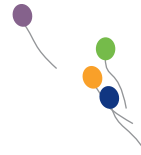


The Monthly Dividend Company®



Celebrating 40 Years of Monthly Dividends

Realty Income 2009 Annual Report

OUR LONG-TERM BUSINESS PLAN

Pay 12 Monthly Dividends

Raise the Dividend

Maintain a Conservative Balance Sheet

Maintain High Portfolio Occupancy

Acquire Additional Properties

**Tell More People About
The Monthly Dividend Company[®]**

Remain Conservative

THE RESULTS SO FAR...

473 Consecutive Monthly Dividends

56 Dividend Increases

\$1.7 Billion in Dividends Paid

2009 RESULTS

2,339 Properties Owned with No Mortgage Debt

96.8% Occupancy

16 Properties Acquired for \$57.9 Million

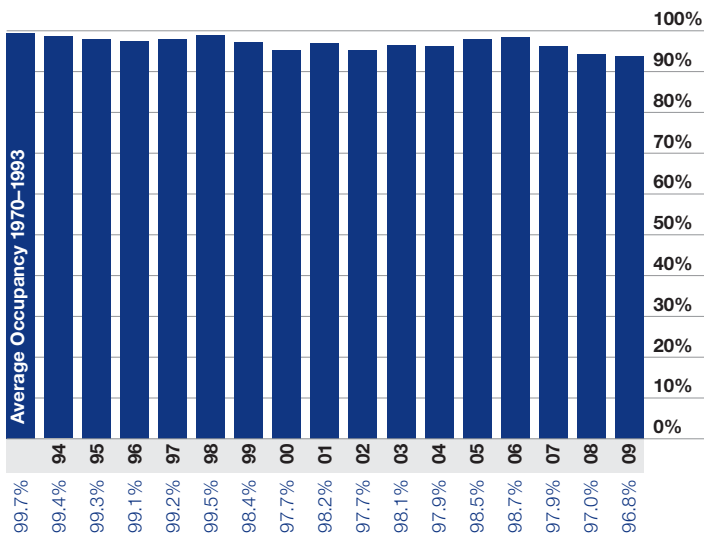
\$178 Million in Monthly Dividends Paid

Four Dividend Increases

19.3% Return to Shareholders

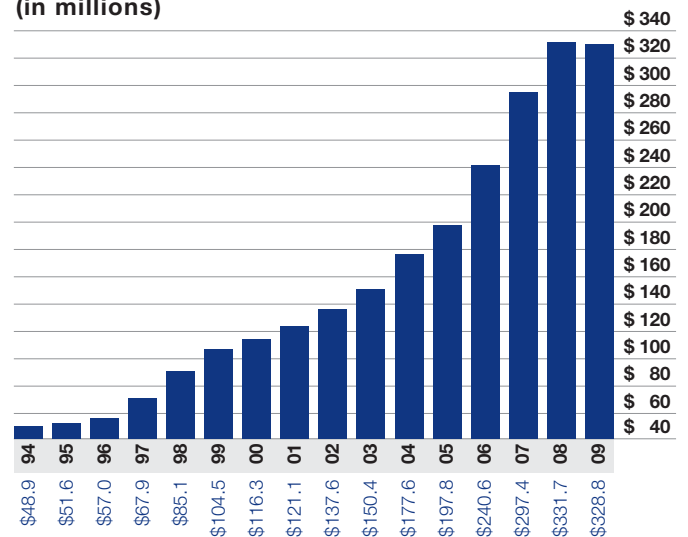
40 Year Focus on Performance to Support Monthly Dividends

Portfolio Occupancy

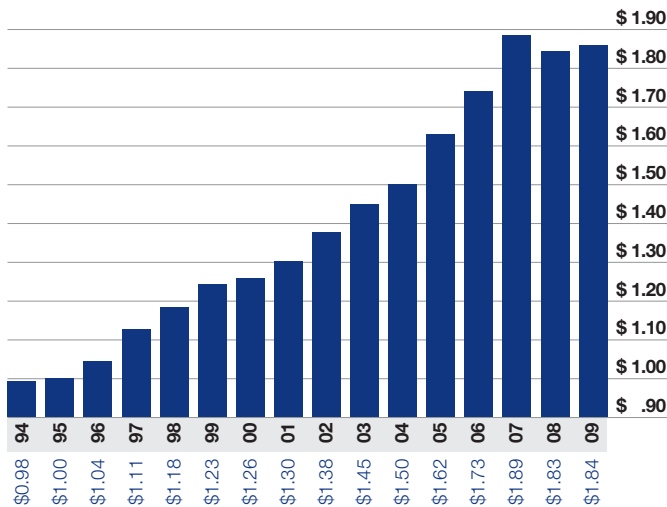


Total Revenue⁽¹⁾

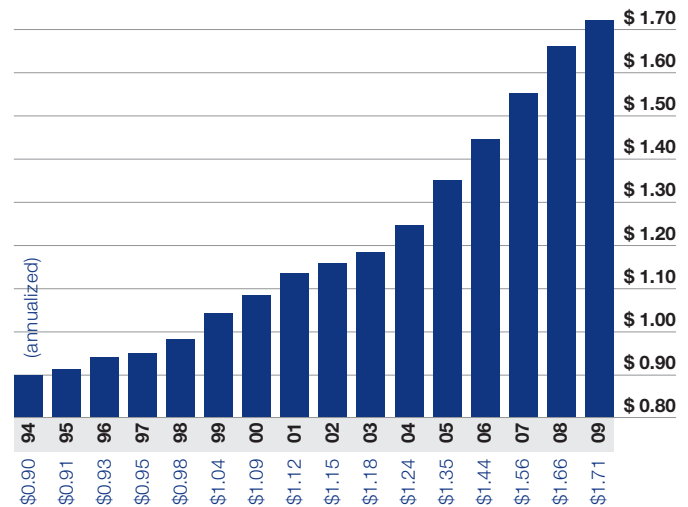
(in millions)



FFO Per Common Share



Dividends Paid Per Common Share



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

RESULTS SINCE LISTING ON THE NYSE IN 1994

Realty Income Performance vs. Major Stock Indices

	Realty Income		Equity REIT Index ⁽¹⁾		Dow Jones Industrial Average		Standard & Poor's 500		NASDAQ Composite	
	Dividend Yield	Total Return ⁽²⁾	Dividend Yield	Total Return ⁽³⁾	Dividend Yield	Total Return ⁽³⁾	Dividend Yield	Total Return ⁽³⁾	Dividend Yield	Total Return ⁽⁴⁾
1995	8.3%	42.0%	7.4%	15.3%	2.4%	36.9%	2.3%	37.6%	0.6%	39.9%
1996	7.9%	15.4%	6.1%	35.3%	2.2%	28.9%	2.0%	23.0%	0.2%	22.7%
1997	7.5%	14.5%	5.5%	20.3%	1.8%	24.9%	1.6%	33.4%	0.5%	21.6%
1998	8.2%	5.5%	7.5%	(17.5%)	1.7%	18.1%	1.3%	28.6%	0.3%	39.6%
1999	10.5%	(8.7%)	8.7%	(4.6%)	1.3%	27.2%	1.1%	21.0%	0.2%	85.6%
2000	8.9%	31.2%	7.5%	26.4%	1.5%	(4.7%)	1.2%	(9.1%)	0.3%	(39.3%)
2001	7.8%	27.2%	7.1%	13.9%	1.9%	(5.5%)	1.4%	(11.9%)	0.3%	(21.1%)
2002	6.7%	26.9%	7.1%	3.8%	2.6%	(15.0%)	1.9%	(22.1%)	0.5%	(31.5%)
2003	6.0%	21.0%	5.5%	37.1%	2.3%	28.3%	1.8%	28.7%	0.6%	50.0%
2004	5.2%	32.7%	4.7%	31.6%	2.2%	5.6%	1.8%	10.9%	0.6%	8.6%
2005	6.5%	(9.2%)	4.6%	12.2%	2.6%	1.7%	1.9%	4.9%	0.9%	1.4%
2006	5.5%	34.8%	3.7%	35.1%	2.5%	19.0%	1.9%	15.8%	0.8%	9.5%
2007	6.1%	3.2%	4.9%	(15.7%)	2.7%	8.8%	2.1%	5.5%	0.8%	9.8%
2008	7.3%	(8.2%)	7.6%	(37.7%)	3.6%	(31.8%)	3.2%	(37.0%)	1.3%	(40.5%)
2009	6.6%	19.3%	3.7%	28.0%	2.6%	22.6%	2.0%	26.5%	1.0%	43.9%
Compounded Average Annual Total Return⁽⁵⁾	16.6%			9.6%		9.0%		7.8%		7.4%

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

⁽¹⁾ FTSE NAREIT US Equity REIT Index, as per NAREIT website.

⁽²⁾ Calculated as closing stock price as of period end plus dividends paid in period divided by closing stock price as of end of previous period. Does not include reinvestment of dividends.

⁽³⁾ Includes reinvestment of dividends. Sources: NAREIT website and Factset.

⁽⁴⁾ Price only index, does not include dividends. Source: Factset.

⁽⁵⁾ All of these Compounded Average Annual Total Return rates are calculated in the same manner: from Realty Income's NYSE listing on October 18, 1994 through December 31, 2009, and assuming reinvestment of dividends, except for NASDAQ. Past performance does not guarantee future performance. Realty Income presents this data for informational purposes only and makes no representation about its future performance or how it will compare in performance to other indices in the future.

Historical Financial Performance

For the Years Ended December 31,	2009	2008	2007
Total revenue ⁽¹⁾	\$ 328,794,000	\$ 331,701,000	\$ 297,396,000
Net income available to common stockholders	\$ 106,874,000	\$ 107,588,000	\$ 116,156,000
Funds from operations ("FFO") ⁽²⁾	\$ 190,444,000	\$ 185,524,000	\$ 189,675,000
Dividends paid to common stockholders	\$ 178,008,000	\$ 169,655,000	\$ 157,659,000
Special dividend paid			
AT YEAR END			
Real estate at cost, before accumulated depreciation ⁽³⁾	\$ 3,439,456,000	\$ 3,408,910,000	\$ 3,238,794,000
Number of properties	2,339	2,348	2,270
Gross leasable square feet	19,182,000	19,106,700	18,504,800
Properties acquired ⁽⁴⁾	16	108	357
Cost of properties acquired ⁽⁴⁾	\$ 57,937,000	\$ 189,627,000	\$ 533,726,000
Properties sold	25	29	10
Number of retail industries	30	30	30
Number of states	49	49	49
Portfolio occupancy rate	96.8%	97.0%	97.9%
Remaining weighted average lease term in years	11.2	11.9	13.0
PER COMMON SHARE DATA⁽⁵⁾			
Net income (diluted)	\$ 1.03	\$ 1.06	\$ 1.16
Funds from operations ("FFO") ⁽²⁾	\$ 1.84	\$ 1.83	\$ 1.89
Dividends paid	\$ 1.707	\$ 1.662	\$ 1.560
Special dividend			
Annualized dividend amount ⁽⁶⁾	\$ 1.716	\$ 1.701	\$ 1.641
Common shares outstanding	104,286,705	104,211,541	101,082,717
INVESTMENT RESULTS			
Closing price on December 31,	\$ 25.91	\$ 23.15	\$ 27.02
Dividend yield ⁽⁷⁾⁽⁸⁾⁽⁹⁾	7.4%	6.1%	5.6%
Total return to stockholders ⁽⁹⁾⁽¹⁰⁾	19.3%	-8.2%	3.2%

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

⁽²⁾ Refer to Management's Discussion and Analysis for FFO definition and reconciliation to net income available to common stockholders.

⁽³⁾ Does not include properties held for sale.

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

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

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

	2006	2005	2004	2003
	\$ 240,626,000	\$ 197,751,000	\$ 177,606,000	\$ 150,370,000
	\$ 99,419,000	\$ 89,716,000	\$ 90,168,000	\$ 76,722,000
	\$ 155,799,000	\$ 129,647,000	\$ 118,181,000	\$ 103,366,000
	\$ 129,667,000	\$ 108,575,000	\$ 97,420,000	\$ 83,842,000
	\$ 2,743,973,000	\$ 2,096,156,000	\$ 1,691,283,000	\$ 1,533,182,000
	1,955	1,646	1,533	1,404
	16,740,100	13,448,600	11,986,100	11,350,800
	378	156	194	302
	\$ 769,900,000	\$ 486,553,000	\$ 215,314,000	\$ 371,642,000
	13	23	43	35
	29	29	30	28
	48	48	48	48
	98.7%	98.5%	97.9%	98.1%
	12.9	12.4	12.0	11.8
	\$ 1.11	\$ 1.12	\$ 1.15	\$ 1.08
	\$ 1.73	\$ 1.62	\$ 1.50	\$ 1.45
	\$ 1.437	\$ 1.346	\$ 1.241	\$ 1.181
	\$ 1.518	\$ 1.395	\$ 1.32	\$ 1.20
	100,746,226	83,696,647	79,301,630	75,818,172
	\$ 27.70	\$ 21.62	\$ 25.29	\$ 20.00
	6.7%	5.3%	6.2%	6.7%
	34.8%	-9.2%	32.7%	21.0%

⁽⁷⁾ Dividend yield was calculated by dividing the dividend paid per share, during the year, by the closing share price on December 31 of the previous year.

⁽⁸⁾ Dividend yield excludes special dividends.

⁽⁹⁾ The 1994 dividend yield is based on the annualized dividends for the period from August 15, 1994 (the date of the consolidation of the predecessors to the Company) to December 31, 1994. The 1994 total return is based on the price change from the opening on October 18, 1994 (the Company's first day of trading) to December 31, 1994 plus the annualized dividend yield.

	2002	2001	2000	1999
	\$ 137,600,000	\$ 121,081,000	\$ 116,310,000	\$ 104,510,000
	\$ 68,954,000	\$ 57,846,000	\$ 45,076,000	\$ 41,012,000
	\$ 93,539,000	\$ 76,378,000	\$ 67,239,000	\$ 65,917,000
	\$ 78,042,000	\$ 64,871,000	\$ 58,262,000	\$ 55,925,000
	\$ 1,285,900,000	\$ 1,178,162,000	\$ 1,073,527,000	\$ 1,017,252,000
	1,197	1,124	1,068	1,076
	9,997,700	9,663,000	9,013,200	8,648,000
	111	117	22	110
	\$ 139,433,000	\$ 156,472,000	\$ 98,559,000	\$ 181,376,000
	35	35	21	3
	26	25	24	24
	48	48	46	45
	97.7%	98.2%	97.7%	98.4%
	10.9	10.4	9.8	10.7
	\$ 1.01	\$ 0.99	\$ 0.84	\$ 0.76
	\$ 1.38	\$ 1.30	\$ 1.26	\$ 1.23
	\$ 1.151	\$ 1.121	\$ 1.091	\$ 1.043
	\$ 1.17	\$ 1.14	\$ 1.11	\$ 1.08
	69,749,654	65,658,222	53,127,038	53,644,328
	\$ 17.50	\$ 14.70	\$ 12.4375	\$ 10.3125
	7.8%	9.0%	10.6%	8.4%
	26.9%	27.2%	31.2%	-8.7%

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

1998	1997	1996	1995	1994
\$ 85,132,000	\$ 67,897,000	\$ 56,957,000	\$ 51,555,000	\$ 48,863,000
\$ 41,304,000	\$ 34,770,000	\$ 32,223,000	\$ 25,600,000	\$ 15,224,000
\$ 62,799,000	\$ 52,188,000	\$ 47,139,000	\$ 40,414,000	\$ 39,050,000
\$ 52,301,000	\$ 44,367,000	\$ 42,794,000	\$ 36,710,000	\$ 38,816,000
		\$ 5,285,000		\$ 5,850,000
\$ 889,835,000	\$ 699,797,000	\$ 564,540,000	\$ 515,426,000	\$ 450,703,000
970	826	740	685	630
7,824,100	6,302,300	5,226,700	4,673,700	4,064,800
149	96	62	58	4
\$ 193,436,000	\$ 142,287,000	\$ 55,517,000	\$ 65,393,000	\$ 3,273,000
5	10	7	3	5
22	14	8	7	5
45	43	42	42	41
99.5%	99.2%	99.1%	99.3%	99.4%
10.2	9.8	9.5	9.2	9.5
\$ 0.78	\$ 0.74	\$ 0.70	\$ 0.63	\$ 0.39
\$ 1.18	\$ 1.11	\$ 1.04	\$ 1.00	\$ 0.98
\$ 0.983	\$ 0.946	\$ 0.931	\$ 0.913	\$ 0.300
		\$ 0.23		
\$ 1.02	\$ 0.96	\$ 0.945	\$ 0.93	\$ 0.90
53,634,206	51,396,928	45,959,074	45,952,474	39,004,182
\$ 12.4375	\$ 12.719	\$ 11.9375	\$ 11.25	\$ 8.5625
7.7%	7.9%	8.3%	10.7%	9.9%
5.5%	14.5%	15.4%	42.0%	28.5%

CEO Letter to Shareholders

We are The Monthly Dividend Company®

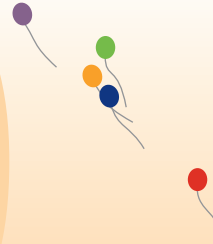
Monthly Dividends Are . . .
Our Mission. Our Passion. Our Reason to Be.

Monthly Dividends Give
Our Shareholders the Freedom to . . .
Reinvent Themselves. Engage Others. Pursue their Dreams.

Dear fellow shareholders,

I am pleased to report that, during the economic malaise of 2009, your Company continued to collect more rent, increase funds from operations and increase dividends. Once again, “The Monthly Dividend Company’s®” strategy of owning a portfolio of properties under long-term leases that have been carefully underwritten, coupled with a conservative balance sheet, allowed us to deliver consistent results. This was obviously no small feat given the economic headwinds most every company faced over the last year. While our revenue and earnings were relatively unchanged from 2008, we fared substantially better than the vast majority of public and private real estate companies who saw their earnings dramatically reduced and their dividends slashed. Or, as one real estate industry observer recently commented, “During 2009, flat just may have been the new up!”

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To summarize our operating results for 2009:

- Shareholders received 12 monthly dividends
- Dividends paid per common share increased 2.7%
- Investors achieved a 19.3% total return
- Revenue was relatively unchanged at \$327.6 million
- Funds from operations (FFO) increased 2.6% to \$190.4 million
- Portfolio occupancy was 96.8% at year-end
- Maintained a large and diverse portfolio of 2,339 properties located in 49 states occupied by 118 different retailers in 30 different industries
- Same store rents increased 0.4%
- 16 new properties were acquired for \$57.9 million
- \$350 million was available on our \$355 million credit facility and \$10 million in cash on hand
- Held no mortgages on any of our properties
- Held no debt maturities until 2013

Investor Returns

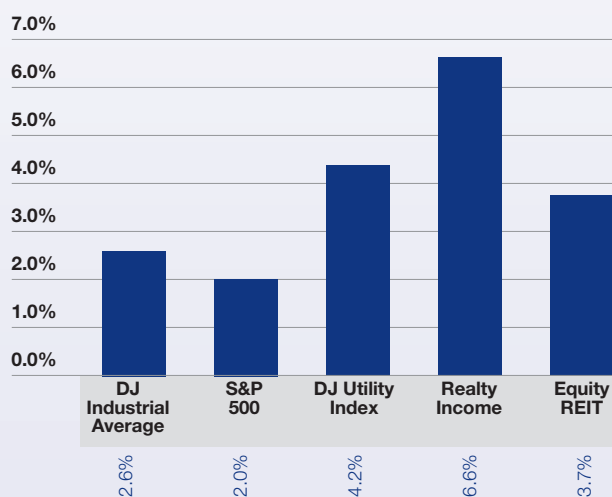
We increased the amount of the monthly dividend four times during 2009. Dividends paid per common share increased 2.7% and common

shareholders, who owned the stock for the entire year, received \$1.707 per share in dividends during 2009, compared to \$1.662 per share in 2008. We also note that we were able to increase the dividend in a year when 103 companies in our industry had to cut or suspend their dividend.

During 2009, the price of Realty Income's shares rose 11.9% to \$25.91 from \$23.15. When you add the \$1.707 in dividends we paid last year, this works out to a total return to shareholders of 19.3%. While our main focus is on providing dependable monthly dividends to shareholders, we know that investors regularly compare Realty Income to other investments in terms of total return. Since the calculation of total return relies on the whims of stock market pricing, it does not always mirror a company's actual operating results in a given year. With that said, on page 3 we have included a table that shows Realty Income's compounded average annual total return since our listing on the New York Stock Exchange in 1994. It is interesting to note that our average annual total return since 1994 is 16.6%, in comparison to the Equity REIT Index at 9.6%, the Dow Jones Industrial Average at 9.0%, the Standard & Poor's 500 Index at 7.8%, and the NASDAQ Composite Average at 7.4%.

