REALTY INCOME CORP
Form 10-K
February 18, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2014

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)

11995 El Camino Real, San Diego, California, 92130

(Address of Principal Executive Offices)

Registrant s telephone number, including area code: (858) 284-5000

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 F Preferred Stock, $0.01 Par Value	New York Stock Exchange

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

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

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

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

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

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

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

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

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

At June 30, 2014, the aggregate market value of the Registrant s shares of common stock, $0.01 par value, held by non-affiliates of the Registrant was $9.8 billion based upon the last reported sale price of $44.42 per share on the New York Stock Exchange on June 30, 2014, the last business day of the Registrant s most recently completed second fiscal quarter.

At January 31, 2015, the number of shares of common stock outstanding was 225,043,990 and the number of shares of Class F Cumulative Redeemable Preferred Stock outstanding was 16,350,000.

DOCUMENTS INCORPORATED BY REFERENCE

Part III, Items 10, 11, 12, 13, and 14 incorporate by reference certain specific portions of the definitive Proxy Statement for Realty Income Corporation s Annual Meeting to be held on May 12, 2015, to be filed pursuant to Regulation 14A. Only those portions of the proxy statement which are specifically incorporated by reference herein shall constitute a part of this annual report.

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REALTY INCOME CORPORATION

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PART I

Item 1: Business

THE COMPANY

Realty Income, The Monthly Dividend Company®, is a publicly traded real estate company with the primary business objective of generating dependable monthly cash dividends from a consistent and predictable level of cash flow from operations. Our monthly dividends are supported by the cash flow from our property portfolio. We have in-house acquisition, portfolio management, asset management, credit research, real estate research, legal, finance and accounting, information technology, and capital markets capabilities. Over the past 46 years, Realty Income has been acquiring and managing freestanding commercial properties that generate rental revenue under long-term net lease agreements.

Realty Income (NYSE: O) was founded in 1969, and listed in 1994 on the New York Stock Exchange, or NYSE. We elected to be taxed as a real estate investment trust, or REIT, requiring us to distribute dividends to our stockholders aggregating at least 90% of our taxable income (excluding net capital gains).

We seek to increase earnings and distributions to stockholders, through active portfolio management, asset management and the acquisition of additional properties.

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

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

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

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

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

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

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

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

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

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

RECENT DEVELOPMENTS

Increases in Monthly Dividends to Common Stockholders

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

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

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

The monthly dividend of $0.189 per share represents a current annualized dividend of $2.268 per share, and an annualized dividend yield of approximately 4.2% based on the last reported sale price of our common stock on the NYSE of $54.31 on January 31, 2015. Although we expect to continue our policy of paying monthly dividends, we cannot guarantee that we will maintain our current level of dividends, that we will continue our pattern of increasing dividends per share, or what our actual dividend yield will be in any future period.

Acquisitions during 2014

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

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

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

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Portfolio Discussion

Leasing Results

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

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

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

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

Investments in Existing Properties

In 2014, we capitalized costs of $6.0 million on existing properties in our portfolio, consisting of $821,000 for re-leasing costs and $5.2 million for building and tenant improvements. In 2013, we capitalized costs of $8.5 million on existing properties in our portfolio, consisting of $1.3 million for re-leasing costs and $7.2 million for building and tenant improvements.

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

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

Note Issuance

In September 2014, we issued $250 million of 4.125% senior unsecured notes due October 2026, or the 2026 Notes. The price to the investors for the 2026 Notes was 99.499% of the principal amount for an effective yield of 4.178% per annum. A portion of the total net proceeds of approximately $246.4 million from this offering was used to repay all outstanding borrowings under our acquisition credit facility, and the remaining proceeds were used for other general corporate purposes and working capital, including additional property acquisitions.

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

Redemption of Preferred Stock

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

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Issuance of Common Stock

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

Modifications to Compensation Program

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

Dividend Reinvestment and Stock Purchase Plan

In March 2011, we established a Dividend Reinvestment and Stock Purchase Plan, or the DRSPP, to provide our common stockholders, as well as new investors, with a convenient and economical method of purchasing our common stock and reinvesting their distributions. The DRSPP also allows our current stockholders to buy additional shares of common stock by reinvesting all or a portion of their distributions. The DRSPP authorizes up to 6,000,000 common shares to be issued. During 2014, we issued 3,527,166 shares and raised approximately $158.5 million under the DRSPP.

Net Income Available to Common Stockholders

Net income available to common stockholders was $227.6 million in 2014, compared to $203.6 million in 2013, an increase of $24.0 million. On a diluted per common share basis, net income was $1.04 in 2014, as compared to $1.06 in 2013, a decrease of $0.02, or 1.9%. Net income available to common stockholders for 2014 includes a non-cash redemption charge of $6.0 million on the shares of Class E preferred stock that were redeemed in October 2014, which represents $0.03 on a diluted per common share basis. This charge is for the excess of redemption value over the carrying value of the Class E preferred stock and represents the original issuance cost that was paid in 2006. Net income available to common stockholders for 2013 was impacted by an unusually large gain on property sales, which represents $0.18 on a diluted per common share basis. Additionally, net income available to common stockholders for 2013 includes $13.0 million of merger-related costs for the acquisition of American Realty Capital Trust Inc., or ARCT, which represents $0.07 on a diluted per common share basis, and $3.7 million for accelerated vesting of restricted shares that occurred in July 2013 from ten-year vesting to five years, which represents $0.02 on a diluted per common share basis.

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

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

Funds from Operations Available to Common Stockholders (FFO)

In 2014, our FFO increased by $100.9 million, or 21.8%, to $562.9 million versus $462.0 million in 2013. On a diluted per common share basis, FFO was $2.58 in 2014, compared to $2.41 in 2013, an increase of $0.17, or 7.1%. FFO in 2014 includes a non-cash redemption charge of $6.0 million on the shares of Class E preferred stock that were redeemed in October 2014, which represents $0.03 on a diluted per common share basis. This charge is for the excess of redemption value over the carrying value of the Class E preferred stock and represents the original issuance cost that was paid in 2006. FFO in 2013 was normalized to exclude $13.0 million of merger-related costs, which represents $0.07 on a diluted per common share basis. FFO for 2013 includes $3.7 million for accelerated vesting of restricted shares that occurred in July 2013 from ten-year vesting to five years, which represents $0.02 on a diluted per common share basis. All references to FFO for 2013 reflect the adjustments for merger-related costs for the acquisition of ARCT.

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

Adjusted Funds from Operations Available to Common Stockholders (AFFO)

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

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

DIVIDEND POLICY

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

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

In order to maintain our status as a REIT for federal income tax purposes, we generally are required to distribute dividends to our stockholders aggregating annually at least 90% of our taxable income (excluding net capital gains), and we are subject to income tax to the extent we distribute less than 100% of our taxable income (including net capital gains). In 2014, our cash distributions to preferred and common stockholders totaled $519.1 million, or approximately 154.6% of our estimated taxable income of $335.7 million. Our estimated taxable income reflects non-cash deductions for depreciation and amortization. Our estimated taxable income is presented to show our compliance with REIT dividend requirements and is not a measure of our liquidity or operating performance. We intend to continue to make distributions to our stockholders that are sufficient to meet this dividend requirement and that will reduce or eliminate our exposure to income taxes. Furthermore, we believe our funds from operations are more than sufficient to support our current level of cash distributions to our stockholders. Our 2014 cash distributions to common stockholders totaled $479.3 million, representing 85.3% of our adjusted funds from operations available to common stockholders of $561.7 million.

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

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

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

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Distributions in excess of earnings and profits generally will first be treated as a non-taxable reduction in the stockholders basis in their stock, but not below zero. Distributions in excess of that basis generally will be taxable as a capital gain to stockholders who hold their shares as a capital asset. Approximately 24.8% of the distributions to our common stockholders, made or deemed to have been made in 2014, were classified as a return of capital for federal income tax purposes. We estimate that in 2015, between 20% and 35% of the distributions may be classified as a return of capital.

BUSINESS PHILOSOPHY AND STRATEGY

Investment Philosophy

We believe that owning an actively managed, diversified portfolio of commercial properties under long-term, net leases produces consistent and predictable income. Net leases typically require the tenant to be responsible for monthly rent and property operating expenses including property taxes, insurance, and maintenance. In addition, tenants of our properties typically pay rent increases based on: (1) increases in the consumer price index (typically subject to ceilings), (2) fixed increases, or (3) additional rent calculated as a percentage of the tenants gross sales above a specified level. We believe that a portfolio of properties under long-term net leases generally produces a more predictable income stream than many other types of real estate portfolios, while continuing to offer the potential for growth in rental income.

Diversification is also a key component of our investment philosophy. We believe that diversification of the portfolio by tenant, industry, geography, and, to a certain extent, property type leads to more predictable investment results for our shareholders by reducing vulnerability that can come with any single concentration. Our investment efforts have led to a diversified property portfolio that, as of December 31, 2014 consisted of 4,327 properties located in 49 states and Puerto Rico, leased to 234 different commercial tenants doing business in 47 industry segments. Each of the 47 industry segments, represented in our property portfolio, individually accounted for no more than 10.0% of our rental revenue for the quarter ended December 31, 2014. Since 1970, our occupancy rate at the end of each year has never been below 96%. However we cannot assure you that our future occupancy levels will continue to exceed 96%.

Investment Strategy

Our investment strategy is to act as a source of capital to regional and national tenants by acquiring and leasing back their real estate locations. When identifying new properties for investment, we generally focus on acquiring the real estate tenants consider important to the successful operation of their business. We generally seek to acquire real estate that has the following characteristics:

- Properties that are freestanding, commercially-zoned with a single tenant;
- Properties that are in significant markets or strategic locations critical to generating revenue for regional and national tenants (i.e. they need the property in which they operate in order to conduct their business);
- Properties that we deem to be profitable for the tenants and/or can generally be characterized as important to the operations of the company s business;

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

- Properties with real estate valuations that approximate replacement costs;

- Properties with rental or lease payments that approximate market rents; and

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

We seek to invest in industries in which several, well-organized, regional and national tenants are capturing market share through service, quality control, economies of scale, strong consumer brands, advertising, and the selection of prime locations. In addition, we frequently acquire large portfolios of single-tenant properties net leased to different tenants in a variety of industries. We have an internal team dedicated to sourcing such opportunities, often using our relationships with various tenants, owners/developers, and advisers to uncover and secure transactions. We also undertake thorough research and analysis to identify what we consider to be appropriate industries, tenants, and property locations for investment. This research expertise is instrumental to uncovering net lease opportunities in markets where we believe we can add value.

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In selecting potential investments, we look for tenants with the following attributes:

- Tenants with reliable and sustainable cash flow;
- Tenants with revenue and cash flow from multiple sources;
- Tenants that are willing to sign a long-term lease (10 or more years); and
- Tenants that are large owners and users of real estate.

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

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

Underwriting Strategy

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

In order to be considered for acquisition, properties must meet stringent investment and credit requirements. The properties must generate attractive current yields and the tenant must meet our credit criteria. We have established a four-part analysis that examines each potential investment based on:

- Industry, company, market conditions, and credit profile;
- Store profitability for retail locations, if profitability data is available;

- Overall real estate characteristics, including property value and comparative rental rates; and
- The importance of the real estate location to the operations of the tenants   business.

Prior to entering into any transaction, our investment professionals, assisted by our research department, conduct a review of a tenant s credit quality. The information reviewed may include reports and filings, including any public credit ratings, financial statements, debt and equity analyst reports, and reviews of corporate credit spreads, stock prices, market capitalization, and other financial metrics. We conduct additional due diligence, including additional financial reviews of the tenant and a more comprehensive review of the business segment and industry in which the tenant operates. We continue to monitor our tenants credit quality on an ongoing basis by reviewing the available information previously discussed, and providing summaries of these findings to management. We estimate that approximately 46% of our annualized rental revenue comes from properties leased to investment grade companies or their subsidiaries. At December 31, 2014, our top 20 tenants represent approximately 53% of our annualized revenue and nine of these tenants have investment grade credit ratings.

Asset Management Strategy

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

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We regularly review and analyze:

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

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

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

At December 31, 2014, we classified real estate with a carrying amount of $14.8 million as held for sale on our balance sheet. In 2015, we intend to continue our active disposition efforts to further enhance our real estate portfolio and anticipate approximately $50 million in property sales for all of 2015. We intend to invest these proceeds into new property acquisitions, if there are attractive opportunities available. However, we cannot guarantee that we will sell properties during the next 12 months at our estimated values or be able to invest the property sale proceeds in new properties.

Capital Philosophy

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

Our primary cash obligations, for the current year and subsequent years, are included in the Table of Obligations, which is presented in the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations. We expect to fund our operating expenses and other short-term liquidity requirements, including property acquisitions and development costs, payment of principal and interest on our outstanding indebtedness, property improvements, re-leasing costs, and cash distributions to common and preferred stockholders, primarily through cash provided by operating activities, borrowing on our $1.5

billion credit facility and occasionally through public securities offerings.

Conservative Capital Structure

We believe that our stockholders are best served by a conservative capital structure. Therefore, we seek to maintain a conservative debt level on our balance sheet and solid interest and fixed charge coverage ratios. At December 31, 2014, our total outstanding borrowings of senior unsecured notes and bonds, term loan, mortgages payable and credit facility borrowings were $4.93 billion, or approximately 30.6% of our total market capitalization of $16.11 billion.

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

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

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Impact of Real Estate and Credit Markets

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

Universal Shelf Registration

In February 2013, we filed a shelf registration statement with the SEC, which is effective for a term of three years and will expire in February 2016. This replaces our prior shelf registration statement. In accordance with SEC rules, the amount of securities to be issued pursuant to this shelf registration statement was not specified when it was filed and there is no specific dollar limit. The securities covered by this registration statement include (1) common stock, (2) preferred stock, (3) debt securities, (4) depositary shares representing fractional interests in shares of preferred stock, (5) warrants to purchase debt securities, common stock, preferred stock, or depositary shares, and (6) any combination of these securities. We may periodically offer one or more of these securities in amounts, prices and on terms to be announced when and if these securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of any offering.

$1.5 Billion Acquisition Credit Facility

We have a $1.5 billion unsecured acquisition credit facility with an initial term that expires in May 2016 and includes, at our election, a one-year extension option. Under this credit facility, our current investment grade credit ratings provide for financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 1.075% with a facility commitment fee of 0.175%, for all-in drawn pricing of 1.25% over LIBOR. The borrowing rate is not subject to an interest rate floor or ceiling. We also have other interest rate options available to us under this credit facility. Our credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation.

At December 31, 2014, we had a borrowing capacity of $1.28 billion available on our credit facility and an outstanding balance of $223.0 million. The interest rate on borrowings outstanding under our credit facility, at December 31, 2014, was 1.2% per annum. We must comply with various financial and other covenants in our credit facility. At December 31, 2014, we remain in compliance with these covenants. We expect to use our credit facility to acquire additional properties and for other corporate purposes. Any additional borrowings will increase our exposure to interest rate risk. We regularly review our credit facility and may seek to extend or replace our credit facility, to the extent we deem appropriate.

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

Cash Reserves

We are organized to operate as an equity REIT that acquires and leases properties and distributes to stockholders, in the form of monthly cash distributions, a substantial portion of our net cash flow generated from leases on our properties. We intend to retain an appropriate amount of cash as working capital. At December 31, 2014, we had cash and cash equivalents totaling $3.9 million.

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

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Credit Agency Ratings

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

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

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

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

Notes Outstanding

As of December 31, 2014, we had $3.8 billion of senior unsecured note and bond obligations, excluding unamortized original issuance discounts of $14.6 million. All of our outstanding notes and bonds have fixed interest rates. Interest on all of our senior note and bond obligations is paid semiannually.

