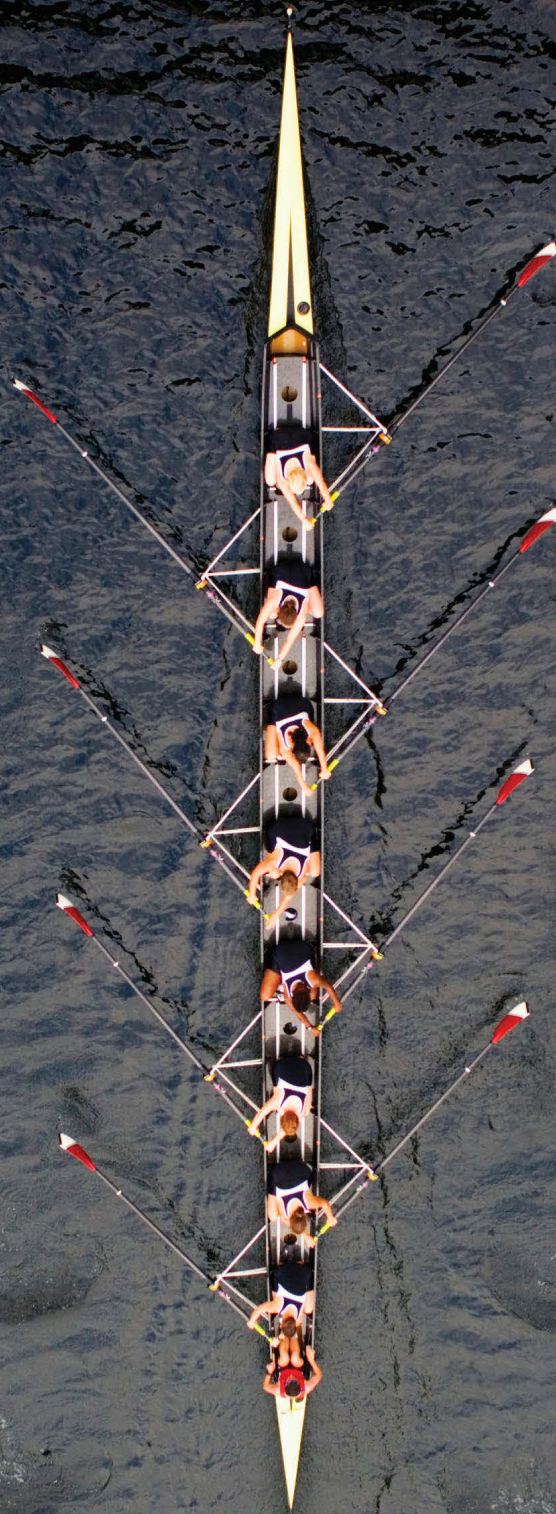


DISCIPLINED. PROVEN. CONSISTENT.



REALTY  INCOME

The Monthly Dividend Company®

2014 ANNUAL REPORT

## MISSION

We are The Monthly Dividend Company®. Our mission is to provide our shareholders with dependable monthly dividends that increase over time. Since our founding in 1969, we have paid our shareholders over \$3.2 billion in monthly dividends and increased the dividend 78 times since our listing on the New York Stock Exchange in 1994 (NYSE "O"). We remain committed to continuing to operate your company in a manner that supports this mission.

## COMPANY DESCRIPTION

Realty Income has a 46-year history of acquiring freestanding, single-tenant commercial real estate leased to creditworthy tenants typically under 10- to 20-year net-lease agreements. The lease revenue generated from these properties creates a predictable level of cash flow to support the payment of monthly dividends to our shareholders. We actively manage our real estate portfolio to sustain high occupancy and optimize the revenue it generates. Additionally, we employ conservative balance sheet management to protect the integrity of the cash flow and enhance the reliability of the dividend. The company has 125 employees located in our headquarters in San Diego, CA.

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## **DISCIPLINED** MANAGEMENT

Conservative Capital Structure with **31%** Debt  
to Total Market Capitalization

Diversified Portfolio of **234** Commercial Tenants  
in **47** Industries across **49** States and Puerto Rico

Selective Acquisitions Based on Careful Underwriting

## **PROVEN** TRACK RECORD OF PERFORMANCE

**4.5%** Compound Average Annual Dividend Growth Rate since 1994 Listing

**17.1%** Compound Average Annual Total Shareholder Return since 1994 Listing

## **CONSISTENT** EXECUTION

**69** Consecutive Quarterly Dividend Increases since 1994 Listing

Paid **533** Consecutive Monthly Dividends  
over Our 46-year Operating History

Occupancy Rate Never below **96%**

## 2014 PERFORMANCE HIGHLIGHTS

**6.6%** AFFO per Share Growth

**Four** Quarterly Dividend Increases

**33.7%** Total Return to Shareholders

**\$1.4 Billion** in Property Acquisitions

**98.4%** Occupancy Rate

# HISTORICAL FINANCIAL PERFORMANCE

For the Years Ended December 31,	2014	2013
<b>Total revenue<sup>(1)</sup></b>	<b>\$ 895,157,000</b>	<b>\$ 759,798,000</b>
Net income available to common stockholders	\$ 227,558,000	\$ 203,634,000
Funds from operations (“FFO”) <sup>(2)</sup>	\$ 562,889,000	\$ 462,030,000
<b>Adjusted funds from operations (“AFFO”)<sup>(2)</sup></b>	<b>\$ 561,661,000</b>	<b>\$ 463,139,000</b>
<b>Dividends paid to common stockholders</b>	<b>\$ 479,256,000</b>	<b>\$ 409,222,000</b>

## AT YEAR END

Real estate at cost, before accumulated depreciation <sup>(3)</sup>	\$ 11,153,571,000	\$ 9,899,475,000
Number of properties	4,327	3,896
Gross leasable square feet	70,734,700	62,644,900
Properties acquired <sup>(4)</sup>	479	958
Cost of properties acquired <sup>(4)</sup>	\$ 1,401,959,000	\$ 4,670,169,000
Properties sold	46	75
Net proceeds from sale of properties	\$ 107,234,000	\$ 134,150,000
Number of commercial tenants <sup>(5)</sup>	234	205
Number of industries	47	47
Number of states	49	49
Portfolio occupancy rate	98.4%	98.2%
Remaining weighted average lease term in years	10.2	10.8

## PER COMMON SHARE DATA

Net income (diluted)	\$ 1.04	\$ 1.06
Funds from operations (“FFO”) <sup>(2)</sup>	\$ 2.58	\$ 2.41
<b>Adjusted funds from operations (“AFFO”)<sup>(2)</sup></b>	<b>\$ 2.57</b>	<b>\$ 2.41</b>
<b>Dividends paid</b>	<b>\$ 2.192</b>	<b>\$ 2.147</b>
Annualized dividend amount <sup>(6)</sup>	\$ 2.201	\$ 2.186
Common shares outstanding	224,881,192	207,485,073

## INVESTMENT RESULTS

Closing price on December 31,	\$ 47.71	\$ 37.33
Dividend yield <sup>(7)(8)</sup>	5.9%	5.3%
<b>Total return to shareholders<sup>(9)</sup></b>	<b>33.7%</b>	<b>-1.8%</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> Does not include properties held for sale.

<sup>(4)</sup> Includes properties acquired by Realty Income and Crest Net Lease.

<sup>(5)</sup> Commercial tenants are defined as retailers with over 50 locations and non-retailers with over \$500 million in annual revenues.

2012	2011	2010	2009
\$ 483,557,000	\$ 421,644,000	\$ 346,437,000	\$ 328,794,000
\$ 114,538,000	\$ 132,779,000	\$ 106,531,000	\$ 106,874,000
\$ 268,761,000	\$ 249,392,000	\$ 193,926,000	\$ 190,554,000
\$ 274,183,000	\$ 253,372,000	\$ 197,256,000	\$ 192,739,000
\$ 236,348,000	\$ 219,297,000	\$ 182,500,000	\$ 178,008,000
\$5,920,685,000	\$4,971,981,000	\$ 4,112,862,000	\$3,439,456,000
3,013	2,634	2,496	2,339
37,677,500	27,369,000	21,215,800	19,182,000
423	164	186	16
\$1,164,924,000	\$1,016,100,000	\$ 713,534,000	\$ 57,937,000
44	26	28	25
\$ 50,586,000	\$ 24,126,000	\$ 27,181,000	\$ 20,467,000
150	136	122	118
44	38	32	30
49	49	49	49
97.2%	96.7%	96.6%	96.8%
11.0	11.3	11.4	11.2
\$ 0.86	\$ 1.05	\$ 1.01	\$ 1.03
\$ 2.02	\$ 1.98	\$ 1.83	\$ 1.84
\$ 2.06	\$ 2.01	\$ 1.86	\$ 1.86
\$ 1.772	\$ 1.737	\$ 1.722	\$ 1.707
\$ 1.821	\$ 1.746	\$ 1.731	\$ 1.716
133,452,411	133,223,338	118,058,988	104,286,705
\$ 40.21	\$ 34.96	\$ 34.20	\$ 25.91
5.1%	5.1%	6.6%	7.4%
<b>20.1%</b>	<b>7.3%</b>	<b>38.6%</b>	<b>19.3%</b>

<sup>(6)</sup> Annualized dividend amount reflects the December declared dividend rate per share multiplied by 12.

<sup>(7)</sup> Dividend yield was calculated by dividing the dividend paid per share, during the year, by the closing share price on December 31 or the last trading day of the preceding year.

<sup>(8)</sup> Dividend yield excludes special dividends.

<sup>(9)</sup> 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 or the last trading day of the preceding year.

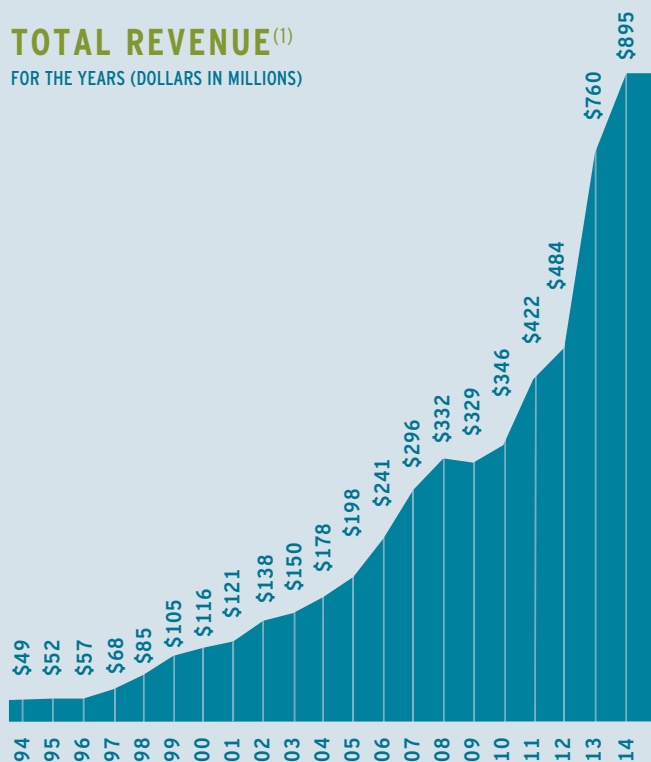
# DEAR FELLOW SHAREHOLDERS,

We had a lot to celebrate at Realty Income in 2014. This past year marked the 20<sup>th</sup> anniversary of our listing as a public company on the New York Stock Exchange, and the payment of over \$3 billion in cumulative common stock dividends to our shareholders since our founding in 1969.

We also achieved excellent performance results in 2014. Total revenue grew by 17.8% to \$895.2 million and earnings per share, as measured by Adjusted Funds from Operations (AFFO), grew by 6.6% to \$2.57. These results supported the payment of 12 monthly dividends and four quarterly dividend increases, contributing to a total annual return to our shareholders of 33.7%. Last year, one of the outside

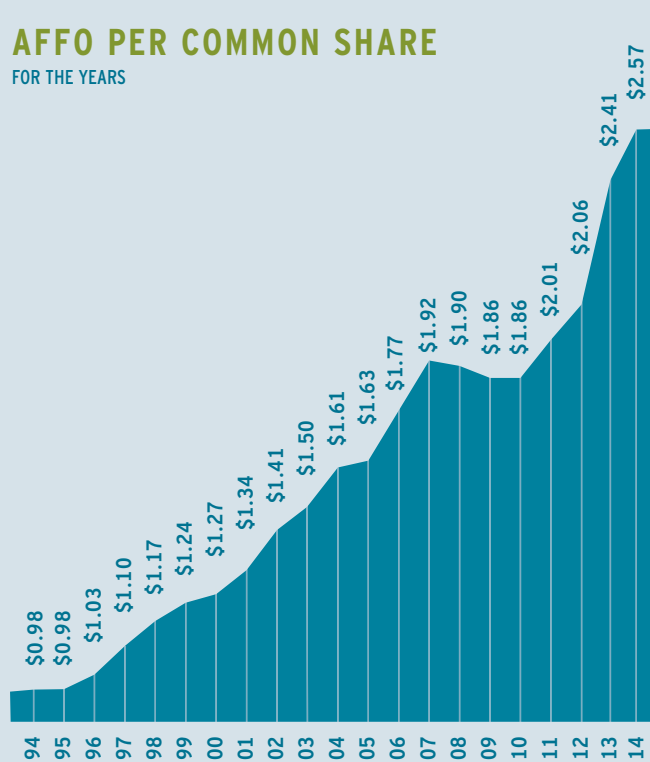
investment analysts covering our company used the phrase “boring is good” to describe the consistency of our operating results. Frankly, we agreed with his sentiment and were flattered by his comment. Our mission of generating dependable monthly dividends that grow over time requires consistent performance and if that is “boring,” then we are “good” with that.

**TOTAL REVENUE<sup>(1)</sup>**  
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



In January 2015, we were recognized for our 20-year track record of consistently growing our dividend as a public company. Realty Income was added to the exclusive S&P High Yield Dividend Aristocrats® index, which acknowledges S&P Composite 1500® companies that have increased their dividend every year for at least 20 years. We are proud of our performance as a public company and to have reached our 20<sup>th</sup> anniversary of paying increasing dividends every year. Now The Monthly Dividend Company® is among some of the most recognizable corporate names for dividend performance.

## MISSION

Our mission, as always, is to manage our real estate assets so that they continue to generate the lease revenue to support growing monthly dividend payments. We rely on our extensive knowledge and discipline in managing our business to help achieve this mission. Our history of 20 years as a public company and 46 years since our founding has given us unparalleled experience in our sector that we believe is a distinct competitive advantage. The cover of our annual report this year represents the experience and discipline required to maintain the consistent rhythm of our business. Neither a good crew nor our Realty Income team is fazed by varying conditions. Both are able to stay successfully in sync and advance steadily with focus, dedication, and teamwork. Our business plan, which allows us to execute our mission, includes:

- Paying 12 monthly dividends
- Raising the dividend
- Remaining disciplined in our acquisitions underwriting approach
- Acquiring additional properties according to our selective investment strategy
- Maintaining high occupancy through active portfolio management
- Maintaining a conservative balance sheet
- Continuing to grow investor interest in The Monthly Dividend Company®

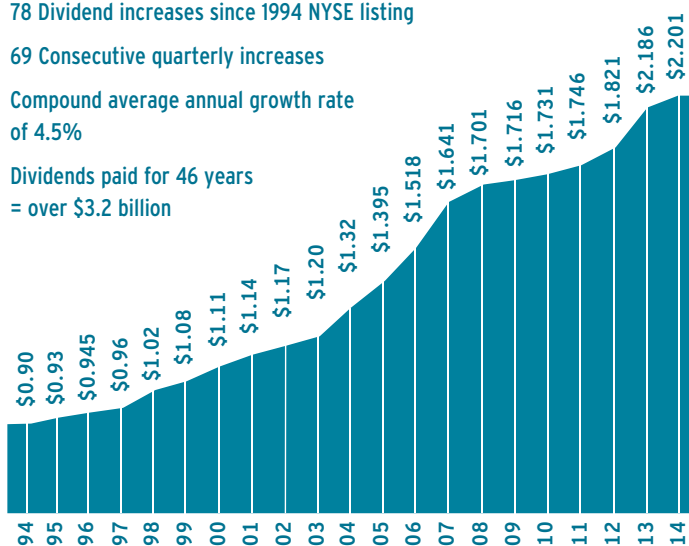
## ANNUALIZED DIVIDENDS<sup>(1)</sup> AND DIVIDEND INCREASES

78 Dividend increases since 1994 NYSE listing

69 Consecutive quarterly increases

Compound average annual growth rate of 4.5%

Dividends paid for 46 years = over \$3.2 billion



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

This business plan has served us well throughout our history by providing us with the flexibility to react to ongoing changes in the economy and real estate markets, which is crucial to our continued successful operations.

## ACQUISITIONS

Our high volume of acquisitions continued to drive our earnings growth in 2014. This past year, we completed \$1.4 billion in property acquisitions, which made 2014 our second most acquisitive year in the company's history. We purchased these properties at an average initial yield of 7.1%, which resulted in near-record investment spreads relative to our first-year weighted average cost of capital. While the volume and investment spreads contributed to impressive operating results, the acquisitions also benefited our company by further diversifying the portfolio and improving our tenant credit quality. The properties are leased to 62 different tenants

operating in 32 industries and located across 42 states. Our diversification further enhances the stability of our lease revenue by reducing the amount of revenue from any single tenant, industry, or state. Retail properties, our principal property type, comprised 86% of the acquisitions as a percentage of rent. Approximately 66% of the rental revenue from the acquisitions is from tenants with investment-grade credit ratings, making our rental revenue more durable. The average lease term of the acquisitions was approximately 13 years. These characteristics help drive long-term portfolio performance and support favorable risk-adjusted returns for our shareholders.

The acquisitions market was quite robust last year. During 2014, we generated and reviewed \$24.3 billion in real estate acquisition opportunities, which was our second most active year in our history. We also remained very selective in our approach to investments. In 2014, we acquired 5.8% of the total volume of acquisition opportunities reviewed, which reflects the discipline we maintain in our property investment activities. We will not sacrifice our investment discipline simply to generate

## ACQUISITIONS SELECTIVITY

	Acquisitions Sourced	Acquisitions Closed	Selectivity <sup>(1)</sup>
2010	\$6 billion	\$713.5 million	11.9%
2011	\$13 billion	\$1.0 billion	7.7%
2012	\$17 billion	\$1.2 billion	7.1%
2013	\$39 billion	\$4.7 billion	12.1%
2014	\$24 billion	\$1.4 billion	5.8%

(1) Selectivity is calculated as amount of acquisitions closed divided by the amount of acquisition opportunities sourced.

additional acquisitions volume. We remain focused on investing in properties that offer secure, long-term cash flows and are leased to high-quality tenants.

## PORTFOLIO MANAGEMENT

Our portfolio of 4,327 properties continues to perform very well. We ended the year with 98.4% occupancy, which is our highest level since 2007. We generated attractive internal growth in the portfolio with same store rent increases of 1.5% during 2014. We are pleased to have achieved these positive results during one of our most active years in the company's history for lease rollover activity. During 2014, we re-leased or sold 220 properties with expiring leases,

AUTOMOTIVE PARTS - DALLAS, TX



QUICK SERVICE RESTAURANTS - TAMPA, FL





approximately 80% of which were re-leased to the same tenants. The percentage of properties re-leased to the same tenant at lease expiration has continued to increase in recent years. We believe this is reflective of our refined underwriting and investment strategy based upon many years of investing in net-lease properties.

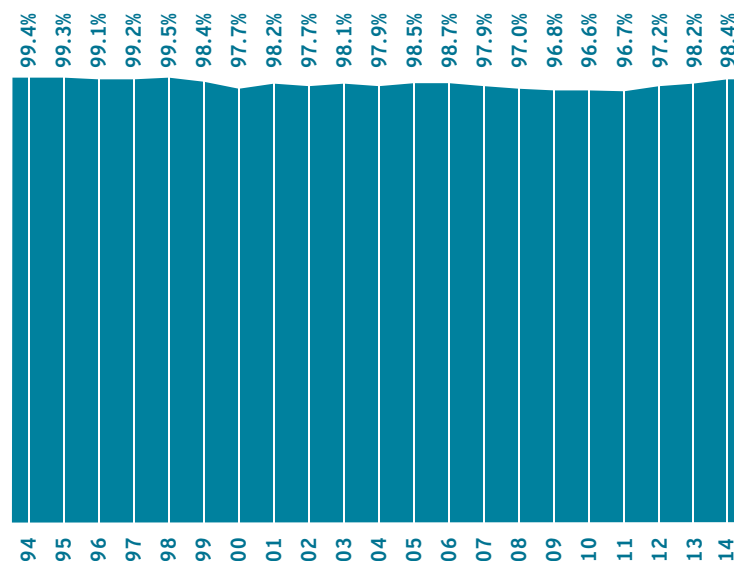
We also have a proactive approach to asset management. We sell properties in our portfolio that are less of a strategic fit for us today than they were at the time of our original investment. This past year, we sold 46 properties for approximately \$107 million, realizing attractive returns on these sales.

As one of the most experienced net-lease companies, we have developed extensive knowledge re-leasing our properties and repositioning our portfolio. We have successfully re-leased or sold over 1,700 properties with expiring leases throughout our history as a public company. We believe we have the leading leasing and property sales teams in our sector, allowing us to maintain high occupancy and to maximize our cash flow stream from our existing property portfolio.

## BALANCE SHEET

We continue to manage our balance sheet in a conservative manner. Approximately two-thirds of our capital structure is equity and one-third is predominantly long-term, fixed-rate debt. We believe it is prudent to match-fund our acquisitions that have long-term leases with permanent and long-term capital to lock in our investment spreads and limit potential future refinancing risk. We have excellent access to abundant and attractively priced capital. To fund our property investments this past year, we raised a total of \$1.3 billion in permanent and long-term capital, over half of which was common equity.