In addition, at December 31, 2009, the dividend yield on our shares was 6.6%, based on the annualized dividend amount of \$1.716. This compares favorably to the yields on other investments as measured by various indexes. For example, at year end, the yield on the Dow Jones Industrial Average was 2.6%, Standard & Poor's 500 was 2.0%, Dow Jones Utility Index was 4.2%, and Equity REIT index was 3.7%. (See Yield Comparison Table below).

Yield Comparisons



Vision and Guiding Principles

This year, Realty Income celebrates 40 years of operations and paying monthly dividends to its shareholders. We've reached this milestone after a year of continued stable operations during difficult times. It seems appropriate, therefore, to take a moment to consider the original principles that continue to guide us, and to recognize the founders who provided us with a sound, long-term vision.

Bill and Joan Clark founded the Company in 1969. They had conceived the idea of building a real estate company that purchased properties for cash, leasing the properties to tenants under long-term leases that provided monthly revenue, then passing along that monthly revenue as monthly cash dividends to the owners of the company.

During that year, the Clarks uncovered a small Southern California restaurant company, founded by a gentleman named Glen Bell, who had a good restaurant concept and needed capital to grow and open additional stores. The Clarks agreed to purchase the land and building of a few of his new restaurants if Mr. Bell agreed to sign a long-term lease. Mr. Bell thought this was a great idea, because he wouldn't have to keep his money tied up in real estate but could use it to expand his business. The two parties agreed to a "sale-leaseback" transaction that provided for monthly lease payments to be made to Realty Income for the next 20 years.

This furnished the restaurant company with the capital it needed to grow and provided the Clark's new company with a good property operated under a long-term lease, which was perfect for generating monthly income. That restaurant company, Taco Bell, grew by leaps and bounds and the Clark's new company, Realty Income, was able to provide its investors with a reliable, 20-year stream of income from their purchase of a number of Taco Bell properties.

Following this early investment in 1969, the Clarks realized they had uncovered a novel way to finance a retail company's growth and generate income for investors who valued investment income with the potential for growth. This relatively simple idea (using real estate to help finance a

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business) is still a hallmark of our business and has guided our operations for the past four decades. Times have changed since 1969 and Realty Income has, of course, had to change and adapt with the times in order to succeed. Yet the simplicity of our strategy has made it possible for us to nimbly execute our business plan year after year and has enabled us to think outside of the box when we needed to. It has also provided us with the flexibility to pursue a variety of real estate investment opportunities as long as the opportunity could be relied upon to provide a 15 to 20-year revenue stream to support dividends.

Since we paid our first dividend in 1970, and for 40 years since then, we have achieved many important milestones. In particular, from the date of our listing on the New York Stock Exchange in 1994 through 2009, we have

- Grown our property portfolio from 630 properties to 2,339 properties
- Increased our real estate assets from \$451 million to \$3.4 billion
- Diversified our real estate from
 - 5 industries to 30 industries
 - 41 states to 49 states
 - 23 retail chains to 118 retail chains
- Maintained a portfolio occupancy rate above 96%
- Increased revenue from \$49 million to \$329 million
- Increased funds from operations from \$39 million to \$190 million
- Paid \$1.7 billion in cash dividends to common shareholders since 1970
 - 473 consecutive monthly dividend payments

- Increased the annualized dividend amount from \$0.90 per share to \$1.716
 - 49 consecutive quarterly increases since 1997
 - 56 increases in the dividend
- Provided a compounded average annual total return to shareholders of 16.6%
- Kept our balance sheet conservative with no mortgages on any of the properties

These accomplishments are the result of being singularly dedicated to our mission of paying monthly dividends and a consistent business plan that supports that mission. That plan is to

1. Pay 12 monthly dividends each year
2. Raise the dividend each year
3. Maintain a conservative balance sheet
4. Maintain high portfolio occupancy
5. Acquire additional properties under long term leases
6. Tell more people about The Monthly Dividend Company®
7. Remain conservative and manage the business for the long term

While our mission and business plan have not changed, the economic and business environment is constantly evolving, which brings new challenges to the execution of the Company's plans. We've run up against inflation in the 70's and 80's, easy credit, tight credit, the threat of deflation, the threat of inflation again, the real estate bubble of the 2000's, and the "great recession" of 2008 and 2009. Each of these economic challenges has posed a threat to some aspect of our overall business at various times during the past 40 years. But by having a conservative, long-term plan, we knew where to focus our efforts in order to maintain occupancy, increase revenue, and increase the monthly dividend.

Current Economic Environment

Today's economic environment continues to pose challenges. Current economic forecasts project Gross Domestic Product (GDP) growth to be about 3% during 2010 and unemployment to peak at about 10.5%. However, government deficits, the possible removal of all or a portion of the stimulus programs, and other factors make the economic outcome highly uncertain.

Tough times may still lie ahead for many in commercial real estate, mainly due to the large amount of debt held on the balance sheets of many commercial real estate companies. Credit conditions have not fully returned to the pre-2008

status. The residential real estate market has firmed, but has been aided by the government's support of mortgage-backed securities as well as the first-time home buyer tax credit that will likely be eliminated at some point.

Another interesting effect of the "great recession" is a shift in consumer psychology. Anecdotal evidence suggests that consumers are putting a lock on their wallets and trying to save more than they spend. The days of spending our way out of a recession appear to be a thing of the past, and consumers have become bargain hunters and necessity shoppers rather than impulse buyers. Discretionary retail, in particular, is being impacted by

The Magic of Rising Dividends Over Time

1000 Shares Purchase Date	Yield on Cost				The Cumulative Dividend Effect	
	Original Investment	Original Dividends ⁽¹⁾	Original Yield	Current Yield On Cost ⁽²⁾	Dividends Received to Date	% of Original Investment Paid Back
10/18/94	\$ 8,000.00	\$ 900.00	11.3%	21.5%	\$ 18,728.88	234.1%
12/31/94	8,562.50	900.00	10.5%	20.0%	18,428.88	215.2%
12/31/95	11,250.00	930.00	8.3%	15.3%	17,516.38	155.7%
12/31/96	11,937.50	945.00	7.9%	14.4%	16,470.13	138.0%
12/31/97	12,719.00	960.00	7.5%	13.5%	15,523.88	122.1%
12/31/98	12,437.50	1,020.00	8.2%	13.8%	14,541.38	116.9%
12/31/99	10,312.50	1,080.00	10.5%	16.6%	13,498.88	130.9%
12/31/00	12,437.50	1,110.00	8.9%	13.8%	12,407.63	99.8%
12/31/01	14,700.00	1,140.00	7.8%	11.7%	11,286.38	76.8%
12/31/02	17,500.00	1,170.00	6.7%	9.8%	10,135.13	57.9%
12/31/03	20,000.00	1,200.00	6.0%	8.6%	8,953.88	44.8%
12/31/04	25,290.00	1,320.00	5.2%	6.8%	7,712.63	30.5%
12/31/05	21,620.00	1,395.00	6.5%	7.9%	6,366.38	29.4%
12/31/06	27,700.00	1,518.00	5.5%	6.2%	4,929.13	17.8%
12/31/07	27,020.00	1,641.00	6.1%	6.4%	3,368.88	12.5%
12/31/08	23,150.00	1,701.00	7.3%	7.4%	1,706.63	7.4%
12/31/09	25,910.00	1,716.00	6.6%	6.6%		

⁽¹⁾ Based on annualized dividend per share on the purchase date

⁽²⁾ Based on 12/31/09 annualized dividend per share amount of \$1.716

this shift. Retailers focusing on more basic human needs goods and services have been affected to a somewhat lesser extent. But a shift from “spend, spend, spend” to “save, save, save,” is being felt in varying degrees across the retail landscape.

At the same time, a great deal of money has been pumped into our economy in extraordinary efforts to keep our credit markets open and prop up our economy. There may well be meaningful consequences to this massive increase in our money supply that could possibly lead to an inflationary environment. Experts disagree as to the timing and likelihood of higher inflation, but I believe we should be prepared for higher inflation at some point in the coming years.

Issues We Face This Year

Given the uncertainties we still face in the economy, I thought it would be a good idea for me to spend some time talking about what we are paying attention to this year. It's important, I believe, to distinguish between macro-economic concerns and Realty Income concerns. Much of what is in the headlines about commercial real estate doesn't fully apply to us. We have a healthy balance sheet (i.e. we're not highly leveraged) and we don't carry mortgages on our properties. As such, we're somewhat exempt from the primary issue of excessive indebtedness currently making the news in the commercial real estate market. However, there are a couple of things that I'm keeping my eye on:

1. Tenant store level retail performance
2. Retail consumer shifts

My concerns in these areas are mostly strategic rather than operational. By this, I mean that there's nothing immediate that we need to

address, but a watchful eye is warranted. Let's take a look at each of these areas.

Tenant store level retail performance—While the type of retail real estate we own tends to be leased to businesses providing basic human needs goods and services at low price points, and we tend to own our tenants' more profitable stores, this does not completely protect us against a very deep recession. During 2009, we worked our way through six Chapter 11 reorganizations by our tenants, representing about 13% of our revenue, and we were fortunate to come through relatively unscathed, recovering, on average, 83% of our original rental revenue from these tenants going forward. We are pleased with these results and believe our underwriting ability and understanding of the reorganization process will continue to serve us well. We can't say for certain that we won't have additional retailers run into financial difficulty and seek the protection afforded them through the reorganization process. If there are a few, I believe we will continue to do fairly well with them because we tend to own their more profitable stores.

Retail consumer shifts—The diversification of our real estate portfolio, with more than 30 retail industries and 118 retail chains operating in 49 states, has allowed us to even out the overall performance of the total portfolio during the past 40 years. However, the retail environment is changing somewhat as the consumer shifts from a spend to save mode. The decisions we make over the next few years with respect to investment opportunities will be very important. Our general focus on basic human needs goods and services affords us the ability to examine where opportunities in the future may lie and where we should

limit our focus. A good deal of my time is spent analyzing where we are and where we want to be five and ten years from now. There are certain industries that will continue to do well in the current recession and there are others that we should probably avoid over the long term. There are also industries in which we have not yet invested that might represent excellent, long-term possibilities for consistent revenues. As always, we will move carefully into any new areas and continue to favor a “first crawl, then walk, and finally run” approach as we do so.

Needless to say, the focus of our management team continues to be on operating our business so we can continue to provide our shareholders with dependable monthly income. Our commitment to our shareholders in this regard is not going to change.

Our Economic Moat

I’d also like to discuss one of the primary reasons we believe our real estate portfolio has continued to perform pretty well in this economic environment. Our economic moat, or margin of safety, is the end result of our quest to own the more profitable stores of our retailers for the long term. Over the last few years, we have written about our underwriting processes so that you will understand the deliberate manner in which we make real estate acquisition decisions. The property locations and financial conditions of the retail chains we work with continue to be important in our underwriting process; however, we believe the primary reason our real estate portfolio has continued to perform well is due to the strong cash flow coverage of rent at the individual store locations we own. Before we tackle the cash flow coverage topic, let’s quickly

review the underwriting process we employ for the benefit of our first-time readers.

By the time a property gets to the point where we assess the profitability of the store we are buying, that property has already passed at least two of the three benchmarks we’ve set to determine the suitability of a particular property purchase. The three benchmarks we use are 1) we examine the retail chain (tenant) and retail industry, 2) we thoroughly analyze the real estate location, and 3) we look at the unit profitability and cash flow coverage of the stores we are acquiring.

When examining the retail chain and industry, we ascertain competitive conditions of the industry, how the particular retail chain we are considering fits within the industry, the historical financial performance of the industry, the outlook for future operating performance, as well as some indication of the challenges and opportunities that might impact the industry in the future. We also meet with the management team of the individual retail chain, review audited financial statements and a variety of internal operating metrics that can give us insight into the retailer’s performance.

The real estate location analysis consists of sending out our real estate research people to visit every property and review the trade area in which the business operates. Typically, we obtain data on property values and we review area demographics, traffic flow, regional economic data, as well as comparative purchase and lease prices for each location.

Acquisition opportunities that make it past the first two hurdles aren’t automatically approved for investment, however. The final key metric we use to determine whether or not a property makes economic sense over the long term is “cash flow

coverage.” It’s calculated by dividing the retailer’s cash flow generated for the store we’re considering for purchase by the rent that would have to be paid. This measure helps us figure out how bad things have to get before the operations of a particular retail location won’t be able to support its rent payments. Generally speaking, we’re looking for stores that generate cash flow coverage of two or more times the rent we get paid. Our coverage ratio requirement can vary according to the particular retail industry, individual retail chain, and the specific property being considered.

Our focus on strong store level cash flow coverage, I believe, was a significant factor in our successful navigation of the tenant reorganization proceedings in our portfolio during 2008 and 2009. This is because the cash flow coverage analysis takes into account both the profitability of each store, as well as the level of rent that the cash flow can support. In Chapter 11 proceedings, a retail chain is more likely to keep a store that is profitable

to them and a store with strong rent coverage generally will require little or no rent concessions. Had we only considered real estate factors or unsecured credit analysis in our due diligence, I believe we might have had to make greater concessions on rent and our portfolio of properties would not have performed nearly as well during the recent economic environment. Let’s take a look now at the operations of your Company.

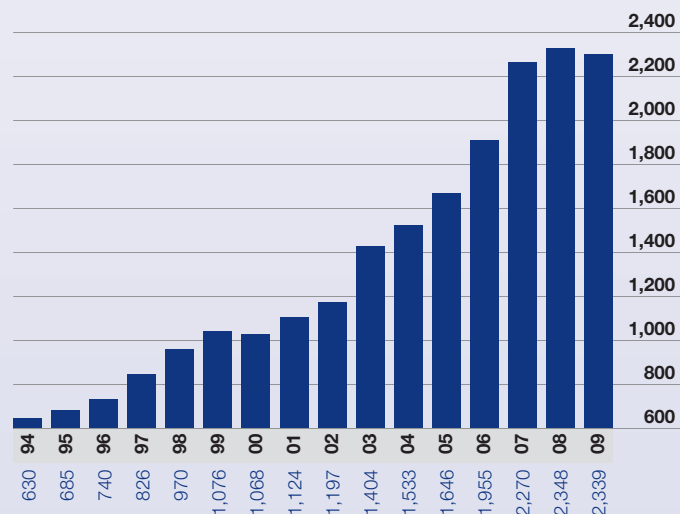
Real Estate Operations and Financial Performance

Real Estate Portfolio Performance

Our portfolio of net-leased retail properties continues to perform well and provide the lease revenue from which we pay monthly dividends. As of December 31, 2009, portfolio occupancy was 96.8% with just 75 properties available for lease or sale out of 2,339 properties in the portfolio. The weighted average remaining lease term for properties in our portfolio was 11.2 years. In addition, our portfolio continues to be well diversified by individual retail chain, retail industry and by geographic region. At the end of 2009, we owned 2,339 properties located in 49 states leased to 118 different retail chains doing business in 30 separate retail industries.

Same store rents on 2,063 properties under lease for 2009 increased 0.4% as compared to 2008. To break down the same store rent increases during 2009, we had 22 industries with rent increases, 2 with flat rents, and 6 with declining rents. The increase in same store rent for 2009 was smaller than in 2008. That is not surprising given the state of the economy and the retail environment. I think there might be moderate increases in 2010.

Number of Properties (at the end of each year)



We also selectively sold 25 properties for \$20.5 million during 2009. These properties had been targeted for sale based on specific asset sale criteria. In general, Realty Income's business model is to hold properties for the long-term cash that is generated to pay dividends. However, we will pursue the sale of properties out of the portfolio when we believe that

1. Reinvesting sale proceeds will generate higher returns,
2. Asset sales will enhance the credit quality of our real estate portfolio,
3. Asset sales will extend our average remaining lease term, or
4. Specific tenant or industry concentration levels will be reduced.

With respect to lease expirations during 2009, the portfolio management group handled 156 lease expirations, of which 133 of the leases were the result of normal lease expiration, and the remaining 23 were the result of properties that had to be re-leased or sold because of tenant financial difficulties. Needless to say, again this was a tough year to lease vacant space and hats off to our portfolio management group for working hard to keep us above 96% occupancy at year-end. Keeping the majority of our properties leased year after year is the key to generating dependable lease revenue.

During 2009, we acquired 16 properties for \$57.9 million, with an initial average lease yield of 9.7%. The 16 new properties are located in five states and are 100% leased under net-lease agreements, with an initial weighted average lease length of 17.9 years. They are leased to four different retail chains in two industries.

We acquired fewer properties in 2008 and

2009 than in prior years because we determined it would be prudent for us to wait on the sidelines and maintain high levels of liquidity, until property prices became more attractive and the economy firmed. During that time, property prices continued to fall and lease rates rose. In the third quarter of 2009, we felt that prices had declined to the point that new acquisitions made sense, from a return perspective, and so we stepped back into the market, acquiring a few attractively priced properties. We continue to believe there are many retail chains, with solid operating concepts, that need capital and can't efficiently access either the debt or equity markets, in which case a sale leaseback with Realty Income is a good option. Given the fact that we are in a very good financial position, with a strong balance sheet and access to capital, we look to accelerate our acquisition activities in 2010 and invest in new retail properties that will add to our profits.

Stable Financial Performance and Conservative Balance Sheet

Revenue, funds from operations (FFO), and net income results for the year ended December 31, 2009, as compared to the same period in 2008, were as follows:

- Revenue was \$327.6 million as compared to \$327.8 million in 2008
- FFO available to common shareholders was \$190.4 million as compared to \$185.5 million in 2008
- FFO per diluted common share was \$1.84 as compared to \$1.83 in 2008
- Net income available to common shareholders was \$106.9 million as compared to \$107.6 million in 2008

40

As of the year ended December 31, 2009, we continue to operate with a very conservative capital structure and have one of the strongest balance sheets in our industry, according to many research analysts. Our capital structure consisted of 30.8% in notes and credit facility borrowings outstanding, 61.3% in common shares and 7.9% in preferred shares outstanding. As of December 31, 2009, we had just \$4.6 million in borrowings outstanding on our \$355 million acquisition credit facility, we had \$10.0 million in cash on hand, and we carry no mortgages on any of our properties.

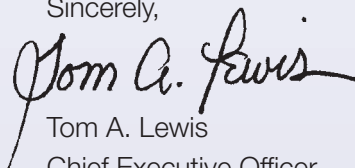
Our Commitment to Monthly Dividends

For 40 years we've been The Monthly Dividend Company[®]. Our goal is to be able to continue to make this claim for many years to come. As I've highlighted this year, however, it takes more than a commitment to being a monthly dividend company in order to succeed in a challenging economic environment. The risks to our business are many, but we believe we have taken the necessary precautions to continue to be successful in this environment. Our primary goal is to manage our real estate assets so that they continue to provide the lease revenue to support

monthly dividend payments. Secondly, we hope to increase the number of assets that we own so we can increase our revenue and the amount of the dividend that we pay over time.

In closing, the last two years have been among the most interesting and challenging years we have experienced. 2010 may well end up being just as interesting and challenging. Nevertheless, we are committed to our objective of paying you monthly dividends that tend to increase over time. Again this year, we are grateful for the support of the thousands of loyal shareholders who, like us, have enjoyed many years of monthly dividends. As always, there are no guarantees we will be as successful in our efforts during 2010 as we have been in the past and, for that reason, we recommend that all investors remain diversified and rely on us for only a portion of their income. We will do our best to operate your Company in a prudent fashion so that the monthly dividends just keep on coming.

