	7.4%
Total return to stockholders⁽⁹⁾⁽¹⁰⁾	20.1%	7.3%	38.6%	19.3%

⁽¹⁾ Total revenue includes amounts reclassified to income from discontinued operations, but excludes gain on sales and revenue from Crest Net Lease, a subsidiary of Realty Income.

⁽²⁾ Refer to Management's Discussion and Analysis for FFO and AFFO definition and reconciliation to net income available to common stockholders. For 2012, FFO has been adjusted to add back American Realty Capital Trust merger-related costs.

⁽³⁾ Does not include properties held for sale.

⁽⁴⁾ Includes properties acquired by Realty Income and Crest Net Lease.

⁽⁵⁾ All share and per share amounts reflect the 2-for-1 stock split on December 31, 2004.

⁽⁶⁾ Annualized dividend amount reflects the December declared dividend rate per share multiplied by twelve.

	2008	2007	2006	2005	2004
	\$ 331,465,000	\$ 295,561,000	\$ 240,626,000	\$ 197,751,000	\$ 177,606,000
	\$ 107,588,000	\$ 116,156,000	\$ 99,419,000	\$ 89,716,000	\$ 90,168,000
	\$ 185,524,000	\$ 189,947,000	\$ 155,815,000	\$ 129,833,000	\$ 120,554,000
	\$ 192,003,000	\$ 193,079,000	\$ 159,479,000	\$ 130,843,000	\$ 126,424,000
	\$ 169,655,000	\$ 157,659,000	\$ 129,667,000	\$ 108,575,000	\$ 97,420,000
	\$ 3,408,910,000	\$ 3,238,794,000	\$ 2,743,973,000	\$ 2,096,156,000	\$ 1,691,283,000
	2,348	2,270	1,955	1,646	1,533
	19,106,700	18,504,800	16,740,100	13,448,600	11,986,100
	108	357	378	156	194
	\$ 189,627,000	\$ 533,726,000	\$ 769,900,000	\$ 486,553,000	\$ 215,314,000
	29	10	13	23	43
	30	30	29	29	30
	49	49	48	48	48
	97.0%	97.9%	98.7%	98.5%	97.9%
	11.9	13.0	12.9	12.4	12.0
	\$ 1.06	\$ 1.16	\$ 1.11	\$ 1.12	\$ 1.15
	\$ 1.83	\$ 1.89	\$ 1.73	\$ 1.62	\$ 1.53
	\$ 1.90	\$ 1.92	\$ 1.77	\$ 1.63	\$ 1.61
	\$ 1.662	\$ 1.560	\$ 1.437	\$ 1.346	\$ 1.241
	\$ 1.701	\$ 1.641	\$ 1.518	\$ 1.395	\$ 1.32
	104,211,541	101,082,717	100,746,226	83,696,647	79,301,630
	\$ 23.15	\$ 27.02	\$ 27.70	\$ 21.62	\$ 25.29
	6.1%	5.6%	6.7%	5.3%	6.2%
	-8.2%	3.2%	34.8%	-9.2%	32.7%

⁽¹⁾ Dividend yield was calculated by dividing the dividend paid per share, during the year, by the closing share price on December 31 of the previous year.

⁽²⁾ Dividend yield excludes special dividends.

⁽³⁾ The 1994 dividend yield is based on the annualized dividends for the period from August 15, 1994 (the date of the consolidation of the predecessors to the Company) to December 31, 1994. The 1994 total return is based on the price change from the opening on October 18, 1994 (the Company's first day of trading) to December 31, 1994 plus the annualized dividend yield.

	2003	2002	2001	2000	1999
	\$ 150,370,000	\$ 137,600,000	\$ 121,081,000	\$ 116,310,000	\$ 104,510,000
	\$ 76,722,000	\$ 68,954,000	\$ 57,846,000	\$ 45,076,000	\$ 41,012,000
	\$ 104,608,000	\$ 95,068,000	\$ 77,828,000	\$ 67,239,000	\$ 65,917,000
	\$ 106,659,000	\$ 95,844,000	\$ 78,504,000	\$ 67,836,000	\$ 66,330,000
	\$ 83,842,000	\$ 78,042,000	\$ 64,871,000	\$ 58,262,000	\$ 55,925,000
	\$ 1,533,182,000	\$ 1,285,900,000	\$ 1,178,162,000	\$ 1,073,527,000	\$ 1,017,252,000
	1,404	1,197	1,124	1,068	1,076
	11,350,800	9,997,700	9,663,000	9,013,200	8,648,000
	302	111	117	22	110
	\$ 371,642,000	\$ 139,433,000	\$ 156,472,000	\$ 98,559,000	\$ 181,376,000
	35	35	35	21	3
	28	26	25	24	24
	48	48	48	46	45
	98.1%	97.7%	98.2%	97.7%	98.4%
	11.8	10.9	10.4	9.8	10.7
	\$ 1.08	\$ 1.01	\$ 0.99	\$ 0.84	\$ 0.76
	\$ 1.47	\$ 1.40	\$ 1.33	\$ 1.26	\$ 1.23
	\$ 1.50	\$ 1.41	\$ 1.34	\$ 1.27	\$ 1.24
	\$ 1.181	\$ 1.151	\$ 1.121	\$ 1.091	\$ 1.043
	\$ 1.20	\$ 1.17	\$ 1.14	\$ 1.11	\$ 1.08
	75,818,172	69,749,654	65,658,222	53,127,038	53,644,328
	\$ 20.00	\$ 17.50	\$ 14.70	\$ 12.4375	\$ 10.3125
	6.7%	7.8%	9.0%	10.6%	8.4%
	21.0%	26.9%	27.2%	31.2%	-8.7%

⁽¹⁰⁾ Total return was calculated by dividing the net change in the share price, during the year, plus the dividends paid per share, during the year, by the closing share price on December 31 of the preceding year.

	1998	1997	1996	1995	1994
	\$ 85,132,000	\$ 67,897,000	\$ 56,957,000	\$ 51,555,000	\$ 48,863,000
	\$ 41,304,000	\$ 34,770,000	\$ 32,223,000	\$ 25,600,000	\$ 15,224,000
	\$ 62,799,000	\$ 52,353,000	\$ 47,718,000	\$ 40,414,000	\$ 39,185,000
	\$ 62,364,000	\$ 52,077,000	\$ 47,430,000	\$ 39,668,000	\$ 39,185,000
	\$ 52,301,000	\$ 44,367,000	\$ 42,794,000	\$ 36,710,000	\$ 38,816,000
			\$ 5,285,000		\$ 5,850,000
	\$ 889,835,000	\$ 699,797,000	\$ 564,540,000	\$ 515,426,000	\$ 450,703,000
	970	826	740	685	630
	7,824,100	6,302,300	5,226,700	4,673,700	4,064,800
	149	96	62	58	4
	\$ 193,436,000	\$ 142,287,000	\$ 55,517,000	\$ 65,393,000	\$ 3,273,000
	5	10	7	3	5
	22	14	8	7	5
	45	43	42	42	41
	99.5%	99.2%	99.1%	99.3%	99.4%
	10.2	9.8	9.5	9.2	9.5
	\$ 0.78	\$ 0.74	\$ 0.70	\$ 0.63	\$ 0.39
	\$ 1.18	\$ 1.11	\$ 1.04	\$ 1.00	\$ 0.98
	\$ 1.17	\$ 1.10	\$ 1.03	\$ 0.98	\$ 0.98
	\$ 0.983	\$ 0.946	\$ 0.931	\$ 0.913	\$ 0.300
			\$ 0.23		
	\$ 1.02	\$ 0.96	\$ 0.945	\$ 0.93	\$ 0.90
	53,634,206	51,396,928	45,959,074	45,952,474	39,004,182
	\$ 12.4375	\$ 12.719	\$ 11.9375	\$ 11.25	\$ 8.5625
	7.7%	7.9%	8.3%	10.7%	9.9%
	5.5%	14.5%	15.4%	42.0%	28.5%

2012 Contents

- 11 CEO Letter to Shareholders
- 12 Investment Returns
- 12 Our Focus in 2012
- 17 Our Focus in 2013
- 18 What You Own – Real Estate Performance
- 20 What We Do and Who Does It
- 22 Summary 2012 Operating Performance
- 24 What Drives Us

Charts of Interest

- 13 Realty Income Performance vs. Major Stock Indices
- 14 Magic of Rising Dividends Over Time
- 15 Tenant Diversification
- 15 Property Type Diversification
- 18 Portfolio Occupancy

2012 Results

- 3,013 Properties Owned
- 97.2% Occupancy
- 423 Properties Acquired for \$1.16 Billion
- Five Dividend Increases
- 20.1% Return to Shareholders

- 19 Growing Your Portfolio
- 20 Realty Income Investment Process Summary
- 22 Total Revenue
- 22 FFO per Common Share
- 24 Comparison of \$100 Invested in Realty Income in 1994 vs. Major Stock Indices

Sterling Winery in Napa, California



Dear Fellow Shareholders,

The inspiration for this year's "Dividends Unleashed" annual report comes from the many letters and comments we receive from our shareholders throughout the year. **It is always gratifying to hear that our efforts to produce monthly dividends provide you with the means to do extraordinary things** like realize your life-long dream to start your own business, take your family on vacation, or simply find the time to spend with family and friends.

