

REALTY INCOME CORP
Form 10-Q
October 28, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

☒ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2010, or

☐ Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 1-13374

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

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

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

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

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

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

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

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Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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

There were 110,696,548 shares of common stock outstanding as of October 20, 2010.

REALTY INCOME CORPORATION

Form 10-Q
September 30, 2010

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PART I.

FINANCIAL INFORMATION

Item 1.

Financial Statements

REALTY INCOME CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE
SHEETS

September 30, 2010 and December 31, 2009
(dollars in thousands, except per share data)

	2010	2009
ASSETS	(unaudited)	
Real estate, at cost:		
Land	\$ 1,353,973	\$ 1,169,295
Buildings and improvements	2,366,621	2,270,161
Total real estate, at cost	3,720,594	3,439,456
Less accumulated depreciation and amortization	(690,511)	(630,840)
Net real estate held for investment	3,030,083	2,808,616
Real estate held for sale, net	9,639	8,266
Net real estate	3,039,722	2,816,882
Cash and cash equivalents	155,582	10,026
Accounts receivable, net	10,398	10,396
Goodwill	17,206	17,206
Other assets, net	62,626	60,277
Total assets	\$ 3,285,534	\$ 2,914,787
LIABILITIES AND STOCKHOLDERS' EQUITY		
Distributions payable	\$ 17,954	\$ 16,926
Accounts payable and accrued expenses	26,846	38,445
Other liabilities	13,750	16,807
Line of credit payable	--	4,600
Notes payable	1,600,000	1,350,000
Total liabilities	1,658,550	1,426,778
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	337,790	337,790
Common stock and paid in capital, par value \$1.00 per share, 200,000,000 shares authorized, 110,696,348 and 104,286,705 shares issued and outstanding as of September 30, 2010 and December 31, 2009, respectively	1,829,223	1,629,237
Distributions in excess of net income	(540,029)	(479,018)
Total stockholders' equity	1,626,984	1,488,009
Total liabilities and stockholders' equity	\$ 3,285,534	\$ 2,914,787

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

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REALTY INCOME CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF
INCOME

For the three and nine months ended September 30, 2010 and 2009
(dollars in thousands, except per share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
REVENUE				
Rental	\$87,089	\$81,036	\$252,369	\$243,292
Other	84	427	854	1,255
Total revenue	87,173	81,463	253,223	244,547
EXPENSES				
Depreciation and amortization	24,100	22,680	70,621	67,976
Interest	25,135	21,374	68,106	64,151
General and administrative	6,165	4,906	19,526	15,862
Property	1,763	1,472	5,355	5,290
Income taxes	335	74	890	684
Total expenses	57,498	50,506	164,498	153,963
Income from continuing operations	29,675	30,957	88,725	90,584
Income from discontinued operations:				
Real estate acquired for resale by Crest	221	207	585	308
Real estate held for investment	1,758	1,988	3,597	4,904
Total income from discontinued operations	1,979	2,195	4,182	5,212
Net income	31,654	33,152	92,907	95,796
Preferred stock cash dividends	(6,063)	(6,063)	(18,190)	(18,190)
Net income available to common stockholders	\$25,591	\$27,089	\$74,717	\$77,606

Amounts available to common stockholders per
common share:

Income from continuing operations:

Basic	\$0.23	\$0.24	\$0.68	\$0.70
Diluted	\$0.23	\$0.24	\$0.68	\$0.70

Net income:

Basic	\$0.25	\$0.26	\$0.72	\$0.75
Diluted	\$0.25	\$0.26	\$0.72	\$0.75

Weighted average common shares outstanding:

Basic	103,830,029	103,470,512	103,781,108	103,528,952
Diluted	103,977,023	103,481,892	103,887,679	103,532,894

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

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REALTY INCOME CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH
FLOWS

For the nine months ended September 30, 2010 and 2009
(dollars in thousands)(unaudited)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$92,907	\$95,796
Adjustments to net income:		
Depreciation and amortization	70,621	67,976
Income from discontinued operations:		
Real estate acquired for resale	(585)	(308)
Real estate held for investment	(3,597)	(4,904)
Gain on sales of land	(468)	(15)
Amortization of share-based compensation	4,824	3,733
Cash provided by discontinued operations:		
Real estate acquired for resale	585	648
Real estate held for investment	368	1,645
Collection of notes receivable by Crest	103	96
Change in assets and liabilities:		
Accounts receivable and other assets	7,023	5,006
Accounts payable, accrued expenses and other liabilities	(15,020)	(20,849)
Net cash provided by operating activities	156,761	148,824
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sales of investment properties:		
Continuing operations	--	170
Discontinued operations	15,294	10,409
Funds held in escrow pending property acquisitions	(5,000)	--
Restricted escrow deposit for Section 1031 tax-deferred exchange	(687)	--
Acquisition of and improvements to investment properties	(304,615)	(13,644)
Intangibles acquired in connection with acquisitions of investment properties	--	(860)
Net cash used in investing activities	(295,008)	(3,925)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash distributions to common stockholders	(134,700)	(133,367)
Cash dividends to preferred stockholders	(18,190)	(18,190)
Borrowings from line of credit	408,700	--
Payments under line of credit	(413,300)	--
Proceeds from notes issued, net of financing costs of \$3,869	246,131	--
Proceeds from common stock offering, net of costs of \$10,131	196,899	--
Principal payment on notes payable	--	(20,000)
Other items	(1,737)	(115)
Net cash provided by (used in) financing activities	283,803	(171,672)
Net increase (decrease) in cash and cash equivalents	145,556	(26,773)
Cash and cash equivalents, beginning of period	10,026	46,815
Cash and cash equivalents, end of period	\$155,582	\$20,042

For supplemental disclosures, see note 12.

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

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REALTY INCOME CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010

(unaudited)

1. Management Statement

The consolidated financial statements of Realty Income Corporation ("Realty Income", the "Company", "we", "our" or "us") were prepared from our books and records and include all adjustments (consisting of only normal recurring accruals) necessary to present a fair statement of results for the interim period presented. Certain of the 2009 balances have been reclassified to conform to the 2010 presentation. Readers of this quarterly report should refer to our audited financial statements for the year ended December 31, 2009, which are included in our 2009 Annual Report on Form 10-K, as certain disclosures that would substantially duplicate those contained in the audited financial statements have not been included in this report.