Sincerely,



Tom A. Lewis
Chief Executive Officer

Vice Chairman of the Board of Directors

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Consolidated Balance Sheets

(dollars in thousands, except per share data)

December 31,	2009	2008
Assets		
Real estate, at cost:		
Land	\$ 1,169,295	\$ 1,157,885
Buildings and improvements	2,270,161	2,251,025
Total real estate, at cost	3,439,456	3,408,910
Less accumulated depreciation and amortization	(630,840)	(553,417)
Net real estate held for investment	2,808,616	2,855,493
Real estate held for sale, net	8,266	6,660
Net real estate	2,816,882	2,862,153
Cash and cash equivalents	10,026	46,815
Accounts receivable, net	10,396	10,624
Goodwill	17,206	17,206
Other assets, net	60,277	57,381
Total assets	\$ 2,914,787	\$ 2,994,179
Liabilities and Stockholders' Equity		
Distributions payable	\$ 16,926	\$ 16,793
Accounts payable and accrued expenses	38,445	38,027
Other liabilities	16,807	14,698
Line of credit payable	4,600	—
Notes payable	1,350,000	1,370,000
Total liabilities	1,426,778	1,439,518
Commitments and contingencies		
Stockholders' equity:		
Preferred stock and paid in capital, par value \$1.00 per share, 20,000,000 shares authorized, 13,900,000 shares issued and outstanding in 2009 and 2008	337,790	337,790
Common stock and paid in capital, par value \$1.00 per share, 200,000,000 shares authorized, 104,286,705 and 104,211,541 shares issued and outstanding as of December 31, 2009 and 2008, respectively	1,629,237	1,624,622
Distributions in excess of net income	(479,018)	(407,751)
Total stockholders' equity	1,488,009	1,554,661
Total liabilities and stockholders' equity	\$ 2,914,787	\$ 2,994,179

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

Consolidated Statements of Income

(dollars in thousands, except per share data)

Years Ended December 31,	2009	2008	2007
Revenue			
Rental	\$ 326,145	\$ 325,896	\$ 285,133
Other	1,436	1,877	6,350
Total revenue	327,581	327,773	291,483
Expenses			
Depreciation and amortization	91,383	89,941	75,932
Interest	85,528	93,956	64,331
General and administrative	20,946	21,618	22,694
Property	6,914	5,601	3,356
Income taxes	677	1,230	1,392
Total expenses	205,448	212,346	167,705
Income from continuing operations	122,133	115,427	123,778
Income from discontinued operations:			
Real estate acquired for resale by Crest	958	575	10,703
Real estate held for investment	8,036	15,839	5,928
Total income from discontinued operations	8,994	16,414	16,631
Net income	131,127	131,841	140,409
Preferred stock cash dividends	(24,253)	(24,253)	(24,253)
Net income available to common stockholders	\$ 106,874	\$ 107,588	\$ 116,156
Amounts available to common stockholders per common share:			
Income from continuing operations:			
Basic	\$ 0.94	\$ 0.90	\$ 0.99
Diluted	\$ 0.94	\$ 0.90	\$ 0.99
Net income:			
Basic	\$ 1.03	\$ 1.06	\$ 1.16
Diluted	\$ 1.03	\$ 1.06	\$ 1.16
Weighted average common shares outstanding:			
Basic	103,577,507	101,178,191	100,195,031
Diluted	103,581,053	101,209,883	100,333,966

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

Consolidated Statements of Stockholders' Equity

(dollars in thousands)

Years Ended December 31, 2007, 2008, 2009	Shares of preferred stock	Shares of common stock	Preferred stock and paid in capital	Common stock and paid in capital	Distributions in excess of net income	Total
Balance, December 31, 2006	13,900,000	100,746,226	\$ 337,781	\$ 1,540,365	\$ (302,154)	\$ 1,575,992
Net income	—	—	—	—	140,409	140,409
Distributions paid and payable	—	—	—	—	(182,990)	(182,990)
Preferred stock issuance cost	—	—	9	—	—	9
Share-based compensation	—	336,491	—	4,672	—	4,672
Balance, December 31, 2007	13,900,000	101,082,717	337,790	1,545,037	(344,735)	1,538,092
Net income	—	—	—	—	131,841	131,841
Distributions paid and payable	—	—	—	—	(194,857)	(194,857)
Shares issued in stock offering, net of offering costs of \$4,024	—	2,925,000	—	74,425	—	74,425
Share-based compensation	—	203,824	—	5,160	—	5,160
Balance, December 31, 2008	13,900,000	104,211,541	337,790	1,624,622	(407,751)	1,554,661
Net income	—	—	—	—	131,127	131,127
Distributions paid and payable	—	—	—	—	(202,394)	(202,394)
Share-based compensation	—	75,164	—	4,615	—	4,615
Balance, December 31, 2009	13,900,000	104,286,705	\$ 337,790	\$ 1,629,237	\$ (479,018)	\$ 1,488,009

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

Consolidated Statements of Cash Flows

(dollars in thousands)

Years Ended December 31,	2009	2008	2007
Cash Flows From Operating Activities			
Net income	\$ 131,127	\$ 131,841	\$ 140,409
Adjustments to net income:			
Depreciation and amortization	91,383	89,941	75,932
Income from discontinued operations:			
Real estate acquired for resale	(958)	(575)	(10,703)
Real estate held for investment	(8,036)	(15,839)	(5,928)
Gain on sales of land and improvements	(15)	(236)	(1,835)
Amortization of share-based compensation	4,726	5,049	3,857
Provisions for impairment on real estate held for investment	—	—	138
Cash provided by (used in) discontinued operations:			
Real estate acquired for resale	1,235	78	(1,610)
Real estate held for investment	666	3,618	5,728
Investment in real estate acquired for resale	—	(9)	(29,886)
Proceeds from sales of real estate acquired for resale	1,987	31,455	119,790
Collection of notes receivable by Crest	129	87	651
Change in assets and liabilities:			
Accounts receivable and other assets	3,607	(930)	(49)
Accounts payable, accrued expenses and other liabilities	856	1,675	21,675
Net cash provided by operating activities	226,707	246,155	318,169
Cash Flows from Investing Activities			
Proceeds from sales of investment properties:			
Continuing operations	170	439	4,370
Discontinued operations	15,425	24,191	7,014
Acquisition of and improvements to investment properties	(60,459)	(194,106)	(506,360)
Intangibles acquired in connection with acquisitions of investment properties	(860)	(397)	(997)
Restricted escrow funds acquired in connection with acquisitions of investment properties	—	—	(2,648)
Net cash used in investing activities	(45,724)	(169,873)	(498,621)
Cash Flows from Financing Activities			
Cash distributions to common stockholders	(178,008)	(169,655)	(157,659)
Cash dividends to preferred stockholders	(24,253)	(24,253)	(24,583)
Principal payment on notes payable	(20,000)	(100,000)	—
Proceeds from common stock offerings, net	—	74,425	—
Debt issuance costs	—	(3,196)	—
Proceeds from notes issued, net	—	—	544,397
Borrowings from lines of credit	4,600	—	407,800
Payments under lines of credit	—	—	(407,800)
Proceeds from preferred stock offerings, net	—	—	9
Other items	(111)	111	816
Net cash (used in) provided by financing activities	(217,772)	(222,568)	362,980
Net (decrease) increase in cash and cash equivalents	(36,789)	(146,286)	182,528
Cash and cash equivalents, beginning of year	46,815	193,101	10,573
Cash and cash equivalents, end of year	\$ 10,026	\$ 46,815	\$ 193,101

For supplemental disclosures, see note 13.

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

Notes to Consolidated Financial Statements

December 31, 2009, 2008 and 2007

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 retail real estate and have elected to be taxed as a real estate investment trust (“REIT”).

At December 31, 2009, we owned 2,339 properties, located in 49 states, containing over 19.1 million leasable square feet, along with three properties owned by our wholly-owned taxable REIT subsidiary, Crest Net Lease, Inc. (“Crest”). Crest was created to buy and sell properties, primarily to individual investors who are involved in tax-deferred exchanges under Section 1031 of the Internal Revenue Code of 1986, as amended (the “Code”).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES AND RECENT ACCOUNTING PRONOUNCEMENTS

Federal Income Taxes. We have elected to be taxed as a REIT under the Code. We believe we have qualified and continue to qualify as a REIT. Under the REIT operating structure, we are permitted to deduct distributions paid to our stockholders and generally will not be required to pay federal corporate income taxes on such income. Accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements, except for the federal income taxes of Crest, which are included in discontinued operations.

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

The following reconciles our net income available to common stockholders to taxable income (dollars in thousands):

	2009 ⁽¹⁾	2008	2007
Net income available to common stockholders	\$ 106,874	\$ 107,588	\$ 116,156
Preferred stock cash dividends	24,253	24,253	24,583
Depreciation and amortization timing differences	27,094	28,624	22,668
Tax gain on the sales of real estate less than book gain	(5,436)	(4,518)	—
Tax loss on the sale of real estate less than book gain	—	—	(3,839)
Dividends received from Crest	—	2,500	3,300
Elimination of net revenue and expenses from Crest	378	270	(6,677)
Adjustment for share-based compensation	1,824	2,270	314
Adjustment for straight-line rent	(1,117)	(1,997)	(1,217)
Adjustment for an increase (decrease) in prepaid rent	1,273	(1,226)	5,608
Other adjustments	(191)	(321)	(453)
Taxable net income, before our dividends paid deduction	\$ 154,952	\$ 157,443	\$ 160,443

⁽¹⁾The 2009 information presented is a reconciliation of our net income available to common stockholders to estimated taxable net income.

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 reserves 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 market 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, was deemed to be liquidated for Federal income tax purposes, and the real property was deemed to be transferred to us with a carryover tax basis. As of December 31, 2009, we have built-in gains of \$60 million with respect to such property. We do not expect that we will be required to pay income tax on the built-in gains in these properties during the ten-year period ending August 28, 2017. 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

Notes to Consolidated Financial Statements, cont'd.

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 before August 28, 2017, in which case we would be required to pay corporate level tax with respect to the built-in gains on these properties as described above.

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

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

	2009	2008	2007
Weighted average shares used for the basic net income per share computation	103,577,507	101,178,191	100,195,031
Incremental shares from share-based compensation	3,546	31,692	138,935
Adjusted weighted average shares used for diluted net income per share computation	103,581,053	101,209,883	100,333,966
Unvested shares from share-based compensation that were anti-dilutive	542,368	614,917	243,631

No stock options were anti-dilutive in 2009, 2008 or 2007.

Other Assets. Other assets consist of the following (dollars in thousands) at:

December 31,	2009	2008
Notes receivable issued in connection with Crest property sales	\$ 22,214	\$ 22,344
Deferred bond financing costs, net	11,899	13,249
Value of in-place and above-market leases, net	10,928	10,534
Prepaid expenses	7,738	4,244
Escrow deposits for Section 1031 tax-deferred exchanges	4,479	3,174
Credit facility organization costs, net	1,470	2,552
Corporate assets, net of accumulated depreciation and amortization	1,058	1,277
Other items	491	7
	\$ 60,277	\$ 57,381

Distributions Payable. Distributions payable consist of the following declared distributions (dollars in thousands) at:

December 31,	2009	2008
Common stock distributions	\$ 14,905	\$ 14,772
Preferred stock dividends	2,021	2,021
	\$ 16,926	\$ 16,793

Accounts Payable and Accrued Expenses. Accounts payable and accrued expenses consist of the following (dollars in thousands) at:

December 31,	2009	2008
Bond interest payable	\$ 25,972	\$ 26,706
Other items	12,473	11,321
	\$ 38,445	\$ 38,027

Other Liabilities. Other liabilities consist of the following (dollars in thousands) at:

December 31,	2009	2008
Rent received in advance	\$ 10,341	\$ 9,083
Security deposits	4,334	3,937
Value of below-market leases, net	2,132	1,678
	<u>\$ 16,807</u>	<u>\$ 14,698</u>

Discontinued Operations. Realty Income's operations from seven investment properties classified as held for sale at December 31, 2009, plus properties sold in 2009, 2008 and 2007, are reported as discontinued operations. Their respective results of operations have been reclassified as "income from discontinued operations, real estate held for investment" on our consolidated statements of income. We do not depreciate properties that are classified as held for sale.

Crest acquires properties with the intention of reselling them rather than holding them for investment and operating the properties. Consequently, we typically classify properties acquired by Crest as held for sale at the date of acquisition and do not depreciate them. As a result, the operations of Crest's properties are classified as "income from discontinued operations, real estate acquired for resale by Crest" on our consolidated statements of income.

No debt was assumed by buyers of our investment properties, or repaid as a result of our investment property sales, and we do not allocate interest expense to discontinued operations related to real estate held for investment. We allocate interest expense related to borrowings specifically attributable to Crest's properties. The interest expense amounts allocated to the Crest properties held for sale are included in "income from discontinued operations, real estate acquired for resale by Crest" on our consolidated statements of income.

If circumstances arise, which were previously considered unlikely and, as a result, we decide not to sell a property previously classified as held for sale, the property is reclassified as 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.

The following is a summary of Crest's "income from discontinued operations, real estate acquired for resale" on our consolidated statements of income (dollars in thousands):

Crest's income from discontinued operations, real estate acquired for resale	2009	2008	2007
Rental revenue	\$ 246	\$ 1,830	\$ 8,165
Other revenue	1,403	914	190
Gain on sales of real estate acquired for resale	—	4,642	12,319
Interest expense	(595)	(1,797)	(6,201)
General and administrative expense	(336)	(511)	(691)
Property expenses	(128)	(133)	(40)
Provisions for impairment	(277)	(3,374)	—
Depreciation ⁽¹⁾	—	(771)	—
Income taxes	645	(225)	(3,039)
Income from discontinued operations, real estate acquired for resale by Crest	<u>\$ 958</u>	<u>\$ 575</u>	<u>\$ 10,703</u>

⁽¹⁾Depreciation was recorded on one property that was classified as held for investment. This property was sold in 2008.

Notes to Consolidated Financial Statements, cont'd.

The following is a summary of Realty Income's "income from discontinued operations, from real estate held for investment" on our consolidated statements of income (dollars in thousands):

Realty Income's income from discontinued operations, real estate held for investment	2009	2008	2007
Gain on sales of investment properties	\$ 8,044	\$ 13,314	\$ 1,724
Rental revenue	1,178	3,831	5,907
Other revenue	35	96	6
Depreciation and amortization	(564)	(1,093)	(1,390)
Property expenses	(547)	(309)	(185)
Provisions for impairment	(110)	—	(134)
Income from discontinued operations, real estate held for investment	\$ 8,036	\$ 15,839	\$ 5,928

The following is a summary of our total income from discontinued operations (dollars in thousands, except per share data):

Total discontinued operations	2009	2008	2007
Real estate acquired for resale by Crest	\$ 958	\$ 575	\$ 10,703
Real estate held for investment	8,036	15,839	5,928
Income from discontinued operations	\$ 8,994	\$ 16,414	\$ 16,631
Per common share, basic and diluted	\$ 0.09	\$ 0.16	\$ 0.17

The per share amounts for "income from discontinued operations" above and the "income from continuing operations" and "net income" reported on the consolidated statements of income have each been calculated independently.

Revenue Recognition and Accounts Receivable. All leases are accounted for as operating leases. Under this method, lease payments that have fixed and determinable rent increases are recognized on a straight-line basis over the lease term. Any rental revenue contingent upon a tenant's sales is recognized only after the tenant exceeds their sales breakpoint. Rental increases based upon changes in the consumer price indexes are recognized only after the changes in the indexes have occurred and are then applied according to the lease agreements.

We recognize an allowance for doubtful accounts relating to accounts receivable for amounts deemed uncollectible. We consider tenant specific issues, such as financial stability and ability to pay, when determining collectibility of accounts receivable and appropriate allowances to record. Our allowance for doubtful accounts at December 31, 2009 was \$865,000 and at December 31, 2008 was \$637,000.

Other revenue includes non-operating interest earned from investments in money market funds and other notes of \$51,000 in 2009, \$1.4 million in 2008 and \$3.6 million in 2007.

Principles of Consolidation. The accompanying consolidated financial statements include the accounts of Realty Income, Crest and other entities for which we make operating and financial decisions (i.e. control), after elimination of all material intercompany balances and transactions. All of Realty Income's subsidiaries are wholly-owned. We have no unconsolidated or off-balance sheet investments in variable interest entities.

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

Gain on Sales of Properties. When real estate is sold, the related net book value of the applicable assets is removed and a gain from the sale is recognized in our consolidated statements of income. We generally 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 allocate the fair value of real estate acquired with in-place operating leases to: 1) land, 2) building and improvements, and 3) identified intangible assets and liabilities, based in each case on their fair values. Intangible assets and liabilities consist of above-market and below-market leases, the value of in-place leases and tenant relationships.

The fair value of the tangible assets of an acquired property (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 relative fair value of these assets. Our determinations are based on a real estate appraisal for each property, generated by an independent appraisal 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 a period equal to the remaining term of the lease.

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

The aggregate value of other acquired intangible assets consists of the value of in-place leases and tenant relationships. These are measured by the excess of the purchase price paid for a property, after adjusting for above or below-market lease value, less the estimated fair value of the property “as if vacant,” determined as set forth above. 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 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.

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

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

Buildings	25 years
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. Generally, a provision for impairment is recorded 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, capital expenditures and property sales capitalization rates. Additionally, a property classified as held for sale is carried at the lower of carrying cost or estimated fair value, less estimated cost to sell.

In 2009, we recorded a provision for impairment of \$110,000 on one retail investment property in the convenience store industry, which is held for sale. This provision for impairment is included in “income from discontinued operations, real estate held for investment” on our consolidated statement of income for 2009. Additionally, in 2009, Crest recorded total provisions for impairment of \$277,000 on three retail properties held for sale at December 31, 2009 and two properties which were sold in 2009. These provisions for impairment are included in “income from discontinued operations, real estate acquired for resale by Crest” on our consolidated statement of income for 2009.

No provisions for impairment were recorded by Realty Income in 2008. In 2008, Crest recorded total provisions for impairment of \$3.4 million on three retail properties, which were held for sale at December 31, 2008. These provisions for impairment are included in “income from discontinued operations, real estate acquired for resale by Crest” on our consolidated statement of income for 2008.

In 2007, we recorded a provision for impairment of \$134,000 on one retail investment property in the motor vehicle industry. This provision for impairment is included in “income from discontinued operations, real estate held for investment” on our consolidated statement of income for 2007. In 2007, we also recorded a provision for impairment of \$138,000 on one retail investment property in the consumer electronics industry. This provision for impairment is included in “property expense” on our consolidated statement of income for 2007. No provisions for impairment were recorded by Crest in 2007.

Notes to Consolidated Financial Statements, cont'd.

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 market value of this obligation and adjust the carrying amount of the related long-lived asset by the same amount. This asset is amortized over its estimated useful life. The estimated fair value of the asset retirement obligation is calculated by discounting the future cash flows using a credit-adjusted risk-free interest rate.

Goodwill. Goodwill is tested for impairment during the second quarter of each year as well as when events or circumstances occur indicating that our goodwill might be impaired. We did not record any new goodwill or impairment on our existing goodwill during 2009, 2008 or 2007.

Sales Taxes. We collect and remit sales taxes assessed by different governmental authorities that are both imposed on and concurrent with a revenue-producing transaction between us and our tenants. We report the collection of these taxes on a net basis (excluded from revenues). The amounts of these taxes are not significant to our financial position or results of operations.

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

Impact of Recent Accounting Pronouncements. In August 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2009-05, *Fair Value Measurements and Disclosures*. ASU No. 2009-05, which became effective for us in 2009, provides clarification to measuring the fair value of a liability. In circumstances in which a quoted market price in an active market for the identical liability is not available, a reporting entity is required to measure fair value by using either (1) a valuation technique that uses quoted prices for identical or similar liabilities or (2) another valuation technique, such as a present value technique or a technique that is based on the amount paid or received by the reporting entity to transfer an identical liability. ASU No. 2009-05 only applies to our disclosures in note 12 related to the estimated fair value of our notes payable and did not have a significant impact on our footnote disclosures.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. Effective for interim and annual reporting periods beginning after December 15, 2009, this ASU requires new disclosures and clarifies existing disclosure requirements about fair value measurement. ASU No. 2010-06 only applies to our disclosures in note 12 related to the estimated fair values of our notes payable and notes receivable and is not expected to have a significant impact on our footnote disclosures.

Reclassifications. Certain of the 2008 and 2007 balances have been reclassified to conform to the 2009 presentation.

3. RETAIL PROPERTIES ACQUIRED

We acquire land, buildings and improvements that are used by retail operators.

A. During 2009, Realty Income invested \$57.9 million in 16 new properties with an initial weighted average contractual lease rate of 9.7%. These 16 properties are located in five states, contain over 278,000 leasable square feet, and are 100% leased with an average lease term of 17.9 years. The initial weighted average contractual lease rate is computed by dividing the estimated aggregate base cash flow for the first year of each lease by the estimated total cost of the properties. In connection with these acquisitions, transaction costs of \$62,000 were recorded to "general and administrative" expense on our consolidated statement of income for 2009.

In comparison, during 2008, Realty Income invested \$189.6 million in 108 new retail properties and properties under development with an initial weighted average contractual lease rate of 8.7%. These 108 properties are located in 14 states, contain over 714,000 leasable square feet, and are 100% leased with an average lease term of 20.6 years.

B. During 2009 and 2008, Crest did not invest in any new retail properties.

C. Crest's property inventory at December 31, 2009 consisted of three properties valued at \$3.8 million, and at December 31, 2008, consisted of five properties valued at \$6.0 million. These amounts are included on our consolidated balance sheets in "real estate held for sale, net."