In other words, many of you have shared with us that monthly dividends have helped turn your desires into reality. That is a very good reason for all of us at Realty Income to get up and go to work every day!

For the past 44 years we have followed the mission of our founders who built a company to acquire and own commercial real estate that would provide the monthly lease revenue to support the payment of monthly dividends to shareholders. We remain committed to this mission and are pleased to report that, not only has Realty Income provided 44 years of monthly dividends, we have also continued to grow the size of the company, which has allowed us to provide steadily increasing income for our shareholders. Providing dependable monthly income from real estate that grows over time is our mission, focus and passion.

The business plan that guides our efforts remains the same from year to year. That plan is:

- Pay 12 monthly dividends
- Raise the dividend
- Maintain a conservative balance sheet
- Maintain high portfolio occupancy
- Acquire additional properties
- Tell more people about The Monthly Dividend Company®
- Remain conservative

During 2012, we once again achieved all of our business plan objectives. We had a record year in

acquiring new properties, continued to collect more rent, increased our adjusted funds from operations (or earnings) and raised the dividend every quarter. We also maintained high portfolio occupancy, increased the number of shareholders receiving monthly dividends and remained conservative in our approach to funding acquisitions and in our overall economic outlook. To summarize the results for 2012:

- Shareholders received 12 monthly dividends
- Dividends paid per common share increased 2.0%
- Investors achieved a 20.1% total return
- Revenue grew 15.9% to \$475.5 million
- Adjusted funds from operations increased 8.2% to \$274.2 million
- Maintained a large and diverse portfolio of 3,013 properties located in 49 states, occupied by 150 commercial enterprises in 44 different industries
- Portfolio occupancy remained high at 97.2% at year-end
- Same store rents increased by 0.1%
- Invested over \$1.16 billion in new properties (an all-time investment high)
- Raised approximately \$1.21 billion of attractively priced capital

In addition, since the close of 2012, we completed the acquisition of American Realty Capital Trust in a transaction valued at approximately \$3.1 billion (More about this later on). We also continued to invest in employees and resources to help us continue our growth and widen our property investment focus.

Investment Returns

Total Return and Yield

During 2012, shareholders who owned our common stock for the entire year received \$1.772 per share in dividends, compared to \$1.737 per share in 2011.

During the year, the price of our shares rose 15.0% to \$40.21 from \$34.96. When you add the \$1.772 per common share in dividends paid last year, this works out to a total return to shareholders of 20.1%.

During 2012, the price of our shares reached an all-time trading high during the third quarter.

While our main focus is on providing dependable monthly dividends to our shareholders, we know that investors often compare Realty Income's total return to other investments. The calculation of total return considers a company's share price over a specific period of time, which can be dependent on the market environment and influences outside of the company's control. Thus, total return, while a useful measurement, doesn't necessarily mirror a company's actual operating results in a given year. During 2012, the price of our shares traded between the \$34.96 closing price on 12/31/11, to an all-time trading high of \$44.17, during the third quarter of 2012. We, however, remained focused on operating the company so that we continue to meet our objective of increasing lease revenue so that we can continue to increase the amount of the monthly dividend paid to our shareholders.

To compare our total return to that of other performance measurements, please see the chart on the next page, which shows not only this year's performance, but also a historical comparison of our performance since 1995. The dividend yield on our shares at December 31, 2012 was 4.5% based on the annualized dividend amount of \$1.821 and a closing share price of \$40.21. This compared favorably to other investments, as measured by various indices.

Dividend Increases

We were also able to increase the amount of the dividend 5 times during 2012, from an annualized amount, at the end of 2011, of \$1.746, to an annualized amount of \$1.821, at the end of 2012.

In January 2013, record 2012 property acquisitions, combined with the closing of our acquisition of ARCT on January 22, 2013, made it possible for us to increase the annualized dividend amount by \$0.35 per share, to \$2.171, as of February 15, 2013.

An important benefit to shareholders, who've held our shares for many years and enjoyed regular dividend increases, is shown in "The Magic of Rising Dividends Over Time" table on page 14. This table shows that because of regular dividend increases, your current yield on cost has increased over time. It also shows that many long-term shareholders may have received enough in cash dividends from Realty Income that the equivalent of their original investment dollars has been paid back to them.

For those investors who don't need the cash dividend right now, and prefer to put their dividends to work for them, we offer a Direct Stock Purchase and Dividend Reinvestment Plan, administered by our transfer agent, Wells Fargo Shareowner Services. Information about the Plan can be found on our corporate website at www.realtyincome.com.

Our Focus in 2012

Let's move now to a discussion of what we focused on in 2012. You will recall that in the 2011 annual report I discussed an enhancement of our real estate investment strategy that involved expanding our investment focus, or widening the net. Three key objectives of this strategy were identified:

1. Increase tenant credit quality and expand property types
2. Prune the existing real estate portfolio
3. Effectively implement the "widening the net" strategy

Realty Income Performance vs. Major Stock Indices

	Realty Income		Equity REIT Index ⁽¹⁾		Dow Jones Industrial Average		S&P 500		NASDAQ Composite	
	Dividend Yield	Total Return ⁽²⁾	Dividend Yield	Total Return ⁽³⁾	Dividend Yield	Total Return ⁽³⁾	Dividend Yield	Total Return ⁽³⁾	Dividend Yield	Total Return ⁽⁴⁾
1995	8.3%	42.0%	7.4%	15.3%	2.4%	36.9%	2.3%	37.6%	0.6%	39.9%
1996	7.9%	15.4%	6.1%	35.3%	2.2%	28.9%	2.0%	23.0%	0.2%	22.7%
1997	7.5%	14.5%	5.5%	20.3%	1.8%	24.9%	1.6%	33.4%	0.5%	21.6%
1998	8.2%	5.5%	7.5%	(17.5%)	1.7%	18.1%	1.3%	28.6%	0.3%	39.6%
1999	10.5%	(8.7%)	8.7%	(4.6%)	1.3%	27.2%	1.1%	21.0%	0.2%	85.6%
2000	8.9%	31.2%	7.5%	26.4%	1.5%	(4.7%)	1.2%	(9.1%)	0.3%	(39.3%)
2001	7.8%	27.2%	7.1%	13.9%	1.9%	(5.5%)	1.4%	(11.9%)	0.3%	(21.1%)
2002	6.7%	26.9%	7.1%	3.8%	2.6%	(15.0%)	1.9%	(22.1%)	0.5%	(31.5%)
2003	6.0%	21.0%	5.5%	37.1%	2.3%	28.3%	1.8%	28.7%	0.6%	50.0%
2004	5.2%	32.7%	4.7%	31.6%	2.2%	5.6%	1.8%	10.9%	0.6%	8.6%
2005	6.5%	(9.2%)	4.6%	12.2%	2.6%	1.7%	1.9%	4.9%	0.9%	1.4%
2006	5.5%	34.8%	3.7%	35.1%	2.5%	19.0%	1.9%	15.8%	0.8%	9.5%
2007	6.1%	3.2%	4.9%	(15.7%)	2.7%	8.8%	2.1%	5.5%	0.8%	9.8%
2008	7.3%	(8.2%)	7.6%	(37.7%)	3.6%	(31.8%)	3.2%	(37.0%)	1.3%	(40.5%)
2009	6.6%	19.3%	3.7%	28.0%	2.6%	22.6%	2.0%	26.5%	1.0%	43.9%
2010	5.1%	38.6%	3.5%	27.9%	2.6%	14.0%	1.9%	15.1%	1.2%	16.9%
2011	5.0%	7.3%	3.8%	8.3%	2.8%	8.3%	2.3%	2.1%	1.3%	(1.8%)
2012	4.5%	20.1%	3.5%	19.7%	3.0%	10.2%	2.5%	16.0%	2.6%	15.9%
Compounded Average Annual Total Return⁽⁵⁾	17.4%		11.0%		9.3%		8.3%		7.8%	

Note: All of these dividend yields are calculated as annualized dividend based on the last dividend paid in applicable time period divided by the closing price as of period end. Dividend yield sources: NAREIT website and Bloomberg.