Mortgage Debt

As of December 31, 2014, we had $836.0 million of mortgages payable, all of which were assumed in connection with our property acquisitions. Additionally, at December 31, 2014, we had net premiums totaling $16.6 million on these mortgages. We expect to pay off the mortgages as soon as prepayment penalties make it economically feasible to do so. During 2014, we made $85.2 million in principal payments, including the repayment of six mortgages in full for $77.8 million.

Term Loan

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

No Unconsolidated Investments

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

Corporate Responsibility

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

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

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

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

- Our Board of Directors is comprised of eight directors, seven of which are independent, non-employee directors;
- Our Board of Directors is elected on an annual basis;
- We employ a majority vote standard for elections;
- Our Compensation Committee of the Board of Directors works with independent consultants, in conducting annual compensation reviews for our key executives, and compensates each individual based on primarily reaching certain performance metrics that determine the success of our company; and
- We adhere to all other corporate governance principles outlined in our Corporate Governance Guidelines document on our website.

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

- Powering down office equipment at the end of the day;
- Setting copier machines to energy saver mode;
- Encouraging employees to reduce paper usage whenever possible, by storing documents electronically and using duplex copy mode;
- Employing an automated lights out system that is activated 24/7;
- Programming HVAC to only operate during normal business operating hours; and
- Encouraging employees to carpool to our headquarters.

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

With respect to recycling and reuse practices, we encourage the use of recycled products and the recycling of materials during our operations. Recycling bins are placed in all areas where materials are regularly disposed of and at the individual desks of our employees. Cell phones, wireless devices and office equipment are recycled or donated whenever possible.

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

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PROPERTY PORTFOLIO INFORMATION

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

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

At December 31, 2014, of our 4,327 properties, 4,257 were leased under net lease agreements. A net lease typically requires the tenant to be responsible for minimum monthly rent and certain property operating expenses including property taxes, insurance, and maintenance. In addition, our tenants are typically subject to future rent increases based on increases in the consumer price index (typically subject to ceilings), additional rent calculated as a percentage of the tenants gross sales above a specified level, or fixed increases.

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

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

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Industry Diversification (continued)

	Percentage of Rental Revenue(1)						
	For the Quarter Ended			For the Years Ended			
	December 31, 2014	Dec 31, 2014	Dec 31, 2013	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010	Dec 31, 2009
Non-retail industries							
Aerospace	1.2	1.2	1.2	0.9	0.5	-	-
Beverages	2.7	2.8	3.3	5.1	5.6	3.0	-
Consumer appliances	0.5	0.5	0.6	0.1	-	-	-
Consumer goods	0.9	0.9	1.0	0.1	-	-	-
Crafts and novelties	0.1	0.1	0.1	-	-	-	-
Diversified industrial	0.6	0.5	0.2	0.1	-	-	-
Electric utilities	0.1	0.1	*	-	-	-	-
Equipment services	0.5	0.5	0.4	0.3	0.2	-	-
Financial services	0.4	0.4	0.5	0.4	0.3	-	-
Food processing	1.3	1.4	1.5	1.3	0.7	-	-
General merchandise	0.3	0.3	-	-	-	-	-
Government services	1.2	1.3	1.4	0.1	0.1	0.1	0.1
Health care	0.7	0.7	0.8	*	*	-	-
Home furnishings	0.2	0.2	0.2	-	-	-	-
Insurance	0.1	0.1	0.1	*	-	-	-
Machinery	0.2	0.2	0.2	0.1	-	-	-
Other manufacturing	0.7	0.7	0.6	-	-	-	-
Packaging	0.8	0.8	0.9	0.7	0.4	-	-
Paper	0.1	0.1	0.2	0.1	0.1	-	-
Shoe stores	0.7	0.8	0.9	-	-	-	-
Telecommunications	0.7	0.7	0.7	0.8	0.7	-	-
Transportation services	5.1	5.1	5.3	2.2	1.6	-	-
Other	0.2	0.2	0.1	1.0	1.2	1.5	1.6
Non-retail industries	19.3%	19.6%	20.2%	13.3%	11.4%	4.6%	1.7%
Totals	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

* Less than 0.1%

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

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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, 2014 (dollars in thousands):

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

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

Tenant Diversification

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

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

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Service Category Diversification for our Retail Properties

The following table sets forth certain information regarding the 4,172 retail properties, included in the 4,327 total properties, owned by Realty Income at December 31, 2014, classified according to the business types and the level of services they provide at the property level (dollars in thousands):

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

* Less than 0.1%

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

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

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

* Less than 0.1%

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

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

(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, 2014 (dollars in thousands):

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

* Less than 0.1%

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

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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 Securities and Exchange Commission, or SEC. While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date of this annual report or to reflect the occurrence of unanticipated events. In light of these risks and uncertainties, the forward-looking events discussed in this annual report might not occur.

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 and operation 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 the 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 stockholders 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 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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Seventy of our properties were available for lease or sale at December 31, 2014, all of which were single-tenant properties. At December 31, 2014, thirty-nine 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 2014, each of our tenants accounted for less than 10% of our rental revenue.

Individually, each of the industries in our property portfolio accounted for less than 10% of our rental revenue for 2014. Nevertheless, downturns in these 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, some of our properties are leased to tenants that may have more limited financial and other resources, 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 acquisition of ARCT included tenants in the aerospace, freight, governmental services, healthcare, home maintenance, manufacturing, pharmacy, retail banking, technology, and telecommunications businesses, some of which are non-retail businesses and none of which was in an industry segment that was within our property portfolio prior to our acquisition of ARCT. These risks may include 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 conditions associated with our properties of which we are unaware. In that regard, a number of our properties are leased to operators of convenience stores that sell petroleum-based fuels, as well as to operators of oil change and tune-up facilities and operators that use chemicals and other waste products. These facilities, and some other of our properties, use, or may have used in the past, underground lifts or underground tanks for the storage of petroleum-based or waste products, which could create a potential for the release of hazardous substances.

The presence of hazardous substances on a property may adversely affect our ability to lease or sell that property and we may incur substantial remediation costs or third party liability claims. 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 liability, including 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 we may acquire other buildings with asbestos 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

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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 possible that our insurance could be insufficient to address any particular environmental situation and/or 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 arise during the lease terms as a result of tenants activities on the properties. For properties that have underground storage tanks, in addition to providing an indemnity in our favor, the tenants generally are required to meet applicable state financial assurance obligations, including maintaining certain minimum net worth requirements, obtaining environmental insurance, or relying upon the state trust funds where available in the states where these properties are located to reimburse responsible parties for costs of environmental remediation. However, it is possible that one or more of our tenants could fail to have sufficient funds to cover any such indemnification or to meet applicable state financial assurance obligations, and thus we may still be obligated to pay for any such environmental liabilities.

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

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

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

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

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

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

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

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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 for amounts distributed to our stockholders in computing our taxable income;

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

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

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

Even if we qualify for and maintain our REIT status, we may be subject to certain federal, state, and local taxes on our income and property. For example, if we have net income from a prohibited transaction, that income will be subject to a 100% tax. In addition, our taxable REIT subsidiaries, including Crest, are subject to federal and state taxes at the applicable tax rates on their income and property. Any failure to comply with legal and regulatory tax obligations could adversely affect our ability to conduct business and could adversely affect the market price of our capital stock and the value of our debt securities.

Distribution requirements imposed by law limit our flexibility.

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

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

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

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

Our future growth will depend, in large part, upon our ability to raise additional capital. If we were to raise additional capital through the issuance of equity securities, we could dilute the interests of holders of our common stock. The interests of our common stockholders could also be diluted by the issuance of shares of common stock 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 our Board of Directors). Accordingly, our 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 may acquire properties or portfolios of properties through tax deferred contribution transactions, which could result in stockholder dilution and limit our ability to sell or refinance such assets.

We have in the past and may in the future acquire properties or portfolios of properties through tax deferred contribution transactions in exchange for partnership units in an operating partnership, which could result in stockholder dilution through the issuance of operating partnership units that, under certain circumstances, may

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be exchanged for shares of our common stock. This acquisition structure may have the effect of, among other things, reducing the amount of tax depreciation we could deduct over the tax life of the acquired properties, and may require that we agree to restrictions on our ability to dispose of, or refinance the debt on, the acquired properties in order to protect the contributors ability to defer recognition of taxable gain. Similarly, we may be required to incur or maintain debt we would otherwise not incur so we can allocate the debt to the contributors to maintain their tax bases. These restrictions could limit our ability to sell or refinance an asset at a time, or on terms, that would be favorable absent such restrictions.

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

We intend to incur additional indebtedness in the future, including borrowings under our $1.5 billion acquisition credit facility. At December 31, 2014, we had $223.0 million of outstanding borrowings under our acquisition credit facility, a total of $3.8 billion of outstanding unsecured senior debt securities (excluding unamortized original issuance discounts of $14.6 million), $70 million of borrowings outstanding under a senior unsecured term loan and approximately $836.0 million of outstanding mortgage debt (excluding net premiums totaling $16.6 million on these mortgages). 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 rates on our acquisition credit facility, our term loan and some of our mortgage debt are variable and could therefore increase over time. We also face the risk that we may be unable to refinance or repay our debt as it comes due. Given past disruptions in the financial markets and the ongoing global financial crisis, 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, term loan facility, and mortgage loan documents contain provisions that could limit or, in certain cases, prohibit the payment of dividends and other 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 dividends or other distributions on (except distributions payable in shares of a given class of our stock to the shareholders of that class), or repurchase or redeem, among other things, any shares of our common stock or preferred stock, during any period of four consecutive fiscal quarters in an aggregate amount in excess of the greater of:

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

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

except that we may repurchase or redeem preferred stock with the net proceeds from the issuance of our common stock or preferred stock. The acquisition credit facility further provides that, in the event of a failure to pay principal, interest or any other amount payable thereunder when due or upon the occurrence of certain events of bankruptcy, insolvency or reorganization with respect to us or with respect to any of our subsidiaries that have guaranteed amounts payable under the credit facility or that meet a significance test set forth in the credit facility, we and our subsidiaries may not pay any dividends or other 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 dividends or other distributions payable on our common stock and preferred stock or prevent us from paying those dividends or other distributions altogether, and may adversely affect our ability to qualify, or prevent us from qualifying, as a REIT. Likewise, one of our subsidiaries is the borrower under our $70 million term loan facility and that facility requires that this subsidiary maintain its consolidated tangible net worth (as defined in the term loan facility) above a certain minimum dollar amount and comply with certain other financial covenants. This minimum consolidated tangible net worth covenant may limit the ability of this subsidiary, as well as other subsidiaries that are owned by this subsidiary, to provide funds to us in order to pay dividend and other distributions on our common stock, including the shares of common stock offered hereby, and preferred stock and amounts due on our indebtedness. Any failure by this subsidiary to comply with these financial covenants will, and any failure by this subsidiary to comply with other covenants in the term loan facility may, result in an event of default under that facility, which could have adverse consequences similar to those that may result from an event of default under our acquisition credit facility as described above.

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

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

If we default under a loan agreement or other debt instrument, the lenders will generally have the right to demand immediate repayment of the principal of and interest on their loan and, in the case of secured indebtedness, to exercise their rights to seize and sell the collateral.

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 and may be outside of our control, 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 legal and regulatory taxation obligations;
- Litigation and regulatory proceedings;
- Changes in financial estimates or recommendations by securities analysts with respect to us, our competitors or our industry;
- Changes in our credit ratings; and
- Actual or anticipated variations in quarterly operating results of us and our competitors.

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

Real estate ownership is subject to particular 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;

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

- Acts of terrorism and war; and

- Acts of God and other factors beyond the control of our management.

Real estate property investments are illiquid; therefore, the company may not be able to dispose of properties when desired or on favorable terms.

Real estate investments are relatively illiquid. Our ability to quickly sell or exchange any of our properties in response to changes in economic and other conditions will be limited. No assurances can be given that we will recognize full value, at a price and at terms that are acceptable to us, for any property that we are required to sell for liquidity reasons. Our inability to respond rapidly to changes in the performance of our investments could adversely affect our financial condition and results of operations.

Our acquisition of additional properties may have a significant effect on our business, liquidity, financial position and/or results of operations.

We are engaged in the process of identifying, analyzing, underwriting, and negotiating possible acquisition transactions. We cannot provide any assurances that we will be successful in consummating future acquisitions on favorable terms or that we will realize the benefits that we anticipate from such acquisitions. Our inability to consummate one or more acquisitions on such terms, our failure to adequately underwrite and identify risks and obligations when acquiring properties, or our failure to realize the intended benefits from one or more acquisitions, could have a significant adverse effect on our business, liquidity, financial position and/or results of operations, including as a result of our incurrence of additional indebtedness and related interest expense and our assumption of unforeseen contingent liabilities in connection with completed acquisitions.

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 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

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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. 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.

In addition, although we obtain title insurance policies of our properties to protect us and our properties against unknown title defects (such as claims of ownership, liens or other encumbrances), there may be certain title defects that our title insurance will not cover. If a material title defect related to any of our properties is not adequately covered by a title insurance policy, we could lose some or all of our capital invested in and our anticipated profits from such property, cause a financial misstatement or lead to reputational damage to the company.

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.

Litigation risks could affect our business.

From time to time, we are involved in legal proceedings, lawsuits, and other claims. An unfavorable resolution of litigation may have a material adverse effect on our business, results of operations and financial condition. Regardless of its outcome, litigation may result in substantial costs and expenses and significantly divert the attention of management.

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.

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

Natural disasters, terrorist attacks, other acts of violence or war, or other unexpected events 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 events like these will not occur or have a direct impact on our tenants, our business or the United States generally.

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If events like these were to occur, they could materially interrupt our business operations, 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.

We rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information and to manage or support a variety of our business processes, including financial transactions and maintenance of records, which may include personal identifying information. Although we have taken steps to protect the security of the data maintained in our information systems, our security measures may not be able to prevent the systems improper functioning, or the theft of intellectual property, personal information, or personal property, such as in the event of cyber-attacks. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, result in theft of company assets, damage our reputation, subject us to liability claims and could adversely affect our business, financial condition and results of operations.

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

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

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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 that are currently difficult to assess, as well as estimates of future performance or receivables collectability that 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.

Inherent limitations of internal controls over financial statements and safeguarding of assets may adversely impact our financial condition and results of operations.

Our internal controls over financial reporting and our operating internal controls may not prevent or detect financial misstatements or loss of assets because of inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Effective internal controls can provide only reasonable assurance with respect to financial statement accuracy and safeguarding of assets. Any failure of these internal controls could result in decreased investor confidence in the accuracy and completeness of our financial reports, civil litigation or investigations by the NYSE, the SEC or other regulatory authorities, which may adversely impact our financial condition and results of operations.

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

The Financial Accounting Standards Board, or FASB, in conjunction with the SEC, has several key projects on their agenda that could impact how we currently account for our material transactions, including lease accounting and other convergence projects with the International Accounting Standards Board. At this time, we are unable to predict with certainty which, if any, proposals may be passed or what level of impact any such proposal could have on the presentation of our consolidated financial statements, our results of operations and our financial ratios required by our debt covenants.

Our business could be negatively affected as a result of actions of activist stockholders and shareholder advisory firms.

