

61%
Revenue
Growth

19%
FFO per share
Growth

21%
Dividend
Growth

5
Dividend
Increases



RECORD
2013
PERFORMANCE

\$12.6
Billion
Enterprise Value

\$4.7
Billion
Acquisitions

3,896
Properties
Owned

98.2%
Occupancy

MISSION

We are The Monthly Dividend Company®. Over the past 45 years we have paid our shareholders over \$2.7 billion in monthly dividends and we have increased dividends 74 times since our listing on the New York Stock Exchange in 1994 (NYSE “O”). We are committed to continuing to operate your company in a manner that supports the ongoing payment of dividends that increase over time.

COMPANY DESCRIPTION

We have been acquiring freestanding commercial real estate since 1969. Our focus is on acquiring single-tenant commercial properties leased to creditworthy tenants under 10 to 20-year net-lease agreements. We hold these properties for their long-term lease revenue production, which provides us with the cash flow we use to pay dividends to our shareholders. Additionally, we employ conservative balance sheet management to protect the integrity of the cash flow to pay dividends and actively manage our real estate portfolio in order to sustain high occupancy.

2014 MILESTONE

During 2014 we will celebrate our 20th year as a New York Stock Exchange-traded public company and will have crossed the threshold of paying dividends without interruption for 20 years.

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2013 PERFORMANCE HIGHLIGHTS

17.0% AFFO per share growth

21.2% dividend per share growth

\$3.2 billion acquisition of ARCT

\$1.5 billion property-level acquisitions

98.2% occupancy

CUMULATIVE PERFORMANCE HIGHLIGHTS SINCE 1994 LISTING

16.3% compounded average annual total return

74 dividend increases

Total enterprise growth to **\$12.6** billion from \$347 million

Number of properties increased to **3,896** from 630

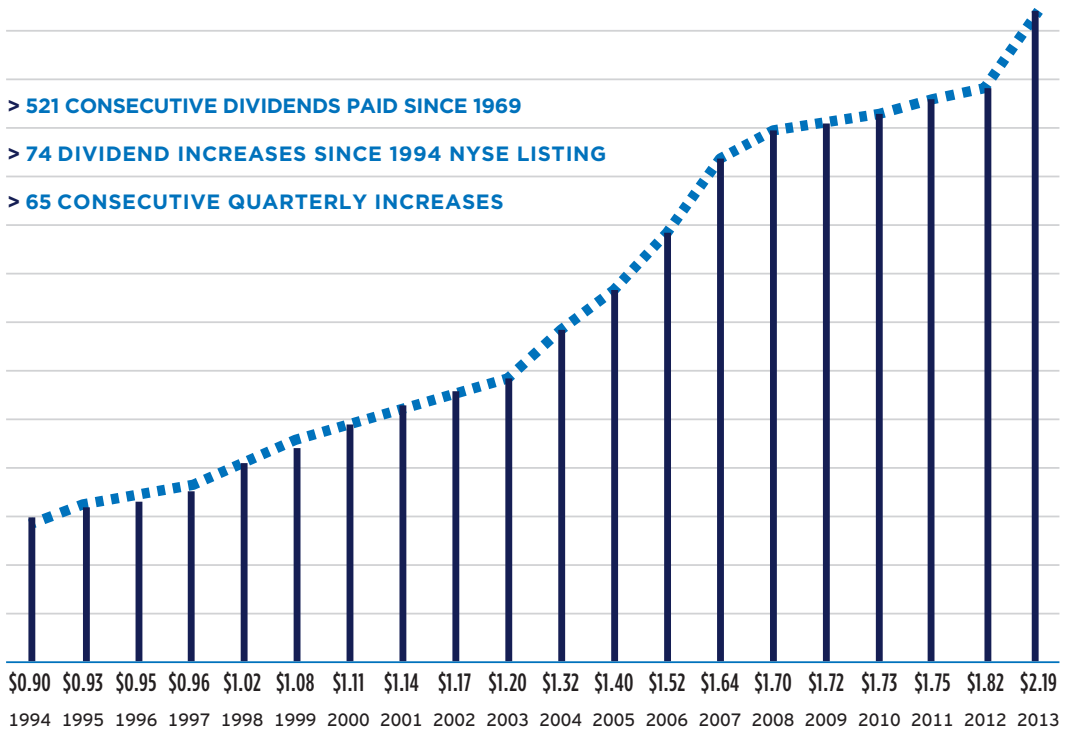
Occupancy rate never below **96%**

Sterling Winery in Napa, California



ANNUALIZED DIVIDENDS AND DIVIDEND INCREASES ⁽¹⁾

- > 521 CONSECUTIVE DIVIDENDS PAID SINCE 1969
- > 74 DIVIDEND INCREASES SINCE 1994 NYSE LISTING
- > 65 CONSECUTIVE QUARTERLY INCREASES



⁽¹⁾ Annualized dividend amount reflects the December declared dividend rate per share multiplied by 12.

Quick Service Restaurant in Kansas City, Missouri



Wholesale Club in Sanford, Florida



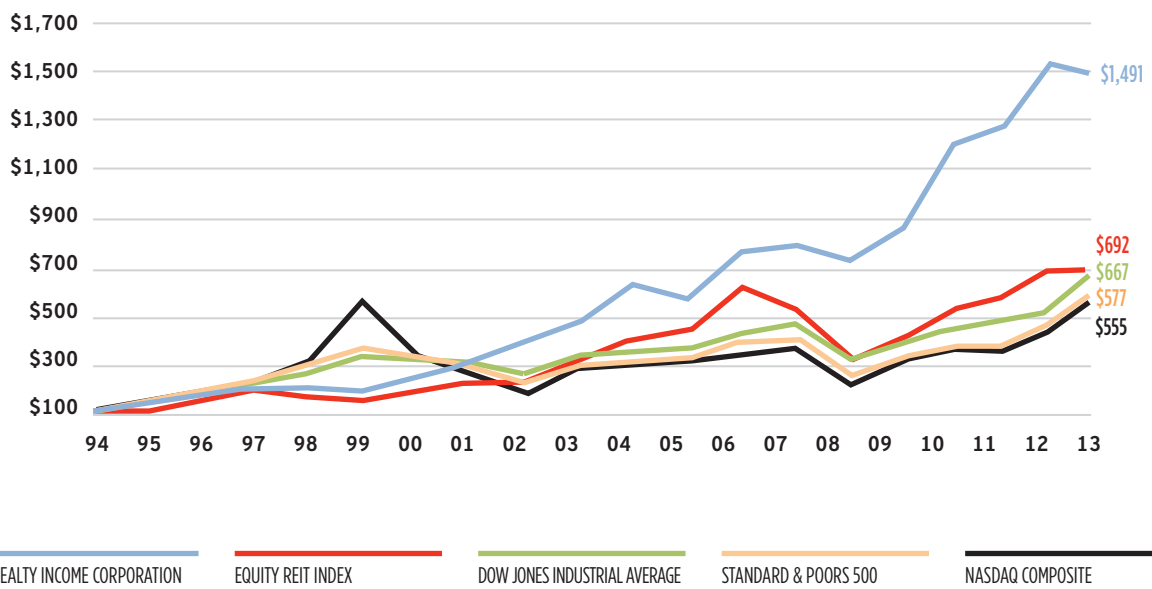
Automotive Tire Service in Houston, Texas



Theater in Los Angeles, California



COMPARISON OF \$100 INVESTED IN REALTY INCOME IN 1994 VS. MAJOR STOCK INDICES



Convenience Store in Yorktown, Virginia



Historical Financial Performance

For the Years Ended December 31,	2013	2012	2011
Total revenue⁽¹⁾	\$ 759,798,000	\$ 483,557,000	\$ 421,644,000
Net income available to common stockholders	\$ 203,634,000	\$ 114,538,000	\$ 132,779,000
Funds from operations (“FFO”) ⁽²⁾	\$ 462,030,000	\$ 268,761,000	\$ 249,392,000
Adjusted funds from operations (“AFFO”)⁽²⁾	\$ 463,139,000	\$ 274,183,000	\$ 253,372,000
Dividends paid to common stockholders	\$ 409,222,000	\$ 236,348,000	\$ 219,297,000
Special dividend paid			
AT YEAR END			
Real estate at cost, before accumulated depreciation ⁽³⁾	\$ 9,899,475,000	\$ 5,920,685,000	\$ 4,971,981,000
Number of properties	3,896	3,013	2,634
Gross leasable square feet	62,644,900	37,677,500	27,369,000
Properties acquired ⁽⁴⁾	958	423	164
Cost of properties acquired ⁽⁴⁾	\$ 4,670,169,000	\$ 1,164,924,000	\$ 1,016,100,000
Properties sold	75	44	26
Number of industries	47	44	38
Number of states	49	49	49
Portfolio occupancy rate	98.2%	97.2%	96.7%
Remaining weighted average lease term in years	10.8	11.0	11.3
PER COMMON SHARE DATA⁽⁵⁾			
Net income (diluted)	\$ 1.06	\$ 0.86	\$ 1.05
Funds from operations (“FFO”) ⁽²⁾	\$ 2.41	\$ 2.02	\$ 1.98
Adjusted funds from operations (“AFFO”)⁽²⁾	\$ 2.41	\$ 2.06	\$ 2.01
Dividends paid	\$ 2.147	\$ 1.772	\$ 1.737
Special dividend			
Annualized dividend amount ⁽⁶⁾	\$ 2.186	\$ 1.821	\$ 1.746
Common shares outstanding	207,485,073	133,452,411	133,223,338
INVESTMENT RESULTS			
Closing price on December 31,	\$ 37.33	\$ 40.21	\$ 34.96
Dividend yield ⁽⁷⁾⁽⁸⁾⁽⁹⁾	5.3%	5.1%	5.1%
Total return to stockholders⁽⁹⁾⁽¹⁰⁾	-1.8%	20.1%	7.3%

⁽¹⁾ Total revenue includes amounts reclassified to income from discontinued operations, but excludes gain on sales, tenant reimbursements 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 and 2013, 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.

2010		2009		2008		2007		2006		2005	
\$	346,437,000	\$	328,794,000	\$	331,465,000	\$	295,561,000	\$	240,626,000	\$	197,751,000
\$	106,531,000	\$	106,874,000	\$	107,588,000	\$	116,156,000	\$	99,419,000	\$	89,716,000
\$	193,926,000	\$	190,554,000	\$	185,524,000	\$	189,947,000	\$	155,815,000	\$	129,833,000
\$	197,256,000	\$	192,739,000	\$	192,003,000	\$	193,079,000	\$	159,479,000	\$	130,843,000
\$	182,500,000	\$	178,008,000	\$	169,655,000	\$	157,659,000	\$	129,667,000	\$	108,575,000
\$	4,112,862,000	\$	3,439,456,000	\$	3,408,910,000	\$	3,238,794,000	\$	2,743,973,000	\$	2,096,156,000
	2,496		2,339		2,348		2,270		1,955		1,646
	21,215,800		19,182,000		19,106,700		18,504,800		16,740,100		13,448,600
	186		16		108		357		378		156
\$	713,534,000	\$	57,937,000	\$	189,627,000	\$	533,726,000	\$	769,900,000	\$	486,553,000
	28		25		29		10		13		23
	32		30		30		30		29		29
	49		49		49		49		48		48
	96.6%		96.8%		97.0%		97.9%		98.7%		98.5%
	11.4		11.2		11.9		13.0		12.9		12.4
\$	1.01	\$	1.03	\$	1.06	\$	1.16	\$	1.11	\$	1.12
\$	1.83	\$	1.84	\$	1.83	\$	1.89	\$	1.73	\$	1.62
\$	1.86	\$	1.86	\$	1.90	\$	1.92	\$	1.77	\$	1.63
\$	1.722	\$	1.707	\$	1.662	\$	1.560	\$	1.437	\$	1.346
\$	1.731	\$	1.716	\$	1.701	\$	1.641	\$	1.518	\$	1.395
	118,058,988		104,286,705		104,211,541		101,082,717		100,746,226		83,696,647
\$	34.20	\$	25.91	\$	23.15	\$	27.02	\$	27.70	\$	21.62
	6.6%		7.4%		6.1%		5.6%		6.7%		5.3%
	38.6%		19.3%		-8.2%		3.2%		34.8%		-9.2%

⁽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.

⁽⁷⁾ 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.

⁽⁸⁾ Dividend yield excludes special dividends.

	2004	2003	2002	2001	2000	1999
	\$ 177,606,000	\$ 150,370,000	\$ 137,600,000	\$ 121,081,000	\$ 116,310,000	\$ 104,510,000
	\$ 90,168,000	\$ 76,722,000	\$ 68,954,000	\$ 57,846,000	\$ 45,076,000	\$ 41,012,000
	\$ 120,554,000	\$ 104,608,000	\$ 95,068,000	\$ 77,828,000	\$ 67,239,000	\$ 65,917,000
	\$ 126,424,000	\$ 106,659,000	\$ 95,844,000	\$ 78,504,000	\$ 67,836,000	\$ 66,330,000
	\$ 97,420,000	\$ 83,842,000	\$ 78,042,000	\$ 64,871,000	\$ 58,262,000	\$ 55,925,000
	\$1,691,283,000	\$1,533,182,000	\$1,285,900,000	\$1,178,162,000	\$1,073,527,000	\$1,017,252,000
	1,533	1,404	1,197	1,124	1,068	1,076
	11,986,100	11,350,800	9,997,700	9,663,000	9,013,200	8,648,000
	194	302	111	117	22	110
	\$ 215,314,000	\$ 371,642,000	\$ 139,433,000	\$ 156,472,000	\$ 98,559,000	\$ 181,376,000
	43	35	35	35	21	3
	30	28	26	25	24	24
	48	48	48	48	46	45
	97.9%	98.1%	97.7%	98.2%	97.7%	98.4%
	12.0	11.8	10.9	10.4	9.8	10.7
	\$ 1.15	\$ 1.08	\$ 1.01	\$ 0.99	\$ 0.84	\$ 0.76
	\$ 1.53	\$ 1.47	\$ 1.40	\$ 1.33	\$ 1.26	\$ 1.23
	\$ 1.61	\$ 1.50	\$ 1.41	\$ 1.34	\$ 1.27	\$ 1.24
	\$ 1.241	\$ 1.181	\$ 1.151	\$ 1.121	\$ 1.091	\$ 1.043
	\$ 1.32	\$ 1.20	\$ 1.17	\$ 1.14	\$ 1.11	\$ 1.08
	79,301,630	75,818,172	69,749,654	65,658,222	53,127,038	53,644,328
	\$ 25.29	\$ 20.00	\$ 17.50	\$ 14.70	\$ 12.4375	\$ 10.3125
	6.2%	6.7%	7.8%	9.0%	10.6%	8.4%
	32.7%	21.0%	26.9%	27.2%	31.2%	-8.7%

⁽⁹⁾ 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.

⁽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%

Dear Fellow Shareholders,



I am privileged to have been selected as your CEO in September of 2013, and am pleased to report a record-setting operating performance for the year. I expect our company to continue its excellent performance and positive, long-term investment results for shareholders.

While I may be a new face and name to some of our investors, I have been at Realty Income for four years, most recently as president and chief investment officer since March of 2013 and, prior to that, as chief investment officer since the beginning of 2010. In addition, before joining Realty Income, I served as an external advisor to the company for more than 10 years. I also have 25 years of commercial real estate experience. Based on my long relationship with the company and background in real estate, I am a firm believer in Realty Income's mission and have been deeply involved in executing our strategic plan in recent years. Until becoming CEO, I led our acquisitions efforts that contributed to earnings growth of 30% to \$2.41 per share and dividend growth of 27% to \$2.19 per share during the last four years. Additionally, we were able to increase the overall credit quality of the tenants in our portfolio while realizing outstanding property

investment spreads (the initial lease yields we receive on our properties less our cost of capital to fund property acquisitions), allowing us to maintain a growing and durable cash flow stream to support the dividend. I am pleased to have been able to contribute to the success of our company over the past four years and look forward to new opportunities for success as your CEO.

DIFFERENT LEADER – SAME MISSION

The name on the door may have changed, but the vision and mission of Realty Income remain the same. Our mission, as always, is to manage our real estate assets so that they continue to provide the lease revenue to support monthly dividend payments. Additionally, our goal is to increase the amount of the dividends you receive, over time, by increasing the amount of lease revenue the existing portfolio generates and by expanding the size of our real estate portfolio. The business plan we have pursued for the past 45 years, which has allowed us to continually achieve this mission, is the same business plan that we intend to execute going forward with me as your CEO. Our business plan is relatively simple, yet it provides us with the flexibility to react to ongoing changes

in the economy and the real estate markets. That plan is to:

- ▶ Pay 12 monthly dividends
- ▶ Raise the dividend
- ▶ Maintain a conservative balance sheet
- ▶ Maintain high occupancy
- ▶ Acquire additional properties
- ▶ Remain disciplined in our acquisition underwriting approach
- ▶ Continue to grow investor interest in The Monthly Dividend Company®

Working with me to meet our business plan objectives is a seasoned and experienced executive team that has been essential to our success and growth since we became a public company in 1994. This team, with an average tenure of 16 years, continues to provide the management quality and depth of experience crucial to our continued successful operations.

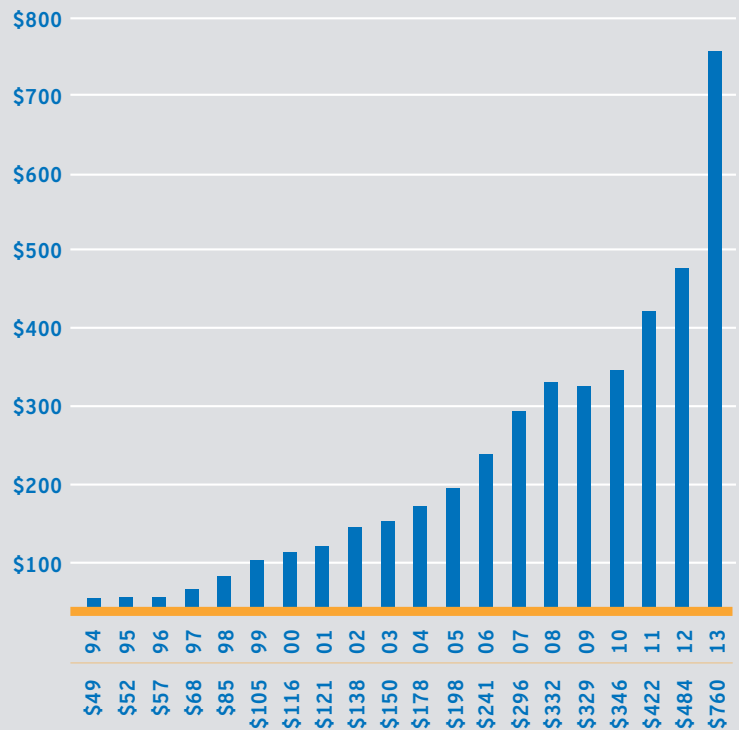
HIGHLIGHTS OF 2013

We achieved outstanding operating results in 2013. Simply put, we had the best operating performance in our company's history. A few highlights of our financial performance are:

- ▶ Total revenue grew 57% to \$760 million
- ▶ Earnings, as measured by our Adjusted Funds from Operations (AFFO), increased 69% to \$463 million
- ▶ AFFO per share increased 17% to \$2.41
- ▶ Dividends paid per share grew by just over 21%

TOTAL REVENUE⁽¹⁾

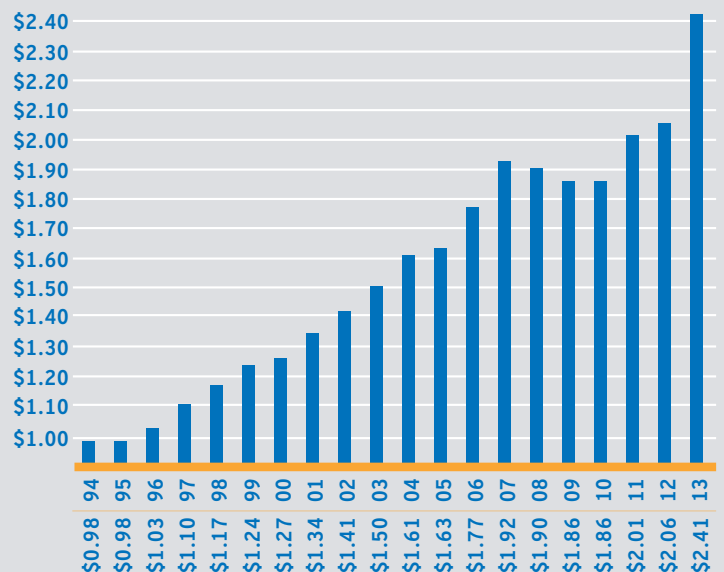
FOR THE YEARS (DOLLARS IN MILLIONS)



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

AFFO PER COMMON SHARE

FOR THE YEARS



During 2013 we generated and reviewed \$39 billion in real estate acquisition opportunities, the most in our 20-year history as a public company.

Real Estate Acquisitions

The primary driver of these tremendous financial results was real estate acquisitions. During 2013 we generated and reviewed \$39 billion in real estate acquisition opportunities, the most in our 20-year history as a public company. We selectively acquired a record \$1.5 billion of properties that met our investment criteria, approximately \$300 million more than we acquired in 2012. In total, we completed investments in 459 properties.

We also made our first entity-level acquisition in 2013, acquiring American Realty Capital Trust (ARCT), a publicly traded REIT that also focused on triple-net lease properties, for \$3.2 billion. This transaction closed in January of 2013, adding 515 freestanding commercial properties to our company which have been successfully integrated into our real estate portfolio. This acquisition was an excellent strategic fit for us on numerous levels allowing us to:

- ▶ Increase our earnings (AFFO) by approximately \$0.15 per share
- ▶ Increase our dividend by 19%
- ▶ Further diversify our real estate portfolio by tenant, industry, geography, and property type, while still maintaining our retail property focus
- ▶ Immediately achieve our goal to improve the credit quality of our real estate portfolio by adding a significant number of investment-grade rated tenants
- ▶ Increase the size and scale of our company by approximately 35%, providing important competitive advantages relative to our operating efficiencies, acquisition capabilities, and access to and cost of capital.

To summarize our acquisition activity in 2013, we collectively invested a total of \$4.7 billion in 974 properties and increased our portfolio to a total of 3,896 properties. This record acquisition volume nearly doubled the amount of real estate on our balance sheet to \$10 billion, and benefited multiple facets of our operations, including tenant credit quality and portfolio diversification. Approximately 70% of the revenue generated by the properties acquired in 2013 is from tenants with investment-grade credit ratings. We also further diversified our tenant base by adding 55 new tenants to the portfolio, and increased the proportion of non-retail property types from 15% of rental revenue to 23% by the end of the year.