- (1) FTSE NAREIT US Equity REIT Index, as per NAREIT website.
- (2) Calculated as the difference between the closing stock price as of period end less the closing stock price as of previous period, plus dividends paid in period, divided by closing stock price as of end of previous period. Does not include reinvestment of dividends.
- (3) Includes reinvestment of dividends. Sources: NAREIT website and Factset.
- (4) Price only index, does not include dividends. Source: Factset.
- (5) All of these Compounded Average Annual Total Return rates are calculated in the same manner: from Realty Income's NYSE listing on October 18, 1994 through December 31, 2012, and assuming reinvestment of dividends, except for NASDAQ. Past performance does not guarantee future performance. Realty Income presents this data for informational purposes only and makes no representation about its future performance or how it will compare in performance to other indices in the future.





The Magic of Rising Dividends Over Time

1,000 Shares Purchased on	Original Investment	Yield on Cost			The Cumulative Dividend Effect			Value as of 1/22/2013
		Original Annual Dividend Income	Original Yield	Current Annual Dividend Income ⁽¹⁾	Current Yield on Cost at 1/22/2013	Dividends Received Through 1/22/2013	Percent of Original Investment Paid Back	
10/18/94	\$8,000	\$900	11.3%	\$2,171	27.1%	\$24,140	302%	\$44,040
12/31/94	\$8,563	\$900	10.5%	\$2,171	25.4%	\$23,840	278%	\$44,040
12/31/95	\$11,250	\$930	8.3%	\$2,171	19.3%	\$22,927	204%	\$44,040
12/31/96	\$11,938	\$945	7.9%	\$2,171	18.2%	\$21,881	183%	\$44,040
12/31/97	\$12,719	\$960	7.5%	\$2,171	17.1%	\$20,935	165%	\$44,040
12/31/98	\$12,438	\$1,020	8.2%	\$2,171	17.5%	\$19,952	160%	\$44,040
12/31/99	\$10,313	\$1,080	10.5%	\$2,171	21.1%	\$18,910	183%	\$44,040
12/31/00	\$12,438	\$1,110	8.9%	\$2,171	17.5%	\$17,818	143%	\$44,040
12/31/01	\$14,700	\$1,140	7.8%	\$2,171	14.8%	\$16,697	114%	\$44,040
12/31/02	\$17,500	\$1,170	6.7%	\$2,171	12.4%	\$15,546	89%	\$44,040
12/31/03	\$20,000	\$1,200	6.0%	\$2,171	10.9%	\$14,365	72%	\$44,040
12/31/04	\$25,290	\$1,320	5.2%	\$2,171	8.6%	\$13,123	52%	\$44,040
12/31/05	\$21,620	\$1,395	6.5%	\$2,171	10.0%	\$11,777	54%	\$44,040
12/31/06	\$27,700	\$1,518	5.5%	\$2,171	7.8%	\$10,340	37%	\$44,040
12/31/07	\$27,020	\$1,641	6.1%	\$2,171	8.0%	\$8,780	32%	\$44,040
12/31/08	\$23,150	\$1,701	7.3%	\$2,171	9.4%	\$7,117	31%	\$44,040
12/31/09	\$25,910	\$1,716	6.6%	\$2,171	8.4%	\$5,411	21%	\$44,040
12/31/10	\$34,200	\$1,731	5.1%	\$2,171	6.3%	\$3,689	11%	\$44,040
12/31/11	\$34,960	\$1,746	5.0%	\$2,171	6.2%	\$1,953	6%	\$44,040
12/31/12	\$40,210	\$1,821	4.5%	\$2,171	5.4%	\$181	0%	\$44,040
1/22/13	\$44,040	\$2,171	4.9%	\$2,171	4.9%			

⁽¹⁾ Current annual dividend income based on annualized dividend per share of \$2.171.

Background

We believe an expanded investment focus is important because of both changes in the retail environment, and increased competition for net-leased retail properties. As noted in 2011, financially stressed middle and lower income retail consumers seem to be shifting away from discretionary spending, and more towards necessity-based spending. In addition, throughout 2012 the continued growth in retail transactions over the internet posed increasing challenges to store-based providers of discretionary goods and services. We also observed that competition from institutional buyers of real estate

continued to increase, driving up prices in the net-lease sector and impacting potential returns available to us in our traditional net-lease retail real estate transactions. Additionally, interest rate changes were noted as an important factor for us to monitor since debt financing is widely used by retailers. Any increase in interest rates could have a negative impact on some retailers' cash flows and affect their ability to meet lease obligations. Another important component of our widening the net strategy has been to review and rate all of our existing tenants to determine their long-term viability as a source of dependable lease revenue when interest rates begin to increase.

Because of these factors, last year we also commented that there were several types of retail properties “that we wanted to move away from and that our selection of retail industries and tenants would be even more important in the coming years than it has been in the past.” There are also several industries, outside of retail, that have provided us with excellent real estate acquisition opportunities during 2012. The large corporate tenants who lease the properties are in industries that are reliant on real estate to operate their business. What follows are highlights of our progress during 2012 in achieving our widening the net objectives.

1. Increase Tenant Credit Quality and Expand Property Types

During 2012, we came to believe that one way to rapidly make progress in achieving this objective was by acquiring American Realty Capital Trust (ARCT). Our interest in ARCT stemmed from the fact that the new public company (which began trading on NASDAQ in 2012), owned a real estate portfolio of 515, high-quality properties, many net leased to tenants in industries similar to those we already had in Realty Income’s portfolio, and many leased to tenants in other areas in which we were seeking to invest. Most importantly, approximately 75% of the rental revenue generated by their properties was from investment-grade rated tenants, which helped fulfill our objective to increase the credit quality of our tenants.

After months of discussion, extensive research and due diligence, the management teams and board of directors, from both companies, agreed that it was in the best interests of each of their shareholders for Realty Income to acquire ARCT. We are very pleased that shareholders agreed with our recommendation and voted to approve this acquisition. Integrating ARCT properties into Realty Income’s property portfolio has thus far resulted in minimal integration challenges, since the property types and tenants are similar to what we already had in the portfolio. In addition, we added no additional staff or board members from ARCT. Former ARCT shareholders now comprise approximately 25% of our shareholder base, and we warmly welcome these new shareholders to our Company.

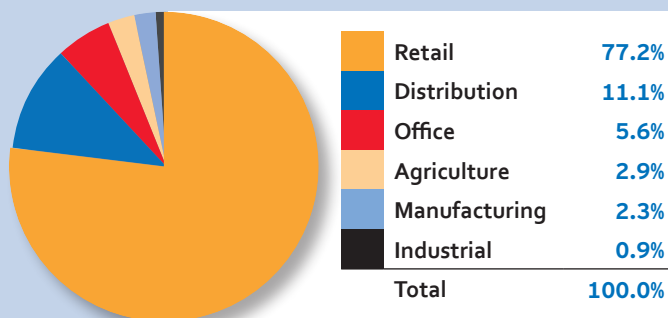
Tenant Diversification

LARGEST TENANTS BASED ON PERCENTAGE OF TOTAL PORTFOLIO ANNUALIZED RENTAL REVENUE AFTER THE ACQUISITION OF AMERICAN REALTY CAPITAL TRUST (ARCT)

Fed-Ex	5.5%
L.A. Fitness	3.9%
Family Dollar	3.5%
AMC Theatres	3.5%
Diageo	3.3%
BJ’s Wholesale Club	3.3%
Walgreens	2.9%
Northern Tier Energy/Super America	2.9%
Regal Cinemas	2.4%
Dollar General	2.0%
The Pantry	2.0%
Rite Aid	1.9%
NPC International/Pizza Hut	1.8%
Friendly’s Ice Cream	1.6%
CVS	1.6%