## PORTFOLIO OCCUPANCY AT THE END OF EACH YEAR<sup>(1)</sup>



(1) Based on number of properties

We issued \$600 million in fixed-rate debt that had an average tenor of approximately 11 years. We maintain a \$1.5 billion credit facility to support future acquisition activities. Our disciplined balance sheet management strategy helps us maintain the integrity of our cash flows.

We continue to have sector-leading financial disclosure. In 2014, we began issuing a supplemental investor package with our quarterly filings. This package includes detailed information on the principal facets of our business presented in a manner that provides our shareholders and market constituents with an informative and efficient means to evaluate our operations. The response we have received on our supplemental investor package from our shareholders and investment analysts has been positive. The most recent quarterly supplemental can be found on our website at [www.realtyincome.com](http://www.realtyincome.com).

## RESOURCES

Our company continues to have an outstanding team committed to our mission. During 2014, we added additional talent to the team to ensure that we are properly staffed for anticipated continued growth. We added 24 employees to our company during the year in acquisitions, portfolio management, legal, information technology, capital markets, accounting, and human resources. We also increased the responsibilities of some of our high-performing team members by promoting them to more senior positions in the company. Our efforts continued to add breadth and depth to our management team and position the company for future growth.

We welcomed real estate veteran Steve Sterrett to our Board of Directors in October 2014. Steve joined our Board after a 26-year career at Simon Property Group, Inc. and retiring as its Senior Executive Vice President and Chief Financial Officer. Steve's extensive experience in real estate and finance makes him an outstanding resource for our company.

In keeping with our theme of growth, we are pleased to report that we moved into our new San Diego corporate headquarters building in 2014. Our company had outgrown its former headquarters facility so we moved to a new office building that can accommodate our larger team of 125 employees. The new headquarters is about 20 miles southwest of our former facility and provides us with ample room for future growth.

## EARNINGS AND DIVIDENDS

We generated healthy per share earnings growth as measured by AFFO in 2014 while maintaining our conservative balance sheet. Our AFFO per share grew by 6.6% to \$2.57, allowing us to increase the dividend paid per share by 2.1% in 2014, and

another 3.0% in January 2015 to an annualized rate of \$2.268. We achieved this dividend growth while increasing the security of the dividend by lowering our payout ratio from 89.1% in 2013 to 85.3% last year. Since our listing in 1994, our dividend has grown at a compound average annual growth rate of 4.5%.

## INVESTMENT RETURNS

We are pleased to report that in 2014 our shareholders who owned our common stock for the full calendar year realized a total return of 33.7%, which compared favorably to the returns of the broader market indices, as shown in the adjacent table. The closing price of our shares on December 31, 2014 was \$47.71 per share as compared to \$37.33 per share on December 31, 2013. Our solid operating performance contributed to our total shareholder return in 2014. It is also important to note that other factors can impact the price of our shares including, but not limited to, macroeconomic events, interest rate trends, and conditions in the broader stock market. Low interest rates in 2014 positively impacted the value of yield-oriented investments in general, including our shares. Over the long-term, our favorable and consistent operating performance has led to advances in our share price, providing our investors with a compound average annual total return since our listing in 1994 of 17.1%. Our goal is to continue to operate the company with a long-term view to drive positive investment results over time for our shareholders.

## MACROECONOMIC ENVIRONMENT AND OUR POSITION

As I write this letter, we continue to operate in a low interest rate environment with consumer spending increasing and gross domestic product growing at moderate levels, while unemployment continues to decline. However, this current economic environment

## REALTY INCOME PERFORMANCE VS. MAJOR STOCK INDICES

	REALTY INCOME		EQUITY REIT INDEX <sup>(1)</sup>		DOW JONES INDUSTRIAL AVERAGE		S&P 500		NASDAQ COMPOSITE	
	DIVIDEND YIELD	TOTAL RETURN <sup>(2)</sup>	DIVIDEND YIELD	TOTAL RETURN <sup>(3)</sup>	DIVIDEND YIELD	TOTAL RETURN <sup>(3)</sup>	DIVIDEND YIELD	TOTAL RETURN <sup>(3)</sup>	DIVIDEND YIELD	TOTAL RETURN <sup>(4)</sup>
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%
2014	4.6%	33.7%	3.6%	28.0%	2.3%	10.0%	2.0%	13.7%	1.3%	13.4%
<b>COMPOUND AVERAGE ANNUAL TOTAL RETURN<sup>(5)</sup></b>		<b>17.1%</b>		<b>11.4%</b>		<b>10.3%</b>		<b>9.7%</b>		<b>9.4%</b>

**Note:** All of these dividend yields are calculated as annualized dividends based on the last dividend paid in the 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 Compound Average Annual Total Return rates are calculated in the same manner: from Realty Income's NYSE listing on October 18, 1994 through December 31, 2014, 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.

does not appear to be firmly entrenched as concerns regarding global economic growth persist. While we cannot control such macroeconomic factors or know how they will change in the future, we believe we continue to have a real estate portfolio that should, by design, perform in virtually any economic environment.

Over our 46-year operating history, we have built a real estate portfolio of properties diversified by tenant, industry, geography, and to a certain extent, property type, leased to quality tenants operating in attractive industries. Today, 46% of our revenue is derived from investment-grade rated tenants. Additionally, our prudently underwritten non-investment-grade retail tenants have demonstrated their resilience in varying economic environments during our company's history. Today, over 90% of our rental revenue from our retail properties is generated from tenants with a service, non-discretionary, and/or a low price point component to their business. We believe these characteristics better position our tenants to operate in a variety of economic environments and to compete effectively with e-commerce. These strategies have contributed to our high historical occupancy rate, which has never been below 96% in the company's history. We are proud of this track record of performance and will continue to employ the same methodology to maintain the reliability of our cash flow that supports the monthly dividend.

## OUTLOOK

As 2015 begins, we continue to see a healthy operating environment for our company. We are still seeing a high volume of attractive acquisition opportunities. While we continue to experience significant competition for property investment

## At the time of this letter, we anticipate closing \$700 million to \$1 billion in acquisitions in 2015.

opportunities from other REITs and domestic and foreign institutional investors, we believe we are well-positioned to execute more than our fair share of acquisitions. At the time of this letter, we anticipate closing \$700 million to \$1 billion in acquisitions in 2015. We will continue to use the relationships that we have formed throughout our long history with tenants, developers, owners, and advisors to source and secure transactions. Since 2010, approximately 80% of our acquisitions have been sourced through our existing relationships and we expect that proportion to remain relatively consistent into the future. To fund our acquisition activities, we have approximately \$1.2 billion available on our \$1.5 billion line of credit as of March 2015. Our long-term capital costs remain low and should result in attractive investment spreads.

In terms of our existing portfolio, we remain optimistic regarding its continued performance. Our same store rent on our existing portfolio should grow by approximately 1.5% in 2015. With our quality tenant base and a sound tenant operating environment, we are expecting a continued high occupancy rate of around 98%. We have the right people in place with proven re-leasing experience to manage our lease rollover and to maximize the rental revenue generated from our real estate portfolio.

The aforementioned factors should allow us to continue to drive our earnings growth and enable us to increase your dividend. We remain positive on the outlook for 2015 and are excited about our growth opportunities.

## CONCLUSION

We were gratified to reach the \$3 billion mark in total cumulative dividends paid to our shareholders last year. We will remain laser-focused on continuing to grow your dividend responsibly. The importance of the dividend is ingrained in our culture and is what drives us to maintain the same degree of discipline in managing our business year after year. Our mission as The Monthly Dividend Company® is to deliver reliable monthly dividends that increase over time to our shareholders. It determines the types of properties we buy, the forms of capital we raise, and the talents required of our team. As your CEO, I am committed to continuing to guide our company towards the achievement of our mission. In 2015, we will continue to apply our proven philosophy to

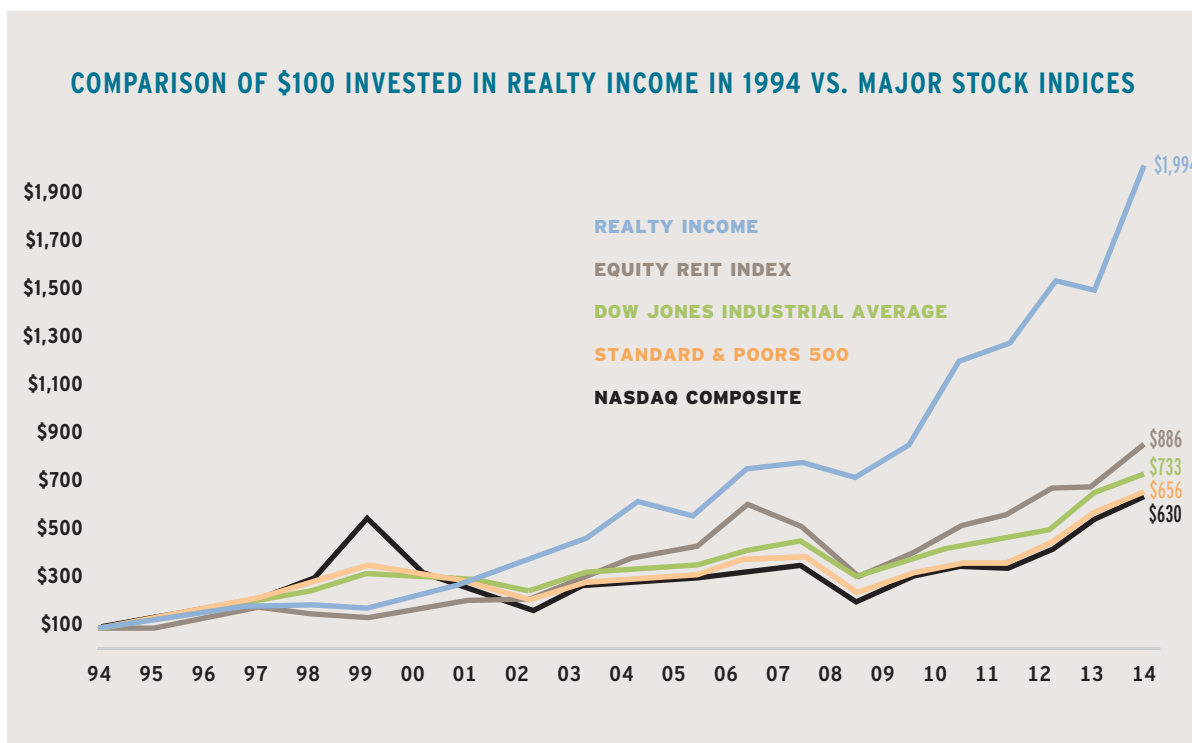
execute our business plan and grow your company. While we remain confident in our ability to continue to operate your company in a manner that supports the payment of growing monthly dividends, there is no guarantee that we will be as successful in 2015 as we have been in the past. Therefore, we always remind our investors how important it is to rely on Realty Income for only a portion of their income needs.

We thank you for your continued support of our company and look forward to keeping you apprised of our progress throughout the year.



Sincerely,

**John P. Case**  
Chief Executive Officer  
and President



## **BUSINESS OVERVIEW**

# PORTFOLIO MANAGEMENT

**Our real estate portfolio consists of 4,327 freestanding properties that are diversified by tenant, industry, geography, and to a certain extent, property type.**

At the end of 2014, our portfolio consisted of 234 commercial tenants operating across 47 industries and located in 49 states and Puerto Rico. The majority of our properties are retail and we expect that to continue. Approximately 21% of our revenue comes from non-retail properties, which are primarily industrial and distribution buildings. Our tenant base continues to be strong with approximately 46% of the revenue generated from the portfolio coming from tenants with investment-grade credit ratings.

Our portfolio management and asset management teams actively manage our portfolio. Our portfolio management team is the largest department in our company with 39 employees. This is the team that

handles our lease rollovers by either re-leasing our properties with expiring leases to the same tenant or to a new tenant, with the goal of maximizing the revenue generated from our properties. We also selectively sell assets and re-deploy the proceeds into properties that better meet our investment strategy. Throughout our 46-year operating history, we have seen many of our assets come full cycle and experience the lease expiration process. We highlight a representative case study below, walking through the life of a particular lease. It demonstrates the importance of good real estate underwriting and active management to drive value creation.

The strength of our portfolio diversification and experience is evidenced by our stable occupancy. Over the life of the company, our occupancy rate has never been below 96%. The consistency of our occupancy leads to the predictability in our portfolio revenues, which supports the payment of monthly dividends to our shareholders.

## CASE STUDY

### Taco Bell - Boise, ID

**April 1988:** Realty Income entered into a 20-year sale-leaseback with a Taco Bell franchisee as tenant.

**May 2008:** Upon lease expiration, the tenant renewed the lease for a three-year term and considered its long-term options in regards to its investment in this market.

**May 2011:** Subsequently, given the strong real estate attributes of the existing location, the tenant elected to renew the lease for an 18-year term and re-image the existing building.

**April 2029:** New lease expiration.



# PORTFOLIO DIVERSIFICATION

## TENANT DIVERSIFICATION - TOP 20 TENANTS

Tenant	Number of Properties	% of Revenue <sup>(1)</sup>
Walgreens*	120	5.4%
FedEx*	38	5.1%
Dollar General*	502	4.9%
LA Fitness	46	4.6%
Family Dollar*	454	4.5%
BJ's Wholesale Clubs	15	2.8%
AMC Theatres	20	2.7%
Diageo*	17	2.6%
Regal Cinemas	23	2.3%
Northern Tier Energy/Super America	134	2.2%
CVS Pharmacy*	55	2.1%
Rite Aid	58	1.9%
TBC Corporation*	149	1.9%
Circle K*	168	1.8%
The Pantry	144	1.6%
Walmart/Sam's Club*	19	1.4%
NPC International	202	1.4%
GPM Investments/Fas Mart	136	1.4%
Freedom Roads/Camping World	18	1.2%
Smart & Final	36	1.2%

\*Investment-grade rated companies  
 (1) Based on total portfolio annualized revenue as of 12/31/14

## INDUSTRY DIVERSIFICATION

# 47

**INDUSTRIES**  
NO INDUSTRY  
REPRESENTS MORE  
THAN 10% OF  
RENTAL REVENUE<sup>(1)</sup>

### TOP 10 INDUSTRIES (% OF REVENUE)<sup>(1)</sup>

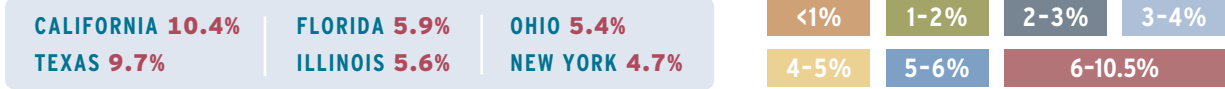
CONVENIENCE STORES 9.8%	TRANSPORTATION SERVICES 5.2%
DOLLAR STORES 9.5%	RESTAURANTS/CASUAL DINING 4.2%
DRUG STORES 9.5%	WHOLESALE CLUBS 4.1%
HEALTH & FITNESS 7.0%	RESTAURANTS/QUICK SERVICE 3.8%
THEATERS 5.3%	GROCERY STORES 3.1%

(1) Based on rental revenue for the quarter ended 12/31/14

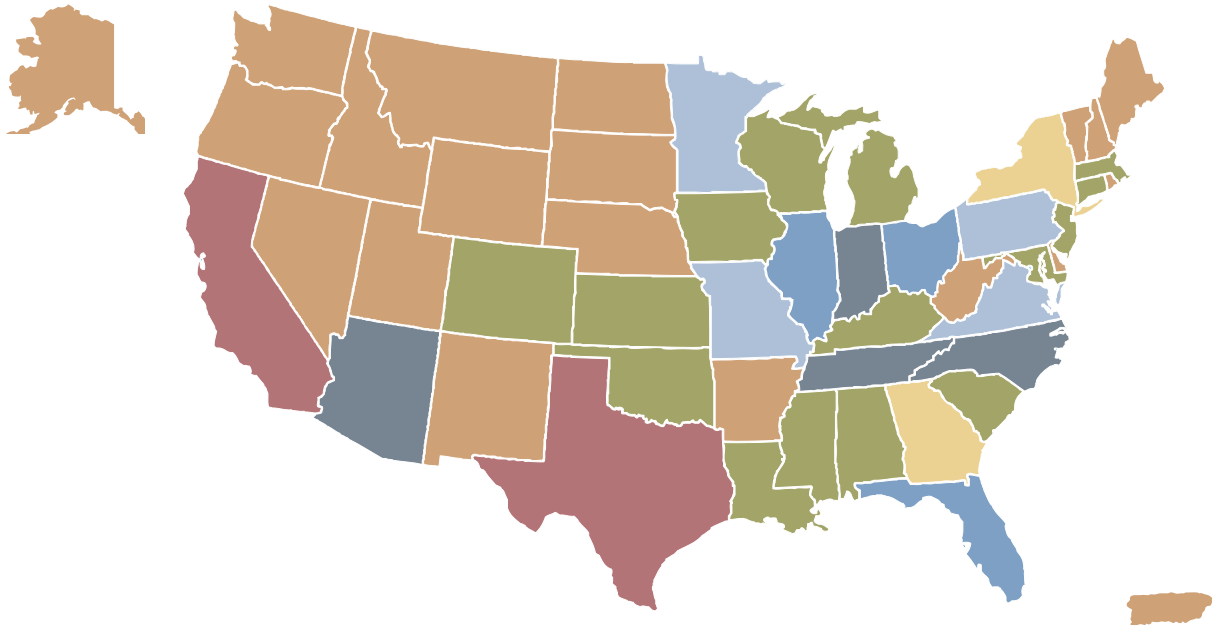


## GEOGRAPHIC DIVERSIFICATION

### % OF REVENUE<sup>(1)</sup>

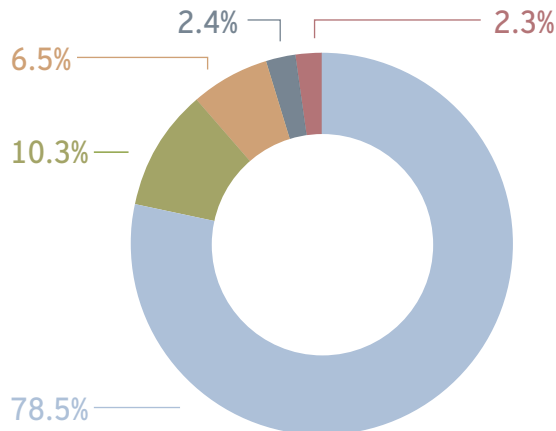


(1) Based on rental revenue for the quarter ended 12/31/14



ALASKA AND PUERTO RICO NOT TO SCALE

## PROPERTY TYPE DIVERSIFICATION



	Number of Properties	% of Revenue <sup>(1)</sup>
Retail	4,172	78.5%
Industrial & Distribution	82	10.3%
Office	44	6.5%
Manufacturing	14	2.4%
Agriculture	15	2.3%

(1) Based on rental revenue for the quarter ended 12/31/14

# ACQUISITIONS

## Acquisitions are the primary driver of our growth.

We specialize in acquiring freestanding, single-tenant, net-lease, commercial properties leased to high-quality tenants. The leases are typically long-term, usually for periods of 10 to 20 years. When identifying properties for acquisition, we begin with a review of the real estate. We target real estate that is located in significant markets or strategic locations critical to generating revenue for the tenant. The real estate must be appropriately priced at values near replacement cost and leased at rental rates that approximate market rent. These factors enable us to enhance the long-term returns of the assets.

In addition to the real estate, we also look for tenants that are operating in attractive industries relative to the economic environment. For example, industries such as Drug Stores or Health & Fitness have benefited from the aging demographic trend. Tenants we target also have reliable sources of cash flow from multiple streams of revenue, further protecting them (and our rent) if one area of their business becomes stressed. For retail properties, we look for businesses with a service, non-discretionary, and/or low price point orientation. We believe these characteristics are important to the sustainability of their operations and their ability to compete with e-commerce. For non-retail properties, we primarily target industrial and distribution properties leased to Fortune 1000, investment-grade rated companies.

As part of our underwriting process, we carefully review the credit of the tenants. While investment-grade credit ratings are ideal, they are by no means a requirement for our retail properties. Up until 2010, we invested principally in non-investment-grade rated retail companies, underwritten using the cash flow coverage at the unit level. We continue to employ this approach, in addition to our tenant credit underwriting, to ensure that we own high performing store locations. We have found it to be a very good indicator for long-term performance.

The characteristics of the real estate and tenant determine the appropriate investment yield required for purchasing the asset. Acquiring assets at attractive spreads relative to our first-year weighted average cost of capital is important. With one of the lowest costs of capital in the sector, we have the advantage of achieving the widest investment spreads relative to our peers. However, initial pricing does not always equate to long-term returns. To capture this, we also consider the risk-adjusted return of the asset, which factors in (1) a conservative estimate of the residual value at the end of the lease, and (2) potential outcomes of various scenarios throughout the lease term that capture future operational risks. Our Investment Committee, comprised of select senior-level executives, collectively reviews these characteristics and metrics to decide which properties to acquire. This process allows us to grow our portfolio in a disciplined manner and ultimately the rent generated from our properties and the dividends paid to our shareholders.

# 1

## REAL ESTATE ANALYSIS

- Property attributes
- Market review
- Demographic analysis
- Property due diligence
- Valuation
  - Replacement cost
  - Market rent

# 2

## CREDIT ANALYSIS

- Financial review and analysis
- Tenant research
- Industry research
- Discussion with key management representatives

# 3<sup>A</sup>

## RETAIL

- Unit level cash flow coverage
- Strategic importance of real estate

# 3<sup>B</sup>

## NON-RETAIL

- Significant market location
- Strategic importance of real estate

# CAPITAL STRUCTURE

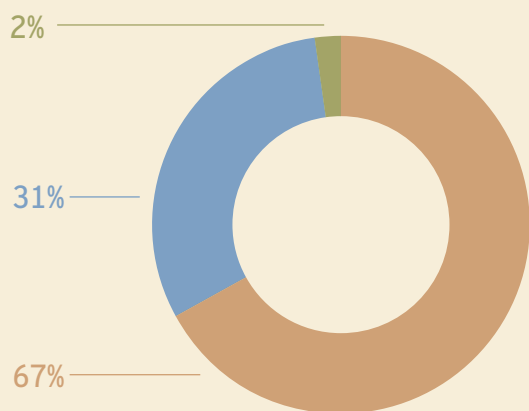
## Our conservative capital structure helps to protect the dividend.