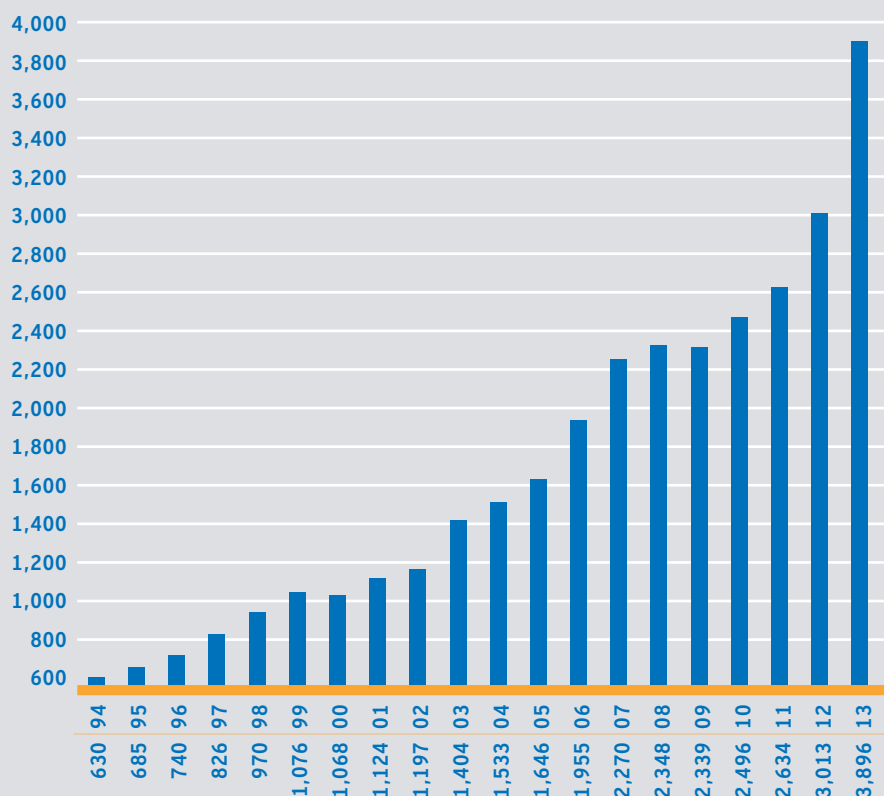
TENANT DIVERSIFICATION⁽¹⁾ (AT 12/31/13)

FedEx	5.2%
Walgreens	5.0%
Family Dollar	4.8%
LA Fitness	4.3%
AMC Theatres	3.1%
Diageo	2.9%
BJ's Wholesale Clubs	2.9%
Northern Tier Energy/Super America	2.5%
Dollar General	2.4%
Rite Aid	2.2%
Regal Cinemas	2.1%
CVS Pharmacy	2.1%
The Pantry	1.8%
Circle K	1.7%
Walmart/Sam's Club	1.6%

⁽¹⁾ Largest 15 tenants based on percentage of total portfolio annualized rental revenue as of December 31, 2013.

GROWING YOUR PORTFOLIO

NUMBER OF PROPERTIES AT THE END OF EACH YEAR



In addition, our largest industry now represents 10.6% of rental revenue, down from 14.9% in 2012, further enhancing the stability of our lease revenue by reducing the amount of revenue from any single industry. We are pleased with the enhancements in our real estate portfolio as a result of our targeted acquisitions.

Portfolio Management

This past year was also our most active year yet in portfolio management, in terms of our efforts to sell properties that are less of a strategic fit for us today, and re-deploy capital into assets that better meet our investment objectives. During 2013, we sold 75 properties for approximately

\$134 million, realizing an attractive gain on these sales. By comparison, we sold 44 properties in 2012 for approximately \$50 million. Our portfolio management team also re-leased to either existing tenants or new tenants 136 properties with expiring leases, resulting in increased rents on these properties of approximately 1%. These proactive efforts have contributed to the portfolio's 98.2% occupancy at year end, an increase from 97.2% at the end of 2012. The internal growth in the portfolio was also healthy with same store rent increases of 1.4% during 2013, as compared to 0.1% in 2012. We are pleased with the portfolio's performance.

These additions ensure we have the best people, the highest quality information systems, and the best working environment so that our company continues to excel.

Resources

We continued to supplement the expertise of our existing staff during 2013 by adding new personnel to the company to support our growth. Specifically, we added key personnel in our acquisitions, portfolio management, research, legal, technology, and accounting departments. Recently, we added to our non-retail asset capabilities by hiring a senior vice president who has extensive experience in industrial, distribution and office properties to oversee our efforts in these property types. Additionally, the tremendous growth of the last few years has caused us to outgrow our existing headquarters facility. Consequently, we acquired a new headquarters building which provides us with ample space to expand, as needed. We hope to move into our new headquarters at the end of 2014. These additions ensure we have the best people, the highest quality information systems, and the best working environment so that our company continues to excel.

Our accomplishments in 2013 position us to continue to meet our objective of providing a sustainable monthly dividend which can grow over time. The increased diversification of the overall portfolio, as well as the improved credit quality of our tenant base, serves to protect the revenue supporting the dividend. In addition, the outstanding growth in 2013 has increased our size and scale, which allows us to generate more real estate acquisition opportunities that can drive portfolio growth and future increases in the monthly dividend.

THEN AND NOW

Our performance in 2013, as well as our results since 2010, speak to the execution of our strategic plan that was conceived during the Great Recession. At the time, we witnessed a more challenging economy that in all likelihood would remain under pressure and be more volatile in the near-to-intermediate term. This recession created a tepid retail environment and we observed a cautious consumer who was moving away from discretionary spending. We also saw internet sales continuing to claim additional consumer dollars, as various items could more conveniently be accessed online at lower price points. As a result, our strategic plan focused primarily on two main initiatives: 1) moving the portfolio up the “credit curve” by adding tenants with stronger credit profiles, including many with investment-grade ratings, and 2) investing in new industries and property types. The objective of our revised investment focus was to decrease our exposure to tenants whose business may be more at-risk during challenging economic cycles. For example, such tenants could include a tenant providing discretionary, higher priced goods, a tenant with considerable leverage on its balance sheet, or a tenant selling goods vulnerable to competition from e-commerce. The intent was to create an even more durable cash flow stream from which we pay the dividend.

In 2010, we began to aggressively execute on this initiative. This was an opportune time for our company, as ever-decreasing interest rates and an abundance of well-priced capital

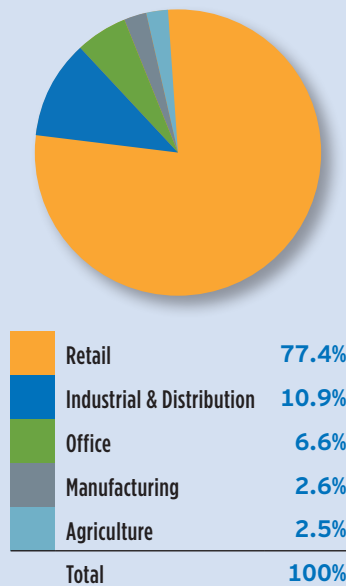
resulted in a period of high, relative investment spreads on our acquisitions that continued through 2013. We were able to take advantage of these favorable conditions by making \$4.4 billion in property-level investments during this four-year period at spreads well above our historical average. It's important to note that 53% of these investments were with investment-grade rated tenants. To put that into perspective, prior to 2010 only about 5% of our acquisitions had been with investment-grade rated tenants, at relatively narrower spreads. We are pleased to have achieved such attractive spreads while executing our initiative to enhance the credit quality of the portfolio. We also carefully invested in non-retail property types, further diversifying the revenue stream. Typically, our tenants leasing such properties are investment-grade rated, Fortune 1000 companies where the real estate we own has notable strategic importance to their business. Today, 23% of rental revenue is derived from non-retail property types.

During this time, we also were actively investing in our traditional non-investment-grade rated retail tenant properties. This is a property type we know very well as we have been investing in it for 45 years. About \$1.8 billion of the \$4.4 billion we invested from 2010 through 2013 was in non-investment-grade rated retail tenant assets, making this the most active four-year period for acquisitions of this type in our history. As is customary, we applied our proven underwriting approach to all

transactions, and pursued the opportunities that met our established initiatives. We looked for tenants offering non-discretionary goods and services and favored those with a high service orientation to their business to minimize the impact of internet competition. We also focused on retail tenants providing a discount proposition to their customers, which we believe is a sensible retail strategy during uncertain economic times as it allows these tenants to more effectively compete with low online pricing. We are pleased to have capitalized on this window of opportunity to achieve some of our most accretive investment spreads, all while delivering on our initiatives.

We are pleased to have achieved such attractive spreads while executing our initiative to enhance the credit quality of the portfolio.

PROPERTY TYPE DIVERSIFICATION⁽¹⁾



⁽¹⁾ Based on rental revenue for the quarter ended 12/31/13

WHAT DO YOU OWN TODAY?

As a result of our success in executing our strategic plan, today our real estate assets are more diversified than ever, and our overall tenant base has an improved credit profile. Additionally, we have been able to accomplish this while maintaining a conservative balance sheet to execute our strategy and utilizing our low cost of capital advantage to achieve the widest investment spreads in the company's history. The most important outcome of our efforts has been our ability to grow and enhance the security of the cash flow supporting the monthly dividend. Let's take a look at where we are today as we begin 2014 compared to where we were at the end of 2009 before implementing our strategic plan:

OPERATIONAL AREA	12/31/09	12/31/13	BENEFITS
NUMBER OF PROPERTIES	2,339	3,896	Consistent growth in lease revenue supporting dividend increases
PROPERTY DIVERSIFICATION			Diversified sources of lease revenue with less reliance on any one tenant, industry, or property type create more stable cash flows lessening the risk of disruption, leading to greater dividend stability
TENANTS	118	205	
INDUSTRIES	30	47	
PROPERTY TYPES	98% retail	77% retail	
INVESTMENT-GRADE TENANTS	2% of revenue	40% of revenue	Enhanced cash flow quality
TOP 15 TENANTS	53.0% of revenue	44.6% of revenue	Diversifying lease revenues enhances dividend stability
PORTFOLIO OCCUPANCY	96.8%	98.2%	Consistently high occupancy supports dividend payments
REAL ESTATE ASSETS	\$3.4 billion	\$9.9 billion	Increased assets supporting dividend growth
ENTERPRISE VALUE	\$4.4 billion	\$12.6 billion	Greater size leads to increased operating efficiencies and growth opportunities as well as a reduced cost of capital
EARNINGS GROWTH (AFFO)	\$1.86 per share	\$2.41 per share	Earnings increases drive dividend increases
DIVIDEND GROWTH	\$1.71 per share	\$2.19 per share	Increased monthly dividend

As you can see, what you own today is a larger, stronger, and more diversified real estate portfolio that continues to grow based on stringent investment criteria and careful underwriting. The growth over the past four years has been conservatively funded, primarily through equity issuances, with long-term, fixed-rate debt issued when prudent, always with an eye towards maintaining a conservative balance sheet and the integrity of the cash flow.

ECONOMIC AND COMPETITIVE ENVIRONMENT TODAY

We continue to operate in a relatively low interest rate environment, with consumer spending that has marginally increased, and gross domestic product growth that is trending up while unemployment numbers are trending down (as of this writing). These trends, however, are tenuous and uncertain, so we are not sure how 2014 will unfold from an economic standpoint.

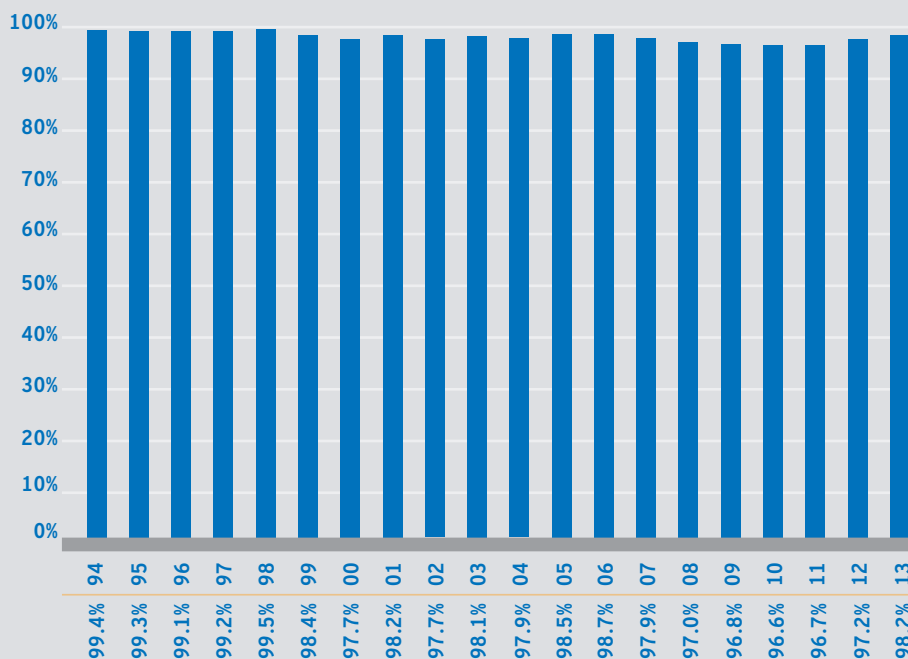
While none of us can predict the future, we believe we have created a real estate portfolio that should, by design, perform in virtually any economic environment. Today, 40% of our revenue is derived from investment-grade rated tenants, and our conservatively underwritten non-investment-grade retail tenant property revenue has been resilient throughout a variety of economic environments over the past 45 years. In addition, more than 90% of our

retail tenants today have a service, non-discretionary, and/or a low price point component to their business, which we think is important to the sustainability of their operations and minimizes the impact from e-commerce. Our track record of maintaining high occupancy, which has never been below 96%, demonstrates the overall health of our tenant base and the historical reliability of our lease revenue.

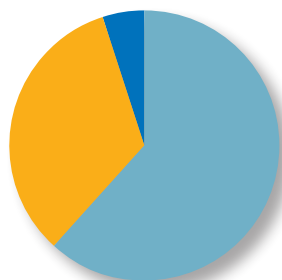
In terms of the competitive environment, the net lease sector, in which we operate, has grown tremendously in recent years. The net lease sector has a total enterprise value in excess of \$75 billion and now represents 7% of the total enterprise value of all equity REITs, as compared to 3% two years ago. While this growth creates more investment opportunities and greater investor awareness of our company, it also results in a more competitive sector, which has tended to stabilize

Our track record of maintaining high occupancy, which has never been below 96%, demonstrates the overall health of our tenant base.

PORTFOLIO OCCUPANCY AT THE END OF EACH YEAR



CONSERVATIVE CAPITAL STRUCTURE (AT 12/31/13)



Common Equity: \$7.8 billion / 62%
Debt: \$4.2 billion / 33%
Preferred Stock: \$629 million / 5%
Total Capitalization: \$12.6 billion

We have provided our investors with a compounded average annual total return since 1994 of 16.3%.

acquisitions pricing. We are fortunate to be one of the most successful, experienced and largest net lease companies. As a result, we enjoy broad and extensive relationships with many tenants, as well as a deep pool of owners, developers, and advisors in the industry. These relationships result in abundant and attractive property acquisition opportunities for our company, despite the competitive landscape.

INVESTMENT RETURNS

During 2013, shareholders who owned our common stock for the entire year received \$2.15 per share in dividends, compared to \$1.77 per share in 2012, an increase of just over 21%, the largest single-year increase in the company's history. This increase was the result of four consecutive quarterly increases, combined with a larger \$0.35 per share annualized dividend increase provided to our shareholders in February of 2013.

Despite the significant growth in the dividend we paid to our shareholders and our record-setting operating performance, our share price ended lower on the year, as compared to the closing price on December 31, 2012, and investors realized a total return of -1.8%. It's important to note that year-end total return is based on a company's share price at a given point in time. During 2013, the price of our shares fluctuated between a high of \$55.48 and a low of \$36.58, closing at \$37.33 on December 31, 2013. As I write this letter in February of 2014, the most recent closing price of our shares is \$44.42. Factors that can play a role in the pricing of our shares include, but are not limited to, perceptions in the market place of unfolding economic events, as well as conditions in the stock market in general. Interestingly therefore, strong performance in the company's operations may not always correlate to

the movement of our stock price over the short term. However, as the "Realty Income Performance vs. Major Stock Indices" chart on the next page illustrates, over the long term, our consistent and sound operating performance has led to advances in our share price over time, providing our investors with a compounded average annual total return since 1994 of 16.3%. We are proud of this result which compares favorably to overall market and industry returns.

OUTLOOK FOR 2014

The beginning of this year has been busy for us. At the end of 2013 we announced the signing of definitive agreements to acquire \$503 million in assets from Inland Diversified Real Estate Trust, a transaction that is in the process of closing as I write this letter. We have already provided 2014 guidance of \$1.2 billion in property acquisitions. We are excited about our growth opportunities and maintaining the momentum we have generated over the last four years. While it may be challenging to duplicate our record-setting operating performance in 2013, we continue to see one of the best environments in our company's history in which to acquire properties that will support our growth and dividends. The acquisitions environment remains robust and we are able to source attractive acquisitions at yields that continue to be quite accretive to our earnings. We will continue to invest in both investment-grade rated tenant properties and our traditional non-investment-grade retail tenant properties, applying our disciplined underwriting approach as we have done in the past. We currently have more than \$900 million available on our \$1.5 billion line of credit to fund our acquisition activities and we continue to have excellent access to long-term and permanent capital.

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⁾
10/18-12/31 1994	10.5%	10.8%	7.7%	0.0%	2.9%	(1.6%)	2.9%	(1.2%)	0.5%	(1.7%)
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%
2013	5.8%	(1.8%)	3.9%	2.9%	2.3%	29.6%	2.0%	32.4%	1.4%	38.3%
COMPOUNDED AVERAGE ANNUAL TOTAL RETURN⁽⁵⁾		16.3%		10.6%		10.3%		9.5%		9.2%

Note: All of these dividend yields are calculated as annualized dividends 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, except for the 1994 NASDAQ dividend yield which was sourced from Datastream / Thomson Financial.

(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. Source: 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, 2013, and (except for NASDAQ) assuming reinvestment of dividends. 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.

What drives us is a dedication to our mission to continue to provide dependable monthly dividends that grow over time to our shareholders.

Ultimately, our objective is to grow our AFFO and dividends by adding these attractive real estate assets at favorable risk-adjusted returns and investment spreads over our cost of capital. In 2014, we will continue to:

- ▶ Fulfill our mission of generating reliable cash flows to pay monthly dividends
- ▶ Carefully underwrite tenants, industries, and asset types we are considering acquiring with a focus on long-term revenue stream viability
- ▶ Focus on achieving sustainable growth by acquiring high-quality real estate assets in favorable locations and strong markets that provide us with an attractive investment spread
- ▶ Match-fund these acquisitions with capital that is optimally priced and conservatively structured
- ▶ Actively manage our real estate portfolio to maximize revenue generation
- ▶ Maintain a broad, talented and experienced management team to deliver in 2014 and beyond

IN CONCLUSION

I would be remiss if I didn't take a moment to acknowledge the outstanding contributions to our company by Tom Lewis, our former CEO. Tom led Realty Income for nearly 17 years as CEO and retired in September of 2013. Under Tom's leadership, our company grew in total enterprise value from \$619 million to over \$12 billion, achieved dividend growth of 127% from \$0.96 per share to \$2.18 per share and provided a compounded total average annual return to shareholders of 15.4%. I believe I speak for all shareholders in thanking Tom for his superb service to

Realty Income. I look forward to building on the impressive operating results achieved under Tom's stewardship.

As always, what drives us is a dedication to our mission to continue to provide dependable monthly dividends that grow over time to our shareholders. Our decisions are based on their impact on the durability and growth of the dividend. This decision-making methodology is part of the DNA of the company, driving decisions about what properties we acquire, what tenants and industries we approve, the types of capital we deploy, and how we manage our real estate portfolio. We realized extraordinary growth in 2013 which had one purpose – to grow and maintain the reliability of the dividend. We will move forward in 2014 with the same degree of discipline and singleness of purpose and look forward to continuing to responsibly grow your company.

With that said, we always remind our investors how important it is to rely on Realty Income for only a portion of their income needs. There is no guarantee that we will be as successful in 2014 as we have been in the past, though we remain confident in our ability to continue to operate your company in a manner that supports the payment of monthly dividends that increase over time. We thank you for your continued support of The Monthly Dividend Company® and look forward to keeping you apprised of our progress throughout the year.



Sincerely,
John P. Case
Chief Executive Officer

THE MAGIC OF RISING DIVIDENDS OVER TIME

An important benefit to shareholders, who have held our shares for many years and enjoyed regular dividend increases, is shown in the table below. 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.

YIELD ON COST BENEFITS							THE CUMULATIVE DIVIDEND EFFECT	
1,000 Shares Purchased on	Original Investment	Investment Value as of 12/31/2013	Original Annual Dividend Income	Current Annual Dividend Income ⁽¹⁾	Original Yield	Current Yield on Cost at 12/31/2013	Dividends Received Through 12/31/2013	Percent of Original Investment Returned
10/18/94	\$8,000	\$37,330	\$900	\$2,186	11.3%	27.3%	\$26,106	326.3%
12/31/94	\$8,563	\$37,330	\$900	\$2,186	10.5%	25.5%	\$25,806	301.4%
12/31/95	\$11,250	\$37,330	\$930	\$2,186	8.3%	19.4%	\$24,894	221.3%
12/31/96	\$11,938	\$37,330	\$945	\$2,186	7.9%	18.3%	\$23,847	199.8%
12/31/97	\$12,719	\$37,330	\$960	\$2,186	7.5%	17.2%	\$22,901	180.1%
12/31/98	\$12,438	\$37,330	\$1,020	\$2,186	8.2%	17.6%	\$21,919	176.2%
12/31/99	\$10,313	\$37,330	\$1,080	\$2,186	10.5%	21.2%	\$20,876	202.4%
12/31/00	\$12,438	\$37,330	\$1,110	\$2,186	8.9%	17.6%	\$19,785	159.1%
12/31/01	\$14,700	\$37,330	\$1,140	\$2,186	7.8%	14.9%	\$18,664	127.0%
12/31/02	\$17,500	\$37,330	\$1,170	\$2,186	6.7%	12.5%	\$17,512	100.1%
12/31/03	\$20,000	\$37,330	\$1,200	\$2,186	6.0%	10.9%	\$16,331	81.7%
12/31/04	\$25,290	\$37,330	\$1,320	\$2,186	5.2%	8.6%	\$15,090	59.7%
12/31/05	\$21,620	\$37,330	\$1,395	\$2,186	6.5%	10.1%	\$13,744	63.6%
12/31/06	\$27,700	\$37,330	\$1,518	\$2,186	5.5%	7.9%	\$12,306	44.4%
12/31/07	\$27,020	\$37,330	\$1,641	\$2,186	6.1%	8.1%	\$10,746	39.8%
12/31/08	\$23,150	\$37,330	\$1,701	\$2,186	7.3%	9.4%	\$9,084	39.2%
12/31/09	\$25,910	\$37,330	\$1,716	\$2,186	6.6%	8.4%	\$7,377	28.5%
12/31/10	\$34,200	\$37,330	\$1,731	\$2,186	5.1%	6.4%	\$5,656	16.5%
12/31/11	\$34,960	\$37,330	\$1,746	\$2,186	5.0%	6.3%	\$3,919	11.2%
12/31/12	\$40,210	\$37,330	\$1,821	\$2,186	4.5%	5.4%	\$2,147	5.3%
12/31/13	\$37,330	\$37,330	\$2,186	\$2,186	5.9%	5.9%		

⁽¹⁾ Current annual dividend income based on annualized dividend per share at 12/31/13.