Property Type Diversification

BASED ON ANNUALIZED RENTAL REVENUE AFTER THE ARCT ACQUISITION



Theater Property in Lake in the Hills, Illinois



The benefits of this acquisition are numerous. **First**, it accelerated our efforts to increase the number of investment grade tenants in our real estate portfolio, positioning us well ahead of where we otherwise might be, as we enter 2013. **Second**, the completion of this acquisition has made Realty Income the largest public net-lease real estate company by a factor of 2 times. The combined portfolio features 3,528 properties located in 49 states, leased to 202 tenants, doing business in 48 industries. This increased size and scale should contribute to future cost of capital and operating advantages. **Third**, we also anticipate that the addition of ARCT properties will have a positive impact on our financial performance this year, significantly increasing our funds from operations (FFO) and earnings growth during 2013. **Fourth**, upon completion of the acquisition, we immediately raised the annualized dividend amount \$0.35, or 19.2%, to \$2.171 from \$1.821. **Fifth**, the addition of the ARCT properties to our portfolio increased our occupancy to 97.6% from 97.2%, which contributes to the ongoing stability of the lease revenue supporting dividends. **Sixth**, the acquisition improves real estate portfolio performance and diversification metrics, as well as decreasing near-term lease rollovers. The concentration of lease revenue from our top 15 tenants went down to just 42% of revenue from 47% (see *Tenant Diversification table on page 15*). The percentage of retail property type lease revenue decreased to 77% from 85% of total revenue. The average remaining lease term increased to 11.2 years from 11.0 years. The percentage of our revenue generated by investment-grade rated tenants increased to 34% from 19.0%. The improved performance and diversification of our

real estate portfolio, post-ARCT acquisition, should greatly contribute to the overall quality of the lease revenue supporting the payment of monthly dividends.

Separately, and in addition to the ARCT acquisition, we were also very successful in adding new properties to our core portfolio during 2012, which further contributed to our objective of diversifying our real estate portfolio and increasing the credit quality of our tenants. In 2012, we invested \$1.16 billion in real estate assets. About \$739 million, or 64%, of our real estate investments in 2012 were with investment-grade rated, higher credit tenants, further contributing to the successful execution of our “widening the net” strategy. (See *Growing Your Portfolio on page 19 for specifics*)

Our focus in 2012 was on “widening the net” by increasing tenant credit quality, expanding property types and continuing to prune our existing real estate portfolio.

2. Prune Realty Income’s Existing Real Estate Portfolio

Another one of our objectives is to prune our real estate portfolio of properties that no longer fit our

Convenience Store Property in Yorktown, Virginia



strategic plan, or properties leased to tenants in industries that we think may have a more difficult operating environment going forward. We achieve this objective by strategically selling properties leased to tenants in industries that we believe might become “at risk,” based on their retail focus and/or their debt levels. This pruning effort will be ongoing and the level of property sales that we engage in are closely tied to our property acquisition levels, in order to keep lease revenue stable and growing. You will recall that, in 2011, we performed an in-depth analysis of all of our tenants and made decisions regarding the industries in which we wanted to reduce our lease revenue exposure. Subsequent to this in-depth review, we continue to proactively review and analyze the financial health of all of our tenants to ensure that we engage in selling properties that meet specific asset sale guidelines. We see these sales accelerating in 2013.

During 2012, we began implementing our plan to prune the portfolio through property sales, and selectively sold 44 properties for \$50.6 million, about 110% more than in 2011. These sales assisted in improving the overall credit quality of our real estate portfolio, and in further insulating our cash flow from the financial hardship that could arise if and when interest rates begin to rise in the coming years.

3. Effectively implement the widening the net strategy

Implementing our widening the net strategy has resulted in property portfolio growth of over \$2.8 billion in the past three years (not including our \$3.1 billion ARCT acquisition in January 2013). Additionally, the planned outcome of widening the net has been the acquisition of additional property and lease types, which require specific oversight expertise. We have carefully monitored and administered our personnel and resource requirements, to ensure that the inclusion of these new asset and lease types in our real estate portfolio will contribute to reliable portfolio performance. As a result, at the beginning of 2013, we have 18 additional employees, as compared to February 2011, and we have added staff in our portfolio management, legal, and accounting departments, all with expertise in the areas required by our acquisition of additional property types under varying net-lease agreements.

We continue to proactively review and analyze the financial health of all our tenants to ensure that we engage in selling properties that meet specific sale guidelines.

We are fortunate to run a business that is highly efficient in terms of the number of employees required for successful operations. Even though we own over 3,500 properties, we are able to effectively manage our sizable real estate portfolio, with fewer employees than most real estate companies, since the majority of our properties are owned under long-term “net leases” to large corporate users. This means that the tenant is responsible for items such as taxes, property maintenance, and/or insurance. As such, there are far less property management activities required on our part, compared to other types of commercial properties.

Our Focus in 2013

Our widening the net strategy has allowed us to grow the company in areas that we believe have strengthened the revenue produced by our core real estate portfolio. Therefore, during 2013 we plan to continue to pursue opportunities to invest in new areas that may arise. To enhance our efforts, we will invest a portion of our time in conducting additional research to identify other areas and types of investments that would be appropriate for us to pursue. We will also accelerate the activities in our strategic property sales program to continue to improve the credit quality of our portfolio.

Our total capitalization has grown from \$4.4 billion to \$12.6 billion over the last three years, which is a function of our accelerated acquisition levels. Fortunately, we prepared for this level of growth, several years ago, by expanding our systems, staffing and operations. To achieve sustainable growth in the future we will, once again, need to focus on these areas and adjust our

staffing levels and the way we operate. So, a large part of our executive efforts in 2013, will be on reviewing existing operations and staffing, department by department, to ensure that we are optimally structured for continued growth over the next few years.

What You Own – Real Estate Performance

We thought it might also be helpful this year to review the basics regarding what our shareholders actually own, when they invest in Realty Income. What follows is a brief discussion of our property portfolio and real estate guidelines.

Your Real Estate Portfolio

As a Realty Income shareholder, you own a portion of a company that owns over 3,500 commercial properties, leased to 202 tenants, doing business in 48 industries (post-ARCT transaction). The properties are located throughout 49 states in the US and Puerto Rico. Typically the buildings are freestanding (not attached to any other structure) and are situated in prime locations. The leases with our tenants are usually “net leases,” which means the tenant is responsible for taxes, maintenance and insurance,

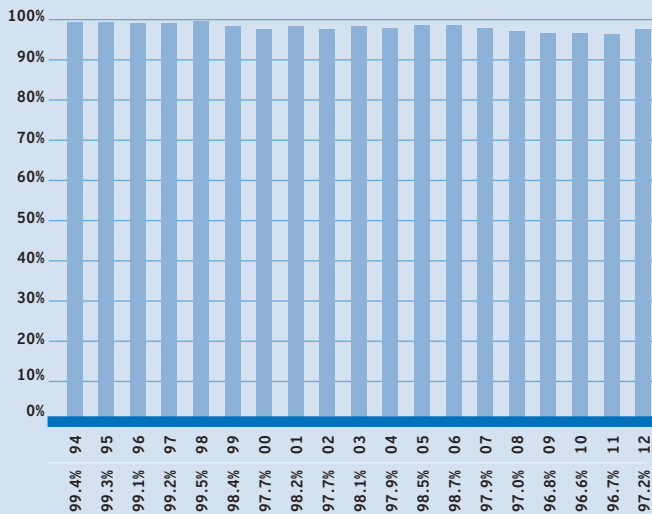
freeing up more of the cash flow from lease revenue to pay monthly dividends.

Most of our leases are for 10 to 20 years and the quality of lease revenue generated by our tenants has proven to be stable and reliable throughout our operating history. Our goal for now and into the foreseeable future, however, is to steadily improve the credit quality of our tenants. Subsequent to the closing of the ARCT transaction, 34% of our tenants have investment grade ratings. This is up from 19% at the end of 2012. This ongoing effort, to increase tenant credit quality, will augment the reliability of the lease revenue supporting the payment of dividends.

