REALTY INCOME CORP
Form 10-K
February 13, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2011

Commission File Number 1-13374

REALTY INCOME CORPORATION
(Exact name of registrant as specified in its charter)

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

600 La Terraza Boulevard, Escondido, California 92025-3873
(Address of Principal Executive Offices)

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

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

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, $0.01 Par Value	New York Stock Exchange
Class D Preferred Stock, $0.01 Par Value(1)	New York Stock Exchange
Class E Preferred Stock, $0.01 Par Value	New York Stock Exchange
Class F Preferred Stock, $0.01 Par Value	New York Stock Exchange

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

(1) On January 31, 2012, we announced that we plan to redeem the Class D Preferred Stock on March 1, 2012.

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

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

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

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

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

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

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

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

At June 30, 2011, the aggregate market value of the Registrant's shares of common stock, $1.00 par value, held by non-affiliates of the Registrant was $4.2 billion based upon the last reported sale price of $33.49 per share on the New York Stock Exchange on June 30, 2011, the last business day of the Registrant's most recently completed second fiscal quarter.

At February 7, 2012, the number of shares of common stock outstanding was 133,384,973, the number of shares of Class D preferred stock outstanding was 5,100,000 and the number of shares of Class E preferred stock outstanding was 8,800,000. On February 7, 2012, we issued and had 14,950,000 shares of Class F preferred stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III, Items 10, 11, 12, 13 and 14 incorporate by reference certain specific portions of the definitive Proxy Statement for Realty Income Corporation's Annual Meeting to be held on May 8, 2012, to be filed pursuant to Regulation 14A. Only those portions of the proxy statement which are specifically incorporated by reference herein shall constitute a part of this annual report.

REALTY INCOME CORPORATION

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PART I

Item 1: Business

THE COMPANY

Realty Income Corporation, The Monthly Dividend Company®, is a Maryland corporation organized to operate as an equity real estate investment trust, or REIT. Our primary business objective is to generate dependable monthly cash distributions from a consistent and predictable level of funds from operations, or FFO, per share. Our monthly distributions are supported by the cash flow from our portfolio of properties leased to retail and other commercial enterprises. We have in-house acquisition, leasing, legal, credit research, real estate research, portfolio management and capital markets expertise. Over the past 43 years, Realty Income and its predecessors have been acquiring and owning freestanding retail and other properties that generate rental revenue under long-term lease agreements (primarily 10 to 20 years).

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

Generally, our portfolio management efforts seek to achieve:

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

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

- Freestanding, single-tenant locations;
- Leased to regional and national commercial enterprises; and
- Leased under long-term, net-lease agreements.

At December 31, 2011, we owned a diversified portfolio:

- Of 2,634 properties;
- With an occupancy rate of 96.7%, or 2,547 properties leased and only 87 properties available for lease;
- Leased to 136 different retail and other commercial enterprises doing business in 38 separate industries;
- Located in 49 states;
- With over 27.3 million square feet of leasable space; and
- With an average leasable space per property of approximately 10,400 square feet.

Of the 2,634 properties in the portfolio, 2,619, or 99.4%, are single-tenant properties, and the remaining 15 are multi-tenant properties. At December 31, 2011, of the 2,619 single-tenant properties, 2,533 were leased with a weighted average remaining lease term (excluding rights to extend a lease at the option of the tenant) of approximately 11.3 years.

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

In general, our net-lease agreements:

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

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

Our nine senior officers owned 1.0% of our outstanding common stock with a market value of $47.2 million at January 31, 2012. Our directors and nine senior officers, as a group, owned 1.2% of our outstanding common stock with a market value of $57.7 million at January 31, 2012.

Our common stock is listed on The New York Stock Exchange, or NYSE, under the ticker symbol "O" with a cusip number of 756109-104. Our central index key number is 726728.

Our Class D cumulative redeemable preferred stock is listed on the NYSE under the ticker symbol "OprD" with a cusip number of 756109-609.

Our Class E cumulative redeemable preferred stock is listed on the NYSE under the ticker symbol "OprE" with a cusip number of 756109-708.

Our Class F cumulative redeemable preferred stock is listed on the NYSE under the ticker symbol “OprF” with a cusip number of ––––––756109-807.

In February 2012, we had 83 employees as compared to 79 employees in February 2011.

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

RECENT DEVELOPMENTS

Increases in Monthly Distributions to Common Stockholders

We continue our 43-year policy of paying distributions monthly. Monthly distributions per common share increased by $0.0003125 in April 2011 to $0.1445625, in July 2011 to $0.144875, in October 2011 to $0.1451875 and in January 2012 to $0.1455. The increase in January 2012 was our 57th consecutive quarterly increase and the 64th increase in the amount of our dividend since our listing on the NYSE in 1994. In 2011, we paid three monthly cash distributions per common share in the amount of $0.14425, three in the amount of $0.1445625, three in the amount of $0.144875 and three in the amount of $0.1451875, totaling $1.736625. In December 2011, January 2012 and February 2012, we declared distributions of $0.1455 per share, which were paid in January 2012 and will be paid in February 2012 and March 2012, respectively.

The current monthly distribution of $0.1455 per share represents an annualized distribution of $1.746 per share, and an annualized distribution yield of approximately 5.0% based on the last reported sale price of our common stock on the NYSE of $34.96 on December 31, 2011. Although we expect to continue our policy of paying monthly distributions, we cannot guarantee that we will maintain our current level of distributions, that we will continue our pattern of increasing distributions per share, or what our actual distribution yield will be in any future period.

Acquisitions During 2011

During 2011, we invested $1.02 billion in 164 new properties, and properties under development, with an initial weighted average contractual lease rate of 7.8%. The majority of the lease revenue from these properties will be generated from tenants that have investment grade ratings on their senior debt securities. These 164 new properties, and properties under development, are located in 26 states, contain over 6.2 million leasable square feet, and are 100% leased with an average lease term of 13.4 years.

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

Included in the $1.02 billion invested during 2011 are:

(1) The acquisition of 33 single-tenant retail, distribution, office and manufacturing properties for approximately $543.8 million, under long-term, net lease agreements.
(2) The acquisition of 60 properties operating in the restaurant - quick service industry for $41.9 million, under long-term, net lease agreements.
(3) The acquisition of six properties operating in the wholesale clubs industry for $156.1 million, under long-term, net lease agreements.
(4) The acquisition of 36 properties operating in the grocery store industry for $151.4 million under long-term, net lease agreements.
(5) The acquisition of nine properties operating in the health and fitness industry for $63.2 million, under long-term, net lease agreements.
(6) The remaining 20 properties acquired totaled approximately $59.8 million.

Portfolio Discussion

Leasing Results
At December 31, 2011, we had 87 properties available for lease out of 2,634 properties in our portfolio, which represents a 96.7% occupancy rate. Since December 31, 2010, when we reported 84 properties available for lease and a 96.6% occupancy rate, we:

Leased 37 properties;
Sold 21 properties available for lease; and
Have 61 new properties available for lease.

During 2011, 89 properties with expiring leases were leased to either existing or new tenants. The rent on these leases was $9.6 million, as compared to the previous rent on these same properties of $10.4 million. At December 31, 2011, our average annualized rental revenue per square foot was approximately $17.06.

Matters Pertaining To Certain Tenants
In January 2012, Friendly Ice Cream Corporation, or Friendly’s, one of our tenants, announced that it was emerging from voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code (which they had filed for in October 2011). Pursuant to the bankruptcy proceedings, Friendly’s accepted 102 of their 121 leases with us. Friendly’s rejected 19 leases with us, representing approximately $1.8 million of annualized rent, and received rent concessions and term reductions on some of their accepted leases with us. We estimate that we will recover approximately 80% of the $16.1 million of annualized rent that Friendly’s was paying the Company before the bankruptcy filing.

Additionally, in January 2012, Buffets Holding, Inc., or Buffets, another one of our tenants, filed for voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code. Buffets leases 86 properties from us that, as of December 31, 2011, represented approximately $18.2 million, or approximately 3.9% of our annualized rental revenue. Buffets rejected the leases on seven of our 86 properties, representing approximately $1.8 million of annualized rent. Additionally, we have reached a preliminary agreement (subject to bankruptcy court approval) with Buffets regarding rent concessions and term reductions on some of Buffets’ other leases with us. Overall, post-bankruptcy, we estimate that we will recover approximately 65% of the $18.2 million of annualized rent that Buffets was paying us before the bankruptcy filing. Friendly's and Buffets both operate casual dining restaurants.

For both Friendly's and Buffets, any properties returned to us are immediately available for re-lease to other tenants. We believe that demand in the market for the rejected properties will allow us to find suitable replacement tenants within the next 18 months. However, there can be no assurance that we will be successful in finding replacement tenants for these properties within this timeframe, or at all, or that Friendly's or Buffets will continue to pay rent for the remainder of the lease terms on their accepted leases.