2013 Annual Report: Form 10-K

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Consolidated Balance Sheets

At December 31, 2013 and 2012

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	2013	2012
ASSETS		
Real estate, at cost:		
Land	\$ 2,791,147	\$ 1,999,820
Buildings and improvements	7,108,328	3,920,865
Total real estate, at cost	9,899,475	5,920,685
Less accumulated depreciation and amortization	(1,114,888)	(897,767)
Net real estate held for investment	8,784,587	5,022,918
Real estate held for sale, net	12,022	19,219
Net real estate	8,796,609	5,042,137
Cash and cash equivalents	10,257	5,248
Accounts receivable, net	39,323	21,659
Acquired lease intangible assets, net	935,459	242,125
Goodwill	15,660	16,945
Other assets, net	127,133	101,234
Total assets	\$ 9,924,441	\$ 5,429,348
LIABILITIES AND EQUITY		
Distributions payable	\$ 41,452	\$ 23,745
Accounts payable and accrued expenses	102,511	70,426
Acquired lease intangible liabilities, net	148,250	26,471
Other liabilities	44,030	26,059
Lines of credit payable	128,000	158,000
Term loan	70,000	-
Mortgages payable, net	783,360	175,868
Notes payable, net	3,185,480	2,535,985
Total liabilities	4,503,083	3,016,554
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, 2013 and December 31, 2012	609,363	609,363
Common stock and paid in capital, par value \$0.01 per share, 370,100,000 shares authorized, 207,485,073 shares issued and outstanding as of December 31, 2013 and 133,452,411 shares issued and outstanding at December 31, 2012	5,767,878	2,572,092
Distributions in excess of net income	(991,794)	(768,661)
Total stockholders' equity	5,385,447	2,412,794
Noncontrolling interests	35,911	-
Total equity	5,421,358	2,412,794
Total liabilities and equity	\$ 9,924,441	\$ 5,429,348

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

Consolidated Statements of Income

Years ended December 31, 2013, 2012 and 2011

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	2013	2012	2011
REVENUE			
Rental	\$ 747,570	\$ 466,498	\$ 400,972
Tenant reimbursements	24,944	14,619	9,776
Other	5,861	1,730	1,612
Total revenue	778,375	482,847	412,360
EXPENSES			
Depreciation and amortization	306,577	147,323	116,546
Interest	180,916	122,542	108,301
General and administrative	56,827	37,998	30,954
Property (including reimbursable)	38,838	21,297	15,457
Income taxes	2,734	1,430	1,470
Merger-related costs	13,013	7,899	-
Provisions for impairment	290	3,639	10
Total expenses	599,195	342,128	272,738
Income from continuing operations	179,180	140,719	139,622
Income from discontinued operations	67,103	18,433	17,410
Net income	246,283	159,152	157,032
Net income attributable to noncontrolling interests	(719)	-	-
Net income attributable to the Company	245,564	159,152	157,032
Preferred stock dividends	(41,930)	(40,918)	(24,253)
Excess of redemption value over carrying value of preferred shares redeemed (see note 10)	-	(3,696)	-
Net income available to common stockholders	\$ 203,634	\$ 114,538	\$ 132,779
Amounts available to common stockholders per common share:			
Income from continuing operations:			
Basic	\$ 0.71	\$ 0.72	\$ 0.91
Diluted	\$ 0.71	\$ 0.72	\$ 0.91
Net income:			
Basic	\$ 1.06	\$ 0.86	\$ 1.05
Diluted	\$ 1.06	\$ 0.86	\$ 1.05
Weighted average common shares outstanding:			
Basic	191,754,857	132,817,472	126,142,696
Diluted	191,781,622	132,884,933	126,189,399

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

Consolidated Statements of Equity

Years Ended December 31, 2013, 2012, and 2011

(DOLLARS IN THOUSANDS)

	Shares of preferred stock	Shares of common stock	Preferred stock and paid in capital	Common stock and paid in capital	Distributions in excess of net income	Total stockholders' equity	Noncontrolling interests	Total equity
Balance, December 31, 2010	13,900,000	118,058,988	\$ 337,790	\$ 2,066,287	\$ (557,112)	\$ 1,846,965	\$ -	\$ 1,846,965
Net Income	-	-	-	-	157,032	157,032	-	157,032
Distributions paid and payable	-	-	-	-	(245,904)	(245,904)	-	(245,904)
Shares issued in stock offerings, net of offering costs of \$25,200	-	14,925,000	-	489,236	-	489,236	-	489,236
Shares issued pursuant to dividend reinvestment and stock purchase plan, net	-	59,605	-	1,930	-	1,930	-	1,930
Share-based compensation	-	179,745	-	5,595	-	5,595	-	5,595
Balance, December 31, 2011	13,900,000	133,223,338	337,790	2,563,048	(645,984)	2,254,854	-	2,254,854
Net Income	-	-	-	-	159,152	159,152	-	159,152
Distributions paid and payable	-	-	-	-	(278,133)	(278,133)	-	(278,133)
Shares issued in stock offerings, net of offering costs of \$13,773	16,350,000	-	395,377	-	-	395,377	-	395,377
Shares issued pursuant to dividend reinvestment and stock purchase plan, net	-	55,598	-	2,051	-	2,051	-	2,051
Preferred shares redeemed	(5,100,000)	-	(123,804)	-	(3,696)	(127,500)	-	(127,500)
Share-based compensation	-	173,475	-	6,993	-	6,993	-	6,993
Balance, December 31, 2012	25,150,000	133,452,411	609,363	2,572,092	(768,661)	2,412,794	-	2,412,794
Net Income	-	-	-	-	245,564	245,564	719	246,283
Distributions paid and payable	-	-	-	-	(468,697)	(468,697)	(1,371)	(470,068)
Shares issued in stock offerings, net of offering costs of \$55,359	-	27,025,000	-	1,133,574	-	1,133,574	-	1,133,574
Shares issued in conjunction with acquisition of ARCT, net of our shares owned by ARCT	-	45,364,435	-	1,997,850	-	1,997,850	-	1,997,850
Issuance of preferred and common units	-	-	-	-	-	-	36,563	36,563
Shares issued pursuant to dividend reinvestment and stock purchase plan, net	-	1,449,139	-	55,244	-	55,244	-	55,244
Share-based compensation	-	194,088	-	9,118	-	9,118	-	9,118
Balance, December 31, 2013	25,150,000	207,485,073	\$ 609,363	\$ 5,767,878	\$ (991,794)	\$ 5,385,447	\$ 35,911	\$ 5,421,358

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

Consolidated Statements of Cash Flows

Years Ended December 31, 2013, 2012 and 2011

(DOLLARS IN THOUSANDS)

	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 246,283	\$ 159,152	\$ 157,032
Adjustments to net income:			
Depreciation and amortization	306,577	147,323	116,546
Income from discontinued operations	(67,103)	(18,433)	(17,410)
Amortization of share-based compensation	20,785	10,001	7,873
Non-cash rental revenue adjustments	(5,554)	(3,898)	(1,602)
Amortization of net premiums on mortgages payable	(9,481)	(665)	(189)
Amortization of deferred financing costs	9,364	6,849	5,265
Gain on sale of real estate	-	-	(540)
Provisions for impairment on real estate held for investment	290	3,639	10
Other non-cash adjustments	-	(301)	-
Cash provided by discontinued operations:			
Real estate	7,224	14,044	18,245
Proceeds from sale of real estate	597	-	-
Collection of notes receivable by Crest	209	90	3,032
Change in assets and liabilities, other than from the impact of our acquisition of American Realty Capital Trust, Inc., or ARCT			
Accounts receivable and other assets	(3,131)	483	2,511
Accounts payable, accrued expenses and other liabilities	12,846	8,185	8,179
Net cash provided by operating activities	518,906	326,469	298,952
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investment properties, net of cash received	(1,429,483)	(1,015,725)	(953,175)
Improvements to real estate, including leasing costs	(8,507)	(6,554)	(4,172)
Proceeds from sales of real estate:			
Continuing operations	8	23	2,078
Discontinued operations	126,785	50,563	22,049
Loans receivable	(10,656)	(34,876)	(1,593)
Restricted escrow deposits for Section 1031 tax-deferred exchanges and pending acquisitions	(10,158)	(1,805)	(50)
Net cash used in investing activities	(1,332,011)	(1,008,374)	(934,863)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash distributions to common stockholders	(409,222)	(236,348)	(219,297)
Cash dividends to preferred stockholders	(41,930)	(39,445)	(24,253)
Borrowings on line of credit	2,624,700	1,074,000	612,800
Payments on line of credit	(2,654,700)	(1,153,400)	(375,400)
Proceeds from notes and bonds payable issued	750,000	800,000	150,000
Principal payment on notes payable	(100,000)	-	-
Principal payments on mortgages payable	(32,603)	(11,729)	(279)
Proceeds from term loan	70,000	-	-
Repayment of ARCT line of credit	(317,207)	-	-
Repayment of ARCT term loan	(235,000)	-	-
Proceeds from common stock offerings, net	1,133,574	-	489,236
Proceeds from preferred stock offerings, net	-	395,377	-
Redemption of preferred stock	-	(127,500)	-
Distributions to noncontrolling interests	(1,216)	-	-
Debt issuance costs	(10,666)	(16,979)	(9,864)
Proceeds from dividend reinvestment and stock purchase plan, net	55,806	2,159	1,894
Other items, including shares withheld upon vesting	(13,422)	(3,147)	(2,368)
Net cash provided by financing activities	818,114	682,988	622,469
Net increase (decrease) in cash and cash equivalents	5,009	1,083	(13,442)
Cash and cash equivalents, beginning of year	5,248	4,165	17,607
Cash and cash equivalents, end of year	\$ 10,257	\$ 5,248	\$ 4,165

For supplemental disclosures, see note 17.

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

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, 2013, we owned 3,896 properties, located in 49 states and Puerto Rico, containing over 62.6 million leasable square feet.

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

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 our taxable REIT subsidiaries, 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.

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. 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, 2013, we have built-in gains of \$59 million with respect to such properties. 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, plus income attributable to dilutive shares outstanding, 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:

	2013	2012	2011
Weighted average shares used for the basic net income per share computation	191,754,857	132,817,472	126,142,696
Incremental shares from share-based compensation	26,765	67,461	46,703
Weighted average shares used for diluted net income per share computation	191,781,622	132,884,933	126,189,399
Unvested shares from share-based compensation that were anti-dilutive	59,629	17,570	13,020
Partnership common units convertible to common shares that were anti-dilutive	851,568	-	-

Discontinued Operations. Operations from ten Realty Income investment properties, two properties owned by our wholly owned taxable REIT subsidiary, Crest Net Lease, Inc., or Crest, and properties previously sold, were reported as discontinued operations at December 31, 2013. 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	2013		2012		2011	
Gain on sales of investment properties	\$	64,743	\$	9,873	\$	5,193
Rental revenue		6,040		15,161		19,546
Tenant reimbursements		146		379		370
Other revenue		418		282		94
Depreciation and amortization		(1,761)		(3,916)		(5,568)
Property expenses (including reimbursable)		(916)		(2,529)		(2,518)
Provisions for impairment		(2,738)		(1,500)		(395)
Crest's income from discontinued operations		1,171		683		688
Income from discontinued operations	\$	67,103	\$	18,433	\$	17,410
Per common share, basic and diluted	\$	0.35	\$	0.14	\$	0.14

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. Contractually obligated reimbursements from tenants for recoverable real estate taxes and operating expenses are included in tenant reimbursements in the period when such costs are incurred.

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 \$498,000 at December 31, 2013 and \$448,000 at December 31, 2012.

Other revenue, which comprises property-related revenue not included in rental revenue or tenant reimbursements, was \$5.9 million in 2013, \$1.7 million in 2012 and \$1.6 million in 2011.

Principles of Consolidation. The accompanying consolidated financial statements include the accounts of Realty Income and other entities for which we make operating and financial decisions (i.e. control), after elimination of all material intercompany balances and transactions. We consolidate entities that we control and record a noncontrolling interest for the portion that we do not own. Noncontrolling interest that was created or assumed as part of a business combination was recognized at fair value as of the date of the transaction (see notes 4 and 12). 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 government money market funds.

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

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

Our estimated fair value determinations are based on management's judgment, utilizing 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. Our methodologies for measuring fair value related to the allocation of the purchase price of real estate acquisitions include both observable market data (and thus should be categorized as level 2 on FASB's three-level valuation hierarchy) and 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 and expected below-market renewal option periods.

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.

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.

In allocating noncontrolling interests, amounts are recorded based on the fair value of units issued at the date of acquisition, as determined by the terms of the applicable agreement.

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 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 factors 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, and depreciation of the property ceases.

In 2013, Realty Income recorded total provisions for impairment of \$3.0 million. Provisions for impairment of \$2.7 million are included in income from discontinued operations on seven sold properties and one property classified as held for sale, in the following industries: one in the automotive parts industry, one in the automotive service industry, two in the child care industry, one in the grocery store industry, one in the pet supplies and services industry, and two in the restaurant-casual dining industry. Additionally, during 2013, Realty Income recorded provisions for impairment of \$290,000 on one property held for investment in the automotive service industry. This provision for impairment is included in income from continuing operations.

In 2013, Crest also recorded a provision for impairment of \$308,000 on one sold property in the restaurant-casual dining industry, which is included in income from discontinued operations.

In 2012, Realty Income recorded total provisions for impairment of \$5.1 million. Provisions for impairment of \$1.5 million are included in income from discontinued operations on six 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, and one in the home improvement industry. Additionally, during 2012, Realty Income recorded provisions for impairment of \$3.6 million on four properties held for investment at December 31, 2012, in the restaurant-casual dining 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.

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

Goodwill. Goodwill is tested for impairment during the second quarter of each year as well as when events or circumstances occur indicating that our goodwill might be impaired. Under the amendments issued in conjunction with *ASU No. 2011-08, Intangibles – Goodwill and Other (Topic 350)*, an entity, through an assessment of qualitative factors, is not required to calculate the estimated fair value of a

reporting unit, in connection with the two-step goodwill impairment test, unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. We elected to continue testing goodwill for impairment during the second quarter of each year as well as when events or circumstances occur, indicating that our goodwill might be impaired. During our tests for impairment of goodwill, during the second quarters of 2013, 2012 and 2011, 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 2013, 2012 or 2011.

Equity Offering Costs. Underwriting commissions and offering costs have been reflected as a reduction of additional paid-in-capital on our consolidated balance sheets.

Noncontrolling Interests. Noncontrolling interests are reflected on our consolidated balance sheets as a component of equity. Investments in noncontrolling interests are recorded initially at fair value based on the price of the applicable units issued, and subsequently adjusted each period for distributions, contributions and the allocation of net income attributable to the noncontrolling interests.

As consideration for two separate acquisitions during 2013, partnership units of Tau Operating Partnership, L.P. and Realty Income, L.P. were issued to third parties. These common units (discussed in footnote 12) do not have voting rights, are entitled to monthly distributions equal to the amount paid to our common stockholders, and are redeemable in cash or our common stock, at our option and at a conversion ratio of one to one, subject to certain exceptions. As the general partner for each of these partnerships, we have operating and financial control over these entities, consolidate them in our financial statements, and record the partnership units held by third parties as noncontrolling interests.

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.

Reclassifications. In order to conform to the 2013 presentation, certain of the 2012 and 2011 balances have been reclassified on our consolidated financial statements, including the following:

- Discontinued operations, in order to report the results of properties that either have been sold or are classified as held for sale; and
- Lease intangible assets and liabilities, which were previously reported as a component of other assets, net, and other liabilities, net, are disclosed separately on our consolidated balance sheets due to the significance of recent acquisitions.

Revisions. Certain of the 2012 and 2011 balances have been revised on our consolidated financial statements as follows:

- Tenant reimbursements as a component of total revenue and reimbursable property expenses as a component of total property expenses, which were previously reported on a net basis within property expenses, are reported on a gross basis on our consolidated statements of income; and
- Unamortized original issuance discounts on our notes payable, which were previously reported as a component of other assets, net, are reported net of our notes payable on our consolidated balance sheets.

3. Supplemental Detail for Certain Components of Consolidated Balance Sheets

	December 31, 2013	December 31, 2012
A. Other assets, net, consist of the following (dollars in thousands) at:		
Loans receivable	\$ 48,844	\$ 35,126
Deferred financing costs on notes payable, net	19,856	15,672
Notes receivable issued in connection with property sales	19,078	19,300
Prepaid expenses	11,674	9,489
Restricted escrow deposits	10,158	1,805
Credit facility origination costs, net	7,146	8,188
Impounds related to mortgages payable	5,555	-
Corporate assets, net	1,259	909
Deferred financing costs on mortgages payable, net	1,219	1,541
Deferred financing costs on term loan, net	248	-
Note receivable issued in connection with acquisition	-	8,780
Other items	2,096	424
	<u>\$ 127,133</u>	<u>\$ 101,234</u>
B. Acquired lease intangible assets, net, consist of the following (dollars in thousands) at:		
Acquired in-place leases	\$ 843,616	\$ 235,914
Accumulated amortization of acquired in-place leases	(95,084)	(29,601)
Acquired above-market leases	207,641	40,389
Accumulated amortization of acquired above-market leases	(20,714)	(4,577)
	<u>\$ 935,459</u>	<u>\$ 242,125</u>
C. Distributions payable consist of the following declared distributions (dollars in thousands) at:		
Common stock distributions	\$ 37,797	\$ 20,251
Preferred stock dividends	3,494	3,494
Noncontrolling interests distributions	161	-
	<u>\$ 41,452</u>	<u>\$ 23,745</u>
D. Accounts payable and accrued expenses consist of the following (dollars in thousands) at:		
Notes payable - interest payable	\$ 55,616	\$ 40,061
Accrued costs on properties under development	14,058	8,595
Mortgages payable - accrued interest payable	2,790	648
Other items	30,047	21,122
	<u>\$ 102,511</u>	<u>\$ 70,426</u>
E. Acquired lease intangible liabilities, net, consist of the following (dollars in thousands) at:		
Acquired below-market leases	\$ 158,703	\$ 28,975
Accumulated amortization of acquired below-market leases	(10,453)	(2,504)
	<u>\$ 148,250</u>	<u>\$ 26,471</u>
F. Other liabilities consist of the following (dollars in thousands) at:		
Rent received in advance	\$ 31,144	\$ 20,929
Preferred units issued upon acquisition of ARCT	6,750	-
Security deposits	6,136	5,130
	<u>\$ 44,030</u>	<u>\$ 26,059</u>

4. American Realty Capital Trust

A. Acquisition

On January 22, 2013, we completed our acquisition of ARCT for approximately \$3.2 billion. 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, resulting in the issuance of a total of 45,573,144 shares of our common stock to ARCT shareholders, valued at a per share amount of \$44.04, which was the closing price of our common stock on January 22, 2013. In connection with the closing of the ARCT acquisition, we repaid and terminated the amounts then outstanding of approximately \$552.9 million under ARCT's revolving credit facility and term loan.

The acquisition of ARCT provided benefits to Realty Income, including accretion to net earnings, growth in the size of our real estate portfolio, diversification of industries and property type, and increase in the percentage of investment grade tenants.

With this acquisition, we added 515 properties to our portfolio. The final allocation of the purchase price reflects aggregate consideration of approximately \$2.1 billion, as calculated below (in thousands):

Consideration associated with equity issued ⁽¹⁾	\$	2,027,753
Cash consideration paid to previous owners of ARCT ⁽²⁾		56,216
Total purchase consideration	\$	<u>2,083,969</u>

⁽¹⁾ Includes the value associated with the issuance of the Tau Operating Partnership units discussed in 4.C. below.

⁽²⁾ Includes a \$55.5 million cash payment on 158,505,108 ARCT common shares outstanding at the acquisition date.

We have accounted for the ARCT acquisition in accordance with *ASC 805, Business Combinations*. The following table summarizes our final purchase price allocation, which represents our acquisition date fair values of the assets acquired and liabilities assumed (in thousands):

Assets:	
Real estate	\$ 2,674,464
Acquired lease intangible assets	561,289
Cash and cash equivalents, accounts receivable, and other assets, net	<u>41,371</u>
Total Assets	<u>3,277,124</u>
Liabilities:	
Lines of credit payable	317,207
Term loan	235,000
Mortgages payable	538,960
Acquired lease intangible liabilities	79,690
Accounts payable, accrued expenses, and other liabilities, net	<u>22,298</u>
Total Liabilities	<u>1,193,155</u>
Fair value of net assets acquired	<u>\$ 2,083,969</u>

The final allocation of the purchase price was based on our assessment of the fair value of the acquired assets and liabilities using both Level 2 and 3 inputs.

Investments in Real Estate Properties. We determined the fair value generally by applying an income approach methodology using both direct capitalization and discounted cash flow analysis. Key assumptions include capitalization and discount rates. Our valuations were based, in part, on valuations prepared by an independent valuation firm.

Acquired Lease Intangibles. The fair value of in-place leases was calculated based upon our estimate of the costs to obtain tenants in each of the applicable markets. An asset or liability was recognized for acquired leases with favorable or unfavorable rents based on our estimate of current market rents in each

of the applicable markets. Our valuations of the intangible assets were based, in part, on valuations prepared by an independent valuation firm.

Debt. The fair value of debt was estimated based on contractual future cash flows discounted using borrowing spreads and market interest rates that would be available to us for the issuance of debt with similar terms and remaining maturities.

B. Transaction Costs

In connection with our acquisition of ARCT, we incurred total merger-related transaction costs of approximately \$21 million, which include, but are not limited to, advisor fees, legal fees, accounting fees, printing fees and transfer taxes. During 2013, we incurred \$13.0 million of the \$21 million of total merger-related transaction costs, which are included in income from continuing operations. In 2012, we incurred \$7.9 million of these total merger-related transaction costs.

C. Noncontrolling interests and preferred units

Consideration associated with equity issued includes the value of common and preferred partnership units issued in Tau Operating Partnership, L.P., or Tau Operating Partnership, the consolidated subsidiary which owns properties acquired through the ARCT acquisition. Since the date of acquisition, Realty Income and its subsidiaries hold a 99.3% interest in the Tau Operating Partnership.

The common units do not have voting rights, are entitled to monthly distributions equal to the amount paid to common stockholders of Realty Income, and are redeemable in cash or Realty Income common stock at our option and at a conversion ratio of one to one. Noncontrolling interests with redemption provisions that permit the issuer to settle in either cash or common stock, at the option of the issuer, were evaluated to determine whether temporary or permanent equity classification on the balance sheet was appropriate. We evaluated this guidance and determined that the common units meet the requirements to qualify for presentation as permanent equity. See note 12 for the change in the carrying value of these common units from January 22, 2013 through December 31, 2013.

The Tau Operating Partnership preferred units have also been recorded at fair value as of the date of acquisition. Since they are redeemable at a fixed price on a determinable date, we have classified them in other liabilities on our consolidated balance sheet. Payments on these preferred units are made monthly at a rate of 2% per annum and are included in interest expense. As of December 31, 2013, the preferred units have a carrying value of \$6.75 million.

D. Litigation

In connection with our acquisition of ARCT, one action remains pending in the Supreme Court of the State of New York for New York, New York under the consolidated caption *In re American Realty Capital Trust Shareholders Litigation*, No. 65330-2012 (the "New York Action"). On November 9, 2012, the Court granted defendants' motion to stay the New York Action, which currently remains stayed. We believe this pending matter will not have a material impact on our financial position or results of operations.