D. Of the \$57.9 million invested by Realty Income in 2009, \$10.5 million was used to acquire three retail properties with existing leases. Realty Income recorded \$1.4 million as the intangible value of the in-place leases, \$150,000 as the intangible value of above-market leases and \$655,000 as the intangible value of below-market leases for 2009. The value of the in-place and above-market leases are recorded to "other assets" on our consolidated balance sheet, as of December 31, 2009, and the value of the below-market leases are recorded to "other liabilities" on our consolidated balance sheet as of December 31, 2009. All of these amounts are amortized over the life of the respective leases.

Of the \$189.6 million invested by Realty Income in 2008, \$10.0 million was used to acquire two retail properties with existing leases. Realty Income recorded \$397,000 as the intangible value of the in-place leases for 2008. This amount is recorded to "other assets" on our consolidated balance sheets and amortized over the life of the respective leases.

4. CREDIT FACILITY

In May 2008, we entered into a \$355 million revolving, unsecured credit facility that replaced our previous \$300 million acquisition credit facility. The term of our credit facility is for three years, until May 2011, plus two, one-year extension options. Under our credit facility, our investment grade credit ratings provide for financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 100 basis points with a facility commitment fee of 27.5 basis points, for all-in drawn pricing of 127.5 basis points over LIBOR. We also have other interest rate options available to us. Our credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation.

In May 2008, as a result of entering into our current credit facility, we incurred \$3.2 million of credit facility origination costs that were capitalized and are being amortized over three years. Included in "other assets" on our consolidated balance sheets, at December 31, 2009, is \$1.5 million of the \$3.2 million, and at December 31, 2008, is \$2.6 million.

In 2009, we did not utilize our credit facility until December and we did not utilize our credit facility during 2008. Our average borrowing rate on our credit facility during December 2009 was 1.2% and during 2007 was 6.0%. Our effective borrowing rate at December 31, 2009 was 1.2% and at December 31, 2008 was 1.4%. Our current and prior credit facilities are and were subject to various leverage and interest coverage ratio limitations. We are and have been in compliance with these covenants.

5. NOTES PAYABLE

A. General

Our senior unsecured note obligations consist of the following, sorted by maturity date, (dollars in millions):

December 31,	2009	2008
8% notes, issued in January 1999 and due in January 2009	\$ —	\$ 20.0
5.375% notes, issued in March 2003 and due in March 2013	100.0	100.0
5.5% notes, issued in November 2003 and due in November 2015	150.0	150.0
5.95% notes, issued in September 2006 and due in September 2016	275.0	275.0
5.375% notes, issued in September 2005 and due in September 2017	175.0	175.0
6.75% notes, issued in September 2007 and due in August 2019	550.0	550.0
5.875% bonds, issued in March 2005 and due in March 2035	100.0	100.0
	\$ 1,350.0	\$ 1,370.0

The following table summarizes the maturity of our notes payable as of December 31, 2009 (dollars in millions):

Year of Maturity	Notes
2010	\$ —
2011	—
2012	—
2013	100.0
2014	—
Thereafter	1,250.0
Totals	\$ 1,350.0

Notes to Consolidated Financial Statements, cont'd.

Interest incurred on all of the notes for 2009 was \$82.5 million, for 2008 was \$91.2 million and for 2007 was \$67.1 million. The interest rate on each of these notes is fixed.

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

All of these notes 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. We have been in compliance with these covenants since each of the notes were issued.

B. Note Redemptions

On their maturity date in January 2009, we redeemed, using cash on hand, all of our outstanding 8.00% notes issued in January 1999 at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest.

On their maturity date in November 2008, we redeemed, using proceeds from our September 2008 common stock offering and cash on hand, all of our outstanding 8.25% senior notes issued in October 1998 (the "2008 Notes") at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest.

C. Note Issuance

In September 2007, we issued \$550 million in aggregate principal amount of 6.75% senior unsecured notes due 2019 (the "2019 Notes"). The price to the investor for the 2019 Notes was 99.827% of the principal amount for an effective yield of 6.772%. The net proceeds of approximately \$544.4 million from this offering were used to fund certain property acquisitions, repay borrowings under our acquisition credit facility and for general corporate purposes, including additional property acquisitions.

6. COMMON STOCK OFFERINGS

In September 2008, we issued 2.925 million shares of common stock at a price of \$26.82 per share. The net proceeds of approximately \$74.4 million were used, along with our available cash on hand, to redeem the \$100 million outstanding principal amount of our 2008 Notes in November 2008.

7. PREFERRED STOCK

A. In 2004, we issued 5.1 million shares of 7.375% Monthly Income Class D cumulative redeemable preferred stock. In May 2009, the Class D preferred shares became redeemable, at our option, for \$25 per share. During 2009, 2008 and 2007, we paid twelve monthly dividends to holders of our Class D preferred stock totaling \$1.8437508 per share, or \$9.4 million, and at December 31, 2009, a monthly dividend of \$0.1536459 per share was payable and was paid in January 2010.

B. In 2006, we issued 8.8 million shares of 6.75% Monthly Income Class E cumulative redeemable preferred stock. Beginning December 7, 2011, the Class E preferred shares are redeemable, at our option, for \$25 per share. During both 2009 and 2008, we paid twelve monthly dividends to holders of our Class E preferred stock totaling \$1.6875 per share, or \$14.9 million, and at December 31, 2009, a monthly dividend of \$0.140625 per share was payable and was paid in January 2010. During 2007, we paid twelve monthly dividends to holders of our Class E preferred stock totaling \$1.725 per share, or \$15.2 million. In January 2007, we paid the first Class E preferred dividend of \$0.178125 per share, which covered a period of 38 days.

8. 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	2009	2008	2007
January	\$ 0.1417500	\$ 0.136750	\$ 0.126500
February	0.1417500	0.136750	0.126500
March	0.1417500	0.136750	0.126500
April	0.1420625	0.137375	0.127125
May	0.1420625	0.137375	0.127125
June	0.1420625	0.137375	0.127125
July	0.1423750	0.138000	0.127750
August	0.1423750	0.138000	0.127750
September	0.1423750	0.140500	0.135500
October	0.1426875	0.141125	0.136125
November	0.1426875	0.141125	0.136125
December	0.1426875	0.141125	0.136125
Total	\$ 1.7066250	\$ 1.662250	\$ 1.560250

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

	2009	2008	2007
Ordinary income	\$ 1.2739214	\$ 1.2681285	\$ 1.3847719
Nontaxable distributions	0.4113034	0.3121490	0.1754781
Capital gain	0.0214002	0.0819725	—
Totals	\$ 1.7066250	\$ 1.6622500	\$ 1.5602500

At December 31, 2009, a distribution of \$0.143 per common share was payable and was paid in January 2010. At December 31, 2008, a distribution of \$0.14175 per common share was payable and was paid in January 2009.

B. Class D Preferred Stock

Dividends of \$0.1536459 per share are paid monthly in arrears on the Class D preferred stock. We declared dividends to holders of our Class D preferred stock totaling \$9.4 million in 2009, 2008 and 2007, respectively.

The following presents the federal income tax characterization of dividends paid per share to our Class D preferred stockholders for the years:

	2009	2008	2007
Ordinary income	\$ 1.8206316	\$ 1.7528280	\$ 1.8437508
Capital gain	0.0231192	0.0909228	—
Totals	\$ 1.8437508	\$ 1.8437508	\$ 1.8437508

C. Class E Preferred Stock

Dividends of \$0.140625 per share are paid monthly in arrears on the Class E preferred stock. We declared dividends to holders of our Class E preferred stock totaling \$14.9 million in 2009, 2008 and 2007. The first Class E dividend was paid in January 2007.

The following presents the federal income tax characterization of dividends paid per share to our Class E preferred stockholders for the years:

	2009	2008	2007
Ordinary income	\$ 1.6663392	\$ 1.6042824	\$ 1.7250000
Capital gain	0.0211608	0.0832176	—
Totals	\$ 1.6875000	\$ 1.6875000	\$ 1.7250000

Notes to Consolidated Financial Statements, cont'd.

9. OPERATING LEASES

A. At December 31, 2009, we owned 2,339 properties in 49 states, plus an additional three properties owned by Crest. Of the 2,339 properties, 2,328, or 99.5%, are single-tenant, retail properties and the remaining 11 are multi-tenant, distribution and office properties. At December 31, 2009, 75 properties were vacant and available for lease or sale.

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

Rent based on a percentage of a tenants' gross sales (percentage rents) for 2009 was \$1.3 million, for 2008 was \$1.3 million and for 2007 was \$851,000, including amounts recorded to discontinued operations of \$22,000 in 2008 and \$55,000 in 2007.

At December 31, 2009, minimum future annual rents to be received on the operating leases for the next five years and thereafter are as follows (dollars in thousands):

2010	\$ 320,273
2011	310,454
2012	297,332
2013	281,468
2014	264,021
Thereafter	2,223,917
Total	\$ 3,697,465

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, 2009, 2008 or 2007.

10. GAIN ON SALES OF REAL ESTATE ACQUIRED FOR RESALE BY CREST

In 2009, Crest sold two properties for \$2.0 million, which resulted in no gain. In 2008, Crest sold 25 properties for \$50.7 million, which resulted in a gain of \$4.6 million. In 2008, as part of two sales, Crest provided buyer financing of \$19.2 million. In 2007, Crest sold 62 properties for \$123.6 million, which resulted in a gain of \$12.3 million. In 2007, as part of two sales, Crest provided buyer financing of \$3.8 million, of which \$619,000 was paid in full in November 2007. Crest's gains on sales are reported before income taxes and are included in discontinued operations.

11. GAIN ON SALES OF INVESTMENT PROPERTIES BY REALTY INCOME

In 2009, we sold 25 investment properties for \$20.3 million, which resulted in a gain of \$8.0 million. The results of operations for these properties have been reclassified as discontinued operations. Additionally, we received proceeds of \$170,000 from the sale of excess land from one property, which resulted in a gain of \$15,000. This gain is included in "other revenue" on our consolidated statement of income for 2009 because this excess land was associated with a property that continues to be owned as part of our core operations.

In 2008, we sold 29 investment properties for \$27.4 million, which resulted in a gain of \$13.3 million. The results of operations for these properties have been reclassified as discontinued operations. Additionally, we received proceeds of \$439,000 from the sale of excess land from one property, which resulted in a gain of \$236,000. This gain is included in "other revenue" on our consolidated statement of income for 2008 because this excess land was associated with a property that continues to be owned as part of our core operations.

In 2007, we sold ten investment properties for \$7.0 million, which resulted in a gain of \$1.7 million. The results of operations for these properties have been reclassified as discontinued operations. Additionally, we sold excess land and improvements from five properties for an aggregate of \$4.4 million, which resulted in a gain of \$1.8 million. This gain is reported in "other revenue" on our consolidated statement of income for 2007 because these improvements and excess land were associated with properties that continue to be owned as part of our core operations.

12. 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, and establishes a framework for measuring the fair value of an asset. The disclosure for assets and liabilities measured at fair value requires allocation to a three-level valuation hierarchy. This valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Categorization within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

We believe that the carrying values reflected in our consolidated balance sheets reasonably approximate the fair values for cash and cash equivalents, accounts receivable, and all liabilities, due to their short-term nature, except for the notes receivable issued in connection with property sales and the notes payable, which are disclosed below (dollars in millions):

At December 31, 2009	Carrying value per balance sheet	Estimated fair market value
Notes receivable issued in connection with Crest property sales	\$ 22.2	\$ 20.0
Notes payable	\$ 1,350.0	\$ 1,276.4

At December 31, 2008	Carrying value per balance sheet	Estimated fair market value
Notes receivable issued in connection with Crest property sales	\$ 22.3	\$ 21.9
Notes payable	\$ 1,370.0	\$ 949.4

The estimated fair value of the notes receivable issued in connection with property sales has been calculated by discounting the future cash flows using an interest rate based upon the current 5-year, 7-year, or 10-year Treasury yield curve, plus an applicable credit-adjusted spread. The notes receivable were issued in connection with the sale of three Crest properties. Payments to us on these notes receivable are current and no allowance for doubtful accounts has been recorded for them.

The estimated fair value of the notes payable is based upon indicative market prices and recent trading activity of our notes payable.

13. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Interest paid in 2009 was \$83.2 million, in 2008 was \$90.3 million and in 2007 was \$56.7 million.

Interest capitalized to properties under development in 2009 was \$5,000, in 2008 was \$92,000 and in 2007 was \$993,000.

Income taxes paid by Realty Income and Crest in 2009 were \$1.2 million, in 2008 were \$1.7 million and in 2007 were \$4.3 million.

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

- A.** Share-based compensation expense for 2009 was \$4.7 million, for 2008 was \$5.0 million and for 2007 was \$3.9 million.
- B.** See "Provisions for Impairment" in note 2 for a discussion of provisions for impairments recorded by Realty Income and Crest.
- C.** In 2008, Crest sold two properties for \$23.5 million and received notes totaling \$19.2 million from the buyers, which are included in "other assets" on our consolidated balance sheets.
- D.** In 2007, Crest sold two properties for an aggregate of \$5.5 million and received notes totaling \$3.8 million from the buyers, of which \$619,000 was paid in full in November 2007. The remaining note is included in "other assets" on our consolidated balance sheets.
- E.** At December 31, 2009, Realty Income had escrow deposits of \$4.5 million held for tax-deferred exchanges under Section 1031 of the Code. The \$4.5 million is included in "other assets" on our consolidated balance sheet at December 31, 2009.
- F.** At December 31, 2008, Realty Income had escrow deposits of \$3.2 million held for tax-deferred exchanges under Section 1031 of the Code. The \$3.2 million is included in "other assets" on our consolidated balance sheet at December 31, 2008.
- G.** At December 31, 2009, Realty Income recorded \$1.5 million for a new environmental insurance policy, which supplements its primary insurance policy. The \$1.5 million is included in "other assets" and "accounts payable and accrued expenses" on our consolidated balance sheet at December 31, 2009.

Notes to Consolidated Financial Statements, cont'd.

H. In 2009, Realty Income and Crest amended certain prior year state tax returns and determined that it is more-likely-than-not that we will be collecting refunds in the future as a result of these amendments. As a result of this, in 2009, Realty Income recorded a tax receivable of \$454,000 and Crest recorded a tax receivable of \$303,000.

I. In accordance with our policy, we recorded adjustments to our estimated legal obligations related to asset retirement obligations on two land leases in the following amounts: a reduction of \$63,000 in 2009 and increases of \$335,000 in 2008 and \$239,000 in 2007. These asset retirement obligations account for the difference between our obligations to the landlord under the two land leases and our subtenant's obligations to us under the subleases.

J. In connection with the acquisition of seven properties during 2007, we acquired restricted escrow funds totaling \$2.6 million. During the remainder of 2007, all of these funds were invested in improvements to these properties.

14. 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 IRS Code. We match 50% of our employee's contributions, up to 3% of the employee's compensation. Our aggregate matching contributions each year have been immaterial to our results of operations.

15. COMMON STOCK INCENTIVE PLAN

In 2003, our Board of Directors adopted, and stockholders approved, the 2003 Incentive Award Plan of Realty Income Corporation (the "Stock Plan") to enable us to attract and retain the services of directors, employees and consultants, considered essential to our long-term success. The Stock Plan offers our directors, employees and consultants an opportunity to own stock in Realty Income and/or rights that will reflect our growth, development and financial success. The Stock Plan was amended and restated by our Board of Directors in February 2006 and in May 2007. Under the terms of this plan, the aggregate number of shares of our common stock subject to options, stock purchase rights (SPR), stock appreciation rights (SAR) and other awards will be no more than 3,428,000 shares. The maximum number of shares that may be subject to options, SPR, SAR and other awards granted under the plan to any individual in any calendar year may not exceed 1,600,000 shares. This plan has a term of 10 years from the date it was adopted by our Board of Directors, which was March 12, 2003. To date, we have not issued any SPR or SAR.

The amount of share-based compensation costs recognized in "general and administrative expense" on our consolidated statements of income during 2009 was \$4.7 million, during 2008 was \$5.0 million and during 2007 was \$3.9 million.

The following table summarizes our common stock grant activity under our Stock Plan. Our common stock grants vest over periods ranging from immediately to 10 years.

	2009		2008		2007	
	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	994,453	\$ 19.70	994,572	\$ 19.46	868,726	\$ 17.96
Shares granted	142,860	22.86	249,447	26.63	276,631	27.64
Shares vested	(214,521)	23.14	(188,215)	21.96	(149,284)	20.94
Shares forfeited	(69,558)	25.95	(61,351)	22.13	(1,501)	24.81
Outstanding nonvested shares, end of year	853,234	\$ 19.14	994,453	\$ 19.70	994,572	\$ 19.46

⁽¹⁾Grant date fair value.

During 2009, we issued 142,860 shares of common stock under our Stock Plan. These shares vest over the following service periods: 25,000 vested immediately, 14,500 vest over a service period of three years and 103,360 vest over a service period of five years.

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

- For directors with less than six years of service at the date of grant, shares vest in 33.33% increments on each of the first three anniversaries of the date the shares of stock are granted;
- For directors with six years of service at the date of grant, shares vest in 50% increments on each of the first two anniversaries of the date the shares of stock are granted;
- For directors with seven years of service at the date of grant, shares are 100% vested on the first anniversary of the date the shares of stock are granted; and
- For directors with eight or more years of service at the date of grant, there is immediate vesting as of the date the shares of stock are granted.

In August 2008, our Board of Directors approved a new vesting schedule for shares granted to employees after August 20, 2008. The reason for this change was to provide a shorter vesting period for employees who were closer to the age of retirement, and to adjust the vesting period for employees age 55 and below to be more in line with comparable vesting schedules in the market. The new vesting schedule for shares granted to employees is as follows:

- For employees age 55 and below at the grant date, shares vest in 20% increments on each of the first five anniversaries of the grant date;
- For employees age 56 at the grant date, shares vest in 25% increments on each of the first four anniversaries of the grant date;
- For employees age 57 at the grant date, shares vest in 33.33% increments on each of the first three anniversaries of the grant date;
- For employees age 58 at the grant date, shares vest in 50% increments on each of the first two anniversaries of the grant date;
- For employees age 59 at the grant date, shares are 100% vested on the first anniversary of the grant date; and
- For employees age 60 and above at the grant date, shares vest immediately on the grant date.

In addition, after they have been employed for six full months, all non-executive employees receive 200 shares of nonvested stock which vests over a five year period.

Prior to August 20, 2008, shares granted to employees age 49 and below at the grant date vested in 10% increments on each of the first ten anniversaries of the grant date, and shares granted to employees age 50 through 55 at the grant date vested in 20% increments on each of the first five anniversaries of the grant date. The consolidation of these two groups represents the only difference between the new and prior vesting schedules.

As of December 31, 2009, the remaining unamortized share-based compensation expense totaled \$16.3 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.

The effect of pre-vesting forfeitures on our recorded expense has historically been negligible. Any future pre-vesting forfeitures are also expected to be negligible, and we will record the benefit related to such forfeitures as they occur. Under the terms of our Stock Plan, 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, given the negligible historical and prospective forfeiture rate determined by us, we did not record any amount to compensation expense related to dividends paid in 2009, 2008 or 2007.

No stock options were granted after January 1, 2002, all outstanding options were fully vested as of December 31, 2006, and 2006 represented the last year for which we recorded expense on our stock option awards. Stock options were granted with an exercise price equal to the underlying stock's fair market value at the date of grant. Stock options expire ten years from the date they are granted and vested over service periods of one, three, four or five years.

The following table summarizes our stock option activity for the years:

	2009		2008		2007	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding options, beginning of year	21,294	\$ 13.33	45,007	\$ 12.71	106,368	\$ 13.06
Options exercised	(15,448)	12.81	(23,713)	12.15	(61,361)	13.32
Outstanding and exercisable options, end of year	5,846	\$ 14.70	21,294	\$ 13.33	45,007	\$ 12.71

Notes to Consolidated Financial Statements, cont'd.

At December 31, 2009, the options outstanding and exercisable had an exercise price of \$14.70, an expiration date of December 2011 and a remaining term of 2.0 years.

The intrinsic value of a stock option is the amount by which the market value of the underlying stock at December 31 of each year exceeds the exercise price of the option. The market value of our stock was \$25.91, \$23.15 and \$27.02 at December 31, 2009, 2008 and 2007, respectively. The total intrinsic value of options exercised during the years ended December 31, 2009, 2008 and 2007 was \$157,000, \$319,000 and \$904,000, respectively. The aggregate intrinsic value of options outstanding and exercisable was \$66,000, \$209,000 and \$644,000 at December 31, 2009, 2008 and 2007, respectively.