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In addition, we have recently concluded an analysis of our portfolio and have identified other tenants, whose leases represented approximately 2% to 3% of our total annualized rent as of December 31, 2011, that we believe may make similar bankruptcy filings in 2012. However, the foregoing percentages are estimates and are subject to numerous assumptions and uncertainties and the actual percentage of annualized rent represented by other tenants who make bankruptcy filings during 2012 may be different.

Investments in Existing Properties

In 2011, we capitalized costs of $4.2 million on existing properties in our portfolio, consisting of $1.7 million for re-leasing costs and $2.5 million for building and tenant improvements. In 2010, we capitalized costs of $3.6 million on existing properties in our portfolio, consisting of $1.5 million for re-leasing costs and $2.1 million for building improvements.

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

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

Issuance of Preferred Stock

In February 2012, we issued 14.95 million shares of 6.625% Monthly Income Class F cumulative redeemable preferred stock, including 1.95 million shares purchased by the underwriters upon the exercise of their overallotment option. The net proceeds of approximately $361.7 million from this issuance will be used to redeem the outstanding Class D preferred stock, repay borrowings under our acquisition credit facility and for other general corporate purposes. Beginning February 15, 2017, the Class F preferred shares are redeemable at our option for $25.00 per share. The initial dividend of $0.1702257 per share will be paid on March 15, 2012, and will cover 37 days. Thereafter, dividends of $0.1380208 per share will be paid monthly.

Redemption of Preferred Stock

In January 2012, we announced that we plan to redeem our outstanding Class D preferred stock on March 1, 2012. We will redeem the Class D preferred stock at $25.00 per share, plus accrued dividends.

Issuance of Common Stock

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

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

Re-opening of Unsecured Bonds due 2035

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

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Dividend Reinvestment and Stock Purchase Plan
In March 2011, we established a Dividend Reinvestment and Stock Purchase Plan, or The Plan, to provide our common shareholders, as well as new investors, with a convenient and economical method to purchase our common stock and/or reinvest their distributions. The Plan authorizes up to 6,000,000 common shares to be issued. Through December 31, 2011, we issued 59,605 shares and received net proceeds of approximately $1.9 million under The Plan.

Net Income Available to Common Stockholders
Net income available to common stockholders was $132.8 million in 2011 versus $106.5 million in 2010, an increase of $26.3 million. On a diluted per common share basis, net income was $1.05 in 2011, as compared to $1.01 in 2010.

The calculation to determine net income available to common stockholders includes gains from the sale of properties and excess land. 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.

The gain from the sale of properties and excess real estate during 2011 was $5.7 million, as compared to $8.7 million during 2010.

Funds from Operations Available to Common Stockholders (FFO)
In 2011, our FFO increased by $55.5 million, or 28.6%, to $249.4 million versus $193.9 million in 2010. On a diluted per common share basis, FFO was $1.98 in 2011, compared to $1.83 in 2010, an increase of $0.15, or 8.2%.

See our discussion of FFO (which is not a financial measure under U.S. generally accepted accounting principles, or GAAP), which includes a reconciliation of net income available to common stockholders to FFO, in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this annual report.

Adjusted Funds from Operations Available to Common Stockholders (AFFO)
In 2011, our AFFO increased by $56.1 million, or 28.4%, to $253.4 million versus $197.3 million in 2010. On a diluted per common share basis, AFFO was $2.01 in 2011, compared to $1.86 in 2010, an increase of $0.15, or 8.1%.

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

DISTRIBUTION POLICY

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

In order to maintain our tax status as a REIT for federal income tax purposes, we generally are required to distribute dividends to our stockholders aggregating annually at least 90% of our taxable income (excluding net capital gains), and we are subject to income tax to the extent we distribute less than 100% of our taxable income (including net capital gains). In 2011, our cash distributions totaled $243.6 million, or approximately 127.7% of our estimated taxable income of $190.8 million. Our estimated REIT taxable income reflects non-cash deductions for depreciation and amortization. Our estimated REIT taxable income is presented to show our compliance with REIT distribution requirements and is not a measure of our liquidity or performance.

We intend to continue to make distributions to our stockholders that are sufficient to meet this distribution 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 2011 cash distributions to common stockholders totaled $219.3 million, representing 87.9% of our funds from operations available to common stockholders of $249.4 million.

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The Class D preferred stockholders receive cumulative distributions at a rate of 7.375% per annum on the $25 per share liquidation preference (equivalent to $1.84375 per annum per share). On January 31, 2012, we announced that the Class D preferred stock would be redeemed on March 1, 2012. The Class E preferred stockholders receive cumulative distributions at a rate of 6.75% per annum on the $25 per share liquidation preference (equivalent to $1.6875 per annum per share). The Class F preferred stockholders receive cumulative distributions at a rate of 6.625% per annum on the $25 per share liquidation preference (equivalent to $1.65625 per annum per share). The initial Class F preferred stock dividend will be paid on March 15, 2012. Dividends on our Class D and Class E 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, cash flow from operations, financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code of 1986, as amended, 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" has generally been reduced to 15% (until it “sunsets” or reverts to the provisions of prior law, which under current law will occur with respect to taxable years beginning after December 31, 2012). 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 taxable corporations (such as our taxable REIT subsidiary, Crest Net Lease, Inc., or Crest) or to income that was subject to tax at the corporate or REIT level (for example, if we distribute taxable income that we retained and paid tax on in the prior taxable year).

Distributions in excess of earnings and profits generally will be treated as a non-taxable reduction in the stockholders' basis in their stock. Distributions above that basis, generally, will be taxable as a capital gain to stockholders who hold their shares as a capital asset. Approximately 20.6% of the distributions to our common stockholders, made or deemed to have been made in 2011, were classified as a return of capital for federal income tax purposes. We are unable to predict the portion of future distributions that may be classified as a return of capital.

BUSINESS PHILOSOPHY AND STRATEGY

Capital Philosophy

Historically, we have met our long-term capital needs by issuing common stock, preferred stock and long-term unsecured notes and bonds. Over the long term, we believe that common stock should be the majority of our capital structure. However, we may issue additional preferred stock or debt securities from time to time. We may issue common stock when we believe that our share price is at a level that allows for the proceeds of any offering to be accretively invested into additional properties. In addition, we may issue common stock to permanently finance properties that were financed by our credit facility or debt securities. However, we cannot provide assurance 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 $425 million credit facility and occasionally through public securities offerings.

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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, 2011, our total outstanding borrowings of senior unsecured notes, mortgages payable and credit facility borrowings were $2.06 billion, or approximately 29.1% of our total market capitalization of $7.06 billion.

We define our total market capitalization at December 31, 2011 as the sum of:

- Shares of our common stock outstanding of 133,223,338 multiplied by the last reported sales price of our common stock on the NYSE of $34.96 per share on December 31, 2011, or $4.66 billion;
- Aggregate liquidation value (par value of $25 per share) of the Class D preferred stock of $127.5 million;
- Aggregate liquidation value (par value of $25 per share) of the Class E preferred stock of $220 million;
- Outstanding mortgages payable of $67.8 million;
- Outstanding borrowings of $237.4 million on our credit facility; and
- Outstanding senior unsecured notes and bonds of $1.75 billion.

Investment Philosophy

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

Investment Strategy

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

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

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

Historically, our investment focus has primarily been on retail and other commercial enterprises that have a service component because we believe the lease revenue from these types of businesses is more stable. Because of this investment focus, for the quarter ended December 31, 2011, approximately 83% of our retail rental revenue was derived from tenants with a service component in their business. We believe these service-oriented businesses would generally be difficult to duplicate over the Internet and that our properties continue to perform well relative to competition from Internet-based businesses.

Credit Strategy

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

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

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

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

The typical profile of companies whose properties have been approved for acquisition are those with 50 or more locations. Generally the properties:

- Are located in highly visible areas;
- Have easy access to major thoroughfares; and
- Have attractive demographics.

Acquisition Strategy

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

- Properties that are freestanding, commercially-zoned with a single tenant;
- Properties that are important locations for regional and national commercial enterprises;
- Properties that we deem to be profitable for the tenants and/or can generally be characterized as important to the operations of the company’s business;
- Properties that are located within attractive demographic areas, relative to the business of our tenants, with high visibility and easy access to major thoroughfares; and
- Properties that can be purchased with the simultaneous execution or assumption of long-term, net-lease agreements, offering both current income and the potential for rent increases.

Impact of Real Estate and Credit Markets

In the commercial real estate market, property prices generally continue to fluctuate. Likewise, 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 continue to monitor the commercial real estate and U.S. credit markets carefully and, if required, will make decisions to adjust our business strategy accordingly. See Item 1A entitled "Risk Factors" in this annual report.