Campaigns by stockholders to effect changes at publicly traded companies are sometimes led by investors seeking to increase short-term stockholder value through actions such as financial restructuring, increased debt, special dividends, stock repurchases or sales of assets or the entire company. If we become engaged in a process or proxy contest with an activist stockholder in the future, our business could be adversely affected, as such activities could be costly and time-consuming, disrupt our operations and divert the attention of management and our employees from executing our business plan. Additionally, perceived uncertainties as to our future direction as a result of stockholder activism or actual or potential changes to the composition of our board of directors or management team may lead to the perception of a change in the direction of our business, instability or lack of continuity, which may be exploited by our competitors, cause concern to current or potential sellers of properties, tenants and financing sources, and make it more difficult to attract and retain qualified personnel. If potential or existing sellers of properties, tenants or financing sources choose to delay, defer or reduce transactions with us or transact with our competitors instead of us because of any such issues, then our results of operations could be adversely affected. Similarly, we may suffer damage to our reputation (for example, regarding our corporate governance or stockholder relations) or brand by way of actions taken or statements made by outside constituents, including activist investors and shareholder advisory firms, which could adversely affect the market price of our common stock and preferred stock and the value of our debt securities, including the notes, resulting in significant loss of value, which could impact our ability to access capital, increase our cost of capital, and decrease our ability to acquire properties on attractive terms.

Item 1B: **Unresolved Staff comments**

There are no unresolved staff comments.

Item 2: **Properties**

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

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Item 3: **Legal Proceedings**

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

Item 4: **Mine Safety Disclosures**

None.

PART II

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

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

	Price Per Share of Common Stock		Distributions
	High	Low	Declared (1)
2014			
First Quarter	$ 45.11	$ 37.01	$ 0.5468126
Second Quarter	44.98	40.21	0.5477501
Third Quarter	45.83	40.56	0.5486876
Fourth Quarter	49.65	40.71	0.5496251
Total			$ 2.1928754
2013			
First Quarter	$ 46.63	$ 40.51	$ 0.5430626
Second Quarter	55.48	39.84	0.5440001
Third Quarter	46.01	38.41	0.5449376
Fourth Quarter	43.20	36.58	0.5458751
Total			$ 2.1778754

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

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

C. During the fourth quarter of 2014, 16,780 shares of stock, at a price of $47.71, and 45,130 shares of stock, at a price of $42.17, were withheld for state and federal payroll taxes on the vesting of employee stock awards, as permitted under the 2012 Incentive Award Plan of Realty Income Corporation.

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

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

GENERAL

Realty Income, The Monthly Dividend Company®, is a publicly traded real estate company with the primary business objective of generating dependable monthly cash dividends from a consistent and predictable level of cash flow from operations. Our monthly dividends are supported by the cash flow from our property portfolio. We have in-house acquisition, portfolio management, asset management, credit research, real estate research, legal, finance and accounting, information technology, and capital markets capabilities. Over the past 46 years, Realty Income and its predecessors have been acquiring and managing freestanding commercial properties that generate rental revenue under long-term net lease agreements.

Realty Income (NYSE: O) was founded in 1969, and in 1994 was listed on the NYSE. We elected to be taxed as a real estate investment trust, or REIT, requiring us to distribute dividends to our stockholders aggregating at least 90% of our taxable income (excluding net capital gains).

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

Capital Philosophy

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

Our primary cash obligations, for the current year and subsequent years, are included in the Table of Obligations, which is presented later in this section. We expect to fund our operating expenses and other short-term liquidity requirements, including property acquisitions and development costs, payment of principal and interest on our outstanding indebtedness, property improvements, re-leasing costs and cash distributions to common and preferred stockholders, primarily through cash provided by operating activities, borrowing on our $1.5 billion credit facility and periodically through public securities offerings.

Conservative Capital Structure

We believe that our stockholders are best served by a conservative capital structure. Therefore, we seek to maintain a conservative debt level on our balance sheet and solid interest and fixed charge coverage ratios. At December 31, 2014, our total outstanding borrowings of senior unsecured notes and bonds, term loan, mortgages payable and credit facility borrowings were $4.93 billion, or approximately 30.6% of our total market capitalization of $16.11 billion.

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

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

Mortgage Debt

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

We expect to pay off the mortgages payable as soon as prepayment penalties have declined to a level that will make it economically feasible to do so. During 2014, we made $85.2 million of principal payments, including the repayment of six mortgages in full for $77.8 million.

Term Loan

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

$1.5 Billion Acquisition Credit Facility

We have a $1.5 billion unsecured acquisition credit facility with an initial term that expires in May 2016 and includes, at our election, a one-year extension option. Under this credit facility, our current investment grade credit ratings provide for financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 1.075% with a facility commitment fee of 0.175%, for all-in drawn pricing of 1.25% over LIBOR. The borrowing rate is not subject to an interest rate floor or ceiling. We also have other interest rate options available to us under this credit facility. Our credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation.

At December 31, 2014, we had a borrowing capacity of $1.28 billion available on our credit facility (subject to customary conditions to borrowing) and an outstanding balance of $223.0 million. The interest rate on borrowings outstanding under our credit facility, at December 31, 2014, was 1.2% per annum. We must comply with various financial and other covenants in our credit facility. At December 31, 2014, we remain in compliance with these covenants. We expect to use our credit facility to acquire additional properties and for other corporate purposes. Any additional borrowings will increase our exposure to interest rate risk. We regularly review our credit facility and may seek to extend or replace our credit facility, to the extent we deem appropriate.

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

Notes Outstanding

As of December 31, 2014, we had $3.8 billion of senior unsecured note and bond obligations, excluding unamortized original issuance discounts of $14.6 million. All of our outstanding notes and bonds have fixed interest rates. Interest on all of our senior note and bond obligations is paid semiannually.

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In September 2014, we issued $250 million of 4.125% senior unsecured notes due October 2026, or the 2026 Notes. The price to the investors for the 2026 Notes was 99.499% of the principal amount for an effective yield of 4.178% per annum. A portion of the total net proceeds of approximately $246.4 million from this offering was used to repay all outstanding borrowings under our acquisition credit facility, and the remaining proceeds were used for other general corporate purposes and working capital, including additional property acquisitions.

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

Cash Reserves

We are organized to operate as an equity REIT that acquires and leases properties and distributes to stockholders, in the form of monthly cash distributions, a substantial portion of our net cash flow generated from leases on our properties. We intend to retain an appropriate amount of cash as working capital. At December 31, 2014, we had cash and cash equivalents totaling $3.9 million.

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

Acquisitions During 2014

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

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

In the case of a property under development or expansion, the contractual lease rate is generally fixed such that rent varies based on the actual total investment in order to provide a fixed rate of return. When the lease does not provide for a fixed rate of return on a property under development or expansion, the estimated initial weighted average contractual lease rate is computed as follows: estimated net operating income (determined by the lease) for the first full year of each lease, divided by our projected total investment in the property, including land, construction and capitalized interest costs. Of the $1.4 billion we invested during 2014,

$81.9 million was invested in 40 properties under development or expansion with an estimated initial weighted average contractual lease rate of 8.4%. We may continue to pursue development or expansion opportunities under similar arrangements in the future.

Portfolio Discussion

Leasing Results

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

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

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

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

Investments in Existing Properties

In 2014, we capitalized costs of $6.0 million on existing properties in our portfolio, consisting of $821,000 for re-leasing costs and $5.2 million for building and tenant improvements. In 2013, we capitalized costs of $8.5 million on existing properties in our portfolio, consisting of $1.3 million for re-leasing costs and $7.2 million for building and tenant improvements.

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

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

Impact of Real Estate and Credit Markets

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

Increases in Monthly Dividends to Common Stockholders

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

Month	Month	Dividend	Increase

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

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

The monthly dividend of $0.189 per share represents a current annualized dividend of $2.268 per share, and an annualized dividend yield of approximately 4.2% based on the last reported sale price of our common stock on the NYSE of $54.31 on January 31, 2015. Although we expect to continue our policy of paying monthly dividends, we cannot guarantee that we will maintain our current level of dividends, that we will continue our pattern of increasing dividends per share, or what our actual dividend yield will be in any future period.

Universal Shelf Registration

In February 2013, we filed a shelf registration statement with the SEC, which is effective for a term of three years and will expire in February 2016. This replaces our prior shelf registration statement. In accordance with SEC rules, the amount of securities to be issued pursuant to this shelf registration statement was not specified when it was filed and there is no specific dollar limit. The securities covered by this registration statement include (1) common stock, (2) preferred stock, (3) debt securities, (4) depositary shares representing fractional interests in shares of preferred stock, (5) warrants to purchase debt securities, common stock, preferred stock or depositary shares, and (6) any combination of these securities. We may periodically offer one or more of these securities in amounts, prices and on terms to be announced when and if the securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of any offering.

Issuance of Common Stock

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

Dividend Reinvestment and Stock Purchase Plan

In March 2011, we established a Dividend Reinvestment and Stock Purchase Plan, or the DRSPP, to provide our common stockholders, as well as new investors, with a convenient and economical method of purchasing our common stock and reinvesting their distributions. The DRSPP also allows our current stockholders to buy additional shares of common stock by reinvesting all or a portion of their distributions. The DRSPP authorizes up to 6,000,000 common shares to be issued. During 2014, we issued 3,527,166 shares and raised approximately $158.5 million under the DRSPP.

Credit Agency Ratings

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

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

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

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

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Notes Outstanding

Our senior unsecured note and bond obligations consist of the following as of December 31, 2014, sorted by maturity date (dollars in millions):

5.5% notes, issued in November 2003 and due in November 2015	$	150
5.95% notes, issued in September 2006 and due in September 2016		275
5.375% notes, issued in September 2005 and due in September 2017		175
2.0% notes, issued in October 2012 and due in January 2018		350
6.75% notes, issued in September 2007 and due in August 2019		550
5.75% notes, issued in June 2010 and due in January 2021		250
3.25% notes, issued in October 2012 and due in October 2022		450
4.65% notes, issued in July 2013 and due in August 2023		750
3.875% notes, issued in June 2014 and due in July 2024		350
4.125% notes, issued in September 2014 and due in October 2026		250
5.875% bonds, $100 issued in March 2005 and $150 issued in June 2011, both due in March 2035		250
Total principal amount	$	3,800
Unamortized original issuance discounts		(15)
	$	3,785

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

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

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

(1) This covenant is calculated on a pro forma basis for the preceding four-quarter period on the assumption that: (i) the incurrence of any Debt (as defined in the covenants) incurred by us since the first day of such four-quarter period and the application of the proceeds therefrom (including to refinance other Debt since the first day of such four-quarter period), (ii) the repayment or retirement of any of our Debt since the first day of such four-quarter period, and (iii) any acquisition or disposition by us of any asset or group since the first day of such four-quarters had in each case occurred on January 1, 2014, and subject to certain additional adjustments. Such pro forma ratio has been prepared on the basis required by that debt service covenant, reflects various estimates and assumptions and is subject to other uncertainties, and therefore does not purport to reflect what our actual debt service coverage ratio would have been had transactions referred to in clauses (i), (ii) and (iii) of the preceding sentence occurred as of January 1, 2014, nor does it purport to reflect our debt service coverage ratio for any future period. The following is our calculation of debt service coverage at December 31, 2014 (in thousands, for trailing twelve months):

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

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Fixed Charge Coverage Ratio

Fixed charge coverage ratio is calculated in exactly the same manner as the debt service coverage ratio, except that preferred stock dividends are also added to the denominator. Similar to debt service coverage ratio, we consider fixed charge coverage ratio to be an appropriate supplemental measure of a company s ability to make its interest and preferred stock dividend payments. Our calculations of both debt service and fixed charge coverage ratios may be different from the calculations used by other companies and, therefore, comparability may be limited. The presentation of debt service and fixed charge coverage ratios should not be considered as alternatives to any U.S. GAAP operating performance measures. Below is our calculation of fixed charges at December 31, 2014 (in thousands, for trailing twelve months):

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

Table of Obligations

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

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

(1) The initial term of the credit facility expires in May 2016 and includes, at our option, a one-year extension, which has been assumed to occur in the table above.
(2) Excludes non-cash original issuance discounts recorded on the notes payable. The unamortized balance of the original issuance discounts at December 31, 2014, is $14.6 million.
(3) Excludes non-cash net premiums recorded on the mortgages payable. The unamortized balance of these net premiums at December 31, 2014, is $16.6 million.
(4) Interest on the term loan, notes, bonds, mortgages payable, and credit facility has been calculated based on outstanding balances as of December 31, 2014 through their respective maturity dates.
(5) Realty Income currently pays the ground lessors directly for the rent under the ground leases.
(6) Our tenants, who are generally sub-tenants under ground leases, are responsible for paying the rent under these ground leases. In the event a tenant fails to pay the ground lease rent, we are primarily responsible.
(7) Other consists of $33.6 million of commitments under construction contracts and $735,000 of contingent payments for tenant improvements and leasing costs.

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

Preferred Stock and Preferred Units Outstanding

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

In February 2012, we issued 14.95 million shares of our Class F preferred stock at $25.00 per share. In April 2012, we issued an additional 1.4 million shares of Class F preferred stock at $25.2863 per share. Beginning February 15, 2017, shares of our Class F preferred stock are redeemable at our option for $25.00 per share, plus any accrued and unpaid dividends. Dividends on the shares of our Class F preferred stock are paid monthly in arrears. We are current on our obligations to pay dividends on our Class F preferred stock.

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As part of our acquisition of ARCT in January 2013, we issued 6,750 partnership units, with a carrying value of $6.75 million. Payments on these preferred units are made monthly in arrears at rate of 2% per annum, or $135,000, and are included in interest expense. In January 2015, we redeemed all 6,750 Tau Operating Partnership preferred units for $1,000 per unit, plus accrued and unpaid dividends.

No Unconsolidated Investments

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

RESULTS OF OPERATIONS

Critical Accounting Policies

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

In order to prepare our consolidated financial statements according to the rules and guidelines set forth by GAAP, many subjective judgments must be made with regard to critical accounting policies. One of these judgments is our estimate for useful lives in determining depreciation expense for our properties. Depreciation on a majority of our buildings and improvements is computed using the straight-line method over an estimated useful life of 25 to 35 years for buildings and 4 to 15 years for improvements, which we believe are appropriate estimates of useful life. If we use a shorter or longer estimated useful life, it could have a material impact on our results of operations.

Management must make significant assumptions in determining the fair value of assets acquired and liabilities assumed. When acquiring a property for investment purposes, we typically allocate the fair value of real estate acquired to: (1) land, (2) building and improvements, and (3) identified intangible assets and liabilities, based in each case on their estimated fair values. Intangible assets and liabilities consist of above-market or below-market lease value of in-place leases, the value of in-place leases, and tenant relationships, as applicable. In an acquisition of multiple properties, we must also allocate the purchase price among the properties. The allocation of the purchase price is based on our assessment of estimated fair value and is often based upon the expected future cash flows of the property and various characteristics of the markets where the property is located. In addition, any assumed mortgages receivable or payable and any assumed or issued noncontrolling interests are recorded at their estimated fair values. The estimated fair values of our mortgages payable have been calculated by discounting the future cash flows using applicable interest rates that have been adjusted for factors, such as industry type, tenant investment grade, maturity date, and comparable borrowings for similar assets. The initial allocation of the purchase price is based on management s preliminary assessment, which may differ when final information becomes available. Subsequent adjustments made to the initial purchase price allocation are made within the allocation period, which typically does not exceed one year. The use of different assumptions in the allocation of the purchase price of the acquired properties and liabilities assumed could affect the timing of recognition of the related revenue and expenses.

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

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The following is a comparison of our results of operations for the years ended December 31, 2014, 2013 and 2012.

Rental Revenue

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

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

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

Of the 4,327 properties in the portfolio at December 31, 2014, 4,308, or 99.6%, are single-tenant properties and the remaining nineteen are multi-tenant properties. Of the 4,308 single-tenant properties, 4,238, or 98.4%, were net leased with a weighted average remaining lease term (excluding rights to extend a lease at the option of the tenant) of approximately 10.2 years at December 31, 2014. Of our 4,238 leased single-tenant properties, 3,789 or 89.4% were under leases that provide for increases in rents through:

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

- Percentage rent based on a percentage of the tenants   gross sales;
- Fixed increases; or
- A combination of two or more of the above rent provisions.