At September 30, 2010, we owned 2,342 properties, located in 49 states, containing over 19.5 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").

2. Summary of Significant Accounting Policies and Procedures

A. 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.

B. We have elected to be taxed as a real estate investment trust ("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.

C. 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 rent, when determining collectibility of accounts receivable and appropriate allowances to record. The allowance for doubtful accounts at September 30, 2010 was \$1.1 million and at December 31, 2009 was \$865,000.

	September 30, 2010	December 31, 2009
D. Other assets consist of the following (dollars in thousands) at:		
Notes receivable issued in connection with Crest property sales	\$22,110	\$22,214
Deferred bond financing costs, net	14,644	11,899
Value of in-place and above-market leases, net	9,826	10,928
Prepaid expenses	6,970	7,738
Funds held in escrow pending property acquisitions	5,000	--
Corporate assets, net of accumulated depreciation and amortization	863	1,058
Restricted escrow deposit for Section 1031 tax-deferred exchange	687	4,479
Credit facility organization costs, net	673	1,470

Other items	1,853	491
	\$62,626	\$60,277

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	September 30, 2010	December 31, 2009
E. Distributions payable consist of the following declared distributions (dollars in thousands) at:		
Common stock distributions	\$15,933	\$14,905
Preferred stock dividends	2,021	2,021
	\$17,954	\$16,926

	September 30, 2010	December 31, 2009
F. Accounts payable and accrued expenses consist of the following (dollars in thousands) at:		
Bond interest payable	\$13,172	\$25,972
Other items	13,674	12,473
	\$26,846	\$38,445

	September 30, 2010	December 31, 2009
G. Other liabilities consist of the following (dollars in thousands) at:		
Rent received in advance	\$7,364	\$10,341
Security deposits	4,436	4,334
Value of in-place below-market leases, net	1,950	2,132
	\$13,750	\$16,807

H. 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. During our test for impairment of goodwill, during the second quarters of 2010 and 2009, we determined that the estimated fair values of our reporting units exceeded their carrying values. We did not record any impairment on our existing goodwill in 2010 or 2009.

3. Properties Acquired

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

A. During the first nine months of 2010, Realty Income invested \$302.9 million in 23 new properties with an initial weighted average contractual lease rate of 7.6%. These 23 properties are located in eight states, contain over 511,000 leasable square feet, and are 100% leased with an average lease term of 18.3 years. The initial weighted average contractual lease rate is computed by dividing the estimated aggregate base rent for the first year of each lease by the estimated total cost of the properties. In connection with these acquisitions, transaction costs of \$191,000 were recorded to "general and administrative" expense on our consolidated statement of income, for the nine months ended September 30, 2010.

Included in the \$302.9 million invested during the first nine months of 2010, is the acquisition and lease-back of approximately \$269.2 million of winery and vineyard properties under 20-year, triple-net lease agreements with Diageo Chateau & Estates Wine Company, guaranteed by Diageo plc (NYSE: ADR: DEO) (together with its subsidiaries, "Diageo"). The properties are all located in California's Napa Valley and include two wineries that produce wines for Diageo's Sterling Vineyards ("Sterling") and Beaulieu Vineyards ("BV") brands and 11 vineyards producing grapes for their Sterling, BV and other brands. The properties include approximately 2,000 acres and 400,000 square feet of winery, production, storage, shipping and tourist buildings. Diageo will continue to operate the

wineries and vineyards.

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In comparison, during the first nine months of 2009, we invested \$11.9 million in three new properties and previously acquired properties with an initial weighted average contractual lease rate of 10.1%. In connection with these acquisitions, transaction costs of \$44,000 were recorded to "general and administrative" expense on our consolidated statements of income for the three and nine months ended September 30, 2009. The three properties are located in two states, contain over 87,000 leasable square feet, and are 100% leased with an average lease term of 12.4 years.

B. During the first nine months of 2010 and 2009, Crest did not invest in any new properties.

C. Crest's property inventory, at September 30, 2010 and at December 31, 2009, consisted of three properties valued at \$3.8 million. These amounts are included on our consolidated balance sheets in "real estate held for sale, net."

D. 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.

Of the \$11.9 million invested in the first nine months of 2009, \$10.5 million was used to acquire three properties with existing leases. In accordance with the policy above, we 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 the first nine months of 2009. The value of the in-place and above-market leases are recorded to "other assets" on our consolidated balance sheet, as of September 30, 2009, and the value of the below-market leases are recorded to "other liabilities" on our consolidated balance sheet, as of September 30, 2009. All of these amounts are amortized over the life of the respective leases. No properties with in-place leases were acquired during the first nine months of 2010.

4. Credit Facility

We have a \$355 million revolving, unsecured credit facility that expires in May 2011, unless extended by 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. The borrowing rate is not subject to a LIBOR floor. 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. The costs that were capitalized are included in "other assets" on our consolidated balance sheets, with balances of \$673,000 at September 30, 2010 and \$1.5 million at December 31, 2009.

The average borrowing rate on our credit facility was 1.3%, during the first nine months of 2010. We did not utilize our credit facility during the first nine months of 2009. Our effective borrowing rate at September 30, 2010 was 1.3% and at September 30, 2009 was 1.2%. Our credit facility is subject to various leverage and interest coverage ratio limitations. We are in compliance with these covenants.

We regularly review our credit facility and may seek to extend, renew, or replace our credit facility, to the extent we deem appropriate.