5. Investments in Real Estate

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

A. 2013 and 2012 Acquisitions

During 2013, Realty Income invested \$1.51 billion in 459 new properties and properties under development or expansion (in addition to our acquisition of ARCT, which is discussed in more detail in note 4), with an initial weighted average contractual lease rate of 7.1%. The 459 new properties and properties under development or expansion, are located in 40 states, will contain approximately 9.0 million leasable square feet, and are 100% leased with a weighted average lease term of 14.0 years. The tenants occupying the new properties operate in 23 industries and the property types consist of 83.8% retail, 9.2% office, 4.9% industrial and distribution, and 2.1% manufacturing, based on rental revenue. These investments are in addition to the \$3.2 billion acquisition of 515 properties of American

Realty Capital Trust, Inc., or ARCT, which were added to our real estate portfolio during the first quarter of 2013. Our combined total investment in real estate assets during 2013 was \$4.67 billion in 974 new properties and properties under development or expansion. During 2013, none of our investments caused any one tenant to be 10% or more of our total assets at December 31, 2013.

The 515 properties added to our real estate portfolio as a result of the ARCT acquisition, are located in 44 states and Puerto Rico, contain over 16.0 million leasable square feet, and are 100% leased with a weighted average lease term of 12.2 years. The 69 tenants, occupying the 515 properties acquired, operate in 28 industries and the property types consist of 54.0% retail, 32.6% industrial and distribution, and 13.4% office, based on rental revenue. We recorded ARCT merger-related transaction costs of \$13.0 million in 2013 and \$7.9 million in 2012.

Additionally, in September 2013, we purchased a property for \$45.4 million in San Diego, California, which will serve as our new corporate headquarters. We plan on relocating to this facility during the second half of 2014.

The \$4.67 billion invested during 2013 was allocated as follows: \$805.5 million to land, \$3.21 billion to buildings and improvements, \$772.7 million to intangible assets related to leases, \$13.6 million to other assets, net, and \$128.6 million to intangible liabilities related to leases and other assumed liabilities. We also recorded mortgage premiums of \$28.4 million associated with the mortgages acquired. There was no contingent consideration associated with these acquisitions.

The properties acquired during 2013 generated total revenues of \$225.3 million and income from continuing operations of \$44.0 million.

The purchase price allocation for \$120.8 million of the \$4.67 billion invested by us in 2013 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 allocations in 2014. In 2013, we finalized the purchase price allocations for \$106.4 million invested in the second half of 2012. There were no material changes to our consolidated financial statements as a result of the finalization of purchase price allocations during 2013.

In comparison, during 2012, Realty Income invested \$1.16 billion in 439 properties and properties under development or expansion, with an initial weighted average contractual lease rate of 7.2%. The 439 properties and properties under development or expansion, are located in 38 states, will contain over 10.5 million leasable square feet, and are 100% leased with an average lease term of 13.8 years. The tenants occupying the new properties operated in 23 industries and the property types consisted of 79.6% retail, 11.3% industrial and distribution, 8.3% manufacturing, and 0.8% office, based on rental revenue.

The \$1.16 billion invested during 2012 was allocated as follows: \$289.2 million to land, \$768.4 million to buildings and improvements, \$104.8 million to intangible assets, \$34.9 million to other assets, net, and \$33.2 million to intangible and assumed liabilities. We also recorded 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 estimated initial weighted average contractual lease rate for a property is generally computed as estimated contractual net operating income, which, in the case of a net leased property, is equal to the aggregate base rent under the lease for the first full year of each lease, divided by the total cost of the property. 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.

In the case of a property under development or expansion, the estimated initial weighted average contractual lease rate is computed as follows: estimated net operating income (which is calculated by multiplying the capitalization rate determined by the lease by our projected total investment in the property, including land, construction and capitalized interest costs) for the first full year of each lease, divided by such projected total investment in the property. Of the \$4.67 billion we invested during 2013, \$39.6 million was invested in 21 properties under development or expansion with an estimated initial weighted average contractual lease rate of 8.5%.

B. Acquisition Transaction Costs

Acquisition transaction costs (excluding ARCT merger-related costs) of \$2.1 million and \$2.4 million, respectively, were recorded to general and administrative expense on our consolidated statements of income for 2013 and 2012.

C. Investments in Existing Properties

During 2013, we capitalized costs of \$8.5 million on existing properties in our portfolio, consisting of \$1.3 million for re-leasing costs and \$7.2 million for building and tenant improvements. During 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.

D. Properties with Existing Leases

Of the \$4.67 billion we invested during 2013, approximately \$4.32 billion was used to acquire 799 properties with existing leases. Associated with these 799 properties, we recorded \$602.8 million as the intangible value of the in-place leases, \$169.9 million as the intangible value of above-market leases and \$128.6 million as the intangible value of below-market leases. The value of the in-place and above-market leases is recorded to acquired lease intangible assets, net on our consolidated balance sheet, and the value of the below-market leases is recorded to acquired lease intangible liabilities, net on our consolidated balance sheet

The values of the in-place leases are amortized as depreciation and amortization expense. The amounts amortized to expense for all of our in-place leases, for 2013, 2012, and 2011, were \$65.5 million, \$15.6 million, and \$8.3 million, respectively.

The values of the above-market and below-market leases are amortized as rental revenue on our consolidated statements of income. All of these amounts are amortized over the term of the respective leases. The amounts amortized as a net decrease to rental revenue for capitalized above-market and below-market leases, for 2013, 2012 and 2011, were \$8.2 million, \$1.8 million, and \$1.1 million, respectively.

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 following table presents the estimated 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, 2013 (in thousands):

	Net decrease to rental revenue	Increase to amortization expense
2014	\$ (7,708)	\$ 75,164
2015	(7,785)	72,616
2016	(7,797)	72,210
2017	(7,794)	70,986
2018	(7,535)	68,649
Thereafter	(58)	388,907
Totals	\$ (38,677)	\$ 748,532

E. Unaudited Pro Forma Information

The following pro forma total revenue and income from continuing operations, for 2013 and 2012, assumes all of our 2013 acquisitions, including ARCT, occurred on January 1, 2012 (in millions). This pro forma supplemental information does not include: (1) 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, and (2) ARCT's historical operational costs, including general and administrative costs and property expenses. Additionally, this information does not purport to be indicative of what our operating results would have been, had the acquisitions occurred on January 1, 2012, and may not be indicative of future operating results. For purposes of calculating these pro-forma amounts, we assumed that merger-related costs of approximately \$12.5 million, which represent the merger-related costs incurred after consummation of our ARCT acquisition, occurred on January 1, 2012. Other than these items specified above, no material, non-recurring pro-forma adjustments were included in the calculation of this information.

Dollars in millions		Total revenue	Income from continuing operations
Supplemental pro forma for the year ended December 31, 2013	\$	848.6	\$ 223.3
Supplemental pro forma for the year ended December 31, 2012	\$	772.6	\$ 212.8

6. Credit Facility

In October 2013, we increased our unsecured acquisition credit facility from \$1.0 billion to \$1.5 billion. The initial term of the credit facility expires in May 2016 and includes, at our election, a one-year extension option. Under this 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 under this credit facility. Our credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation.

At December 31, 2013, credit facility origination costs of \$7.1 million are included in other assets, net, on our consolidated balance sheet. These costs are being amortized over the remaining term of our current \$1.5 billion credit facility.

At December 31, 2013, we had a borrowing capacity of \$1.372 billion available on our credit facility (subject to customary conditions to borrowing) and an outstanding balance of \$128.0 million, as compared to an outstanding balance of \$158.0 million at December 31, 2012.

The average interest rate on outstanding borrowings under our credit facilities was 1.3% during 2013, 1.6% during 2012, and was 2.1% during 2011. At December 31, 2013, the effective interest rate was 1.2%. Our current and prior credit facilities are and were subject to various leverage and interest coverage ratio limitations. At December 31, 2013, we remain in compliance with these covenants.

7. Mortgages Payable

During 2013, we assumed mortgages totaling \$630.0 million, excluding net premiums. The mortgages are secured by the properties on which the debt was placed. Of the \$630.0 million of mortgages assumed during 2013, approximately \$608.8 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 has full recourse to Realty Income, and the remaining \$14.6 million of the assumed debt is not guaranteed by and is non-recourse to Realty Income. We expect to pay off the mortgages as soon as prepayment penalties have declined to a level that will make it economically feasible to do so. We intend to continue to primarily identify property acquisitions that are free from mortgage indebtedness. We repaid four mortgages in full during 2013, including one in August for

\$11.7 million and three in December for \$23.1 million. One of the mortgages repaid in December was related to a mortgage previously assumed during 2013.

During 2013, aggregate net premiums totaling \$28.4 million were recorded upon assumption of the mortgages for above-market interest rates, as compared to net premiums totaling \$10.0 million recorded in 2012. Amortization of these net premiums is recorded as a reduction to interest expense over the remaining term of the respective mortgages, 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, 2013, we remain in compliance with these covenants.

As a result of assuming mortgages payable, we incurred deferred financing costs of \$211,000 in 2013 and \$1.1 million in 2012, which are classified as part of other assets, net, on our consolidated balance sheets. The balance of these deferred financing costs was \$1.2 million at December 31, 2013 and \$1.5 million at December 31, 2012 which is being amortized over the remaining term of each mortgage.

The following is a summary of all our mortgages payable as of December 31, 2013 and 2012, respectively (dollars in thousands):

As Of	Number of Properties ⁽¹⁾	Weighted Average Stated Interest Rate ⁽²⁾	Weighted Average Effective Interest Rate ⁽³⁾	Weighted Average Remaining Years Until Maturity	Remaining Principal Balance	Unamortized Premium Balance	Mortgage Payable Balance
12/31/13	227	5.3%	3.9%	4.3	\$ 754,508	\$ 28,852	\$ 783,360
12/31/12	11	5.8%	4.4%	4.8	\$ 165,927	\$ 9,941	\$ 175,868

⁽¹⁾ At December 31, 2013, there were 47 mortgages on 227 properties, while at December 31, 2012, there were 13 mortgages on 11 properties. The mortgages require monthly payments, with principal payments due at maturity. The mortgages are at fixed interest rates, except for: (1) a \$23.6 million mortgage maturing on June 10, 2015 with a floating variable interest rate calculated as the sum of the current one month LIBOR plus 4.5%, not to exceed an all-in interest rate of 5.5%, (2) a \$8.3 million mortgage maturing on September 3, 2021, with a floating interest rate calculated as the sum of the current one month LIBOR plus 2.4%, and (3) a \$32.4 million mortgage maturing on April 10, 2017, which is fixed at 5.07% through December 28, 2015, but is reset to the greater of 4.0%, or the two-year swap rate plus 2.75% thereafter. As part of the \$8.3 million mortgage payable assumed in 2012, we also acquired an interest rate swap which essentially fixes the interest rate on this mortgage payable at 6.0%. As part of the \$32.4 million mortgage payable assumed in 2013, we have the opportunity to prepay the mortgage at par on December 28, 2015, prior to the variable interest rate reset. As part of two mortgages totaling \$8.8 million that matured on December 28, 2013, we also acquired an \$8.8 million note receivable, upon which we received interest income at a stated rate of 8.1% through December 28, 2013.

⁽²⁾ Stated interest rates ranged from 2.5% to 6.9% at December 31, 2013, while stated interest rates ranged from 2.6% to 8.3% at December 31, 2012.

⁽³⁾ Effective interest rates ranged from 2.4% to 9.2% at December 31, 2013, while effective interest rates ranged from 2.7% to 8.3% at December 31, 2012.

The following table summarizes the maturity of mortgages payable, excluding net premiums of \$28.9 million, as of December 31, 2013 (dollars in millions):

Year of Maturity	
2014	\$ 49.9
2015	125.5
2016	248.5
2017	133.0
2018	15.0
Thereafter	182.6
Totals	\$ 754.5

8. Term Loan

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 current one month LIBOR, plus 1.2%. 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%. The interest rate swap has a nominal value at December 31, 2013. As a result of entering into our term loan, we incurred deferred financing costs of \$303,000, which are being amortized over the remaining term of the term loan. The net balance of these deferred financing costs was \$248,000, which are classified as part of other assets, net, on our consolidated balance sheet at December 31, 2013.

9. Notes Payable

A. General

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

	December 31, 2013	December 31, 2012
5.375% notes, issued in March 2003 and repaid in March 2013	\$ -	\$ 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	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	450
4.65% notes, issued in July 2013 and due in August 2023	750	-
5.875% bonds, \$100 issued in March 2005 and \$150 issued in June 2011, both due in March 2035	250	250
Total principal amount	3,200	2,550
Unamortized original issuance discounts	(15)	(14)
	<u>\$ 3,185</u>	<u>\$ 2,536</u>

The following table summarizes the maturity of our notes and bonds payable as of December 31, 2013, excluding unamortized original issuance discounts (dollars in millions):

Year of Maturity	Notes and Bonds
2014	\$ -
2015	150
2016	275
2017	175
2018	350
Thereafter	2,250
Totals	<u>\$ 3,200</u>

As of December 31, 2013, the weighted average interest rate on our notes and bonds payable was 4.9% and the weighted average remaining years until maturity was 7.6 years.

Interest incurred on all of the notes and bonds was \$138.9 million for 2013, \$110.4 million for 2012 and \$101.5 million for 2011. 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, 2013, we remain in compliance with these covenants.

B. Note Repayment

In March 2013, we repaid the \$100 million of outstanding 5.375% notes, plus accrued and unpaid interest, using proceeds from our March 2013 common stock offering and our credit facility.

C. Note Issuances

In July 2013, we issued \$750 million of 4.65% senior unsecured notes due August 2023, or the 2023 Notes. The price to the investors for the 2023 Notes was 99.775% of the principal amount for an effective yield of 4.678% per annum. The total net proceeds of approximately \$741.4 million from this offering were used to repay all outstanding borrowings under our acquisition credit facility, and the remaining proceeds were used for other general corporate purposes and working capital, including additional property acquisitions. Interest is paid semiannually on the 2023 Notes.

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.

10. Issuance and Redemption of Preferred Stock

A. In 2006, we issued 8.8 million shares of 6.75% Monthly Income Class E Cumulative Redeemable Preferred Stock, or Class E preferred stock, at a price of \$25.00 per share. Since December 2011, the shares of Class E preferred stock are redeemable at our option, for \$25.00 per share. During 2013, 2012 and 2011, 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, 2013, a monthly dividend of \$0.140625 per share was payable and was paid in January 2014.

B. In February 2012, we issued 14.95 million shares of our 6.625% Monthly Income Class F Cumulative Redeemable Preferred Stock, or Class F 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, or Class D preferred stock, and the balance was used to repay a portion of the borrowings under our credit facility. Beginning February 15, 2012, the shares of Class F preferred stock 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 are 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. During 2013, we paid twelve monthly dividends to holders of our Class F preferred stock totaling \$1.656252, or \$27.1 million, and at December 31, 2013, a monthly dividend of \$0.138021 per share was payable and was paid in January 2014.

C. We redeemed all of the 5.1 million shares of our Class D preferred stock in March 2012 for \$25.00 per share, plus accrued dividends. We incurred a charge of \$3.7 million for 2012, representing the Class D preferred stock original issuance costs that we paid in 2004.

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

11. Issuance of Common Stock

In October 2013, we issued 9,775,000 shares of common stock at a price of \$40.63 per share, including 1,275,000 shares purchased by the underwriters upon the exercise of their option to purchase additional shares. After underwriting discounts and other estimated offering costs of \$18.7 million, the net proceeds of approximately \$378.5 million were used to repay a portion of the borrowings under our acquisition credit facility, which were used to fund property acquisitions.

In March 2013, we issued 17,250,000 shares of common stock at a price of \$45.90 per share, including 2,250,000 shares purchased by the underwriters upon the exercise of their overallotment option. After underwriting discounts and other offering costs of \$36.7 million, the net proceeds of \$755.1 million were used to redeem our 5.375% notes in March 2013 and repay borrowings under our acquisition credit facility, which were used to fund property acquisitions, including our acquisition of ARCT.

In connection with our January 2013 acquisition of ARCT, as described in note 4, we issued a total of 45,573,144 shares of our common stock to ARCT shareholders and we received 208,709 shares of our common stock that were previously held by ARCT. The closing price per share of our common stock on the date of the ARCT acquisition was \$44.04. The total value of the 45,573,144 common shares was approximately \$2 billion.

12. Noncontrolling Interests

In June 2013, we completed the acquisition of a portfolio of properties by issuing units in a newly formed entity, Realty Income, L.P. The units issued as consideration for the acquisition represent a 2.2% ownership in Realty Income, L.P. at December 31, 2013. Realty Income holds the remaining 97.8% interests in this entity, and consolidates the entity.

The Realty Income, L.P. units do not have voting rights, are entitled to monthly distributions equal to the amount paid to common stockholders of Realty Income, and are redeemable in cash or Realty Income common stock, at our option, and at a conversion ratio of one to one, subject to certain exceptions. Noncontrolling interests with redemption provisions that permit the issuer to settle in either cash or common stock, at the option of the issuer, were evaluated to determine whether temporary or permanent equity classification on the balance sheet was appropriate. We evaluated this guidance and determined that the units meet the requirements to qualify for presentation as permanent equity.

The following table represents the change in the carrying value of all noncontrolling interests, including Tau Operating Partnership units which are discussed in note 4, through December 31, 2013 (dollars in thousands):

	Tau Operating Partnership units ⁽¹⁾	Realty Income, L.P. units ⁽²⁾	Total
Fair value of units issued	\$ 13,962	\$ 22,601	\$ 36,563
Distributions	(691)	(680)	(1,371)
Allocation of net income	218	501	719
Carrying value at December 31, 2013	<u>\$ 13,489</u>	<u>\$ 22,422</u>	<u>\$ 35,911</u>

⁽¹⁾ 317,022 Tau Operating Partnership units were issued on January 22, 2013 and remain outstanding as of December 31, 2013.

⁽²⁾ 534,546 Realty Income, L.P. units were issued on June 27, 2013 and remain outstanding as of December 31, 2013.

13. Distributions Paid and Payable

A. Common Stock

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

Month	2013	2012	2011
January	\$ 0.1517500	\$ 0.1455000	\$ 0.1442500
February	0.1809167	0.1455000	0.1442500
March	0.1809167	0.1455000	0.1442500
April	0.1812292	0.1458125	0.1445625
May	0.1812292	0.1458125	0.1445625
June	0.1812292	0.1458125	0.1445625
July	0.1815417	0.1461250	0.1448750
August	0.1815417	0.1461250	0.1448750
September	0.1815417	0.1511250	0.1448750
October	0.1818542	0.1514375	0.1451875
November	0.1818542	0.1514375	0.1451875
December	0.1818542	0.1514375	0.1451875
Total	\$ 2.1474587	\$ 1.7716250	\$ 1.7366250

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

	2013	2012	2011
Ordinary income	\$ 1.3153791	\$ 1.3367481	\$ 1.3787863
Nontaxable distributions	0.8320796	0.4348769	0.3578387
Totals	\$ 2.1474587	\$ 1.7716250	\$ 1.7366250

At December 31, 2013, a distribution of \$0.1821667 per common share was payable and was paid in January 2014. At December 31, 2012, a distribution of \$0.15175 per common share was payable and was paid in January 2013.

B. Class D Preferred Stock

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

C. Class E Preferred Stock

Dividends of \$0.140625 per share are paid monthly in arrears on the Class E preferred stock. We declared dividends to holders of our Class E preferred stock totaling \$14.9 million in 2013, 2012 and 2011. For 2013, 2012 and 2011, dividends paid per share in the amount of \$1.6875 were characterized as ordinary income for federal income tax purposes.

D. Class F Preferred Stock

Dividends of \$0.138021 per share are paid monthly in arrears on the Class F preferred stock. We declared dividends to holders of our Class F preferred stock totaling \$27.1 million in 2013 and \$22.6 million in 2012. For 2013 and 2012, dividends paid per share of \$1.656252 and \$1.4124147, respectively, were characterized as ordinary income for federal income tax purposes.

14. Operating Leases

A. At December 31, 2013, we owned 3,896 properties in 49 states and Puerto Rico, plus an additional three properties owned by Crest. Of the 3,896 properties, 3,876, or 99.5%, are single-tenant properties, and the remaining twenty are multi-tenant properties. At December 31, 2013, 70 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 \$2.9 million for 2013, \$2.1 million for 2012 and \$1.4 million for 2011, including amounts recorded to discontinued operations of \$115,000 in 2013, \$163,000 in 2012 and \$70,000 in 2011.

At December 31, 2013, minimum future annual rents to be received on the operating leases for the next five years and thereafter are as follows (dollars in thousands):

2014	\$	809,394
2015		796,822
2016		782,480
2017		763,348
2018		740,078
Thereafter		5,074,496
Total	\$	8,966,618

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, 2013, 2012 or 2011.

15. Gain on Sales of Investment Properties

During 2013, we sold 75 investment properties for \$134.2 million, which resulted in a gain of \$64.7 million. The results of operations for these properties have been reclassified as discontinued operations for all periods presented.

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 2013, Crest sold one property for \$597,000, which resulted in no gain. The results of operations for this property have been reclassified as discontinued operations. During 2012 and 2011, Crest did not sell any properties.

16. 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, term loan 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 (which includes net mortgage premiums) and our senior notes and bonds payable, which are disclosed below (dollars in millions):

At December 31, 2013	Carrying value per balance sheet	Estimated fair value
Notes receivable issued in connection with property sales	\$ 19.1	\$ 21.1
Mortgages payable assumed in connection with acquisitions	783.4	780.0
Notes payable, net of unamortized original issuance discounts	3,185.5	3,340.7

At December 31, 2012	Carrying value per balance sheet	Estimated fair value
Notes receivable issued in connection with property sales	\$ 19.3	\$ 20.5
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, net of unamortized original issuance discounts	2,536.0	2,827.1

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 relevant 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 three 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 two on the three-level valuation hierarchy.

17. Supplemental Disclosures of Cash Flow Information

Cash paid for interest was \$166.1 million in 2013, \$112.5 million in 2012, and \$102.0 million in 2011.

Interest capitalized to properties under development was \$537,000 in 2013, \$498,000 in 2012, and \$438,000 in 2011.

Cash paid for income taxes was \$2.1 million in 2013, \$1.0 million in 2012, and \$871,000 in 2011.

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

- A. Share-based compensation expense was \$20.8 million for 2013, \$10.0 million for 2012 and \$7.9 million for 2011.
- B. See "Provisions for Impairment" in note 2 for a discussion of provisions for impairments recorded by Realty Income and Crest.
- C. During 2013, the following components were acquired in connection with our acquisition of ARCT: (1) real estate investments and related intangible assets of \$3.2 billion, (2) other assets of \$19.5 million, (3) lines of credit payable of \$317.2 million, (4) a term loan for \$235.0 million, (5) mortgages payable of \$539.0 million, (6) intangible liabilities of \$79.7 million, (7) other liabilities of \$29.0 million, and (8) noncontrolling interests of \$14.0 million.