Percentage rent, which is included in rental revenue, was $3.6 million in 2014, $2.8 million in 2013, and $1.9 million in 2012 (excluding percentage rent reclassified to discontinued operations of $35,000 in 2014, $104,000 in 2013 and $163,000 in 2012). Percentage rent in 2014 was less than 1% of rental revenue and we anticipate percentage rent to be less than 1% of rental revenue in 2015.

Our portfolio of real estate, leased primarily to regional and national tenants under net leases, continues to perform well and provides dependable lease revenue supporting the payment of monthly dividends to our stockholders. At December 31, 2014, our portfolio of 4,327 properties was 98.4% leased with 70 properties available for lease as compared to 98.2% occupancy, or 70 properties available for lease at December 31, 2013. It has been our experience that approximately 2% to 4% of our property portfolio will be unleased at any given time; however, it is possible that the number of properties available for lease could exceed these levels in the future.

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Tenant Reimbursements

Contractually obligated reimbursements from tenants for recoverable real estate taxes and operating expenses were $37.1 million in 2014, compared to $24.9 million in 2013 and $14.6 million in 2012. The increase in tenant reimbursements from 2013 to 2014 is primarily due to our 2013 and 2014 acquisitions. Our tenant reimbursements are equal to our reimbursable property expenses for any given period.

Other Revenue

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

Depreciation and Amortization

Depreciation and amortization was $374.7 million in 2014, compared to $306.8 million in 2013 and $147.5 million in 2012. The increases in depreciation and amortization in 2014 and 2013 were primarily due to the acquisition of properties in 2014 and 2013, which was partially offset by property sales in those same years. As discussed in the sections entitled Funds from Operations Available to Common Stockholders (FFO) and Adjusted Funds from Operations Available to Common Stockholders (AFFO), depreciation and amortization is a non-cash item that is added back to net income available to common stockholders for our calculation of FFO and AFFO.

Interest Expense

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

		2014		2013		2012
Interest on our credit facility, term loan, notes, mortgages & interest rate swaps	$	215,830	$	182,974	$	117,401
Credit facility commitment fees		2,661		1,930		1,684
Amortization of credit facility origination costs and deferred financing costs		8,219		7,434		5,165
Loss (gain) on interest rate swaps		1,349		(878)		56
Dividend on preferred shares subject to redemption		1,526		-		-
Amortization of net mortgage premiums		(12,891)		(9,481)		(665)
Capital lease obligation		116		-		-
Interest capitalized		(444)		(537)		(498)
Interest expense	$	216,366	$	181,442	$	123,143
Credit facility, term loan, mortgages and notes		**2014**		**2013**		**2012**
Average outstanding balances (dollars in thousands)	$	4,628,438	$	3,892,089	$	2,144,690
Average interest rates		4.62%		4.67%		5.47%

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

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

- Notes and bonds payable of $3.8 billion (excluding unamortized original issuance discounts of $14.6 million) was 4.8%;
- Mortgages payable of $836.0 million (excluding net premiums totaling $16.6 million on these mortgages) was 5.0%;
- Credit facility outstanding borrowings of $223.0 million was 1.2%;
- Term loan outstanding borrowings of $70.0 million was 1.4%; and
- Combined outstanding notes, bonds, mortgages and credit facility borrowings of $4.93 billion was 4.6%.

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General and Administrative Expenses

General and administrative expenses decreased by $5.8 million to $51.1 million in 2014, as compared to $56.9 million in 2013. General and administrative expenses were $38.1 million in 2012. Included in general and administrative expenses are acquisition transaction costs (excluding ARCT merger-related costs) of $453,000 for 2014, $2.1 million for 2013 and $2.4 million for 2012. General and administrative expenses decreased during 2014 primarily due to lower stock compensation costs, including the $3.7 million for accelerated vesting that occurred in July 2013, and lower acquisition transaction costs. In January 2015, we had 125 employees, as compared to 116 employees in January 2014 and 97 employees in January 2013.

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

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

Property Expenses (including tenant reimbursable expenses)

Property expenses consist of costs associated with unleased properties, non-net leased properties and general portfolio expenses, as well as contractually obligated reimbursements from tenants for recoverable real estate taxes and operating expenses. Expenses related to unleased properties and non-net leased properties include, but are not limited to, property taxes, maintenance, insurance, utilities, property inspections, bad debt expense and legal fees. General portfolio costs include, but are not limited to, insurance, legal, property inspections, and title search fees. At December 31, 2014, 70 properties were available for lease, as compared to 70 at December 31, 2013 and 84 at December 31, 2012.

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

Income Taxes

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

Provisions for Impairment

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

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

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

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In 2012, Realty Income recorded total provisions for impairment of $5.1 million. Realty Income recorded provisions for impairment of $1.5 million on six sold properties. Except for a provisions for impairment of $3.6 million that was recorded in income from continuing operations on four properties that were not previously classified as held for sale as of December 31, 2013, the remaining provisions for impairment are included in income from discontinued operations on our consolidated statement of income.

Merger-Related Costs

Merger-related costs include, but are not limited to, advisor fees, legal fees, accounting fees, printing fees and transfer taxes related to our acquisition of ARCT. Merger-related costs were $13.0 million in 2013 and $7.9 million in 2012. On a diluted per common share basis, these expenses represented $0.07 for 2013 and $0.06 for 2012. No merger-related costs were incurred in 2014.

Gain on Sales of Real Estate

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

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

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

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

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

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

- Decrease tenant or industry concentration.

At December 31, 2014, we classified real estate with a carrying amount of $14.8 million as held for sale on our balance sheet. In 2015, we intend to continue our active disposition efforts to further enhance our real estate portfolio and anticipate approximately $50 million in yet to be identified property sales for all of 2015. We intend to invest these proceeds into new property acquisitions, if there are attractive opportunities available. However, we cannot guarantee that we will sell properties during the next 12 months at our estimated values or be able to invest the property sale proceeds in new properties.

Discontinued Operations

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

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

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

Preferred Stock Dividends

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

Excess of Redemption Value over Carrying Value of Preferred Shares Redeemed

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

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

Net Income Available to Common Stockholders

Net income available to common stockholders was $227.6 million in 2014, compared to $203.6 million in 2013, an increase of $24.0 million. On a diluted per common share basis, net income was $1.04 in 2014, as compared to $1.06 in 2013, a decrease of $0.02, or 1.9%. Net income available to common stockholders was $114.5 million in 2012. Net income available to common stockholders for 2014 includes a non-cash redemption charge of $6.0 million on the shares of Class E preferred stock that were redeemed in October 2014, which represents $0.03 on a diluted per common share basis. This charge is for the excess of redemption value over the carrying value of the Class E preferred stock and represents the original issuance cost that was paid in 2006. Net income available to common stockholders for 2013 was impacted by an unusually large gain on property sales, which represents $0.18 on a diluted per common share basis. Additionally, net income available to common stockholders for 2013 includes $13.0 million of merger-related costs for the acquisition of ARCT, which represents $0.07 on a diluted per common share basis, and $3.7 million for accelerated vesting of restricted shares that occurred in July 2013 from ten-year vesting to five years, which represents $0.02 on a diluted per common share basis.

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

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

FUNDS FROM OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS (FFO)

In 2014, our FFO increased by $100.9 million, or 21.8%, to $562.9 million versus $462.0 million in 2013. On a diluted per common share basis, FFO was $2.58 in 2014, compared to $2.41 in 2013, an increase of $0.17, or 7.1%. In 2012, FFO was $268.8 million, or $2.02 on a diluted per common share basis. FFO in 2014 includes a non-cash redemption charge of $6.0 million on the shares of Class E preferred stock that were redeemed in October 2014, which represents $0.03 on a diluted per common share basis. This charge is for the excess of

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redemption value over the carrying value of the Class E preferred stock and represents the original issuance cost that was paid in 2006. FFO in 2013 and 2012 was normalized to exclude $13.0 million and $7.9 million of merger-related costs, which represents $0.07 and $0.06 on a diluted per common share basis for 2013 and 2012, respectively. FFO for 2013 includes $3.7 million for accelerated vesting of restricted shares that occurred in July 2013 from ten-year vesting to five years, which represents $0.02 on a diluted per common share basis. All references to FFO for 2013 and 2012 reflect the adjustments for merger-related costs for the acquisition of ARCT.

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

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

(1) FFO for 2013 and 2012 has been normalized to exclude ARCT merger-related costs.
(2) The computation of diluted FFO does not assume conversion of securities that are convertible to common shares if the conversion of those securities would increase diluted FFO per share in a given period.

We define FFO, a non-GAAP measure, consistent with the National Association of Real Estate Investment Trust s definition, as net income available to common stockholders, plus depreciation and amortization of real estate assets, plus impairments of depreciable real estate assets, reduced by gains on property sales and extraordinary items. Our FFO for 2013 and 2012 has also been normalized to exclude ARCT merger-related costs.

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

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ADJUSTED FUNDS FROM OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS (AFFO)

In 2014, our AFFO increased by $98.6 million, or 21.3%, to $561.7 million versus $463.1 million in 2013. On a diluted per common share basis, AFFO was $2.57 in 2014, compared to $2.41 in 2013, an increase of $0.16, or 6.6%. In 2012, AFFO was $274.2 million, or $2.06 on a diluted per common share basis. We consider AFFO to be an appropriate supplemental measure of our performance. Most companies in our industry use a similar measurement, but they may use the term CAD (for Cash Available for Distribution), FAD (for Funds Available for Distribution) or other terms.

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

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

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

(2) Includes the amortization of costs incurred and capitalized when our notes were issued in March 2003, November 2003, March 2005, September 2005, September 2006, September 2007, June 2010, June 2011, October 2012, July 2013, June 2014 and September 2014. Additionally, this includes the amortization of deferred financing costs incurred and capitalized in connection with our assumption of the mortgages payable and the issuance of our term loan. The deferred financing costs are being amortized over the lives of the respective mortgages and term loan. No costs associated with our credit facility agreements or annual fees paid to credit rating agencies have been included.

(3) Includes adjustments allocable to both non-controlling interests and capital lease obligations.

(4) The computation of diluted AFFO does not assume conversion of securities that are convertible to common shares if the conversion of those securities would increase diluted AFFO per share in a given period.

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

Presentation of the information regarding FFO and AFFO is intended to assist the reader in comparing the operating performance of different REITs, although it should be noted that not all REITs calculate FFO and AFFO in the same way, so comparisons with other REITs may not be meaningful. Furthermore, FFO and AFFO are not necessarily indicative of cash flow available to fund cash needs and should not be considered as alternatives to net income as an indication of our performance. FFO and AFFO should not be considered as alternatives to reviewing our cash flows from operating, investing, and financing activities. In addition, FFO and AFFO should not be considered as measures of liquidity, of our ability to make cash distributions, or of our ability to pay interest payments.

IMPACT OF INFLATION

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

Of our 4,327 properties in our portfolio, approximately 98.0% or 4,238 are leased to tenants under net leases where the tenant is responsible for property expenses. Net leases tend to reduce our exposure to rising property expenses due to inflation. Inflation and increased costs may have an adverse impact on our tenants if increases in their operating expenses exceed increases in revenue.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

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

Item 7A: Quantitative and Qualitative Disclosures about Market Risk

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

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

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The following table presents by year of expected maturity, the principal amounts, average interest rates and estimated fair values of our fixed and variable rate debt as of December 31, 2014. This information is presented to evaluate the expected cash flows and sensitivity to interest rate changes (dollars in millions):

Expected Maturity Data

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

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

(2) We base the estimated fair value of the fixed rate senior notes and bonds at December 31, 2014 on the indicative market prices and recent trading activity of our senior notes and bonds payable. We base the estimated fair value of our fixed rate and variable rate mortgages at December 31, 2014 on the relevant Treasury yield curve, plus an applicable credit-adjusted spread. We believe that the carrying value of the credit facility balance and term loan balance reasonably approximate their estimated fair values at December 31, 2014.

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

All of our outstanding notes and bonds have fixed interest rates. All of our mortgages payable, except five with an outstanding principal balance of $77.5 million at December 31, 2014, have fixed interest rates. All of these variable rate mortgages have arrangements that limit our exposure to interest rate risk. Interest on our credit facility and term loan balance is variable. However, the variable interest rate feature on our term loan has been mitigated by an interest rate swap agreement. Based on our credit facility balance of $223.0 million at December 31, 2014, a 1% change in interest rates would change our interest costs by $2.2 million per year.

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Item 8: **Financial Statements and Supplementary Data**

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

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Realty Income Corporation:

We have audited the accompanying consolidated balance sheets of Realty Income Corporation and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, equity, and cash flows for each of the years in the three-year period ended December 31, 2014. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedule III. These consolidated financial statements and financial statement schedule are the responsibility of Realty Income Corporation s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Realty Income Corporation and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Realty Income Corporation s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 18, 2015 expressed an unqualified opinion on the effectiveness of Realty Income Corporation s internal control over financial reporting.

/s/ KPMG LLP

San Diego, California
February 18, 2015

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Realty Income Corporation:

We have audited Realty Income Corporation s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Realty Income Corporation s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management s Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on Realty Income Corporation s internal control over financial reporting based on our audit.

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

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

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

In our opinion, Realty Income Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Realty Income Corporation and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, equity, and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated February 18, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

San Diego, California
February 18, 2015

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REALTY INCOME CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2014 and 2013

(dollars in thousands, except per share data)

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

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

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REALTY INCOME CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2014, 2013 and 2012

(dollars in thousands, except per share data)

	2014	**2013**	**2012**
REVENUE			

[redacted]

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

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REALTY INCOME CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

Years Ended December 31, 2014, 2013, and 2012

(dollars in thousands)

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

Balance, December 31, 2013								
Net income	-	-	-	-	270,635	270,635	1,305	271,940
Distributions paid and payable	-	-	-	-	(519,790)	(519,790)	(1,839)	(521,629)
Shares issued in stock offerings, net of offering costs of $22,827	-	13,800,000	-	528,592	-	528,592	-	528,592
Redemption of common units	-	35,000	-	1,032	-	1,032	(1,032)	-
Reallocation of equity	-	-	-	6,647	-	6,647	(6,647)	-
Shares issued pursuant to dividend reinvestment and stock purchase plan, net	-	3,527,166	-	157,285	-	157,285	-	157,285
Preferred shares redeemed	(8,800,000)	-	(213,985)	-	(6,015)	(220,000)	-	(220,000)
Share-based compensation	-	33,953	-	3,553	-	3,553	-	3,553
Balance, December 31, 2014	16,350,000	224,881,192	$ 395,378	$ 6,464,987	$ (1,246,964)	$ 5,613,401	$ 27,698	$ 5,641,099

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

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REALTY INCOME CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2014, 2013 and 2012

(dollars in thousands)