16. 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 31 industry and activity segments (including properties owned by Crest that are grouped together as a segment). All of the properties are incorporated into one of the applicable segments. Because almost all of our leases require the tenant to pay operating expenses, revenue is the only component of segment profit and loss we measure.

The following tables set forth certain information regarding the properties owned by us, classified according to the business of the respective tenants, as of December 31, 2009 (dollars in thousands):

Assets, as of December 31:	2009	2008
Segment net real estate:		
Automotive service	\$ 105,085	\$ 107,942
Automotive tire services	201,233	207,409
Child care	77,769	83,844
Convenience stores	477,555	472,588
Drug stores	141,057	145,919
Health and fitness	197,820	167,658
Motor vehicle dealerships	91,690	94,883
Restaurants	729,489	751,466
Sporting goods	63,665	65,657
Theaters	290,386	299,690
21 non-reportable segments	441,133	465,097
Total segment net real estate	2,816,882	2,862,153
Other intangible assets – Automotive tire service	647	706
Other intangible assets – Drug stores	6,066	6,727
Other intangible assets – Grocery stores	860	911
Other intangible assets – Health and fitness	845	—
Other intangible assets – Theaters	1,885	2,190
Other intangible assets – non-reportable segments	625	—
Goodwill – Automotive service	1,338	1,338
Goodwill – Child care	5,353	5,353
Goodwill – Convenience stores	2,074	2,074
Goodwill – Home furnishings	1,557	1,557
Goodwill – Restaurants	3,779	3,779
Goodwill – non reportable segments	3,105	3,105
Other corporate assets	69,771	104,286
Total assets	\$ 2,914,787	\$ 2,994,179

For the years ended December 31,	Revenue		
	2009	2008	2007
Segment rental revenue:			
Automotive service	\$ 15,735	\$ 15,817	\$ 15,047
Automotive tire services	22,616	22,040	21,113
Child care	23,761	24,247	23,129
Convenience stores	55,114	51,949	40,727
Drug stores	13,727	13,125	7,632
Health and fitness	19,280	18,390	14,874
Motor vehicle dealerships	8,837	9,290	8,640
Restaurants	69,456	70,986	59,058
Sporting goods	8,363	8,480	8,265
Theaters	30,078	29,640	26,120
21 non-reportable segments ⁽¹⁾	59,178	61,932	60,528
Total rental revenue	326,145	325,896	285,133
Other revenue	1,436	1,877	6,350
Total revenue	\$ 327,581	\$ 327,773	\$ 291,483

⁽¹⁾Crest's revenue appears in "income from discontinued operations, real estate acquired for resale by Crest" and is not included in this table, which covers revenue but does not include revenue classified as part of income from discontinued operations.

17. COMMITMENTS AND CONTINGENCIES

In the ordinary course of our 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, 2009, we have contingent payments of \$1.2 million for tenant improvements and leasing costs. In addition, we have committed \$295,000 under construction contracts, which is expected to be paid in the next six months.

We have certain properties that are subject to ground leases which are accounted for as operating leases. At December 31, 2009, minimum future rental payments for the next five years and thereafter are as follows (dollars in thousands):

	Ground Leases Paid by Realty Income ⁽¹⁾	Ground Leases Paid by Our Tenants ⁽²⁾	Total
2010	\$ 82	\$ 3,750	\$ 3,832
2011	69	3,736	3,805
2012	69	3,627	3,696
2013	69	3,485	3,554
2014	69	3,250	3,319
Thereafter	832	37,662	38,494
Total	\$ 1,190	\$ 55,510	\$ 56,700

⁽¹⁾Realty Income currently pays the ground lessors directly for the rent under the ground leases. A majority of this rent is reimbursed to Realty Income as additional rent from our tenants.

⁽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.

18. SUBSEQUENT EVENTS

We evaluated all events subsequent to the balance sheet date of December 31, 2009, through February 10, 2010, which is the date our consolidated financial statements were issued. We determined that no subsequent events require disclosure or adjustment to the consolidated financial statements, except as follows:

In January 2010 and February 2010, we declared the following dividends, which will be paid in February 2010 and March 2010, respectively:

- \$0.143 per share to our common stockholders;
- \$0.1536459 per share to our Class D preferred stockholders; and
- \$0.140625 per share to our Class E preferred stockholders.

Consolidated Quarterly Financial Data

(dollars in thousands, except per share data)

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year ⁽²⁾
2009⁽¹⁾					
Total revenue	\$ 82,558	\$ 81,376	\$ 81,851	\$ 81,796	\$ 327,581
Depreciation and amortization expense	22,787	22,826	22,845	22,925	91,383
Interest expense	21,410	21,367	21,374	21,377	85,528
Other expenses	8,405	7,136	6,540	6,456	28,537
Income from continuing operations	29,956	30,047	31,092	31,038	122,133
Income from discontinued operations	128	2,513	2,060	4,293	8,994
Net income	30,084	32,560	33,152	35,331	131,127
Net income available to common stockholders	24,021	26,497	27,089	29,268	106,874
Net income per common share:					
Basic and diluted	0.23	0.26	0.26	0.28	1.03
Dividends paid per common share	0.4252500	0.4261875	0.4271250	0.4280625	1.7066250
2008⁽¹⁾					
Total revenue	\$ 82,050	\$ 81,589	\$ 81,932	\$ 82,203	\$ 327,773
Depreciation and amortization expense	21,920	22,616	22,669	22,735	89,941
Interest expense	23,386	23,929	23,915	22,726	93,956
Other expenses	7,150	7,233	7,115	6,954	28,449
Income from continuing operations	29,594	27,811	28,233	29,788	115,427
Income from discontinued operations	167	5,240	6,464	4,544	16,414
Net income	29,761	33,051	34,697	34,332	131,841
Net income available to common stockholders	23,698	26,988	28,634	28,269	107,588
Net income per common share:					
Basic and diluted	0.24	0.27	0.29	0.27	1.06
Dividends paid per common share	0.4102500	0.4121250	0.4165000	0.4233750	1.6622500

⁽¹⁾The consolidated quarterly financial data includes revenues and expenses from our continuing and discontinued operations. The results of operations related to certain properties, classified as held for sale or disposed of, have been reclassified to income from discontinued operations. Therefore, some of the information may not agree to our previously filed 10-Qs.

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

Report of Independent Registered Public Accounting Firm

THE BOARD OF DIRECTORS AND STOCKHOLDERS

REALTY INCOME CORPORATION:

We have audited the accompanying consolidated balance sheets of Realty Income Corporation and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2009. We have also audited Realty Income Corporation's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Realty Income Corporation's management is responsible for these consolidated financial statements, 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 these consolidated financial statements, and an opinion on Realty Income Corporation's internal control over financial reporting 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting 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 audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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, 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, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Realty Income Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

KPMG LLP

San Diego, California
February 10, 2010

Business Description

THE COMPANY

Realty Income Corporation, The Monthly Dividend Company®, is a Maryland corporation organized to operate as an equity real estate investment trust, or REIT. Our primary business objective is to generate dependable monthly cash distributions from a consistent and predictable level of funds from operations, or FFO, per share. Our monthly distributions are supported by the cash flow from our portfolio of retail properties leased to regional and national retail chains. We have in-house acquisition, leasing, legal, credit research, real estate research, portfolio management and capital markets expertise. Over the past 40 years, Realty Income and its predecessors have been acquiring and owning freestanding retail properties that generate rental revenue under long-term lease agreements (primarily 15 to 20 years).

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

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

In acquiring additional properties, we adhere to a focused strategy of primarily acquiring properties that are:

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

At December 31, 2009, we owned a diversified portfolio:

- Of 2,339 retail properties;
- With an occupancy rate of 96.8%, or 2,264 properties occupied and only 75 properties available for lease;
- Leased to 118 different retail chains doing business in 30 separate retail industries;
- Located in 49 states;
- With over 19.1 million square feet of leasable space; and
- With an average leasable retail space per property of approximately 8,200 square feet.

Of the 2,339 properties in the portfolio, 2,328, or 99.5%, are single-tenant, retail properties and the remaining 11 are multi-tenant, distribution and office properties. At December 31, 2009, of the 2,328 single-tenant properties, 2,254 were leased with a weighted average remaining lease term (excluding extension options) of approximately 11.2 years.

In addition, at December 31, 2009, our wholly-owned taxable REIT subsidiary, Crest Net Lease, Inc. ("Crest"), had an inventory of three properties valued at \$3.8 million, which are classified as held for sale. Crest was created to buy and sell properties, primarily to individual investors who are involved in tax-deferred exchanges under Section 1031 of the Internal Revenue Code of 1986, as amended (the "Code"). In addition to the three properties, Crest also holds notes receivable on properties previously sold of \$22.2 million at December 31, 2009.

We typically acquire retail store properties under long-term leases with retail chain store operators. These transactions generally provide capital to owners of retail real estate and retail chains for expansion or other corporate purposes. Our acquisition and investment activities are concentrated in well-defined target markets and generally focus on retail chains providing goods and services that satisfy basic consumer needs.

Our net-lease agreements generally:

- Are for initial terms of 15 to 20 years;
- Require the tenant to pay minimum monthly rent and property operating expenses (taxes, insurance and maintenance); and
- Provide for future rent increases based on increases in the consumer price index (typically subject to ceilings), fixed increases, or additional rent calculated as a percentage of the tenants' gross sales above a specified level.

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

The seven senior officers of Realty Income owned 1.1% of our outstanding common stock with a market value of \$28.9 million at February 8, 2010. The directors and seven senior officers of Realty Income, as a group, owned 1.3% of our outstanding common stock with a market value of \$35.6 million at February 8, 2010.

- Our common stock is listed on The New York Stock Exchange (“NYSE”) under the ticker symbol “O” with a cusip number of 756109-104. Our central index key number is 726728.
- Our Class D cumulative redeemable preferred stock is listed on the NYSE under the ticker symbol “OprD” with a cusip number of 756109-609.
- Our Class E cumulative redeemable preferred stock is listed on the NYSE under the ticker symbol “OprE” with a cusip number of 756109-708.

In February 2010, we had 72 employees as compared to 69 employees in February 2009.

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

RECENT DEVELOPMENTS

Increases in Monthly Distributions to Common Stockholders

We have continued our 40-year policy of paying distributions monthly. Monthly distributions per share increased in January 2010 by \$0.0003125 to \$0.143. The increase in January 2010 was our 49th consecutive quarterly increase and the 56th increase in the amount of our dividend since our listing on the NYSE in 1994. In 2009, we paid three monthly cash distributions per share in the amount of \$0.14175, three in the amount of \$0.1420625, three in the amount of \$0.142375 and three in the amount of \$0.1426875, totaling \$1.706625. In December 2009 and January 2010, we declared distributions of \$0.143 per share, which were paid in January 2010 and will be paid in February 2010, respectively.

The monthly distribution of \$0.143 per share represents a current annualized distribution of \$1.716 per share, and an annualized distribution yield of approximately 6.7% based on the last reported sale price of our common stock on the NYSE of \$25.74 on February 8, 2010. Although we expect to continue our policy of paying monthly distributions, we cannot guarantee that we will maintain our current level of distributions, that we will continue our pattern of increasing distributions per share, or what our actual distribution yield will be in any future period.

Acquisitions During 2009

During 2009, we invested \$57.9 million in 16 new properties with an initial weighted average contractual lease rate of 9.7%. These 16 properties are located in five states, contain over 278,000 leasable square feet, and are 100% leased with an average lease term of 17.9 years. The 16 new properties we acquired are net-leased to four different retail chains. There were no acquisitions by Crest in 2009.

We made fewer portfolio acquisitions in 2008 and 2009 than in previous years because we felt that preserving our capital resources and maintaining a high level of liquidity until property prices adjusted and the general economy improved was the prudent course of action. In late 2009, we felt that market conditions had become more attractive for acquisitions, and we currently believe that there are many retail chains, with solid operating concepts, that are in need of capital. We believe that our solid financial position, strong balance sheet and access to capital give us the ability to expand our acquisition activities in 2010 and invest in new retail properties that have the potential to contribute to our earnings.

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

Investments in Existing Properties

In 2009, we capitalized costs of \$3.1 million on existing properties in our portfolio, consisting of \$1.2 million for re-leasing costs and \$1.9 million for building improvements.

Net Income Available to Common Stockholders

Net income available to common stockholders was \$106.9 million in 2009 versus \$107.6 million in 2008, a decrease of \$714,000. On a diluted per common share basis, net income was \$1.03 per share in 2009 as compared to \$1.06 per share in 2008.

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.

The gain from the sale of properties during 2009 was \$8.1 million, as compared to \$13.6 million during 2008.

Business Description, cont'd.

Funds from Operations (FFO)

In 2009, our FFO increased by \$4.9 million, or 2.6%, to \$190.4 million versus \$185.5 million in 2008. On a diluted per common share basis, FFO was \$1.84 in 2009 compared to \$1.83 in 2008, an increase of \$0.01, or 0.5%.

See our discussion of FFO 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.

Crest's Property Sales

During 2009, Crest sold two properties from its inventory for an aggregate of \$2.0 million, which resulted in no gain.

Crest's Property Inventory

Crest's had an inventory of three properties valued at \$3.8 million at December 31, 2009, which is included in "real estate held for sale, net" on our consolidated balance sheet at December 31, 2009.

Note Redemption

Upon their maturity in January 2009, we redeemed, using cash on hand, the \$20 million outstanding principal amount of our 8% Notes due 2009, or 2009 Notes. The 2009 Notes were redeemed at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest. We have no debt maturities until March 2013.

Retirement of Board Members

William E. Clark, our previous non-executive chairman, retired from the Board of Directors in February 2009. Mr. Clark had served as our Chairman of the Board since the inception of Realty Income. Our Corporate Governance and Nominating Committee recommended, and the Board of Directors elected, Donald R. Cameron as our new non-executive chairman.

Roger P. Kuppinger and Willard H Smith Jr retired from the Board of Directors in May 2009, at which time Ronald L. Merriman succeeded Mr. Kuppinger as chairman of the Audit Committee.

DISTRIBUTION POLICY

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

In order to maintain our 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 REIT taxable income (determined without regard to the dividends paid deduction and excluding net capital gains), and we are subject to income tax to the extent we distribute less than 100% of our REIT taxable income (including net capital gains). In 2009, our cash distributions totaled \$202.3 million, or approximately 130.5% of our estimated REIT taxable income of \$155.0 million. Our estimated REIT taxable income reflects non-cash deductions for depreciation and amortization. Our estimated REIT taxable income is presented to show our compliance with REIT distribution requirements and is not a measure of our liquidity or performance.

We intend to continue to make distributions to our stockholders that are sufficient to meet this distribution requirement and that will reduce 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 2009 cash distributions to common stockholders totaled \$178.0 million, representing 93.5% of our funds from operations available to common stockholders of \$190.4 million.

The Class D preferred stockholders receive cumulative distributions at a rate of 7.375% per annum on the \$25 per share liquidation preference (equivalent to \$1.84375 per annum per share). The Class E preferred stockholders receive cumulative distributions at a rate of 6.75% per annum on the \$25 per share liquidation preference (equivalent to \$1.6875 per annum per share). Dividends on our Class D and Class E preferred stock are current.

Future distributions will be at the discretion of our Board of Directors and will depend on, among other things, our results of operations, FFO, cash flow from operations, financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the 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 deterioration in our results of operations or financial condition, 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 tax rate. The maximum tax rate of non-corporate taxpayers for “qualified dividend income” has generally been reduced to 15% (until it “sunset” or reverts to the provisions of prior law, which under current law will occur with respect to taxable years beginning after December 31, 2010). In general, dividends payable by REITs are not eligible for the reduced tax rate on corporate dividends, except to the extent the REIT’s dividends are attributable to dividends received from taxable corporations (such as our taxable REIT subsidiary, Crest), 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) or, as discussed above, dividends properly designated by us as “capital gain dividends.” Distributions in excess of earnings and profits generally will be treated as a non-taxable reduction in the stockholders’ basis in their stock. Distributions above that basis, generally, will be taxable as a capital gain to stockholders who hold their shares as a capital asset. Approximately 24.1% of the distributions to our common stockholders, made or deemed to have been made in 2009, were classified as a return of capital for federal income tax purposes. We are unable to predict the portion of future distributions that may be classified as a return of capital.

BUSINESS PHILOSOPHY AND STRATEGY

Capital Philosophy

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

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, 2009, our total outstanding credit facility borrowings and outstanding notes were \$1.355 billion, or approximately 30.8% of our total market capitalization of \$4.40 billion.

We define our total market capitalization at December 31, 2009 as the sum of:

- Shares of our common stock outstanding of 104,286,705 multiplied by the last reported sales price of our common stock on the NYSE of \$25.91 per share on December 31, 2009, or \$2.70 billion;
- Aggregate liquidation value (par value of \$25 per share) of the Class D preferred stock of \$127.5 million;
- Aggregate liquidation value (par value of \$25 per share) of the Class E preferred stock of \$220 million;
- Outstanding notes of \$1.35 billion; and
- Outstanding borrowings of \$4.6 million on our credit facility.

Investment Philosophy

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

Business Description, cont'd.

Investment Strategy

When identifying new properties for acquisition, our focus is generally on providing capital to retail chain owners and operators by acquiring, then leasing back, retail store locations. We categorize retail tenants as: 1) venture market, 2) middle market, and 3) upper market. Venture companies typically offer a new retail concept in one geographic region of the country and operate between five and 50 retail locations. Middle market retail chains typically have 50 to 500 retail locations, operations in more than one geographic region, have been successful through one or more economic cycles, and have a proven, replicable concept. The upper market retail chains typically consist of companies with 500 or more locations, operating nationally, in a proven, mature retail concept. Upper market retail chains generally have strong operating histories and access to several sources of capital.

We primarily focus on acquiring properties leased to middle market retail chains that we believe are attractive for investment because:

- They generally have overcome many of the operational and managerial obstacles that can adversely affect venture retailers;
- They typically require capital to fund expansion but have more limited financing options than upper market retail chains;
- They generally have provided us with attractive risk-adjusted returns over time since their financial strength has, in many cases, tended to improve as their businesses have matured;
- Their relatively large size allows them to spread corporate expenses across a greater number of stores; and
- Middle market retailers typically have the critical mass to survive if a number of locations are closed due to underperformance.

Historically, our investment focus has primarily been on retail industries that have a service component because we believe the lease revenue from these types of businesses is more stable. Because of this investment focus, for the quarter ended December 31, 2009, approximately 84.3% of our rental revenue was derived from retailers with a service component in their business. Furthermore, we believe these service-oriented businesses would be difficult to duplicate over the Internet and that our properties continue to perform well relative to competition from Internet businesses.

Credit Strategy

We generally provide sale-leaseback financing to less than investment grade retail chains. We typically acquire and lease back properties to regional and national retail chains and believe that within this market we can achieve an attractive risk-adjusted return on the financing we provide to retailers. Since 1970, our overall weighted average occupancy rate at the end of each year has been 98.3%, and our occupancy rate at the end of each year has never been below 96%.

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

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

- Industry, company, market conditions and credit profile;
- Store profitability, if profitability data is available; and
- Overall real estate characteristics, including property value and comparative rental rates.

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

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

Acquisition Strategy

We seek to invest in industries in which several, well-organized, regional and national retail chains are capturing market share through service, quality control, economies of scale, advertising and the selection of prime retail locations. We execute our acquisition strategy by acting as a source of capital to regional and national retail chain store owners and operators, doing business in a variety of industries, by acquiring and leasing back retail store locations. We undertake thorough research and analysis to identify what we consider to be appropriate industries, tenants and property locations for investment. Our research expertise is fundamental to uncovering net-lease opportunities in markets where our real estate financing program adds value. In selecting real estate for potential investment, we generally seek to acquire properties that have the following characteristics:

- Freestanding, commercially-zoned property with a single tenant;
- Properties that are important retail locations for regional and national retail chains;
- Properties that we deem to be profitable for the retailers;
- Properties that are located within attractive demographic areas relative to the business of our tenants, with high visibility and easy access to major thoroughfares; and
- Properties that can be purchased with the simultaneous execution or assumption of long-term, net-lease agreements, offering both current income and the potential for rent increases.

Impact of Real Estate and Credit Markets

In the commercial retail real estate market throughout 2008 and 2009, property prices generally continued to decline and lease rates rose. Likewise, the U.S. credit markets have experienced significant price volatility, dislocations and liquidity disruptions, which have impacted our access to and the cost of our capital. We continue to monitor the commercial retail real estate and U.S. credit markets carefully and, if required, will make decisions to adjust our business strategy accordingly. See Item 1A entitled "Risk Factors" in this annual report.