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

Our executives regularly review and analyze:

The performance of the various industries of our tenants; and
The operation, management, business planning, and financial condition of our tenants.

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

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

At December 31, 2011, we classified real estate with a carrying amount of $2.2 million as held for sale on our balance sheet. In 2012, we intend to employ more active disposition efforts to further enhance the credit quality of our real estate portfolio. As a result, we anticipate selling investment properties from our portfolio that have not yet been specifically identified, from which we anticipate receiving between $25 million and $60 million in proceeds during the next 12 months. We intend to invest these proceeds into new property acquisitions, if there are attractive opportunities available. However, we cannot guarantee that we will sell properties during the next 12 months or be able to invest the proceeds from the sales of any properties in new properties.

Universal Shelf Registration
In March 2009, we filed a shelf registration statement with the SEC, which expires in March 2012. In accordance with the 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 common stock, preferred stock, debt securities, or 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. We plan to file a new shelf registration statement prior to the expiration of our existing shelf registration.

$425 Million Acquisition Credit Facility
We have a $425 million unsecured, revolving credit facility. The initial term of the credit facility expires in March 2014 and includes two, one-year extension options. Under the credit facility, the current investment grade credit ratings on our debt securities provide for financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 185 basis points with a facility commitment fee of 35 basis points, for all-in drawn pricing of 220 basis points 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 the credit facility. Our credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation. At December 31, 2011, we had a borrowing capacity of $187.6 million available on our credit facility (subject to customary conditions to borrowing) and an outstanding balance of $237.4 million. As a result of the issuance of our Class F preferred stock in February 2012, we paid off all outstanding credit facility borrowings on February 7, 2012. The interest rate on borrowings outstanding under our credit facility at December 31, 2011 was 2.1% per annum. We must comply with various financial and other

covenants in our credit facility. At December 31, 2011, we remain in compliance with these covenants.

We expect to use our credit facility to acquire additional properties and for other corporate purposes. Any additional borrowings will increase our exposure to interest rate risk. We have the right to request an increase in the borrowing capacity of the credit facility, up to $200 million, to a total borrowing capacity of $625 million. Any increase in the borrowing capacity is subject to approval by the lending banks participating in our credit facility.

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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 refinancing will enable us to issue equity or debt securities upon acceptable terms.

Credit Agency Ratings

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

Based on our current ratings, the current facility interest rate is LIBOR plus 185 basis points with a facility commitment fee of 35 basis points, for all-in drawn pricing of 220 basis points over LIBOR. The credit facility provides that the interest rate can range between: (i) LIBOR plus 300 basis points if our credit facility is lower than BBB-/Baa3 and (ii) LIBOR plus 175 basis points 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 ranges from: (i) 50 basis points for a rating lower than BBB-/Baa3, and (ii) 30 basis points 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.

Mortgage Debt

As of December 31, 2011, we have $67.2 million of mortgages payable to third-party lenders that were assumed in 2011, in connection with our property acquisitions. We paid $279,000 in principal payments on these mortgages payable during 2011. Additionally, net premiums totaling $820,000, in aggregate, were recorded upon assumption of the mortgages payable at the time of the respective property acquisitions to account for above-market interest rates. We recorded amortization of $189,000 related to these net premiums during 2011.

Our mortgages payable are secured by the properties on which the debt was placed and are non-recourse. We expect to pay off the mortgages payable as soon as prepayment penalties and costs make it economically feasible to do so. We intend to continue our policy of primarily identifying property acquisitions that are free from mortgage indebtedness.

No Off-Balance Sheet Arrangements or Unconsolidated Investments

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

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Competitive Strategy

We believe that to successfully pursue our investment philosophy and strategy, we must seek to maintain the following competitive advantages:

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

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

Diversification: Diversification of the portfolio by industry type, tenant, and geographic location is key to our objective of providing predictable investment results for our stockholders, therefore further diversification of our portfolio is a continuing objective. At December 31, 2011, we owned a diversified property portfolio that consisted of 2,634 properties located in 49 states, leased to 136 different retail and other commercial enterprises doing business in 38 industry segments. Each of the 38 industry segments, represented in our property portfolio, individually accounted for no more than 17.2% of our rental revenue for the quarter ended December 31, 2011.

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

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

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PROPERTY PORTFOLIO INFORMATION

At December 31, 2011, we owned a diversified portfolio:

- Of 2,634 properties;
- With an occupancy rate of 96.7%, or 2,547 properties leased and only 87 properties available for lease;
- Leased to 136 different retail and other commercial enterprises doing business in 38 separate industries;
- Located in 49 states;
- With over 27.3 million square feet of leasable space; and
- With an average leasable space per property of approximately 10,400 square feet.

At December 31, 2011, of our 2,634 properties, 2,533 were leased under net-lease agreements. A net lease typically requires the tenant to be responsible for minimum monthly rent and certain property operating expenses including property taxes, insurance and maintenance. In addition, our tenants are typically subject to future rent increases based on increases in the consumer price index (typically subject to ceilings), additional rent calculated as a percentage of the tenants' gross sales above a specified level, or fixed increases.

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

- Properties previously included in the “distribution and office” industry were reclassified to the “home improvement,” “convenience store,” and “restaurant” industries, to better reflect the industry in which the tenant operates;
- The “restaurant” industry was separated into the “restaurants - casual dining” industry, which includes dinner houses and family restaurants, and the “restaurants - quick service” industry, which includes fast food restaurants;
- The “equipment rental” industry was renamed “equipment services;”
- The “travel plazas” industry was renamed “transportation services;” and
- The “wine and spirits” industry was renamed “beverages.”

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Industry Diversification

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

	Percentage of Rental Revenue(1)													
	For the Quarter Ended December 31,		For the Years Ended											
Industries	31, 2011		Dec 31, 2011		Dec 31, 2010		Dec 31, 2009		Dec 31, 2008		Dec 31, 2007		Dec 31, 2006	
Apparel stores	1.3	%	1.4	%	1.2	%	1.1	%	1.1	%	1.2	%	1.7	%
Automotive collision services	0.9		0.9		1.0		1.1		1.0		1.1		1.3	
Automotive parts	1.3		1.2		1.4		1.5		1.6		2.1		2.8	
Automotive service	3.4		3.7		4.7		4.8		4.8		5.2		6.9	
Automotive tire services	4.9		5.6		6.4		6.9		6.7		7.3		6.1	
Aviation	0.8		0.5		--		--		--		--		--	
Beverages	5.3		5.6		3.0		--		--		--		--	
Book stores	0.1		0.1		0.1		0.2		0.2		0.2		0.2	
Business services	*		*		*		*		*		0.1		0.1	
Child care	4.7		5.2		6.5		7.3		7.6		8.4		10.3	
Consumer electronics	0.5		0.5		0.6		0.7		0.8		0.9		1.1	
Convenience stores	17.2		18.5		17.1		16.9		15.8		14.0		16.1	
Crafts and novelties	0.2		0.2		0.3		0.3		0.3		0.3		0.4	
Drug stores	3.6		3.8		4.1		4.3		4.1		2.7		2.9	
Education	0.7		0.7		0.8		0.9		0.8		0.8		0.8	
Entertainment	0.9		1.0		1.2		1.3		1.2		1.4		1.6	
Equipment services	0.4		0.4		0.2		0.2		0.2		0.2		0.2	
Financial services	0.6		0.5		0.2		0.2		0.2		0.2		0.1	
Food processing	1.2		0.7		--		--		--		--		--	
General merchandise	0.6		0.6		0.8		0.8		0.8		0.7		0.6	
Grocery stores	1.7		1.6		0.9		0.7		0.7		0.7		0.7	
Health and fitness	6.9		6.4		6.9		5.9		5.6		5.1		4.3	
Home furnishings	1.0		1.1		1.3		1.3		2.4		2.6		3.1	
Home improvement	1.6		1.7		2.0		2.2		2.1		2.4		3.4	
Motor vehicle dealerships	2.1		2.2		2.6		2.7		3.2		3.1		3.4	
Office supplies	0.8		0.9		0.9		1.0		1.0		1.1		1.3	
Packaging	0.6		0.4		--		--		--		--		--	
Paper	0.2		0.1		--		--		--		--		--	
Pet supplies and services	0.7		0.7		0.9		0.9		0.8		0.9		1.1	
Restaurants - casual dining	9.8		10.9		13.4		13.7		14.3		14.9		7.0	
Restaurants - quick service	6.6		6.6		7.7		8.3		8.2		6.6		4.9	

Shoe stores	0.1	0.2	0.1	--	--	--	--
Sporting goods	2.5	2.7	2.7	2.6	2.3	2.6	2.9
Telecommunications	0.9	0.7	--	--	--	--	--
Theaters	9.8	8.8	8.9	9.2	9.0	9.0	9.6
Transportation services	2.2	1.8	0.2	0.2	0.2	0.2	0.3
Video rental	0.0	0.0	0.2	1.0	1.1	1.7	2.1
Wholesale clubs	2.7	0.7	--	--	--	--	--
Other	1.2	1.4	1.7	1.8	1.9	2.3	2.7
Totals	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

* Less than 0.1%

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

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Property Type Diversification

The following table sets forth certain property type information regarding Realty Income's property portfolio as of December 31, 2011 (dollars in thousands):

Property Type	Number of Properties	Approximate Leasable Square Feet	Rental Revenue for the Quarter Ended December 31, 2011(1)	Percentage of Revenue
Retail	2,577	22,109,800	$97,841	86.4 %
Agriculture	15	184,500	4,961	4.4
Distribution	13	2,027,100	3,520	3.1
Manufacturing	6	1,418,600	2,509	2.2
Office	8	778,500	2,897	2.6
Industrial	15	850,500	1,531	1.3
Totals	2,634	27,369,000	$113,259	100.0 %

(1) Includes rental revenue for all properties owned by Realty Income at December 31, 2011, including revenue from properties reclassified as discontinued operations of $52. Excludes revenue of $23 from properties owned by Crest.