This is a strategy we have followed through the life of the company, maintaining a capitalization that is equity-focused. The advantages of this conservative approach were clearly evident through the Great Recession, when we were one of just a few REITs that did not cut their dividend. At the end of 2014, our total market capitalization was \$16.1 billion, of which \$10.8 billion or 67% was common equity.

When we use debt to fund our growth, we structure it in a conservative manner. Over the life of the company, 91.5% of the bonds we have issued have been for terms of 10 years or longer and 100% of our outstanding bonds are fixed-rate. We maintain a \$1.5 billion line of credit, which allows us to execute transactions quickly and then permanently fund those acquisitions with a mix of equity and debt consistent with our target leverage ratios. We have excellent access to the public capital markets and maintain investment-grade credit ratings of Baa1/BBB+/BBB+ (Moody's/S&P/Fitch), which provide us with a low cost of debt.



## CONSERVATIVE CAPITAL STRUCTURE<sup>(1)</sup>



(1) At 12/31/14

	Amount in Billions	% of Total
Common Equity	\$10.8	67%
Debt	\$4.9	31%
Preferred Stock	\$0.4	2%
<b>Total Market Capitalization</b>	<b>\$16.1</b>	<b>100%</b>

## MONTHLY DIVIDENDS

**The monthly dividend is at the core of our business. We are mindful to operate our business in a manner to protect and grow the dividend.**

Since our 1994 NYSE listing, we have increased our dividend to our shareholders every year for 20 consecutive years. We have grown our dividend over this time period at a compound average annual growth rate of 4.5%. This is one of the many benefits our shareholders enjoy from owning our stock

and we have quantified it in the table “The Magic of Rising Dividends over Time.” The table shows that because of regular dividend increases, our shareholders’ current yield on cost has increased over time. Many of our long-term shareholders have received enough in cash dividends from Realty Income that the equivalent of their original investment dollars has been paid back to them. This is the “magic” of The Monthly Dividend Company® and we will work hard to continue this trajectory into the future.



## 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 cash dividends from Realty Income equivalent to their original investment.

YIELD ON COST BENEFITS							THE CUMULATIVE DIVIDEND EFFECT	
1,000 Shares Purchased on	Original Investment	Investment Value as of 12/31/2014	Original Annual Dividend Income	Current Annual Dividend Income <sup>(1)</sup>	Original Yield	Current Yield on Cost at 12/31/2014	Dividends Received Through 12/31/2014	Percent of Original Investment Returned
10/18/94	\$8,000	\$47,710	\$900	\$2,201	11.3%	27.5%	\$28,298	353.7%
12/31/94	\$8,563	\$47,710	\$900	\$2,201	10.5%	25.7%	\$27,998	327.0%
12/31/95	\$11,250	\$47,710	\$930	\$2,201	8.3%	19.6%	\$27,085	240.8%
12/31/96	\$11,938	\$47,710	\$945	\$2,201	7.9%	18.4%	\$26,039	218.1%
12/31/97	\$12,719	\$47,710	\$960	\$2,201	7.5%	17.3%	\$25,093	197.3%
12/31/98	\$12,438	\$47,710	\$1,020	\$2,201	8.2%	17.7%	\$24,110	193.9%
12/31/99	\$10,313	\$47,710	\$1,080	\$2,201	10.5%	21.3%	\$23,068	223.7%
12/31/00	\$12,438	\$47,710	\$1,110	\$2,201	8.9%	17.7%	\$21,977	176.7%
12/31/01	\$14,700	\$47,710	\$1,140	\$2,201	7.8%	15.0%	\$20,855	141.9%
12/31/02	\$17,500	\$47,710	\$1,170	\$2,201	6.7%	12.6%	\$19,704	112.6%
12/31/03	\$20,000	\$47,710	\$1,200	\$2,201	6.0%	11.0%	\$18,523	92.6%
12/31/04	\$25,290	\$47,710	\$1,320	\$2,201	5.2%	8.7%	\$17,282	68.3%
12/31/05	\$21,620	\$47,710	\$1,395	\$2,201	6.5%	10.2%	\$15,935	73.7%
12/31/06	\$27,700	\$47,710	\$1,518	\$2,201	5.5%	7.9%	\$14,498	52.3%
12/31/07	\$27,020	\$47,710	\$1,641	\$2,201	6.1%	8.1%	\$12,938	47.9%
12/31/08	\$23,150	\$47,710	\$1,701	\$2,201	7.3%	9.5%	\$11,276	48.7%
12/31/09	\$25,910	\$47,710	\$1,716	\$2,201	6.6%	8.5%	\$9,569	36.9%
12/31/10	\$34,200	\$47,710	\$1,731	\$2,201	5.1%	6.4%	\$7,847	22.9%
12/31/11	\$34,960	\$47,710	\$1,746	\$2,201	5.0%	6.3%	\$6,111	17.5%
12/31/12	\$40,210	\$47,710	\$1,821	\$2,201	4.5%	5.5%	\$4,339	10.8%
12/31/13	\$37,330	\$47,710	\$2,186	\$2,201	5.9%	5.9%	\$2,192	5.9%
12/31/14	\$47,710	\$47,710	\$2,201	\$2,201	4.6%	4.6%		

(1) Current annual dividend income is based on the annualized dividend per share declared of \$2.201 at 12/31/14.

## 2014 ANNUAL REPORT: FORM 10-K

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**Consolidated Balance Sheets**

At December 31, 2014 and 2013

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	2014	2013
<b>ASSETS</b>		
Real estate, at cost:		
Land	\$ 3,046,372	\$ 2,791,147
Buildings and improvements	8,107,199	7,108,328
Total real estate, at cost	11,153,571	9,899,475
Less accumulated depreciation and amortization	(1,386,871)	(1,114,888)
Net real estate held for investment	9,766,700	8,784,587
Real estate held for sale, net	14,840	12,022
Net real estate	9,781,540	8,796,609
Cash and cash equivalents	3,852	10,257
Accounts receivable, net	64,386	39,323
Acquired lease intangible assets, net	1,039,724	935,459
Goodwill	15,470	15,660
Other assets, net	107,650	127,133
Total assets	\$ 11,012,622	\$ 9,924,441
<b>LIABILITIES AND EQUITY</b>		
Distributions payable	\$ 43,675	\$ 41,452
Accounts payable and accrued expenses	123,287	102,511
Acquired lease intangible liabilities, net	220,469	148,250
Other liabilities	53,145	44,030
Line of credit payable	223,000	128,000
Term loan	70,000	70,000
Mortgages payable, net	852,575	783,360
Notes payable, net	3,785,372	3,185,480
Total liabilities	5,371,523	4,503,083
Commitments and contingencies		
Stockholders' equity:		
Preferred stock and paid in capital, par value \$0.01 per share, 69,900,000 shares authorized, 16,350,000 shares issued and outstanding as of December 31, 2014 and 25,150,000 shares issued and outstanding as of December 31, 2013	395,378	609,363
Common stock and paid in capital, par value \$0.01 per share, 370,100,000 shares authorized, 224,881,192 shares issued and outstanding as of December 31, 2014 and 207,485,073 shares issued and outstanding at December 31, 2013	6,464,987	5,767,878
Distributions in excess of net income	(1,246,964)	(991,794)
Total stockholders' equity	5,613,401	5,385,447
Noncontrolling interests	27,698	35,911
Total equity	5,641,099	5,421,358
Total liabilities and equity	\$ 11,012,622	\$ 9,924,441

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



**Consolidated Statements of Income**

Years ended December 31, 2014, 2013 and 2012

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	2014	2013	2012
<b>REVENUE</b>			
Rental	\$ 893,457	\$ 748,218	\$ 467,020
Tenant reimbursements	37,118	24,944	14,619
Other	2,930	7,047	2,942
<b>Total revenue</b>	<b>933,505</b>	<b>780,209</b>	<b>484,581</b>
<b>EXPENSES</b>			
Depreciation and amortization	374,661	306,769	147,515
Interest	216,366	181,442	123,143
General and administrative	51,085	56,881	38,123
Property (including reimbursable)	53,871	38,851	21,306
Income taxes	3,461	2,350	1,061
Provisions for impairment	4,126	290	3,639
Merger-related costs	-	13,013	7,899
<b>Total expenses</b>	<b>703,570</b>	<b>599,596</b>	<b>342,686</b>
Gain on sales of real estate	39,205	-	-
Income from continuing operations	269,140	180,613	141,895
Income from discontinued operations	2,800	65,670	17,257
Net income	271,940	246,283	159,152
Net income attributable to noncontrolling interests	(1,305)	(719)	-
Net income attributable to the Company	270,635	245,564	159,152
Preferred stock dividends	(37,062)	(41,930)	(40,918)
Excess of redemption value over carrying value of preferred shares redeemed	(6,015)	-	(3,696)
<b>Net income available to common stockholders</b>	<b>\$ 227,558</b>	<b>\$ 203,634</b>	<b>\$ 114,538</b>
Amounts available to common stockholders per common share, basic and diluted:			
Income from continuing operations	\$ 1.03	\$ 0.72	\$ 0.73
Net income	\$ 1.04	\$ 1.06	\$ 0.86
Weighted average common shares outstanding:			
Basic	218,390,885	191,754,857	132,817,472
Diluted	218,767,885	191,781,622	132,884,933

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

**Consolidated Statements of Equity**

Years Ended December 31, 2014, 2013, and 2012

(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, 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
Net income	-	-	-	-	270,635	270,635	1,305	271,940
Distributions paid and payable	-	-	-	-	(519,790)	(519,790)	(1,839)	(521,629)
Shares issued in stock offerings, net of offering costs of \$22,827	-	13,800,000	-	528,592	-	528,592	-	528,592
Redemption of common units	-	35,000	-	1,032	-	1,032	(1,032)	-
Reallocation of equity	-	-	-	6,647	-	6,647	(6,647)	-
Shares issued pursuant to dividend reinvestment and stock purchase plan, net	-	3,527,166	-	157,285	-	157,285	-	157,285
Preferred shares redeemed	(8,800,000)	-	(213,985)	-	(6,015)	(220,000)	-	(220,000)
Share-based compensation	-	33,953	-	3,553	-	3,553	-	3,553
Balance, December 31, 2014	16,350,000	224,881,192	\$ 395,378	\$ 6,464,987	\$ (1,246,964)	\$ 5,613,401	\$ 27,698	\$ 5,641,099

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

**Consolidated Statements of Cash Flows**

Years Ended December 31, 2014, 2013 and 2012

(DOLLARS IN THOUSANDS)

	2014	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 271,940	\$ 246,283	\$ 159,152
Adjustments to net income:			
Depreciation and amortization	374,661	306,769	147,515
Income from discontinued operations	(2,800)	(65,670)	(17,257)
Amortization of share-based compensation	11,959	20,785	10,001
Non-cash rental adjustments	(6,848)	(5,554)	(4,199)
Amortization of net premiums on mortgages payable	(12,891)	(9,481)	(665)
Amortization of deferred financing costs	8,335	9,364	6,849
Gain on sales of real estate	(39,205)	-	-
Provisions for impairment on real estate	4,126	290	3,639
Cash provided by discontinued operations:			
Real estate	427	5,599	12,677
Proceeds from sale of real estate	820	597	-
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	(4,311)	(2,922)	573
Accounts payable, accrued expenses and other liabilities	21,479	12,846	8,184
<b>Net cash provided by operating activities</b>	<b>627,692</b>	<b>518,906</b>	<b>326,469</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment in real estate, net of cash acquired	(1,228,243)	(1,429,483)	(1,015,725)
Improvements to real estate, including leasing costs	(6,032)	(8,507)	(6,554)
Proceeds from sales of real estate:			
Continuing operations	88,688	8	23
Discontinued operations	6,918	126,785	50,563
Collection (issuance) of loans receivable	350	(10,656)	(34,876)
Restricted escrow deposits for Section 1031 tax-deferred exchanges and pending acquisitions	(36,540)	(10,158)	(1,805)
<b>Net cash used in investing activities</b>	<b>(1,174,859)</b>	<b>(1,332,011)</b>	<b>(1,008,374)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash distributions to common stockholders	(479,256)	(409,222)	(236,348)
Cash dividends to preferred stockholders	(38,300)	(41,930)	(39,445)
Borrowings on line of credit	1,672,321	2,624,700	1,074,000
Payments on line of credit	(1,577,321)	(2,654,700)	(1,153,400)
Proceeds from notes and bonds payable issued	598,594	750,000	800,000
Principal payment on notes payable	-	(100,000)	-
Principal payments on mortgages payable	(85,208)	(32,603)	(11,729)
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	528,615	1,133,574	-
Proceeds from preferred stock offerings, net	-	-	395,377
Redemption of preferred stock	(220,000)	-	(127,500)
Distributions to noncontrolling interests	(1,844)	(1,216)	-
Debt issuance costs	(5,505)	(10,666)	(16,979)
Proceeds from dividend reinvestment and stock purchase plan, net	158,462	55,806	2,159
Other items, including shares withheld upon vesting	(9,796)	(13,422)	(3,147)
<b>Net cash provided by financing activities</b>	<b>540,762</b>	<b>818,114</b>	<b>682,988</b>
Net (decrease) increase in cash and cash equivalents	(6,405)	5,009	1,083
Cash and cash equivalents, beginning of period	10,257	5,248	4,165
<b>Cash and cash equivalents, end of period</b>	<b>\$ 3,852</b>	<b>\$ 10,257</b>	<b>\$ 5,248</b>

For supplemental disclosures, see note 16.

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

## Notes to Consolidated Financial Statements

December 31, 2014, 2013 and 2012

### 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, 2014, we owned 4,327 properties, located in 49 states and Puerto Rico, containing over 70.7 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. 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, 2014, 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 2014 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 and convertible common units, 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.

	2014	2013	2012
Weighted average shares used for the basic net income per share computation	218,390,885	191,754,857	132,817,472
Incremental shares from share-based compensation	59,978	26,765	67,461
Weighted average partnership common units convertible to common shares that were dilutive	317,022	-	-
Weighted average shares used for diluted net income per share computation	218,767,885	191,781,622	132,884,933
Unvested shares from share-based compensation that were anti-dilutive	51,749	59,629	17,570
Weighted average partnership common units convertible to common shares that were anti-dilutive	523,847	851,568	-

**Discontinued Operations.** In April 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update (ASU) 2014-08, which amends Topic 205, *Presentation of Financial Statements*, and Topic 360, *Property, Plant, and Equipment*. The amendments in this ASU changed the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have, or will have, a major effect on an entity's operations and financial results. ASU 2014-08 is effective, on a prospective basis, for all disposals or classifications as held for sale of components of an entity that occur within interim and annual periods beginning after December 15, 2014; however, we chose to early adopt ASU 2014-08 beginning with the three-month period ended March 31, 2014. Starting with the first quarter of 2014, the results of operations for all qualifying disposals and properties classified as held for sale that were not previously reported in discontinued operations in our 2013 Annual Report on Form 10-K are presented within income from continuing operations on our consolidated statements of income. Prior to the date of adoption of ASU 2014-08, we reported, in discontinued operations, the results of operations of properties that had either been disposed of or classified as held for sale in financial statements issued.

Operations from eight properties were classified as held for sale at December 31, 2014, and are included in income from continuing operations. 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 properties, or repaid as a result of our property sales.

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

<b>Income from discontinued operations</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Gain on sales of real estate	\$ 2,883	\$ 64,743	\$ 9,873
Rental revenue	112	5,475	14,615
Tenant reimbursements	1	146	379
Other revenue	-	419	282
Depreciation and amortization	-	(1,569)	(3,724)
Property expenses (including reimbursable)	(184)	(916)	(2,529)
Provisions for impairment	(510)	(2,738)	(1,500)
Crest's income (loss) from discontinued operations	498	110	(139)
<b>Income from discontinued operations</b>	<b>\$ 2,800</b>	<b>\$ 65,670</b>	<b>\$ 17,257</b>
Per common share, basic and diluted	\$ 0.01	\$ 0.34	\$ 0.13

**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 \$765,000 at December 31, 2014 and \$498,000 at December 31, 2013.

Other revenue, which comprises property-related revenue not included in rental revenue or tenant reimbursements, was \$2.9 million in 2014, \$7.0 million in 2013 and \$2.9 million in 2012.

**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 note 11). 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 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 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.

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.

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.

If a lease was 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 2014, Realty Income recorded total provisions for impairment of \$4.6 million. Provisions for impairment of \$4.1 million are included in income from continuing operations on eight sold properties and three properties classified as held for sale in the following industries: one in the consumer electronics industry, one in the convenience stores industry, one in the home furnishings industry, two in the home improvement industry, and six in the restaurant-casual dining industry. These properties were not previously classified as held for sale in financial statements issued prior to the date of adoption of ASU 2014-08; accordingly, these provisions for impairment are included in income from continuing operations on our consolidated statements of income. Additionally, a provision for impairment of \$510,000 is included in income from discontinued operations on one sold property in the grocery store industry that was classified as held for sale as of December 31, 2013.

In 2013, Realty Income recorded total provisions for impairment of \$3.0 million. Realty Income recorded provisions for impairment of \$2.7 million in income from discontinued operations on seven sold properties in the following industries: one in the automotive parts 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. Except for a provision for impairment of \$290,000 that was recorded in income from continuing operations for one property in the auto service industry that was not previously classified as held for sale as of December 31, 2013, the remaining provisions for impairment are included in income from discontinued operations on our consolidated statement of income.

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. Realty Income recorded provisions for impairment of \$1.5 million on six sold 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 stores industry, and one in the home improvement industry. Except for a provisions for impairment of \$3.6 million that was recorded in income from continuing operations on four properties in the restaurant-casual industry that were not previously classified as held for sale as of December 31, 2013, the remaining provisions for impairment are included in income from discontinued operations on our consolidated statement of income.

**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 2014, 2013 and 2012, 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 2014, 2013 or 2012.

**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. 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 11) 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.** Certain of the 2013 and 2012 balances for properties classified as held for sale at December 31, 2013 have been reclassified to continuing operations as a result of changes in classification to held for investment.

**Revisions.** We previously reported certain operating activities of our wholly owned taxable REIT subsidiary, Crest Net Lease, Inc., or Crest, as discontinued operations. We have revised the 2013 amounts to report those activities in continuing operations. Subsequent to the revision, results of operations for Crest properties that were disposed of or classified as held for sale as of December 31, 2013, continue to be reported in discontinued operations.

### 3. Supplemental Detail for Certain Components of Consolidated Balance Sheets

A. Acquired lease intangible assets, net, consist of the following (dollars in thousands) at:	December 31, 2014	December 31, 2013
Acquired in-place leases	\$ 1,005,244	\$ 843,616
Accumulated amortization of acquired in-place leases	(177,722)	(95,084)
Acquired above-market leases	252,581	207,641
Accumulated amortization of acquired above-market leases	(40,379)	(20,714)
	<u>\$ 1,039,724</u>	<u>\$ 935,459</u>

	December 31, 2014	December 31, 2013
B. Other assets, net, consist of the following (dollars in thousands) at:		
Restricted escrow deposits	\$ 36,540	\$ 10,158
Deferred financing costs, net	23,274	21,323
Notes receivable issued in connection with property sales	18,342	19,078
Prepaid expenses	14,137	11,674
Impounds related to mortgages payable	5,789	5,555
Credit facility origination costs, net	4,171	7,146
Corporate assets, net	2,600	1,259
Loans receivable	-	48,844
Other items	2,797	2,096
	<u>\$ 107,650</u>	<u>\$ 127,133</u>

	December 31, 2014	December 31, 2013
C. Distributions payable consist of the following declared distributions (dollars in thousands) at:		
Common stock distributions	\$ 41,268	\$ 37,797
Preferred stock dividends	2,257	3,494
Noncontrolling interests distributions	150	161
	<u>\$ 43,675</u>	<u>\$ 41,452</u>

	December 31, 2014	December 31, 2013
D. Accounts payable and accrued expenses consist of the following (dollars in thousands) at:		
Notes payable - interest payable	\$ 63,919	\$ 55,616
Accrued costs on properties under development	18,011	14,058
Mortgages payable - interest payable	3,024	2,790
Other items	38,333	30,047
	<u>\$ 123,287</u>	<u>\$ 102,511</u>

	December 31, 2014	December 31, 2013
E. Acquired lease intangible liabilities, net, consist of the following (dollars in thousands) at:		
Acquired below-market leases	\$ 243,025	\$ 158,703
Accumulated amortization of acquired below-market leases	(22,556)	(10,453)
	<u>\$ 220,469</u>	<u>\$ 148,250</u>

	December 31, 2014	December 31, 2013
F. Other liabilities consist of the following (dollars in thousands) at:		
Rent received in advance	\$ 36,122	\$ 31,144
Preferred units issued upon acquisition of ARCT	6,750	6,750
Security deposits	5,876	6,136
Capital lease obligation	4,397	-
	<u>\$ 53,145</u>	<u>\$ 44,030</u>

#### 4. Investments in Real Estate

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

##### A. 2014 and 2013 Acquisitions

During 2014, we invested \$1.4 billion in 506 new properties and properties under development or expansion with an initial weighted average contractual lease rate of 7.1%. The 506 new properties and properties under development or expansion are located in 42 states, will contain approximately 9.8 million leasable square feet, and are 100% leased with a weighted average lease term of 12.8 years. The tenants occupying the new properties operate in 32 industries and the property types consist of 85.7% retail, 6.6% industrial and distribution, 6.4% office, and 1.3% manufacturing, based on rental revenue. None of our investments during 2014 caused any one tenant to be 10% or more of our total assets at December 31, 2014.

The \$1.4 billion invested during 2014 was allocated as follows: \$295.6 million to land, \$984.1 million to buildings and improvements, \$209.4 million to intangible assets related to leases, \$901,000 to other assets, net, and \$87.4 million to intangible liabilities related to leases and other assumed liabilities. We also recorded mortgage premiums of \$604,000 associated with the mortgages acquired. There was no contingent consideration associated with these acquisitions.