D. During 2013, we acquired mortgages payable (excluding the mortgages payable discussed in items C. and E.) to third-party lenders of \$81.3 million and recorded \$6.1 million of net premiums related to property acquisitions. During 2012, we assumed \$110.5 million of mortgages payable to third-party lenders and recorded \$10.0 million of net premiums. During 2011, we assumed \$67.4 million of mortgages payable to third-party lenders and recorded \$820,000 of net premiums.

E. During 2013, we acquired \$55.9 million of real estate through the assumption of a \$32.4 million mortgage payable, the issuance of 534,546 units by Realty Income, L.P. and cash of \$1.0 million. We recorded a mortgage discount of \$386,000 related to this acquisition.

F. During 2013, we acquired real estate for \$7.4 million via exchanges of our properties.

G. During 2013, we recorded receivables of \$1.9 million for the taking of two investment properties as a result of an eminent domain action. These receivables are included in other assets, net, on our consolidated balance sheet at December 31, 2013.

H. Accrued costs on properties under development resulted in an increase in buildings and improvements and accounts payable of \$5.5 million, \$3.8 million and \$3.7 million at December 31, 2013, 2012 and 2011, respectively.

18. 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.

19. Common Stock Incentive Plan

In 2012, our Board of Directors adopted and 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, 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 \$20.8 million during 2013, \$10.0 million during 2012, and \$7.9 million during 2011.

The following table summarizes our common stock grant activity under our 2012 Plan and the previous 2003 Plan. Our common stock grants vest over periods ranging from immediately to five years.

	2013		2012		2011	
	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	895,550	\$ 19.94	925,526	\$ 20.21	924,294	\$ 19.69
Shares granted	484,060	\$ 41.13	261,811	\$ 35.06	247,214	\$ 33.94
Shares vested	(654,650)	\$ 30.91	(290,877)	\$ 27.47	(245,487)	\$ 25.26
Shares forfeited	<u>(2,697)</u>	\$ 37.30	<u>(910)</u>	\$ 31.67	<u>(495)</u>	\$ 31.37
Outstanding nonvested shares, end of each period	<u>722,263</u>	\$ 23.37	<u>895,550</u>	\$ 19.94	<u>925,526</u>	\$ 20.21

⁽¹⁾ Grant date fair value.

During 2013, we issued 484,060 shares of common stock under the 2012 Plan. Of the 484,060 shares, 432,606 shares vest over the following service periods: 106,026 vested immediately, 62,989 vest over a service period of one year, 12,000 vest over a service period of three years, 77,180 shares vest over a service period of four years, and 174,411 vest over a service period of five years. Additionally, 51,454 shares of performance-based common stock was granted, of which 12,864 shares vested at the end of 2013 based on the achievement of certain 2013 performance metrics, and of which 12,864 may vest at the end of 2014, 2015 and 2016, if certain performance metrics are reached.

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 typical 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 being 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 or attainment of individual achievements, non-executive employees may receive grants of nonvested stock which vests over a five year period.

As of December 31, 2013, the remaining unamortized share-based compensation expense totaled \$16.9 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 2012 and 2003 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 2013, 2012 or 2011.

As of December 31, 2013 and 2012, there were no remaining common stock options outstanding for any of the periods presented.

20. Dividend Reinvestment and Stock Purchase Plan

In March 2011, we established a Dividend Reinvestment and Stock Purchase Plan, or the DRSP, 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 DRSP also allows our current stockholders to buy additional shares of common stock by reinvesting all or a portion of their distributions. The DRSP authorizes up to 6,000,000 common shares to be issued. During 2013, we issued 1,449,139 shares and raised approximately \$55.6 million under the DRSP. These amounts include the shares issued as part of the waiver approval process discussed below. During 2012, we issued 55,598 shares and raised approximately \$2.2 million under the DRSP. During 2011, we issued 59,605 shares and raised approximately \$2.0 million under the DRSP. From the inception of the DRSP through December 31, 2013, we have issued 1,564,342 shares and raised approximately \$59.8 million, which includes the amounts issued under the waiver discount program as described below.

In March 2013, we updated our DRSP so that we are now paying for a majority of the plan-related fees, which were previously paid by investors.

In November 2013, we revised our DRSP to institute a waiver approval process allowing larger investors or institutions, per a formal approval process, to purchase shares at a small discount, if approved by us. In December 2013, we issued 1,308,490 shares and raised \$49.7 million under this waiver approval process.

21. 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 48 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, rental 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, 2013 (dollars in thousands):

Assets, as of December 31:	2013	2012
Segment net real estate:		
Automotive service	\$ 108,940	\$ 96,409
Automotive tire services	258,787	184,601
Beverages	306,278	310,555
Child care	57,201	61,747
Convenience stores	766,472	671,676
Dollar stores	824,274	450,566
Drug stores	943,401	159,482
Financial services	252,764	26,020
Food processing	138,000	102,964
Grocery stores	283,207	219,216
Health and fitness	493,981	330,503
Health care	228,003	4,562
Motor vehicle dealerships	114,203	102,155
Restaurants-casual dining	477,130	448,806
Restaurants-quick service	312,474	250,454
Sporting goods	94,771	77,737
Theaters	367,830	381,123
Transportation services	623,541	130,203
Wholesale club	455,875	308,202
29 other non-reportable segments	1,689,477	725,156
Total segment net real estate	8,796,609	5,042,137
Intangible assets:		
Automotive service	3,248	-
Automotive tire services	15,770	470
Beverages	3,055	3,313
Convenience stores	13,342	-
Dollar stores	50,209	12,475
Drug stores	180,506	14,885
Financial services	40,112	4,443
Food processing	25,297	21,785
Grocery stores	22,377	5,650
Health and fitness	53,703	15,056
Health care	38,465	-
Motor vehicle dealerships	7,790	3,587
Restaurants-casual dining	11,906	-
Restaurants-quick service	17,936	3,464
Sporting goods	10,984	4,862
Theaters	23,600	28,475
Transportation services	107,296	27,997
Wholesale club	33,221	-
Other non-reportable segments	276,642	95,663
Goodwill:		
Automotive service	454	471
Automotive tire services	865	865
Child care	5,141	5,276
Convenience stores	2,031	2,064
Restaurants-casual dining	2,328	2,430
Restaurants-quick service	1,131	1,176
Other non-reportable segments	3,710	4,663
Other corporate assets	176,713	128,141
Total assets	\$ 9,924,441	\$ 5,429,348

For the years ended December 31,	Revenue		
	2013	2012	2011
Segment rental revenue:			
Automotive service	\$ 15,403	\$ 14,478	\$ 14,635
Automotive tire services	26,929	22,604	22,595
Beverages	24,848	24,553	23,458
Child care	20,850	20,812	20,966
Convenience stores	83,973	76,309	75,961
Dollar stores	46,483	10,324	143
Drug stores	60,313	16,160	15,374
Financial services	14,783	2,787	2,343
Food processing	11,151	6,213	2,953
Grocery stores	22,322	17,746	7,012
Health and fitness	46,979	32,782	26,769
Health care	14,346	288	235
Motor vehicle dealerships	12,200	9,409	8,796
Restaurants-casual dining	38,261	33,205	43,073
Restaurants-quick service	32,219	26,739	23,369
Sporting goods	12,875	11,798	11,176
Theaters	46,122	45,073	36,812
Transportation services	40,552	11,516	7,586
Wholesale club	29,448	15,217	3,059
29 other non-reportable segments	147,513	68,485	54,657
Total rental revenue	747,570	466,498	400,972
Tenant reimbursements	24,944	14,619	9,776
Other revenue	5,861	1,730	1,612
Total revenue	\$ 778,375	\$ 482,847	\$ 412,360

22. 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, 2013, we had contingent obligations of \$1.7 million for tenant improvements and leasing costs. In addition, as of December 31, 2013, we had committed \$23.7 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, 2013, minimum future rental payments for the next five years and thereafter are as follows (dollars in millions):

	Ground Leases Paid by Realty Income ⁽¹⁾		Ground Leases Paid by Our Tenants ⁽²⁾		Total
2014	\$	1.0	\$	12.6	\$ 13.6
2015		1.0		12.7	13.7
2016		1.0		12.7	13.7
2017		1.0		12.8	13.8
2018		1.0		12.8	13.8
Thereafter		9.4		144.5	153.9
Total	\$	14.4	\$	208.1	\$ 222.5

⁽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.

23. Subsequent Events

In January 2014 and February 2014, we declared the following dividends, which will be paid in February 2014 and March 2014, respectively:

- \$0.1821667 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.

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⁾
2013 ⁽¹⁾					
Total revenue	\$ 175,057	\$ 185,990	\$ 201,629	\$ 215,699	\$ 778,375
Depreciation and amortization expense	66,701	73,858	80,774	85,245	306,577
Interest expense	41,468	39,100	49,703	50,645	180,916
Other expenses	33,883	21,442	26,002	30,374	111,702
Income from continuing operations	33,005	51,590	45,150	49,435	179,180
Income from discontinued operations	40,221	4,926	6,757	15,199	67,103
Net income	73,226	56,516	51,907	64,634	246,283
Net income available to common stockholders	62,735	45,957	41,089	53,854	203,634
Net income per common share					
Basic	0.37	0.23	0.21	0.26	1.06
Diluted	0.36	0.23	0.21	0.26	1.06
Dividends paid per common share	0.5135834	0.5436876	0.5446251	0.5455626	2.1474587
2012 ⁽¹⁾					
Total revenue	\$ 114,529	\$ 115,532	\$ 119,984	\$ 132,803	\$ 482,847
Depreciation and amortization expense	34,111	34,504	36,952	41,755	147,323
Interest expense	28,952	28,806	29,720	35,065	122,542
Other expenses	15,165	14,686	19,878	22,534	72,263
Income from continuing operations	36,301	37,536	33,434	33,449	140,719
Income from discontinued operations	2,962	5,871	4,024	5,575	18,433
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

⁽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. Additionally, measurement period adjustments were made to the first two quarters of 2013 to adjust preliminary real estate values to reflect new information about facts and circumstances that existed as of the acquisition date. Also, tenant reimbursements have been reported as a component of total revenue and reimbursable property expense have been reported as a component of total expenses. 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, 2013 and 2012, and the related consolidated statements of income, equity, and cash flows for each of the years in the three-year period ended December 31, 2013. 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, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, 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, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 14, 2014 expressed an unqualified opinion on the effectiveness of Realty Income Corporation's internal control over financial reporting.

The logo for KPMG LLP, featuring the letters 'KPMG' in a stylized, bold font with 'LLP' in a smaller font to the right.

San Diego, California
February 14, 2014

Report of Independent Registered Public Accounting Firm, Continued

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, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* 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, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* 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, 2013 and 2012, and the related consolidated statements of income, equity, and cash flows for each of the years in the three-year period ended December 31, 2013, and our report dated February 14, 2014 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

San Diego, California
February 14, 2014

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 dividends are supported by the cash flow from our portfolio of properties leased to commercial tenants. We have in-house acquisition, leasing, legal, credit research, real estate research, portfolio management (including property and asset management), and capital markets expertise. Over the past 45 years, Realty Income and its predecessors have been acquiring and owning freestanding commercial properties that generate rental revenue under long-term lease agreements.

Realty Income was founded in 1969, and in 1994 was listed on the New York Stock Exchange, or NYSE. 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.

At December 31, 2013, we owned a diversified portfolio:

- Of 3,896 properties;
- With an occupancy rate of 98.2%, or 3,826 properties leased and 70 properties available for lease;
- Leased to 205 different commercial tenants doing business in 47 separate industries;
- Located in 49 states and Puerto Rico;
- With over 62.6 million square feet of leasable space; and
- With an average leasable space per property of approximately 16,100 square feet, including approximately 10,600 square feet per retail property.

Of the 3,896 properties in the portfolio, 3,876, or 99.5%, are single-tenant properties, and the remaining twenty are multi-tenant properties. At December 31, 2013, of the 3,876 single-tenant properties, 3,807 were leased with a weighted average remaining lease term (excluding rights to extend a lease at the option of the tenant) of approximately 10.8 years.

In acquiring additional properties, our strategy is primarily to acquire freestanding, single-tenant locations under long-term, net lease agreements. 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.

Our nine senior officers owned 0.4% of our outstanding common stock with a market value of \$33.3 million at January 29, 2014. Our directors and nine senior officers, as a group, owned 0.6% of our outstanding common stock with a market value of \$51.7 million at January 29, 2014.

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 January 2014, we had 116 employees as compared to 97 employees in January 2013.

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

RECENT DEVELOPMENTS

Increases in Monthly Dividends to Common Stockholders

We have continued our 45-year policy of paying monthly dividends. In addition, we increased the dividend five times during 2013.

2013 Dividend increases	Month Paid	Dividend per share	Increase per share
1st increase	Jan 2013	\$ 0.1517500	\$ 0.0003125
2nd increase	Feb 2013	0.1809167	0.0291667
3rd increase	Apr 2013	0.1812292	0.0003125
4th increase	Jul 2013	0.1815417	0.0003125
5th increase	Oct 2013	0.1818542	0.0003125

The dividends paid per share during 2013 as compared to 2012 increased 21.2%, which is the largest annual increase in the company's history. The 2013 dividends paid per share totaled \$2.1474587 as compared to \$1.7716250 in 2012, an increase of \$0.3758337.

In December 2013, we declared an increased dividend of \$0.1821667 per share, which was paid in January 2014. The increase in January 2014 was our 65th consecutive quarterly increase and the 74th increase in the amount of the dividend since our listing on the NYSE in 1994. In January 2014 and February 2014, we declared dividends of \$0.1821667 per share, which will be paid in February 2014 and March 2014, respectively.

The monthly dividend of \$0.1821667 per share represents a current annualized dividend of \$2.186 per share, and an annualized dividend yield of approximately 5.9% based on the last reported sale price of our common stock on the NYSE of \$37.33 on December 31, 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 2013

During 2013, we invested \$1.51 billion in 459 new properties and properties under development or expansion, with an initial weighted average contractual lease rate of 7.1%. The 459 new properties and properties under development or expansion are located in 40 states, will contain approximately 9.0 million leasable square feet, and are 100% leased with a weighted average lease term of 14.0 years. The tenants occupying the new properties operate in 23 industries and the property types consist of 83.8% retail, 9.2% office, 4.9% industrial and distribution, and 2.1% manufacturing, based on rental revenue. These investments are in addition to the \$3.2 billion acquisition of 515 properties of American Realty Capital Trust, Inc., or ARCT, which were added to our real estate portfolio during the first quarter of 2013. Our combined total investment in real estate assets during 2013 was \$4.67 billion in 974 new properties and properties under development or expansion. During 2013, none of our real estate investments caused any one tenant to be 10% or more of our total assets at December 31, 2013.

In conjunction with our acquisition of ARCT, 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, resulting in the issuance of a total of approximately 45.6 million shares of our common stock to ARCT shareholders, valued at a per share amount of \$44.04, which was the closing sale price of our common stock on January 22, 2013. In connection with the closing of this acquisition, we terminated and repaid the amounts then outstanding of approximately \$552.9 million under ARCT's revolving credit facility and term loan. In connection with our acquisition of ARCT, we assumed approximately \$516.3 million of mortgages payable. We incurred merger costs of \$13.0 million and \$7.9 million, respectively, in 2013 and 2012. The total merger costs were approximately \$21 million.

Our acquisition of ARCT provided benefits to Realty Income, including accretion to net earnings, growth in the size of our real estate portfolio, diversification of industries and property type, and increase in the percentage of investment grade tenants.

The 515 properties added to our real estate portfolio as a result of the ARCT acquisition, are located in 44 states and Puerto Rico, contain over 16.0 million leasable square feet and are 100% leased with a weighted average lease term of 12.2 years. The 69 tenants, occupying the 515 properties acquired, operate in 28 industries and the property types consist of 54.0% retail, 32.6% industrial and distribution, and 13.4% office, based on rental revenue.

The estimated initial weighted average contractual lease rate for a property is generally computed as estimated contractual net operating income, which, in the case of a net leased property, is equal to the aggregate base rent under the lease for the first full year of each lease, divided by the total cost of the property. 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.

In the case of a property under development or expansion, the estimated initial weighted average contractual lease rate is computed as follows: estimated net operating income (which is calculated by multiplying the capitalization rate determined by the lease by our projected total investment in the property, including land, construction and capitalized interest costs) for the first full year of each lease, divided by such projected total investment in the property. Of the \$4.67 billion we invested during 2013, \$39.6 million was invested in 21 properties under development or expansion, with an estimated initial weighted average contractual lease rate of 8.5%. We may continue to pursue development or expansion opportunities under similar arrangements in the future.

John P. Case Appointed Chief Executive Officer (CEO)

In September 2013, we announced that our Board of Directors appointed John P. Case as CEO of the company. Mr. Case, who had previously served as President and Chief Investment Officer, succeeded Tom A. Lewis, who retired as our CEO. Mr. Lewis had been our CEO since 1997. Mr. Case is only the third CEO in Realty Income's 45-year history.

PORTFOLIO DISCUSSION

Leasing Results

At December 31, 2013, we had 70 properties available for lease out of 3,896 properties in our portfolio, which represents a 98.2% occupancy rate. Since December 31, 2012, when we reported 84 properties available for lease and a 97.2% occupancy rate, we:

- Leased 27 properties;
- Sold 19 properties available for lease; and
- Have 32 new properties available for lease.

During 2013, 136 properties with expiring leases were leased to either existing or new tenants. The annual rent on these leases was \$16.1 million, as compared to the previous rent on these same properties of \$16.0 million. At December 31, 2013, our average annualized rental revenue was approximately \$13.21 per square foot on the 3,807 leased properties in our portfolio. At December 31, 2013, we classified 12 properties with a carrying amount of \$12.0 million as held for sale on our balance sheet.

Investments in Existing Properties

In 2013, we capitalized costs of \$8.5 million on existing properties in our portfolio, consisting of \$1.3 million for re-leasing costs and \$7.2 million for building and tenant improvements. 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.

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.

Amendment to Credit Facility

In October 2013, we amended our credit facility by increasing the borrowing capacity by \$500 million to \$1.5 billion. All other material business terms of the credit facility remain unchanged.

Note Issuance

In July 2013, we issued \$750 million of 4.65% senior unsecured notes due August 2023, or the 2023 Notes. The price to the investors for the 2023 Notes was 99.775% of the principal amount for an effective yield of 4.678% per annum. The total net proceeds of approximately \$741.4 million from this offering 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 the 2023 Notes.

Accelerated Stock Vesting

The Compensation Committee of our Board of Directors approved, effective July 1, 2013, the accelerated vesting of each restricted stock award that had originally been granted with ten-year vesting to five years. On July 1, 2013, 212,827 restricted shares vested as a result of this acceleration, resulting in additional compensation expense of \$3.7 million during 2013.

Issuance of Common Stock

In October 2013, we issued 9,775,000 shares of common stock at a price of \$40.63 per share, including 1,275,000 shares purchased by the underwriters upon the exercise of their option to purchase additional shares. After underwriting discounts and other estimated offering costs of \$18.7 million, the net proceeds of approximately \$378.5 million were used to repay a portion of the borrowings under our acquisition credit facility, which were used to fund property acquisitions.

In March 2013, we issued 17,250,000 shares of common stock at a price of \$45.90 per share. After underwriting discounts and other offering costs of \$36.7 million, the net proceeds of \$755.1 million were used to redeem our 5.375% notes in March 2013 and repay borrowings under our acquisition credit facility, which were used to fund property acquisitions, including our acquisition of ARCT.

In connection with our January 2013 acquisition of ARCT, we issued a total of 45,573,144 shares of our common stock to ARCT shareholders and redeemed 208,709 shares of our common stock that were previously held by ARCT.

Dividend Reinvestment and Stock Purchase Plan

In March 2011, we established a Dividend Reinvestment and Stock Purchase Plan, or the DRSP, 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 DRSP also allows our current stockholders to buy additional shares of common stock by reinvesting all or a portion of their distributions. The DRSP authorizes up to 6,000,000 common shares to be issued. During 2013, we issued 1,449,139 shares and raised approximately \$55.6 million under the DRSP.

Note Repayment

In March 2013, we repaid the \$100 million of outstanding 5.375% notes, plus accrued and unpaid interest, using proceeds from our March 2013 common stock offering and our credit facility.

Term Loan

In January 2013, in conjunction with our acquisition of ARCT, we entered into a \$70 million senior unsecured term loan maturing January 21, 2018, to partially repay the then outstanding ARCT term loan. 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%.

Noncontrolling Interests

As consideration for two separate acquisitions during 2013, partnership units of Tau Operating Partnership, L.P. and Realty Income, L.P. were issued to third parties. These units (discussed in the following paragraphs below) do not have voting rights, are entitled to monthly distributions equal to the amount paid to our common stockholders, and are redeemable in cash or our common stock, at our option and at a conversion ratio of one to one, subject to certain exceptions. As the general partner for each of these partnerships, we have operating and financial control over these entities, consolidate them in our financial statements, and record the partnership units held by third parties as noncontrolling interests.

Issuance of Common and Preferred Partnership Units

In connection with our acquisition of ARCT in January 2013, we issued 317,022 common partnership units and 6,750 preferred partnership units. These common units are entitled to monthly distributions equivalent to the per common share amounts paid to the common stockholders of Realty Income. The preferred units have a par value of \$1,000, and are entitled to monthly payments at a rate of 2% per annum, or \$135,000 per year.

In June 2013, we issued 534,546 common partnership units of Realty Income, L.P. These common units are entitled to monthly distributions equivalent to the per common share amount paid to the common stockholders of Realty Income.

Universal Shelf Registration

In February 2013, we filed a shelf registration statement with the SEC, which is effective for a term of three years and will expire in February 2016. 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.

Net Income Available to Common Stockholders

Net income available to common stockholders was \$203.6 million in 2013, compared to \$114.5 million in 2012, an increase of \$89.1 million. On a diluted per common share basis, net income was \$1.06 in 2013, as compared to \$0.86 in 2012, an increase of \$0.20, or 23.3%. Net income available to common stockholders for 2013 includes \$13.0 million of merger-related costs for the acquisition of ARCT, which represents \$0.07 on a diluted per common share basis, and \$3.7 million for accelerated vesting of restricted shares that occurred in July 2013 from ten-year vesting to five years, which represents \$0.02 on a diluted per common share basis. Net income available to common stockholders for 2012 includes \$7.9 million of merger-related costs for the acquisition of ARCT, which represents \$0.06 on a diluted per common share basis, and a \$3.7 million charge for the excess of redemption value over carrying value of the shares of our 7.375% Monthly Income Class D Cumulative Redeemable Preferred Stock, or 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. 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 2013 were \$64.7 million, as compared to gains from the sale of properties of \$9.9 million during 2012.

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

In 2013, our FFO increased by \$188.1 million, or 72.1%, to \$449.0 million versus \$260.9 million in 2012. On a diluted per common share basis, FFO was \$2.34 in 2013, compared to \$1.96 in 2012, an increase of \$0.38, or 19.4%. FFO in 2013 includes \$13.0 million of merger-related costs, which represents \$0.07 on a diluted per common share basis, and \$3.7 million for accelerated vesting of restricted shares that occurred in July 2013 from ten-year vesting to five years, which represents \$0.02 on a diluted per common share basis. FFO for 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 2013, our normalized FFO increased by \$193.2 million, or 71.9%, to \$462.0 million, versus \$268.8 million in 2012. On a diluted common share basis, normalized FFO was \$2.41 in 2013, compared to \$2.02 in 2012, an increase of \$0.39, or 19.3%.