		2014		2013		2012
CASH FLOWS FROM OPERATING ACTIVITIES						
Net income	$	271,940	$	246,283	$	159,152
Adjustments to net income:						
Depreciation and amortization		374,661		306,769		147,515
Income from discontinued operations		(2,800)		(65,670)		(17,257)
Amortization of share-based compensation		11,959		20,785		10,001
Non-cash rental adjustments		(6,848)		(5,554)		(4,199)
Amortization of net premiums on mortgages payable		(12,891)		(9,481)		(665)
Amortization of deferred financing costs		8,335		9,364		6,849
Gain on sales of real estate		(39,205)		-		-
Provisions for impairment on real estate		4,126		290		3,639
Cash provided by discontinued operations:						
Real estate		427		5,599		12,677
Proceeds from sale of real estate		820		597		-
Change in assets and liabilities, other than from the impact of our acquisition of American Realty Capital Trust, Inc., or ARCT						
Accounts receivable and other assets		(4,311)		(2,922)		573
Accounts payable, accrued expenses and other liabilities		21,479		12,846		8,184
Net cash provided by operating activities		627,692		518,906		326,469
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment in real estate, net of cash acquired		(1,228,243)		(1,429,483)		(1,015,725)
Improvements to real estate, including leasing costs		(6,032)		(8,507)		(6,554)
Proceeds from sales of real estate:						
Continuing operations		88,688		8		23
Discontinued operations		6,918		126,785		50,563
Collection (issuance) of loans receivable		350		(10,656)		(34,876)
Restricted escrow deposits for Section 1031 tax-deferred exchanges and pending acquisitions		(36,540)		(10,158)		(1,805)
Net cash used in investing activities		(1,174,859)		(1,332,011)		(1,008,374)
CASH FLOWS FROM FINANCING ACTIVITIES						
Cash distributions to common stockholders		(479,256)		(409,222)		(236,348)
Cash dividends to preferred stockholders		(38,300)		(41,930)		(39,445)
Borrowings on line of credit		1,672,321		2,624,700		1,074,000
Payments on line of credit		(1,577,321)		(2,654,700)		(1,153,400)
Proceeds from notes and bonds payable issued		598,594		750,000		800,000
Principal payment on notes payable		-		(100,000)		-
Principal payments on mortgages payable		(85,208)		(32,603)		(11,729)
Proceeds from term loan		-		70,000		-
Repayment of ARCT line of credit		-		(317,207)		-
Repayment of ARCT term loan		-		(235,000)		-
Proceeds from common stock offerings, net		528,615		1,133,574		-
Proceeds from preferred stock offerings, net		-		-		395,377
Redemption of preferred stock		(220,000)		-		(127,500)
Distributions to noncontrolling interests		(1,844)		(1,216)		-
Debt issuance costs		(5,505)		(10,666)		(16,979)
Proceeds from dividend reinvestment and stock purchase plan, net		158,462		55,806		2,159
Other items, including shares withheld upon vesting		(9,796)		(13,422)		(3,147)
Net cash provided by financing activities		540,762		818,114		682,988
Net (decrease) increase in cash and cash equivalents		(6,405)		5,009		1,083
Cash and cash equivalents, beginning of period		10,257		5,248		4,165

Cash and cash equivalents, end of period	$	3,852	$	10,257	$	5,248

For supplemental disclosures, see note 16.

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

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REALTY INCOME CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014, 2013 and 2012

1. Organization and Operation

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

At December 31, 2014, we owned 4,327 properties, located in 49 states and Puerto Rico, containing over 70.7 million leasable square feet.

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

2. Summary of Significant Accounting Policies

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

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

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

Absent an election to the contrary, if a REIT acquires property that is or has been owned by a C corporation in a transaction in which the tax basis of the property in the hands of the REIT is determined by reference to the tax basis of the property in the hands of the C corporation, and the REIT recognizes gain on the disposition of such property during the 10 year period beginning on the date on which it acquired the property, then the REIT will be required to pay tax at the highest regular corporate tax rate on this gain to the extent of the excess of the fair value of the property over the REIT s adjusted basis in the property, in each case determined as of the date the REIT acquired the property. In August 2007, we acquired 100% of the stock of a C corporation that owned real property. At the time of acquisition, the C corporation became a Qualified REIT Subsidiary, and was deemed to be liquidated for Federal income tax purposes; the real property was deemed to be transferred to us with a carryover tax basis. As of December 31, 2014, we have built-in gains of $59 million with respect to such properties. We do not expect that we will be required to pay income tax on the built-in gains in these properties. It is our intent, and we have the ability, to defer any dispositions of these properties to periods when the related gains would not be subject to the built-in gain income tax or otherwise to defer the recognition of the built-in gain related to these properties. However, our plans could change and it may be necessary to dispose of one or more of these properties in a taxable transaction after 2014 but before August 28, 2017, in which case we would be required to pay corporate level tax with respect to the built-in gains on these properties as described above.

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

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

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

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

Operations from eight properties were classified as held for sale at December 31, 2014, and are included in income from continuing operations. We do not depreciate properties that are classified as held for sale.

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

No debt was assumed by buyers of our properties, or repaid as a result of our property sales.

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

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

Revenue Recognition and Accounts Receivable. All leases are accounted for as operating leases. Under this method, leases that have fixed and determinable rent increases are recognized on a straight-line basis over the lease term. Any rental revenue contingent upon a tenant s sales is recognized only after the tenant exceeds their sales breakpoint. Rental increases based upon changes in the consumer price indexes are recognized only after the changes in the indexes have occurred and are then applied according to the lease agreements. Contractually obligated reimbursements from tenants for recoverable real estate taxes and operating expenses are included in tenant reimbursements in the period when such costs are incurred.

We recognize an allowance for doubtful accounts relating to accounts receivable for amounts deemed uncollectible. We consider tenant specific issues, such as financial stability and ability to pay, when determining collectability of accounts receivable and appropriate allowances to record. The allowance for doubtful accounts was $765,000 at December 31, 2014 and $498,000 at December 31, 2013.

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

Principles of Consolidation. The accompanying consolidated financial statements include the accounts of Realty Income and other entities for which we make operating and financial decisions (i.e. control), after elimination of all material intercompany balances and transactions. We consolidate entities that we control and record a noncontrolling interest for the portion that we do not own. Noncontrolling interest that was created or assumed as part of a business combination was recognized at fair value as of the date of the transaction (see note 11). We have no unconsolidated investments.

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

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

Allocation of the Purchase Price of Real Estate Acquisitions. When acquiring a property for investment purposes, we typically allocate the fair value of real estate acquired to: (1) land, (2) building and improvements, and (3) identified intangible assets and liabilities, based in each case on their estimated fair values. Intangible assets and liabilities consist of above-market or below-market lease value of in-place leases, the value of in-place leases, and tenant relationships, as applicable. In an acquisition of multiple properties, we must also allocate the purchase price among the properties. The allocation of the purchase price is based on our assessment of estimated fair value and is often based upon the expected future cash flows of the property and various characteristics of the markets where the property is located. In addition, any assumed mortgages receivable or payable and any assumed or issued noncontrolling interests are recorded at their estimated fair values. The estimated fair values of our mortgages payable have been calculated by discounting the future cash

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flows using applicable interest rates that have been adjusted for factors, such as industry type, tenant investment grade, maturity date, and comparable borrowings for similar assets. The initial allocation of the purchase price is based on management s preliminary assessment, which may differ when final information becomes available. Subsequent adjustments made to the initial purchase price allocation are made within the allocation period, which does not exceed one year. The use of different assumptions in the allocation of the purchase price of the acquired properties and liabilities assumed could affect the timing of recognition of the related revenue and expenses.

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

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

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

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

If a lease was terminated prior to its stated expiration, all unamortized amounts relating to that lease would be recorded to revenue or expense as appropriate.

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

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

Depreciation and Amortization. Land, buildings and improvements are recorded and stated at cost. Major replacements and betterments, which improve or extend the life of the asset, are capitalized and depreciated over their estimated useful lives, while ordinary repairs and maintenance are expensed as incurred. Buildings and improvements that are under redevelopment, or are being developed, are carried at cost and no depreciation is recorded on these assets. Additionally, amounts essential to the development of the property, such as pre-construction, development, construction, interest and other costs incurred during the period of development are capitalized. We cease capitalization when the property is available for occupancy upon substantial completion of tenant improvements, but in any event no later than one year from the completion of major construction activity.

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

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

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

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

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

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

In 2012, Realty Income recorded total provisions for impairment of $5.1 million. Realty Income recorded provisions for impairment of $1.5 million on six sold properties in the following industries: one in the automotive parts industry, one in the automotive tire services industry, one in the automotive service industry, one in the child care industry, one in the convenience stores industry, and one in the home improvement industry. Except for a provisions for impairment of $3.6 million that was recorded in income from continuing operations on four properties in the restaurant-casual industry that were not previously classified as held for sale as of December 31, 2013, the remaining provisions for impairment are included in income from discontinued operations on our consolidated statement of income.

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

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Goodwill. Goodwill is tested for impairment during the second quarter of each year as well as when events or circumstances occur indicating that our goodwill might be impaired. Under the amendments issued in conjunction with *ASU No. 2011-08, Intangibles Goodwill and Other (Topic 350)*, an entity, through an assessment of qualitative factors, is not required to calculate the estimated fair value of a reporting unit, in connection with the two-step goodwill impairment test, unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. We elected to continue testing goodwill for impairment during the second quarter of each year as well as when events or circumstances occur, indicating that our goodwill might be impaired. During our tests for impairment of goodwill during the second quarters of 2014, 2013 and 2012, we determined that the estimated fair values of our reporting units exceeded their carrying values. We did not record any impairment on our existing goodwill during 2014, 2013 or 2012.

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

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

As consideration for two separate acquisitions during 2013, partnership units of Tau Operating Partnership, L.P. and Realty Income, L.P. were issued to third parties. These common units (discussed in footnote 11) do not have voting rights, are entitled to monthly distributions equal to the amount paid to our common stockholders, and are redeemable in cash or our common stock, at our option and at a conversion ratio of one to one, subject to certain exceptions. As the general partner for each of these partnerships, we have operating and financial control over these entities, consolidate them in our financial statements, and record the partnership units held by third parties as noncontrolling interests.

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

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

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

3. Supplemental Detail for Certain Components of Consolidated Balance Sheets

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

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

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

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

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

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

4. Investments in Real Estate

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

A. 2014 and 2013 Acquisitions

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

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

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

The purchase price allocation for $147.1 million of the $1.4 billion invested by us in 2014 is based on a preliminary measurement of fair value that is subject to change. The allocation for these properties represents our current best estimate of fair value and we expect to finalize the valuations and complete the purchase price allocations in 2015. In 2014, we finalized the purchase price allocations for $120.8 million invested in the second half of 2013. There were no material changes to our consolidated balance sheets or income statements as a result of these purchase price allocation adjustments.

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

The 515 properties added to our real estate portfolio as a result of the ARCT acquisition are located in 44 states and Puerto Rico, contain over 16.0 million leasable square feet, and are 100% leased with a weighted average lease term of 12.2 years. The 69 tenants occupying the 515 properties acquired operate in 28 industries and the property types consist of 54.0% retail, 32.6% industrial and distribution, and 13.4% office, based on rental revenue. We recorded ARCT merger-related transaction costs of $13.0 million in 2013 and $7.9 million in 2012. These merger related transaction costs included, but were not limited to, advisor fees, legal fees, accounting fees, printing fees and transfer taxes.

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

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

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

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

In the case of a property under development or expansion, the contractual lease rate is generally fixed such that rent varies based on the actual total investment in order to provide a fixed rate of return. When the lease does not provide for a fixed rate of return on a property under development or expansion, the estimated initial weighted average contractual lease rate is computed as follows: estimated net operating income (determined by the lease) for the first full year of each lease, divided by our projected total investment in the property, including land, construction and capitalized interest costs. Of the $1.4 billion we invested during 2014, $81.9 million was invested in 40 properties under development or expansion with an estimated initial weighted average contractual lease rate of 8.4%. Of the $4.67 billion we invested during 2013, $39.6 million was invested in 21 properties under development or expansion with an estimated initial weighted average contractual lease rate of 8.5%.

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B. Acquisition Transaction Costs

Acquisition transaction costs (excluding ARCT merger-related costs) of $453,000 and $2.1 million, respectively, were recorded to general and administrative expense on our consolidated statements of income for 2014 and 2013.

C. Investments in Existing Properties

During 2014, we capitalized costs of $6.0 million on existing properties in our portfolio, consisting of $821,000 for re-leasing costs and $5.2 million for building and tenant improvements. During 2013, we capitalized costs of $8.5 million on existing properties in our portfolio, consisting of $1.3 million for re-leasing costs and $7.2 million for building and tenant improvements.

D. Properties with Existing Leases

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

The values of the in-place leases are amortized as depreciation and amortization expense. The amounts amortized to expense for all of our in-place leases, for 2014, 2013, and 2012, were $83.6 million, $65.5 million and $15.6 million, respectively.

The values of the above-market and below-market leases are amortized over the term of the respective leases as an adjustment to rental revenue on our consolidated statements of income. The amounts amortized as a net decrease to rental revenue for capitalized above-market and below-market leases for 2014, 2013 and 2012 were $8.0 million, $8.2 million, and $1.8 million, respectively. If a lease were to be terminated prior to its stated expiration, all unamortized amounts relating to that lease would be recorded to revenue or expense as appropriate.

The following table presents the estimated impact during the next five years and thereafter related to the net increase (decrease) to rental revenue from the amortization of the acquired above-market and below-market lease intangibles and the increase to amortization expense from the amortization of the in-place lease intangibles for properties held for investment at December 31, 2014 (in thousands):

	Net increase (decrease) to rental revenue	**Increase to amortization expense**
2015	$ (6,717)	$ 85,593
2016	(6,729)	85,221
2017	(6,674)	84,022
2018	(6,414)	81,577

2019	(5,428)	71,519
Thereafter	41,538	418,828
Totals	$ 9,576	$ 826,760

E. Unaudited Pro Forma Information

The following pro forma total revenue and income from continuing operations, for 2013 and 2012, assumes all of our 2013 acquisitions, including ARCT, occurred on January 1, 2012 (in millions). This pro forma supplemental information does not include: (1) the impact of any synergies or lower borrowing costs that we have or may achieve as a result of the acquisitions or any strategies that management has or may consider in order to

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continue to efficiently manage our operations, and (2) ARCT s historical operational costs, including general and administrative costs and property expenses. Additionally, this information does not purport to be indicative of what our operating results would have been had the acquisitions occurred on January 1, 2012, and may not be indicative of future operating results. For purposes of calculating these pro-forma amounts, we assumed that merger-related costs of approximately $12.5 million, which represent the merger-related costs incurred after consummation of our ARCT acquisition, occurred on January 1, 2012. Other than these items specified above, no material, non-recurring pro-forma adjustments were included in the calculation of this information.

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

5. Credit Facility

We have a $1.5 billion unsecured acquisition credit facility with an initial term that expires in May 2016 and includes, at our election, a one-year extension option. Under this credit facility, our current investment grade credit ratings provide for financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 1.075% with a facility commitment fee of 0.175%, for all-in drawn pricing of 1.25% over LIBOR. The borrowing rate is not subject to an interest rate floor or ceiling. We also have other interest rate options available to us under this credit facility. Our credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation.

At December 31, 2014, credit facility origination costs of $4.2 million are included in other assets, net, on our consolidated balance sheet. These costs are being amortized over the remaining term of our current $1.5 billion credit facility.

At December 31, 2014, we had a borrowing capacity of $1.28 billion available on our credit facility (subject to customary conditions to borrowing) and an outstanding balance of $223.0 million, as compared to an outstanding balance of $128.0 million at December 31, 2013.

The weighted average interest rate on outstanding borrowings under our credit facilities was 1.2% during 2014, 1.3% during 2013, and was 1.6% during 2012. At December 31, 2014, the effective interest rate was 1.2%. Our current and prior credit facilities are and were subject to various leverage and interest coverage ratio limitations, and at December 31, 2014, we remain in compliance with these covenants.

6. Mortgages Payable

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

During 2014, aggregate net premiums totaling $604,000 were recorded upon assumption of the mortgages for above-market interest rates, as compared to net premiums totaling $28.4 million recorded in 2013. Amortization of these net premiums is recorded as a reduction to interest expense over the remaining term of the respective mortgages, using a method that approximates the effective-interest method.