The properties acquired during 2014 generated total revenues of \$75.1 million and income from continuing operations of \$27.8 million.

The purchase price allocation for \$147.1 million of the \$1.4 billion invested by us in 2014 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 2015. In 2014, we finalized the purchase price allocations for \$120.8 million invested in the second half of 2013. There were no material changes to our consolidated balance sheets or income statements as a result of these purchase price allocation adjustments.

In comparison, during 2013, Realty Income invested \$1.51 billion in 459 new properties and properties under development or expansion (in addition to our acquisition of American Realty Capital Trust, Inc. or ARCT, which is discussed below), with an initial weighted average contractual lease rate of 7.1%. The 459 properties and properties under development or expansion are located in 40 states, will contain over 9.0 million leasable square feet, and are 100% leased with an average lease term of 14.0 years. The tenants occupying the new properties operated in 23 industries and the property types consisted 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 ARCT, which added 515 properties to our real estate portfolio during the first quarter of 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. These merger related transaction costs included, but were not limited to, advisor fees, legal fees, accounting fees, printing fees and transfer taxes.

Our combined total investment in real estate assets, including the ARCT acquisition, during 2013 was \$4.67 billion.

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 and assumed liabilities related to leases. 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 during 2013.

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 contractual lease rate is generally fixed such that rent varies based on the actual total investment in order to provide a fixed rate of return. When the lease does not provide for a fixed rate of return on a property under development or expansion, the estimated initial weighted average contractual lease rate is computed as follows: estimated net operating income (determined by the lease) for the first full year of each lease, divided by our projected total investment in the property, including land, construction and capitalized interest costs. Of the \$1.4 billion we invested during 2014, \$81.9 million was invested in 40 properties under development or expansion with an estimated initial weighted average contractual lease rate of 8.4%. 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 \$453,000 and \$2.1 million, respectively, were recorded to general and administrative expense on our consolidated statements of income for 2014 and 2013.

**C. Investments in Existing Properties**

During 2014, we capitalized costs of \$6.0 million on existing properties in our portfolio, consisting of \$821,000 for re-leasing costs and \$5.2 million for building and tenant improvements. 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.

**D. Properties with Existing Leases**

Of the \$1.4 billion we invested during 2014, approximately \$957.4 million was used to acquire 201 properties with existing leases. In comparison, of the \$4.67 billion we invested during 2013, approximately \$4.32 billion was used to acquire 799 properties with existing leases. The value of the in-place and above-market leases is recorded to acquired lease intangible assets, net on our consolidated balance sheets, and the value of the below-market leases is recorded to acquired lease intangible liabilities, net on our consolidated balance sheets. The values recorded to all of these intangible values for properties acquired during the fourth quarter of 2014 are based on a preliminary measurement of fair value that is subject to change.

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 2014, 2013, and 2012, were \$83.6 million, \$65.5 million and \$15.6 million, respectively.

The values of the above-market and below-market leases are amortized over the term of the respective leases as an adjustment to rental revenue on our consolidated statements of income. The amounts amortized as a net decrease to rental revenue for capitalized above-market and below-market leases for 2014, 2013 and 2012 were \$8.0 million, \$8.2 million, and \$1.8 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 increase (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 held for investment at December 31, 2014 (in thousands):

	<b>Net increase (decrease) to rental revenue</b>	<b>Increase to amortization expense</b>
2015	\$ (6,717)	\$ 85,593
2016	(6,729)	85,221
2017	(6,674)	84,022
2018	(6,414)	81,577
2019	(5,428)	71,519
Thereafter	41,538	418,828
<b>Totals</b>	<b>\$ 9,576</b>	<b>\$ 826,760</b>

### *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

## **5. Credit Facility**

We have a \$1.5 billion unsecured acquisition credit facility with an initial term that 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, 2014, credit facility origination costs of \$4.2 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, 2014, we had a borrowing capacity of \$1.28 billion available on our credit facility (subject to customary conditions to borrowing) and an outstanding balance of \$223.0 million, as compared to an outstanding balance of \$128.0 million at December 31, 2013.

The weighted average interest rate on outstanding borrowings under our credit facilities was 1.2% during 2014, 1.3% during 2013, and was 1.6% during 2012. At December 31, 2014, 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, and at December 31, 2014, we remain in compliance with these covenants.

## **6. Mortgages Payable**

During 2014, we made \$85.2 million in principal payments, including the repayment of six mortgages in full for \$77.8 million. Additionally, during 2014 we assumed mortgages totaling \$166.7 million, excluding net premiums. The mortgages are secured by the properties on which the debt was placed. Approximately \$152.0 million is considered non-recourse with limited customary exceptions for items such as solvency, bankruptcy, misrepresentation, fraud, misapplication of payments, environmental liabilities, failure to pay taxes, insurance premiums, liens on the property, violations of the single purpose entity requirements, and uninsured losses. The remaining \$14.7 million, representing two mortgages, has partial recourse to us in the aggregate amount of \$3.2 million; the remaining balance of \$11.5 million is non-recourse and includes the same customary exceptions described in the preceding sentence. We expect to pay off the mortgages as soon as prepayment penalties make it economically feasible to do so.

During 2014, aggregate net premiums totaling \$604,000 were recorded upon assumption of the mortgages for above-market interest rates, as compared to net premiums totaling \$28.4 million recorded in 2013. 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, 2014, we remain in compliance with these covenants.

We did not incur any deferred financing costs on our mortgages assumed in 2014, incurred \$211,000 of deferred financing costs in 2013, and incurred \$1.1 million in 2012. The balance of our deferred financing costs, which are classified as part of other assets, net, on our consolidated balance sheets, was \$827,000 at December 31, 2014 and \$1.2 million at December 31, 2013, 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, 2014 and 2013, respectively (dollars in thousands):

As Of	Number of Properties <sup>(1)</sup>	Weighted Average Stated Interest Rate <sup>(2)</sup>	Weighted Average Effective Interest Rate <sup>(3)</sup>	Weighted Average Remaining Years Until Maturity	Remaining Principal Balance	Unamortized Premium Balance, net	Mortgage Payable Balance
12/31/14	241	5.0%	4.0%	3.7	\$ 836,011	\$ 16,564	\$ 852,575
12/31/13	227	5.3%	3.9%	4.3	\$ 754,508	\$ 28,852	\$ 783,360

<sup>(1)</sup> At December 31, 2014, there were 57 mortgages on the 241 properties, while at December 31, 2013, there were 47 mortgages on the 227 properties. The mortgages require monthly payments, with principal payments due at maturity. The mortgages are at fixed interest rates, except for five mortgages on 14 properties totaling \$74.5 million at December 31, 2014, including net unamortized discounts. At December 31, 2013, two mortgages totaling \$31.1 million, including net unamortized discounts, were at variable interest rates. All of these variable rate mortgages were acquired with arrangements which limit our exposure to interest rate risk.

<sup>(2)</sup> Stated interest rates ranged from 2.0% to 6.9% at December 31, 2014, while stated interest rates ranged from 2.5% to 6.9% at December 31, 2013.

<sup>(3)</sup> Effective interest rates range from 2.2% to 9.0% at December 31, 2014, while effective interest rates ranged from 2.4% to 9.2% at December 31, 2013.

The following table summarizes the maturity of mortgages payable, excluding net premiums of \$16.6 million, as of December 31, 2014 (dollars in millions):

Year of Maturity	
2015	\$ 119.7
2016	248.4
2017	142.5
2018	15.1
2019	26.0
Thereafter	284.3
<b>Totals</b>	<b>\$ 836.0</b>

## 7. 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%. As a result of entering into our term loan, we incurred deferred financing costs of \$303,000 in 2013, which are being amortized over the remaining term of the term loan. The net balance of these deferred financing costs was \$187,000 at December 31, 2014, and \$248,000 at December 31, 2013, which are included in other assets, net on our consolidated balance sheets.

## 8. Notes Payable

### A. General

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

	December 31, 2014	December 31, 2013
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	750
3.875% notes, issued in June 2014 and due in July 2024	350	-
4.125% notes, issued in September 2014 and due in October 2026	250	-
5.875% bonds, \$100 issued in March 2005 and \$150 issued in June 2011, both due in March 2035	250	250
Total principal amount	3,800	3,200
Unamortized original issuance discounts	(15)	(15)
	<u>\$ 3,785</u>	<u>\$ 3,185</u>

The following table summarizes the maturity of our notes and bonds payable as of December 31, 2014, excluding unamortized original issuance discounts (dollars in millions):

Year of Maturity	Notes and Bonds
2015	\$ 150
2016	275
2017	175
2018	350
2019	550
Thereafter	2,300
Totals	<u>\$ 3,800</u>

As of December 31, 2014, the weighted average interest rate on our notes and bonds payable was 4.8% and the weighted average remaining years until maturity was 7.2 years.

Interest incurred on all of the notes and bonds was \$166.5 million for 2014, \$138.9 million for 2013 and \$110.4 million for 2012. 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, 2014, we remain in compliance with these covenants.

### B. Note Issuances

In September 2014, we issued \$250 million of 4.125% senior unsecured notes due October 2026, or the 2026 Notes. The price to the investors for the 2026 Notes was 99.499% of the principal amount for an effective yield of 4.178% per annum. A portion of the total net proceeds of approximately \$246.4 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.

In June 2014, we issued \$350 million of 3.875% senior unsecured notes due July 2024, or the 2024 Notes. The price to the investors for the 2024 Notes was 99.956% of the principal amount for an effective yield of 3.88% per annum. The total net proceeds of approximately \$346.7 million from this offering were used to repay a portion of the outstanding borrowings under our acquisition credit facility.

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.

#### *C. Note Repayment*

In March 2013, we repaid \$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.

### **9. Issuance and Redemption of Preferred Stock**

A. In 2006, we issued 8,800,000 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. In October 2014, we redeemed all of the 8,800,000 shares of our Class E preferred stock for \$25.00 per share, plus accrued dividends. We incurred a charge of \$6.0 million, representing the Class E preferred stock original issuance costs that we paid in 2006.

B. In February 2012, we issued 14,950,000 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 1,950,000 shares purchased by the underwriters upon the exercise of their overallotment option. In April 2012, we issued an additional 1,400,000 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, 2017, 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.

C. We redeemed all of the 5,100,000 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.

### **10. Issuance of Common Stock**

In April 2014, we issued 13,800,000 shares of common stock, including 1,800,000 shares purchased by the underwriters upon the exercise of their option to purchase additional shares. After underwriting discounts and other offering costs of \$22.8 million, the net proceeds of \$528.6 million were used to repay borrowings under our acquisition credit facility.

In October 2013, we issued 9,775,000 shares of common stock, 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, including 2,250,000 shares purchased by the underwriters upon the exercise of their option to purchase additional shares. 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 we received 208,709 shares of our common stock that were previously held by ARCT. The total value of the 45,573,144 common shares was approximately \$2 billion.

## 11. Noncontrolling Interests

In January 2013, we completed our acquisition of ARCT. Equity issued as consideration for this transaction included common and preferred partnership units issued by Tau Operating Partnership, L.P., or Tau Operating Partnership, the consolidated subsidiary which owns properties acquired through the ARCT acquisition. Realty Income and its subsidiaries hold a 99.3% interest in Tau Operating Partnership, and consolidate the entity.

In June 2013, we completed the acquisition of a portfolio of properties by issuing common partnership units in a newly formed entity, Realty Income, L.P. The units were issued as consideration for the acquisition. At December 31, 2014, the remaining units represent a 2.1% ownership in Realty Income, L.P. Realty Income holds the remaining 97.9% interests in this entity, and consolidates the entity.

A. Neither of the common partnership units has voting rights. Both common partnership units 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 through December 31, 2014 (dollars in thousands):

	Tau Operating Partnership units <sup>(1)</sup>	Realty Income, L.P. units <sup>(2)</sup>	Total
Carrying value at December 31, 2013	\$ 13,489	\$ 22,422	\$ 35,911
Reallocation of equity	-	(6,647)	(6,647)
Redemptions	-	(1,032)	(1,032)
Distributions	(695)	(1,144)	(1,839)
Allocation of net income	273	1,032	1,305
Carrying value at December 31, 2014	\$ 13,067	\$ 14,631	\$ 27,698

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

<sup>(1)</sup>317,022 Tau Operating Partnership units were issued on January 22, 2013 and remained outstanding as of December 31, 2014 and 2013.

<sup>(2)</sup>534,546 Realty Income, L.P. units were issued on June 27, 2013 and outstanding as of December 31, 2013, and 499,546 units remain outstanding as of December 31, 2014.

During 2014 we recorded an equity reclassification adjustment of \$6.6 million between noncontrolling interests and additional paid in capital to adjust the carrying value of the Realty Income, L.P. noncontrolling interests to be in-line with their equity ownership interest in the entity.

B. The Tau Operating Partnership preferred units were 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 sheets. 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, 2014 and 2013, the preferred units have a carrying value of \$6.75 million.

## 12. Distributions Paid and Payable

### A. Common Stock

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

Month	2014	2013	2012
January	\$ 0.1821667	\$ 0.1517500	\$ 0.1455000
February	0.1821667	0.1809167	0.1455000
March	0.1821667	0.1809167	0.1455000
April	0.1824792	0.1812292	0.1458125
May	0.1824792	0.1812292	0.1458125
June	0.1824792	0.1812292	0.1458125
July	0.1827917	0.1815417	0.1461250
August	0.1827917	0.1815417	0.1461250
September	0.1827917	0.1815417	0.1511250
October	0.1831042	0.1818542	0.1514375
November	0.1831042	0.1818542	0.1514375
December	0.1831042	0.1818542	0.1514375
<b>Total</b>	<b>\$ 2.1916254</b>	<b>\$ 2.1474587</b>	<b>\$ 1.7716250</b>

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

	2014	2013	2012
Ordinary income	\$ 1.6483522	\$ 1.3153791	\$ 1.3367481
Nontaxable distributions	0.5432732	0.8320796	0.4348769
<b>Totals</b>	<b>\$ 2.1916254</b>	<b>\$ 2.1474587</b>	<b>\$ 1.7716250</b>

At December 31, 2014, a distribution of \$0.1834167 per common share was payable and was paid in January 2015. At December 31, 2013, a distribution of \$0.1821667 per common share was payable and was paid in January 2014.

### 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. For 2012, dividends paid per share in the amount of \$0.3841147 were characterized as ordinary income for federal income tax purposes.

### C. Class E Preferred Stock

Prior to the redemption of the Class E preferred stock in October 2014, dividends of \$0.140625 per share were paid monthly in arrears on the Class E preferred stock. We paid distributions to holders of our Class E preferred stock totaling \$12.7 million in 2014, and \$14.9 million in 2013 and 2012. For 2014, dividends paid per share in the amount of \$1.4484375 were characterized as ordinary income for federal income tax purposes, while in 2013 and 2012, 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 2014 and 2013 and \$22.6 million in 2012. For 2014 and 2013, dividends paid per share of \$1.656252 were characterized as ordinary income for federal income tax purposes. In 2012, dividends paid per share of \$1.4124147 were characterized as ordinary income for federal income tax purposes. At December 31, 2014, a monthly dividend of \$0.138021 per share was payable and was paid in January 2015. We are current in our obligations to pay dividends on our Class F preferred stock.

**13. Operating Leases**

A. At December 31, 2014, we owned 4,327 properties in 49 states and Puerto Rico, plus an additional two properties owned by Crest. Of the 4,327 properties, 4,308, or 99.6%, are single-tenant properties, and the remaining 19 are multi-tenant properties. At December 31, 2014, 70 properties were 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 \$3.6 million for 2014, \$2.9 million for 2013 and \$2.1 million for 2012, including amounts recorded to discontinued operations of \$35,000 in 2014, \$104,000 in 2013 and \$163,000 in 2012.

At December 31, 2014, minimum future annual rents to be received on the operating leases for the next five years and thereafter are as follows (dollars in thousands):

2015	\$	929,507
2016		917,651
2017		898,584
2018		873,474
2019		817,658
Thereafter		5,376,267
Total	\$	9,813,141

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, 2014, 2013 or 2012.

**14. Gain on Sales of Investment Properties**

During 2014, we sold 46 investment properties for \$107.2 million, which resulted in a gain of \$42.1 million. Only the results of operations specifically related to the properties classified as held for sale at December 31, 2013 and sold during the year have been reclassified as discontinued operations.

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.

Crest sold one property for \$820,000 and one property for \$597,000 during 2014 and 2013, respectively. Neither of these sales resulted in a gain. The results of operations for these properties have been reclassified as discontinued operations. During 2012, Crest did not sell any properties.

## 15. Fair Value of Financial Instruments

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

We believe that the carrying values reflected in our consolidated balance sheets reasonably approximate the fair values for cash and cash equivalents, accounts receivable, escrow deposits, loans receivable, line 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, mortgages payable and our senior notes and bonds payable, which are disclosed below (dollars in millions):

	<b>Carrying value per balance sheet</b>		<b>Estimated fair value</b>
<b>At December 31, 2014</b>			
Notes receivable issued in connection with property sales	\$ 18.3	\$	20.1
Mortgages payable assumed in connection with acquisitions	852.6		857.9
Notes and bonds payable, net of unamortized original issuance discounts	3,785.4		4,092.8
<b>At December 31, 2013</b>			
Notes receivable issued in connection with property sales	\$ 19.1	\$	21.1
Mortgages payable assumed in connection with acquisitions	783.4		780.0
Notes and bonds payable, net of unamortized original issuance discounts	3,185.5		3,340.7

The estimated fair values of our notes receivable issued in connection with property sales 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 are 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.

## 16. Supplemental Disclosures of Cash Flow Information

Cash paid for interest was \$207.3 million in 2014, \$166.1 million in 2013, and \$112.5 million in 2012.

Interest capitalized to properties under development was \$444,000 in 2014, \$537,000 in 2013, and \$498,000 in 2012.

Cash paid for income taxes was \$3.7 million in 2014, \$2.1 million in 2013, and \$1.0 million in 2012.

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

- A. See "Provisions for Impairment" in note 2 for a discussion of provisions for impairments recorded by Realty Income and Crest.
- B. See note 9 for a discussion of the excess of redemption value over carrying value of preferred shares subject to redemption charges recorded by Realty Income during 2014 and 2012.

- C. During 2014, we assumed mortgages payable to third-party lenders of \$166.7 million, recorded \$604,000 of net premiums, and recorded \$901,000 of interest rate swap value to other assets, net, related to property acquisitions. During 2013, we assumed mortgages payable (excluding the mortgages payable discussed in items D and E) of \$81.3 million to third-party lenders and recorded \$6.1 million of net premiums related to property acquisitions.
- D. 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.
- 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.
- F. During 2014, we applied \$48.9 million of loans receivable to the purchase price of five acquired properties.
- G. During 2014, we acquired real estate for \$11.6 million via exchanges of our properties. During 2013, we acquired real estate for \$7.4 million via exchanges of our properties.
- H. During 2013, we recorded receivables of \$1.9 million for the taking of two investment properties as a result of an eminent domain action. The remaining balance of \$1.1 million on these receivables is included in other assets, net, on our consolidated balance sheet at December 31, 2014.
- I. Accrued costs on properties under development resulted in an increase in buildings and improvements and accounts payable of \$4.0 million, \$5.5 million and \$3.8 million at December 31, 2014, 2013 and 2012, respectively.

## **17. Employee Benefit Plan**

We have a 401(k) plan covering substantially all of our employees. Under our 401(k) plan, employees may elect to make contributions to the plan up to a maximum of 60% of their compensation, subject to limits under the Code. We match 50% of each of our employee's salary deferrals up to the first 6% of the employee's eligible compensation. Our aggregate matching contributions each year have been immaterial to our results of operations.

## **18. 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 \$12.0 million during 2014, \$20.8 million during 2013, and \$10.0 million during 2012.

## A. Restricted Stock

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.

	2014		2013		2012	
	Number of shares	Weighted average price <sup>(1)</sup>	Number of shares	Weighted average price <sup>(1)</sup>	Number of shares	Weighted average price <sup>(1)</sup>
Outstanding nonvested shares, beginning of year	722,263	\$ 23.37	895,550	\$ 19.94	925,526	\$ 20.21
Shares granted	262,655	\$ 39.87	484,060	\$ 41.13	261,811	\$ 35.06
Shares vested	(440,348)	\$ 36.88	(654,650)	\$ 30.91	(290,877)	\$ 27.47
Shares forfeited	<u>(17,394)</u>	\$ 39.07	<u>(2,697)</u>	\$ 37.30	<u>(910)</u>	\$ 31.67
Outstanding nonvested shares, end of each period	<u>527,176</u>	\$ 29.02	<u>722,263</u>	\$ 23.37	<u>895,550</u>	\$ 19.94

<sup>(1)</sup> Grant date fair value.

During 2014, we issued 262,655 shares of common stock under the 2012 Plan. These 262,655 shares vest over the following service periods: 34,896 vested immediately, 8,000 vest over a service period of two years, 8,000 vest over a service period of three years, 30,535 shares vest over a service period of four years, and 181,224 vest over a service period of five years. Additionally, during 2013, 51,454 shares of performance-based common stock was granted, of which 12,864 shares vested at the end of both 2013 and 2014 based on the achievement of certain performance metrics, and of which 12,864 may vest at the end of 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.

For shares granted prior to December 2014, the typical vesting schedule for shares granted to employees was 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, 2014, the remaining unamortized share-based compensation expense totaled \$15.2 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 compensation expense related to dividends paid in 2014, 2013 or 2012.

As of December 31, 2014 and 2013, there were no remaining common stock options outstanding for any of the periods presented.

#### ***B. Performance Shares***

During 2014, we granted performance share awards, as well as dividend equivalent rights. Eighty percent (80%) of the total award value is market-based and subject to two Total Shareholder Return ("TSR") market measures: 60% relative to the MSCI US REIT Index and 20% relative to the NAREIT Freestanding Index. The remaining 20% is performance-based, and will vest based on our debt-to-EBITDA ratio achieved during the performance period. The number of performance shares that vest based on the achievement of the performance goals will vest 50% on January 1, 2017 and 50% on January 1, 2018, subject to continued employment.