Portfolio Management Strategy

The active management of the property portfolio is an essential component of our long-term strategy. We continually monitor our portfolio for any changes that could affect the performance of the industries, tenants and locations in which we have invested. We also regularly analyze our portfolio with a view toward optimizing its returns and enhancing its credit quality. Our executives review industry research, tenant research, property due diligence and significant portfolio management activities. This monitoring typically includes regular review and analysis of:

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

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

- generate higher returns;
- enhance the credit quality of our real estate portfolio;
- extend our average remaining lease term; or
- decrease tenant or industry concentration.

At December 31, 2009, we classified real estate with a carrying amount of \$8.3 million as held for sale on our balance sheet, which includes three properties owned by Crest, valued at \$3.8 million. Additionally, we anticipate selling investment properties in our portfolio that have not yet been specifically identified, from which we anticipate receiving between \$10 million and \$35 million in proceeds during the next 12 months. We intend to invest these proceeds into new property acquisitions, if there are attractive opportunities available. However, we cannot guarantee that we will sell properties during the next 12 months or be able to invest the proceeds from the sales of any properties in new properties.

Universal Shelf Registration

In March 2009, we filed a shelf registration statement with the SEC, which is effective for a term of three years, to replace our prior shelf registration statement which was set to expire in April 2009. Our new shelf registration statement expires in March 2012. In accordance with the SEC rules, the amount of securities to be issued pursuant to this shelf registration statement was not specified when it was filed and there is no specific dollar limit. The securities covered by this registration statement include common stock, preferred stock, debt securities, or any combination of these securities. We may periodically offer one or more of these securities in amounts, prices and on terms to be announced when and if the securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of any offering.

Business Description, cont'd.

\$355 Million Acquisition Credit Facility

In May 2008, we entered into a \$355 million revolving, unsecured credit facility which replaced our previous \$300 million acquisition credit facility. The term of our credit facility is for three years, until May 2011, plus two, one-year extension options. Under our credit facility, our investment grade credit ratings provide for financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 100 basis points with a facility fee of 27.5 basis points, for all-in drawn pricing of 127.5 basis points over LIBOR. We also have other interest rate options available to us. At December 31, 2009, we had a borrowing capacity of \$350.4 million available on our credit facility and an outstanding balance of \$4.6 million at an effective interest rate of 1.23%.

We expect to use our credit facility to acquire additional retail properties and for other corporate purposes. Any additional borrowings will increase our exposure to interest rate risk. We have the right to request an increase in the borrowing capacity of the credit facility, up to \$100 million, to a total borrowing capacity of \$455 million. Any increase in the borrowing capacity is subject to approval by the banks participating in our credit facility.

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

Credit Agency Ratings

We are currently assigned investment grade corporate credit ratings on our senior unsecured notes. Fitch Ratings has assigned a rating of BBB+, Moody's Investors Service has assigned a rating of Baa1 and Standard & Poor's Ratings Group has assigned a rating of BBB to our senior notes. All of these ratings have "stable" outlooks.

We have also been assigned credit ratings on our preferred stock. Fitch Ratings has assigned a rating of BBB-, Moody's has assigned a rating of Baa2 and Standard & Poor's has assigned a rating of BB+ to our preferred stock. All of these ratings have "stable" outlooks.

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

Mortgage Debt

We have no mortgage debt on any of our properties.

No Off-Balance Sheet Arrangements or Unconsolidated Investments

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

Competitive Strategy

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

- **SIZE AND TYPE OF INVESTMENT PROPERTIES:** We believe smaller (\$500,000 to \$10,000,000) net-leased retail properties represent an attractive investment opportunity in today's real estate environment. Due to the complexities of acquiring and managing a large portfolio of relatively small assets, we believe these types of properties have not experienced significant institutional ownership interest or the corresponding yield reduction experienced by larger income-producing properties. We believe the less intensive day-to-day property management required by net-lease agreements, coupled with the active management of a large portfolio of smaller properties, is an effective investment strategy. The tenants of our freestanding retail properties generally provide goods and services that satisfy basic consumer needs. In order to grow and expand, they generally need capital. Since the acquisition of real estate is typically the single largest capital expenditure of many of these retailers, our method of purchasing the property and then leasing it back, under a net-lease arrangement, allows the retail chain to free up capital.
- **INVESTMENT IN NEW RETAIL INDUSTRIES:** We will seek to further diversify our portfolio among a variety of retail industries. We believe diversification will allow us to invest in retail industries that currently are growing and have characteristics we find attractive. These characteristics include, but are not limited to, retail industries that are dominated by local store operators where regional and national chain store operators can increase market share and dominance by consolidating local operators and streamlining their operations, as well as capitalizing on major demographic shifts in a population base.
- **DIVERSIFICATION:** Diversification of the portfolio by retail industry type, tenant, and geographic location is key to our objective of providing predictable investment results for our stockholders, therefore further diversification of our portfolio is a continuing objective. At December 31, 2009, our retail property portfolio consisted of 2,339 properties located in 49 states, leased to 118 retail chains doing business in 30 industry segments. Each of the 30 industry segments, represented in our property portfolio, individually accounted for no more than 21.3% of our rental revenue for the quarter ended December 31, 2009.
- **MANAGEMENT SPECIALIZATION:** We believe that our management's specialization in single-tenant retail properties, operated under net-lease agreements, is important to meeting our objectives. We plan to maintain this specialization and will seek to employ and train high-quality professionals in this specialized area of real estate ownership, finance and management.
- **TECHNOLOGY:** We intend to stay at the forefront of technology in our efforts to efficiently and economically carry out our operations. We maintain sophisticated information systems that allow us to analyze our portfolio's performance and actively manage our investments. We believe that technology and information-based systems play an important role in our competitiveness as an investment manager and source of capital to a variety of industries and tenants.

RISK FACTORS

For full description of the risk factors associated with the Company, see Item 1A "Risk Factors" in our Form 10-K for the fiscal year ended December 31, 2009.

UNRESOLVED STAFF COMMENTS

There are no unresolved staff comments.

Property Portfolio Information

At December 31, 2009, we owned a diversified portfolio:

- Of 2,339 retail properties;
- With an occupancy rate of 96.8%, or 2,264 properties occupied and only 75 properties available for lease;
- Leased to 118 different retail chains doing business in 30 separate retail industries;
- Located in 49 states;
- With over 19.1 million square feet of leasable space; and
- With an average leasable retail space per property of approximately 8,200 square feet.

In addition to our real estate portfolio, our subsidiary, Crest, had an inventory of three properties located in three states at December 31, 2009. These properties are valued at \$3.8 million and are classified as held for sale.

At December 31, 2009, of our 2,339 retail properties, 2,254 were leased under net-lease agreements. A net lease typically requires the tenant to be responsible for minimum monthly rent and property operating expenses including property taxes, insurance and maintenance. In addition, our tenants are typically responsible for future rent increases based on increases in the consumer price index (typically subject to ceilings), fixed increases or additional rent calculated as a percentage of the tenants' gross sales above a specified level.

Our net-leased retail properties primarily are leased to regional and national retail chain store operators. Most buildings are single-story structures with adequate parking on site to accommodate peak retail traffic periods. The properties tend to be on major thoroughfares with relatively high traffic counts, adequate access and proximity to a sufficient population base to constitute a suitable market or trade area for the retailer's business.

Our net-lease agreements generally:

- Are for initial terms of 15 to 20 years;
- Require the tenant to pay minimum monthly rents and property operating expenses (taxes, insurance and maintenance); and
- Provide for future rent increases based on increases in the consumer price index (typically subject to ceilings), fixed increases, or additional rent calculated as a percentage of the tenants' gross sales above a specified level. Where leases provide for rent increases based on increases in the consumer price index, generally these increases become part of the new permanent base rent. Where leases provide for percentage rent, this additional rent is typically payable only if the tenants' gross sales, for a given period (usually one year), exceed a specified level and is then typically calculated as a percentage of only the amount of gross sales in excess of that level.

Industry Diversification

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

Industries	Percentage of Rental Revenue ⁽¹⁾						
	For the Quarter Ended December 31, 2009	For the Years Ended					
		Dec 31, 2009	Dec 31, 2008	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005	Dec 31, 2004
Apparel stores	1.1%	1.1%	1.1%	1.2%	1.7%	1.6%	1.8%
Automotive collision services	1.1	1.1	1.0	1.1	1.3	1.3	1.0
Automotive parts	1.6	1.5	1.6	2.1	2.8	3.4	3.8
Automotive service	4.8	4.8	4.8	5.2	6.9	7.6	7.7
Automotive tire services	6.7	6.9	6.7	7.3	6.1	7.2	7.8
Book stores	0.2	0.2	0.2	0.2	0.2	0.3	0.3
Business services	*	*	*	0.1	0.1	0.1	0.1
Child care	6.9	7.3	7.6	8.4	10.3	12.7	14.4
Consumer electronics	0.6	0.7	0.8	0.9	1.1	1.3	2.1
Convenience stores	17.0	16.9	15.8	14.0	16.1	18.7	19.2
Crafts and novelties	0.3	0.3	0.3	0.3	0.4	0.4	0.5
Distribution and office	1.1	1.0	1.0	0.6	—	—	—
Drug stores	4.3	4.3	4.1	2.7	2.9	2.8	0.1
Entertainment	1.3	1.3	1.2	1.4	1.6	2.1	2.3
Equipment rental services	0.2	0.2	0.2	0.2	0.2	0.4	0.3
Financial services	0.2	0.2	0.2	0.2	0.1	0.1	0.1
General merchandise	0.8	0.8	0.8	0.7	0.6	0.5	0.4
Grocery stores	0.7	0.7	0.7	0.7	0.7	0.7	0.8
Health and fitness	6.1	5.9	5.6	5.1	4.3	3.7	4.0
Home furnishings	1.3	1.3	2.4	2.6	3.1	3.7	4.1
Home improvement	1.9	1.9	1.9	2.1	3.4	1.1	1.0
Motor vehicle dealerships	2.8	2.7	3.1	3.1	3.4	2.6	0.6
Office supplies	1.0	1.0	1.0	1.1	1.3	1.5	1.6
Pet supplies and services	0.9	0.9	0.8	0.9	1.1	1.3	1.4
Private education	0.9	0.9	0.8	0.8	0.8	0.8	1.1
Restaurants	21.3	21.3	21.8	21.2	11.9	9.4	9.7
Shoe stores	—	—	—	—	—	0.3	0.3
Sporting goods	2.5	2.6	2.3	2.6	2.9	3.4	3.4
Theaters	9.3	9.2	9.0	9.0	9.6	5.2	3.5
Travel plazas	0.2	0.2	0.2	0.2	0.3	0.3	0.4
Video rental	1.1	1.0	1.1	1.7	2.1	2.5	2.8
Other	1.8	1.8	1.9	2.3	2.7	3.0	3.4
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.

Property Portfolio Information, cont'd.

Service Category Diversification

The following table sets forth certain information regarding the properties owned by Realty Income (excluding properties owned by Crest) at December 31, 2009, classified according to the retail business types and the level of services they provide (dollars in thousands):

Industry	Number of Properties	Rental Revenue for the Quarter Ended December 31, 2009 ⁽¹⁾	Percentage of Rental Revenue
Tenants Providing Services			
Automotive collision services	13	\$ 884	1.1%
Automotive service	236	3,902	4.8
Child care	252	5,665	6.9
Entertainment	8	1,083	1.3
Equipment rental services	2	150	0.2
Financial services	13	188	0.2
Health and fitness	31	4,999	6.1
Private education	11	719	0.9
Theaters	34	7,585	9.3
Other	12	1,465	1.8
	612	26,640	32.6
Tenants Selling Goods and Services			
Automotive parts (with installation)	23	468	0.5
Automotive tire services	154	5,447	6.7
Business services	1	5	*
Convenience stores	584	13,898	17.0
Distribution and office	3	864	1.1
Home improvement	3	111	0.1
Motor vehicle dealerships	17	2,252	2.8
Pet supplies and services	12	702	0.9
Restaurants	637	17,461	21.3
Travel plazas	1	187	0.2
Video rental	27	866	1.1
	1,462	42,261	51.7
Tenants Selling Goods			
Apparel stores	6	902	1.1
Automotive parts	49	884	1.1
Book stores	2	146	0.2
Consumer electronics	9	524	0.6
Crafts and novelties	5	227	0.3
Drug stores	51	3,482	4.3
General merchandise	33	684	0.8
Grocery stores	9	578	0.7
Home furnishings	43	1,101	1.3
Home improvement	29	1,451	1.8
Office supplies	10	788	1.0
Pet supplies	2	40	*
Sporting goods	17	2,087	2.5
	265	12,894	15.7
Totals	2,339	\$ 81,795	100.0%

* Less than 0.1%

⁽¹⁾Includes rental revenue for all properties owned by Realty Income at December 31, 2009, including revenue from properties reclassified as discontinued operations of \$169.

Lease Expirations

The following table sets forth certain information regarding Realty Income's property portfolio (excluding properties owned by Crest) regarding the timing of the lease term expirations (excluding extension options) on our 2,254 net leased, single-tenant retail properties as of December 31, 2009 (dollars in thousands):

Year	Total Portfolio			Initial Expirations ⁽³⁾			Subsequent Expirations ⁽⁴⁾		
	Total Number of Leases Expiring ⁽¹⁾	Rental Revenue for the Quarter Ended Dec 31, 2009 ⁽²⁾	% of Total Rental Revenue	Number of Leases Expiring	Rental Revenue for the Quarter Ended Dec 31, 2009	% of Total Rental Revenue	Number of Leases Expiring	Rental Revenue for the Quarter Ended Dec 31, 2009	% of Total Rental Revenue
2010	141	\$ 2,776	3.5%	45	\$ 997	1.3%	96	\$ 1,779	2.2%
2011	115	3,384	4.3	53	1,909	2.4	62	1,475	1.9
2012	135	3,189	4.0	72	1,861	2.3	63	1,328	1.7
2013	140	5,040	6.3	98	3,447	4.3	42	1,593	2.0
2014	107	3,305	4.2	71	2,457	3.1	36	848	1.1
2015	115	2,986	3.8	81	2,218	2.8	34	768	1.0
2016	115	2,085	2.6	112	2,006	2.5	3	79	0.1
2017	49	1,835	2.3	42	1,662	2.1	7	173	0.2
2018	42	1,869	2.4	33	1,553	2.0	9	316	0.4
2019	99	5,148	6.5	92	4,665	5.9	7	483	0.6
2020	80	3,224	4.1	74	3,059	3.9	6	165	0.2
2021	177	7,553	9.5	170	7,163	9.0	7	390	0.5
2022	100	2,938	3.7	98	2,858	3.6	2	80	0.1
2023	249	8,169	10.3	248	8,124	10.2	1	45	0.1
2024	62	1,697	2.1	61	1,675	2.1	1	22	*
2025	69	5,389	6.8	65	5,317	6.7	4	72	0.1
2026	108	6,169	7.8	105	5,932	7.5	3	237	0.3
2027	159	4,642	5.8	158	4,625	5.8	1	17	*
2028	82	4,143	5.2	81	4,119	5.2	1	24	*
2029	49	1,151	1.4	49	1,151	1.4	—	—	—
2030	20	929	1.2	20	929	1.2	—	—	—
2031	27	650	0.8	27	650	0.8	—	—	—
2032	2	57	0.1	2	57	0.1	—	—	—
2033	7	460	0.6	7	460	0.6	—	—	—
2034	2	276	0.3	2	276	0.3	—	—	—
2037	2	354	0.4	2	354	0.4	—	—	—
2043	1	13	*	—	—	—	1	13	*
Totals	2,254	\$ 79,431	100.0%	1,868	\$ 69,524	87.5%	386	\$ 9,907	12.5%

*Less than 0.1%

⁽¹⁾Excludes ten multi-tenant properties and 75 vacant unleased properties. The lease expirations for properties under construction are based on the estimated date of completion of those properties.

⁽²⁾Includes rental revenue of \$169 from properties reclassified as discontinued operations and excludes revenue of \$2,364 from ten multi-tenant properties and from 75 vacant and unleased properties at December 31, 2009.

⁽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.

REALTY INCOME CORPORATION AND SUBSIDIARIES
Property Portfolio Information, cont'd.
State Diversification

The following table sets forth certain state-by-state information regarding Realty Income's property portfolio (excluding properties owned by Crest) as of December 31, 2009 (dollars in thousands):

State	Number of Properties	Percent Leased	Approximate Leasable Square Feet	Rental Revenue for the Quarter Ended December 31, 2009 ⁽¹⁾	Percentage of Rental Revenue
Alabama	63	97%	425,300	\$ 1,822	2.2%
Alaska	2	100	128,500	277	0.3
Arizona	79	99	392,700	2,479	3.0
Arkansas	17	94	92,400	377	0.5
California	65	97	1,178,900	4,390	5.4
Colorado	51	98	471,500	1,865	2.3
Connecticut	24	96	276,600	1,194	1.5
Delaware	17	100	33,300	429	0.5
Florida	166	93	1,426,700	6,534	8.0
Georgia	131	96	914,300	3,872	4.7
Idaho	12	100	80,700	339	0.4
Illinois	85	98	1,008,800	4,216	5.1
Indiana	81	96	686,400	3,244	4.0
Iowa	21	100	290,600	1,013	1.2
Kansas	33	88	573,200	1,118	1.4
Kentucky	22	100	110,600	679	0.8
Louisiana	32	100	184,900	899	1.1
Maine	3	100	22,500	161	0.2
Maryland	28	100	266,600	1,613	2.0
Massachusetts	64	98	575,400	2,576	3.1
Michigan	52	98	257,300	1,249	1.5
Minnesota	21	95	392,100	1,557	1.9
Mississippi	71	96	347,600	1,470	1.8
Missouri	62	94	640,100	2,109	2.6
Montana	2	100	30,000	76	0.1
Nebraska	19	95	196,300	478	0.6
Nevada	14	100	153,300	750	0.9
New Hampshire	14	100	109,900	585	0.7
New Jersey	33	100	261,300	1,936	2.4
New Mexico	8	100	56,400	182	0.2
New York	40	93	502,300	2,383	2.9
North Carolina	96	97	548,300	2,850	3.5
North Dakota	6	100	36,600	68	0.1
Ohio	136	96	845,500	3,323	4.1
Oklahoma	24	100	137,400	587	0.7
Oregon	18	94	297,300	894	1.1
Pennsylvania	98	99	677,200	3,507	4.3
Rhode Island	3	100	11,000	58	0.1
South Carolina	100	100	374,400	2,252	2.8
South Dakota	9	100	24,900	102	0.1
Tennessee	133	96	621,800	2,925	3.6
Texas	212	97	2,280,000	7,918	9.7
Utah	4	100	25,200	91	0.1
Vermont	4	100	12,700	127	0.2
Virginia	104	98	637,100	3,513	4.3
Washington	36	94	286,200	790	1.0
West Virginia	2	100	23,000	121	0.1
Wisconsin	21	90	252,700	779	0.9
Wyoming	1	100	4,200	18	*
Totals/Average	2,339	97%	19,182,000	\$ 81,795	100.0%

* Less than 0.1%

⁽¹⁾Includes rental revenue for all properties owned by Realty Income at December 31, 2009, including revenue from properties reclassified as discontinued operations of \$169.

Forward-Looking Statements

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

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

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 and future events to differ materially from those set forth or contemplated in the forward-looking statements 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; and
- Acts of terrorism and war.

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

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

Realty Income Corporation, The Monthly Dividend Company®, is a Maryland corporation organized to operate as an equity real estate investment trust, or REIT. Our primary business objective is to generate dependable monthly cash distributions from a consistent and predictable level of funds from operations, or FFO, per share. Our monthly distributions are supported by the cash flow from our portfolio of retail properties leased to regional and national retail chains. We have in-house acquisition, leasing, legal, credit research, real estate research, portfolio management and capital markets expertise. Over the past 40 years, Realty Income and its predecessors have been acquiring and owning freestanding retail properties that generate rental revenue under long-term lease agreements (primarily 15 to 20 years).

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

At December 31, 2009, we owned a diversified portfolio:

- Of 2,339 retail properties;
- With an occupancy rate of 96.8%, or 2,264 properties occupied and only 75 properties available for lease;
- Leased to 118 different retail chains doing business in 30 separate retail industries;
- Located in 49 states;
- With over 19.1 million square feet of leasable space; and
- With an average leasable retail space per property of approximately 8,200 square feet.

Of the 2,339 properties in the portfolio, 2,328, or 99.5%, are single-tenant, retail properties and the remaining 11 are multi-tenant, distribution and office properties. At December 31, 2009, of the 2,328 single-tenant properties, 2,254 were leased with a weighted average remaining lease term (excluding extension options) of approximately 11.2 years.