Tenant Diversification

The largest tenants based on percentage of total portfolio rental revenue at December 31, 2011 include the following:

AMC Theatres	5.3%	NPC International/Pizza Hut	2.7%
Diageo	5.0%	BJ's Wholesale Club	2.6%
L.A. Fitness	4.6%	Rite Aid	2.6%
Northern Tier Energy/Super America	4.4%	Smart & Final	2.4%
Hometown Buffet	3.9%	FreedomRoads/Camping World	2.2%
Regal Cinemas	3.4%	TBC Corporation	2.2%
Friendly's Ice Cream	3.2%	La Petite Academy	2.2%
The Pantry	3.1%		

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Service Category Diversification for our Retail Portfolio

The following table sets forth certain information regarding the 2,577 retail properties owned by Realty Income at December 31, 2011, classified according to the business types and the level of services they provide (dollars in thousands):

Retail Industry	Number of Properties	Retail Rental Revenue for the Quarter Ended December 31, 2011(1)	Percentage of Retail Rental Revenue	
Tenants Providing Services				
Automotive collision services	18	$967	1.0	%
Automotive service	234	3,857	3.9	
Child care	238	5,367	5.5	
Education	14	807	0.8	
Entertainment	8	1,074	1.1	
Equipment services	2	150	0.2	
Financial services	13	197	0.2	
Health and fitness	46	7,829	8.0	
Theaters	43	11,097	11.4	
Transportation services	1	187	0.2	
Other	9	115	0.1	
	626	31,647	32.4	
Tenants Selling Goods and Services				
Automotive parts (with installation)	25	478	0.5	
Automotive tire services	158	5,575	5.7	
Business services	1	5	*	
Convenience stores	719	19,341	19.8	
Motor vehicle dealerships	15	2,391	2.4	
Pet supplies and services	14	744	0.7	
Restaurants - casual dining	316	10,461	10.7	
Restaurants - quick service	373	7,500	7.7	
Video rental	6	--	0.0	
	1,627	46,495	47.5	
Tenants Selling Goods				
Apparel stores	10	1,494	1.5	
Automotive parts	41	946	1.0	
Book stores	1	83	0.1	
Consumer electronics	9	592	0.6	
Crafts and novelties	4	228	0.2	
Drug stores	57	4,033	4.1	
General merchandise	33	693	0.7	
Grocery stores	57	1,959	2.0	
Home furnishings	45	1,191	1.2	
Home improvement	28	1,515	1.6	
Office supplies	11	891	0.9	

Shoe stores	1	168	0.2	
Sporting goods	21	2,881	2.9	
Wholesale clubs	6	3,025	3.1	
	324	19,699	20.1	
Totals	2,577	$97,841	100.0	%

* Less than 0.1%

(1) Includes rental revenue for all retail properties owned by Realty Income at December 31, 2011, including revenue from properties reclassified as discontinued operations of $52. Excludes revenue of $23 from properties owned by Crest.

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Lease Expirations

The following table sets forth certain information regarding Realty Income's property portfolio regarding the timing of the lease term expirations (excluding rights to extend a lease at the option of the tenant) on our 2,533 net leased, single-tenant properties as of December 31, 2011 (dollars in thousands):

	Total Portfolio				Initial Expirations(3)			Subsequent Expirations(4)		
Year	Number of Leases Expiring(1)	Approx. Leasable Sq. Feet	Rental Revenue for the Quarter Ended Dec. 31, 2011(2)	% of Total Rental Revenue	Number of Leases Expiring	Rental Revenue for the Quarter Ended Dec. 31, 2011	% of Total Rental Revenue	Number of Leases Expiring	Rental Revenue for the Quarter Ended Dec. 31, 2011	% of Total Rental Revenue
2012	161	1,079,800	$ 3,700	3.3 %	39	$ 1,134	1.0 %	122	$ 2,566	2.3 %
2013	162	1,348,000	4,968	4.5	64	2,658	2.4	98	2,310	2.1
2014	127	959,700	3,478	3.1	30	1,465	1.3	97	2,013	1.8
2015	157	888,800	4,283	3.9	79	2,537	2.3	78	1,746	1.6
2016	170	852,400	3,630	3.3	113	2,325	2.1	57	1,305	1.2
2017	70	842,400	2,890	2.6	41	2,341	2.1	29	549	0.5
2018	84	1,243,500	3,985	3.6	74	3,730	3.4	10	255	0.2
2019	140	1,520,700	7,303	6.6	132	6,878	6.2	8	425	0.4
2020	85	1,597,400	5,009	4.5	75	4,664	4.2	10	345	0.3
2021	186	1,975,600	8,761	7.9	178	8,257	7.4	8	504	0.5
2022	106	890,200	4,652	4.2	105	4,619	4.2	1	33	*
2023	252	2,094,000	10,000	9.0	250	9,926	8.9	2	74	0.1
2024	61	549,500	2,271	2.0	60	2,209	2.0	1	62	*
2025	208	1,724,400	11,655	10.5	203	11,522	10.4	5	133	0.1
2026	111	1,878,700	7,155	6.4	108	7,074	6.3	3	81	0.1
2027	170	1,424,100	5,984	5.4	169	5,966	5.4	1	18	*
2028	85	1,111,600	5,821	5.2	83	5,771	5.2	2	50	*
2029	53	960,800	2,258	2.0	50	2,197	2.0	3	61	*
2030	36	417,300	4,989	4.5	36	4,989	4.5	--	--	--
2031	90	1,876,900	6,216	5.6	89	6,197	5.6	1	19	*
2032	2	289,400	668	0.6	2	668	0.6	--	--	--
2033	8	94,000	540	0.5	8	540	0.5	--	--	--
2034	6	84,900	509	0.5	6	509	0.5	--	--	--
2037	2	48,800	354	0.3	2	354	0.3	--	--	--
2043	1	3,600	13	*	--	--	--	1	13	*
Totals	2,533	25,756,500	$ 111,092	100.0 %	1,996	$ 98,530	88.8 %	537	$ 12,562	11.2 %

*Less than 0.1%

(1) Excludes 14 multi-tenant properties and 87 vacant unleased properties, one of which is a multi-tenant property. The lease expirations for properties under construction are based on the estimated date of completion of those properties.

(2) Includes rental revenue of $52 from properties reclassified as discontinued operations and excludes revenue of $2,167 from 14 multi-tenant properties and from 87 vacant and unleased properties at December 31, 2011. Excludes revenue of $23 from three properties owned by Crest.

(3) Represents leases to the initial tenant of the property that are expiring for the first time.
(4) Represents lease expirations on properties in the portfolio, which have previously been renewed, extended or re-tenanted.