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5. Notes Payable

A. General

Our senior unsecured note obligations consist of the following at September 30, 2010 and December 31, 2009, sorted by maturity date (dollars in millions):

	September 30, 2010	December 31, 2009
5.375% notes, issued in March 2003 and due in March 2013	\$ 100	\$ 100
5.5% notes, issued in November 2003 and due in November 2015	150	150
5.95% notes, issued in September 2006 and due in September 2016	275	275
5.375% notes, issued in September 2005 and due in September 2017	175	175
6.75% notes, issued in September 2007 and due in August 2019	550	550
5.75% notes, issued in June 2010 and due in January 2021	250	--
5.875% bonds, issued in March 2005 and due in March 2035	100	100
	\$ 1,600	\$ 1,350

B. Note Issuance

In June 2010, we issued \$250.0 million in aggregate principal amount of 5.75% senior unsecured notes due January 2021 (the "2021 Notes"). The price to the investor for the 2021 Notes was 99.404% of the principal amount for an effective yield of 5.826%. The net proceeds of approximately \$246.1 million from this offering were used to repay borrowings under our acquisition credit facility, which were used to finance the acquisition of the Diageo properties. Interest is paid semiannually on the 2021 Notes.

C. Note Redemption

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 of \$20 million, plus accrued and unpaid interest.

6. Issuance of Common Stock

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

7. Fair Value of Financial Assets and Liabilities

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

We believe that the carrying values reflected on 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

our notes receivable issued in connection with property sales and our notes payable, which are disclosed below (dollars in millions):

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	Carrying value per balance sheet	Estimated fair value
At September 30, 2010		
Notes receivable issued in connection with Crest property sales	\$22.1	\$22.2
Notes payable	\$1,600.0	\$1,737.8
	Carrying value per balance sheet	Estimated fair value
At December 31, 2009		
Notes receivable issued in connection with Crest property sales	\$22.2	\$20.0
Notes payable	\$1,350.0	\$1,276.4

The estimated fair value of our 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 or 7-year Treasury Yield Curve plus an applicable credit-adjusted spread. These 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 our notes payable is based upon indicative market prices and recent trading activity of our notes.

8. Gain on Sales of Investment Properties by Realty Income

During the third quarter of 2010, we sold nine investment properties for \$8.9 million, which resulted in a gain of \$1.9 million. During the first nine months of 2010, we sold 19 investment properties for \$16.1 million, which resulted in a gain of \$3.8 million. The results of operations for these properties have been reclassified as discontinued operations. Additionally, we sold excess land from one property for \$600,000, which resulted in a gain of \$468,000. This gain is included in "other revenue" on our consolidated statement of income, for the nine months ended September 30, 2010, because this excess land was associated with a property that continues to be owned as part of our core operations.

In comparison, during the third quarter of 2009, we sold seven investment properties for \$4.4 million, which resulted in a gain of \$1.8 million. During the first nine months of 2009, we sold 17 investment properties for \$10.8 million, which resulted in a gain of \$4.2 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 the three and nine months ended September 30, 2009, because this excess land was associated with a property that continues to be owned as part of our core operations.

During the first nine months of 2010 and 2009, Crest did not sell any properties.

9. Discontinued Operations

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, an 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 factors that we use 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 the estimated cost to sell.

For the third quarter of 2010, we recorded a provision for impairment of \$84,000 on one property, which was sold during the third quarter of 2010. This provision for impairment is included in "income from discontinued operations, real estate held for investment" on our consolidated income statement for the three months ended September 30, 2010. For the third quarter of 2009, we did not record any provisions for impairment.

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For the first nine months of 2010, we recorded provisions for impairment of \$171,000 on three properties, all of which were sold in the first nine months of 2010. These provisions for impairment are included in "income from discontinued operations, real estate held for investment" on our consolidated statement of income for the nine months ended September 30, 2010. For the first nine months of 2009, we did not record any provisions for impairment.

For the three and nine months ended September 30, 2010, no provisions for impairment were recorded by Crest. For the third quarter of 2009, provisions for impairment of \$29,000 were recorded by Crest on two properties held for sale at September 30, 2009, one of which was sold in the fourth quarter of 2009. For the first nine months of 2009, provisions for impairment of \$340,000 were recorded by Crest on five properties held for sale at September 30, 2009, two of which were sold in the fourth quarter of 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 the three and nine months ended September 30, 2009.

Operations from 13 of our investment properties were classified as held for sale at September 30, 2010, plus properties sold in 2010 and 2009, are reported as discontinued operations. Their respective results of operations have been reclassified to "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 as 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 that 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 as 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.

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

	Three months ended		Nine months ended	
Crest's income from discontinued operations, real estate acquired for resale	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Rental revenue	\$--	\$66	\$22	\$198
Interest and other revenue	348	351	1,050	1,053
Interest expense	(137)	(140)	(400)	(462)
General and administrative expense	(28)	(82)	(213)	(250)
Property expenses	(50)	(29)	(162)	(97)
Provisions for impairment	--	(29)	--	(340)
Income taxes	88	70	288	206
Income from discontinued operations, real estate acquired for resale by Crest	\$221	\$207	\$585	\$308

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):

	Three months ended September 30,		Nine months ended September 30,	
Realty Income's income from discontinued operations, real estate held for investment	2010	2009	2010	2009
Gain on sales of investment properties	\$ 1,919	\$ 1,799	\$3,816	\$4,235
Rental revenue	179	660	1,054	2,232
Other revenue	7	5	25	30
Depreciation and amortization	(101)	(279)	(416)	(976)
Property expenses	(162)	(197)	(711)	(617)
Provisions for impairment	(84)	--	(171)	--
Income from discontinued operations, real estate held for investment	\$ 1,758	\$ 1,988	\$3,597	\$4,904

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Total discontinued operations				
Real estate acquired for resale by Crest	\$221	\$207	\$585	\$308
Real estate held for investment	1,758	1,988	3,597	4,904
Income from discontinued operations	\$1,979	\$2,195	\$4,182	\$5,212
Per common share, basic and diluted	\$0.02	\$0.02	\$0.04	\$0.05

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

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10. Distributions Paid and Payable

A. Common Stock

We pay monthly distributions to our common stockholders. The following is a summary of the monthly distributions paid per common share for the first nine months of 2010 and 2009:

Month	2010	2009
January	\$ 0.1430000	\$ 0.1417500
February	0.1430000	0.1417500
March	0.1430000	0.1417500
April	0.1433125	0.1420625
May	0.1433125	0.1420625
June	0.1433125	0.1420625
July	0.1436250	0.1423750
August	0.1436250	0.1423750
September	0.1436250	0.1423750
Total	\$ 1.2898125	\$ 1.2785625

At September 30, 2010, a distribution of \$0.1439375 per common share was payable and was paid in October 2010.