These mortgages contain customary covenants, such as limiting our ability to further mortgage each applicable property or to discontinue insurance coverage, without the prior consent of the lender. At December 31, 2014, we remain in compliance with these covenants.

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We did not incur any deferred financing costs on our mortgages assumed in 2014, incurred $211,000 of deferred financing costs in 2013, and incurred $1.1 million in 2012. The balance of our deferred financing costs, which are classified as part of other assets, net, on our consolidated balance sheets, was $827,000 at December 31, 2014 and $1.2 million at December 31, 2013, which is being amortized over the remaining term of each mortgage.

The following is a summary of all our mortgages payable as of December 31, 2014 and 2013, respectively (dollars in thousands):

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

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

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

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

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

Year of Maturity		
2015	$	119.7
2016		248.4
2017		142.5
2018		15.1
2019		26.0
Thereafter		284.3
Totals	$	836.0

7. Term Loan

In January 2013, in conjunction with our acquisition of ARCT, we entered into a $70 million senior unsecured term loan maturing January 21, 2018. Borrowing under the term loan bears interest at the current one month LIBOR, plus 1.2%. In conjunction with this term loan, we also acquired an interest rate swap which essentially fixes our per annum interest rate on the term loan at 2.15%. As a result of entering into our term loan, we incurred deferred financing costs of $303,000 in 2013, which are being amortized over the remaining term of the term loan. The net balance of these deferred financing costs was $187,000 at December 31, 2014, and $248,000 at December 31, 2013, which are included in other assets, net on our consolidated balance sheets.

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8. Notes Payable

A. General

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

	December 31, 2014	December 31, 2013
5.5% notes, issued in November 2003 and due in November 2015	$ 150	$ 150
5.95% notes, issued in September 2006 and due in September 2016	275	275
5.375% notes, issued in September 2005 and due in September 2017	175	175
2.0% notes, issued in October 2012 and due in January 2018	350	350
6.75% notes, issued in September 2007 and due in August 2019	550	550
5.75% notes, issued in June 2010 and due in January 2021	250	250
3.25% notes, issued in October 2012 and due in October 2022	450	450
4.65% notes, issued in July 2013 and due in August 2023	750	750
3.875% notes, issued in June 2014 and due in July 2024	350	-
4.125% notes, issued in September 2014 and due in October 2026	250	-
5.875% bonds, $100 issued in March 2005 and $150 issued in June 2011, both due in March 2035	250	250
Total principal amount	3,800	3,200
Unamortized original issuance discounts	(15)	(15)
	$ 3,785	$ 3,185

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

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

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

Interest incurred on all of the notes and bonds was $166.5 million for 2014, $138.9 million for 2013 and $110.4 million for 2012. The interest rate on each of these notes and bonds is fixed.

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

All of these notes and bonds contain various covenants, including: (i) a limitation on incurrence of any debt which would cause our debt to total adjusted assets ratio to exceed 60%; (ii) a limitation on incurrence of any secured debt which would cause our secured debt to total adjusted assets ratio to exceed 40%; (iii) a limitation on incurrence of any debt which would cause our debt service coverage ratio to be less than 1.5 times; and (iv) the maintenance at all times of total unencumbered assets not less than 150% of our outstanding unsecured debt. At December 31, 2014, we remain in compliance with these covenants.

B. Note Issuances

In September 2014, we issued $250 million of 4.125% senior unsecured notes due October 2026, or the 2026 Notes. The price to the investors for the 2026 Notes was 99.499% of the principal amount for an effective yield of 4.178% per annum. A portion of the total net proceeds of approximately $246.4 million from this offering were used to repay all outstanding borrowings under our acquisition credit facility, and the remaining proceeds were used for other general corporate purposes and working capital, including additional property acquisitions.

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

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

C. Note Repayment

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

9. Issuance and Redemption of Preferred Stock

A. In 2006, we issued 8,800,000 shares of 6.75% Monthly Income Class E Cumulative Redeemable Preferred Stock, or Class E preferred stock, at a price of $25.00 per share. In October 2014, we redeemed all of the 8,800,000 shares of our Class E preferred stock for $25.00 per share, plus accrued dividends. We incurred a charge of $6.0 million, representing the Class E preferred stock original issuance costs that we paid in 2006.

B. In February 2012, we issued 14,950,000 shares of our 6.625% Monthly Income Class F Cumulative Redeemable Preferred Stock, or Class F preferred stock, at a price of $25.00 per share, including 1,950,000 shares purchased by the underwriters upon the exercise of their overallotment option. In April 2012, we issued an additional 1,400,000 shares of our Class F preferred stock at a price of $25.2863 per share. After aggregate underwriting discounts and other offering costs totaling $13.8 million, we received total net proceeds of $395.4 million for the February and April offerings combined, of which $127.5 million was used to redeem all of our outstanding 7.375% Monthly Income Class D Cumulative Redeemable Preferred Stock, or Class D preferred stock, and the balance was used to repay a portion of the borrowings under our credit facility. Beginning February 15, 2017, the shares of Class F preferred stock are redeemable at our option, for $25.00 per share. The initial dividend of $0.1702257 per share was paid on March 15, 2012 and covered 37 days. Thereafter, dividends of $0.138021 per share are paid monthly in arrears on the Class F preferred stock.

C. We redeemed all of the 5,100,000 shares of our Class D preferred stock in March 2012 for $25.00 per share, plus accrued dividends. We incurred a charge of $3.7 million for 2012, representing the Class D preferred stock original issuance costs that we paid in 2004.

10. Issuance of Common Stock

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

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

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

In connection with our January 2013 acquisition of ARCT, we issued a total of 45,573,144 shares of our common stock to ARCT shareholders and we received 208,709 shares of our common stock that were previously held by ARCT. The total value of the 45,573,144 common shares was approximately $2 billion.

11. Noncontrolling Interests

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

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

A. Neither of the common partnership units has voting rights. Both common partnership units are entitled to monthly distributions equal to the amount paid to common stockholders of Realty Income, and are redeemable in cash or Realty Income common stock, at our option, and at a conversion ratio of one to one, subject to certain exceptions. Noncontrolling interests with redemption provisions that permit the issuer to settle in either cash or common stock, at the option of the issuer, were evaluated to determine whether temporary or permanent equity classification on the balance sheet was appropriate. We evaluated this guidance and determined that the units meet the requirements to qualify for presentation as permanent equity.

The following table represents the change in the carrying value of all noncontrolling interests through December 31, 2014 (dollars in thousands):

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

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

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

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

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

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B. The Tau Operating Partnership preferred units were recorded at fair value as of the date of acquisition. Since they are redeemable at a fixed price on a determinable date, we have classified them in other liabilities on our consolidated balance sheets. Payments on these preferred units are made monthly at a rate of 2% per annum and are included in interest expense. As of December 31, 2014 and 2013, the preferred units have a carrying value of $6.75 million.

12. Distributions Paid and Payable

A. Common Stock

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

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

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

		2014		**2013**		**2012**
Ordinary income	$	1.6483522	$	1.3153791	$	1.3367481
Nontaxable distributions		0.5432732		0.8320796		0.4348769
Totals	$	2.1916254	$	2.1474587	$	1.7716250

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

B. Class D Preferred Stock

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

C. Class E Preferred Stock

Prior to the redemption of the Class E preferred stock in October 2014, dividends of $0.140625 per share were paid monthly in arrears on the Class E preferred stock. We paid distributions to holders of our Class E preferred stock totaling $12.7 million in 2014, and $14.9 million in 2013 and 2012. For 2014, dividends paid per share in the amount of $1.4484375 were characterized as ordinary income for federal income tax purposes, while in 2013 and 2012, dividends paid per share in the amount of $1.6875 were characterized as ordinary income for federal income tax purposes.

D. Class F Preferred Stock

Dividends of $0.138021 per share are paid monthly in arrears on the Class F preferred stock. We declared dividends to holders of our Class F preferred stock totaling $27.1 million in 2014 and 2013 and $22.6 million in 2012. For 2014 and 2013, dividends paid per share of $1.656252 were characterized as ordinary income for federal income tax purposes. In 2012, dividends paid per share of $1.4124147 were characterized as ordinary income for federal income tax purposes. At December 31, 2014, a monthly dividend of $0.138021 per share was payable and was paid in January 2015. We are current in our obligations to pay dividends on our Class F preferred stock.

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13. Operating Leases

A. At December 31, 2014, we owned 4,327 properties in 49 states and Puerto Rico, plus an additional two properties owned by Crest. Of the 4,327 properties, 4,308, or 99.6%, are single-tenant properties, and the remaining 19 are multi-tenant properties. At December 31, 2014, 70 properties were available for lease or sale.

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

Rent based on a percentage of a tenants gross sales (percentage rents) was $3.6 million for 2014, $2.9 million for 2013 and $2.1 million for 2012, including amounts recorded to discontinued operations of $35,000 in 2014, $104,000 in 2013 and $163,000 in 2012.

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

[redacted]

B. Major Tenants - No individual tenant s rental revenue, including percentage rents, represented more than 10% of our total revenue for each of the years ended December 31, 2014, 2013 or 2012.

14. Gain on Sales of Investment Properties

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

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

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

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

15. Fair Value of Financial Instruments

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

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

At December 31, 2014		**Carrying value per balance sheet**		**Estimated fair value**
Notes receivable issued in connection with property sales	$	18.3	$	20.1
Mortgages payable assumed in connection with acquisitions		852.6		857.9
Notes and bonds payable, net of unamortized original issuance discounts		3,785.4		4,092.8

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

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

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

16. Supplemental Disclosures of Cash Flow Information

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

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

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

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

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

B. See note 9 for a discussion of the excess of redemption value over carrying value of preferred shares subject to redemption charges recorded by Realty Income during 2014 and 2012.

C. During 2014, we assumed mortgages payable to third-party lenders of $166.7 million, recorded $604,000 of net premiums, and recorded $901,000 of interest rate swap value to other assets, net, related to property acquisitions. During 2013, we assumed mortgages payable (excluding the mortgages payable discussed in items D and E) of $81.3 million to third-party lenders and recorded $6.1 million of net premiums related to property acquisitions.

D. During 2013, the following components were acquired in connection with our acquisition of ARCT: (1) real estate investments and related intangible assets of $3.2 billion, (2) other assets of $19.5 million, (3) lines of credit payable of $317.2 million, (4) a term loan for $235.0 million, (5) mortgages payable of $539.0 million, (6) intangible liabilities of $79.7 million, (7) other liabilities of $29.0 million, and (8) noncontrolling interests of $14.0 million.

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E. During 2013, we acquired $55.9 million of real estate through the assumption of a $32.4 million mortgage payable, the issuance of 534,546 units by Realty Income, L.P. and cash of $1.0 million.

F. During 2014, we applied $48.9 million of loans receivable to the purchase price of five acquired properties.

G. During 2014, we acquired real estate for $11.6 million via exchanges of our properties. During 2013, we acquired real estate for $7.4 million via exchanges of our properties.

H. During 2013, we recorded receivables of $1.9 million for the taking of two investment properties as a result of an eminent domain action. The remaining balance of $1.1 million on these receivables is included in other assets, net, on our consolidated balance sheet at December 31, 2014.

I. Accrued costs on properties under development resulted in an increase in buildings and improvements and accounts payable of $4.0 million, $5.5 million and $3.8 million at December 31, 2014, 2013 and 2012, respectively.

17. Employee Benefit Plan

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

18. Common Stock Incentive Plan

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

The amount of share-based compensation costs recognized in general and administrative expense on our consolidated statements of income was $12.0 million during 2014, $20.8 million during 2013, and $10.0 million during 2012.

A. Restricted Stock

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

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

(1) Grant date fair value.

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During 2014, we issued 262,655 shares of common stock under the 2012 Plan. These 262,655 shares vest over the following service periods: 34,896 vested immediately, 8,000 vest over a service period of two years, 8,000 vest over a service period of three years, 30,535 shares vest over a service period of four years, and 181,224 vest over a service period of five years. Additionally, during 2013, 51,454 shares of performance-based common stock was granted, of which 12,864 shares vested at the end of both 2013 and 2014 based on the achievement of certain performance metrics, and of which 12,864 may vest at the end of 2015 and 2016, if certain performance metrics are reached.

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

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

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

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

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

For shares granted prior to December 2014, the typical vesting schedule for shares granted to employees was as follows:

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

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

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

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

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

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

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

As of December 31, 2014, the remaining unamortized share-based compensation expense totaled $15.2 million, which is being amortized on a straight-line basis over the service period of each applicable award. The amount of share-based compensation is based on the fair value of the stock at the grant date. We define the grant date as the date the recipient and Realty Income have a mutual understanding of the key terms and condition of the award, and the recipient of the grant begins to benefit from, or be adversely affected by, subsequent changes in the price of the shares.

Due to a historically low turnover rate, we do not estimate a forfeiture rate for our nonvested shares. Accordingly, unexpected forfeitures will lower share-based compensation expense during the applicable period. Under the terms of our 2012 and 2003 Plans, we pay non-refundable dividends to the holders of our nonvested shares. Applicable accounting guidance requires that the dividends paid to holders of these nonvested shares be charged as compensation expense to the extent that they relate to nonvested shares that do not or are not expected to vest. However, since we do not estimate forfeitures given our historical trends, we did not record any compensation expense related to dividends paid in 2014, 2013 or 2012.

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

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B. Performance Shares

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

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

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

19. Dividend Reinvestment and Stock Purchase Plan

In March 2011, we established a Dividend Reinvestment and Stock Purchase Plan, or the DRSPP, to provide our common stockholders, as well as new investors, with a convenient and economical method of purchasing our common stock and reinvesting their distributions. The DRSPP also allows our current stockholders to buy additional shares of common stock by reinvesting all or a portion of their distributions. The DRSPP authorizes up to 6,000,000 common shares to be issued. During 2014, we issued 3,527,166 shares and raised approximately $158.5 million under the DRSPP. During 2013, 1,449,139 shares and raised approximately $55.6 million under the DRSPP. During 2012, we issued 55,598 shares and raised approximately $2.2 million under the DRSPP. From the inception of the DRSPP through December 31, 2014, we have issued 5,091,508 shares and raised approximately $218.6 million.

In 2013, we revised our DRSPP to pay for a majority of the plan-related fees, which were previously paid by investors, and to institute a waiver approval process, allowing larger investors or institutions, per a formal approval process, to purchase shares at a small discount, if approved by us. In 2014, we issued 3,330,556 shares and raised $150.0 million under the waiver approval process. In 2013, we issued 1,308,490 shares and raised $50.0 million under the waiver approval process. These shares are included in the total 2014 and 2013 activity noted in the preceding paragraph.

20. Segment Information

We evaluate performance and make resource allocation decisions on an industry by industry basis. For financial reporting purposes, we have grouped our tenants into 48 activity segments. All of the properties are incorporated into one of the applicable segments. Because almost all of our leases require the tenant to pay operating expenses, rental revenue is the only component of segment profit and loss we measure.

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The following tables set forth certain information regarding the properties owned by us, classified according to the business of the respective tenants, as of December 31, 2014 (dollars in thousands):

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

Other corporate assets		175,888		176,713
Total assets	$	11,012,622	$	9,924,441

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

21. Commitments and Contingencies

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

At December 31, 2014, we had contingent obligations of $735,000 for tenant improvements and leasing costs. In addition, as of December 31, 2014, we had committed $33.6 million under construction contracts, which is expected to be paid in the next twelve months.