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Geographic Diversification

The following table sets forth certain state-by-state information regarding Realty Income's property portfolio as of December 31, 2011 (dollars in thousands):

State	Number of Properties	Percent Leased	Approximate Leasable Square Feet	Rental Revenue for the Quarter Ended December 31, 2011(1)	Percentage of Rental Revenue
Alabama	62	95 %	420,200	$ 1,784	1.6 %
Alaska	2	100	128,500	300	0.3
Arizona	87	98	619,500	2,879	2.5
Arkansas	17	88	92,400	315	0.3
California	123	99	2,670,100	13,054	11.5
Colorado	58	95	485,900	1,854	1.6
Connecticut	23	87	269,100	1,153	1.0
Delaware	17	100	33,300	433	0.4
Florida	184	95	1,881,000	7,839	6.9
Georgia	143	95	1,242,900	5,077	4.5
Hawaii	--	--	--	--	--
Idaho	12	83	80,700	324	0.3
Illinois	101	98	1,335,900	6,170	5.5
Indiana	81	96	799,000	3,633	3.2
Iowa	21	100	290,600	1,024	0.9
Kansas	37	92	642,900	1,397	1.2
Kentucky	23	100	134,700	709	0.6
Louisiana	34	100	344,200	1,183	1.1
Maine	3	100	22,500	163	0.1
Maryland	29	100	384,000	2,182	1.9
Massachusetts	64	91	575,400	2,517	2.2
Michigan	54	96	287,200	1,278	1.1
Minnesota	150	100	1,003,600	6,774	6.0
Mississippi	72	99	360,700	1,605	1.4
Missouri	76	96	1,027,500	3,848	3.4
Montana	2	100	30,000	77	0.1
Nebraska	19	95	196,300	492	0.4
Nevada	15	100	325,800	1,007	0.9
New Hampshire	15	93	217,200	974	0.9
New Jersey	33	91	260,400	1,948	1.7
New Mexico	9	100	58,400	212	0.2
New York	42	93	776,200	4,272	3.8
North Carolina	94	100	572,400	2,968	2.6
North Dakota	6	100	36,600	74	0.1
Ohio	134	96	1,124,800	3,973	3.5
Oklahoma	35	100	752,400	1,505	1.3
Oregon	20	100	384,200	1,305	1.2
Pennsylvania	103	99	905,800	4,207	3.7

Rhode Island	3	100		11,000	60	0.1	
South Carolina	98	99		371,400	2,268	2.0	
South Dakota	10	100		89,800	186	0.2	
Tennessee	128	98		740,200	2,983	2.6	
Texas	215	96		3,134,800	10,130	9.0	
Utah	6	100		121,700	251	0.2	
Vermont	4	100		12,700	131	0.1	
Virginia	105	95		1,519,400	4,649	4.1	
Washington	35	97		298,100	1,048	0.9	
West Virginia	2	100		23,000	101	0.1	
Wisconsin	27	93		269,200	943	0.8	
Wyoming	1	0		5,400	0	0.0	
Totals/Average	2,634	97	%	27,369,000	$ 113,259	100.0	%

(1) Includes rental revenue for all properties owned by Realty Income at December 31, 2011, including revenue from properties reclassified as discontinued operations of $52. Excludes revenue of $23 from properties owned by Crest.

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FORWARD-LOOKING STATEMENTS

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

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

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

- Our continued qualification as a real estate investment trust;
- General business and economic conditions;
- Competition;
- Fluctuating interest rates;
- Access to debt and equity capital markets;
- Continued volatility and uncertainty in the credit markets and broader financial markets;
- Other risks inherent in the real estate business including tenant defaults, potential liability relating to environmental matters, illiquidity of real estate investments, and potential damages from natural disasters;
- Impairments in the value of our real estate assets;
- Changes in the tax laws of the United States of America;
- The outcome of any legal proceedings to which we are a party or which may occur in the future; and
- Acts of terrorism and war.

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

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

Item 1A: Risk Factors

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

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In order to grow we need to continue to acquire investment properties. The acquisition of investment properties may be subject to competitive pressures.
We face competition in the acquisition, operation and sale of property. We expect competition from:

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

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

Negative market conditions or adverse events affecting our existing or potential tenants, or the industries in which they operate, could have an adverse impact on our ability to attract new tenants, re-lease space, collect rent or renew leases, which could adversely affect our cash flow from operations and inhibit growth.
Cash flow from operations depends in part on the ability to lease space to tenants on economically favorable terms. We could be adversely affected by various facts and events over which we have limited or no control, such as:

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

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

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

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

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Eighty-seven of our properties were available for lease or sale at December 31, 2011, all but one of which were single-tenant properties. At December 31, 2011, 33 of our properties under lease were unoccupied and available for sublease by the tenants, all of which were current with their rent and other obligations. During 2011, each of our tenants accounted for less than 10% of our rental revenue.

For the fourth quarter of 2011, our tenants in the “convenience stores” industry accounted for 17.2% of our rental revenue. A downturn in this industry, whether nationwide or limited to specific sectors of the United States, could adversely affect tenants in this industry, which in turn could have a material adverse affect on our financial position, results of operations and our ability to pay the principal of and interest on our debt securities and other indebtedness and to make distributions on our common stock and preferred stock.

We believe that the ongoing economic recession has also had an adverse effect on many casual dining restaurants, such as our tenants, Friendly Ice Cream Corporation and Buffets Holdings, Inc. Both of these tenants filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code, and the impact of bankruptcy filings by these or other tenants in the casual dining industry could, as described in the immediately preceding sentence, adversely affect us. Individually, each of the other industries in our property portfolio accounted for less than 10% of our rental revenue for the fourth quarter of 2011. Nevertheless, downturns in these other industries could also adversely affect our tenants, which in turn could also have a material adverse effect on our financial position, results of operations and our ability to pay the principal of and interest on our debt securities and other indebtedness and to make distributions on our common and preferred stock. In addition, we may in the future make additional investments in the “convenience stores” industry, which would increase this industry’s percentage of our rental revenues, thereby increasing the effect that such a downturn in this industry would have on us.

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

Furthermore, we have made and may continue to make selected acquisitions of properties that fall outside our historical focus on freestanding, single-tenant, net-lease retail locations in the United States. We may be exposed to a variety of new risks by expanding into new property types and/or new jurisdictions outside the United States and properties leased to tenants engaged in non-retail businesses. For example, our acquisitions in 2011 included distribution properties, office properties, and manufacturing properties leased to tenants in a range of non-retail businesses. These risks may include a limited knowledge and understanding of the industry in which the tenant operates, limited experience in managing certain types of new properties, new types of real estate locations and lease structures, and the laws and culture of any non-U.S. jurisdiction.

As a property owner, we may be subject to unknown environmental liabilities.
Investments in real property can create a potential for environmental liability. An owner of property can face liability for environmental contamination created by the presence or discharge of hazardous substances on the property. We can face such liability regardless of:

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

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

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

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

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

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

Insurance and Indemnity. In June 2005, we entered into a seven-year environmental insurance policy, or the June 2005 policy, which expires on June 1, 2012 on our property portfolio which replaced the previous five-year environmental insurance policy. The limits on our current policy are $10 million per occurrence, and $50 million in the aggregate, subject to a $40,000 self insurance retention, per occurrence, for properties with underground storage tanks and a $100,000 self insurance retention, per occurrence, for all other properties.

Additionally, in December 2009, we entered into a ten-year environmental insurance policy that expires in December 2019 that will initially act in an excess capacity to our June 2005 policy. On June 1, 2012, this policy will become our primary environmental policy with the same limits as the June 2005 policy, except that once we pay a total of $1 million for self insurance retention, there will be a $50,000 per loss maintenance fee, rather than the $100,000 self insurance retention, per occurrence, for general environmental claims.

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

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

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

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

For example, in order to qualify as a REIT, at least 95% of our gross income in each year must be derived from qualifying sources, and we must pay distributions to stockholders aggregating annually at least 90% of our REIT taxable income (as defined in the Code and determined without regard to the dividends paid deduction and by excluding net capital gains).

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

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

- We would be required to pay federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates;
- We would not be allowed a deduction in computing our taxable income for amounts distributed to our stockholders;
- We could be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost;
- We would no longer be required to make distributions to stockholders; and
- This treatment would substantially reduce amounts available for investment or distribution to stockholders because of the additional tax liability for the years involved, which could have a material adverse effect on the market price of our capital stock and the value of our debt securities.

Even if we qualify for and maintain our REIT status, we may be subject to certain federal, state and local taxes on our income and property. For example, if we have net income from a prohibited transaction, that income will be subject to a 100% tax. Our subsidiary, Crest, is subject to federal and state taxes at the applicable tax rates on its income and property.

Distributions requirements imposed by law limit our flexibility.

To maintain our status as a REIT for federal income tax purposes, we generally are required to distribute to our stockholders at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and by excluding net capital gains each year. We also are subject to tax at regular corporate rates to the extent that we distribute less than 100% of our REIT taxable income (including net capital gains) each year.

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

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

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

We are subject to risks associated with debt and capital stock financing.
We intend to incur additional indebtedness in the future, including borrowings under our $425 million acquisition credit facility. At December 31, 2011, we had $237.4 million of outstanding borrowings under our acquisition credit facility, a total of $1.75 billion of outstanding unsecured senior debt securities and $67.8 million of outstanding mortgage debt. As a result of the issuance of our Class F preferred stock in February 2012, we paid off all outstanding credit facility borrowings on February 7, 2012. To the extent that new indebtedness is added to our current debt levels, the related risks that we now face would increase. As a result, we are and will be subject to risks associated with debt financing, including the risk that our cash flow could be insufficient to meet required payments on our debt. We also face variable interest rate risk as the interest rate on our acquisition credit facility is variable and could therefore increase over time. We also face the risk that we may be unable to refinance or repay our debt as it comes due. Given past disruptions in the financial markets and the ongoing financial crisis in Europe (which relates primarily to concerns that certain European countries may be unable to repay their national debt), we also face the risk that one or more of the participants in our acquisition credit facility may not be able to lend us money.