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 2013, our AFFO increased by \$188.9 million, or 68.9%, to \$463.1 million versus \$274.2 million in 2012. On a diluted per common share basis, AFFO was \$2.41 in 2013, compared to \$2.06 in 2012, an increase of \$0.35, or 17.0%.

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 holders of shares of our common stock, 6.75% Monthly Income Class E Cumulative Redeemable Preferred Stock, or Class E preferred stock, and 6.625% Monthly Income Class F Cumulative Redeemable Preferred Stock, or Class F preferred stock, if, and when, declared by our Board of Directors.

Distributions are paid monthly to the limited partners holding common units of Tau Operating Partnership, L.P. and Realty Income, L.P., each on a per unit basis that is generally equal to the amount paid per share to our common stockholders.

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 2013, our cash distributions to preferred and common stockholders totaled \$451.2 million, or approximately 161.4% of our estimated taxable income of \$279.6 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 2013 cash distributions to common stockholders totaled \$409.2 million, representing 88.4% of our adjusted funds from operations available to common stockholders of \$463.1 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, capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code of 1986, as amended, or the Code, 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%. 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 subsidiaries) 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 38.7% of the distributions to our common stockholders, made or deemed to have been made in 2013, were classified as a return of capital for federal income tax purposes. We estimate that in 2014, between 15% and 30% of the distributions may be classified as a return of capital.

BUSINESS PHILOSOPHY AND STRATEGY

Capital Philosophy

Historically, we have met our long-term capital needs by issuing common stock, preferred stock and long-term unsecured notes and bonds. Over the long term, we believe that common stock should be the majority of our capital structure. However, we may issue additional preferred stock or debt securities. 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 \$1.5 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, 2013, our total outstanding borrowings of senior unsecured notes, term loan, mortgages payable and credit facility borrowings were \$4.18 billion, or approximately 33.2% of our total market capitalization of \$12.59 billion.

We define our total market capitalization at December 31, 2013 as the sum of:

- Shares of our common stock outstanding of 207,485,073, plus total common units of 851,568, multiplied by the last reported sales price of our common stock on the NYSE of \$37.33 per share on December 31, 2013, or \$7.78 billion;
- Aggregate liquidation value (par value of \$25.00 per share) of the Class E preferred stock of \$220.0 million;
- Aggregate liquidation value (par value of \$25.00 per share) of the Class F preferred stock of \$408.8 million;

- Outstanding borrowings of \$128.0 million on our credit facility;
- Outstanding mortgages payable of \$783.4 million, which includes net mortgage premiums of \$28.9 million;
- Outstanding borrowings of \$70.0 million on our term loan; and
- Outstanding senior unsecured notes and bonds of \$3.2 billion, which excludes unamortized original issuance discounts of \$14.5 million.

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 of our properties typically pay rent increases based on: 1) increases in the consumer price index (typically subject to ceilings), 2) additional rent calculated as a percentage of the tenants' gross sales above a specified level, or 3) fixed increases. We believe that a portfolio of properties owned under long-term net leases 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 tenants by acquiring the real estate they consider important to the successful operation of their business.

We primarily focus on acquiring properties with many of the following attributes:

- Tenants with reliable and sustainable cash flow;
- Tenants with revenue and cash flow from multiple sources;
- Tenants that are willing to sign a long-term lease (10 or more years);
- Tenants that are 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 with property valuations at or below replacement cost;
- Properties with rental or lease payments that are at or below market rents; and
- Property transactions where we can achieve an attractive spread over our cost of capital.

From a retail perspective, our investment focus has primarily been on businesses 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, 2013, approximately 59.1% 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.

Diversification is also a key objective of our investment strategy. We believe that diversification of the portfolio by tenant, industry, property type, and geographic location leads to more predictable investment results for our shareholders by reducing vulnerability that can come with any single concentration. Our investment efforts have led to a diversified property portfolio that, as of December 31, 2013, consisted of 3,896 properties located in 49 states and Puerto Rico, leased to 205 different commercial tenants doing business in 47 industry segments. Each of the 47 industry segments, represented in our property portfolio, individually accounted for no more than 10.6% of our rental revenue for the quarter ended December 31, 2013.

Credit Strategy

We typically acquire and lease properties to tenants in transactions where 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 for most of our tenants 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 or 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.

Prior to entering into any transaction, our investment professionals, assisted by our research department, conduct a review of a tenant's credit quality. The information reviewed may include reports and filings, including any public credit ratings, financial statements, debt and equity analyst reports, and reviews of corporate credit spreads, stock prices, market capitalization and other financial metrics. We conduct additional due diligence, including additional financial reviews of the tenant and a more comprehensive review of the business segment and industry in which the tenant operates. We continue to monitor our tenants' credit quality on an ongoing basis by reviewing the available information previously discussed, and providing summaries of these findings to management.

Acquisition Strategy

We seek to invest in industries in which several, well-organized, regional and national commercial tenants 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 tenants 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 have an internal team dedicated to sourcing such opportunities, often using our proprietary relationships with various tenants, owners/developers, and advisors to uncover and secure transactions. We also undertake thorough research and analysis to identify what we consider to be appropriate industries, tenants and property locations for investment. This 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 tenants;
- 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.

Portfolio Management Strategy

The active management of the property portfolio is also 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.

We 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, 2013, we classified real estate with a carrying amount of \$12.0 million as held for sale on our balance sheet. In 2014, we intend to continue our active disposition efforts to further enhance our real estate portfolio and anticipate approximately \$50 million in property sales for all of 2014. 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.

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.

Universal Shelf Registration

In February 2013, we filed a shelf registration statement with the SEC, which is effective for a term of three years and will expire in February 2016. 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.

\$1.5 Billion Acquisition Credit Facility

In October 2013, we increased our unsecured acquisition credit facility from \$1.0 billion to \$1.5 billion. The initial term of the credit facility expires in May 2016 and includes, at our election, a one-year extension option. Under this 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 under

this credit facility. Our credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation.

At December 31, 2013, we had a borrowing capacity of \$1.372 billion available on our credit facility (subject to customary conditions to borrowing) and an outstanding balance of \$128.0 million. The interest rate on borrowings outstanding under our credit facility, at December 31, 2013, was 1.2% per annum. We must comply with various financial and other covenants in our credit facility. At December 31, 2013, 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 regularly review our credit facility and may seek to extend or replace our credit facility, to the extent we deem appropriate.

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 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, 2013, we had cash and cash equivalents totaling \$10.3 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 permanent or long-term capital to fund property acquisitions and to repay future borrowings under our credit facility.

Credit Agency Ratings

The borrowing interest rates under our credit facility are based upon our ratings assigned by credit rating agencies. 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 “stable” outlook, and Standard & Poor’s Ratings Group has assigned a rating of BBB+ with a “stable” outlook.

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 and our credit ratings can impact the interest rates charged in those transactions. 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

As of December 31, 2013, we had \$3.2 billion of senior unsecured note and bond obligations, excluding unamortized original issuance discounts of \$14.5 million. All of our outstanding notes and bonds have fixed interest rates. Interest on all of our senior note and bond obligations is paid semiannually.

Mortgage Debt

As of December 31, 2013, we had \$754.5 million of mortgages payable, all of which were assumed in connection with our property acquisitions. Included in this amount is \$514.4 million of mortgages payable assumed in connection with the ARCT acquisition. Additionally, at December 31, 2013, we had net premiums totaling \$28.9 million on these mortgages, of which \$16.2 million is in connection with the ARCT acquisition.

Term Loan

In January 2013, in conjunction with our acquisition of ARCT, we entered into a \$70 million senior unsecured term loan maturing in January 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%.

No Unconsolidated Investments

We have no unconsolidated investments, nor do we engage in trading activities involving energy or commodity contracts.

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 anonymously, if desired, 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.

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

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

- Our Board of Directors is comprised of eight directors, six of which are independent, non-employee directors
- 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. 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 reduce paper usage whenever possible, by storing documents electronically and using “duplex” copy mode;
- Employing an automated “lights out” system that is activated 24/7; and
- 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, and have implemented an electronic invoice approval system.

With respect to the properties that we own, these properties are net-leased to our tenants who are responsible for maintaining the buildings and are in control of their energy usage and environmental sustainability practices.

Risk Factors

For full descriptions 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, 2013.

Unresolved Staff Comments

There are no unresolved staff comments.

Property Portfolio Information

At December 31, 2013, we owned a diversified portfolio:

- Of 3,896 properties;
- With an occupancy rate of 98.2%, or 3,826 properties leased and 70 properties available for lease;
- Leased to 205 different commercial tenants doing business in 47 separate industries;
- Located in 49 states and Puerto Rico;
- With over 62.6 million square feet of leasable space; and
- With an average leasable space per property of approximately 16,100 square feet, including approximately 10,600 square feet per retail property.

At December 31, 2013, of our 3,896 properties, 3,807 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.

As a result of our 2013 acquisitions, the following industry table has been modified from similar tables we have prepared in the past to reflect the changes below:

- Five new industries were added: (1) "government services," (2) "health care," (3) "jewelry," (4) "other manufacturing," and (5) "electrical utilities"; and
- Some properties previously included in the "other" industry were reclassified to both the "health care" and "government services" industries to better reflect the industry in which the tenant operates.

Industry Diversification

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

	Percentage of Rental Revenue ⁽¹⁾						
	For the	For the Years Ended					
	Quarter Ended	Dec 31,	Dec 31,	Dec 31,	Dec 31,	Dec 31,	Dec 31,
	December 31,	2013	2012	2011	2010	2009	2008
	2013	2013	2012	2011	2010	2009	2008
<u>Retail industries</u>							
Apparel stores	1.7%	1.9%	1.7%	1.4%	1.2%	1.1%	1.1%
Automotive collision services	0.8	0.8	1.1	0.9	1.0	1.1	1.0
Automotive parts	1.4	1.2	1.0	1.2	1.4	1.5	1.6
Automotive service	1.9	2.1	3.1	3.7	4.7	4.8	4.8
Automotive tire services	3.3	3.6	4.7	5.6	6.4	6.9	6.7
Book stores	*	*	0.1	0.1	0.1	0.2	0.2
Child care	2.5	2.8	4.5	5.2	6.5	7.3	7.6
Consumer electronics	0.3	0.3	0.5	0.5	0.6	0.7	0.8
Convenience stores	10.6	11.2	16.3	18.5	17.1	16.9	15.8
Crafts and novelties	0.5	0.5	0.3	0.2	0.3	0.3	0.3
Dollar stores	7.1	6.2	2.2	-	-	-	-
Drug stores	9.7	8.1	3.5	3.8	4.1	4.3	4.1
Education	0.4	0.4	0.7	0.7	0.8	0.9	0.8
Entertainment	0.6	0.6	0.9	1.0	1.2	1.3	1.2
Equipment services	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Financial services	1.4	1.5	0.2	0.2	0.2	0.2	0.2
General merchandise	1.2	1.1	0.6	0.6	0.8	0.8	0.8
Grocery stores	2.8	2.9	3.7	1.6	0.9	0.7	0.7
Health and fitness	6.8	6.3	6.8	6.4	6.9	5.9	5.6
Health care	1.0	1.1	-	-	-	-	-
Home furnishings	0.8	0.9	1.0	1.1	1.3	1.3	2.4
Home improvement	1.5	1.6	1.5	1.7	2.0	2.2	2.1
Jewelry	0.1	0.1	-	-	-	-	-
Motor vehicle dealerships	1.6	1.6	2.1	2.2	2.6	2.7	3.2
Office supplies	0.4	0.5	0.8	0.9	0.9	1.0	1.0
Pet supplies and services	0.8	0.8	0.6	0.7	0.9	0.9	0.8
Restaurants - casual dining	4.7	5.1	7.3	10.9	13.4	13.7	14.3
Restaurants - quick service	4.3	4.4	5.9	6.6	7.7	8.3	8.2
Shoe stores	0.1	0.1	0.1	0.2	0.1	-	-
Sporting goods	1.6	1.7	2.5	2.7	2.7	2.6	2.3
Theaters	5.6	6.2	9.4	8.8	8.9	9.2	9.0
Transportation services	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Wholesale clubs	4.3	3.9	3.2	0.7	-	-	-
Other	*	0.1	0.1	0.1	0.3	1.1	1.2
Retail industries	80.0%	79.8%	86.7%	88.6%	95.4%	98.3%	98.2%

Industry Diversification (continued)

	Percentage of Rental Revenue ⁽¹⁾						
	For the	For the Years Ended					
	Quarter Ended	Dec 31,	Dec 31,	Dec 31,	Dec 31,	Dec 31,	Dec 31,
	December 31,	2013	2012	2011	2010	2009	2008
	2013						
Non-retail industries							
Aerospace	1.3%	1.2%	0.9%	0.5%	-%	-%	-%
Beverages	3.0	3.3	5.1	5.6	3.0	-	-
Consumer appliances	0.6	0.6	0.1	-	-	-	-
Consumer goods	1.0	1.0	0.1	-	-	-	-
Crafts and novelties	0.1	0.1	-	-	-	-	-
Diversified industrial	0.2	0.2	0.1	-	-	-	-
Electric Utilities	0.1	*	-	-	-	-	-
Equipment services	0.5	0.4	0.3	0.2	-	-	-
Financial services	0.5	0.5	0.4	0.3	-	-	-
Food processing	1.4	1.5	1.3	0.7	-	-	-
Government services	1.3	1.4	0.1	0.1	0.1	0.1	-
Health care	0.8	0.8	*	*	-	-	-
Home furnishings	0.2	0.2	-	-	-	-	-
Insurance	0.1	0.1	*	-	-	-	-
Machinery	0.2	0.2	0.1	-	-	-	-
Other manufacturing	0.6	0.6	-	-	-	-	-
Packaging	0.9	0.9	0.7	0.4	-	-	-
Paper	0.1	0.2	0.1	0.1	-	-	-
Shoe stores	0.8	0.9	-	-	-	-	-
Telecommunications	0.6	0.7	0.8	0.7	-	-	-
Transportation services	5.3	5.3	2.2	1.6	-	-	-
Other	0.4	0.1	1.0	1.2	1.5	1.6	1.8
Non-retail industries	20.0%	20.2%	13.3%	11.4%	4.6%	1.7%	1.8%
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 Net Lease, Inc., or Crest.

Property Type Diversification

The following table sets forth certain property type information regarding Realty Income's property portfolio as of December 31, 2013 (dollars in thousands):

Property Type	Number of Properties	Approximate Leasable Square Feet	Rental Revenue for the Quarter Ended December 31, 2013⁽¹⁾	Percentage of Rental Revenue
Retail	3,747	39,979,700	\$ 158,804	77.4%
Industrial and distribution	79	15,661,100	22,374	10.9
Office	42	3,104,400	13,450	6.6
Manufacturing	13	3,715,200	5,254	2.6
Agriculture	15	184,500	5,202	2.5
Totals	3,896	62,644,900	\$ 205,084	100.0%

⁽¹⁾ Includes rental revenue for all properties owned by Realty Income at December 31, 2013, including revenue from properties reclassified as discontinued operations of \$279. Excludes revenue of \$23 from properties owned by Crest.

Tenant Diversification

The largest tenants based on percentage of total portfolio rental revenue at December 31, 2013 include the following:

FedEx	5.2%	Dollar General	2.4%
Walgreens	5.0%	Rite Aid	2.2%
Family Dollar	4.8%	Regal Cinemas	2.1%
LA Fitness	4.3%	CVS Pharmacy	2.1%
AMC Theatres	3.1%	The Pantry	1.8%
Diageo	2.9%	Circle K	1.7%
BJ's Wholesale Clubs	2.9%	Walmart/Sam's Club	1.6%
Northern Tier Energy/Super America	2.5%		

Service Category Diversification for our Retail Properties

The following table sets forth certain information regarding the 3,747 retail properties, included in the 3,896 total properties, owned by Realty Income at December 31, 2013, classified according to the business types and the level of services they provide at the property level (dollars in thousands):

	Number of Retail Properties	Retail Rental Revenue for the Quarter Ended December 31, 2013 ⁽¹⁾	Percentage of Retail Rental Revenue
<u>Tenants Providing Services</u>			
Automotive collision services	29	\$ 1,663	1.0%
Automotive service	226	3,971	2.5
Child care	220	5,136	3.2
Education	14	790	0.5
Entertainment	9	1,199	0.8
Equipment services	2	150	0.1
Financial services	106	2,814	1.8
Health and fitness	71	13,974	8.8
Health care	26	955	0.6
Theaters	44	11,539	7.3
Transportation services	1	206	0.1
Other	10	143	0.1
	<u>758</u>	<u>42,540</u>	<u>26.8</u>
<u>Tenants Selling Goods and Services</u>			
Automotive parts (with installation)	46	1,049	0.7
Automotive tire services	183	6,775	4.3
Convenience stores	775	21,704	13.7
Motor vehicle dealerships	18	3,196	2.0
Pet supplies and services	13	671	0.4
Restaurants - casual dining	316	9,090	5.7
Restaurants - quick service	389	8,789	5.5
	<u>1,740</u>	<u>51,274</u>	<u>32.3</u>
<u>Tenants Selling Goods</u>			
Apparel stores	22	3,491	2.2
Automotive parts	68	1,743	1.1
Book stores	1	104	0.1
Consumer electronics	7	594	0.4
Crafts and novelties	10	1,002	0.6
Dollar stores	662	14,524	9.1
Drug stores	203	18,377	11.6
General merchandise	52	2,475	1.6
Grocery stores	63	5,751	3.6
Home furnishings	60	1,631	1.0
Home improvement	29	2,078	1.3
Jewelry	4	142	0.1
Office supplies	11	865	0.5
Shoe stores	1	168	0.1
Sporting goods	25	3,293	2.1
Wholesale clubs	31	8,752	5.5
	<u>1,249</u>	<u>64,990</u>	<u>40.9</u>
Total Retail Properties	3,747	\$ 158,804	100.0%

⁽¹⁾ Includes rental revenue for all retail properties owned by Realty Income at December 31, 2013, including revenue from properties reclassified as discontinued operations of \$279. Excludes revenue of \$46,280 from non-retail properties and \$23 from properties owned by Crest.

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 3,807 net leased, single-tenant properties as of December 31, 2013 (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, 2013 ⁽²⁾	% of Total Rental Revenue	Number of Leases Expiring	Rental Revenue for the Quarter Ended Dec 31, 2013	% of Total Rental Revenue	Number of Leases Expiring	Rental Revenue for the Quarter Ended Dec 31, 2013	% of Total Rental Revenue
2014	157	1,116,500	\$ 4,005	2.0%	56	\$ 1,960	1.0%	101	\$ 2,045	1.0%
2015	174	961,500	4,111	2.0	67	1,808	0.9	107	2,303	1.1
2016	200	1,214,900	4,618	2.3	121	2,807	1.4	79	1,811	0.9
2017	177	2,038,400	6,058	3.0	46	3,052	1.5	131	3,006	1.5
2018	278	3,621,900	11,276	5.6	162	7,920	3.9	116	3,356	1.7
2019	193	3,017,500	10,496	5.1	161	9,599	4.7	32	897	0.4
2020	110	3,404,600	8,844	4.4	99	8,468	4.2	11	376	0.2
2021	189	5,314,200	13,616	6.7	181	13,105	6.4	8	511	0.3
2022	224	7,270,400	14,508	7.2	216	14,273	7.1	8	235	0.1
2023	355	6,133,200	19,731	9.7	342	19,076	9.4	13	655	0.3
2024	140	2,105,200	7,016	3.5	140	7,016	3.5	-	-	-
2025	288	3,734,800	16,633	8.3	283	16,510	8.2	5	123	0.1
2026	231	3,396,200	12,133	6.0	228	12,049	6.0	3	84	*
2027	443	4,177,700	14,591	7.2	441	14,551	7.2	2	40	*
2028	283	5,758,000	15,911	7.8	281	15,858	7.8	2	53	*
2029 - 2043	365	7,951,300	38,832	19.2	358	38,652	19.1	7	180	0.1
Totals	3,807	61,216,300	\$ 202,379	100.0%	3,182	\$ 186,704	92.3%	625	\$ 15,675	7.7%

* Less than 0.1%

⁽¹⁾ Excludes 19 multi-tenant properties and 70 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 \$279 from properties reclassified as discontinued operations and excludes revenue of \$2,705 from 19 multi-tenant properties and from 70 vacant and unleased properties at December 31, 2013. Excludes revenue of \$23 from 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, 2013 (dollars in thousands):

State	Number of Properties	Percent Leased	Approximate Leasable Square Feet	Rental Revenue for the Quarter Ended December 31, 2013 ⁽¹⁾	Percentage of Rental Revenue
Alabama	104	97%	791,800	\$ 2,846	1.4%
Alaska	2	100	128,500	307	0.1
Arizona	110	96	1,187,400	5,510	2.7
Arkansas	36	94	619,200	1,180	0.6
California	161	99	4,705,200	22,672	11.1
Colorado	69	99	792,100	2,969	1.4
Connecticut	22	95	462,100	2,071	1.0
Delaware	16	100	29,500	418	0.2
Florida	279	99	2,951,000	12,029	5.9
Georgia	209	97	2,689,400	8,368	4.1
Hawaii	--	--	--	--	--
Idaho	13	100	91,800	456	0.2
Illinois	155	100	4,215,700	12,244	6.0
Indiana	100	98	1,055,400	4,954	2.4
Iowa	35	97	2,751,700	3,301	1.6
Kansas	76	99	1,583,300	3,370	1.6
Kentucky	45	98	808,700	2,920	1.4
Louisiana	75	97	836,700	2,456	1.2
Maine	9	100	126,400	837	0.4
Maryland	32	100	654,100	3,711	1.8
Massachusetts	82	96	728,200	3,205	1.6
Michigan	103	98	938,600	3,229	1.6
Minnesota	155	100	1,153,300	7,416	3.6
Mississippi	96	97	1,307,200	3,177	1.5
Missouri	122	98	2,307,000	7,343	3.6
Montana	2	50	30,000	13	*
Nebraska	30	100	660,200	1,296	0.6
Nevada	22	100	413,000	1,279	0.6
New Hampshire	18	100	290,900	1,224	0.6
New Jersey	62	98	452,700	2,608	1.3
New Mexico	24	100	184,600	589	0.3
New York	81	95	2,007,900	10,153	5.0
North Carolina	129	99	1,259,300	4,795	2.3
North Dakota	7	100	66,000	138	0.1
Ohio	200	98	4,795,700	11,294	5.5
Oklahoma	112	100	1,467,200	3,601	1.8
Oregon	24	100	455,200	1,620	0.8
Pennsylvania	147	99	1,745,400	6,957	3.4
Rhode Island	3	100	21,300	107	*
South Carolina	127	98	897,500	4,140	2.0
South Dakota	11	100	133,500	244	0.1
Tennessee	156	97	2,653,200	5,145	2.5
Texas	393	98	6,760,200	19,493	9.5
Utah	13	100	749,000	1,326	0.6
Vermont	6	100	100,700	522	0.3
Virginia	127	97	2,531,900	6,465	3.2
Washington	38	100	415,300	1,609	0.8
West Virginia	12	100	261,200	883	0.4
Wisconsin	39	95	1,329,300	2,382	1.2
Wyoming	3	100	21,100	63	*
Puerto Rico	4	100	28,300	149	0.1
Totals/Average	3,896	98%	62,644,900	\$ 205,084	100.0%

* Less than 0.1%

⁽¹⁾ Includes rental revenue for all properties owned by Realty Income at December 31, 2013, including revenue from properties reclassified as discontinued operations of \$279. Excludes revenue of \$23 from properties owned by Crest.