We have certain properties that are subject to ground leases which are accounted for as operating leases. At December 31, 2014, minimum future rental payments for the next five years and thereafter are as follows (dollars in millions):

	Ground Leases Paid by Realty Income(1)	**Ground Leases Paid by Our Tenants(2)**	**Total**
2015	$ 1.0	$ 12.7	$ 13.7
2016	1.0	12.7	13.7
2017	1.0	12.8	13.8
2018	1.0	12.8	13.8
2019	0.9	12.7	13.6
Thereafter	8.4	131.9	140.3
Total	$ 13.3	$ 195.6	$ 208.9

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

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

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22. Subsequent Events

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

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

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

REALTY INCOME CORPORATION AND SUBSIDIARIES

CONSOLIDATED QUARTERLY FINANCIAL DATA

(dollars in thousands, except per share data)

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year (2)
2014 (1)					
Total revenue	$ 221,572	$ 228,646	$ 235,713	$ 247,573	$ 933,505
Depreciation and amortization expense	89,970	92,894	95,260	96,537	374,661
Interest expense	51,720	52,712	52,814	59,120	216,366
Other expenses	26,237	22,783	24,987	38,536	112,543
Income from continuing operations	54,916	62,221	73,627	78,374	269,140
Income from discontinued operations	3,077	20	-	(297)	2,800
Net income	57,993	62,241	73,627	78,077	271,940
Net income available to common stockholders	47,179	51,420	57,941	71,018	227,558
Net income per common share					
Basic	0.23	0.23	0.26	0.32	1.04
Diluted	0.23	0.23	0.26	0.32	1.04
Dividends paid per common share	0.5465001	0.5474376	0.5483751	0.5493126	2.1916254
2013 (1)					
Total revenue	$ 175,522	$ 186,443	$ 202,081	$ 216,163	$ 780,209
Depreciation and amortization expense	66,749	73,906	80,822	85,293	306,769
Interest expense	41,599	39,232	49,836	50,775	181,442
Other expenses	33,807	21,361	25,915	30,301	111,385
Income from continuing operations	33,367	51,944	45,508	49,794	180,613
Income from discontinued operations	39,859	4,572	6,399	14,840	65,670
Net income	73,226	56,516	51,907	64,634	246,283

Net income available to common stockholders	62,735	45,957	41,089	53,854	203,634
Net income per common share					
Basic	0.37	0.23	0.21	0.26	1.06
Diluted	0.36	0.23	0.21	0.26	1.06
Dividends paid per common share	0.5135834	0.5436876	0.5446251	0.5455626	2.1474587

(1) The consolidated quarterly financial data includes revenues and expenses from our continuing and discontinued operations. The results of operations related to certain properties, classified as held for sale or disposed of, have been reclassified to income from discontinued operations. Additionally, measurement period adjustments were made to the first two quarters of 2013 to adjust preliminary real estate values to reflect new information about facts and circumstances that existed as of the acquisition date. Also, tenant reimbursements have been reported as a component of total revenue and reimbursable property expense have been reported as a component of total expenses. Therefore, some of the information may not agree to our previously filed 10-Qs.

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

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

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

Item 9A: **Controls and Procedures**

Evaluation of Disclosure Controls and Procedures

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

As of and for the year ended December 31, 2014, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective and were operating at a reasonable assurance level.

Management s Report on Internal Control Over Financial Reporting

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

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

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

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

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

Management has used the framework set forth in the report entitled Internal Control--Integrated Framework (2013) published by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of the Company s internal control over financial reporting. Management has concluded that the Company s internal control over financial reporting was effective as of the end of the most recent fiscal year. KPMG LLP has issued an attestation report on the effectiveness of the Company s internal control over financial reporting.

Submitted on February 18, 2015 by,

John P. Case, Chief Executive Officer, President

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

Changes in Internal Controls

There were no changes to our internal control over financial reporting that occurred during the quarter ended December 31, 2014 that have materially affected, or are reasonably likely to material affect, our internal control over financial reporting. As of December 31, 2014, there were no material weaknesses in our internal controls, and therefore, no corrective actions were taken.

Limitations on the Effectiveness of Controls

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

Item 9B: Other Information

None.

PART III

Item 10: Directors, Executive Officers and Corporate Governance

The information required by this item is set forth under the captions Board of Directors and Executive Officers of the Company and Section 16(a) Beneficial Ownership Reporting Compliance in our definitive Proxy Statement for the 2015 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference. The Annual Meeting of Stockholders is presently scheduled to be held on May 12, 2015.

Item 11: Executive Compensation

The information required by this item is set forth under the caption Executive Compensation in our definitive Proxy Statement for the 2015 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference.

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

The information required by this item is set forth under the caption Security Ownership of Certain Beneficial Owners and Management in our definitive Proxy Statement for the 2015 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference.

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

The information required by this item is set forth under the caption Related Party Transactions in our definitive Proxy Statement for the 2015 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference.

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

The information required by this item is set forth under the caption Independent Registered Public Accounting Firm Fees and Services in our definitive Proxy Statement for the 2015 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference.

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PART IV

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

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

1. Financial Statements (see Item 8)

a. Reports of Independent Registered Public Accounting Firm

b. Consolidated Balance Sheets,

December 31, 2014 and 2013

c. Consolidated Statements of Income,

Years ended December 31, 2014, 2013 and 2012

d. Consolidated Statements of Equity,

Years ended December 31, 2014, 2013 and 2012

e. Consolidated Statements of Cash Flows,

Years ended December 31, 2014, 2013 and 2012

f. Notes to Consolidated Financial Statements

g. Consolidated Quarterly Financial Data,

(unaudited) for 2014 and 2013

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

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

3. Exhibits

Articles of Incorporation and By-Laws

Exhibit No. **Description**

2.1 Agreement and Plan of Merger, dated as of September 6, 2012, by and among Realty Income Corporation, Tau Acquisition LLC and American Realty Capital Trust, Inc. (filed as exhibit 2.1 to the Company s Form 8-K, filed on September 6, 2012 and incorporated herein by reference).

2.2 First Amendment to Agreement and Plan of Merger, dated as of January 6, 2013, by and among Realty Income Corporation, Tau Acquisition LLC and American Realty Capital Trust, Inc. (filed as exhibit 2.1 to the Company s Form 8-K, filed on January 7, 2013 and incorporated herein by reference).

3.1 Articles of Incorporation of the Company, as amended by amendment No. 1 dated May 10, 2005 and amendment No. 2 dated May 10, 2005 (filed as exhibit 3.1 to the Company s Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference), amendment No. 3 dated July 29, 2011 (filed as exhibit 3.1 to the Company s Form 8-K, filed on August 2, 2011 and incorporated herein by reference); and amendment No. 4 dated June 21, 2012 (filed as exhibit 3.1 to the Company s Form 8-K, filed on June 21, 2012 and incorporated herein by reference).

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3.2 Amended and Restated Bylaws of the Company dated December 12, 2007 (filed as exhibit 3.1 to the Company s Form 8-K, filed on December 13, 2007 and incorporated herein by reference), as amended on May 13, 2008 (amendment filed as exhibit 3.1 to the Company s Form 8-K, filed on May 14, 2008 and incorporated herein by reference), February 7, 2012 (filed as exhibit 3.1 to the Company s Form 8-K, filed on February 13, 2012 and incorporated herein by reference), February 21, 2012 (filed as exhibit 3.1 to the Company s Form 8-K, filed on February 22, 2012 and incorporated herein by reference), March 13, 2013 (filed as exhibit 3.1 to the Company s Form 8-K, filed on March 14, 2013 and incorporated herein by reference), and September 3, 2013 (filed as exhibit 3.1 to the Company s Form 8-K, filed on September 6, 2013 and incorporate herein by reference), and April 15, 2014 (filed as exhibit 3.1 to the Company s Form 8-K filed on April 17, 2014 and incorporated herein by reference).

3.3 Articles Supplementary to the Articles of Incorporation of the Company classifying and designating the 6.625% Monthly Income Class F Cumulative Redeemable Preferred Stock, dated February 3, 2012 (the First Class F Articles Supplementary) (filed as exhibit 3.1 to the Company s Form 8-K, filed on February 3, 2012 and incorporated herein by reference).

3.4 Certificate of Correction to the First Class F Articles Supplementary, dated April 11, 2012 (filed as exhibit 3.2 to the Company s Form 8-K, filed on April 17, 2012 and incorporated herein by reference).

3.5 Articles Supplementary to the Articles of Incorporation of the Company classifying and designating additional shares of the 6.625% Monthly Income Class F Cumulative Redeemable Preferred Stock, dated April 17, 2012 (filed as exhibit 3.3 to the Company s Form 8-K, filed on April 17, 2012 and incorporated herein by reference).

Instruments defining the rights of security holders, including indentures

4.1 Indenture dated as of October 28, 1998 between the Company and The Bank of New York (filed as exhibit 4.1 to the Company s Form 8-K, filed on October 28, 1998 and incorporated herein by reference).

4.2 Form of 5.50% Senior Notes due 2015 (filed as exhibit 4.2 to the Company s Form 8-K, filed on November 24, 2003 and incorporated herein by reference).

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

4.4 Form of 5.875% Senior Notes due 2035 (filed as exhibit 4.2 to the Company s Form 8-K, filed on March 11, 2005 and incorporated herein by reference).

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

4.6 Form of 5.375% Senior Notes due 2017 (filed as exhibit 4.2 to the Company s Form 8-K, filed on September 16, 2005 and incorporated herein by reference).

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4.7 Officer s Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York, as Trustee, establishing a series of securities entitled 5.375% Senior Notes due 2017 (filed as exhibit 4.3 to the Company s Form 8-K, filed on September 16, 2005 and incorporated herein by reference).

4.8 Form of 5.95% Senior Notes due 2016 (filed as exhibit 4.2 to the Company s Form 8-K, filed on September 18, 2006 and incorporated herein by reference).

4.9 Officer s Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York, as Trustee, establishing a series of securities entitled 5.95% Senior Notes due 2016 (filed as exhibit 4.3 to the Company s Form 8-K, filed on September 18, 2006 and incorporated herein by reference).

4.10 Form of 6.75% Notes due 2019 (filed as exhibit 4.2 to Company s Form 8-K, filed on September 5, 2007 and incorporated herein by reference).

4.11 Officer s Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York Trust Company, N.A., as Trustee, establishing a series of securities entitled 6.75% Senior Notes due 2019 (filed as exhibit 4.3 to the Company s Form 8-K, filed on September 5, 2007 and incorporated herein by reference).

4.12 Form of 5.750% Notes due 2021 (filed as exhibit 4.2 to Company s Form 8-K, filed on June 29, 2010 and incorporated herein by reference).

4.13 Officer s Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York Mellon Trust Company, N.A., as Successor Trustee, establishing a series of securities entitled 5.750% Notes due 2021 (filed as exhibit 4.3 to the Company s Form 8-K, filed on June 29, 2010 and incorporated herein by reference).

4.14 Form of Common Stock Certificate (filed as exhibit 4.16 to the Company s Form 10-Q for the quarter ended September 30, 2011 and incorporated herein by reference).

4.15 Form of Preferred Stock Certificate representing the 6.625% Monthly Income Class F Cumulative Redeemable Preferred Stock (filed as exhibit 4.1 to the Company s Form 8-K, filed on February 3, 2012 and incorporated herein by reference).

4.16 Form of 2.000% Note due 2018 (filed as exhibit 4.2 to Company s Form 8-K, filed on October 10, 2012 and incorporated herein by reference).

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

4.18 Officer s Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee, establishing a series of securities entitled 2.000% Notes due 2018 and establishing a series of securities entitled 3.250% Notes due 2022 (filed as exhibit 4.4 to the Company s Form 8-K, filed on October 10, 2012 and incorporated herein by reference).

4.19 Form of 4.650% Note due 2023 (filed as exhibit 4.2 to Company s Form 8-K, filed on July 16, 2013 and incorporated herein by reference).

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4.20 Officer s Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee, establishing a series of securities entitled 4.650% Notes due 2023 (filed as exhibit 4.3 to the Company s Form 8-K, filed on July 16, 2013 and incorporated herein by reference).

4.21 Form of 3.875% Note due 2024 (filed as exhibit 4.2 to Company s Form 8-K, filed on June 25, 2014 and incorporated herein by reference).

4.22 Officer s Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee, establishing a series of securities entitled 3.875% Notes due 2024 (filed as exhibit 4.3 to the Company s Form 8-K, filed on June 25, 2014 and incorporated herein by reference).

4.23 Form of 4.125% Note due 2026 (filed as exhibit 4.2 to Company s Form 8-K, filed on September 23, 2014 and incorporated herein by reference).

4.24 Officer s Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee, establishing a series of securities entitled 4.125% Notes due 2026 (filed as exhibit 4.3 to the Company s Form 8-K, filed on September 23, 2014 and incorporated herein by reference).

Material Contracts

10.1 Management Incentive Plan (filed as Exhibit 10.10 to the Company s Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).

10.2 Form of Nonqualified Stock Option Agreement for Independent Directors (filed as Exhibit 10.11 to the Company s Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).

10.3 Form of Restricted Stock Agreement between the Company and Executive Officers under the 2003 Stock Incentive Award Plan of Realty Income Corporation (filed as exhibit 10.11 to the Company s Form 8-K, filed on January 6, 2005 and dated January 1, 2005 and incorporated herein by reference).

10.4 2003 Stock Incentive Award Plan of Realty Income Corporation, as amended and restated February 21, 2006 (filed as exhibit 10.10 to the Company s Form 10-K for the year ended December 31, 2005 and incorporated herein by reference).

10.5 Amendment dated May 15, 2007 to the Amended and Restated 2003 Stock Incentive Award Plan of Realty Income Corporation (filed as exhibit 10.1 to the Company s Form 10-Q, for the quarter ended June 30, 2007 and incorporated herein by reference).

10.6 Form of Restricted Stock Agreement under the 2003 Stock Incentive Award Plan of Realty Income Corporation (filed as exhibit 10.2 to the Company s Form 10-Q, for the quarter ended June 30, 2007 and incorporated herein by reference).

10.7 Amended and Restated Form of Employment Agreement between the Company and its Executive Officers (filed as exhibit 10.1 to the Company s Form 8-K, filed on January 7, 2010 and dated January 5, 2010 and incorporated herein by reference).

10.8 Form of Restricted Stock Agreement for John P. Case (filed as exhibit 10.1 to the Company s Form 10-Q, for the quarter ended March 31, 2010 and incorporated herein by reference).

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10.9 Realty Income Corporation 2012 Incentive Award Plan (filed as Appendix B to the Company s Proxy Statement on Schedule 14A filed on March 30, 2012 and incorporated herein by reference).

10.10 Amended and Restated Credit Agreement dated May 10, 2012 (filed as exhibit 10.1 to the Company s Form 8-K, filed on May 11, 2012 and incorporated herein by reference).

10.11 Form of Restricted Stock Agreement for Employees under the Realty Income Corporation 2012 Incentive Award Plan (filed as exhibit 10.1 to the Company s Form 8-K, filed on January 8, 2013 and incorporated herein by reference).

10.12 Form of Restricted Stock Agreement for Non-Employee Directors under the Realty Income Corporation 2012 Incentive Award Plan (filed as exhibit 10.2 to the Company s Form 8-K, filed on January 8, 2013 and incorporated herein by reference).

10.13 Term Loan Agreement, dated as of January 22, 2013, by and among Tau Operating Partnership, L.P. and Lenders (as defined therein) (filed as exhibit 10.1 to the Company s Form 8-K, filed on January 23, 2013 and incorporated herein by reference).

10.14 The First Amendment to Amended and Restated Credit Agreement among the Company, as Borrower, each of the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent (filed as exhibit 10.1 to the Company s Form 8-K, filed on June 3, 2013 and incorporated herein by reference).

10.15 Form of Amendment to Employment Agreement (filed as exhibit 10.1 to the Company s Form 8-K, filed on June 19, 2013 and incorporated herein by reference).