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

- The sum of (a) 95% of our adjusted funds from operations (as defined in the credit facility) for that period plus (b) the aggregate amount of cash distributions on our preferred stock for that period, and
- The minimum amount of cash distributions required to be made to our shareholders in order to maintain our status as a REIT for federal income tax purposes,

except that we may repurchase or redeem preferred stock with the net proceeds from the issuance of our common stock or preferred stock. The acquisition credit facility further provides that, in the event of a failure to pay principal, interest or any other amount payable thereunder when due or upon the occurrence of certain events of bankruptcy, insolvency or reorganization with respect to us or with respect to any of our subsidiaries that has guaranteed amounts payable under the credit facility or that meets a significance test set forth in the credit facility, we and our subsidiaries may not pay any distributions on (except distributions payable in shares of a given class of our stock to the shareholders of that class), or repurchase or redeem, among other things, any shares of our common stock or preferred stock. If any such event of default under our acquisition credit facility were to occur, it would likely have a material adverse effect on the market price of our outstanding common and preferred stock and on the market value of our debt securities, could limit the amount of distributions payable on our common stock and preferred stock or prevent us from paying those distributions altogether, and may adversely affect our ability to qualify, or prevent us from qualifying, as a REIT.

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

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

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

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

The market value of our capital stock and debt securities could be substantially affected by various factors.
The market value of our capital stock and debt securities will depend on many factors, which may change from time to time, including:

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

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

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

Adverse changes in general or local economic conditions;
Changes in supply of, or demand for, similar or competing properties;
Changes in interest rates and operating expenses;
Competition for tenants;
Changes in market rental rates;

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

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

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

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

Property taxes may increase without notice.
The real property taxes on our properties and any other properties that we develop or acquire in the future may increase as property tax rates change and as those properties are assessed or reassessed by tax authorities.

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

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

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

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Disruptions in the financial markets could affect our ability to obtain financing on reasonable terms and have other adverse effects on us and the market price of our common stock.
Over the last several years, the United States stock and credit markets have experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks and debt securities to fluctuate substantially and the spreads on prospective debt financings to widen considerably. In addition, the ongoing financial crisis in Europe (which relates primarily to concerns that certain European countries may be unable to pay their national debt) has had a similar effect. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in certain cases have resulted in the unavailability of certain types of financing. Unrest in certain Middle Eastern countries and resultant fluctuation in petroleum prices have added to the uncertainty in the capital markets. Continued uncertainty in the stock and credit markets may negatively impact our ability to access additional financing at reasonable terms, which may negatively affect our ability to make acquisitions. A prolonged downturn in the stock or credit markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. In addition, these factors may make it more difficult for us to sell properties or may adversely affect the price we receive for properties that we do sell, as prospective buyers may experience increased costs of financing or difficulties in obtaining financing. These events in the stock and credit markets may make it more difficult or costly for us to raise capital through the issuance of our common stock or preferred stock or debt securities. These disruptions in the financial markets also may have a material adverse effect on the market value of our common stock, preferred stock and debt securities, the income we receive from our properties and the lease rates we can charge for our properties, as well as other unknown adverse effects on us or the economy in general.

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

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

Changes in accounting standards may adversely impact our financial condition and results of operations.
The SEC is currently considering whether issuers in the U.S. should be required to prepare financial statements in accordance with International Financial Reporting Standards, or IFRS, instead of U.S. generally accepted accounting principles, or GAAP. IFRS is a comprehensive set of accounting standards promulgated by the International Accounting Standards Board, or IASB, which are rapidly gaining worldwide acceptance. If the SEC decides to require IFRS, it expects that U.S. issuers would first report under the new standards beginning in approximately 2015 or 2016, although the timeframe has not been finalized. Additionally, the Financial Accounting Standards Board, or FASB, is considering various changes to GAAP, some of which may be significant, as part of a joint effort with the IASB to converge accounting standards. Although the FASB and IASB currently have a project on their agenda to examine the accounting for leases, the project may not result in the issuance of a final standard or a standard that would be comparable to current GAAP. If IFRS is adopted, the potential issues associated with lease accounting,

along with other potential changes associated with the adoption or convergence with IFRS, may adversely impact our financial condition and results of operations.

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Item 1B: Unresolved Staff comments

There are no unresolved staff comments.

Item 2: Properties

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

Item 3: Legal Proceedings

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

Item 4: (Removed and Reserved)

PART II

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

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

	Price Per Share of Common Stock		Distributions
	High	Low	Declared(1)
2011			
First quarter	$36.12	$33.40	$ 0.4330625
Second quarter	36.35	32.19	0.4340000
Third quarter	35.03	27.95	0.4349375
Fourth quarter	35.76	29.79	0.4358750
Total			$ 1.7378750
2010			
First quarter	$31.18	$25.30	$ 0.4293125
Second quarter	34.53	28.42	0.4302500
Third quarter	34.79	29.12	0.4311875
Fourth quarter	35.97	32.92	0.4321250
Total			$ 1.7228750

(1) Common stock cash distributions currently are declared monthly by us based on financial results for the prior months. At December 31, 2011, a distribution of $0.1455 per common share had been declared and was paid in January 2012.

There were 8,288 registered holders of record of our common stock as of December 31, 2011. We estimate that our total number of shareholders is just over 100,000 when we include both registered and beneficial holders of our common stock.

During the fourth quarter of 2011, no shares of stock were withheld for state and federal payroll taxes on the vesting of stock awards, as permitted under the 2003 Incentive Award Plan of Realty Income Corporation.

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Item 6: Selected Financial Data
(not covered by Report of Independent Registered Public Accounting Firm)
(dollars in thousands, except for per share data)

As of or for the years ended December 31,	2011	2010	2009	2008	2007
Total assets (book value)	$4,419,389	$3,535,590	$2,914,787	$2,994,179	$3,077,352
Cash and cash equivalents	4,165	17,607	10,026	46,815	193,101
Total debt	2,055,181	1,600,000	1,354,600	1,370,000	1,470,000
Total liabilities	2,164,535	1,688,625	1,426,778	1,439,518	1,539,260
Total stockholders' equity	2,254,854	1,846,965	1,488,009	1,554,661	1,538,092
Net cash provided by operating activities	298,952	243,368	226,707	246,155	318,169
Net change in cash and cash equivalents	(13,442)	7,581	(36,789)	(146,286)	182,528
Total revenue	421,059	343,492	322,550	322,211	286,050
Income from continuing operations	151,137	120,734	118,855	108,181	119,872
Income from discontinued operations	5,895	10,050	12,272	23,660	20,537
Net income	157,032	130,784	131,127	131,841	140,409
Preferred stock cash dividends	(24,253)	(24,253)	(24,253)	(24,253)	(24,253)
Net income available to common stockholders	132,779	106,531	106,874	107,588	116,156
Cash distributions paid to common stockholders	219,297	182,500	178,008	169,655	157,659
Basic and diluted net income per common share	1.05	1.01	1.03	1.06	1.16
Cash distributions paid per common share	1.736625	1.721625	1.706625	1.662250	1.560250
Cash distributions declared per common share	1.737875	1.722875	1.707875	1.667250	1.570500
Basic weighted average number of common shares outstanding	126,142,696	105,869,637	103,577,507	101,178,191	100,195,031
Diluted weighted average number of common shares outstanding	126,189,399	105,942,721	103,581,053	101,209,883	100,333,966

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

GENERAL

Realty Income Corporation, The Monthly Dividend Company®, is a Maryland corporation organized to operate as an equity real estate investment trust, or REIT. Our primary business objective is to generate dependable monthly cash distributions from a consistent and predictable level of funds from operations, or FFO, per share. Our monthly distributions are supported by the cash flow from our portfolio of properties leased to retail and other commercial enterprises. We have in-house acquisition, leasing, legal, credit research, real estate research, portfolio management and capital markets expertise. Over the past 43 years, Realty Income and its predecessors have been acquiring and owning freestanding retail and other properties that generate rental revenue under long-term lease agreements (primarily 10 to 20 years).

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

At December 31, 2011, we owned a diversified portfolio:

Of 2,634 properties;
With an occupancy rate of 96.7%, or 2,547 properties leased and only 87 properties available for lease;
Leased to 136 different retail and other commercial enterprises doing business in 38 separate industries;
Located in 49 states;
With over 27.3 million square feet of leasable space; and
With an average leasable space per property of approximately 10,400 square feet.