Our tenants tend to operate in businesses where the real estate is operationally essential. This means that without the building or property they lease from us they could not run their business. Our retail tenants tend to provide goods and services that consumers use every day, and which cannot be easily replicated over the internet. A list of our top 15 tenants is shown in the chart on page 15 and includes brand names like FedEx, L.A. Fitness, Family Dollar, AMC Theatres, Diageo, and Walgreens, to mention just a few.

Portfolio Occupancy

AT THE END OF EACH YEAR



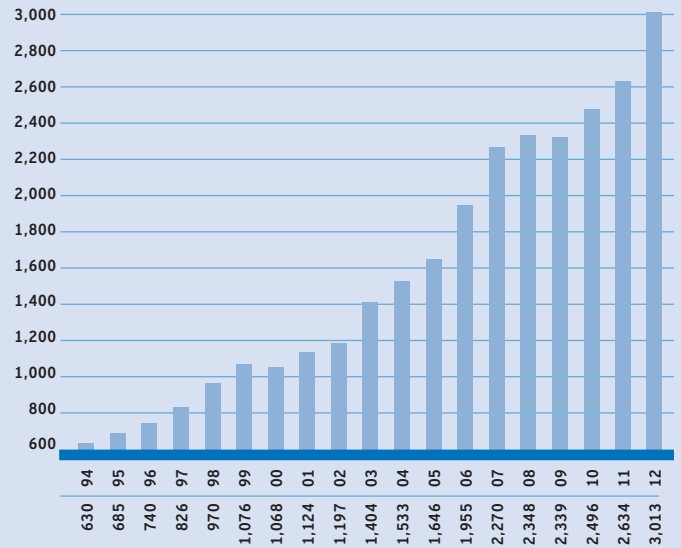
Theater Location in Portland, Oregon





Growing Your Portfolio

NUMBER OF PROPERTIES AT THE END OF EACH YEAR



It's also important to note that we have stringent guidelines for approving potential tenants and acquisitions. Typically we look for:

- Tenants that are large retail or other large commercial enterprises
- Tenants with reliable and sustainable cash flow
- Tenants with revenue and cash flow from multiple sources
- Large owners and/or users of real estate
- Real estate that is critical to the tenant's ability to generate revenue
- Real estate and tenants that are willing to sign a long-term lease (10 or more years)
- Property transactions where we can achieve an attractive spread over our cost of capital

How your Portfolio Performed

The guidelines outlined above have helped us achieve consistent portfolio performance for over 44 years. As of December 31, 2012, we enjoyed 97.2% occupancy and had just 84 properties available for lease out of 3,013 properties in our real estate portfolio. Maintaining high and stable occupancy from year to year is a key factor in generating dependable lease

revenue to support monthly dividend payments. Since our founding in 1969, our occupancy, at the end of each year, has never fallen below 96%.

While we generally sign 10 to 20-year lease agreements, eventually, they do come to an end. Fortunately, most of the properties we own are mission critical facilities for the businesses of our tenants. Typically, about 66% of our tenants re-lease the property at the end of the lease term. During 2012, our portfolio management group continued their diligent work of proactively anticipating lease expirations, and did a tremendous job of handling 161 lease expirations throughout the year. As a mature real estate company, lease expirations are a routine part of our business, thus proactively planning around lease expirations is an essential part of our day-to-day operations, and we will continue to be mindful in this area.

Same store rents, on 2,220 properties under lease for 2012, increased 0.1% as compared to 2011. To break down same store rent increases for the year, we had 25 industries with rent increases, 4 with flat rents, and 2 with declining rents. The same store rent information is useful because it provides us with information about how much rental increases contribute to revenue growth.

In summary, your real estate portfolio is performing well and doing its job of generating reliable lease revenue to support the payment of monthly dividends.

Growing your Portfolio

As mentioned earlier, we enjoyed another excellent year in growing the size of your real estate portfolio, which contributes to our ability to increase your dividends. In 2012, we invested \$1.16 billion in real estate assets. About \$739 million, or 64%, of our real estate investments, were with investment-grade rated, higher credit tenants, further contributing to the successful execution of our “widening the net” strategy. During the year, we acquired 423 properties, and properties under development, located in 37 states, at an initial weighted average lease yield of 7.2%. Approximately 85% of our real estate investments were in our traditional retail property type, while the remaining investments were in other types of properties including distribution centers (5%), agriculture (4%), manufacturing facilities (3%), office buildings (2%), and industrial (1%). (As of December 31, 2012)

Bottom line, our acquisitions team did a great job in continuing to grow the real estate portfolio so that we could continue to increase the amount of the dividend in 2012 and 2013.

What We Do and Who Does It

Since the primary mission of our company is to generate dependable monthly dividends, it is useful, from time to time, to review how we go about achieving this mission. Our business is relatively simple and straightforward, and the process to generate monthly dividends is summarized in the following diagram that illustrates our process:

- **Discover** or uncover real estate acquisition opportunities
- **Analyze** and examine opportunities to determine whether or not to invest
- Access capital to **buy** properties
- **Own** and hold the properties, and monitor their performance
- **Maintain** high occupancy

Realty Income Investment Process Summary



The following sections provide a quick discussion of what’s involved in each of these processes, along with an introduction to the people, teams and departments who do the work.

Discover

We source acquisition opportunities through the efforts of our acquisitions team that maintains relationships with individual retail chains, other commercial business operators, real estate developers, brokers, private equity firms and investment banks. Sourcing quality properties and coming to acceptable terms to acquire them, is the first step in being able to generate dependable lease revenue from our tenants. During 2012, we worked on approximately \$17 billion in potential acquisitions, and performed due diligence on approximately \$12.7 billion of opportunities, resulting in the \$1.16 billion that we ultimately acquired during the year.

The portfolio acquisitions department is headed by John Case, our Co-President and Chief Investment Officer. John has assembled a talented team, including

acquisition officers and real estate analysts, who find and make recommendations regarding viable real estate acquisition opportunities for us to consider.

Analyze

Once an opportunity has been deemed viable, our due diligence, or underwriting process begins. At this point we are trying to determine: 1) if the tenant is a reliable source of lease revenue for 10 to 20 or more years, 2) whether the property is in a good location that could support and promote the tenant's business, 3) whether it is an appropriate acquisition relative to our portfolio diversification efforts, 4) if the property has acceptable real estate attributes, and 5) whether we can buy the property at the right price with a long-term lease at attractive returns. As mentioned above, there are many real estate transactions we identify that don't make it past the initial screening, but the transactions that are selected are put through a rigorous review process by our research team, which culminates in a thorough evaluation by the five senior level executives comprising our investment committee.

Our due diligence and analysis efforts are headed by Robert Israel, our Senior Vice President of Research. Rob's team of 5 people, includes a second senior research analyst, as well as research assistants, who help with the due diligence process, perform on-site real estate analysis, and generate the research reports reviewed by our investment committee.

Access Capital to Buy Properties

Once our investment committee approves a transaction for acquisition, we move quickly to close the transaction, usually for cash. Having a significant amount of capital at the ready gives the seller the confidence that we will always complete the transaction, as promised, and helps set us apart from other "contingent" buyers. To immediately fund acquisitions, we maintain a \$1.0 billion acquisition credit facility provided by our commercial banks. When the credit line balance reaches a certain level, we typically look to pay off the credit facility and fund our acquisitions by accessing the capital markets. Paying off the credit facility serves to somewhat insulate the company from changes in interest rates, since the interest rate, on our credit line, is a variable interest rate.

Assembling the most efficient capital structure at any given point in time can be challenging as there are many factors to consider when accessing the capital markets. Since the objective for Realty Income is to maintain the integrity of the cash flow used to pay dividends, a relatively conservative capital structure is what we strive for. This means that our bias is towards issuing common stock to fund acquisitions and carefully blend in other forms of capital to seek a balance between the lowest cost of capital and a conservative capital structure.

Since the objective for Realty Income is to maintain the integrity of the cash flow used to pay dividends, a relatively conservative capital structure is what we strive for.

Our capital raising activities are lead by Paul Meurer, our Executive Vice President, Chief Financial Officer and Treasurer. Paul is assisted in his efforts by the 8 members of the capital markets department, as well as members of the finance and legal department, who provide valuable support with public securities offerings.