B. Preferred Stock

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 stock became redeemable, at our option, for \$25 per share. During each of the first nine months of 2010 and 2009, we paid nine monthly dividends to holders of our Class D preferred stock totaling \$1.3828131 per share, or \$7.1 million, and at September 30, 2010, a monthly dividend of \$0.1536459 per share was payable and was paid in October 2010.

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 stock becomes redeemable, at our option, for \$25 per share. During each of the first nine months of 2010 and 2009, we paid nine monthly dividends to holders of our Class E preferred stock totaling \$1.265625 per share, or \$11.1 million, and at September 30, 2010, a monthly dividend of \$0.140625 per share was payable and was paid in October 2010.

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

11. 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.

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

	Three months ended September 30, 2010		Nine months ended September 30, 2010	
	2009		2009	
Weighted average shares used for the basic net income per share computation	103,830,029	103,470,512	103,781,108	103,528,952
Incremental shares from share-based compensation	146,994	11,380	106,571	3,942
Adjusted weighted average shares used for diluted net income per share computation	103,977,023	103,481,892	103,887,679	103,532,894
Unvested shares from share-based compensation that were anti-dilutive	87,000	449,131	87,000	653,552

12. Supplemental Disclosures of Cash Flow Information

Interest paid in the first nine months of 2010 was \$78.5 million and in the first nine months of 2009 was \$79.1 million.

Interest capitalized to properties under development in the first nine months of 2010 was \$5,000 and in the first nine months of 2009 was \$2,000.

Income taxes paid by Realty Income and Crest in the first nine months of 2010 was \$947,000 and in the first nine months of 2009 was \$1.0 million.

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

A. Share-based compensation expense for the first nine months of 2010 was \$4.8 million and for the first nine months of 2009 was \$3.7 million.

B. See note 9 for a discussion of impairments recorded by Realty Income and Crest in the first nine months of 2010 and 2009.

C. In the first nine months of 2010, we recorded a \$799,000 receivable for the sale of an investment property as a result of an eminent domain action and recorded a \$600,000 receivable for the sale of excess land from an investment property. These receivables are included in "other assets" on our consolidated balance sheet at September 30, 2010.

D. Accrued costs on properties under development resulted in an increase in buildings and improvements and accounts payable of \$545,000 at September 30, 2010.

13. 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 33 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.

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The following tables set forth certain information regarding the properties owned by us, classified according to the business of the respective tenants, as of September 30, 2010 (dollars in thousands):

	September 30, 2010	December 31, 2009
Assets, as of:		
Segment net real estate:		
Automotive service	\$ 107,449	\$ 105,084
Automotive tire services	196,611	201,233
Child care	74,168	77,987
Convenience stores	467,754	477,640
Drug stores	137,656	141,057
Health and fitness	217,902	200,316
Restaurants	715,264	730,459
Theaters	283,401	290,386
Wine and spirits	268,124	--
24 non-reportable segments	571,393	592,720
Total segment net real estate	3,039,722	2,816,882
Other intangible assets - Automotive tire services	603	647
Other intangible assets - Drug stores	5,374	6,066
Other intangible assets - Grocery stores	822	860
Other intangible assets - Health and fitness	798	845
Other intangible assets - Theaters	1,655	1,885
Other intangible assets - Other	574	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	218,780	69,771
Total assets	\$3,285,534	\$2,914,787

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Revenue				
Segment rental revenue:				
Automotive service	\$4,052	\$3,864	\$12,009	\$11,895
Automotive tire services	5,467	5,560	16,392	17,169
Child care	5,766	6,112	16,970	17,944
Convenience stores	14,362	13,874	42,838	41,258
Drug stores	3,479	3,431	10,343	10,294
Health and fitness	5,966	4,881	17,984	14,308
Restaurants	17,117	17,211	52,457	51,930
Theaters	7,563	7,498	22,690	22,493
Wine and spirits	4,838	--	5,158	--
24 non-reportable segments(1)	18,479	18,605	55,528	56,001

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Total rental revenue	87,089	81,036	252,369	243,292
Other revenue	84	427	854	1,255
Total revenue	\$87,173	\$81,463	\$253,223	\$244,547

(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.

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14. Common Stock Incentive Plan

In 2003, our Board of Directors adopted, and our 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.

The amount of share-based compensation costs recognized in "general and administrative" expense on our consolidated statements of income during the third quarter of 2010 was \$1.3 million, during the third quarter of 2009 was \$994,000, during the first nine months of 2010 was \$4.8 million and during the first nine months of 2009 was \$3.7 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.

	For the nine months ended September 30, 2010		For the year ended December 31, 2009	
	Number of shares	Weighted average price (1)	Number of shares	Weighted average price (1)
Outstanding nonvested shares, beginning of year	853,234	\$ 19.14	994,453	\$ 19.70
Shares granted	277,600	28.98	142,860	22.86
Shares vested	(204,469)	23.67	(214,521)	23.14
Shares forfeited	(987)	26.03	(69,558)	25.95
Outstanding nonvested shares, end of each period	925,378	\$ 21.10	853,234	\$ 19.14

(1) Grant date fair value.

During the first nine months of 2010, we issued 277,600 shares of common stock under our Stock Plan. These shares vest over the following service periods: 32,000 vested immediately, 5,000 vest over a service period of two years, 12,000 vest over a service period of three years, 50,000 vest over a service period of four years, and 178,600 vest over a service period of five years.

As of September 30, 2010, the remaining unamortized share-based compensation expense totaled \$19.5 million, which is being amortized on a straight-line basis over the service period of each applicable award.

Due to a historically low turnover rate, we do not estimate a forfeiture rate for our nonvested shares. Accordingly, unexpected forfeitures will lower share-based compensation expense during the applicable period. Under the terms of our 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, since we do not estimate forfeitures given our historical trends, we did not record any amount to compensation expense related to dividends paid in 2010 or 2009.

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As of September 30, 2010, there were 4,494 vested stock options outstanding and exercisable with an exercise price of \$14.70. There were 1,352 stock options exercised in the first nine months of 2010, at an exercise price of \$14.70. There were no stock option forfeitures in the first nine months of 2010. No stock options were granted after January 1, 2002. Stock options were granted with an exercise price equal to the underlying stock's fair value at the date of grant. The outstanding stock options expire on December 31, 2011, ten years from the date they were granted.