During 2014, 71,705 performance shares, with an estimated fair value of \$3.0 million and an average grant date fair value of \$41.46, were granted to our executive officers. The performance period for these awards began on January 1, 2014 and will end on December 31, 2016. The fair value of the market-based awards was estimated on the date of grant using a Monte Carlo Simulation model.

As of December 31, 2014, the remaining share-based compensation expense related to the performance shares totaled \$1.9 million. The portion related to the market-based awards is being recognized on a straight-line basis over the service period, and the portion related to the performance-based awards is being recognized on a tranche-by-tranche basis over the service period.

### **19. 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 2014, we issued 3,527,166 shares and raised approximately \$158.5 million under the DRSP. During 2013, 1,449,139 shares and raised approximately \$55.6 million under the DRSP. During 2012, we issued 55,598 shares and raised approximately \$2.2 million under the DRSP. From the inception of the DRSP through December 31, 2014, we have issued 5,091,508 shares and raised approximately \$218.6 million.

In 2013, we revised our DRSP to pay for a majority of the plan-related fees, which were previously paid by investors, and 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 2014, we issued 3,330,556 shares and raised \$150.0 million under the waiver approval process. In 2013, we issued 1,308,490 shares and raised \$50.0 million under the waiver approval process. These shares are included in the total 2014 and 2013 activity noted in the preceding paragraph.

### **20. Segment Information**

We evaluate performance and make resource allocation decisions on an industry by industry basis. For financial reporting purposes, we have grouped our tenants into 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, 2014 (dollars in thousands):

<b>Assets, as of December 31:</b>	<b>2014</b>	<b>2013</b>
Segment net real estate:		
Apparel	\$ 188,387	\$ 114,126
Automotive service	120,383	118,144
Automotive tire services	254,857	258,660
Beverages	302,001	306,278
Child care	54,523	56,599
Convenience stores	752,047	766,472
Dollar stores	1,165,560	825,729
Drug stores	1,036,697	943,401
Financial services	262,095	252,987
Food processing	133,248	138,000
Grocery stores	338,624	280,047
Health and fitness	546,583	493,981
Health care	227,084	228,491
Home improvement	226,577	121,318
Restaurants-casual dining	450,337	473,527
Restaurants-quick service	336,753	312,474
Sporting goods	136,110	94,771
Theaters	375,982	367,830
Transportation services	661,053	623,541
Wholesale club	465,569	455,875
28 other non-reportable segments	1,747,070	1,564,358
<b>Total segment net real estate</b>	<b>9,781,540</b>	<b>8,796,609</b>
Intangible assets:		
Apparel	52,680	37,553
Automotive service	2,909	3,248
Automotive tire services	14,871	15,770
Beverages	2,797	3,055
Convenience stores	17,535	13,342
Dollar stores	58,691	50,209
Drug stores	194,905	180,506
Financial services	39,564	40,112
Food processing	22,922	25,297
Grocery stores	46,729	22,073
Health and fitness	66,460	53,703
Health care	35,017	38,465
Home improvement	35,726	18,039
Restaurants-casual dining	10,649	11,906
Restaurants-quick service	16,415	17,936
Sporting goods	12,311	10,984
Theaters	21,601	23,600
Transportation services	101,040	107,296
Wholesale club	39,707	33,221
Other non-reportable segments	247,195	229,144
Goodwill:		
Automotive service	452	454
Automotive tire services	865	865
Child care	5,095	5,141
Convenience stores	2,023	2,031
Restaurants-casual dining	2,279	2,328
Restaurants-quick service	1,085	1,131
Other non-reportable segments	3,671	3,710
Other corporate assets	175,888	176,713
<b>Total assets</b>	<b>\$ 11,012,622</b>	<b>\$ 9,924,441</b>



<b>Revenue for the years ended December 31,</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Segment rental revenue:			
Apparel	\$ 17,966	\$ 14,142	\$ 8,023
Automotive service	16,491	15,603	14,563
Automotive tire services	28,136	26,917	22,593
Beverages	25,147	24,848	24,553
Child care	20,022	20,717	20,656
Convenience stores	89,754	83,973	76,309
Dollar stores	85,049	46,742	10,583
Drug stores	84,624	60,529	16,376
Financial services	16,828	14,904	2,889
Food processing	12,042	11,151	6,213
Grocery stores	26,979	22,031	17,456
Health and fitness	62,086	46,979	32,782
Health care	16,039	14,358	428
Home improvement	15,552	11,210	6,623
Restaurants-casual dining	38,589	38,261	33,155
Restaurants-quick service	33,389	32,340	26,848
Sporting goods	15,023	12,875	11,798
Theaters	47,102	46,122	45,073
Transportation services	46,287	40,552	11,516
Wholesale club	36,588	29,448	15,217
28 other non-reportable segments	159,764	134,516	63,366
Total rental revenue	893,457	748,218	467,020
Tenant reimbursements	37,118	24,944	14,619
Other revenue	2,930	7,047	2,942
<b>Total revenue</b>	<b>\$ 933,505</b>	<b>\$ 780,209</b>	<b>\$ 484,581</b>

## 21. Commitments and Contingencies

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

At December 31, 2014, we had contingent obligations of \$735,000 for tenant improvements and leasing costs. In addition, as of December 31, 2014, we had committed \$33.6 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, 2014, minimum future rental payments for the next five years and thereafter are as follows (dollars in millions):

	<b>Ground Leases</b>		<b>Ground Leases</b>		
	<b>Paid by</b>		<b>Paid by</b>		
	<b>Realty Income<sup>(1)</sup></b>		<b>Our Tenants<sup>(2)</sup></b>		<b>Total</b>
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
2019		0.9		12.7	13.6
Thereafter		8.4		131.9	140.3
<b>Total</b>	<b>\$</b>	<b>13.3</b>	<b>\$</b>	<b>195.6</b>	<b>\$ 208.9</b>

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

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

## **22. Subsequent Events**

In January 2015 and February 2015, we declared the following dividends, which will be paid in February 2015 and March 2015, respectively:

- \$0.189 per share to our common stockholders and
- \$0.138021 per share to our Class F preferred stockholders.

In January 2015, we redeemed all 6,750 Tau Operating Partnership preferred units for \$1,000 per unit, plus accrued and unpaid dividends.

**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 <sup>(2)</sup>
<b>2014 <sup>(1)</sup></b>					
Total revenue	\$ 221,572	\$ 228,646	\$ 235,713	\$ 247,573	\$ 933,505
Depreciation and amortization expense	89,970	92,894	95,260	96,537	374,661
Interest expense	51,720	52,712	52,814	59,120	216,366
Other expenses	26,237	22,783	24,987	38,536	112,543
Income from continuing operations	54,916	62,221	73,627	78,374	269,140
Income from discontinued operations	3,077	20	-	(297)	2,800
Net income	57,993	62,241	73,627	78,077	271,940
Net income available to common stockholders	47,179	51,420	57,941	71,018	227,558
Net income per common share					
Basic	0.23	0.23	0.26	0.32	1.04
Diluted	0.23	0.23	0.26	0.32	1.04
Dividends paid per common share	0.5465001	0.5474376	0.5483751	0.5493126	2.1916254
<b>2013 <sup>(1)</sup></b>					
Total revenue	\$ 175,522	\$ 186,443	\$ 202,081	\$ 216,163	\$ 780,209
Depreciation and amortization expense	66,749	73,906	80,822	85,293	306,769
Interest expense	41,599	39,232	49,836	50,775	181,442
Other expenses	33,807	21,361	25,915	30,301	111,385
Income from continuing operations	33,367	51,944	45,508	49,794	180,613
Income from discontinued operations	39,859	4,572	6,399	14,840	65,670
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

<sup>(1)</sup> 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.

<sup>(2)</sup> 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, 2014 and 2013, and the related consolidated statements of income, equity, and cash flows for each of the years in the three-year period ended December 31, 2014. 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, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

As discussed in note 2 to the consolidated financial statements, Realty Income Corporation changed its method for reporting discontinued operations in 2014 due to the adoption of FASB Accounting Standards Update No. 2014-08.

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, 2014, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 18, 2015 expressed an unqualified opinion on the effectiveness of Realty Income Corporation's internal control over financial reporting.

**KPMG LLP**

San Diego, California  
February 18, 2015

## 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, 2014, based on criteria established in *Internal Control – Integrated Framework (2013)* 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, 2014, based on *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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, 2014 and 2013, and the related consolidated statements of income, equity, and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated February 18, 2015 expressed an unqualified opinion on those consolidated financial statements.

**KPMG LLP**

San Diego, California  
February 18, 2015

## Business Description

### THE COMPANY

Realty Income, The Monthly Dividend Company<sup>®</sup>, 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 property portfolio. We have in-house acquisition, portfolio management, asset management, credit research, real estate research, legal, finance and accounting, information technology, and capital markets capabilities. Over the past 46 years, Realty Income has been acquiring and managing freestanding commercial properties that generate rental revenue under long-term net lease agreements.

Realty Income (NYSE: O) was founded in 1969, and listed in 1994 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 earnings and distributions to stockholders, through active portfolio management, asset management and the acquisition of additional properties.

Generally, our portfolio and asset management efforts seek to achieve:

- Contractual rent increases on existing leases;
- Rent increases at the termination of existing leases, when market conditions permit;
- Active management of our property portfolio, including re-leasing vacant properties, and selectively selling properties, thereby mitigating our exposure to certain tenants and markets;
- Maximized asset-level returns on sold properties;
- Optimized value on existing portfolio by enhancing individual properties, pursuing alternative uses, and deriving ancillary revenue; and
- Investment opportunities in new asset classes for the portfolio.

At December 31, 2014, we owned a diversified portfolio:

- Of 4,327 properties;
- With an occupancy rate of 98.4%, or 4,257 properties leased and 70 properties available for lease;
- Leased to 234 different commercial tenants doing business in 47 separate industries;
- Located in 49 states and Puerto Rico;
- With over 70.7 million square feet of leasable space; and
- With an average leasable space per property of approximately 16,350 square feet, including approximately 11,290 square feet per retail property and 196,800 square feet per industrial and distribution property.

Of the 4,327 properties in the portfolio, 4,308, or 99.6%, are single-tenant properties, and the remaining nineteen are multi-tenant properties. At December 31, 2014, of the 4,308 single-tenant properties, 4,238 were leased with a weighted average remaining lease term (excluding rights to extend a lease at the option of the tenant) of approximately 10.2 years.

Our nine senior officers owned 0.3% of our outstanding common stock with a market value of \$31.1 million at January 31, 2015. Our directors and nine senior officers, as a group, owned 0.4% of our outstanding common stock with a market value of \$46.4 million at January 31, 2015.

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 6.625% Monthly Income Class F Cumulative Redeemable Preferred Stock, or the Class F preferred stock, is listed on the NYSE under the ticker symbol "OprF" with a CUSIP number of 756109-807.

In January 2015, we had 125 employees, as compared to 116 employees in January 2014.

We maintain a corporate website at [www.realtyincome.com](http://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 46-year policy of paying monthly dividends. In addition, we increased the dividend four times during 2014, and two times during 2015. As of February 2015, we have paid 69 consecutive quarterly dividend increases and increased the dividend 79 times since our listing on the NYSE in 1994.

<b>2014 Dividend increases</b>	<b>Month Declared</b>	<b>Month Paid</b>	<b>Dividend per share</b>	<b>Increase per share</b>
1st increase	Dec 2013	Jan 2014	\$ 0.1821667	\$ 0.0003125
2nd increase	Mar 2014	Apr 2014	0.1824792	0.0003125
3rd increase	Jun 2014	Jul 2014	0.1827917	0.0003125
4th increase	Sep 2014	Oct 2014	0.1831042	0.0003125
<b>2015 Dividend increases</b>				
1st increase	Dec 2014	Jan 2015	\$ 0.1834167	\$ 0.0003125
2nd increase	Jan 2015	Feb 2015	0.189	0.0055833

The dividends paid per share during 2014 as compared to 2013 increased 2.1%. The 2014 dividends paid per share totaled \$2.1916254, as compared to \$2.1474587 in 2013, an increase of \$0.0441667.

The monthly dividend of \$0.189 per share represents a current annualized dividend of \$2.268 per share, and an annualized dividend yield of approximately 4.2% based on the last reported sale price of our common stock on the NYSE of \$54.31 on January 31, 2015. 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 2014

During 2014, we invested \$1.4 billion in 506 new properties and properties under development or expansion, with an initial weighted average contractual lease rate of 7.1%. The 506 new properties and properties under development or expansion are located in 42 states, will contain approximately 9.8 million leasable square feet, and are 100% leased with a weighted average lease term of 12.8 years. The tenants occupying the new properties operate in 32 industries and the property types consist of 85.7% retail, 6.6% industrial and distribution, 6.4% office, and 1.3% manufacturing, based on rental revenue. During 2014, none of our real estate investments caused any one tenant to be 10.0% or more of our total assets at December 31, 2014.

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 contractual lease rate is generally fixed such that rent varies based on the actual total investment in order to provide a fixed rate of return. When the lease does not provide for a fixed rate of return on a property under development or expansion, the estimated initial weighted average contractual lease rate is computed as follows: estimated net operating income (determined by the lease) for the first full year of each lease, divided by our projected total investment in the property, including land, construction and capitalized interest costs. Of the \$1.4 billion we invested during 2014, \$81.9 million was invested in 40 properties under development or expansion with an estimated initial weighted average contractual lease rate of 8.4%. We may continue to pursue development or expansion opportunities under similar arrangements in the future.

## **PORTFOLIO DISCUSSION**

### **Leasing Results**

At December 31, 2014, we had 70 properties available for lease out of 4,327 properties in our portfolio, which represents a 98.4% occupancy rate. Since December 31, 2013, when we reported 70 properties available for lease out of 3,896 and a 98.2% occupancy rate, we:

- Had 220 lease expirations;
- Re-leased 203 properties; and
- Sold 17 vacant properties.

Of the 203 properties re-leased during 2014, 173 properties were re-leased to existing tenants, nine were re-leased to new tenants without vacancy, and 21 were re-leased to new tenants after a period of vacancy. The annual rent on these 203 leases was \$33.9 million, as compared to the previous rent on these same properties of \$34.2 million.

At December 31, 2014, our average annualized rental revenue was approximately \$13.07 per square foot on the 4,257 leased properties in our portfolio. At December 31, 2014, we classified eight properties with a carrying amount of \$14.8 million as held for sale on our balance sheet. The disposal of these properties does not represent a strategic shift that will have a major effect on our operations and financial results.

### **Investments in Existing Properties**

In 2014, we capitalized costs of \$6.0 million on existing properties in our portfolio, consisting of \$821,000 for re-leasing costs and \$5.2 million for building and tenant improvements. 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.

As part of our re-leasing costs, we typically 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 relate 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, the lease term and the willingness of tenants to pay higher rents over the terms of the leases.

### **Note Issuance**

In September 2014, we issued \$250 million of 4.125% senior unsecured notes due October 2026, or the 2026 Notes. The price to the investors for the 2026 Notes was 99.499% of the principal amount for an effective yield of 4.178% per annum. A portion of the total net proceeds of approximately \$246.4 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 June 2014, we issued \$350 million of 3.875% senior unsecured notes due July 2024, or the 2024 Notes. The price to the investors for the 2024 Notes was 99.956% of the principal amount for an effective yield of 3.88% per annum. The total net proceeds of approximately \$346.7 million from this offering were used to repay a portion of the outstanding borrowings under our acquisition credit facility.

### **Redemption of Preferred Stock**

In October 2014, we redeemed all 8,800,000 shares of our 6.75% Monthly Income Class E Cumulative Redeemable Preferred Stock, or the Class E preferred stock, for \$25.00 per share, plus accrued dividends. We incurred a non-cash charge of \$6.0 million. This charge is for the excess of redemption value over the carrying value of the Class E preferred stock and represents the original issuance cost that was paid in 2006.



### **Issuance of Common Stock**

In April 2014, we issued 13,800,000 shares of common stock, including 1,800,000 shares purchased by the underwriters upon the exercise of their option to purchase additional shares. After underwriting discounts and other offering costs of \$22.8 million, the net proceeds of \$528.6 million were used to repay borrowings under our acquisition credit facility.

### **Modifications to Compensation Program**

In April 2014, the Compensation Committee of the Board of Directors made modifications to the existing compensation program. The modified compensation program now consists of distinct short-term and long-term incentive plans based on separate metrics. The redesigned short-term incentive plan includes a mix of cash and equity awards. Under the long-term incentive plan, awards are granted in performance-vesting equity awards, which vest based strictly on achieving future performance goals. With respect to the performance based restricted shares, the award is based on objective performance metrics and determined primarily by relative stockholder return metrics with a smaller component based on balance sheet metrics. As part of this new program, the Compensation Committee of the Board of Directors granted performance-vesting shares with an approximate grant date fair value of \$3.0 million to our executive officers in April 2014.

### **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 2014, we issued 3,527,166 shares and raised approximately \$158.5 million under the DRSP.

### **Net Income Available to Common Stockholders**

Net income available to common stockholders was \$227.6 million in 2014, compared to \$203.6 million in 2013, an increase of \$24.0 million. On a diluted per common share basis, net income was \$1.04 in 2014, as compared to \$1.06 in 2013, a decrease of \$0.02, or 1.9%. Net income available to common stockholders for 2014 includes a non-cash redemption charge of \$6.0 million on the shares of Class E preferred stock that were redeemed in October 2014, which represents \$0.03 on a diluted per common share basis. This charge is for the excess of redemption value over the carrying value of the Class E preferred stock and represents the original issuance cost that was paid in 2006. Net income available to common stockholders for 2013 was impacted by an unusually large gain on property sales, which represents \$0.18 on a diluted per common share basis. Additionally, net income available to common stockholders for 2013 includes \$13.0 million of merger-related costs for the acquisition of American Realty Capital Trust Inc., or 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.

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 2014 were \$42.1 million, as compared to gains from the sale of properties of \$64.7 million during 2013.

### **Funds from Operations Available to Common Stockholders (FFO)**

In 2014, our FFO increased by \$100.9 million, or 21.8%, to \$562.9 million versus \$462.0 million in 2013. On a diluted per common share basis, FFO was \$2.58 in 2014, compared to \$2.41 in 2013, an increase of \$0.17, or 7.1%. FFO in 2014 includes a non-cash redemption charge of \$6.0 million on the shares of Class E preferred stock that were redeemed in October 2014, which represents \$0.03 on a diluted per common share basis. This charge is for the excess of redemption value over the carrying value of the Class E preferred stock and represents the original issuance cost that was paid in 2006. FFO in 2013 was normalized to exclude \$13.0 million of merger-related costs, which represents \$0.07 on a diluted per common share basis. FFO for 2013 includes \$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. All references to FFO for 2013 reflect the adjustments for merger-related costs for the acquisition of ARCT.

See our discussion of FFO (which is not a financial measure 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.

#### **Adjusted Funds from Operations Available to Common Stockholders (AFFO)**

In 2014, our AFFO increased by \$98.6 million, or 21.3%, to \$561.7 million versus \$463.1 million in 2013. On a diluted per common share basis, AFFO was \$2.57 in 2014, compared to \$2.41 in 2013, an increase of \$0.16, or 6.6%.

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 and AFFO.

#### **DIVIDEND POLICY**

Distributions are paid monthly to holders of shares of our common stock and 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 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 2014, our cash distributions to preferred and common stockholders totaled \$519.1 million, or approximately 154.6% of our estimated taxable income of \$335.7 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 2014 cash distributions to common stockholders totaled \$479.3 million, representing 85.3% of our adjusted funds from operations available to common stockholders of \$561.7 million.

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 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, 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 the Board of Directors may deem relevant. In addition, our credit facility contains financial covenants that could limit the amount of distributions payable 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 first be treated as a non-taxable reduction in the stockholders' basis in their stock, but not below zero. Distributions in excess of that basis generally will be taxable as a capital gain to stockholders who hold their shares as a capital asset. Approximately 24.8% of the distributions to our common stockholders, made or deemed to have been made in 2014, were classified as a return of capital for federal income tax purposes. We estimate that in 2015, between 20% and 35% of the distributions may be classified as a return of capital.

## **BUSINESS PHILOSOPHY AND STRATEGY**

### **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) fixed increases, or (3) additional rent calculated as a percentage of the tenants' gross sales above a specified level. We believe that a portfolio of properties 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.

Diversification is also a key component of our investment philosophy. We believe that diversification of the portfolio by tenant, industry, geography, and, to a certain extent, property type 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, 2014 consisted of 4,327 properties located in 49 states and Puerto Rico, leased to 234 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 10.0% of our rental revenue for the quarter ended December 31, 2014. Since 1970, our occupancy rate at the end of each year has never been below 96%. However we cannot assure you that our future occupancy levels will continue to exceed 96%.

### **Investment Strategy**

Our investment strategy is to act as a source of capital to regional and national tenants by acquiring and leasing back their real estate locations. When identifying new properties for investment, we generally focus on acquiring the real estate tenants consider important to the successful operation of their business. 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 in significant markets or strategic locations critical to generating revenue for regional and national tenants (i.e. they need the property in which they operate in order to conduct their business);
- 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, and have good visibility and easy access to major thoroughfares;
- Properties with real estate valuations that approximate replacement costs;
- Properties with rental or lease payments that approximate market rents; 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 future rent increases.

We seek to invest in industries in which several, well-organized, regional and national tenants are capturing market share through service, quality control, economies of scale, strong consumer brands, advertising, and the selection of prime locations. In addition, we frequently acquire large portfolios of single-tenant properties net leased to different tenants in a variety of industries. We have an internal team dedicated to sourcing such opportunities, often using our relationships with various tenants, owners/developers, and advisers 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 we believe we can add value.

In selecting potential investments, we look for tenants with 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); and
- Tenants that are large owners and users of real estate.