Own and hold properties

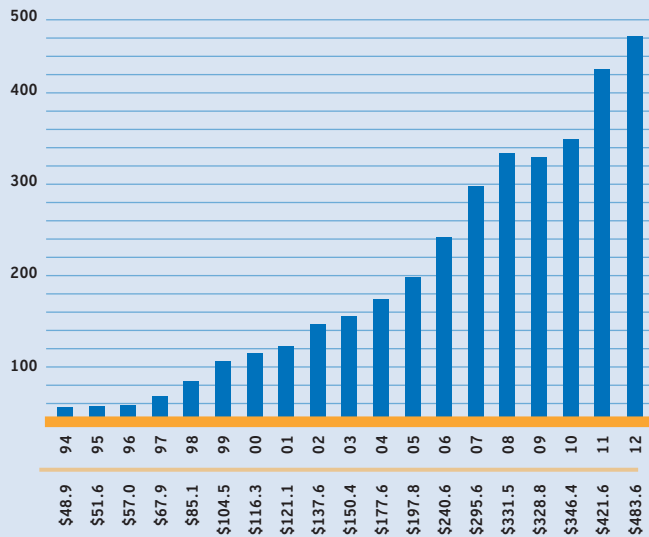
Our legal team drafts, reviews and negotiates all the necessary documents to complete our real estate acquisitions. After the properties are acquired, our lease administration team takes over to monitor the collection of rent, and the payment of taxes and insurance.

The legal team, invaluable to the acquisition process, is headed up by Michael Pfeiffer, our Executive Vice President, General Counsel and Corporate Secretary. He manages a staff of 20 that includes attorneys, paralegals and support staff who handle all legal matters related to owning real estate.

The lease administration team is headed up by Kristin Ferrell, our Associate Vice President of Portfolio Management. Her team includes 9 lease administrators who stay on top of rent collection, and the payment of property taxes and insurance by our tenants.

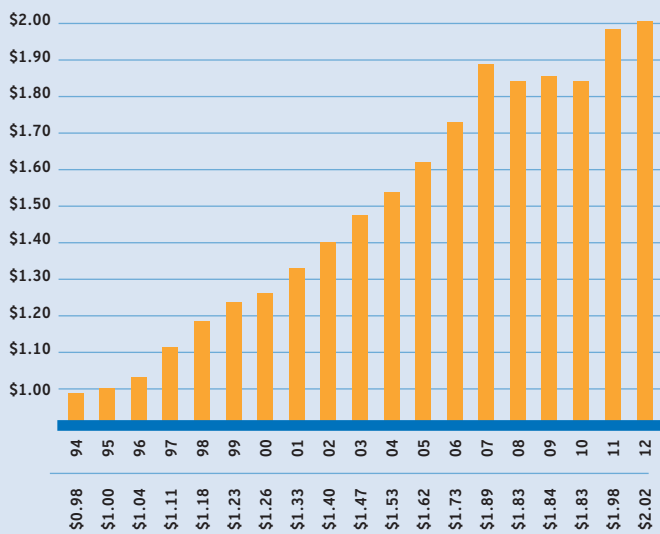
Total Revenue

FOR THE YEARS (DOLLARS IN MILLIONS)



FFO per Common Share

FOR THE YEARS (2012 EXCLUDES ARCT MERGER-RELATED COSTS)



Quick Serve Restaurant Property
in Kansas City, Missouri



Maintain High Occupancy

Our Portfolio Management team is tasked with maintaining occupancy, collecting rent, proactively handling lease rollovers, and re-tenanting or selling underperforming properties in our real estate portfolio. Generally, their activities involve entering into discussions with a tenant, well in advance of a lease expiration date, to determine our options regarding the property. They also regularly monitor property performance to determine if and when to sell a property to either reinvest sales proceeds in higher returning properties, or enhance the credit quality of our portfolio. Maintaining high occupancy is critical to generating the reliable lease revenue that supports the payment of monthly dividends to our shareholders.

The efforts of the entire portfolio management department, consisting of 31 people, are headed up by Richard Collins, our Executive Vice President, Portfolio Management. He oversees the activities of Vice Presidents, Elizabeth Cate and Dawn Nguyen, who jointly have a staff of 8 directors and analysts who assist with maintaining the high property portfolio occupancy through the efficient handling of lease rollovers and property sales.

Richard also oversees the lease administration team (*mentioned on page 21*) and the property management team.

The property management team is headed up by Patrick Rea, our Associate Vice President of Property Management. He has a team of 11 property management professionals who do a great job of making sure that our properties are well taken care of.

All of our employees are dedicated to delivering on our objective to provide dependable monthly dividends that increase over time to our shareholders. Other officers of the company are shown on the back page of this annual report.

Summary 2012 Operating Performance

Stable Financial Performance and Conservative Balance Sheet

Revenue, normalized funds from operations (FFO), adjusted funds from operations (AFFO), and net income for the year ended were as follows:

- Revenue increased to \$475.5 million, as compared to \$410.3 million
- Normalized FFO available to common shareholders increased to \$268.8 million, as compared to \$249.4 million
- Normalized FFO per diluted common share grew to \$2.02 as compared to \$1.98
- AFFO available to common shareholders increased to \$274.2 million, as compared to \$253.4 million
- AFFO per diluted common share increased to \$2.06, as compared to \$2.01
- Net income available to common shareholders was \$114.5 million as compared to \$132.8 million

Normalized funds from operations per share for 2012 was higher, in comparison to 2011, due to the record number of new property acquisitions made during the year. Normalized FFO is based on FFO adjusted to add back ARCT merger-related costs. We anticipate that the high level of acquisition activity, combined with the completion of the ARCT acquisition, should contribute to considerably higher 2013 earnings.

Access to Capital During 2012

During 2012, we raised \$1.21 billion in new capital by issuing approximately \$409 million in preferred shares and \$800 million in senior unsecured long-term notes. We also funded the acquisition of ARCT by issuing

approximately 46 million shares of common stock and assuming approximately \$516 million of mortgage debt. Congruent with closing the ARCT transaction, we repaid approximately \$553 million of outstanding debt and transaction expenses.

We typically fund real estate acquisitions by accessing our \$1.0 billion credit facility, which allows us to quickly close a transaction without financing contingencies. Our credit facility is provided by: Wells Fargo Bank, N.A., Bank of America, N.A., Regions Bank, The Bank of New York Mellon, U.S. Bank N.A., J.P. Morgan Chase Bank, N.A., Royal Bank of Canada, Union Bank, N.A., Branch Banking and Trust Company, BBVA Compass Bank, PNC Bank, N.A., Sumitomo Mitsui Banking Corporation, Capital One, N.A., Raymond James, FSB, and Comerica Bank.

Access to capital has always been important to Realty Income and as we begin 2013, we are in good shape.

When the credit facility reaches a certain level, we generally look to access more permanent acquisition funding by issuing additional common and preferred

Financial Services
Property in
Westchester,
Ohio



stock, or issuing investment grade rated long-term bonds. As we begin 2013, we are in good shape relative to access to capital. Our capital structure as of January 22, 2013 consists of \$7.9 billion of common stock, \$629 million of preferred stock, and \$4.1 billion in long-term notes, bonds, and mortgages. Our debt to total capitalization is a healthy 32.4%.

What Drives Us

As always, we do what we do so that we can all continue to enjoy monthly dividends. This is not just a mission, but a passion for all of us who work at Realty Income. As we began 2013, we had paid \$2.4 billion in total monthly dividends to our shareholders and raised the dividend 70 times since our listing on the New York Stock Exchange in 1994. We are keenly aware that for many people, dividend income is what they live on and so dividends are a necessity, not a luxury. We remain dedicated to operating our business so that you can continue to rely on monthly dividends from Realty Income.