In addition, at December 31, 2009, our wholly-owned taxable REIT subsidiary, Crest Net Lease, Inc. ("Crest"), had an inventory of three properties valued at \$3.8 million, which are classified as held for sale. Crest was created to buy and sell properties, primarily to individual investors who are involved in tax-deferred exchanges under Section 1031 of the Internal Revenue Code of 1986, as amended (the "Code"). In addition to the three properties, Crest also holds notes receivable of \$22.2 million at December 31, 2009. Crest did not acquire any properties in 2009.

LIQUIDITY AND CAPITAL RESOURCES

Capital Philosophy

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

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, 2009, our total outstanding credit facility borrowings and outstanding notes were \$1.355 billion, or approximately 30.8% of our total market capitalization of \$4.40 billion.

We define our total market capitalization at December 31, 2009 as the sum of:

- Shares of our common stock outstanding of 104,286,705 multiplied by the last reported sales price of our common stock on the NYSE of \$25.91 per share on December 31, 2009, or \$2.70 billion;
- Aggregate liquidation value (par value of \$25 per share) of the Class D preferred stock of \$127.5 million;
- Aggregate liquidation value (par value of \$25 per share) of the Class E preferred stock of \$220 million;
- Outstanding notes of \$1.35 billion; and
- Outstanding borrowings of \$4.6 million on our credit facility.

Mortgage Debt

We have no mortgage debt on any of our properties.

\$355 Million Acquisition Credit Facility

In May 2008, we entered into a \$355 million revolving, unsecured credit facility that replaced our previous \$300 million acquisition credit facility. The term of our credit facility is for three years, until May 2011, plus two, one-year extension options. Under our credit facility, our investment grade credit ratings provide for financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 100 basis points with a facility fee of 27.5 basis points, for all-in drawn pricing of 127.5 basis points over LIBOR. We also have other interest rate options available to us. At December 31, 2009, we had a borrowing capacity of \$350.4 million available on our credit facility and an outstanding balance of \$4.6 million at an effective interest rate of 1.23%.

We expect to use the credit facility to acquire additional retail properties and for other corporate purposes. Any additional borrowings will increase our exposure to interest rate risk. We have the right to request an increase in the borrowing capacity of the credit facility, up to \$100 million, to a total borrowing capacity of \$455 million. Any increase in the borrowing capacity is subject to approval by the lending banks participating in our credit facility.

Cash Reserves

We are organized to operate as an equity REIT that acquires and leases properties and distributes to stockholders, in the form of monthly cash distributions, a substantial portion of our net cash flow generated from leases on our retail properties. We intend to retain an appropriate amount of cash as working capital. At December 31, 2009, we had cash and cash equivalents totaling \$10 million.

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

Acquisitions During 2009

During 2009, we invested \$57.9 million in 16 new properties with an initial weighted average contractual lease rate of 9.7%. These 16 properties are located in five states, contain over 278,000 leasable square feet, and are 100% leased with an average lease term of 17.9 years. The 16 new properties we acquired are net-leased to four different retail chains. There were no acquisitions by Crest in 2009.

We made fewer portfolio acquisitions in 2008 and 2009 than in previous years because we felt that preserving our capital resources and maintaining a high level of liquidity until property prices adjusted and the general economy improved was the prudent course of action. In late 2009, we felt that market conditions had become more attractive for acquisitions, and we currently believe that there are many retail chains, with solid operating concepts, that are in need of capital. We believe that our solid financial position, strong balance sheet and access to capital give us the ability to expand our acquisition activities in 2010 and invest in new retail properties that have the potential to contribute to our earnings.

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

Impact of Real Estate and Credit Markets

In the commercial retail real estate market, property prices generally continued to decline and lease rates rose throughout 2008 and 2009. Likewise, the U.S. credit markets have experienced significant price volatility, dislocations and liquidity disruptions, which have impacted our access to and cost of capital. We continue to monitor the commercial retail real estate and U.S. credit markets carefully and, if required, will make decisions to adjust our business strategy accordingly. See our discussion of "Risk Factors" in this annual report.

Increases in Monthly Distributions to Common Stockholders

We have continued our 40-year policy of paying distributions monthly. Monthly distributions per share were increased in January 2010 by \$0.0003125 to \$0.143. The increase in January 2010 was our 49th consecutive quarterly increase and the 56th increase in the amount of our dividend since our listing on the New York Stock Exchange, or NYSE, in 1994. In 2009, we paid three monthly cash distributions per share in the amount of \$0.14175, three in the amount of \$0.1420625, three in the amount of \$0.142375 and three in the amount of \$0.1426875, totaling \$1.706625. In December 2009 and January 2010, we declared distributions of \$0.143 per share, which were paid in January 2010 and will be paid in February 2010, respectively.

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

The monthly distribution of \$0.143 per share represents a current annualized distribution of \$1.716 per share, and an annualized distribution yield of approximately 6.7% based on the last reported sale price of our common stock on the NYSE of \$25.74 on February 8, 2010. Although we expect to continue our policy of paying monthly distributions, we cannot guarantee that we will maintain our current level of distributions, that we will continue our pattern of increasing distributions per share, or what our actual distribution yield will be in any future period.

Note Redemptions

Upon their maturity in January 2009, we redeemed, using cash on hand, the \$20 million outstanding principal amount of our 8% Notes due 2009, or 2009 Notes. The 2009 Notes were redeemed at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest. We have no debt maturities until March 2013.

Universal Shelf Registration

In March 2009, we filed a shelf registration statement with the SEC, which is effective for a term of three years, to replace our prior shelf registration statement which was set to expire in April 2009. Our new shelf registration statement expires in March 2012. In accordance with the SEC rules, the amount of the securities to be issued pursuant to this shelf registration statement was not specified when it was filed and there is no specific dollar limit. The securities covered by this registration statement include common stock, preferred stock, debt securities, or any combination of these securities. We may periodically offer one or more of these securities in amounts, prices and on terms to be announced when and if the securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of the offering.

Credit Agency Ratings

We are currently assigned investment grade corporate credit ratings on our senior unsecured notes. Fitch Ratings has assigned a rating of BBB+, Moody's Investors Service has assigned a rating of Baa1 and Standard & Poor's Ratings Group has assigned a rating of BBB to our senior notes. All of these ratings have "stable" outlooks.

We have also been assigned credit ratings on our preferred stock. Fitch Ratings has assigned a rating of BBB-, Moody's has assigned a rating of Baa2 and Standard & Poor's has assigned a rating of BB+ to our preferred stock. All of these ratings have "stable" outlooks.

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

Notes Outstanding

Our senior unsecured note obligations consist of the following as of December 31, 2009, sorted by maturity date (dollars in millions):

5.375% notes, issued in March 2003 and due in March 2013	\$ 100.0
5.5% notes, issued in November 2003 and due in November 2015	150.0
5.95% notes, issued in September 2006 and due in September 2016	275.0
5.375% notes, issued in September 2005 and due in September 2017	175.0
6.75% notes, issued in September 2007 and due in August 2019	550.0
5.875% bonds, issued in March 2005 and due in March 2035	100.0
	\$ 1,350.0

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

The following is a summary of the key financial covenants for our senior unsecured notes, as defined and calculated per the terms of our notes. These calculations, which are not based on U.S. generally accepted accounting principles, or GAAP, measurements, are presented to investors to show our ability to incur additional debt under the terms of our notes only and are not measures of our liquidity or performance. The actual amounts as of December 31, 2009 are:

Note Covenants	Required	Actual
Limitation on incurrence of total debt	≤ 60%	38.6%
Limitation on incurrence of secured debt	≤ 40%	0.0%
Debt service coverage (trailing 12 months)	≥ 1.5 x	3.6 x
Maintenance of total unencumbered assets	≥ 150% of unsecured debt	259%

The following table summarizes the maturity of each of our obligations as of December 31, 2009 (dollars in millions):

Table of Obligations

Year of Maturity	Credit Facility	Notes	Interest ⁽¹⁾	Ground Leases Paid by Realty Income ⁽²⁾	Ground Leases Paid by Our Tenants ⁽³⁾	Other ⁽⁴⁾	Totals
2010	\$ —	\$ —	\$ 82.4	\$ 0.1	\$ 3.7	\$ 1.5	\$ 87.7
2011	4.6	—	82.4	0.1	3.7	—	90.8
2012	—	—	82.4	0.1	3.6	—	86.1
2013	—	100.0	78.1	0.1	3.5	—	181.7
2014	—	—	77.0	0.1	3.3	—	80.4
Thereafter	—	1,250.0	350.9	0.8	37.7	—	1,639.4
Totals	\$ 4.6	\$ 1,350.0	\$ 753.2	\$ 1.3	\$ 55.5	\$ 1.5	\$ 2,166.1

⁽¹⁾Interest on the credit facility and notes has been calculated based on outstanding balances as of December 31, 2009 through their respective maturity dates.

⁽²⁾Realty Income currently pays the ground lessors directly for the rent under the ground leases. A majority of this rent is reimbursed to Realty Income as additional rent from our tenants.

⁽³⁾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.

⁽⁴⁾"Other" consists of \$295,000 of commitments under construction contracts and \$1.2 million of contingent payments for tenant improvements and leasing costs.

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

Preferred Stock Outstanding

In 2004, we issued 5.1 million shares of 7.375% Class D cumulative redeemable preferred stock. In May 2009, shares of Class D preferred stock became redeemable at our option for \$25 per share, plus any accrued and unpaid dividends. Dividends on shares of Class D preferred stock are paid monthly in arrears.

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

Dividends on our Class D and Class E preferred stock are current.

No Off-Balance Sheet Arrangements or Unconsolidated Investments

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

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

RESULTS OF OPERATIONS

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with GAAP. Our consolidated financial statements 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.

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 of buildings and improvements is generally computed using the straight-line method over an estimated useful life of 25 years. If we use a shorter or longer estimated useful life, it could have a material impact on our results of operations. We believe that 25 years is an appropriate estimate of useful life. No depreciation has been recorded on Crest's properties that are classified as held for sale.

When acquiring a property for investment purposes, we allocate the fair value of real estate acquired with in-place operating leases to: (1) land, (2) building and improvements, (3) identified intangible assets and liabilities, based in each case on their fair values. Intangible assets and liabilities consist of above-market and below-market leases, the value of in-place leases and tenant relationships.

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. Generally, 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, capital expenditures and property sales capitalization rates. If a property is held for sale, it is carried at the lower of carrying cost or estimated fair value, less estimated cost to sell. The carrying value of our real estate is the largest component of our consolidated balance sheet. If events should occur that require us to reduce the carrying value of our real estate by recording provisions for impairment, it could have a material impact on our results of operations.

The following is a comparison of our results of operations for the years ended December 31, 2009, 2008 and 2007.

Rental Revenue

Rental revenue was \$326.1 million for 2009 versus \$325.9 million for 2008, an increase of \$249,000, or 0.1%. Rental revenue was \$285.1 million in 2007. The increase in rental revenue in 2009 compared to 2008 is primarily attributable to:

- The 16 retail properties acquired by Realty Income in 2009, which generated \$490,000 of rent in 2009;
- The 107 retail properties acquired by Realty Income in 2008, which generated \$16.08 million of rent in 2009 compared to \$13.04 million in 2008, an increase of \$3.0 million;
- Same store rents generated on 2,063 properties during the entire years of 2009 and 2008, increased by \$1.3 million, or 0.4%, to \$299.15 million from \$297.84 million; net of
- A net decrease of \$3.7 million relating to the aggregate of (i) development properties acquired before 2008 that started paying rent in 2008, (ii) properties that were vacant during part of 2009 or 2008, (iii) properties sold during 2009 and 2008 and (iv) lease termination settlements, which in aggregate, totaled \$9.2 million in 2009 compared to \$12.9 million in 2008; and
- A decrease in straight-line rent and other non-cash adjustments to rent of \$879,000 in 2009 as compared to 2008.

Overall, comparing 2009 versus 2008, revenue has been generally flat as we own 2,339 properties at December 31, 2009, compared to 2,348 properties at December 31, 2008.

Of the 2,339 properties in the portfolio at December 31, 2009, 2,328, or 99.5%, are single-tenant properties and the remaining 11 are multi-tenant, distribution and office properties. Of the 2,328 single-tenant properties, 2,254, or 96.8%, were net leased with a weighted average remaining lease term (excluding rights to extend a lease at the option of the tenant) of approximately 11.2 years at December 31, 2009. Of our 2,254 leased single-tenant properties, 2,071 or 91.9% were under leases that provide for increases in rents through:

- Primarily base rent increases tied to a consumer price index (typically subject to ceilings);
- Fixed increases;
- Overage rent based on a percentage of the tenants' gross sales, or;
- A combination of two or more of the above rent provisions.

Percentage rent, which is included in rental revenue, was \$1.3 million in 2009, \$1.2 million in 2008 and \$795,000 in 2007 (excluding percentage rent reclassified to discontinued operations of \$22,000 in 2008 and \$55,000 in 2007). Percentage rent in 2009 was less than 1% of rental revenue and we anticipate percentage rent to be less than 1% of rental revenue in 2010.

Our portfolio of retail real estate, leased primarily to regional and national chains under net leases, continues to perform well and provide dependable lease revenue supporting the payment of monthly dividends to our stockholders. At December 31, 2009, our portfolio of 2,339 retail properties was 96.8% leased with 75 properties available for lease as compared to 70 at December 31, 2008.

As of February 8, 2010, transactions to lease or sell ten of the 75 properties available for lease at December 31, 2009 were underway or completed. We anticipate these transactions will be completed during the next several months, although we cannot guarantee that all of these properties can be leased or sold within this period. It has been our experience that approximately 1% to 4% of our property portfolio will be unleased at any given time; however, we cannot assure you that the number of properties available for lease will not exceed these levels.

Depreciation and Amortization

Depreciation and amortization was \$91.4 million in 2009 versus \$89.9 million in 2008 and \$75.9 million in 2007. The increases in depreciation and amortization in 2009 and 2008 were primarily due to the acquisition of properties in 2009, 2008 and 2007, which was partially offset by property sales in these years. As discussed in the section entitled "Funds from Operations Available to Common Stockholders," depreciation and amortization is a non-cash item that is added back to net income available to common stockholders for our calculation of FFO.

Interest Expense

Interest expense was \$85.5 million in 2009 versus \$94.0 million in 2008 and \$64.3 million in 2007. Interest expense decreased in 2009 primarily due to lower average outstanding balances and, to a lesser extent, lower interest rates. We redeemed, in November 2008, the \$100 million outstanding principal amount of our 8.25% Monthly Income Senior Notes and, in January 2009, the \$20 million outstanding principal amount of our 8% Notes, both of which contributed to the decrease in average outstanding balances and lower average interest rates on our debt.

In May 2008, as a result of entering into our current credit facility, we incurred \$3.2 million of credit facility origination costs that were capitalized and are being amortized over three years. At December 31, 2009, \$1.5 million of the \$3.2 million is included in "other assets" on our consolidated balance sheet.

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

	2009	2008	2007
Interest on our credit facility and notes	\$ 82,460	\$ 91,213	\$ 67,964
Interest included in discontinued operations from real estate acquired for resale by Crest	(595)	(1,797)	(6,201)
Credit facility commitment fees	990	795	456
Amortization of credit facility origination costs and deferred bond financing costs	2,678	3,078	2,235
Amortization of settlements on treasury lock agreement	—	759	870
Interest capitalized	(5)	(92)	(993)
Interest expense	\$ 85,528	\$ 93,956	\$ 64,331
Credit facility and notes outstanding	2009	2008	2007
Average outstanding balances (dollars in thousands)	\$ 1,350,791	\$ 1,457,222	\$ 1,111,914
Average interest rates	6.10%	6.26%	6.11%

At December 31, 2009, the weighted average interest rate on our:

- Notes payable of \$1.35 billion was 6.10%;
- Credit facility outstanding borrowings of \$4.6 million was 1.23%; and
- Combined outstanding notes and credit facility borrowings of \$1.355 billion was 6.10%.

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

Interest Coverage Ratio

Our interest coverage ratio for 2009 was 3.5 times, for 2008 was 3.2 times and for 2007 was 4.1 times. Interest coverage ratio is calculated as: the interest coverage amount (as calculated in the following table) divided by interest expense, including interest recorded as discontinued operations. We consider interest coverage ratio to be an appropriate supplemental measure of a company's ability to meet its interest expense obligations. Our calculation of interest coverage ratio may be different from the calculation used by other companies and, therefore, comparability may be limited. This information should not be considered as an alternative to any GAAP liquidity measures.

The following is a reconciliation of net cash provided by operating activities on our consolidated statements of cash flow to our interest coverage amount (dollars in thousands):

	2009	2008	2007
Net cash provided by operating activities	\$ 226,707	\$ 246,155	\$ 318,169
Interest expense	85,528	93,956	64,331
Interest expense included in discontinued operations ⁽¹⁾	595	1,797	6,201
Income taxes	677	1,230	1,392
Income taxes (benefit) included in discontinued operations ⁽¹⁾	(645)	225	3,039
Investment in real estate acquired for resale ⁽¹⁾	—	9	29,886
Proceeds from sales of real estate acquired for resale ⁽¹⁾	(1,987)	(31,455)	(119,790)
Collection of note receivables by Crest ⁽¹⁾	(129)	(87)	(651)
Crest provisions for impairment ⁽¹⁾	(277)	(3,374)	—
Gain on sales of real estate acquired for resale ⁽¹⁾	—	4,642	12,319
Amortization of share-based compensation	(4,726)	(5,049)	(3,857)
Changes in assets and liabilities:			
Accounts receivable and other assets	(3,607)	930	49
Accounts payable, accrued expenses and other liabilities	(856)	(1,675)	(21,675)
Interest coverage amount	\$ 301,280	\$ 307,304	\$ 289,413
Divided by interest expense ⁽²⁾	\$ 86,123	\$ 95,753	\$ 70,532
Interest coverage ratio	3.5	3.2	4.1

⁽¹⁾Crest activities.

⁽²⁾Includes interest expense recorded to "income from discontinued operations, real estate acquired for resale by Crest" on our consolidated statements of income.

Fixed Charge Coverage Ratio

Our fixed charge coverage ratio for 2009 was 2.7 times, for 2008 was 2.6 times and for 2007 was 3.1 times. Fixed charge coverage ratio is calculated in exactly the same manner as interest coverage ratio, except that preferred stock dividends are also added to the denominator. We consider fixed charge coverage ratio to be an appropriate supplemental measure of a company's ability to make its interest and preferred stock dividend payments. Our calculation of the fixed charge coverage ratio may be different from the calculation used by other companies and, therefore, comparability may be limited. This information should not be considered as an alternative to any GAAP liquidity measures or information presented in Exhibit 12.1 to this Annual Report.

Interest coverage amount divided by interest expense plus preferred stock dividends (dollars in thousands):

	2009	2008	2007
Interest coverage amount	\$ 301,280	\$ 307,304	\$ 289,413
Divided by interest expense plus preferred stock dividends ⁽¹⁾	\$ 110,376	\$ 120,006	\$ 94,785
Fixed charge coverage ratio	2.7	2.6	3.1

⁽¹⁾Includes interest expense recorded to "income from discontinued operations, real estate acquired for resale by Crest" on our consolidated statements of income.

General and Administrative Expenses

General and administrative expenses decreased by \$672,000 to \$20.9 million in 2009 as compared to \$21.6 million in 2008. General and administrative expenses were \$22.7 million in 2007. In 2009, general and administrative expenses as a percentage of total revenue were 6.4% as compared to 6.6% in 2008 and 7.8% in 2007. General and administrative expenses decreased during 2009 primarily due to decreases in employee costs. For 2009, general and administrative expenses include transaction costs of \$62,000 related to the acquisition of 16 new properties during 2009. Prior to 2009, these transaction costs would have been capitalized as part of the property investments.

In February 2010, we had 72 employees as compared to 69 employees in February 2009.

Property Expenses

Property expenses are broken down into costs associated with non-net leased multi-tenant properties, unleased single-tenant properties and general portfolio expenses. Expenses related to the multi-tenant and unleased single-tenant 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, bad debt expense, property inspections and title search fees. At December 31, 2009, 75 properties were available for lease, as compared to 70 at December 31, 2008 and 48 at December 31, 2007.

Property expenses were \$6.9 million in 2009, \$5.6 million in 2008 and \$3.4 million in 2007. The increase in property expenses in 2009 is primarily attributable to an increase in maintenance and utilities associated with properties available for lease and an increase in bad debt expense, partially offset by lower property taxes and legal fees. In 2007, property expenses included provisions for impairment of \$138,000 recorded for one property.