From a retail perspective, our investment strategy is to target tenants that have a service, non-discretionary, and/or low-price-point component to their business. We believe these characteristics better position tenants to operate in a variety of economic conditions and to compete more effectively with internet retailers. As a result of the execution of this strategy, over 90% of our retail rental is derived from tenants with a service, non-discretionary, and/or low price point component to their business. From a non-retail perspective, we target industrial and distribution properties leased to Fortune 1000, primarily investment-grade-rated companies. We believe rental revenue generated from businesses with these characteristics is generally more durable and stable.

After applying this investment strategy, we pursue those transactions where we can achieve an attractive investment spread over our cost of capital and favorable risk-adjusted return.

### **Underwriting Strategy**

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 obligation 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; and 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 that 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 be considered for acquisition, properties must meet stringent investment and credit requirements. The properties must generate attractive current yields and the tenant must meet our credit criteria. 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;
- Overall real estate characteristics, including property value and comparative rental rates; and
- The importance of the real estate location to the operations of the tenants' business.

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. We estimate that approximately 46% of our annualized rental revenue comes from properties leased to investment grade companies or their subsidiaries. At December 31, 2014, our top 20 tenants represent approximately 53% of our annualized revenue and nine of these tenants have investment grade credit ratings.

### **Asset Management Strategy**

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

We regularly review and analyze:

- The performance of the various industries of our tenants;
- The operation, management, business planning, and financial condition of our tenants; and
- The quality of the underlying real estate locations.

We have an active asset 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, 2014, we classified real estate with a carrying amount of \$14.8 million as held for sale on our balance sheet. In 2015, 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 2015. 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.

### **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, 2014, our total outstanding borrowings of senior unsecured notes and bonds, term loan, mortgages payable and credit facility borrowings were \$4.93 billion, or approximately 30.6% of our total market capitalization of \$16.11 billion.

We define our total market capitalization at December 31, 2014 as the sum of:

- Shares of our common stock outstanding of 224,881,192, plus total common units of 816,568, multiplied by the last reported sales price of our common stock on the NYSE of \$47.71 per share on December 31, 2014, or \$10.77 billion;
- Aggregate liquidation value (par value of \$25.00 per share) of the Class F preferred stock of \$408.8 million;
- Outstanding borrowings of \$223.0 million on our credit facility;
- Outstanding mortgages payable of \$836.0 million, excluding net mortgage premiums of \$16.6 million;
- Outstanding borrowings of \$70.0 million on our term loan; and
- Outstanding senior unsecured notes and bonds of \$3.8 billion, excluding unamortized original issuance discounts of \$14.6 million.

### **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 these 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**

We have a \$1.5 billion unsecured acquisition credit facility with an initial term that 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, 2014, we had a borrowing capacity of \$1.28 billion available on our credit facility and an outstanding balance of \$223.0 million. The interest rate on borrowings outstanding under our credit facility, at December 31, 2014, was 1.2% per annum. We must comply with various financial and other covenants in our credit facility. At December 31, 2014, 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, 2014, we had cash and cash equivalents totaling \$3.9 million.

We believe that our cash and cash equivalents on hand, cash provided from operating activities, and borrowing capacity are 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: Moody's Investors Service has assigned a rating of Baa1 with a "stable" outlook, Standard & Poor's Ratings Group has assigned a rating of BBB+ with a "stable" outlook to our senior notes, and Fitch Ratings has assigned a rating of BBB+ with a "stable" outlook.

Based on our current ratings, the current 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 rating is lower than BBB-/Baa3 and (ii) LIBOR plus 1.00% if our credit rating is A-/A3 or higher. In addition, our credit facility provides for a facility commitment fee based on our credit ratings, which range from: (i) 0.45% for a rating lower than BBB-/Baa3 and (ii) 0.15% for a credit rating of A-/A3 or higher.

We also issue senior debt securities from time to time and our credit ratings can impact the interest rates charged in those transactions. 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, 2014, we had \$3.8 billion of senior unsecured note and bond obligations, excluding unamortized original issuance discounts of \$14.6 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, 2014, we had \$836.0 million of mortgages payable, all of which were assumed in connection with our property acquisitions. Additionally, at December 31, 2014, we had net premiums totaling \$16.6 million on these mortgages. We expect to pay off the mortgages as soon as prepayment penalties make it economically feasible to do so. During 2014, we made \$85.2 million in principal payments, including the repayment of six mortgages in full for \$77.8 million.

## **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**

We are 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<sup>®</sup>, we believe our primary responsibility is to provide monthly dividends 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 401(k) plan with a matching contribution by Realty Income; competitive paid time-off benefits; 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, seven 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 primarily reaching certain performance metrics that determine the success of our company; and
- We adhere to all other corporate governance principles outlined in our "Corporate Governance Guidelines" document on our website.

*Environmental Practices.* Our focus on energy related matters is demonstrated by how we manage our day-to-day activities in our corporate headquarters. In our headquarters, we promote energy conservation and encourage the following practices:

- Powering down office equipment at the end of the day;
- Setting 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;
- Programming HVAC to only operate during normal business operating hours; and
- Encouraging employees to carpool to our headquarters.



In addition, our headquarters was constructed according to the State of California energy standards, specifically following California Green Building Standards Code and Title 24 of the California Code of Regulations, with features including high efficiency lighting and heating and cooling systems.

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 are recycled or donated whenever possible.

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, 2014.

### **Unresolved Staff Comments**

There are no unresolved staff comments.

## Property Portfolio Information

At December 31, 2014, we owned a diversified portfolio:

- Of 4,327 properties;
- With an occupancy rate of 98.4%, or 4,257 properties leased and 70 properties available for lease;
- Leased to 234 different commercial tenants doing business in 47 separate industries;
- Located in 49 states and Puerto Rico;
- With over 70.7 million square feet of leasable space; and
- With an average leasable space per property of approximately 16,350 square feet, including approximately 11,290 square feet per retail property.

At December 31, 2014, of our 4,327 properties, 4,257 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.

At December 31, 2014, our 234 commercial tenants, which we define as retailers with over 50 locations and non-retailers with over \$500 million in annual revenues, represented approximately 95% of our annualized revenue. We had 267 additional tenants, representing approximately 5% of our annualized revenue at December 31, 2014, which brings our total tenant count to 501 tenants.

## 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 <sup>(1)</sup>						
	For the	For the Years Ended					
	Quarter Ended	Dec 31,	Dec 31,	Dec 31,	Dec 31,	Dec 31,	Dec 31,
	December 31,	2014	2013	2012	2011	2010	2009
	2014	2014	2013	2012	2011	2010	2009
<b>Retail industries</b>							
Apparel stores	2.2%	2.0%	1.9%	1.7%	1.4%	1.2%	1.1%
Automotive collision services	0.8	0.8	0.8	1.1	0.9	1.0	1.1
Automotive parts	1.4	1.3	1.2	1.0	1.2	1.4	1.5
Automotive service	1.8	1.8	2.1	3.1	3.7	4.7	4.8
Automotive tire services	3.1	3.2	3.6	4.7	5.6	6.4	6.9
Book stores	*	*	*	0.1	0.1	0.1	0.2
Child care	2.2	2.2	2.8	4.5	5.2	6.5	7.3
Consumer electronics	0.3	0.3	0.3	0.5	0.5	0.6	0.7
Convenience stores	9.8	10.1	11.2	16.3	18.5	17.1	16.9
Crafts and novelties	0.5	0.5	0.5	0.3	0.2	0.3	0.3
Dollar stores	9.5	9.6	6.2	2.2	-	-	-
Drug stores	9.5	9.5	8.1	3.5	3.8	4.1	4.3
Education	0.4	0.4	0.4	0.7	0.7	0.8	0.9
Entertainment	0.5	0.5	0.6	0.9	1.0	1.2	1.3
Equipment services	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Financial services	1.4	1.4	1.5	0.2	0.2	0.2	0.2
General merchandise	1.4	1.2	1.1	0.6	0.6	0.8	0.8
Grocery stores	3.1	3.0	2.9	3.7	1.6	0.9	0.7
Health and fitness	7.0	7.0	6.3	6.8	6.4	6.9	5.9
Health care	1.0	1.1	1.1	-	-	-	-
Home furnishings	0.7	0.7	0.9	1.0	1.1	1.3	1.3
Home improvement	2.1	1.7	1.6	1.5	1.7	2.0	2.2
Jewelry	0.1	0.1	0.1	-	-	-	-
Motor vehicle dealerships	1.5	1.6	1.6	2.1	2.2	2.6	2.7
Office supplies	0.4	0.4	0.5	0.8	0.9	0.9	1.0
Pet supplies and services	0.7	0.7	0.8	0.6	0.7	0.9	0.9
Restaurants - casual dining	4.2	4.3	5.1	7.3	10.9	13.4	13.7
Restaurants - quick service	3.8	3.7	4.4	5.9	6.6	7.7	8.3
Shoe stores	0.1	0.1	0.1	0.1	0.2	0.1	-
Sporting goods	1.6	1.6	1.7	2.5	2.7	2.7	2.6
Theaters	5.3	5.3	6.2	9.4	8.8	8.9	9.2
Transportation services	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Wholesale clubs	4.1	4.1	3.9	3.2	0.7	-	-
Other	*	*	0.1	0.1	0.1	0.3	1.1
<b>Retail industries</b>	<b>80.7%</b>	<b>80.4%</b>	<b>79.8%</b>	<b>86.7%</b>	<b>88.6%</b>	<b>95.4%</b>	<b>98.3%</b>

## Industry Diversification (continued)

	Percentage of Rental Revenue <sup>(1)</sup>						
	For the Quarter Ended	For the Years Ended					
		December 31, 2014	Dec 31, 2014	Dec 31, 2013	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010
<u>Non-retail industries</u>							
Aerospace	1.2	1.2	1.2	0.9	0.5	-	-
Beverages	2.7	2.8	3.3	5.1	5.6	3.0	-
Consumer appliances	0.5	0.5	0.6	0.1	-	-	-
Consumer goods	0.9	0.9	1.0	0.1	-	-	-
Crafts and novelties	0.1	0.1	0.1	-	-	-	-
Diversified industrial	0.6	0.5	0.2	0.1	-	-	-
Electric utilities	0.1	0.1	*	-	-	-	-
Equipment services	0.5	0.5	0.4	0.3	0.2	-	-
Financial services	0.4	0.4	0.5	0.4	0.3	-	-
Food processing	1.3	1.4	1.5	1.3	0.7	-	-
General merchandise	0.3	0.3	-	-	-	-	-
Government services	1.2	1.3	1.4	0.1	0.1	0.1	0.1
Health care	0.7	0.7	0.8	*	*	-	-
Home furnishings	0.2	0.2	0.2	-	-	-	-
Insurance	0.1	0.1	0.1	*	-	-	-
Machinery	0.2	0.2	0.2	0.1	-	-	-
Other manufacturing	0.7	0.7	0.6	-	-	-	-
Packaging	0.8	0.8	0.9	0.7	0.4	-	-
Paper	0.1	0.1	0.2	0.1	0.1	-	-
Shoe stores	0.7	0.8	0.9	-	-	-	-
Telecommunications	0.7	0.7	0.7	0.8	0.7	-	-
Transportation services	5.1	5.1	5.3	2.2	1.6	-	-
Other	0.2	0.2	0.1	1.0	1.2	1.5	1.6
Non-retail industries	19.3%	19.6%	20.2%	13.3%	11.4%	4.6%	1.7%
Totals	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

\* Less than 0.1%

<sup>(1)</sup> 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, 2014 (dollars in thousands):

<b>Property Type</b>	<b>Number of Properties</b>	<b>Approximate Leasable Square Feet</b>	<b>Rental Revenue for the Quarter Ended December 31, 2014<sup>(1)</sup></b>	<b>Percentage of Rental Revenue</b>
Retail	4,172	47,122,600	\$ 180,529	78.5%
Industrial and distribution	82	16,137,500	23,610	10.3
Office	44	3,414,900	15,081	6.5
Manufacturing	14	3,875,200	5,616	2.4
Agriculture	15	184,500	5,267	2.3
<b>Totals</b>	<b>4,327</b>	<b>70,734,700</b>	<b>\$ 230,103</b>	<b>100.0%</b>

<sup>(1)</sup> Includes rental revenue for all properties owned by Realty Income at December 31, 2014. Excludes revenue of \$44 from properties owned by Crest and \$488 from sold properties that were included in continuing operations.

### Tenant Diversification

The largest tenants based on percentage of total portfolio rental revenue at December 31, 2014 include the following:

<b>Tenant</b>	<b>Number of Properties</b>	<b>% of Revenue</b>
Walgreens	120	5.4%
FedEx	38	5.1%
Dollar General	502	4.9%
LA Fitness	46	4.6%
Family Dollar	454	4.5%
BJ's Wholesale Clubs	15	2.8%
AMC Theatres	20	2.7%
Diageo	17	2.6%
Regal Cinemas	23	2.3%
Northern Tier Energy/Super America	134	2.2%
CVS Pharmacy	55	2.1%
Rite Aid	58	1.9%
TBC Corporation	149	1.9%
Circle K	168	1.8%
The Pantry	144	1.6%
Walmart/Sam's Club	19	1.4%
NPC International	202	1.4%
GPM Investments/Fas Mart	136	1.4%
FreedomRoads/Camping World	18	1.2%
Smart & Final	36	1.2%

### Service Category Diversification for our Retail Properties

The following table sets forth certain information regarding the 4,172 retail properties, included in the 4,327 total properties, owned by Realty Income at December 31, 2014, 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, 2014 <sup>(1)</sup>	Percentage of Retail Rental Revenue
<b><u>Tenants Providing Services</u></b>			
Automotive collision services	37	\$ 1,940	1.1%
Automotive service	228	4,064	2.2
Child care	213	5,041	2.8
Education	15	827	0.5
Entertainment	10	1,191	0.7
Equipment services	2	150	0.1
Financial services	119	3,256	1.8
Health and fitness	78	16,007	8.9
Health care	27	1,098	0.6
Theaters	45	12,127	6.7
Transportation services	1	206	0.1
Other	7	66	0.0
	<b>782</b>	<b>45,973</b>	<b>25.5</b>
<b><u>Tenants Selling Goods and Services</u></b>			
Automotive parts (with installation)	58	1,375	0.8
Automotive tire services	185	7,025	3.9
Convenience stores	773	22,375	12.4
Motor vehicle dealerships	19	3,473	1.9
Pet supplies and services	15	731	0.4
Restaurants - casual dining	307	8,913	4.9
Restaurants - quick service	409	8,853	4.9
	<b>1,766</b>	<b>52,745</b>	<b>29.2</b>
<b><u>Tenants Selling Goods</u></b>			
Apparel stores	28	4,967	2.8
Automotive parts	76	1,938	1.1
Book stores	1	104	*
Consumer electronics	7	696	0.4
Crafts and novelties	11	1,159	0.6
Dollar stores	957	21,910	12.1
Drug stores	226	20,491	11.4
General merchandise	65	3,129	1.7
Grocery stores	70	7,098	3.9
Home furnishings	59	1,700	0.9
Home improvement	45	4,234	2.4
Jewelry	4	175	0.1
Office supplies	10	841	0.5
Shoe stores	2	182	0.1
Sporting goods	31	3,846	2.1
Wholesale clubs	32	9,341	5.2
	<b>1,624</b>	<b>81,811</b>	<b>45.3</b>
<b>Total Retail Properties</b>	<b>4,172</b>	<b>\$ 180,529</b>	<b>100.0%</b>

\* Less than 0.1%

<sup>(1)</sup> Includes rental revenue for all retail properties owned by Realty Income at December 31, 2014. Excludes revenue of \$49,574 from non-retail properties, \$44 from properties owned by Crest and \$488 from sold properties that were included in continuing operations.

## 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 4,238 net leased, single-tenant properties as of December 31, 2014 (dollars in thousands):

Year	Total Portfolio <sup>(1)</sup>					Initial Expirations <sup>(3)</sup>			Subsequent Expirations <sup>(4)</sup>		
	Number of Leases Expiring		Approx. Leasable Sq. Feet	Rental Revenue for the Quarter Ended Dec 31, 2014 <sup>(2)</sup>	% of Total Rental Revenue	Number of Leases Expiring	Rental Revenue for the Quarter Ended Dec 31, 2014	% of Total Rental Revenue	Number of Leases Expiring	Rental Revenue for the Quarter Ended Dec 31, 2014	% of Total Rental Revenue
	Retail	Non-Retail									
2015	142	-	784,600	\$ 3,058	1.4%	68	\$ 1,554	0.7%	74	\$ 1,504	0.7%
2016	203	1	1,236,800	4,719	2.1	121	2,823	1.3	83	1,896	0.8
2017	207	1	2,160,200	6,667	2.9	49	2,954	1.3	159	3,713	1.6
2018	286	10	4,024,800	11,913	5.3	169	8,347	3.7	127	3,566	1.6
2019	238	11	3,934,400	13,429	5.9	169	11,242	4.9	80	2,187	1.0
2020	133	12	3,818,800	10,473	4.6	105	9,256	4.1	40	1,217	0.5
2021	186	13	5,493,600	14,486	6.4	188	13,907	6.1	11	579	0.3
2022	225	18	7,441,700	15,136	6.7	221	14,480	6.4	22	656	0.3
2023	352	20	6,475,800	21,741	9.6	359	21,073	9.3	13	668	0.3
2024	179	10	3,280,000	9,552	4.2	184	9,390	4.1	5	162	0.1
2025	311	10	4,256,100	17,994	7.9	300	17,393	7.6	21	601	0.3
2026	234	4	3,214,500	12,354	5.4	234	12,252	5.4	4	102	*
2027	467	3	5,238,400	18,820	8.3	468	18,781	8.3	2	39	*
2028	284	5	6,037,700	16,178	7.1	287	16,122	7.1	2	56	*
2029	320	3	4,973,500	12,961	5.7	317	12,789	5.6	6	172	0.1
2030 - 2043	317	33	6,795,400	37,525	16.5	347	37,493	16.5	3	32	*
Totals	4,084	154	69,166,300	\$ 227,006	100.0%	3,586	\$ 209,856	92.4%	652	\$ 17,150	7.6%

\* Less than 0.1%

<sup>(1)</sup> Excludes 19 multi-tenant properties and 70 vacant properties. The lease expirations for properties under construction are based on the estimated date of completion of those properties.

<sup>(2)</sup> Excludes revenue of \$3,097 from 19 multi-tenant properties and from 70 vacant properties at December 31, 2014, \$488 from sold properties included in continuing operations and \$44 from properties owned by Crest.

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

<sup>(4)</sup> 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, 2014 (dollars in thousands):

State	Number of Properties	Percent Leased	Approximate Leasable Square Feet	Rental Revenue for the Quarter Ended December 31, 2014 <sup>(1)</sup>	Percentage of Rental Revenue
Alabama	128	98%	1,039,500	\$ 3,485	1.5%
Alaska	3	100	275,900	503	0.2
Arizona	113	96	1,577,700	6,212	2.7
Arkansas	53	98	782,600	1,660	0.7
California	164	100	5,221,500	24,029	10.4
Colorado	72	97	1,045,400	3,929	1.7
Connecticut	25	96	536,900	2,564	1.1
Delaware	17	100	78,300	632	0.3
Florida	321	99	3,331,400	13,522	5.9
Georgia	237	98	3,362,200	10,085	4.4
Hawaii	--	--	--	--	--
Idaho	12	100	87,000	457	0.2
Illinois	163	99	4,590,800	12,933	5.6
Indiana	133	100	1,332,700	5,491	2.4
Iowa	35	94	2,751,700	3,400	1.5
Kansas	84	99	1,467,400	3,181	1.4
Kentucky	57	96	925,900	3,166	1.4
Louisiana	89	99	1,011,200	2,940	1.3
Maine	10	100	145,300	894	0.4
Maryland	34	100	791,100	4,404	1.9
Massachusetts	81	98	751,100	3,486	1.5
Michigan	114	98	1,118,000	3,673	1.6
Minnesota	155	100	1,209,600	7,421	3.2
Mississippi	122	98	1,566,100	3,882	1.7
Missouri	137	97	2,776,000	8,177	3.5
Montana	1	100	5,400	13	*
Nebraska	31	100	708,700	1,758	0.8
Nevada	22	95	413,000	1,289	0.6
New Hampshire	20	100	320,100	1,511	0.7
New Jersey	67	99	577,300	3,604	1.6
New Mexico	31	100	302,500	897	0.4
New York	86	98	2,198,700	10,938	4.7
North Carolina	148	99	1,524,600	5,711	2.5
North Dakota	7	100	66,000	118	*
Ohio	216	98	5,179,600	12,327	5.4
Oklahoma	123	99	1,450,600	3,660	1.6
Oregon	25	100	525,400	1,957	0.9
Pennsylvania	147	99	1,792,400	7,235	3.1
Rhode Island	4	100	157,200	808	0.3
South Carolina	132	99	970,100	4,413	1.9
South Dakota	11	100	133,500	244	0.1
Tennessee	197	96	2,584,600	6,423	2.8
Texas	439	98	8,136,900	22,309	9.7
Utah	15	100	760,000	1,398	0.6
Vermont	5	100	98,000	480	0.2
Virginia	141	99	2,872,700	7,139	3.1
Washington	38	97	415,300	1,768	0.8
West Virginia	12	100	261,200	984	0.4
Wisconsin	43	98	1,456,200	2,781	1.2
Wyoming	3	100	21,100	63	*
Puerto Rico	4	100	28,300	149	0.1
<b>Totals\Average</b>	<b>4,327</b>	<b>98%</b>	<b>70,734,700</b>	<b>\$ 230,103</b>	<b>100.0%</b>

\* Less than 0.1%

<sup>(1)</sup> Includes rental revenue for all properties owned by Realty Income at December 31, 2014. Excludes revenue of \$44 from properties owned by Crest and \$488 from sold properties that were included in continuing operations.



## 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 Securities and Exchange Commission, or 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<sup>®</sup>, 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 property portfolio. We have in-house acquisition, portfolio management, asset management, credit research, real estate research, legal, finance and accounting, information technology, and capital markets capabilities. Over the past 46 years, Realty Income and its predecessors have been acquiring and managing freestanding commercial properties that generate rental revenue under long-term net lease agreements.