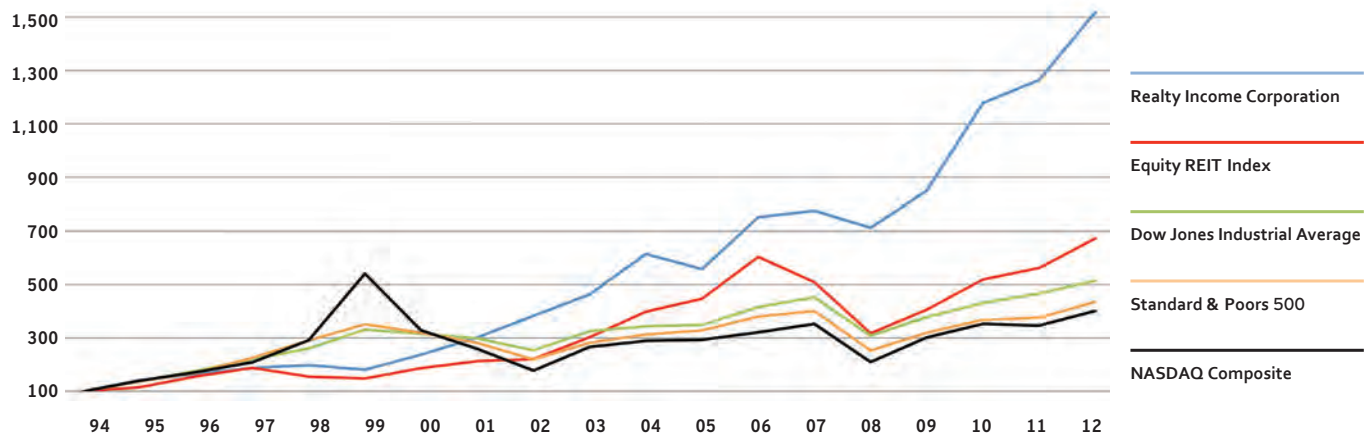
We are grateful for the support of thousands of loyal shareholders who have been with us since 1969, as well as those who have joined us over the years, including our new, former ARCT shareholders. All of us have enjoyed many years of monthly dividends and our goal is to continue to operate the company so that we are able to receive monthly dividends well into the future. As always, there are no guarantees we will be as successful in our efforts during 2013 as we have been in the past, and for that reason, we recommend that all investors remain diversified and rely on us for only a small portion of their dividend income. For our part we will continue to work hard to provide you with monthly dividends that increase over time. We look forward to reporting on additional progress in our operation of The Monthly Dividend Company® in 2013.



Sincerely,

Tom A. Lewis
Chief Executive Officer
Vice Chairman of the Board of Directors

Comparison of \$100 Invested in Realty Income in 1994 vs. Major Stock Indices



Financial Information

Consolidated Balance Sheets	26
Consolidated Statements of Income	27
Consolidated Statements of Stockholders' Equity	28
Consolidated Statements of Cash Flows	29
Notes to Consolidated Financial Statements	31
Consolidated Quarterly Financial Data	56
Reports of Independent Registered Public Accounting Firm	57
Business Description	59
Property Portfolio Information	73
Forward-Looking Statements	80
Management's Discussion and Analysis of Financial Condition and Results of Operations	81
General	81
Liquidity and Capital Resources	81
Results of Operations	89
Funds from Operations Available to Common Stockholders (FFO) and Normalized Funds from Operations Available to Common Stockholders (Normalized FFO)	96
Adjusted Funds from Operations Available to Common Stockholders (AFFO)	97
Impact of Inflation	98
Impact of Recent Accounting Pronouncements	98
Quantitative and Qualitative Disclosures About Market Risk	98
Selected Financial Data	100
Controls and Procedures	101
Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities, including Total Return Performance	103

Consolidated Balance Sheets

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

December 31,	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.

Consolidated Statements of Income

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

Years Ended December 31,	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.

Consolidated Statements of Stockholders' Equity

(DOLLARS IN THOUSANDS)

Years Ended December 31,	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.

Consolidated Statements of Cash Flows

(DOLLARS IN THOUSANDS)

Years Ended December 31,	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)

Chart continued on page 30

Consolidated Statements of Cash Flows, Cont'd

(DOLLARS IN THOUSANDS)

Years Ended December 31,	2012	2011	2010
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.

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.

Notes to Consolidated Financial Statements, Cont'd

DECEMBER 31, 2012, 2011 AND 2010

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.

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.

Notes to Consolidated Financial Statements, Cont'd

DECEMBER 31, 2012, 2011 AND 2010

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.

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 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

Notes to Consolidated Financial Statements, Cont'd

DECEMBER 31, 2012, 2011 AND 2010

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.

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

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

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
	<u>\$ 23,745</u>	<u>\$ 21,405</u>

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
	<u>\$ 70,426</u>	<u>\$ 58,770</u>

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
	<u>\$ 52,530</u>	<u>\$ 29,179</u>

4. American Realty Capital Trust

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	<u>\$ 2,086,895</u>

Notes to Consolidated Financial Statements, Cont'd

DECEMBER 31, 2012, 2011 AND 2010

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

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.

Litigation

All of the actions discussed below 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 Realty Capital Trust, Inc. Shareholder Litigation*, No. 24-C-12-005306 (the "Maryland State Action"). On November 21, 2012, the court appointed plaintiff Randell Quaas 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.

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.

Notes to Consolidated Financial Statements, Cont'd

DECEMBER 31, 2012, 2011 AND 2010

5. Investments in Real Estate

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

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. 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.

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

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.

Notes to Consolidated Financial Statements, Cont'd

DECEMBER 31, 2012, 2011 AND 2010

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.

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 ⁽³⁾	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

Notes to Consolidated Financial Statements, Cont'd

DECEMBER 31, 2012, 2011 AND 2010

At December 31, 2011

Maturity Date ⁽¹⁾	Stated Interest Rate ⁽²⁾	Effective Interest Rate	Remaining Principal Balance ⁽³⁾	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%.

9. Notes Payable

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.

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.

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.

Notes to Consolidated Financial Statements, Cont'd

DECEMBER 31, 2012, 2011 AND 2010

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.

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

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.

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.

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.

Notes to Consolidated Financial Statements, Cont'd

DECEMBER 31, 2012, 2011 AND 2010

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.

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.

Notes to Consolidated Financial Statements, Cont'd

DECEMBER 31, 2012, 2011 AND 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.

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.

Notes to Consolidated Financial Statements, Cont'd

DECEMBER 31, 2012, 2011 AND 2010

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.

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.

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

(continued on next page)

Notes to Consolidated Financial Statements, Cont'd

DECEMBER 31, 2012, 2011 AND 2010

Assets, as of December 31 (continued):	2012	2011
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

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.

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%.

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.

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. These consolidated financial statements are the responsibility of Realty Income Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements 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.

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.

KPMG LLP

San Diego, California
February 14, 2013

Report of Independent Registered Public Accounting Firm, Cont'd

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.

KPMG LLP

San Diego, California
February 14, 2013

Business Description

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.

Business Description, Cont'd

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 35, Form 45, Form 55, 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, 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%.

Business Description, Cont'd

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.

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 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.

Business Description, Cont'd

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.

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 Description, Cont'd

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.

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.

Business Description, Cont'd

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;
- 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.

\$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.

Business Description, Cont'd

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.

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.
- *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.

Business Description, Cont'd

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
- 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.

Risk Factors

For full description of the risk factors associated with the Company, see Item 1A "Risk Factors" in our Form 10-K for the fiscal year ended December 31, 2012.

Unresolved Staff comments

There are no unresolved staff comments.

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."

Property Portfolio Information, Cont'd

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:

Retail Industries	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
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%

Industry Diversification (Continued)

Non-retail Industries	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
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.

Property Portfolio Information, Cont'd

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%		

Retail Property Service Category Diversification

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
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.

Property Portfolio Information, Cont'd

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):

Year	Total Portfolio				Initial Expirations ⁽³⁾			Subsequent Expirations ⁽⁴⁾		
	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.

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.

Forward-Looking Statements

This annual report 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.

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.

Management's Discussion and Analysis of Financial Condition and Results of Operations, Cont'd

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.

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.

Management's Discussion and Analysis of Financial Condition and Results of Operations, Cont'd

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%.

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.

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.

Management's Discussion and Analysis of Financial Condition and Results of Operations, Cont'd

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 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

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%

Management's Discussion and Analysis of Financial Condition and Results of Operations, Cont'd

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.

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 over-allotment 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.

Management's Discussion and Analysis of Financial Condition and Results of Operations, Cont'd

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.

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%.

Management's Discussion and Analysis of Financial Condition and Results of Operations, Cont'd

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.

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	\$ 438,493	\$ 384,277	\$ 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	\$ 438,493	\$ 384,277	\$ 313,313
Divided by interest expense ⁽¹⁾	\$ 123,808	\$ 109,275	\$ 93,794
Interest coverage ratio	3.5	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	-
	\$ 123,808	\$ 109,275	\$ 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	\$ 438,493	\$ 384,277	\$ 313,313
Divided by interest expense plus preferred stock dividends ⁽¹⁾	\$ 164,726	\$ 133,528	\$ 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.