Of the 2,634 properties in the portfolio, 2,619, or 99.4%, are single-tenant properties, and the remaining 15 are multi-tenant properties. At December 31, 2011, of the 2,619 single-tenant properties, 2,533 were leased with a weighted average remaining lease term (excluding rights to extend a lease at the option of the tenant) of approximately 11.3 years.

LIQUIDITY AND CAPITAL RESOURCES

Capital Philosophy

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

Our primary cash obligations, for the current year and subsequent years, are included in the "Table of Obligations," which is presented later in this section. We expect to fund our operating expenses and other short-term liquidity requirements, including property acquisitions and development costs, payment of principal and interest on our outstanding indebtedness, property improvements, re-leasing costs and cash distributions to common and preferred stockholders, primarily through cash provided by operating activities, borrowing on our $425 million 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, 2011, our total outstanding borrowings of senior unsecured notes and bonds, mortgages payable and credit facility borrowings were $2.06 billion, or approximately 29.1% of our total market capitalization of $7.06 billion.

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We define our total market capitalization at December 31, 2011 as the sum of:

Shares of our common stock outstanding of 133,223,338 multiplied by the last reported sales price of our common stock on the NYSE of $34.96 per share on December 31, 2011, or $4.66 billion;
Aggregate liquidation value (par value of $25 per share) of the Class D preferred stock of $127.5 million;
Aggregate liquidation value (par value of $25 per share) of the Class E preferred stock of $220 million;
Outstanding mortgages payable of $67.8 million;
Outstanding borrowings of $237.4 million on our credit facility; and
Outstanding senior unsecured notes and bonds of $1.75 billion.

Mortgage Debt
As of December 31, 2011, we have $67.2 million of mortgages payable to third-party lenders that were assumed in 2011, in connection with our property acquisitions. We paid $279,000 in principal payments on these mortgages payable during 2011. Additionally, net premiums totaling $820,000, in aggregate, were recorded upon assumption of the mortgages payable at the time of the respective property acquisitions to account for above-market interest rates. We recorded amortization of $189,000 related to these net premiums during 2011.

Our mortgages payable are secured by the properties on which the debt was placed and are non-recourse. We expect to pay off the mortgages payable as soon as prepayment penalties and costs make it economically feasible to do so. We intend to continue our policy of primarily identifying property acquisitions that are free from mortgage indebtedness.

$425 Million Acquisition Credit Facility
We have a $425 million unsecured, revolving credit facility. The initial term of the credit facility expires in March 2014 and includes two, one-year extension options. Under the credit facility, the current investment grade credit ratings on our debt securities provide for financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 185 basis points with a facility commitment fee of 35 basis points, for all-in drawn pricing of 220 basis points 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 the credit facility. At December 31, 2011, we had a borrowing capacity of $187.6 million available on our credit facility (subject to customary conditions to borrowing) and an outstanding balance of $237.4 million. As a result of the issuance of our Class F preferred stock in February 2012, we paid off all outstanding credit facility borrowings on February 7, 2012. The interest rate on borrowings outstanding under our credit facility at December 31, 2011 was 2.1% per annum. We must comply with various financial and other covenants in our credit facility. At December 31, 2011, we remain in compliance with these covenants.

We expect to use our credit facility to acquire additional properties and for other corporate purposes. Any additional borrowings will increase our exposure to interest rate risk. We have the right to request an increase in the borrowing capacity of the credit facility, up to $200 million, to a total borrowing capacity of $625 million. Any increase in the borrowing capacity is subject to approval by the lending banks participating in our credit facility.

Cash Reserves
We are organized to operate as an equity REIT that acquires and leases properties and distributes to stockholders, in the form of monthly cash distributions, a substantial portion of our net cash flow generated from leases on our properties. We intend to retain an appropriate amount of cash as working capital. At December 31, 2011, we had cash and cash equivalents totaling $4.2 million.

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

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Acquisitions During 2011
During 2011, we invested $1.02 billion in 164 new properties, and properties under development, with an initial weighted average contractual lease rate of 7.8%. The majority of the lease revenue from these properties will be generated from tenants that have investment grade ratings on their senior debt securities. These 164 new properties, and properties under development, are located in 26 states, contain over 6.2 million leasable square feet, and are 100% leased with an average lease term of 13.4 years.

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

Included in the $1.02 billion invested during 2011 are:

(1) The acquisition of 33 single-tenant retail, distribution, office and manufacturing properties for approximately $543.8 million, under long-term, net lease agreements.
(2) The acquisition of 60 properties operating in the restaurant - quick service industry for $41.9 million, under long-term, net lease agreements.
(3) The acquisition of six properties operating in the wholesale clubs industry for $156.1 million, under long-term, net lease agreements.
(4) The acquisition of 36 properties operating in the grocery store industry for $151.4 million under long-term, net lease agreements.
(5) The acquisition of nine properties operating in the health and fitness industry for $63.2 million, under long-term, net lease agreements.
(6) The remaining 20 properties acquired totaled approximately $59.8 million.

Portfolio Discussion

Leasing Results
At December 31, 2011, we had 87 properties available for lease out of 2,634 properties in our portfolio, which represents a 96.7% occupancy rate. Since December 31, 2010, when we reported 84 properties available for lease and a 96.6% occupancy rate, we:

Leased 37 properties;
Sold 21 properties available for lease; and
Have 61 new properties available for lease.

During 2011, 89 properties with expiring leases were leased to either existing or new tenants. The rent on these leases was $9.6 million, as compared to the previous rent on these same properties of $10.4 million. At December 31, 2011, our average annualized rental revenue per square foot was approximately $17.06.

Investments in Existing Properties
In 2011, we capitalized costs of $4.2 million on existing properties in our portfolio, consisting of $1.7 million for re-leasing costs and $2.5 million for building and tenant improvements. In 2010, we capitalized costs of $3.6 million on existing properties in our portfolio, consisting of $1.5 million for re-leasing costs and $2.1 million for building improvements.

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

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

Impact of Real Estate and Credit Markets

In the commercial real estate market, property prices generally continue to fluctuate. Likewise, 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 continue to 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 Distributions to Common Stockholders

We continue our 43-year policy of paying distributions monthly. Monthly distributions per common share increased $0.0003125 in April 2011 to $0.1445625, in July 2011 to $0.144875, in October 2011 to $0.1451875 and in January 2012 to $0.1455. The increase in January 2012 was our 57th consecutive quarterly increase and the 64th increase in the amount of our dividend since our listing on the NYSE in 1994. In 2011, we paid three monthly cash distributions per common share in the amount of $0.14425, three in the amount of $0.1445625, three in the amount of $0.144875 and three in the amount of $0.1451875, totaling $1.736625. In December 2011, January 2012 and February 2012, we declared distributions of $0.1455 per share, which were paid in January 2012 and will be paid in February 2012 and March 2012, respectively.

The current monthly distribution of $0.1455 per share represents an annualized distribution of $1.746 per share, and an annualized distribution yield of approximately 5.0% based on the last reported sale price of our common stock on the NYSE of $34.96 on December 31, 2011. Although we expect to continue our policy of paying monthly distributions, we cannot guarantee that we will maintain our current level of distributions, that we will continue our pattern of increasing distributions per share, or what our actual distribution yield will be in any future period.

Issuance of Preferred Stock

In February 2012, we issued 14.95 million shares of 6.625% Monthly Income Class F cumulative redeemable preferred stock, including 1.95 million shares purchased by the underwriters upon the exercise of their overallotment option. The net proceeds of approximately $361.7 million from this issuance will be used to redeem the outstanding Class D preferred stock, repay borrowings under our acquisition credit facility and for other general corporate purposes. Beginning February 15, 2017, the Class F preferred shares are redeemable at our option for $25.00 per share. The initial dividend of $0.1702257 will be paid on March 15, 2012, and will cover 37 days. Thereafter, dividends of $0.1380208 per share will be paid monthly.

Redemption of Preferred Stock

In January 2012, we announced that we plan to redeem our outstanding Class D preferred stock on March 1, 2012. We will redeem the Class D preferred stock at $25.00 per share, plus accrued dividends.

Issuance of Common Stock

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

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

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

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

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

Note Issuance
In June 2010, we issued $250.0 million in aggregate principal amount of 5.75% senior unsecured notes due January 2021, or the 2021 Notes. The public offering price for the 2021 Notes was 99.404% of the principal amount for an effective yield of 5.826% per annum. The net proceeds of $246.1 million from this offering were used to repay borrowings under our acquisition credit facility, which were incurred to finance the acquisition of our properties.

Dividend Reinvestment and Stock Purchase Plan
In March 2011, we established a Dividend Reinvestment and Stock Purchase Plan, or The Plan, to provide our common shareholders, as well as new investors, with a convenient and economical method to purchase our common stock and/or reinvest their distributions. The Plan authorizes up to 6,000,000 common shares to be issued. Through December 31, 2011, we issued 59,605 shares and received net proceeds of approximately $1.9 million under The Plan.