Forward-Looking Statements

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

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

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

- Our continued qualification as a real estate investment trust;
- General business and economic conditions;
- 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 dividends are supported by the cash flow from our portfolio of properties leased to commercial tenants. We have in-house acquisition, leasing, legal, credit research, real estate research, portfolio management and capital markets expertise. Over the past 45 years, Realty Income and its predecessors have been acquiring and owning freestanding commercial properties that generate rental revenue under long-term lease agreements.

Realty Income was founded in 1969, and in 1994 was listed upon the NYSE. 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.

At December 31, 2013, we owned a diversified portfolio:

- Of 3,896 properties;
- With an occupancy rate of 98.2%, or 3,826 properties leased and 70 properties available for lease;
- Leased to 205 different commercial tenants doing business in 47 separate industries;
- Located in 49 states and Puerto Rico;
- With over 62.6 million square feet of leasable space; and
- With an average leasable space per property of approximately 16,100 square feet, including approximately 10,600 square feet per retail property.

Of the 3,896 properties in the portfolio, 3,876, or 99.5%, are single-tenant properties, and the remaining are multi-tenant properties. At December 31, 2013, of the 3,876 single-tenant properties, 3,807 were leased with a weighted average remaining lease term (excluding rights to extend a lease at the option of the tenant) of approximately 10.8 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. 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 \$1.5 billion credit facility and periodically 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, 2013, our total outstanding borrowings of senior unsecured notes and bonds, term loan, mortgages payable and credit facility borrowings were \$4.18 billion, or approximately 33.2% of our total market capitalization of \$12.59 billion.

We define our total market capitalization at December 31, 2013 as the sum of:

- Shares of our common stock outstanding of 207,485,073, plus total common units of 851,568, multiplied by the closing sales price of our common stock on the NYSE of \$37.33 per share on December 31, 2013, or \$7.78 billion;
- Aggregate liquidation value (par value of \$25.00 per share) of the Class E preferred stock of \$220.0 million;
- Aggregate liquidation value (par value of \$25.00 per share) of the Class F preferred stock of \$408.8 million;
- Outstanding borrowings of \$128.0 million on our credit facility;
- Outstanding mortgages payable of \$783.4 million, which includes net mortgage premiums of \$28.9 million;
- Outstanding borrowings of \$70.0 million on our term loan; and
- Outstanding senior unsecured notes and bonds of \$3.2 billion, excluding unamortized original issuance discounts of \$14.5 million.

Mortgage Debt

As of December 31, 2013, we had \$754.5 million of mortgages payable, all of which were assumed in connection with our property acquisitions. Included in this amount is \$514.4 million of mortgages payable assumed in connection with the ARCT acquisition. Additionally, at December 31, 2013, we had net premiums totaling \$28.9 million on these mortgages, of which \$16.2 million is in connection with the ARCT acquisition.

We expect to pay off the mortgages payable as soon as prepayment penalties have declined to a level that will make it economically feasible to do so. We intend to continue to primarily identify property acquisitions that are free from mortgage indebtedness. During 2013, we made \$41.4 million of principal payments, which includes \$11.7 million to pay off one mortgage in August 2013 and \$23.1 million to pay off three mortgages in December 2013.

Term Loan

In January 2013, in conjunction with our acquisition of ARCT, we entered into a \$70 million senior unsecured term loan maturing in January 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%.

\$1.5 Billion Acquisition Credit Facility

In October 2013, we increased our unsecured acquisition credit facility from \$1.0 billion to \$1.5 billion. The initial term of the credit facility expires in May 2016 and includes, at our election, a one-year extension option. Under this 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 under this credit facility. Our credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation.

At December 31, 2013, we had a borrowing capacity of \$1.372 billion available on our credit facility (subject to customary conditions to borrowing) and an outstanding balance of \$128.0 million. The interest rate on borrowings outstanding under our credit facility, at December 31, 2013, was 1.2% per annum. We must comply with various financial and other covenants in our credit facility. At December 31, 2013, 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 regularly review our credit facility and may seek to extend or replace our credit facility, to the extent we deem appropriate.

At February 12, 2014, we had an outstanding balance on our credit facility of \$583.0 million.

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.

Notes Outstanding

As of December 31, 2013, we had \$3.2 billion of senior unsecured note and bond obligations, excluding unamortized original issuance discounts of \$14.5 million. All of our outstanding notes and bonds have fixed interest rates. Interest on all of our senior note and bond obligations is paid semiannually.

In July 2013, we issued \$750 million of 4.65% senior unsecured notes due August 2023, or the 2023 Notes. The price to the investors for the 2023 Notes was 99.775% of the principal amount for an effective yield of 4.678% per annum. The total net proceeds of approximately \$741.4 million from this offering was used to repay all outstanding borrowings under our acquisition credit facility, and the remaining proceeds were used for other general corporate purposes and working capital, including additional property acquisitions.

In March 2013, we repaid the \$100 million of outstanding 5.375% notes, plus accrued and unpaid interest, using proceeds from our March 2013 common stock offering and 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, 2013, we had cash and cash equivalents totaling \$10.3 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 permanent or long-term capital to fund property acquisitions and to repay future borrowings under our credit facility.

Acquisitions During 2013

During 2013, Realty Income invested \$1.51 billion in 459 new properties and properties under development or expansion (in addition to our acquisition of ARCT, which is discussed in more detail below), with an initial weighted average contractual lease rate of 7.1%. The 459 new properties and properties under development or expansion, are located in 40 states, will contain approximately 9.0 million leasable square feet, and are 100% leased with a weighted average lease term of 14.0 years. The tenants occupying the new properties operate in 23 industries and the property types consist of 83.8% retail, 9.2% office, 4.9% industrial and distribution, and 2.1% manufacturing, based on rental revenue. These investments are in addition to the \$3.2 billion acquisition of 515 properties of American Realty Capital Trust, Inc., or ARCT, which were added to our real estate portfolio during the first quarter of 2013. Our combined total investment in real estate assets during 2013 was \$4.67 billion in 974 new

properties and properties under development or expansion. During 2013, none of our real estate investments caused any one tenant to be 10% or more of our total assets at December 31, 2013.

Additionally, in September 2013, we purchased a property for \$45.4 million in San Diego, California, which will serve as our new corporate headquarters. We plan on relocating to this facility during the second half of 2014.

In conjunction with our acquisition of ARCT, 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, resulting in the issuance of a total of approximately 45.6 million shares of our common stock to ARCT shareholders, valued at a per share amount of \$44.04, which was the closing sale price of our common stock on January 22, 2013. In connection with the closing of this acquisition, we terminated and repaid the amounts then outstanding of approximately \$552.9 million under ARCT's revolving credit facility and term loan. In connection with our acquisition of ARCT, we assumed approximately \$516.3 million of mortgages payable. We incurred merger costs of \$13.0 million and \$7.9 million, respectively, in 2013 and 2012. The total merger costs were approximately \$21 million.

The acquisition of ARCT provided benefits to Realty Income, including accretion to net earnings, growth in the size of our real estate portfolio, diversification of industries and property type, and increase in the percentage of investment grade tenants.

The 515 properties added to our real estate portfolio as a result of the ARCT acquisition, are located in 44 states and Puerto Rico, contain over 16.0 million leasable square feet and are 100% leased with a weighted average lease term of 12.2 years. The 69 tenants, occupying the 515 properties acquired, operate in 28 industries and the property types consist of 54.0% retail, 32.6% industrial and distribution, and 13.4% office, based on rental revenue.

The estimated initial weighted average contractual lease rate for a property is generally computed as estimated contractual net operating income, which, in the case of a net leased property, is equal to the aggregate base rent under the lease for the first full year of each lease, divided by the total cost of the property. 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.

In the case of a property under development or expansion, the estimated initial weighted average contractual lease rate is computed as follows: estimated net operating income (which is calculated by multiplying the capitalization rate determined by the lease by our projected total investment in the property, including land, construction and capitalized interest costs) for the first full year of each lease, divided by such projected total investment in the property. Of the \$4.67 billion we invested during 2013, excluding the new corporate headquarters, \$39.6 million was invested in 21 properties under development or expansion, with an estimated initial weighted average contractual lease rate of 8.5%. We may continue to pursue development or expansion opportunities under similar arrangements in the future.

John P. Case Appointed Chief Executive Officer (CEO)

In September 2013, we announced that our Board of Directors appointed John P. Case as CEO of the company. Mr. Case, who had previously served as President and Chief Investment Officer, succeeded Tom A. Lewis, who retired as our CEO. Mr. Lewis had been our CEO since 1997. Mr. Case is only the third CEO in Realty Income's 45-year history.

Portfolio Discussion

Leasing Results

At December 31, 2013, we had 70 properties available for lease out of 3,896 properties in our portfolio, which represents a 98.2% occupancy rate. Since December 31, 2012, when we reported 84 properties available for lease and a 97.2% occupancy rate, we:

- Leased 27 properties;
- Sold 19 properties available for lease; and
- Have 32 new properties available for lease.

During 2013, 136 properties with expiring leases were leased to either existing or new tenants. The annual rent on these leases was \$16.1 million, as compared to the previous rent on these same properties of \$16.0 million. At December 31, 2013, our average annualized rental revenue per square foot was approximately \$13.21 per square foot on the 3,807 leased properties in our portfolio. At December 31, 2013, we classified 12 properties with a carrying amount of \$12.0 million as held for sale on our balance sheet.

Investments in Existing Properties

In 2013, we capitalized costs of \$8.5 million on existing properties in our portfolio, consisting of \$1.3 million for re-leasing costs and \$7.2 million for building and tenant improvements. 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 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 have continued our 45-year policy of paying monthly dividends. In addition, we increased the dividend five times during 2013.

2013 Dividend increases	Month Paid	Dividend per share	Increase per share
1st increase	Jan 2013	\$ 0.1517500	\$ 0.0003125
2nd increase	Feb 2013	0.1809167	0.0291667
3rd increase	Apr 2013	0.1812292	0.0003125
4th increase	Jul 2013	0.1815417	0.0003125
5th increase	Oct 2013	0.1818542	0.0003125

The dividends paid per share during 2013 as compared to 2012 increased 21.2%, which is the largest annual increase in the company's history. The 2013 dividends paid per share totaled \$2.1474587 as compared to \$1.7716250 in 2012, an increase of \$0.3758337.

In December 2013, we declared an increased dividend of \$0.1821667 per share, which was paid in January 2014. The increase in January 2014 was our 65th consecutive quarterly increase and the 74th increase in the amount of the dividend since our listing on the NYSE in 1994. In January 2014 and February 2014, we declared dividends of \$0.1821667 per share, which will be paid in February 2014 and March 2014, respectively.

The monthly dividend of \$0.1821667 per share represents a current annualized dividend of \$2.186 per share, and an annualized dividend yield of approximately 5.9% based on the last reported sale price of our common stock on the NYSE of \$37.33 on December 31, 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.

Universal Shelf Registration

In February 2013, we filed a shelf registration statement with the SEC, which is effective for a term of three years and will expire in February 2016. 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.

Accelerated Stock Vesting

The Compensation Committee of our Board of Directors approved, effective July 1, 2013, the accelerated vesting of each restricted stock award that had originally been granted with ten-year vesting to five years. On July 1, 2013, 212,827 restricted shares vested as a result of this acceleration, resulting in additional compensation expense of \$3.7 million during 2013.

Issuance of Common Stock

In October 2013, we issued 9,775,000 shares of common stock at a price of \$40.63 per share, including 1,275,000 shares purchased by the underwriters upon the exercise of their option to purchase additional shares. After underwriting discounts and other estimated offering costs of \$18.7 million, the net proceeds of approximately \$378.5 million were used to repay a portion of the borrowings under our acquisition credit facility, which were used to fund property acquisitions.

In March 2013, we issued 17,250,000 shares of common stock at a price of \$45.90 per share. After underwriting discounts and other offering costs of \$36.7 million, the net proceeds of \$755.1 million were used to redeem our 5.375% notes in March 2013 and repay borrowings under our acquisition credit facility, which were used to fund property acquisitions, including our acquisition of ARCT.

In connection with our January 2013 acquisition of ARCT, we issued a total of 45,573,144 shares of our common stock to ARCT shareholders and redeemed 208,709 shares of our common stock that were previously held by ARCT.

Dividend Reinvestment and Stock Purchase Plan

In March 2011, we established a Dividend Reinvestment and Stock Purchase Plan, or the DRSP, 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 DRSP also allows our current stockholders to buy additional shares of common stock by reinvesting all or a portion of their distributions. The DRSP authorizes up to 6,000,000 common shares to be issued. During 2013, we issued 1,449,139 shares and raised approximately \$55.6 million under the DRSP.

Noncontrolling Interests

As consideration for two separate acquisitions during 2013, partnership units of Tau Operating Partnership, L.P. and Realty Income, L.P. were issued to third parties. These units (discussed in the following paragraphs below) do not have voting rights, are entitled to monthly distributions equal to the amount paid to our common stockholders, and are redeemable in cash or our common stock, at our option and at a conversion ratio of one to one, subject to certain exceptions. As the general partner for each of these partnerships, we have operating and financial control over these entities, consolidate them in our financial statements, and record the partnership units held by third parties as noncontrolling interests.

Issuance of Common and Preferred Partnership Units

In connection with our acquisition of ARCT in January 2013, we issued 317,022 common partnership units and 6,750 preferred partnership units. These common units are entitled to monthly distributions equivalent to the per common share amounts paid to the common stockholders of Realty Income. The preferred units have a par value of \$1,000, and are entitled to monthly payments at a rate of 2% per annum, or \$135,000 per year.

In June 2013, we issued 534,546 common partnership units of Realty Income, L.P. These common units are entitled to monthly distributions equivalent to the per common share amount paid to the common stockholders of Realty Income.

Credit Agency Ratings

The borrowing interest rates under our credit facility are based upon our ratings assigned by credit rating agencies. 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 “stable” outlook, and Standard & Poor’s Ratings Group has assigned a rating of BBB+ with a “stable” outlook.

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 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, 2013, sorted by maturity date (dollars in millions):

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
2.0% notes, issued in October 2012 and due in January 2018		350
6.75% notes, issued in September 2007 and due in August 2019		550
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
4.65% notes, issued in July 2013 and due in August 2023		750
5.875% bonds, \$100 issued in March 2005 and \$150 issued in June 2011, both due in March 2035		250
Total principal amount		<u>3,200</u>
Unamortized original issuance discounts		<u>(15)</u>
	<u>\$</u>	<u>3,185</u>

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. At December 31, 2013, we remain in compliance with these covenants.

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, 2013 are:

Note Covenants	Required	Actual
Limitation on incurrence of total debt	≤ 60% of adjusted assets	41.5%
Limitation on incurrence of secured debt	≤ 40% of adjusted assets	7.8%
Debt service coverage (trailing 12 months) ⁽¹⁾	≥ 1.5 x	3.6 x
Maintenance of total unencumbered assets	≥ 150% of unsecured debt	251.9%

⁽¹⁾ This covenant is calculated on a pro forma basis for the preceding four-quarter period on the assumption that: (i) the incurrence of any Debt (as defined in the covenants) incurred by us since the first day of such four-quarter period and the application of the proceeds therefrom (including to refinance other Debt since the first day of such four-quarter period), (ii) the repayment or retirement of any of our Debt since the first day of such four-quarter period, and (iii) any acquisition or disposition by us of any asset or group since the first day of such four-quarters had in each case occurred on January 1, 2013, and subject to certain additional adjustments. Such pro forma ratio has been prepared on the basis required by that debt service covenant, reflects various estimates and assumptions and is subject to other uncertainties, and therefore does not purport to reflect what our actual debt service coverage ratio would have been had transactions referred to in clauses (i), (ii) and (iii) of the preceding sentence occurred as of January 1, 2013, nor does it purport to reflect our debt service coverage ratio for any future period. The following is our calculation of debt service coverage at December 31, 2013 (in thousands, for trailing twelve months):

Net income attributable to the Company	\$	245,564
Plus: interest expense		174,007
Plus: provision for taxes		1,808
Plus: depreciation and amortization		308,394
Plus: provisions for impairment		3,028
Plus: pro forma adjustments		59,625
Less: gain on sales of investment properties		<u>(64,743)</u>
Income available for debt service, as defined	<u>\$</u>	<u>727,683</u>
Total pro forma debt service charge	<u>\$</u>	<u>201,848</u>
Debt service coverage ratio		3.6

Fixed Charge Coverage Ratio

Fixed charge coverage ratio is calculated in exactly the same manner as the debt service coverage ratio, except that preferred stock dividends are also added to the denominator. Similar to debt service coverage ratio, 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 calculations of both debt service and fixed charge coverage ratios may be different from the calculations used by other companies and, therefore, comparability may be limited. The presentation of debt service and fixed charge coverage ratios should not be considered as alternatives to any U.S. generally accepted accounting principles, or GAAP, operating performance measures. Below is our calculation of fixed charges at December 31, 2013 (in thousands, for trailing twelve months):

Income available for debt service, as defined	\$	727,683
Pro forma debt service charge plus preferred stock dividends	\$	243,778
Fixed charge coverage ratio		3.0

Table of Obligations

The following table summarizes the maturity of each of our obligations as of December 31, 2013 (dollars in millions):

Year of Maturity	Credit Facility ⁽¹⁾	Notes and Bonds ⁽²⁾	Term Loan	Mortgages Payable ⁽³⁾	Interest ⁽⁴⁾	Realty Income ⁽⁵⁾	Ground Leases Paid by Our Tenants ⁽⁶⁾	Ground Leases Paid by Other ⁽⁷⁾	Totals
2014	\$ -	\$ -	\$ -	\$ 49.9	\$ 199.5	\$ 1.0	\$ 12.6	\$ 25.4	\$ 288.4
2015	-	150.0	-	125.5	193.6	1.0	12.7	-	482.8
2016	128.0	275.0	-	248.5	167.9	1.0	12.7	-	833.1
2017	-	175.0	-	133.0	145.2	1.0	12.8	-	467.0
2018	-	350.0	70.0	15.0	127.0	1.0	12.8	-	575.8
Thereafter	-	2,250.0	-	182.6	539.2	9.4	144.5	-	3,125.7
Totals	\$ 128.0	\$ 3,200.0	\$ 70.0	\$ 754.5	\$ 1,372.4	\$ 14.4	\$ 208.1	\$ 25.4	\$ 5,772.8

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

⁽²⁾ Excludes non-cash original issuance discounts recorded on the notes payable. The unamortized balance of the original issuance discounts at December 31, 2013, is \$14.5 million.

⁽³⁾ Excludes non-cash net premiums recorded on the mortgages payable. The unamortized balance of these net premiums at December 31, 2013, is \$28.9 million.

⁽⁴⁾ Interest on the term loan, notes, bonds, mortgages payable, and credit facility has been calculated based on outstanding balances as of December 31, 2013 through their respective maturity dates.

⁽⁵⁾ Realty Income currently pays the ground lessors directly for the rent under the ground leases.

⁽⁶⁾ 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.

⁽⁷⁾ "Other" consists of \$23.7 million of commitments under construction contracts and \$1.7 million 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 and Preferred Units Outstanding

In 2006, we issued 8.8 million shares of Class E 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 Class F preferred stock at \$25.00 per share. In April 2012, we issued an additional 1.4 million shares of Class F 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 our Class F preferred stock are paid monthly in arrears.

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

As part of our acquisition of ARCT in January 2013, we issued 6,750 partnership units. Payments on these preferred units are made monthly in arrears at rate of 2% per annum, or \$135,000 per year, and are included in interest expense.

No Unconsolidated Investments

We have no unconsolidated investments, nor do we engage in trading activities involving energy or commodity contracts.

RESULTS OF OPERATIONS

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with U.S. 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 for buildings and 4 to 15 years for improvements. 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.

Management must make significant assumptions in determining the fair value of assets acquired and liabilities assumed. When acquiring a property for investment purposes, we typically 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 an acquisition of multiple properties, we must also allocate the purchase price among the properties. The allocation of the purchase price is based on our assessment of estimated fair value and is often based upon the expected future cash flows of the property and various characteristics of the markets where the property is located. In addition, any assumed mortgages receivable or payable and any assumed or issued noncontrolling interests are recorded at their estimated fair values. The estimated fair values of our mortgages payable have been calculated by discounting the future cash flows using applicable interest rates that have been adjusted for factors, such as industry type, tenant investment grade, maturity date, and comparable borrowings for similar assets. The initial allocation of the purchase price is based on management's preliminary assessment, which may differ when final information becomes available. Subsequent adjustments made to the initial purchase price allocation are made within the allocation period, which typically does not exceed one year. The use of different assumptions in the allocation of the purchase price of the acquired properties and liabilities assumed could affect the timing of recognition of the related revenue and expenses.

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.

The following is a comparison of our results of operations for the years ended December 31, 2013, 2012 and 2011.

Rental Revenue

Rental revenue was \$747.6 million for 2013 versus \$466.5 million for 2012, an increase of \$281.1 million, or 60.3%. Rental revenue was \$401.0 million in 2011. The increase in rental revenue in 2013 compared to 2012 is primarily attributable to:

- The 958 properties (25.0 million square feet) acquired by Realty Income in 2013, which generated \$213.1 million of rent in 2013;
- The 423 properties (10.5 million square feet) acquired by Realty Income in 2012, which generated \$81.1 million of rent in 2013 compared to \$22.7 million in 2012, an increase of \$58.4 million;
- Same store rents generated on 2,338 properties (25.3 million square feet) during the entire years of 2013 and 2012, increased by \$6.2 million, or 1.4%, to \$435.2 million from \$429.0 million;
- A net increase of \$1.8 million relating to the aggregate of (i) rental revenue from properties (132 properties comprising 1.1 million square feet) that were available for lease during part of 2013 or 2012, (ii) rental revenue for six properties under development, (iii) rental revenue for 29 properties re-leased primarily with rent-free periods, and (iv) lease termination settlements which, in aggregate, totaled \$12.56 million in 2013 compared to \$10.74 million in 2012; and
- A net increase in straight-line rent and other non-cash adjustments to rent of \$1.7 million in 2013 as compared to 2012.

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 3,896 properties in the portfolio at December 31, 2013, 3,876, or 99.5%, are single-tenant properties and the remaining twenty are multi-tenant properties. Of the 3,876 single-tenant properties, 3,807, or 98.2%, were net leased with a weighted average remaining lease term (excluding rights to extend a lease at the option of the tenant) of approximately 10.8 years at December 31, 2013. Of our 3,807 leased single-tenant properties, 3,419 or 89.8% 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 \$2.8 million in 2013, \$1.9 million in 2012 and \$1.3 million in 2011 (excluding percentage rent reclassified to discontinued operations of \$115,000 in 2013, \$163,000 in 2012 and \$70,000 in 2011). Percentage rent in 2013 was less than 1% of rental revenue and we anticipate percentage rent to be less than 1% of rental revenue in 2014.