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.

Management's Discussion and Analysis of Financial Condition and Results of Operations, Cont'd

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.

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.

Management's Discussion and Analysis of Financial Condition and Results of Operations, Cont'd

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):

	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.

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.

Management's Discussion and Analysis of Financial Condition and Results of Operations, Cont'd

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, 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.

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 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.

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

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.

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

Controls and Procedures, Cont'd

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.

Certifications

Tom Lewis, Realty Income's Chief Executive Officer, certified to the NYSE in 2012, pursuant to Section 303A.12(a) of the NYSE's Listing Standards, that he was not aware of any violation of the NYSE corporate governance listing standards by Realty Income. Furthermore, Realty Income filed with the SEC as exhibits to its Annual Report on Form 10-K for the year ended December 31, 2012, the certifications by Tom Lewis and Paul M. Meurer, Realty Income's Chief Executive Officer and Chief Financial Officer, respectively, required under Section 302 of the Sarbanes-Oxley Act.

Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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.

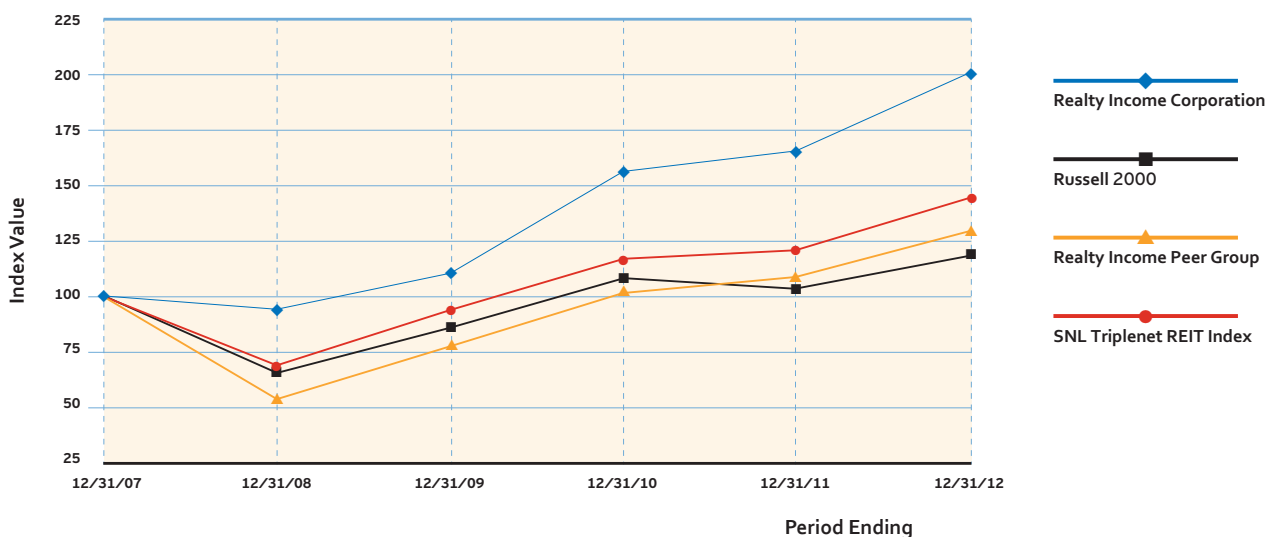
	Price Per Share of Common Stock		Distributions Declared ⁽¹⁾
	High	Low	
2012			
First quarter	\$ 39.03	\$ 34.31	\$ 0.4368125
Second quarter	41.89	36.88	0.4377500
Third quarter	44.17	40.35	0.4486875
Fourth quarter	41.70	37.35	0.4546250
Total			\$ 1.777875
2011			
First quarter	\$ 36.12	\$ 33.40	\$ 0.4330625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

Total Return Performance



Index	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12
Realty Income Corporation	100.00	91.84	111.02	154.66	166.30	200.09
Russell 2000	100.00	66.21	84.20	106.82	102.36	119.09
Realty Income Peer Group*	100.00	54.08	76.81	101.32	109.87	128.84
SNL Triplanet REIT Index	100.00	68.97	92.55	116.45	120.41	144.41

* Realty Income Peer Group consists of thirteen companies with an implied market capitalization between \$2.4 billion and \$7.4 billion as of September 30, 2012.

Company Information

Executive Officers



Thomas A. Lewis
Vice Chairman of the Board of Directors,
Chief Executive Officer



Gary M. Malino
President,
Chief Operating Officer



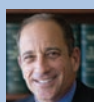
John P. Case
President,
Chief Investment Officer



Richard G. Collins
Executive Vice President,
Portfolio Management



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



Michael R. Pfeiffer
Executive Vice President,
General Counsel and Secretary



Sumit Roy
Executive Vice President,
Real Estate Acquisitions

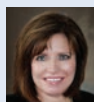
Directors



Michael D. McKee
Chairman of the Board of Directors and
Chief Executive Officer, Bentall Kennedy



Thomas A. Lewis
Vice Chairman of the Board of Directors and
Chief Executive Officer, Realty Income Corporation



Kathleen R. Allen, Ph.D.
Director, Center for Technology Commercialization,
Marshall School of Business
University of Southern California



A. Larry Chapman
Retired, Executive Vice President,
Head of Commercial Real Estate, Wells Fargo Bank



Priya Cherian Huskins
Partner, Woodruff-Sawyer & Co.



Gregory T. McLaughlin
President and Chief Executive Officer,
Tiger Woods Foundation



Ronald L. Merriman
Retired Vice Chair, KPMG, LLP

Additional Officers



Gregory J. Fahey
Senior Vice President,
Controller



Robert J. Israel
Senior Vice President,
Research



Laura S. King
Senior Vice President,
Assistant General Counsel
and Assistant Secretary



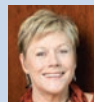
Theresa M. Casey
Vice President,
Information Technologies



Elizabeth Cate
Vice President,
Portfolio Management



Benjamin N. Fox
Vice President,
Strategic Initiatives



Tere H. Miller
Vice President,
Corporate Communications



Dawn Nguyen
Vice President,
Portfolio Management



Joel Tomlinson
Vice President,
Director of Acquisitions



Cary J. Wenthur
Vice President,
Senior Director of
Acquisitions



Janeen Bedard
Associate Vice President,
Assistant to CEO for
Corporate Strategy



Stephen D. Burchett
Associate Vice President,
Senior Legal Counsel



Jill M. Cossaboom
Associate Vice President,
Assistant Controller



Kristin K. Ferrell
Associate Vice President,
Portfolio Management



Teresa M. Glenn
Associate Vice President,
Human Resources & Operations



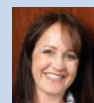
Scott A. Kohnen
Associate Vice President,
Director of Research



Ann T. Nguyen
Associate Vice President,
Senior Legal Counsel



Sean P. Nugent
Associate Vice President,
Assistant Controller



Jenette S. O'Brien
Associate Vice President,
Director of Investment
Property Sales



Patrick Rea
Associate Vice President,
Property Management

Independent Registered Public Accounting Firm

KPMG LLP
San Diego, California

Transfer Agent

Wells Fargo Shareowner Services
P.O. Box 64873
St. Paul, MN 55164

For shareholder administration and account information please visit Wells Fargo's website at: www.shareowneronline.com or call this toll-free number: 1-877-218-2434 or email your questions to: stocktransfer@wellsfargo.com

For Additional Corporate Information

Visit the Realty Income corporate website at: www.realtyincome.com

Contact your financial advisor, or contact Realty Income at: telephone: 760-741-2111 email: ir@realtyincome.com

Copies of Realty Income's Annual Report on Form 10-K are available upon written request to:

Realty Income Corporation
Attention: Investor Relations
600 La Terraza Boulevard
Escondido, CA 92025-3873

If you would like to share a copy of our annual report with a friend

Call us at 1-800-375-6700

Email us at ir@realtyincome.com

View the annual report at www.realtyincome.com

REALTY  INCOME

The Monthly Dividend Company®

600 La Terraza Boulevard
Escondido, CA 92025-3873
www.realtyincome.com