Realty Income (NYSE: O) was founded in 1969, and in 1994 was listed on 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 earnings and distributions to stockholders through both active portfolio management and the acquisition of additional properties.

At December 31, 2014, we owned a diversified portfolio:

- Of 4,327 properties;
- With an occupancy rate of 98.4%, or 4,257 properties leased and 70 properties available for lease;
- Leased to 234 different commercial tenants doing business in 47 separate industries;
- Located in 49 states and Puerto Rico;
- With over 70.7 million square feet of leasable space; and
- With an average leasable space per property of approximately 16,350 square feet, including approximately 11,290 square feet per retail property.

Of the 4,327 properties in the portfolio, 4,308, or 99.6%, are single-tenant properties, and the remaining are multi-tenant properties. At December 31, 2014, of the 4,308 single-tenant properties, 4,238 were leased with a weighted average remaining lease term (excluding rights to extend a lease at the option of the tenant) of approximately 10.2 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, 2014, our total outstanding borrowings of senior unsecured notes and bonds, term loan, mortgages payable and credit facility borrowings were \$4.93 billion, or approximately 30.6% of our total market capitalization of \$16.11 billion.

We define our total market capitalization at December 31, 2014 as the sum of:

- Shares of our common stock outstanding of 224,881,192, plus total common units of 816,568, multiplied by the last reported sales price of our common stock on the NYSE of \$47.71 per share on December 31, 2014, or \$10.77 billion;
- Aggregate liquidation value (par value of \$25.00 per share) of the Class F preferred stock of \$408.8 million;
- Outstanding borrowings of \$223.0 million on our credit facility;
- Outstanding mortgages payable of \$836.0 million, excluding net mortgage premiums of \$16.6 million;
- Outstanding borrowings of \$70.0 million on our term loan; and
- Outstanding senior unsecured notes and bonds of \$3.8 billion, excluding unamortized original issuance discounts of \$14.6 million.

### **Mortgage Debt**

As of December 31, 2014, we had \$836.0 million of mortgages payable, all of which were assumed in connection with our property acquisitions. Additionally, at December 31, 2014, we had net premiums totaling \$16.6 million on these mortgages.

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. During 2014, we made \$85.2 million of principal payments, including the repayment of six mortgages in full for \$77.8 million.

### **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**

We have a \$1.5 billion unsecured acquisition credit facility with an initial term that 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, 2014, we had a borrowing capacity of \$1.28 billion available on our credit facility (subject to customary conditions to borrowing) and an outstanding balance of \$223.0 million. The interest rate on borrowings outstanding under our credit facility, at December 31, 2014, was 1.2% per annum. We must comply with various financial and other covenants in our credit facility. At December 31, 2014, 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.

## Notes Outstanding

As of December 31, 2014, we had \$3.8 billion of senior unsecured note and bond obligations, excluding unamortized original issuance discounts of \$14.6 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 September 2014, we issued \$250 million of 4.125% senior unsecured notes due October 2026, or the 2026 Notes. The price to the investors for the 2026 Notes was 99.499% of the principal amount for an effective yield of 4.178% per annum. A portion of the total net proceeds of approximately \$246.4 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 June 2014, we issued \$350 million of 3.875% senior unsecured notes due July 2024, or the 2024 Notes. The price to the investors for the 2024 Notes was 99.956% of the principal amount for an effective yield of 3.88% per annum. The total net proceeds of approximately \$346.7 million from this offering were used to repay a portion of the outstanding borrowings under our acquisition 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, 2014, we had cash and cash equivalents totaling \$3.9 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 2014

During 2014, we invested \$1.4 billion in 506 new properties and properties under development or expansion, with an initial weighted average contractual lease rate of 7.1%. The 506 new properties and properties under development or expansion are located in 42 states, will contain approximately 9.8 million leasable square feet, and are 100% leased with a weighted average lease term of 12.8 years. The tenants occupying the new properties operate in 32 industries and the property types consist of 85.7% retail, 6.6% industrial and distribution, 6.4% office, and 1.3% manufacturing, based on rental revenue. None of our real estate investments caused any one tenant to be 10% or more of our total assets at December 31, 2014.

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 contractual lease rate is generally fixed such that rent varies based on the actual total investment in order to provide a fixed rate of return. When the lease does not provide for a fixed rate of return on a property under development or expansion, the estimated initial weighted average contractual lease rate is computed as follows: estimated net operating income (determined by the lease) for the first full year of each lease, divided by our projected total investment in the property, including land, construction and capitalized interest costs. Of the \$1.4 billion we invested during 2014, \$81.9 million was invested in 40 properties under development or expansion with an estimated initial weighted average contractual lease rate of 8.4%. We may continue to pursue development or expansion opportunities under similar arrangements in the future.

## Portfolio Discussion

### Leasing Results

At December 31, 2014, we had 70 properties available for lease out of 4,327 properties in our portfolio, which represents a 98.4% occupancy rate. Since December 31, 2013, when we reported 70 properties available for lease out of 3,896 and a 98.2% occupancy rate, we:

- Had 220 lease expirations;
- Re-leased 203 properties; and
- Sold 17 vacant properties.

Of the 203 properties re-leased during 2014, 173 properties were re-leased to existing tenants, nine were re-leased to new tenants without vacancy, and 21 were re-leased to new tenants after a period of vacancy. The annual rent on these 203 leases was \$33.9 million, as compared to the previous rent on these same properties of \$34.2 million.

At December 31, 2014, our average annualized rental revenue was approximately \$13.07 per square foot on the 4,257 leased properties in our portfolio. At December 31, 2014, we classified eight properties with a carrying amount of \$14.8 million as held for sale on our balance sheet. The disposal of these properties does not represent a strategic shift that will have a major effect on our operations and financial results.

#### Investments in Existing Properties

In 2014, we capitalized costs of \$6.0 million on existing properties in our portfolio, consisting of \$821,000 for re-leasing costs and \$5.2 million for building and tenant improvements. 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.

As part of our re-leasing costs, we typically 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 relate 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.

#### **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. See our discussion of "Risk Factors" in this annual report.

#### **Increases in Monthly Dividends to Common Stockholders**

We have continued our 46-year policy of paying monthly dividends. In addition, we increased the dividend four times during 2014, and two times during 2015. As of February 2015, we have paid 69 consecutive quarterly dividend increases and increased the dividend 79 times since our listing on the NYSE in 1994.

<b>2014 Dividend increases</b>	<b>Month Declared</b>	<b>Month Paid</b>	<b>Dividend per share</b>	<b>Increase per share</b>
1st increase	Dec 2013	Jan 2014	\$ 0.1821667	\$ 0.0003125
2nd increase	Mar 2014	Apr 2014	0.1824792	0.0003125
3rd increase	Jun 2014	Jul 2014	0.1827917	0.0003125
4th increase	Sep 2014	Oct 2014	0.1831042	0.0003125
<b>2015 Dividend increases</b>				
1st increase	Dec 2014	Jan 2015	\$ 0.1834167	\$ 0.0003125
2nd increase	Jan 2015	Feb 2015	0.189	0.0055833

The dividends paid per share during 2014 as compared to 2013 increased 2.1%. The 2014 dividends paid per share totaled \$2.1916254 as compared to \$2.1474587 in 2013, an increase of \$0.0441667.

The monthly dividend of \$0.189 per share represents a current annualized dividend of \$2.268 per share, and an annualized dividend yield of approximately 4.2% based on the last reported sale price of our common stock on the NYSE of \$54.31 on January 31, 2015. 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.

### **Issuance of Common Stock**

In April 2014, we issued 13,800,000 shares of common stock, including 1,800,000 shares purchased by the underwriters upon the exercise of their option to purchase additional shares. After underwriting discounts and other offering costs of \$22.8 million, the net proceeds of \$528.6 million were used to repay borrowings under our acquisition credit facility.

### **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 2014, we issued 3,527,166 shares and raised approximately \$158.5 million under the DRSP.

### **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: Moody's Investors Service has assigned a rating of Baa1 with a "stable" outlook, Standard & Poor's Ratings Group has assigned a rating of BBB+ with a "stable" outlook to our senior notes, and Fitch Ratings has assigned a rating of BBB+ with a "stable" outlook.

Based on our current ratings, the current 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 rating is lower than BBB-/Baa3 and (ii) LIBOR plus 1.00% if our credit rating is A-/A3 or higher. In addition, our credit facility provides for a facility commitment fee based on our credit ratings, which range from: (i) 0.45% for a rating lower than BBB-/Baa3, and (ii) 0.15% for a credit rating of A-/A3 or higher.

We also issue senior debt securities from time to time and our credit ratings can impact the interest rates charged in those transactions. 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, 2014, 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
3.875% notes, issued in June 2014 and due in July 2024		350
4.125% notes, issued in September 2014 and due in October 2026		250
5.875% bonds, \$100 issued in March 2005 and \$150 issued in June 2011, both due in March 2035		250
Total principal amount	\$	3,800
Unamortized original issuance discounts		(15)
	\$	<u>3,785</u>

All of our outstanding notes and bonds have fixed interest rates and contain various covenants, which we remain in compliance with at December 31, 2014. Additionally, interest on all of our senior note and bond obligations is paid semiannually.

The following is a summary of the key financial covenants for our senior unsecured notes, as defined and calculated per the terms of our senior notes and bonds. These calculations, which are not based on U.S. generally accepted accounting principles, or GAAP, measurements, are presented to investors to show our ability to incur additional debt under the terms of our senior notes and bonds as well as to disclose our current compliance with such covenants, and are not measures of our liquidity or performance. The actual amounts as of December 31, 2014 are:

Note Covenants	Required	Actual
Limitation on incurrence of total debt	≤ 60% of adjusted assets	43.8%
Limitation on incurrence of secured debt	≤ 40% of adjusted assets	7.6%
Debt service coverage (trailing 12 months) <sup>(1)</sup>	≥ 1.5 x	3.8x
Maintenance of total unencumbered assets	≥ 150% of unsecured debt	236.7%

<sup>(1)</sup> 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, 2014, 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, 2014, 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, 2014 (in thousands, for trailing twelve months):

Net income attributable to the Company	\$	270,634
Plus: interest expense		208,145
Plus: provision for taxes		2,956
Plus: depreciation and amortization		374,662
Plus: provisions for impairment		4,637
Plus: pro forma adjustments		30,718
Less: gain on sales of real estate		(42,087)
Income available for debt service, as defined	\$	<u>849,665</u>
Total pro forma debt service charge	\$	<u>225,873</u>
Debt service coverage ratio		3.8

### 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. GAAP operating performance measures. Below is our calculation of fixed charges at December 31, 2014 (in thousands, for trailing twelve months):

Income available for debt service, as defined	\$	849,665
Pro forma debt service charge plus preferred stock dividends	\$	252,952
Fixed charge coverage ratio		3.4

### Table of Obligations

The following table summarizes the maturity of each of our obligations as of December 31, 2014 (dollars in millions):

Year of Maturity	Credit Facility <sup>(1)</sup>	Notes and Bonds <sup>(2)</sup>	Term Loan	Mortgages Payable <sup>(3)</sup>	Interest <sup>(4)</sup>	Ground Leases Paid by Realty Income <sup>(5)</sup>	Ground Leases Paid by Our Tenants <sup>(6)</sup>	Other <sup>(7)</sup>	Totals
2015	\$ -	\$ 150.0	\$ -	\$ 119.7	\$ 223.3	\$ 1.0	\$ 12.7	\$ 34.3	\$ 541.0
2016	-	275.0	-	248.4	198.6	1.0	12.7	-	735.7
2017	223.0	175.0	-	142.5	174.6	1.0	12.8	-	728.9
2018	-	350.0	70.0	15.1	155.4	1.0	12.8	-	604.3
2019	-	550.0	-	26.0	140.2	0.9	12.7	-	729.8
Thereafter	-	2,300.0	-	284.3	567.8	8.4	131.9	-	3,292.4
<b>Totals</b>	<b>\$ 223.0</b>	<b>\$ 3,800.0</b>	<b>\$ 70.0</b>	<b>\$ 836.0</b>	<b>\$ 1,459.9</b>	<b>\$ 13.3</b>	<b>\$ 195.6</b>	<b>\$ 34.3</b>	<b>\$ 6,632.1</b>

<sup>(1)</sup> The initial term of the credit facility expires in May 2016 and includes, at our option, a one-year extension, which has been assumed to occur in the table above.

<sup>(2)</sup> Excludes non-cash original issuance discounts recorded on the notes payable. The unamortized balance of the original issuance discounts at December 31, 2014, is \$14.6 million.

<sup>(3)</sup> Excludes non-cash net premiums recorded on the mortgages payable. The unamortized balance of these net premiums at December 31, 2014, is \$16.6 million.

<sup>(4)</sup> Interest on the term loan, notes, bonds, mortgages payable, and credit facility has been calculated based on outstanding balances as of December 31, 2014 through their respective maturity dates.

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

<sup>(6)</sup> 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.

<sup>(7)</sup> "Other" consists of \$33.6 million of commitments under construction contracts and \$735,000 of contingent payments for tenant improvements and leasing costs.

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

### Preferred Stock and Preferred Units Outstanding

In 2006, we issued 8,800,000 shares of Class E preferred stock at a price of \$25.00 per share. Since December 2011, the shares of Class E preferred stock were redeemable at our option, for \$25.00 per share. In October 2014, we redeemed all of the 8,800,000 shares of our Class E preferred stock for \$25.00 per share, plus accrued dividends. We incurred a charge of \$6.0 million, representing the Class E preferred stock original issuance costs that we paid in 2006.

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 F preferred stock. As part of our acquisition of ARCT in January 2013, we issued 6,750 partnership units, with a carrying value of \$6.75 million. Payments on these preferred units are made monthly in arrears at rate of 2% per annum, or



\$135,000, and are included in interest expense. In January 2015, we redeemed all 6,750 Tau Operating Partnership preferred units for \$1,000 per unit, plus accrued and unpaid dividends.

### **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 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, which we believe are appropriate estimates of useful life. If we use a shorter or longer estimated useful life, it could have a material impact on our results of operations.

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 sheets. 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, 2014, 2013 and 2012.***

**Rental Revenue**

Rental revenue was \$893.5 million for 2014 versus \$748.2 million for 2013, an increase of \$145.3 million, or 19.4%. Rental revenue was \$467.0 million in 2012. The increase in rental revenue in 2014 compared to 2013 is primarily attributable to:

- The 479 properties (9.3 million square feet) acquired by Realty Income in 2014, which generated \$66.0 million of rent in 2014;
- The 957 properties (25.0 million square feet) acquired by Realty Income in 2013, which generated \$284.9 million of rent in 2014 compared to \$213.1 million in 2013, an increase of \$71.8 million;
- Same store rents generated on 2,728 properties (33.7 million square feet) during the entire years of 2014 and 2013, increased by \$7.7 million, or 1.5%, to \$513.4 million from \$505.7 million;
- A net increase in straight-line rent and other non-cash adjustments to rent of \$1.4 million in 2014 as compared to 2013;
- A net decrease of \$1.7 million relating to properties sold in 2014 that were not previously classified as held for sale as of December 31, 2013; and
- A net decrease of \$193,000 relating to the aggregate of (i) rental revenue from properties (154 properties comprising 1.4 million square feet) that were available for lease during part of 2014 or 2013, (ii) rental revenue for nine properties under development, and (iii) lease termination settlements which, in aggregate, totaled \$17.0 million in 2014 compared to \$17.2 million in 2013.

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 vacant at any time, (ii) were under development or redevelopment, and (iii) were involved in eminent domain and rent was reduced. 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 4,327 properties in the portfolio at December 31, 2014, 4,308, or 99.6%, are single-tenant properties and the remaining nineteen are multi-tenant properties. Of the 4,308 single-tenant properties, 4,238, or 98.4%, were net leased with a weighted average remaining lease term (excluding rights to extend a lease at the option of the tenant) of approximately 10.2 years at December 31, 2014. Of our 4,238 leased single-tenant properties, 3,789 or 89.4% 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 \$3.6 million in 2014, \$2.8 million in 2013, and \$1.9 million in 2012 (excluding percentage rent reclassified to discontinued operations of \$35,000 in 2014, \$104,000 in 2013 and \$163,000 in 2012). Percentage rent in 2014 was less than 1% of rental revenue and we anticipate percentage rent to be less than 1% of rental revenue in 2015.

Our portfolio of real estate, leased primarily to regional and national 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, 2014, our portfolio of 4,327 properties was 98.4% leased with 70 properties available for lease as compared to 98.2% occupancy, or 70 properties available for lease at December 31, 2013. 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 \$37.1 million in 2014, compared to \$24.9 million in 2013 and \$14.6 million in 2012. The increase in tenant reimbursements from 2013 to 2014 is primarily due to our 2013 and 2014 acquisitions. Our tenant reimbursements are equal to 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 \$2.9 million in 2014, compared to \$7.0 million in 2013 and \$2.9 million in 2012.

## Depreciation and Amortization

Depreciation and amortization was \$374.7 million in 2014, compared to \$306.8 million in 2013 and \$147.5 million in 2012. The increases in depreciation and amortization in 2014 and 2013 were primarily due to the acquisition of properties in 2014 and 2013, 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 "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 and AFFO.

## Interest Expense

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

	2014	2013	2012
Interest on our credit facility, term loan, notes, mortgages & interest rate swaps	\$ 215,830	\$ 182,974	\$ 117,401
Credit facility commitment fees	2,661	1,930	1,684
Amortization of credit facility origination costs and deferred financing costs	8,219	7,434	5,165
Loss (gain) on interest rate swaps	1,349	(878)	56
Dividend on preferred shares subject to redemption	1,526	-	-
Amortization of net mortgage premiums	(12,891)	(9,481)	(665)
Capital lease obligation	116	-	-
Interest capitalized	(444)	(537)	(498)
Interest expense	\$ 216,366	\$ 181,442	\$ 123,143

Credit facility, term loan, mortgages and notes	2014	2013	2012
Average outstanding balances (dollars in thousands)	\$ 4,628,438	\$ 3,892,089	\$ 2,144,690
Average interest rates	4.62%	4.67%	5.47%

Interest expense was \$216.4 million in 2014, compared to \$181.4 million in 2013 and \$123.1 million in 2012. The increase in interest expense from 2013 to 2014 was primarily due to the July 2013 issuance of our 4.65% senior unsecured notes due August 2023, the June 2014 issuance of our 3.88% senior unsecured notes due July 2024, the September 2014 issuance of our 4.125% senior unsecured notes due October 2026, and an increase in mortgages payable. The increase was partially offset by slightly lower average interest rates and the repayment of our 5.375% senior unsecured notes in March 2013.

At December 31, 2014, the weighted average interest rate on our:

- Notes and bonds payable of \$3.8 billion (excluding unamortized original issuance discounts of \$14.6 million) was 4.8%;
- Mortgages payable of \$836.0 million (excluding net premiums totaling \$16.6 million on these mortgages) was 5.0%;
- Credit facility outstanding borrowings of \$223.0 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 \$4.93 billion was 4.6%.

## General and Administrative Expenses

General and administrative expenses decreased by \$5.8 million to \$51.1 million in 2014, as compared to \$56.9 million in 2013. General and administrative expenses were \$38.1 million in 2012. Included in general and

administrative expenses are acquisition transaction costs (excluding ARCT merger-related costs) of \$453,000 for 2014, \$2.1 million for 2013 and \$2.4 million for 2012. General and administrative expenses decreased during 2014 primarily due to lower stock compensation costs, including the \$3.7 million for accelerated vesting that occurred in July 2013, and lower acquisition transaction costs. In January 2015, we had 125 employees, as compared to 116 employees in January 2014 and 97 employees in January 2013.

Dollars in thousands	2014		2013		2012	
General and administrative expenses	\$	51,085	\$	56,881	\$	38,123
Total revenue, including discontinued operations <sup>(1)</sup>		896,499		761,159		484,860
General and administrative expenses as a percentage of total revenue		5.7%		7.5%		7.9%

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

### Property Expenses (including tenant reimbursable expenses)

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, 2014, 70 properties were available for lease, as compared to 70 at December 31, 2013 and 84 at December 31, 2012.

Property expenses were \$53.9 million (including \$37.1 million reimbursable) in 2014, \$38.9 million (including \$24.9 million reimbursable) in 2013 and \$21.3 million (including \$14.6 million reimbursable) in 2012. The increase in property expenses in 2014 is primarily attributable to the increased portfolio size, which contributed to higher maintenance and utilities, property taxes, ground rent expenses, legal costs, and bad debt expense, along with higher contractually obligated reimbursements primarily due to our 2013 and 2014 acquisitions, partially offset by lower insurance costs.

### Income Taxes

Income taxes were \$3.5 million in 2014, as compared to \$2.4 million in 2013 and \$1.1 million in 2012. These amounts are for city and state income and franchise taxes paid by Realty Income and its subsidiaries. The increase for 2014 is primarily related to higher city and state income and franchise taxes paid by Realty Income and its subsidiaries, primarily related to increased portfolio size.

### Provisions for Impairment

In 2014, Realty Income recorded total provisions for impairment of \$4.6 million on nine sold properties and three properties classified as held for sale. Provisions for impairment of \$4.1 million are included in income from continuing operations on eight sold properties and three properties classified as held for sale. These properties were not previously classified as held for sale in our financial statements issued prior to the date of adoption of the new accounting requirements regarding discontinued operations; accordingly, these provisions for impairment are included in income from continuing operations on our consolidated statements of income. A provision for impairment of \$510,000 is included in income from discontinued operations on one sold property that was classified as held for sale as of December 31, 2013.

In 2013, Realty Income recorded total provisions for impairment of \$3.0 million. Realty Income recorded provisions for impairment of \$2.7 million on seven sold properties. Except for a provision for impairment of \$290,000 that was recorded in income from continuing operations for one property that was not previously classified as held for sale as of December 31, 2013, the remaining provisions for impairment are included in income from discontinued operations on our consolidated statement of income.