Universal Shelf Registration
In March 2009, we filed a shelf registration statement with the SEC, which expires in March 2012. In accordance with the 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 common stock, preferred stock, debt securities, or 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. Our plan is to file a new shelf registration statement prior to the expiration of our existing shelf registration.

Credit Agency Ratings
The borrowing rates under our credit facility are based upon our credit ratings. We are currently assigned the following investment grade corporate credit ratings on our senior unsecured notes and bonds: Fitch Ratings has assigned a rating of BBB+, Moody’s Investors Service has assigned a rating of Baa1 and Standard & Poor’s Ratings Group has assigned a rating of BBB to our senior notes. All of these ratings have "stable" outlooks.

Based on our current ratings, the current facility interest rate is LIBOR plus 185 basis points with a facility commitment fee of 35 basis points, for all-in drawn pricing of 220 basis points over LIBOR. The credit facility provides that the interest rate can range between: (i) LIBOR plus 300 basis points if our credit facility is lower than BBB-/Baa3 and (ii) LIBOR plus 175 basis points 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 ranges from: (i) 50 basis points for a rating lower than BBB-/Baa3, and (ii) 30 basis points 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.

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

Notes Outstanding
Our senior unsecured note and bond obligations consist of the following as of December 31, 2011, sorted by maturity date (dollars in millions):

5.375% notes, issued in March 2003 and due in March 2013	$	100
5.5% notes, issued in November 2003 and due in November 2015		150
5.95% notes, issued in September 2006 and due in September 2016		275
5.375% notes, issued in September 2005 and due in September 2017		175
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
5.875% bonds, $100 issued in March 2005 and $150 issued in June 2011, both due in March 2035		250
	$	1,750

All of our outstanding notes and bonds have fixed interest rates. Interest on all of our senior note and bond obligations is paid semiannually. All of these notes and bonds contain various covenants, including: (i) a limitation on incurrence of any debt which would cause our debt to total adjusted assets ratio to exceed 60%; (ii) a limitation on incurrence of any secured debt which would cause our secured debt to total adjusted assets ratio to exceed 40%; (iii) a limitation on incurrence of any debt which would cause our debt service coverage ratio to be less than 1.5 times; and (iv) the maintenance at all times of total unencumbered assets not less than 150% of our outstanding unsecured debt. At December 31, 2011, we remain in compliance with these covenants.

The following is a summary of the key financial covenants for our senior unsecured notes, as defined and calculated per the terms of our notes. These calculations, which are not based on U.S. GAAP measurements, are presented to investors to show our ability to incur additional debt under the terms of our notes only and are not measures of our liquidity or performance. The actual amounts as of December 31, 2011 are:

Note Covenants	Required	Actual	
Limitation on incurrence of total debt	≤ 60% of adjusted assets	40.7	%
Limitation on incurrence of secured debt	≤ 40% of adjusted assets	1.3	%
Debt service coverage (trailing 12 months)	≥ 1.5 x	3.6	x
Maintenance of total unencumbered assets	≥ 150% of unsecured debt	247.0	%

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The following table summarizes the maturity of each of our obligations as of December 31, 2011 (dollars in millions):

Table of Obligations

Year of Maturity	Credit Facility(1)	Notes and Bonds	Mortgages Payable(2)	Interest (3)	Ground Leases Paid by Realty Income(4)	Ground Leases Paid by Our Tenants(5)	Other (6)	Totals
2012	$ --	$--	$ 11.3	$114.3	$ 0.2	$ 4.1	$16.9	$146.8
2013	--	100.0	20.9	109.8	0.2	4.0	--	234.9
2014	237.4	--	11.4	103.2	0.2	3.8	--	356.0
2015	--	150.0	23.6	123.4	0.2	3.7	--	300.9
2016	--	275.0	--	87.2	0.2	3.7	--	366.1
Thereafter	--	1,225.0	--	429.3	0.4	49.0	--	1,703.7
Totals	$ 237.4	$1,750.0	$ 67.2	$967.2	$ 1.4	$ 68.3	$16.9	$3,108.4

(1) The initial term of the credit facility expires in March 2014 and includes two, one-year extension options.
(2) Excludes net premiums of $820,000 recorded on the mortgages payable.
(3) Interest on the credit facility, notes, bonds and mortgages payable has been calculated based on outstanding balances as of December 31, 2011 through their respective maturity dates.
(4) Realty Income currently pays the ground lessors directly for the rent under the ground leases.
(5) Our tenants, who are generally sub-tenants under ground leases, are responsible for paying the rent under these ground leases. In the event a tenant fails to pay the ground lease rent, we are primarily responsible.
(6) "Other" consists of $16.2 million of commitments under construction contracts and $621,000 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. Our mortgages payable are secured by the properties on which the debt was placed and are non-recourse.

Preferred Stock Outstanding

In 2004, we issued 5.1 million shares of 7.375% Class D cumulative redeemable preferred stock. On May 27, 2009, shares of Class D preferred stock became redeemable at our option for $25 per share, plus any accrued and unpaid dividends. Dividends on shares of Class D preferred stock are paid monthly in arrears. On January 31, 2012, we announced that the Class D preferred stock would be redeemed on March 1, 2012.

In 2006, we issued 8.8 million shares of 6.75% Class E cumulative redeemable preferred stock. Beginning December 7, 2011, shares of Class E preferred stock are redeemable at our option for $25 per share, plus any accrued and unpaid dividends. Dividends on shares of Class E preferred stock are paid monthly in arrears.

In February 2012, we issued 14.95 million shares of 6.625% Class F cumulative redeemable preferred stock, including 1.95 million shares purchased by the underwriters upon the exercise of their overallotment option. Beginning February 15, 2017, shares of Class F preferred stock are redeemable at our option for $25 per share, plus any accrued and unpaid dividends. The initial dividend for the Class F preferred stock will be paid on March 15, 2012. Dividends on shares of Class F preferred stock will be paid monthly in arrears.

We are current in our obligations to pay dividends on our Class D and Class E preferred stock. The initial dividend on shares of Class F preferred stock will be paid on March 15, 2012.

No Off-Balance Sheet Arrangements or Unconsolidated Investments

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

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Matters Pertaining To Certain Tenants
In January 2012, Friendly Ice Cream Corporation, or Friendly's, one of our tenants, announced that it was emerging from voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code (which they had filed for in October 2011). Pursuant to the bankruptcy proceedings, Friendly's accepted 102 of their 121 leases with us. Friendly's rejected 19 leases with us, representing approximately $1.8 million of annualized rent, and received rent concessions and term reductions on some of their accepted leases with us. Overall, post-bankruptcy, we estimate that we will recover approximately 80% of the $16.1 million of annualized rent that Friendly's was paying the Company before the bankruptcy filing.

Additionally, in January 2012, Buffets Holding, Inc., or Buffets, another one of our tenants, filed for voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code. Buffets leases 86 properties from us that, as of December 31, 2011, represented approximately $18.2 million, or approximately 3.9% of our annualized rental revenue. Buffets rejected the leases on seven of our 86 properties, representing approximately $1.8 million of annualized rent. Additionally, we have reached a preliminary agreement (subject to bankruptcy court approval) with Buffets regarding rent concessions and term reductions on some of Buffets' other leases with us. Overall, post-bankruptcy, we estimate that we will recover approximately 65% of the $18.2 million of annualized rent that Buffets was paying us before the bankruptcy filing. Friendly's and Buffets both operate casual dining restaurants.

For both Friendly's and Buffets, any properties returned to us are immediately available for re-lease to other tenants. We believe that demand in the market for the rejected properties will allow us to find suitable replacement tenants within the next 18 months. However, there can be no assurance that we will be successful in finding replacement tenants for these properties within this timeframe, or at all, or that Friendly's or Buffets will continue to pay rent for the remainder of the lease terms on their accepted leases.

In addition, we have recently concluded an analysis of our portfolio and have identified other tenants, whose leases represented approximately 2% to 3% of our total annualized rent as of December 31, 2011, that we believe may make similar bankruptcy filings in 2012. However, the foregoing percentages are estimates and are subject to numerous assumptions and uncertainties and the actual percentage of annualized rent represented by other tenants who make bankruptcy filings during 2012 may be different.

RESULTS OF OPERATIONS

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

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

When acquiring a property for investment purposes, we allocate the fair value of real estate acquired to: 1) land and 2) building and improvements, based in each case on their estimated fair values. In addition, any assumed mortgages payable are recorded at their estimated fair values.

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For properties acquired with in-place operating leases, we allocate the fair value of real estate 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 and below-market leases, the value of in-place leases and tenant relationships, as applicable.

Another