15. Commitments and Contingencies

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

At September 30, 2010, we have contingent payments of \$934,000 for tenant improvements and leasing costs. In addition, we have committed \$966,000 under construction contracts, which is expected to be paid in the next twelve months.

16. Subsequent Events

In October 2010, we acquired 23 retail properties leased to 13 tenants in six states, for approximately \$126.5 million, under long-term, net lease agreements. The properties are in eight different industries, all of which are already in our portfolio. All of the properties acquired have in-place leases. These acquisitions were funded by our common stock offering in September 2010.

In October 2010, we announced that we signed a purchase agreement to acquire 136 retail properties for approximately \$250 million under long-term, net lease agreements. The properties are of a type we already have in our portfolio. While this acquisition of properties is subject to a number of conditions, it is anticipated that the transaction should be completed in the next 90 days. If the transaction is completed, we expect to fund the purchase price with cash on hand, borrowings under our acquisition credit facility and/or the possible issuance of public securities.

In October 2010, we declared the following dividends, which will be paid in November 2010:

- \$0.1439375 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.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

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

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

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

Additional factors that may cause risks and uncertainties include those discussed in the sections entitled "Business", "Risk Factors", and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

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

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THE COMPANY

Realty Income Corporation, The Monthly Dividend Company®, is a Maryland corporation organized to operate as an equity real estate investment trust, or REIT. Our primary business objective is to generate dependable monthly cash distributions from a consistent and predictable level of funds from operations, or FFO, per share. Our monthly distributions are supported by the cash flow from our portfolio of properties leased to retail and other commercial enterprises. We have in-house acquisition, leasing, legal, credit research, real estate research, portfolio management, and capital markets expertise. Over the past 41 years, Realty Income and its predecessors have been acquiring and owning freestanding retail and other properties that generate rental revenue under long-term lease agreements (primarily 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. Our portfolio management generally includes seeking:

Contractual rent increases on existing leases;

Rent increases at the termination of existing leases, when market conditions permit; and

The active management of our property portfolio, including re-leasing vacant properties, and selectively selling properties, thereby mitigating our exposure to certain tenants and markets.

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

Freestanding, single-tenant locations;

Leased to regional and national commercial enterprises; and

Leased under long-term, net-lease agreements.

At September 30, 2010, we owned a diversified portfolio:

Of 2,342 properties;

With an occupancy rate of 96.4%, or 2,258 properties occupied and only 84 properties available for lease;

Leased to 118 different retail and other commercial enterprises doing business in 32 separate industries;

Located in 49 states;

With over 19.5 million square feet of leasable space; and

With an average leasable space per property of approximately 8,300 square feet.

Of the 2,342 properties in the portfolio, 2,331, or 99.5%, are single-tenant properties, and the remaining 11 are multi-tenant, distribution and office properties. At September 30, 2010, of the 2,331 single-tenant properties, 2,248 were leased with a weighted average remaining lease term (excluding extension options) of approximately 11.2 years.

In addition, at September 30, 2010, our wholly-owned taxable REIT subsidiary, 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 \$22.1 million at September 30, 2010.

We typically acquire properties under long-term leases with regional and national store operators and other commercial enterprises. Our acquisition and investment activities are concentrated in well-defined target markets and generally focus on commercial enterprises providing goods and services that satisfy basic consumer needs.

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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.

Investment Philosophy

We believe that owning an actively managed, diversified portfolio of commercial properties under long-term, net leases produces consistent and predictable income. Net leases typically require the tenant to be responsible for monthly rent and property operating expenses including property taxes, insurance, and maintenance. In addition, tenants are typically 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.

Credit Strategy

We primarily provide sale-leaseback financing to less than investment grade tenants. We typically acquire and lease back properties to regional and national commercial enterprises and believe that within this market we can achieve an attractive risk-adjusted return. 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%.

Acquisition Strategy

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

Properties that we deem to be profitable for the tenants;

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

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

Portfolio Management Strategy

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

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Our executives regularly review and analyze:

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

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

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

At September 30, 2010, we classified real estate with a carrying amount of \$9.6 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.

Impact of Real Estate and Credit Markets

In the commercial real estate market, property prices generally continue to fluctuate. Likewise, the U.S. credit markets have experienced significant price volatility, dislocations, and liquidity disruptions, which sometimes impact our access to and cost of capital. We continue to monitor the commercial real estate and U.S. credit markets carefully and, if required, will make decisions to adjust our business strategy accordingly. See our discussion of "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2009.

RECENT DEVELOPMENTS

Increases in Monthly Distributions to Common Stockholders

We continue our 41-year policy of paying distributions monthly. Monthly distributions per share increased in April 2010 by \$0.0003125 to \$0.1433125, in July 2010 by \$0.0003125 to \$0.143625 and in October 2010 by \$0.0003125 to \$0.1439375. The increase in October 2010 was our 52nd consecutive quarterly increase, which was the 59th increase in the amount of our dividend since our listing on the New York Stock Exchange, or NYSE, in 1994. In the first nine months of 2010, we paid three monthly cash distributions per share in the amount of \$0.143, three in the amount of \$0.1433125 and three in the amount of \$0.143625, totaling \$1.2898125. In September 2010 and October 2010, we declared distributions of \$0.1439375 per share, which were paid in October 2010 and will be paid in November 2010, respectively.

The current monthly distribution of \$0.1439375 per share represents an annualized distribution of \$1.72725 per share, and an annualized distribution yield of approximately 5.1% based on the last reported sale price of our common stock on the NYSE of \$33.72 on September 30, 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.

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Acquisitions during the Third Quarter of 2010

During the third quarter of 2010, Realty Income invested \$13.9 million in two new properties with an initial weighted average contractual lease rate of 7.8%. These two properties are located in two states, contain over 9,000 leasable square feet, and are 100% leased with an average lease term of 17.4 years. One of the new properties acquired by Realty Income is net-leased to a commercial enterprise in the restaurant industry. The other new property, which is included in the wine and spirits industry, was acquired as part of the acquisition of properties from Diageo Chateau & Estates Wine Company, guaranteed by Diageo plc (together with its subsidiaries, "Diageo"), as described below.