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

In 2012, Realty Income recorded total provisions for impairment of \$5.1 million. Realty Income recorded provisions for impairment of \$1.5 million on six sold properties. Except for a provisions for impairment of \$3.6 million that was recorded in income from continuing operations on four properties that were not previously

classified as held for sale as of December 31, 2013, the remaining provisions for impairment are included in income from discontinued operations on our consolidated statement of income.

### **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. No merger-related costs were incurred in 2014.

### **Gain on Sales of Real Estate**

During 2014, we sold 46 investment properties for \$107.2 million, which resulted in a gain of \$42.1 million. Only the results of operations specifically related to the properties classified as held for sale at December 31, 2013 and sold during the year have been reclassified as discontinued operations.

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.

Crest sold one property for \$820,000 and one property for \$597,000 during 2014 and 2013, respectively. Neither of these sales resulted in a gain. The results of operations for these properties have been reclassified as discontinued operations. During 2012, Crest did not sell any properties.

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, 2014, we classified real estate with a carrying amount of \$14.8 million as held for sale on our balance sheet. In 2015, we intend to continue our active disposition efforts to further enhance our real estate portfolio and anticipate approximately \$50 million in yet to be identified property sales for all of 2015. 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.

### **Discontinued Operations**

During the first quarter of 2014, the Financial Accounting Standards Board issued guidance that changes the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have, or will have, a major effect on an entity's operations and financial results. We early adopted the requirements of this accounting pronouncement in the first quarter of 2014. As a result, our results of operations for all disposals and properties classified as held for sale that were not previously reported in discontinued operations in our 2013 Annual Report on Form 10-K are presented within income from continuing operations on our consolidated statements of income.

Operations from eight properties were classified as held for sale at December 31, 2014, and are included in income from continuing operations. The following is a summary of income from discontinued operations on our consolidated statements of income (dollars in thousands):

<b>Income from discontinued operations</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Gain on sales of real estate	\$ 2,883	\$ 64,743	\$ 9,873
Rental revenue	112	5,475	14,615
Tenant reimbursements	1	146	379
Other revenue	-	419	282
Depreciation and amortization	-	(1,569)	(3,724)
Property expenses (including reimbursable)	(184)	(916)	(2,529)
Provisions for impairment	(510)	(2,738)	(1,500)
<b>Crest's income (loss) from discontinued operations</b>	<b>498</b>	<b>110</b>	<b>(139)</b>
<b>Income from discontinued operations</b>	<b>\$ 2,800</b>	<b>\$ 65,670</b>	<b>\$ 17,257</b>
Per common share, basic and diluted	\$ 0.01	\$ 0.34	\$ 0.13

### **Preferred Stock Dividends**

Preferred stock dividends totaled \$37.1 million in 2014, \$41.9 million in 2013 and \$40.9 million in 2012.

### **Excess of Redemption Value over Carrying Value of Preferred Shares Redeemed**

In October 2014, we redeemed all 8,800,000 shares of our Class E preferred stock for \$25.00 per share, plus accrued dividends. We incurred a non-cash charge of \$6.0 million. This charge is for the excess of redemption value over the carrying value and represents the Class E preferred stock original issuance cost that was paid in 2006.

In March 2012, we redeemed all 5,100,000 shares of our 7.375% Monthly Income Class D Preferred Stock, or the Class D preferred stock, for \$25.00 per share, plus accrued dividends. We incurred a non-cash charge of \$3.7 million. This charge is for the excess of redemption value over the carrying value and represents the Class E preferred stock original issuance cost that was paid in 2004.

### **Net Income Available to Common Stockholders**

Net income available to common stockholders was \$227.6 million in 2014, compared to \$203.6 million in 2013, an increase of \$24.0 million. On a diluted per common share basis, net income was \$1.04 in 2014, as compared to \$1.06 in 2013, a decrease of \$0.02, or 1.9%. Net income available to common stockholders was \$114.5 million in 2012. Net income available to common stockholders for 2014 includes a non-cash redemption charge of \$6.0 million on the shares of Class E preferred stock that were redeemed in October 2014, which represents \$0.03 on a diluted per common share basis. This charge is for the excess of redemption value over the carrying value of the Class E preferred stock and represents the original issuance cost that was paid in 2006. Net income available to common stockholders for 2013 was impacted by an unusually large gain on property sales, which represents \$0.18 on a diluted per common share basis. Additionally, 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.

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 2014 were \$42.1 million, as compared to gains from the sale of properties of \$64.7 million during 2013, and \$9.9 million during 2012.

## FUNDS FROM OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS (FFO)

In 2014, our FFO increased by \$100.9 million, or 21.8%, to \$562.9 million versus \$462.0 million in 2013. On a diluted per common share basis, FFO was \$2.58 in 2014, compared to \$2.41 in 2013, an increase of \$0.17, or 7.1%. In 2012, FFO was \$268.8 million, or \$2.02 on a diluted per common share basis. FFO in 2014 includes a non-cash redemption charge of \$6.0 million on the shares of Class E preferred stock that were redeemed in October 2014, which represents \$0.03 on a diluted per common share basis. This charge is for the excess of redemption value over the carrying value of the Class E preferred stock and represents the original issuance cost that was paid in 2006. FFO in 2013 and 2012 was normalized to exclude \$13.0 million and \$7.9 million of merger-related costs, which represents \$0.07 and \$0.06 on a diluted per common share basis for 2013 and 2012, respectively. FFO for 2013 includes \$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. All references to FFO for 2013 and 2012 reflect the adjustments for merger-related costs for the acquisition of ARCT.

The following is a reconciliation of net income available to common stockholders (which we believe is the most comparable GAAP measure) to 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):

	2014	2013	2012
Net income available to common stockholders	\$ 227,558	\$ 203,634	\$ 114,538
Depreciation and amortization:			
Continuing operations	374,661	306,769	147,515
Discontinued operations	-	1,626	3,792
Depreciation of furniture, fixtures and equipment	(482)	(288)	(249)
Provisions for impairment on investment properties:			
Continuing operations	4,126	290	3,639
Discontinued operations	510	2,738	1,500
Gain on sale of investment properties:			
Continuing operations	(39,205)	-	-
Discontinued operations	(2,883)	(64,743)	(9,873)
Merger-related costs <sup>(1)</sup>	-	13,013	7,899
FFO adjustments allocable to noncontrolling interests	(1,396)	(1,009)	-
<b>FFO available to common stockholders</b>	<b>\$ 562,889</b>	<b>\$ 462,030</b>	<b>\$ 268,761</b>
FFO per common share, basic and diluted <sup>(2)</sup>	\$ 2.58	\$ 2.41	\$ 2.02
Distributions paid to common stockholders	\$ 479,256	\$ 409,222	\$ 236,348
FFO in excess of distributions paid to common stockholders	\$ 83,633	\$ 52,808	\$ 32,413
Weighted average number of common shares used for computation per share:			
Basic	218,390,885	191,754,857	132,817,472
Diluted <sup>(2)</sup>	218,450,863	191,781,622	132,884,933

<sup>(1)</sup> FFO for 2013 and 2012 has been normalized to exclude ARCT merger-related costs.

<sup>(2)</sup> The computation of diluted FFO does not assume conversion of securities that are convertible to common shares if the conversion of those securities would increase diluted FFO per share in a given period.

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 property sales and extraordinary items. Our FFO for 2013 and 2012 has also been normalized to exclude ARCT merger-related costs.

We consider FFO to be an appropriate supplemental measure of a REIT's operating performance as it is based on a net income analysis of property portfolio performance that adds back items such as depreciation and impairments for 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)

In 2014, our AFFO increased by \$98.6 million, or 21.3%, to \$561.7 million versus \$463.1 million in 2013. On a diluted per common share basis, AFFO was \$2.57 in 2014, compared to \$2.41 in 2013, an increase of \$0.16, or 6.6%. In 2012, AFFO was \$274.2 million, or \$2.06 on a diluted per common share basis. 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 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):

	2014	2013	2012
Net income available to common stockholders	\$ 227,558	\$ 203,634	\$ 114,538
Cumulative adjustments to calculate FFO <sup>(1)</sup>	335,331	258,396	154,223
FFO available to common stockholders	562,889	462,030	268,761
Provisions for impairment on Crest properties	-	308	-
Excess of redemption value over carrying value of preferred share redemptions	6,015	-	3,696
Amortization of share-based compensation	11,959	20,785	10,001
Amortization of deferred financing costs <sup>(2)</sup>	4,804	4,436	2,786
Amortization of net mortgage premiums	(9,208)	(9,481)	(665)
(Gain) loss on early extinguishment of mortgage debt	(3,428)	-	-
(Gain) loss on interest rate swaps	1,349	(878)	56
Capitalized leasing costs and commissions	(821)	(1,280)	(1,619)
Capitalized building improvements	(5,210)	(7,227)	(4,935)
Straight-line rent	(14,872)	(13,742)	(5,674)
Amortization of above and below-market leases	8,024	8,188	1,776
Other adjustments <sup>(3)</sup>	160	-	-
<b>Total AFFO available to common stockholders</b>	<b>\$ 561,661</b>	<b>\$ 463,139</b>	<b>\$ 274,183</b>
AFFO per common share:			
Basic	\$ 2.57	\$ 2.42	\$ 2.06
Diluted <sup>(4)</sup>	\$ 2.57	\$ 2.41	\$ 2.06
Distributions paid to common stockholders	\$ 479,256	\$ 409,222	\$ 236,348
AFFO in excess of distributions paid to common stockholders	\$ 82,405	\$ 53,917	\$ 37,835
Weighted average number of common shares used for computation per share:			
Basic	218,390,885	191,754,857	132,817,472
Diluted <sup>(4)</sup>	218,450,863	191,781,622	132,884,933

<sup>(1)</sup> See reconciling items for FFO presented under "Funds from Operations Available to Common Stockholders (FFO)."



- <sup>(2)</sup> 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, July 2013, June 2014 and September 2014. 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.
- <sup>(3)</sup> Includes adjustments allocable to both non-controlling interests and capital lease obligations.
- <sup>(4)</sup> The computation of diluted AFFO does not assume conversion of securities that are convertible to common shares if the conversion of those securities would increase diluted AFFO per share in a given period.

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 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 measuring a 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 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 and AFFO in the same way, so comparisons with other REITs may not be meaningful. Furthermore, 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 and AFFO should not be considered as alternatives to reviewing our cash flows from operating, investing, and financing activities. In addition, 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), 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 4,327 properties in our portfolio, approximately 98.0% or 4,238 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**

For information on the impact of recent accounting pronouncements on our business, see note 2 of the Notes to the Consolidated Financial Statements.

### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to interest rate changes primarily as a result of our credit facility, term loan, mortgages payable, 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, 2014. This information is presented to evaluate the expected cash flows and sensitivity to interest rate changes (dollars in millions):

**Expected Maturity Data**

<b>Year of maturity</b>	<b>Fixed rate debt</b>	<b>Weighted average interest rate on fixed rate debt</b>	<b>Variable rate debt</b>	<b>Weighted average interest rate on variable rate debt</b>
2015	\$ 245.9	5.39 %	\$ 23.8	4.64 %
2016	523.2	5.39	0.2	2.51
2017	307.9	5.63	232.6	1.29
2018	364.9	2.14	70.2	1.36
2019	554.2	6.74	21.8	2.01
Thereafter	2,562.4	4.52	21.9	2.37
<b>Totals <sup>(1)</sup></b>	<b>\$ 4,558.5</b>	<b>4.82 %</b>	<b>\$ 370.5</b>	<b>1.63 %</b>
<b>Fair Value <sup>(2)</sup></b>	<b>\$ 4,877.7</b>		<b>\$ 366.0</b>	

<sup>(1)</sup> Excludes net premiums recorded on mortgages payable and original issuance discounts recorded on notes payable. At December 31, 2014, the unamortized balance of net premiums on mortgages payable is \$16.6 million, and the unamortized balance of original issuance discounts on notes payable is \$14.6 million.

<sup>(2)</sup> We base the estimated fair value of the fixed rate senior notes and bonds at December 31, 2014 on the indicative market prices and recent trading activity of our senior notes and bonds payable. We base the estimated fair value of our fixed rate and variable rate mortgages at December 31, 2014 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, 2014.

The table incorporates only those exposures that exist as of December 31, 2014. It does not consider those exposures or positions that could arise after that date. As a result, our ultimate realized gain or loss, with respect to interest rate fluctuations, would depend on the exposures that arise during the period, our hedging strategies at the time, and interest rates.

All of our outstanding notes and bonds have fixed interest rates. All of our mortgages payable, except five with an outstanding principal balance of \$77.5 million at December 31, 2014, have fixed interest rates. All of these variable rate mortgages have arrangements that limit our exposure to interest rate risk. 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 \$223.0 million at December 31, 2014, a 1% change in interest rates would change our interest costs by \$2.2 million per year.

**Selected Financial Data**(NOT COVERED BY REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM)  
(DOLLARS IN THOUSANDS, EXCEPT FOR PER SHARE DATA)

<b>As of or for the years ended December 31,</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Total assets (book value)	\$ 11,012,622	\$ 9,924,441	\$ 5,429,348	\$ 4,404,492	\$ 3,531,269
Cash and cash equivalents	3,852	10,257	5,248	4,165	17,607
Total debt	4,930,947	4,166,840	2,869,853	2,040,284	1,595,679
Total liabilities	5,371,523	4,503,083	3,016,554	2,149,638	1,684,304
Total equity	5,641,099	5,421,358	2,412,794	2,254,854	1,846,965
Net cash provided by operating activities	627,692	518,906	326,469	298,952	243,368
Net change in cash and cash equivalents	(6,405)	5,009	1,083	(13,442)	7,581
Total revenue	933,505	780,209	484,581	413,544	335,121
Income from continuing operations	269,140	180,613	141,895	140,659	112,326
Income from discontinued operations	2,800	65,670	17,257	16,373	18,458
Net income	271,940	246,283	159,152	157,032	130,784
Preferred stock dividends	(37,062)	(41,930)	(40,918)	(24,253)	(24,253)
Excess of redemption value over carrying value of preferred shares redeemed	(6,015)	-	(3,696)	-	-
Net income available to common stockholders	227,558	203,634	114,538	132,779	106,531
Cash distributions paid to common stockholders	479,256	409,222	236,348	219,297	182,500
Basic and diluted net income per common share	1.04	1.06	0.86	1.05	1.01
Cash distributions paid per common share	2.191625	2.147459	1.771625	1.736625	1.721625
Cash distributions declared per common share	2.192875	2.177875	1.777875	1.737875	1.722875
Basic weighted average number of common shares outstanding	218,390,885	191,754,857	132,817,472	126,142,696	105,869,637
Diluted weighted average number of common shares outstanding	218,767,885	191,781,622	132,884,933	126,189,399	105,942,721

**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 recognizes 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, 2014, 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 (2013)" 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 18, 2015 by,

John P. Case, Chief Executive Officer, President

Paul M. Meurer, Executive Vice President, Chief Financial Officer, 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, 2014 that have materially affected, or are reasonably likely to material affect, our internal control over financial reporting. As of December 31, 2014, 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 2014, 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, 2014, 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.

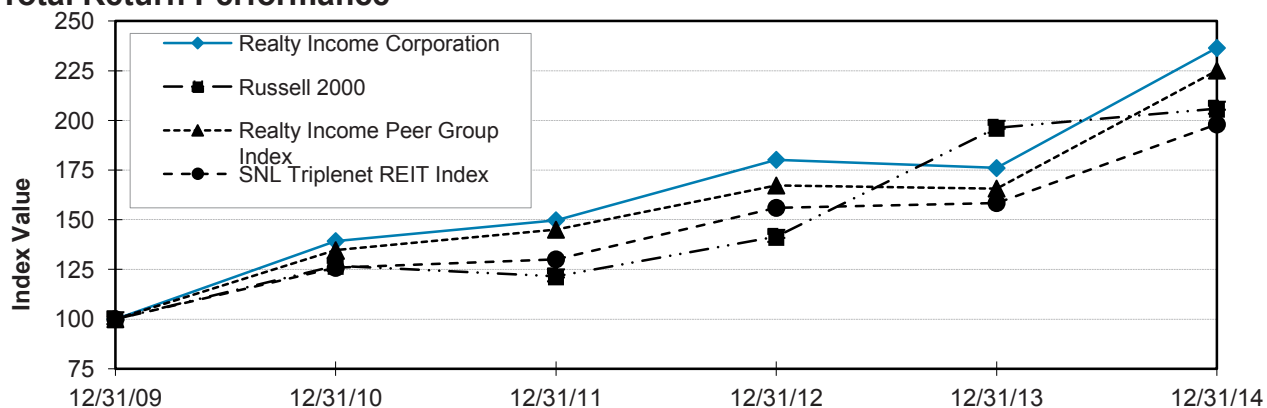
	Price Per Share of Common Stock		Distributions Declared <sup>(1)</sup>
	High	Low	
<b>2014</b>			
First Quarter	\$ 45.11	\$ 37.01	\$ 0.5468126
Second Quarter	44.98	40.21	0.5477501
Third Quarter	45.83	40.56	0.5486876
Fourth Quarter	49.65	40.71	0.5496251
Total			\$ 2.1928754
<b>2013</b>			
First Quarter	\$ 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

<sup>(1)</sup> Common stock cash distributions are declared monthly by us based on financial results for the prior months. At December 31, 2014, a distribution of \$0.1834167 per common share had been declared and was paid in January 2015.

There were 9,786 registered holders of record of our common stock as of December 31, 2014. We estimate that our total number of shareholders is over 345,000 when we include both registered and beneficial holders of our common stock.

During the fourth quarter of 2014, 16,780 shares of stock, at a price of \$47.71, and 45,130 shares of stock, at a price of \$42.17, 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					
	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
Realty Income Corporation	100.00	139.30	149.79	180.22	176.05	236.51
Russell 2000	100.00	126.86	121.56	141.43	196.34	205.95
Realty Income Peer Group*	100.00	134.65	145.01	167.27	165.73	225.13
SNL Triplenet REIT Index	100.00	125.83	130.10	156.03	158.44	198.00

\* Realty Income Peer Group consists of sixteen companies with an implied market capitalization between \$3.6 billion and \$20.4 billion as of September 30, 2014.

# COMPANY INFORMATION

## EXECUTIVE OFFICERS



Left to right: Michael Pfeiffer, Sumit Roy, John Case, Paul Meurer, Richard Collins

**John P. Case**

Chief Executive Officer and President

**Sumit Roy**

Executive Vice President, Chief Operating Officer and Chief Investment Officer

**Paul M. Meurer**

Executive Vice President, Chief Financial Officer and Treasurer

**Michael R. Pfeiffer**

Executive Vice President, General Counsel and Secretary

**Richard G. Collins**

Executive Vice President, Portfolio Management

## DIRECTORS



Top row left to right: Gregory McLaughlin, Kathleen Allen, Ronald Merriman, Priya Cherian Huskins, Larry Chapman | Bottom row left to right: Michael McKee, John Case, Stephen Sterrett

**Michael D. McKee**

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

**John P. Case**

Chief Executive Officer and President

**Kathleen R. Allen, Ph.D.**

Director, Center for Technology Commercialization, Marshall School of Business, University of Southern California

**A. Larry Chapman**

Retired, Executive Vice President, Head of Commercial Real Estate, Wells Fargo Bank

**Priya Cherian Huskins**

Partner, Woodruff-Sawyer & Co.

**Gregory T. McLaughlin**

President, PGA TOUR-Champions Tour

**Ronald L. Merriman**

Retired Vice Chair, KPMG LLP

**Stephen E. Sterrett**

Retired, Senior Executive Vice President, Chief Financial Officer, Simon Property Group, Inc.

**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](http://www.shareowneronline.com), call toll-free at 1-877-218-2434, or email your questions to [stocktransfer@wellsfargo.com](mailto:stocktransfer@wellsfargo.com)

**Independent Registered Public Accounting Firm**

KPMG LLP  
San Diego, CA

**For Additional Corporate Information**

Visit the Realty Income corporate website at: [www.realtyincome.com](http://www.realtyincome.com)

## ADDITIONAL OFFICERS



**Debra M. Bonebrake**

Senior Vice President, Industrial and Office Properties



**Robert J. Israel**

Senior Vice President, Research



**Laura S. King**

Senior Vice President, Assistant General Counsel and Assistant Secretary



**Janeen S. Bedard**

Vice President, Administration



**Stephen D. Burchett**

Vice President, Senior Legal Counsel



**Theresa M. Casey**

Vice President, IT Enterprise Software



**Elizabeth Cate**

Vice President, Portfolio Management



**Benjamin N. Fox**

Vice President, Head of Asset Management



**Shannon C. Jensen**

Vice President, Senior Legal Counsel and Assistant Secretary



**Shannon Kehle**

Vice President, Human Resources



**Dawn Nguyen**

Vice President, Portfolio Management



**Sean P. Nugent**

Vice President, Controller



**Lori Satterfield**

Vice President, Senior Legal Counsel



**Clint Schmucker**

Vice President, Information Technology



**Joel Tomlinson**

Vice President, Senior Director of Acquisitions



**Cary J. Wenthur**

Vice President, Senior Director of Acquisitions



**T.J. Chun**

Associate Vice President, Portfolio Acquisitions



**Jill M. Cossaboom**

Associate Vice President, Assistant Controller



**Ross Edwards**

Associate Vice President, Portfolio Management



**Kristin K. Ferrell**

Associate Vice President, Portfolio Management



**Teresa M. Glenn**

Associate Vice President, Human Resources



**Scott A. Kohnen**

Associate Vice President, Director of Research



**Jenette S. O'Brien**

Associate Vice President, Director of Asset Management



**Jonathan Pong**

Associate Vice President, Capital Markets



**Patrick Rea**

Associate Vice President, Head of Property Management



**Ashley N. Wells**

Associate Vice President, Research

Contact your financial advisor, or contact Realty Income at: Telephone: 858-284-5000, Email: [ir@realtyincome.com](mailto:ir@realtyincome.com)

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

REALTY INCOME CORPORATION  
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