Income Taxes

Income taxes were \$677,000 in 2009 as compared to \$1.2 million in 2008 and \$1.4 million in 2007. These amounts are for city and state income taxes paid by Realty Income. After conducting an extensive review of our recent state tax filings, we determined that it was appropriate to amend some prior year tax returns from which we realized a tax benefit of \$308,000.

In addition, Crest recorded state and federal income tax benefits of \$645,000 in 2009 as compared to income tax expense of \$225,000 in 2008 and \$3.0 million in 2007. These amounts are included in "income from discontinued operations, real estate acquired for resale by Crest" on our consolidated statements of income. The Crest 2009 tax benefit includes a benefit of \$303,000 attributable to amendments of certain prior year state tax returns.

Discontinued Operations

Crest acquires properties with the intention of reselling them rather than holding them as investments and operating the properties. Consequently, we typically classify properties acquired by Crest as held for sale at the date of acquisition and do not depreciate them. The operation of Crest's properties is classified as "income from discontinued operations, real estate acquired for resale by Crest" on our consolidated statements of income.

If we decide not to sell a property previously classified as held for sale, the property is reclassified as 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, and (ii) the fair value at the date of the subsequent decision not to sell.

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

The following is a summary of Crest's "income from discontinued operations, real estate acquired for resale" on our consolidated statements of income (dollars in thousands, except per share data):

Crest's income from discontinued operations, real estate acquired for resale	2009	2008	2007
Rental revenue	\$ 246	\$ 1,830	\$ 8,165
Other revenue	1,403	914	190
Gain on sales of real estate acquired for resale	—	4,642	12,319
Interest expense	(595)	(1,797)	(6,201)
General and administrative expense	(336)	(511)	(691)
Property expenses	(128)	(133)	(40)
Provisions for impairment	(277)	(3,374)	—
Depreciation ⁽¹⁾	—	(771)	—
Income taxes	645	(225)	(3,039)
Income from discontinued operations, real estate acquired for resale by Crest	\$ 958	\$ 575	\$ 10,703
Per common share, basic and diluted	\$ 0.01	\$ 0.01	\$ 0.11

⁽¹⁾Depreciation was recorded on one property that was classified as held for investment. This property was sold in 2008.

Realty Income's operations from seven investment properties classified as held for sale at December 31, 2009, plus properties sold in 2009, 2008 and 2007 have been classified as discontinued operations. The following is a summary of Realty Income's "income from discontinued operations, real estate held for investment" on our consolidated statements of income (dollars in thousands, except per share data):

Realty Income's income from discontinued operations, real estate held for investment	2009	2008	2007
Gain on sales of investment properties	\$ 8,044	\$ 13,314	\$ 1,724
Rental revenue	1,178	3,831	5,907
Other revenue	35	96	6
Depreciation and amortization	(564)	(1,093)	(1,390)
Property expenses	(547)	(309)	(185)
Provisions for impairment	(110)	—	(134)
Income from discontinued operations, real estate held for investment	\$ 8,036	\$ 15,839	\$ 5,928
Per common share, basic and diluted	\$ 0.08	\$ 0.16	\$ 0.06

The following is a summary of our total income from discontinued operations (dollars in thousands, except per share data):

Total discontinued operations	2009	2008	2007
Real estate acquired for resale by Crest	\$ 958	\$ 575	\$ 10,703
Real estate held for investment	8,036	15,839	5,928
Income from discontinued operations	\$ 8,994	\$ 16,414	\$ 16,631
Per common share, basic and diluted	\$ 0.09	\$ 0.16	\$ 0.17

The above per share amounts have each been calculated independently.

Crest's Property Sales

In 2009, Crest sold two properties for \$2.0 million, which resulted in no gain. In 2008, Crest sold 25 properties for \$50.7 million, which resulted in a gain of \$4.6 million. In 2008, as part of two sales, Crest provided buyer financing of \$19.2 million. In 2007, Crest sold 62 properties for \$123.6 million, which resulted in a gain of \$12.3 million. In 2007, as part of two sales, Crest provided buyer financing of \$3.8 million, of which \$619,000 was paid in full in November 2007. Crest's gains on sales are reported before income taxes and are included in discontinued operations.

Crest's Property Inventory

At December 31, 2009, Crest had an inventory of three properties valued at \$3.8 million, all of which are classified as held for sale. At December 31, 2008, Crest had a property inventory of five properties valued at \$6.0 million.

Gain on Sales of Investment Properties by Realty Income

In 2009, we sold 25 investment properties for \$20.3 million, which resulted in a gain of \$8.0 million. The results of operations for these properties have been reclassified as discontinued operations. Additionally, we received proceeds of \$170,000 from the sale of excess land from one property, which resulted in a gain of \$15,000. This gain is included in "other revenue" on our consolidated statement of income for 2009 because this excess land was associated with a property that continues to be owned as part of our core operations.

In 2008, we sold 29 investment properties for an aggregate of \$27.4 million, which resulted in a gain of \$13.3 million. The results of operations for these properties have been reclassified as discontinued operations. Additionally, we received proceeds of \$439,000 from the sale of excess land from one property, which resulted in a gain of \$236,000. This gain is included in "other revenue" on our consolidated statement of income for 2008 because this excess land was associated with a property that continues to be owned as part of our core operations.

In 2007, we sold ten investment properties for \$7.0 million, which resulted in a gain of \$1.7 million. The results of operations for these properties have been reclassified as discontinued operations. Additionally, we sold excess land and improvements from five properties for an aggregate of \$4.4 million, which resulted in a gain of \$1.8 million. This gain is included in "other revenue" on our consolidated statement of income for 2007 because these improvements and excess land were associated with properties that continue to be owned as part of our core operations.

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

- generate higher returns;
- enhance the credit quality of our real estate portfolio;
- extend our average remaining lease term; or
- decrease tenant or industry concentration.

At December 31, 2009, we classified real estate with a carrying amount of \$8.3 million as held for sale on our balance sheet, which includes three properties owned by Crest, valued at \$3.8 million. Additionally, we anticipate selling investment properties from our portfolio that have not yet been specifically identified, from which we anticipate receiving between \$10 million and \$35 million in proceeds during the next 12 months. We intend to invest these proceeds into new property acquisitions, if there are attractive opportunities available. However, we cannot guarantee that we will sell properties during the next 12 months or be able to invest the proceeds from the sales of any properties in new properties.

Provisions for Impairment on Real Estate Acquired for Resale by Crest

In 2009, provisions for impairment of \$277,000 were recorded by Crest on three retail properties held for sale and two properties which were sold in 2009. In 2008, provisions for impairment of \$3.4 million were recorded by Crest on three properties held for sale. No provisions for impairment were recorded by Crest in 2007. These provisions for impairment adjusted the carrying values to the estimated fair-market values of those properties, net of estimated selling costs, and are included in "income from discontinued operations, real estate acquired for resale by Crest" on our consolidated statements of income.

Provisions for Impairment on Realty Income Investment Properties

In 2009, we recorded a provision for impairment of \$110,000 on one property, which is included in "income from discontinued operations, real estate held for investment" on our consolidated statement of income for 2009, as the property is held for sale. No provisions for impairment were recorded in 2008. In 2007, we recorded a provision for impairment of \$134,000 on one property, which is included in "income from discontinued operations, real estate held for investment" on our consolidated statement of income for 2007, as the property was subsequently sold. Additionally, in 2007, we recorded a provision for impairment of \$138,000 on another property, which is included in property expense on our consolidated statement of income for 2007.

Preferred Stock Dividends

Preferred stock cash dividends totaled \$24.3 million in 2009, 2008 and 2007.

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

Net Income Available to Common Stockholders

Net income available to common stockholders was \$106.9 million in 2009, a decrease of \$714,000 as compared to \$107.6 million in 2008. Net income available to common stockholders in 2007 was \$116.2 million.

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.

Gain from the sale of investment properties and the sale of excess land recognized during 2009 was \$8.1 million, as compared to a \$13.6 million gain recognized during 2008 and a \$3.6 million gain recognized during 2007. Crest's recognized no gain from the sale of properties during 2009 as compared to \$4.6 million during 2008 and \$12.3 million during 2007.

FUNDS FROM OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS (FFO)

FFO for 2009 increased by \$4.9 million, or 2.6%, to \$190.4 million, as compared to \$185.5 million in 2008 and \$189.7 million in 2007. 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):

	2009	2008	2007
Net income available to common stockholders	\$ 106,874	\$ 107,588	\$ 116,156
Depreciation and amortization:			
Continuing operations	91,383	89,941	75,932
Discontinued operations	564	1,864	1,390
Depreciation of furniture, fixtures and equipment	(318)	(319)	(244)
Gain on sales of land and investment properties:			
Continuing operations	(15)	(236)	(1,835)
Discontinued operations	(8,044)	(13,314)	(1,724)
FFO available to common stockholders	\$ 190,444	\$ 185,524	\$ 189,675
FFO per common share:			
Basic	\$ 1.84	\$ 1.83	\$ 1.89
Diluted	\$ 1.84	\$ 1.83	\$ 1.89
Distributions paid to common stockholders	\$ 178,008	\$ 169,655	\$ 157,659
FFO in excess of distributions paid to common stockholders	\$ 12,436	\$ 15,869	\$ 32,016
Weighted average number of common shares used for computation per share:			
Basic	103,577,507	101,178,191	100,195,031
Diluted	103,581,053	101,209,883	100,333,966

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, reduced by gains on sales of investment properties and extraordinary items.

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 non-cash items such as depreciation. 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.

Presentation of this information 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 the same way, so comparisons with other REITs may not be meaningful. Furthermore, FFO is not necessarily indicative of cash flow available to fund cash needs and should not be considered as an alternative to net income as an indication of our performance. In addition, FFO should not be considered as an alternative to reviewing our cash flows from operating, investing and financing activities as a measure of liquidity, of our ability to make cash distributions or of our ability to pay interest payments.

Other Non-Cash Items and Capitalized Expenditures

The following information includes non-cash items and capitalized expenditures on existing properties in our portfolio. These items are not included in the adjustments to net income available to common stockholders to arrive at FFO. Analysts and investors often request this supplemental information.

(dollars in thousands)	2009	2008	2007
Amortization of share-based compensation	\$ 4,726	\$ 5,049	\$ 3,857
Amortization of deferred note financing costs ⁽¹⁾	1,363	1,748	1,494
Crest provisions for impairment	277	3,374	—
Provisions for impairment	110	—	272
Amortization of settlements on treasury lock agreements ⁽²⁾	—	759	870
Capitalized leasing costs and commissions	(1,185)	(956)	(614)
Capitalized building improvements	(1,879)	(1,498)	(1,258)
Straight-line rent revenue ⁽³⁾	(1,117)	(1,997)	(1,217)

⁽¹⁾Amortization of deferred note financing costs includes the amortization of costs incurred and capitalized when our notes were issued in October 1998, January 1999, March 2003, November 2003, March 2005, September 2005, September 2006 and September 2007. These costs are being amortized over the lives of these notes. No costs associated with our credit facility agreements or annual fees paid to credit rating agencies have been included.

⁽²⁾The settlement on the treasury lock agreements resulted from an interest rate risk prevention strategy that we used in 1997 and 1998, which correlated to pending issuances of senior note securities. We have not employed this strategy since 1998.

⁽³⁾A negative amount indicates that our straight-line rent was greater than our actual cash rent collected.

IMPACT OF INFLATION

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

Of our 2,339 retail properties in the portfolio, approximately 96.4% or 2,254 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 Consolidated Financial Statements.

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to interest rate changes primarily as a result of our credit facility and long-term notes and bonds used to maintain liquidity and expand our real estate investment portfolio and operations. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flow and to lower our overall borrowing costs. To achieve these objectives we issue long-term notes and bonds, primarily at fixed rates. We were not a party to any derivative financial instruments at December 31, 2009. We do not enter into any derivative transactions for speculative or trading purposes.

The following table presents by year of expected maturity, the principal amounts, average interest rates and fair values as of December 31, 2009. This information is presented to evaluate the expected cash flows and sensitivity to interest rate changes (dollars in millions):

Expected Maturity Data

Year of maturity	Fixed rate debt	Average interest rate on fixed rate debt	Variable rate debt	Average interest rate on variable rate debt
2010	\$ —	—%	\$ —	—%
2011 ⁽¹⁾	—	—	4.6	1.231
2012	—	—	—	—
2013 ⁽²⁾	100.0	5.375	—	—
2014	—	—	—	—
Thereafter ⁽³⁾	1,250.0	6.162	—	—
Totals	\$ 1,350.0	6.103%	\$ 4.6	1.231%
Fair Value ⁽⁴⁾	\$ 1,276.4		\$ 4.6	

⁽¹⁾The credit facility expires in May 2011.

⁽²⁾\$100 million matures in March 2013.

⁽³⁾\$150 million matures in November 2015, \$275 million matures in September 2016, \$175 million matures in September 2017, \$550 million matures in August 2019 and \$100 million matures in March 2035.

⁽⁴⁾We base the fair value of the fixed rate debt at December 31, 2009 on indicative market prices and recent trading activity of our notes payable. The fair value of the variable rate debt approximates its carrying value because its terms are similar to those available in the marketplace at December 31, 2009.

The table incorporates only those exposures that exist as of December 31, 2009. 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. Our credit facility interest rate is variable. Based on our credit facility balance of \$4.6 million at December 31, 2009, a 1% change in interest rates would change our interest costs by \$46,000 per year.

Selected Financial Data

(not covered by Report of Independent Registered Public Accounting Firm)
(dollars in thousands, except for per share data)

As of or for the years ended December 31,	2009	2008	2007	2006	2005
Total assets (book value)	\$ 2,914,787	\$ 2,994,179	\$ 3,077,352	\$ 2,546,508	\$ 1,920,988
Cash and cash equivalents	10,026	46,815	193,101	10,573	65,704
Lines of credit and notes payable	1,354,600	1,370,000	1,470,000	920,000	891,700
Total liabilities	1,426,778	1,439,518	1,539,260	970,516	931,774
Total stockholders' equity	1,488,009	1,554,661	1,538,092	1,575,992	989,214
Net cash provided by operating activities	226,707	246,155	318,169	86,945	109,557
Net change in cash and cash equivalents	(36,789)	(146,286)	182,528	(55,131)	63,563
Total revenue	327,581	327,773	291,483	234,527	190,460
Income from continuing operations	122,133	115,427	123,778	102,227	84,717
Income from discontinued operations	8,994	16,414	16,631	8,554	14,402
Net income	131,127	131,841	140,409	110,781	99,119
Preferred stock cash dividends	(24,253)	(24,253)	(24,253)	(11,362)	(9,403)
Net income available to common stockholders	106,874	107,588	116,156	99,419	89,716
Cash distributions paid to common stockholders	178,008	169,655	157,659	129,667	108,575
Basic and diluted net income per common share	1.03	1.06	1.16	1.11	1.12
Cash distributions paid per common share	1.706625	1.662250	1.560250	1.437250	1.346250
Cash distributions declared per common share	1.707876	1.667250	1.570500	1.447500	1.352500
Basic weighted average number of common shares outstanding	103,577,507	101,178,191	100,195,031	89,766,714	79,950,255
Diluted weighted average number of common shares outstanding	103,581,053	101,209,883	100,333,966	89,917,554	80,208,593

Controls and Procedures

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

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

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

As of and for the year ended December 31, 2009, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective and were operating at a reasonable assurance level.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

- (1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- (3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

Management has used the framework set forth in the report entitled "Internal Control—Integrated Framework" published by the Committee of Sponsoring Organizations ("COSO") 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 10, 2010 by,

Thomas A Lewis,

Chief Executive Officer and Vice Chairman

Paul M. Meurer,

Chief Financial Officer, Executive Vice President and Treasurer

Changes in Internal Controls

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation in the fourth quarter of 2009. As of December 31, 2009, there were no material weaknesses in our internal controls, and therefore no corrective actions were taken.

Limitations on the Effectiveness of Controls

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

Certifications

Tom Lewis, Realty Income's Chief Executive Officer, certified to the NYSE in 2009, pursuant to Section 303A.12(a) of the NYSE's Listing Standards, that he was not aware of any violation of the NYSE corporate governance listing standards by Realty Income. Furthermore, Realty Income filed with the SEC, as exhibits to its Annual Report on Form 10-K for the year ended December 31, 2009, the certifications by Tom Lewis and Paul M. Meurer, Realty Income's Chief Executive Officer and Chief Financial Officer, respectively, required under Section 302 of the Sarbanes-Oxley Act.

Market For The Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

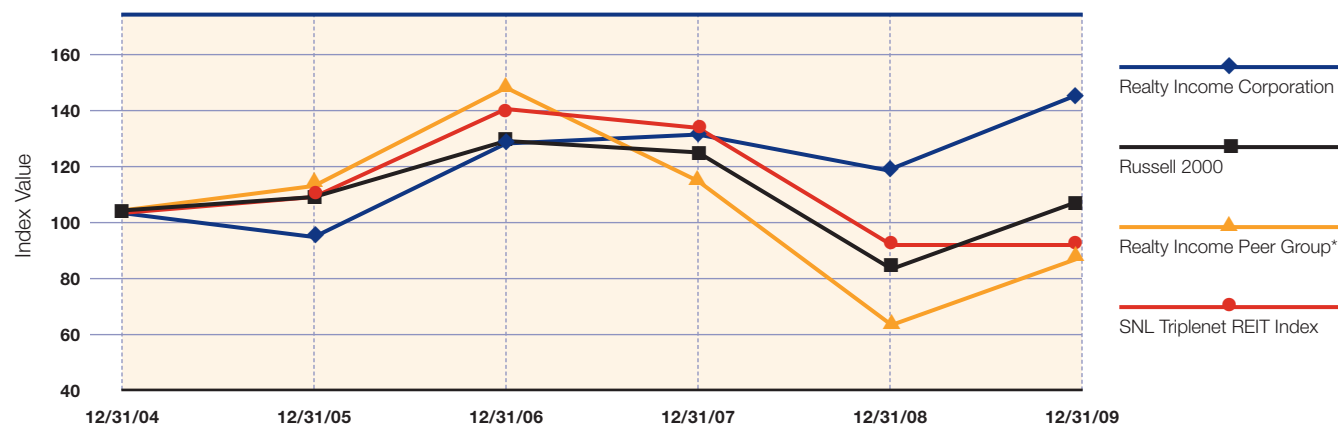
Our common stock is traded on the NYSE under the ticker symbol "O." The following table shows the high and low sales prices per share for our common stock as reported by the NYSE, and distributions declared per share of common stock for the periods indicated.

	Price Per Share of Common Stock		Distributions Declared ⁽¹⁾
	High	Low	
2009			
First quarter	\$ 23.41	\$ 14.26	\$ 0.425563
Second quarter	23.23	17.90	0.426500
Third quarter	28.20	19.83	0.427438
Fourth quarter	27.53	22.17	0.428375
Total			\$ 1.707876
2008			
First quarter	\$ 27.16	\$ 20.27	\$ 0.410875
Second quarter	28.15	22.67	0.412750
Third quarter	34.86	21.38	0.419625
Fourth quarter	26.50	15.00	0.424000
Total			\$ 1.667250

⁽¹⁾Common stock cash distributions currently are declared monthly by us based on financial results for the prior months. At December 31, 2009, a distribution of \$0.143 per common share had been declared and was paid in January 2010.

There were 8,755 registered holders of record of our common stock as of January 1, 2010. We estimate that our total number of shareholders is approximately 99,000 when we include both registered and beneficial holders of our common stock.

TOTAL RETURN PERFORMANCE



Index	Period Ending					
	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09
Realty Income Corporation	100.00	90.54	123.15	127.19	116.82	141.21
Russell 2000	100.00	104.55	123.76	121.82	80.66	102.58
Realty Income Peer Group*	100.00	111.27	144.03	109.68	59.21	83.51
SNL Triplanet REIT Index	100.00	104.11	138.09	128.11	88.36	88.36

*Realty Income Peer Group consists of thirty-two companies (excluding Realty Income) with an implied market capitalization between \$1.5 billion–\$3 billion as of September 30, 2009.

Company Information



Executive team and Board members celebrate 15 years on the New York Stock Exchange. Attendees are: (Back row) NYSE representative, Gary Malino, Donald Cameron, Richard Collins. (Front row) Tere Miller, Paul Meurer, Kathleen Allen, Tom Lewis, Priya Cherian Huskins, Michael Pfeiffer, Greg McLaughlin. (Not pictured: Board members Ronald Merriman and Michael McKee)

EXECUTIVE OFFICERS

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

Gary M. Malino
President and
Chief Operating Officer

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

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

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Assistant General Counsel
and Assistant Secretary

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Associate Vice President,
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