Acquisitions during the First Nine Months of 2010

During the first nine months of 2010, Realty Income invested \$302.9 million in 23 new properties with an initial weighted average contractual lease rate of 7.6%. These 23 properties are located in eight states, contain over 511,000 leasable square feet, and are 100% leased with an average lease term of 18.3 years. The 23 new properties acquired by Realty Income are net-leased to commercial enterprises in the following five industries: automotive service, convenience store, health and fitness, restaurant and wine and spirits. There were no acquisitions by Crest in the first nine months of 2010.

The initial weighted average contractual lease rate is computed as estimated contractual net operating income (in a net-leased property that is equal to the aggregate base rent or, in the case of properties under development, the estimated aggregate base rent 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.

Included in the \$302.9 million invested during the first nine months of 2010 is the acquisition and lease back of approximately \$269.2 million of winery and vineyard properties under 20-year, triple-net lease agreements with Diageo. The properties are all located in California's Napa Valley and include two wineries that produce wines for Diageo's Sterling Vineyards ("Sterling") and Beaulieu Vineyards ("BV") brands and 11 vineyards producing grapes for their Sterling, BV and other brands. The properties include approximately 2,000 acres and 400,000 square feet of winery, production, storage, shipping and tourist buildings. Diageo will continue to operate the wineries and vineyards. As a result of this acquisition of properties, Diageo has become our largest tenant based on our rental revenue. Headquartered in London, Diageo is a global premium drinks company with a well-known portfolio of international brands of spirits, beer and wine. Diageo ordinary shares trade on the London Stock Exchange under the symbol "DGE.L" and the New York stock exchange ("NYSE") under the symbol "DEO."

Acquisitions during the Fourth Quarter of 2010

In October 2010, we acquired 23 retail properties leased to 13 tenants in six states, for approximately \$126.5 million, under long-term, net lease agreements. The properties are in eight different industries, all of which are already in our portfolio. All of the properties acquired have in-place leases. These acquisitions were funded by our common stock offering in September 2010.

In October 2010, we announced that we signed a purchase agreement to acquire 136 retail properties for approximately \$250 million under long-term, net lease agreements. The properties are of a type we already have in our portfolio. While this acquisition of properties is subject to a number of conditions, it is anticipated that the transaction should be completed in the next 90 days. If the transaction is completed, we expect to fund the purchase price with cash on hand, borrowings under our acquisition credit facility and/or the possible issuance of public securities.

Investments in Existing Properties

In the third quarter of 2010, we capitalized costs of \$676,000 on existing properties in our portfolio, consisting of \$238,000 for re-leasing costs and \$438,000 for building improvements.

In the first nine months of 2010, we capitalized costs of \$2.3 million on existing properties in our portfolio, consisting of \$874,000 for re-leasing costs and \$1.4 million for building improvements.

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Issuance of Common Stock

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

Note Issuance

In June 2010, we issued \$250.0 million in aggregate principal amount of 5.75% senior unsecured notes due January 2021 (the "2021 Notes"). The price to the investor for the 2021 Notes was 99.404% of the principal amount for an effective yield of 5.826%. The net proceeds of approximately \$246.1 million from this offering were used to repay borrowings under our acquisition credit facility, which were used to finance the acquisition of the Diageo properties. Interest is paid semiannually on the 2021 Notes.

Net Income Available to Common Stockholders

Net income available to common stockholders was \$25.6 million in the third quarter of 2010 versus \$27.1 million in the third quarter of 2009, a decrease of \$1.5 million. On a diluted per common share basis, net income was \$0.25 in the third quarter of 2010, compared to \$0.26 in the third quarter of 2009.

Net income available to common stockholders was \$74.7 million in the first nine months of 2010 versus \$77.6 million in the same period of 2009, a decrease of \$2.9 million. On a diluted per common share basis, net income was \$0.72 in the first nine months of 2010 compared to \$0.75 in the first nine months of 2009.

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 the third quarter of 2010 was \$1.9 million, as compared to \$1.8 million during the third quarter of 2009. The gain from the sale of properties during the first nine months of 2010 and 2009 was \$4.3 million.

Funds from Operations Available to Common Stockholders (FFO)

In the third quarter of 2010, our FFO decreased by \$350,000, or 0.8%, to \$47.8 million versus \$48.2 million in the third quarter of 2009. On a diluted per common share basis, FFO was \$0.46 in the third quarter of 2010 compared to \$0.47 in the third quarter of 2009, a decrease of \$0.01, or 2.1%.

In the first nine months of 2010, our FFO decreased by \$822,000, or 0.6%, to \$141.2 million versus \$142.1 million in the same period of 2009. On a diluted per common share basis, FFO was \$1.36 in the first nine months of 2010 compared to \$1.37 in the first nine months of 2009, a decrease of \$0.01, or 0.7%.

See our discussion of FFO later in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," which includes a reconciliation of net income available to common stockholders to FFO.

Adjusted Funds from Operations Available to Common Stockholders (AFFO)

In the third quarter of 2010, our AFFO was \$48.6 million versus \$48.5 million in the third quarter of 2009. On a diluted per common share basis, AFFO was \$0.47 in the third quarter of 2010 and 2009.

In the first nine months of 2010, our AFFO was \$143.9 million versus \$144.1 million in the same period of 2009. On a diluted per common share basis, AFFO was \$1.39 in the first nine months of 2010 and 2009.

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See our discussion of AFFO later in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," which includes a reconciliation of net income available to common stockholders to FFO and AFFO.

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 September 30, 2010, our total outstanding borrowings were \$1.6 billion of senior unsecured notes, or approximately 28.2% of our total market capitalization of \$5.68 billion. There were no outstanding borrowings on our credit facility at September 30, 2010.

We define our total market capitalization at September 30, 2010 as the sum of:

Shares of our common stock outstanding of 110,696,348 multiplied by the last reported sales price of our common stock on the NYSE of \$33.72 per share on September 30, 2010, or \$3.73 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; and
Outstanding notes of \$1.6 billion.