10.16 Form of Addendum to Restricted Stock Agreement (filed as exhibit 10.2 to the Company s Form 8-K, filed on June 19, 2013 and incorporated herein by reference).

10.17 The Second Amendment to Amended and Restated Credit Agreement among the Company, as Borrower, each of the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent (filed as exhibit 10.1 to the Company s Form 8-K, filed on August 28, 2013 and incorporated herein by reference).

10.18 Amended and Restated Employment Agreement dated September 3, 2013 between the Company and John P. Case (filed as exhibit 10.2 to the Company s Form 8-K, filed on September 6, 2013 and incorporated herein by reference).

10.19 Form of Time-Based Restricted Stock Agreement for John P. Case dated September 3, 2013 (filed as exhibit 10.7 to the Company s Form 10-Q, for the quarter ended September 30, 2013 and incorporated herein by reference).

10.20 Form of Performance-Based Restricted Stock Agreement for John P. Case dated September 26, 2013 (filed as exhibit 10.8 to the Company s Form 10-Q, for the quarter ended September 30, 2013 and incorporated herein by reference).

10.21 The Third Amendment to Amended and Restated Credit Agreement among the Company, as Borrower, each of the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent (filed as exhibit 10.1 to the Company s Form 8-K, filed on October 29, 2013 and incorporated herein by reference).

10.22 Dividend Reinvestment and Stock Purchase Plan (filed pursuant to Rule 424(b)(5) under the Securities Act of 1933, as amended, on February 22, 2013 and as amended on November 21, 2013, as a prospectus supplement to the Company s prospectus dated February 22, 2013 (File No. 333-186788) and incorporated herein by reference).

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10.23 Form of Performance Share Award Agreement (filed as exhibit 99.1 to the Company s Form 8-K, filed on April 11, 2014 and incorporated herein by reference).

10.24 Severance Agreement for Gary M. Malino (filed as exhibit 10.2 to the Company s Form 10-Q, filed on October 30, 2014 and incorporated herein by reference).

10.25 Amended and Restated Form Indemnification Agreement, between the Company and each executive officer and each director of the Board of Directors of the Company (filed as exhibit 10.1 to the Company s Form 8-K, filed on October 30, 2014 and incorporated herein by reference).

10.26* Form of Restricted Stock Agreement.

10.27* Form of Restricted Stock Unit Award Agreement.

Statement of Ratios

*12.1 Statements re computation of ratios.

Subsidiaries of the Registrant

*21.1 Subsidiaries of the Company as of February 18, 2015.

Consents of Experts and Counsel

*23.1 Consent of Independent Registered Public Accounting Firm.

Certifications

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

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

*32 Section 1350 Certifications as furnished by the Chief Executive Officer and the Chief Financial Officer pursuant to SEC release No. 33-8212 and 34-47551.

Interactive Data Files

*101 The following materials from Realty Income Corporation s Annual Report on Form 10-K for the year ended December 31, 2014, formatted in Extensible Business Reporting Language: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Stockholders Equity, (iv) Consolidated Statements of Cash Flows, (v) Notes to Consolidated Financial Statements, and (vi) Schedule III Real Estate and Accumulated Depreciation.

* Filed herewith.

SIGNATURES

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

REALTY INCOME CORPORATION

By:	/s/JOHN P. CASE John P. Case Chief Executive Officer, President	Date: February 18, 2015

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

By:	/s/MICHAEL D. MCKEE Michael D. McKee Non-Executive Chairman of the Board of Directors	Date: February 18, 2015
By:	/s/KATHLEEN R. ALLEN, Ph.D. Kathleen R. Allen, Ph.D. Director	Date: February 18, 2015
By:	/s/JOHN P. CASE John P. Case Director, Chief Executive Officer and President (Principal Executive Officer)	Date: February 18, 2015
By:	/s/A. LARRY CHAPMAN A. Larry Chapman Director	Date: February 18, 2015
By:	/s/PRIYA CHERIAN HUSKINS Priya Cherian Huskins Director	Date: February 18, 2015
By:	/s/GREGORY T. MCLAUGHLIN Gregory T. McLaughlin Director	Date: February 18, 2015
By:	/s/RONALD L. MERRIMAN Ronald L. Merriman Director	Date: February 18, 2015
By:	/s/STEPHEN E. STERRETT Stephen E. Sterrett Director	Date: February 18, 2015
By:	/s/PAUL M. MEURER Paul M. Meurer Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)	Date: February 18, 2015

By:	/s/SEAN P. NUGENT Sean P. Nugent Vice President, Controller (Principal Accounting Officer)	Date: February 18, 2015

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REALTY INCOME CORPORATION AND SUBSIDIARIES

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

AS OF DECEMBER 31, 2014

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7)					
Description (Note 1)		Encumbrances (Note 2)	Land	Buildings, Improvements and Acquisition Fees	Improvements	Carrying Costs	Land	Buildings, Improvements and Acquisition Fees	Total	Accumulated Depreciation (Note 5)	Date of Construction	D Ac
Aerospace												
Batesville	MS	6,901,925	2,160,849	17,219,291	None	None	2,160,849	17,219,291	19,380,140	1,635,833		8/9
Ellisville	MS		4,140,000	20,930,630	6,981	None	4,140,000	20,937,611	25,077,611	922,032		6/2
Columbus	OH	15,214,330	-	19,637,318	None	None	-	19,637,318	19,637,318	864,977		6/1
DFW Airport	TX		-	37,503,886	13,600	None	-	37,517,486	37,517,486	5,313,627		6/2
Lufkin	TX		589,925	15,492,255	None	None	589,925	15,492,255	16,082,180	866,829		1/2
Apparel												
Mesa	AZ		619,035	867,013	6,484	102	619,035	873,599	1,492,634	555,983		2/1
El Cajon	CA		6,930,000	12,518,083	None	None	6,930,000	12,518,083	19,448,083	271,225		6/1
Elk Grove	CA		804,327	2,668,492	24,266	None	804,327	2,692,758	3,497,085	246,499		9/1
Elk Grove	CA		3,250,000	16,776,852	None	None	3,250,000	16,776,852	20,026,852	363,498		6/2
Folsom	CA		2,370,000	11,342,375	None	None	2,370,000	11,342,375	13,712,375	170,136		8/1
Hanford	CA		562,812	3,468,215	None	None	562,812	3,468,215	4,031,027	317,920		9/1
Lodi	CA		3,153,559	2,661,260	None	None	3,153,559	2,661,260	5,814,819	243,949		9/1
Manteca	CA		1,565,672	4,440,141	None	None	1,565,672	4,440,141	6,005,813	393,013		9/1
Moreno Valley	CA		1,654,486	3,305,084	197,969	None	1,654,486	3,503,053	5,157,539	330,187		9/1
Redlands	CA		3,006,680	2,242,430	275,278	None	3,006,680	2,517,708	5,524,388	242,039		9/1
Sacramento	CA		3,446,351	4,460,201	None	None	3,446,351	4,460,201	7,906,552	408,852		9/1
South Lake Tahoe	CA		3,110,000	3,176,091	9,750	None	3,110,000	3,185,841	6,295,841	536,998		10/2
Sun Valley	CA		4,631,964	4,710,912	None	None	4,631,964	4,710,912	9,342,876	431,834		9/1
Vacaville	CA		1,299,816	3,375,574	183,515	None	1,299,816	3,559,089	4,858,905	334,661		9/1
Danbury	CT		1,096,861	6,217,688	334,131	56	1,096,861	6,551,875	7,648,736	4,385,721		9/3
Manchester	CT		771,660	3,653,539	1,661	161	771,660	3,655,361	4,427,021	2,454,930		3/2
Manchester	CT		1,250,464	5,917,037	3,555	None	1,250,464	5,920,592	7,171,056	3,976,215		3/2
Deerfield Beach	FL		3,160,000	4,832,848	6,603	None	3,160,000	4,839,451	7,999,451	817,030		10/2
Cumming	GA	4,675,000	2,100,000	6,472,785	None	None	2,100,000	6,472,785	8,572,785	183,396		4/1
Collinsville	IL	3,570,500	675,724	7,021,479	None	None	675,724	7,021,479	7,697,203	550,016		1/2
Georgetown	KY	5,679,500	1,922,820	10,448,325	None	None	1,922,820	10,448,325	12,371,145	818,452		1/2
Missoula	MT		163,100	362,249	28,843	16,199	163,100	407,291	570,391	373,364		10/3
Staten Island	NY		4,202,093	3,385,021	159,549	None	4,202,093	3,544,570	7,746,663	2,298,548		3/2
Bend	OR		4,060,000	13,198,790	None	None	4,060,000	13,198,790	17,258,790	505,954		1/3
Clarksville	TN		3,992,886	-	None	None	3,992,886	-	3,992,886	-		7/5
Dallas	TX		1,210,000	2,675,265	7,975	None	1,210,000	2,683,240	3,893,240	451,896		10/2
The Colony	TX		2,580,000	2,214,133	20,700	None	2,580,000	2,234,833	4,814,833	379,699		10/2
Automotive collision services												
	CO		1,085,560	2,137,425	None	None	1,085,560	2,137,425	3,222,985	249,287		1/5

Colorado Springs											
Denver	CO	480,348	2,127,792	None	None	480,348	2,127,792	2,608,140	221,966	6/8/2012	9/30
Highlands Ranch	CO	583,289	2,139,057	None	None	583,289	2,139,057	2,722,346	915,519	7/10/2007	8/1
Littleton	CO	601,388	2,169,898	None	None	601,388	2,169,898	2,771,286	781,951	2/2/2006	11/1
Parker	CO	868,768	2,653,745	None	None	868,768	2,653,745	3,522,513	960,105	9/7/2012	7/3
Thornton	CO	693,323	1,896,616	None	None	693,323	1,896,616	2,589,939	759,834	10/5/2004	10/1
Cumming	GA	661,624	1,822,363	None	None	661,624	1,822,363	2,483,987	818,357	9/18/2003	12/3
Douglasville	GA	679,868	1,935,515	None	None	679,868	1,935,515	2,615,383	874,914	8/11/2003	12/3
Lilburn	GA	1,150,000	1,670,724	None	None	1,150,000	1,670,724	2,820,724	86,348	7/29/2013	2/20
Macon	GA	1,400,000	1,317,435	None	None	1,400,000	1,317,435	2,717,435	136,111	5/11/2012	1/10
Morrow	GA	725,948	1,846,315	None	None	725,948	1,846,315	2,572,263	840,008	7/7/2003	8/30
Peachtree City	GA	1,190,380	689,284	None	None	1,190,380	689,284	1,879,664	330,550	12/16/2002	9/19
Roswell	GA	1,825,000	1,934,495	None	None	1,825,000	1,934,495	3,759,495	230,888	12/22/2011	8/10
Warner Robins	GA	1,250,000	1,012,258	None	None	1,250,000	1,012,258	2,262,258	117,773	1/11/2012	9/1
Maryville	IL	320,000	881,780	None	None	320,000	881,780	1,201,780	33,792		1/10
Naperville	IL	1,090,000	1,596,107	None	None	1,090,000	1,596,107	2,686,107	66,504		12/2
Oak Lawn	IL	180,000	778,484	None	None	180,000	778,484	958,484	24,615		11/1
Oak Lawn	IL	370,000	1,116,641	None	None	370,000	1,116,641	1,486,641	46,527		12/2
Orland Park	IL	120,000	1,015,358	None	None	120,000	1,015,358	1,135,358	42,307		12/2
South Holland	IL	80,000	1,548,690	None	None	80,000	1,548,690	1,628,690	64,529		12/2
Ann Arbor	MI	680,000	1,433,382	None	None	680,000	1,433,382	2,113,382	2,389		12/1
Clawson	MI	172,833	529,380	None	None	172,833	529,380	702,213	882		12/1
Livonia	MI	308,204	944,013	None	None	308,204	944,013	1,252,217	1,573		12/1
Washington	MI	240,000	471,064	None	None	240,000	471,064	711,064	785		12/1
Wayne	MI	314,815	964,262	None	None	314,815	964,262	1,279,077	1,607		12/1

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REALTY INCOME CORPORATION AND SUBSIDIARIES

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

AS OF DECEMBER 31, 2014

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (Notes 3, 4, 6 and 7)					
Description (Note 1)		Encumbrances (Note 2)	Land	Buildings, Improvements and Acquisition Fees	Improvements	Carrying Costs	Land	Buildings, Improvements and Acquisition Fees	Total	Accumulated Depreciation (Note 5)	Date of Construction	D Acq
Woodhaven	MI		170,000	1,170,127	None	None	170,000	1,170,127	1,340,127	1,950		12/18
Ham Lake	MN		192,610	1,930,958	None	None	192,610	1,930,958	2,123,568	775,814	7/1/2004	10/31
Stillwater	MN		656,250	1,218,901	187,158	None	656,250	1,406,059	2,062,309	122,100		11/16
Olive Branch	MS		350,000	1,965,718	None	None	350,000	1,965,718	2,315,718	275,334	6/29/2011	11/2
Cary	NC		610,389	1,492,235	None	None	610,389	1,492,235	2,102,624	514,821		5/25
Durham	NC		680,969	1,323,140	None	None	680,969	1,323,140	2,004,109	456,483		5/25
Wilmington	NC		378,813	1,150,679	None	None	378,813	1,150,679	1,529,492	434,388	7/15/2005	12/21
Las Vegas	NV		720,000	2,247,056	None	None	720,000	2,247,056	2,967,056	80,233		10/22
Bartlett	TN		648,526	1,960,733	None	None	648,526	1,960,733	2,609,259	787,783	8/3/2004	10/27
Nashville	TN		1,830,000	2,261,583	None	None	1,830,000	2,261,583	4,091,583	15,401	In-progress	9/3/
Riverton	UT		1,100,000	1,576,390	None	None	1,100,000	1,576,390	2,676,390	113,008	1/18/2013	7/26
Salt Lake City	UT		2,900,000	1,598,391	None	None	2,900,000	1,598,391	4,498,391	179,380	2/17/2012	10/11
Automotive parts												
Birmingham	AL		355,823	660,814	None	None	355,823	660,814	1,016,637	53,966		12/7
Flomaton	AL		90,000	808,163	None	None	90,000	808,163	898,163	52,531		5/1/
Harvest	AL	522,690	744,737	1,537,832	None	None	744,737	1,537,832	2,282,569	120,464		1/22
Millbrook	AL		108,000	518,741	174,419	None	108,000	693,160	801,160	364,007	12/10/1998	1/21
Montgomery	AL		254,465	502,350	10,819	84	254,465	513,253	767,718	338,895		6/30
Cabot	AR		267,787	595,578	None	None	267,787	595,578	863,365	20,845		2/25
Phoenix	AZ		231,000	513,057	None	62	231,000	513,119	744,119	513,084		11/9
San Luis	AZ		287,508	694,650	None	None	287,508	694,650	982,158	35,890		9/26
Tucson	AZ		194,250	431,434	None	None	194,250	431,434	625,684	431,434		10/30
Grass Valley	CA		325,000	384,955	None	None	325,000	384,955	709,955	384,955		5/20
Sacramento	CA		210,000	466,419	None	None	210,000	466,419	676,419	466,419		11/25
Denver	CO		141,400	314,056	None	82	141,400	314,138	455,538	314,108		11/18
Denver	CO		315,000	699,623	None	161	315,000	699,784	1,014,784	699,721		5/16
Littleton	CO		252,925	561,758	None	53	252,925	561,811	814,736	561,801		2/12
Smyrna	DE		232,273	472,855	15,774	None	232,273	488,629	720,902	313,252		8/7/
Apopka	FL		820,000	1,115,761	None	None	820,000	1,115,761	1,935,761	68,805		6/21
Deerfield Beach	FL											