Our portfolio of real estate, leased primarily to regional and national commercial tenants under net leases, continues to perform well and provides dependable lease revenue supporting the payment of monthly dividends to our stockholders. At December 31, 2013, our portfolio of 3,896 properties was 98.2% leased with 70 properties available for lease as compared to 97.2% occupancy, or 84 properties available for lease at December 31, 2012. 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.

Tenant Reimbursements

Contractually obligated reimbursements from tenants for recoverable real estate taxes and operating expenses were \$24.9 million in 2013, compared to \$14.6 million in 2012 and \$9.8 million in 2011. The increase in tenant reimbursements from 2012 to 2013 is primarily due to our 2012 and 2013 acquisitions, including our acquisition of ARCT. Our tenant reimbursements match our reimbursable property expenses for any given period.

Other Revenue

Other revenue, which comprises property-related revenue not included in rental revenue or tenant reimbursements, was \$5.9 million in 2013, compared to \$1.7 million in 2012 and \$1.6 million in 2011.

Depreciation and Amortization

Depreciation and amortization was \$306.6 million in 2013, compared to \$147.3 million in 2012 and \$116.5 million in 2011. The increases in depreciation and amortization in 2013 and 2012 were primarily due to the acquisition of properties in 2013 and 2012, including the 515 properties acquired as part of our acquisition of ARCT, which was partially offset by property sales in those same years. As discussed in the sections entitled "Funds from Operations Available to Common Stockholders (FFO) and Normalized Funds from Operations Available to Common Stockholders (Normalized FFO)" and "Adjusted Funds from Operations Available to Common Stockholders (AFFO)," 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 \$180.9 million in 2013, compared to \$122.5 million in 2012 and \$108.3 million in 2011. The increase in interest expense from 2012 to 2013 was primarily due to an increase in borrowings attributable to the issuance in October 2012 of our 2.00% senior unsecured notes due January 2018, the issuance in October 2012 of our 3.25% senior unsecured notes due October 2022, the January 2013 issuance of our \$70 million senior unsecured term loan, the July 2013 issuance of our 4.65% senior unsecured notes due August 2023, and an increase in mortgages payable and higher credit facility borrowings, which were partially offset by lower average interest rates and the repayment of our 5.375% senior unsecured notes in March 2013.

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

	2013	2012	2011
Interest on our credit facility, term loan, notes and mortgages	\$ 182,974	\$ 117,401	\$ 104,452
Interest included in discontinued operations	(526)	(601)	(785)
Credit facility commitment fees	1,930	1,684	1,508
Amortization of credit facility origination costs and deferred financing costs	7,434	5,165	3,757
(Gain) loss on interest rate swap	(878)	56	(4)
Amortization of net mortgage premiums	(9,481)	(665)	(189)
Interest capitalized	(537)	(498)	(438)
Interest expense	\$ 180,916	\$ 122,542	\$ 108,301

Credit facility, term loan, mortgages and notes	2013	2012	2011
Average outstanding balances (dollars in thousands)	\$ 3,892,089	\$ 2,144,690	\$ 1,754,935
Average interest rates	4.67%	5.47%	5.95%

At December 31, 2013, the weighted average interest rate on our:

- Notes and bonds payable of \$3.2 billion (excluding unamortized original issuance discounts of \$14.5 million) was 4.9%;
- Mortgages payable of \$754.5 million (excluding net premiums totaling \$28.9 million on these mortgages) was 5.4%;
- Credit facility outstanding borrowings of \$128.0 million was 1.2%;
- Term loan outstanding borrowings of \$70.0 million was 1.4%; and
- Combined outstanding notes, bonds, mortgages and credit facility borrowings of \$4.2 billion was 4.5%.

General and Administrative Expenses

General and administrative expenses increased by \$18.8 million to \$56.8 million in 2013, as compared to \$38.0 million in 2012. General and administrative expenses were \$31.0 million in 2011. Included in general and administrative expenses are acquisition transaction costs (excluding ARCT merger-related costs) of \$2.1 million for 2013, \$2.4 million for 2012 and \$1.5 million for 2011. Even though general and administrative expenses increased during 2013, general and administrative expenses as a percentage of total revenue decreased. The increase in expense was primarily due to increases in employee costs, including the accelerated vesting of restricted shares in July 2013 which resulted in additional compensation expense of \$3.7 million, and higher costs as a result of our integration of ARCT. In January 2014, we had 116 employees, as compared to 97 employees in January 2013 and 83 employees in January 2012.

Dollars in thousands	2013	2012	2011
General and administrative expenses	\$ 56,827	\$ 37,998	\$ 30,954
Total revenue, including discontinued operations ⁽¹⁾	759,889	483,671	422,224
General and administrative expenses as a percentage of total revenue	7.5%	7.9%	7.3%

⁽¹⁾ Excludes all tenant reimbursements revenue, as well as gain on sales and Crest Net revenue included in discontinued operations.

Property Expenses (including reimbursable)

Property expenses consist of costs associated with unleased properties, non-net leased properties and general portfolio expenses, as well as contractually obligated reimbursements from tenants for recoverable real estate taxes and operating 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, 2013, 70 properties were available for lease, as compared to 84 at December 31, 2012 and 87 at December 31, 2011.

Property expenses were \$38.8 million (including \$24.9 million reimbursable) in 2013, \$21.3 million (including \$14.6 million reimbursable) in 2012 and \$15.5 million (including \$9.8 million reimbursable) in 2011. The increase in property expenses in 2013 is primarily attributable to increased portfolio size, higher maintenance and utilities, insurance costs, property taxes, and ground rent expenses as a result of our acquisition of ARCT, along with higher contractually obligated reimbursements primarily due to our 2012 and 2013 acquisitions.

Income Taxes

Income taxes were \$2.7 million in 2013, as compared to \$1.4 million in 2012 and \$1.5 million in 2011. These amounts are for city and state income and franchise taxes paid by Realty Income and its subsidiaries.

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 \$13.0 million in 2013 and \$7.9 million in 2012. On a diluted per common share basis, these expenses represented \$0.07 for 2013 and \$0.06 for 2012.

Discontinued Operations

Operations from ten Realty Income investment properties, two Crest properties classified as held for sale at December 31, 2013, and 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	2013	2012	2011
Gain on sales of investment properties	\$ 64,743	\$ 9,873	\$ 5,193
Rental revenue	6,040	15,161	19,546
Tenant reimbursements	146	379	370
Other revenue	418	282	94
Depreciation and amortization	(1,761)	(3,916)	(5,568)
Property expenses (including reimbursable)	(916)	(2,529)	(2,518)
Provisions for impairment	(2,738)	(1,500)	(395)
Crest's income from discontinued operations	1,171	683	688
Income from discontinued operations	\$ 67,103	\$ 18,433	\$ 17,410
Per common share, basic and diluted	\$ 0.35	\$ 0.14	\$ 0.14

Crest's Assets and Property Sales

At December 31, 2013, Crest had an inventory of three properties, one of which was classified as held for investment. In addition to the three properties, Crest also held notes receivable of \$18.7 million at December 31, 2013 and \$18.9 million at December 31, 2012.

During 2013, Crest did not acquire any properties. However, Crest sold one property in 2013 for \$597,000, and recorded an impairment of \$308,000 upon the sale of this property. During 2012, Crest acquired one property for \$890,000, but did not sell any properties. During 2011, Crest did not buy or sell any properties.

Gain on Sales of Investment Properties by Realty Income

During 2013, we sold 75 investment properties for \$134.2 million, which resulted in a gain of \$64.7 million. The results of operations for these properties have been reclassified as discontinued operations.

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.

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.

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, 2013, we classified real estate with a carrying amount of \$12.0 million as held for sale on our balance sheet. In 2014, we intend to continue our active disposition efforts to further enhance our real estate portfolio and anticipate approximately \$50 million in property sales for all of 2014. 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.

Provisions for Impairment on Real Estate Acquired for Resale by Crest

During 2013, Crest recorded a provision for impairment of \$308,000 for one property sold during the year.

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

Provisions for Impairment on Realty Income Investment Properties

In 2013, Realty Income recorded total provisions for impairment of \$3.0 million. Provisions for impairment of \$2.7 million are included in income from discontinued operations on seven sold properties and one property classified as held for sale. Additionally, during 2013, Realty Income recorded provisions for impairment of \$290,000 on one property held for investment in the automotive service industry. This provision for impairment is included in income from continuing operations.

In 2012, Realty Income recorded total provisions for impairment of \$5.1 million. Provisions for impairment of \$1.5 million are included in income from discontinued operations on six properties. Additionally, during 2012, Realty Income recorded provisions for impairment of \$3.6 million on four 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.

Preferred Stock Dividends

Preferred stock dividends totaled \$41.9 million in 2013, \$40.9 million in 2012 and \$24.3 million in 2011.

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 the first quarter of 2012. On a diluted per common share basis, this charge was \$0.03.

Net Income Available to Common Stockholders

Net income available to common stockholders was \$203.6 million in 2013, an increase of \$89.1 million as compared to \$114.5 million in 2012. Net income available to common stockholders in 2011 was \$132.8 million. Net income available to common stockholders in 2013 includes \$13.0 million of merger-related costs for the acquisition of ARCT, which represents \$0.07 on a diluted per common share basis, and \$3.7 million for accelerated vesting of restricted shares that occurred in July 2013 from ten-year vesting to five years, which represents \$0.02 on a diluted per common share basis. Net income available to common stockholders in 2012 includes \$7.9 million of merger-related costs related to the acquisition of ARCT, which represents \$0.06 on a diluted per common share basis, and a \$3.7 million charge for the excess of redemption value over carrying value of the Class D preferred shares, 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. 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 investment properties during 2013 were \$64.7 million, as compared to gains from the sale of investment properties of \$9.9 million during 2012 and a \$5.7 million gain from the sale of properties during 2011.

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

FFO for 2013 increased by \$188.1 million, or 72.1%, to \$449.0 million, as compared to \$260.9 million in 2012 and \$249.4 million in 2011. FFO for 2013 includes \$13.0 million for merger-related costs related to our acquisition of ARCT, which represents \$0.07 on a diluted per common share basis, and \$3.7 million for accelerated vesting of restricted shares that occurred in July 2013 from ten-year vesting to five years, which represents \$0.02 on a diluted per common share basis. FFO for 2012 includes \$7.9 million of merger-related costs, which represents \$0.06 on a diluted per common share basis, and a \$3.7 million charge associated with the Class D preferred stock redemption in March 2012, which represents \$0.03 on a diluted per common share basis.

We define normalized FFO as FFO excluding the merger-related costs for our 2013 acquisition of ARCT. Normalized FFO for 2013 increased by \$193.2 million, or 71.9%, to \$462.0 million, as compared to \$268.8 million in 2012 and \$249.4 million in 2011.

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):

	2013	2012	2011
Net income available to common stockholders	\$ 203,634	\$ 114,538	\$ 132,779
Depreciation and amortization:			
Continuing operations	306,577	147,323	116,546
Discontinued operations	1,818	3,984	5,633
Depreciation allocated to noncontrolling interest	(1,009)	-	-
Depreciation of furniture, fixtures and equipment	(288)	(249)	(238)
Provisions for impairment on investment properties	3,028	5,139	405
Gain on sale of investment properties:			
continuing operations	-	-	(540)
discontinued operations	(64,743)	(9,873)	(5,193)
FFO available to common stockholders	449,017	260,862	249,392
Merger-related costs	13,013	7,899	-
Normalized FFO available to common stockholders	\$ 462,030	\$ 268,761	\$ 249,392
FFO per common share:			
Basic	\$ 2.34	\$ 1.96	\$ 1.98
Diluted	\$ 2.34	\$ 1.96	\$ 1.98
Normalized FFO per common share,			
Basic	\$ 2.41	\$ 2.02	\$ 1.98
Diluted	\$ 2.41	\$ 2.02	\$ 1.98
Distributions paid to common stockholders	\$ 409,222	\$ 236,348	\$ 219,297
Normalized FFO in excess of distributions paid to common stockholders	\$ 52,808	\$ 32,413	\$ 30,095
Weighted average number of common shares used for computation per share:			
Basic	191,754,857	132,817,472	126,142,696
Diluted	191,781,622	132,884,933	126,189,399

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 2013 increased by \$188.9 million, or 68.9%, to \$463.1 million, as compared to \$274.2 million in 2012 and \$253.4 million in 2011. 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):

	2013	2012	2011
Net income available to common stockholders	\$ 203,634	\$ 114,538	\$ 132,779
Cumulative adjustments to calculate FFO ⁽¹⁾	245,383	146,324	116,613
FFO available to common stockholders	449,017	260,862	249,392
Merger-related costs	13,013	7,899	-
Normalized FFO available to common stockholders	462,030	268,761	249,392
Provisions for impairment on Crest properties	308	-	-
Amortization of share-based compensation	20,785	10,001	7,873
Amortization of deferred financing costs ⁽²⁾	4,436	2,786	2,074
Excess of redemption value over carrying value of Class D preferred share redemption	-	3,696	-
Amortization of net mortgage premiums	(9,481)	(665)	(189)
(Gain) loss on interest rate swaps	(878)	56	(4)
Capitalized leasing costs and commissions	(1,280)	(1,619)	(1,722)
Capitalized building improvements	(7,227)	(4,935)	(2,450)
Straight-line rent	(13,742)	(5,674)	(2,681)
Amortization of above and below-market leases	8,188	1,776	1,079
Total AFFO available to common stockholders	\$ 463,139	\$ 274,183	\$ 253,372
AFFO per common share, basic and diluted:			
Basic	\$ 2.42	\$ 2.06	\$ 2.01
Diluted	\$ 2.41	\$ 2.06	\$ 2.01
Distributions paid to common stockholders	\$ 409,222	\$ 236,348	\$ 219,297
AFFO in excess of distributions paid to common stockholders	\$ 53,917	\$ 37,835	\$ 34,075
Weighted average number of common shares used for computation per share:			
Basic	191,754,857	132,817,472	126,142,696
Diluted	191,781,622	132,884,933	126,189,399

⁽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 notes were issued in March 2003, November 2003, March 2005, September 2005, September 2006, September 2007, June 2010, June 2011, October 2012, and July 2013. Additionally, this includes the amortization of deferred financing costs incurred and capitalized in connection with our assumption of the mortgages payable and the issuance of our term loan. The deferred financing costs are being amortized over the lives of the respective mortgages and term loan. No costs associated with our credit facility agreements or annual fees paid to credit rating agencies have been included.

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 3,896 properties in our portfolio, approximately 97.7% or 3,807 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, 2013, 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, term loan, 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, 2013. 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	Weighted average interest rate on fixed rate debt	Variable rate debt	Weighted average interest rate on variable rate debt
2014	\$ 48.2	6.43 %	\$ 1.7	4.83 %
2015	249.9	5.42 %	25.6	4.68 %
2016	521.2	5.39 %	130.3	1.31 %
2017	281.8	5.68 %	26.2	5.05 %
2018	364.8	2.15 %	70.2	1.37 %
Thereafter	2,425.3	5.18 %	7.3	2.52 %
Totals ⁽¹⁾	\$ 3,891.2	4.99 %	\$ 261.3	2.09 %
Fair Value ⁽²⁾	\$ 4,057.2		\$ 261.5	

⁽¹⁾ Excludes net premiums recorded on mortgages payable and original issuance discounts recorded on notes payable. At December 31, 2013, the unamortized balance of net premiums on mortgages payable is \$28.9 million, and the unamortized balance of original issuance discounts on notes payable is \$14.5 million.

⁽²⁾ We base the estimated fair value of the fixed rate senior notes at December 31, 2013 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, 2013 on the relevant Treasury yield curve, plus an applicable credit-adjusted spread. We believe that the carrying value of the credit facility balance and term loan balance reasonably approximate their estimated fair values at December 31, 2013.

The table incorporates only those exposures that exist as of December 31, 2013. 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 have fixed interest rates, except three with a total value of \$63.3 million, excluding net premiums, at December 31, 2013. Interest on our credit facility and term loan balance is variable. However, the variable interest rate feature on our term loan has been mitigated by an interest rate swap agreement. Based on our credit facility balance of \$128.0 million at December 31, 2013, a 1% change in interest rates would change our interest costs by \$1.3 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,	2013	2012	2011	2010	2009
Total assets (book value)	\$ 9,924,441	\$ 5,429,348	\$ 4,404,492	\$ 3,531,269	\$ 2,911,562
Cash and cash equivalents	10,257	5,248	4,165	17,607	10,026
Total debt	4,166,840	2,869,853	2,040,284	1,595,679	1,351,375
Total liabilities	4,503,083	3,016,554	2,149,638	1,684,304	1,423,553
Total equity	5,421,358	2,412,794	2,254,854	1,846,965	1,488,009
Net cash provided by operating activities	518,906	326,469	298,952	243,368	226,707
Net change in cash and cash equivalents	5,009	1,083	(13,442)	7,581	(36,789)
Total revenue	778,375	482,847	412,360	333,386	311,194
Income from continuing operations	179,180	140,719	139,622	111,422	107,736
Income from discontinued operations	67,103	18,433	17,410	19,362	23,391
Net income	246,283	159,152	157,032	130,784	131,127
Preferred stock dividends	(41,930)	(40,918)	(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	203,634	114,538	132,779	106,531	106,874
Cash distributions paid to common stockholders	409,222	236,348	219,297	182,500	178,008
Basic and diluted net income per common share	1.06	0.86	1.05	1.01	1.03
Cash distributions paid per common share	2.147459	1.771625	1.736625	1.721625	1.706625
Cash distributions declared per common share	2.177875	1.777875	1.737875	1.722875	1.707875
Basic weighted average number of common shares outstanding	191,754,857	132,817,472	126,142,696	105,869,637	103,577,507
Diluted weighted average number of common shares outstanding	191,781,622	132,884,933	126,189,399	105,942,721	103,581,053

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, 2013, 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 (1992)" 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 13, 2014 by,

John P. Case, Chief Executive Officer

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

Changes in Internal Controls

There were no changes to our internal control over financial reporting that occurred during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. As of December 31, 2013, 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

John Case, Realty Income's Chief Executive Officer, certified to the NYSE in 2013, 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, 2013, the certifications by John Case 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.

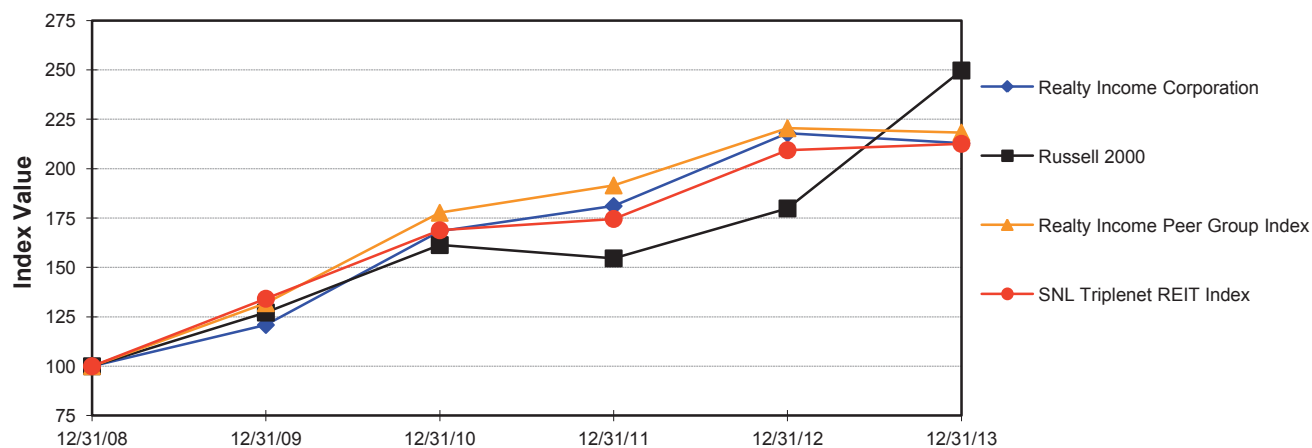
	Price Per Share of Common Stock		Distributions Declared ⁽¹⁾
	High	Low	
2013			
First Quarter	\$ 46.63	\$ 40.51	\$ 0.5430626
Second Quarter	55.48	39.84	0.5440001
Third Quarter	46.01	38.41	0.5449376
Fourth Quarter	43.20	36.58	0.5458751
Total			\$ 2.1778754
2012			
First Quarter	\$ 39.03	\$ 34.31	\$ 0.4368125
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			\$ 1.7778750

⁽¹⁾ Common stock cash distributions are declared monthly by us based on financial results for the prior months. At December 31, 2013, a distribution of \$0.1821667 per common share had been declared and was paid in January 2014.

There were 9,741 registered holders of record of our common stock as of December 31, 2013. We estimate that our total number of shareholders is over 165,000 when we include both registered and beneficial holders of our common stock.

During the fourth quarter of 2013, 16,780 shares of stock, at a price of \$39.76, and 48,494 shares of stock, at a price of \$37.33, were withheld for state and federal payroll taxes on the vesting of employee stock awards, as permitted under the 2012 Incentive Award Plan of Realty Income Corporation.

Total Return Performance



Index	Period Ending					
	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13
Realty Income Corporation	100.00	120.89	168.40	181.07	217.87	212.82
Russell 2000	100.00	127.17	161.32	154.59	179.86	249.69
Realty Income Peer Group*	100.00	131.90	177.66	191.51	220.46	218.28
SNL Triplanet REIT Index	100.00	134.18	168.83	174.57	209.37	212.59

* Realty Income Peer Group consists of fifteen companies with an implied market capitalization between \$3.8 billion and \$18.9 billion as of September 30, 2013.

Company Information

Executive Officers



Left to Right: Richard Collins, John Case, Paul Meurer, Gary Malino, Sumit Roy, Michael Pfeiffer

John P. Case

Chief Executive Officer
Member of the Board
of Directors

Richard G. Collins

Executive Vice President,
Portfolio Management

Gary M. Malino

President,
Chief Operating Officer

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,
Chief Investment Officer

Directors



Michael D. McKee

Chairman of the Board of Directors and
Chief Executive Officer, Bentall Kennedy



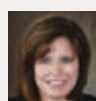
John P. Case

Chief Executive Officer
Member of the Board of Directors



Thomas A. Lewis

Vice Chairman of the Board of Directors



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

Senior Vice President, PGA Tour



Ronald L. Merriman

Retired Vice Chair, KPMG, LLP

Additional Officers



Debra M. Bonebrake

Senior Vice President,
Industrial, Distribution
and Office



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,
IT Enterprise Software



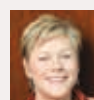
Elizabeth Cate

Vice President,
Portfolio Management



Benjamin N. Fox

Vice President,
Asset Management



Tere H. Miller

Vice President,
Investor Relations



Dawn Nguyen

Vice President,
Portfolio Management



Clint Schmucker

Vice President,
Information Technology



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



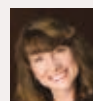
Jill M. Cossaboom

Associate Vice President,
Assistant Controller



Kristin K. Ferrell

Associate Vice President,
Portfolio Management



Teresa M. Glenn

Associate Vice President,
Human Resources & Operations



Shannon C. Jensen

Associate Vice President,
Senior Legal Counsel



Scott A. Kohnen

Associate Vice President,
Director of Research



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

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