Mortgage Debt

We have no mortgage debt on any of our properties.

\$355 Million Acquisition Credit Facility

We have a \$355 million revolving, unsecured credit facility that expires in May 2011, unless extended by 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. The borrowing rate is not subject to a LIBOR floor. We also have other interest rate options available to us. At September 30, 2010, we had a borrowing capacity of \$355 million available on our credit facility and no outstanding balance.

We expect to use our credit facility to acquire additional properties and for other corporate purposes. Any additional borrowings will increase our exposure to interest rate risk. We have the right to request an increase in the borrowing capacity of the credit facility, up to \$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.

We regularly review our credit facility and may seek to extend, renew, or replace our credit facility, to the extent we deem appropriate.

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Credit Agency Ratings

The borrowing rates under our credit facility are based upon our credit ratings. We are currently assigned the following investment grade 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.

Based on our current ratings, the current facility interest rate is 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. The credit facility provides that the interest rate can range between LIBOR plus 145 basis points if our credit rating is lower than BBB-/Baa3 and LIBOR plus 95 basis points if our credit rating is A-/A3. In addition, our credit facility provides for a facility fee based on our credit ratings, which ranges from 30 basis points for a rating lower than BBB-/Baa3, to 25 basis points for a credit rating of A-/A3.

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

The credit ratings assigned to us could change based upon, among other things, our results of operations and financial condition. These ratings are subject to ongoing evaluation by credit rating agencies and we cannot assure you that any rating 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.

Cash Reserves

We are organized to operate as an equity REIT that acquires and leases properties and distributes to stockholders, in the form of monthly cash distributions, a substantial portion of our net cash flow generated from leases on our properties. We intend to retain an appropriate amount of cash as working capital. At September 30, 2010, we had cash and cash equivalents totaling \$155.6 million, a portion of which represents the net proceeds of \$196.9 million from the September 2010 issuance of common stock. A majority of our cash and cash equivalents at September 30, 2010, was used to complete our acquisition of 23 retail properties in October 2010 for approximately \$126.5 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.

Universal Shelf Registration

In March 2009, we filed a shelf registration statement with the SEC, which expires in March 2012. In accordance with the SEC rules, the amount of 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 such 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.

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Notes Outstanding

Our senior unsecured note obligations consist of the following as of September 30, 2010, sorted by maturity date (dollars in millions):

5.375% notes, issued in March 2003 and due in March 2013	\$ 100
5.5% notes, issued in November 2003 and due in November 2015	150
5.95% notes, issued in September 2006 and due in September 2016	275
5.375% notes, issued in September 2005 and due in September 2017	175
6.75% notes, issued in September 2007 and due in August 2019	550
5.75% notes, issued in June 2010 and due in January 2021	250
5.875% bonds, issued in March 2005 and due in March 2035	100
	\$ 1,600

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 September 30, 2010 are:

Note Covenants	Required	Actual
Limitation on incurrence of total debt	≤ 60% of adjusted assets	40.6 %
Limitation on incurrence of secured debt	≤ 40% of adjusted assets	0.0 %
Debt service coverage (trailing 12 months)	≥ 1.5 x	3.5 x
Maintenance of total unencumbered assets	≥ 150% of unsecured debt	246.2 %

The following table summarizes the maturity of each of our obligations as of September 30, 2010 (dollars in millions):

Table of Obligations

Year of Maturity	Credit Facility	Notes	Interest (1)	Ground Leases Paid by Our Tenants(2)	Other (3)	Totals
2010	\$--	\$--	\$24.2	\$0.9	\$1.9	\$27.0
2011	--	--	96.8	3.6	--	100.4
2012	--	--	96.8	3.5	--	100.3
2013	--	100.0	92.5	3.4	--	195.9
2014	--	--	91.4	3.1	--	94.5
Thereafter	--	1,500.0	437.8	35.0	--	1,972.8
Totals	\$--	\$ 1,600.0	\$839.5	\$49.5	\$1.9	\$2,490.9

(1) Interest on the credit facility and notes has been calculated based on outstanding balances as of September 30, 2010 through their respective maturity dates.

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

(3) "Other" consists of \$966,000 of commitments under construction contracts and \$934,000 of contingent payments for tenant improvements and leasing costs.

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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 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 become 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.

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

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.

Distribution Policy

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

In order to maintain our tax status as a REIT for federal income tax purposes, we generally are required to distribute dividends to our stockholders aggregating annually at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and by 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 131.0% of our REIT taxable income of \$154.4 million. Our REIT taxable income reflects non-cash deductions for depreciation and amortization. Our 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 cash distributions to common stockholders for the first nine months of 2010 totaled \$134.7 million, representing 95.4% of our funds from operations available to common stockholders of \$141.2 million. In comparison, 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).

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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 rate of tax. The maximum tax rate of non-corporate taxpayers for "qualified dividend income" has generally been reduced to 15% (until it "sunsets" or reverts to the provisions of prior law, which under current law will occur with respect to taxable years beginning after December 31, 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.

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

When acquiring a property for investment purposes, we allocate the fair value of real estate acquired with in-place 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.

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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 three and nine months ended September 30, 2010 to the three and nine months ended September 30, 2009.

Rental Revenue

Rental revenue was \$87.1 million for the third quarter of 2010 versus \$81.0 million for the third quarter of 2009, an increase of \$6.1 million, or 7.5%. The increase in rental revenue in the third quarter of 2010 compared to the third quarter of 2009 is primarily attributable to:

- The 23 properties acquired by Realty Income in 2010, which generated \$5.5 million of rent in the third quarter of 2010;

- The 16 properties acquired by Realty Income in 2009, which generated \$1.4 million of rent in the third quarter of 2010 compared to \$146,000 in the third quarter of 2009, an increase of \$1.2 million;

- Same store rents generated on 2,148 properties during the entire third quarters of 2010 and 2009 increased by \$235,000, or 0.3%, to \$78.7 million from \$78.5 million;

- An increase in straight-line rent and other non-cash adjustments to rent of \$120,000 in the third quarter of 2010 compared to the third quarter of 2009; net of

- A net decrease of \$1.1 million relating to the aggregate of (i) development properties acquired before 2009 that started paying rent in 2009, (ii) properties that were vacant during part of 2010 or 2009, (iii) properties sold during 2010 and 2009, and (iv) lease termination settlements, which, in aggregate, totaled \$1.1 million in the third quarter of 2010 compared to \$2.2 million in the third quarter of 2009.

Rental revenue was \$252.4 million for the first nine months of 2010 versus \$243.3 million for the first nine months of 2009, an increase of \$9.1 million, or 3.7%. The increase in rental revenue in the first nine months of 2010 compared to the first nine months of 2009 is primarily attributable to:

- The 23 properties acquired by Realty Income in 2010, which generated \$6.4 million of rent in the first nine months of 2010;

- The 16 properties acquired by Realty Income in 2009, which generated \$4.2 million of rent in the first nine months of 2010 compared to \$146,000 in the first nine months of 2009, an increase of \$4.0 million;

- Same store rents generated on 2,148 properties during the entire first nine months of 2010 and 2009 increased by \$898,000, or 0.4%, to \$236.4 million from \$235.5 million;

- An increase in straight-line rent and other non-cash adjustments to rent of \$286,000 in the first nine months of 2010 as compared to the first nine months of 2009; net of

- A net decrease of \$2.6 million relating to the aggregate of (i) development properties acquired before 2009 that started paying rent in 2009, (ii) properties that were vacant during part of 2010 or 2009, (iii) properties sold during 2010 and 2009, and (iv) lease termination settlements, which in aggregate, totaled \$4.3 million in the first nine months of 2010 compared to \$6.9 million in the first nine months of 2009.

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Of the 2,342 properties in the portfolio at September 30, 2010, 2,331, or 99.5%, are single-tenant properties and the remaining 11 are multi-tenant, distribution, and office properties. Of the 2,331 single-tenant properties, 2,248, or 96.4%, were net leased with a weighted average remaining lease term (excluding rights to extend a lease at the option of the tenant) of approximately 11.2 years at September 30, 2010. Of our 2,248 leased single-tenant properties, 2,062, or 91.7%, 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 \$217,000 in the third quarter of 2010 and \$259,000 in the third quarter of 2009. Percentage rent was \$936,000 in the first nine months of 2010 and \$1.0 million in the first nine months of 2009. Percentage rent in the third quarter and first nine months of 2010 was less than 1% of rental revenue and we anticipate percentage rent to continue to be less than 1% of rental revenue for 2010.

Our portfolio of real estate, leased primarily to regional and national commercial enterprises under net leases, continues to perform well and provides dependable lease revenue supporting the payment of monthly dividends to our stockholders. At September 30, 2010, our portfolio of 2,342 properties was 96.4% leased with 84 properties available for lease as compared to 75 at both December 31, 2009 and at September 30, 2009. It has been our experience that approximately 2% 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

For the third quarter of 2010, depreciation and amortization was \$24.1 million as compared to \$22.7 million in the third quarter of 2009. For the first nine months of 2010, depreciation and amortization was \$70.6 million as compared to \$68.0 million in the first nine months of 2009. The increase in depreciation and amortization in 2010 was primarily due to the acquisition of properties in 2010 and 2009, which was partially offset by property sales in those same 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 and AFFO.

Interest Expense

Interest expense was \$3.8 million higher in the third quarter of 2010 than in the third quarter of 2009 and \$4.0 million higher in the first nine months of 2010 than in the first nine months of 2009. The increase in interest expense was due to an increase in borrowings attributable to the issuance of our \$250 million of 5.75% senior unsecured notes in June 2010 and utilization of our credit line in the first nine months of 2010, which was partially offset by lower average interest rates.

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

	Three months ended September 30, 2010		Nine months ended September 30, 2010	
	2010	2009	2010	2009
Interest on our credit facility and notes	\$ 24,260	\$ 20,598	\$65,677	\$61,862
Interest included in discontinued operations from real estate acquired for resale by Crest	(137)	(140)	(400)	(462)
Credit facility commitment fees	248	248	743	743
Amortization of credit facility origination costs and deferred bond financing costs	766	670	2,091	2,010
Interest capitalized	(2)	(2)	(5)	(2)
Interest expense	\$ 25,135	\$ 21,374	\$68,106	\$64,151

	Three months ended September 30, 2010		Nine months ended September 30, 2010	
	2010	2009	2010	2009
Credit facility and notes outstanding				
Average outstanding balances (dollars in thousands)	\$ 1,621,010	\$ 1,350,000	\$ 1,456,643	\$ 1,351,037
Average interest rates	5.99 %	6.10 %	6.01 %	6.11 %

At September 30, 2010, the weighted average interest rate on our notes payable of \$1.6 billion was 6.05% and on our credit line was 1.26%. There was no outstanding balance on our credit line at September 30, 2010.

Interest Coverage Ratio

Our interest coverage ratio for the third quarter of 2010 was 3.1 times and for the third quarter of 2009 was 3.5 times. Our interest coverage ratio for the first nine months of 2010 was 3.3 times and for the first nine months of 2009 was 3.5 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.

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

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Net cash provided by operating activities	\$46,245	\$42,015	\$156,761	\$148,824
Interest expense	25,135	21,374	68,106	64,151
Interest expense included in discontinued operations(1)	137	140	400	462
Income taxes	335	74	890	684
Income tax benefit included in discontinued operations(1)	(88)	(70)	(288)	(206)
Collection of notes receivable by Crest(1)	(36)	(32)	(103)	(96)
Crest provisions for impairment(1)	--	(29)	--	(340)
Amortization of share-based compensation	(1,347)	(994)	(4,824)	(3,733)
Changes in assets and liabilities:				
Accounts receivable and other assets	(948)	(2,060)	(7,023)	(5,006)
Accounts payable, accrued expenses and other liabilities	10,106	15,396	15,020	20,849
Interest coverage amount	\$79,539	\$75,814	\$228,939	\$225,589
Divided by interest expense(2)	\$25,272	\$21,514	\$68,506	\$64,613
Interest coverage ratio	3.1	3.5	3.3	3.5

(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 the third quarter of 2010 was 2.5 times and for the third quarter of 2009 was 2.7 times. Our fixed charge coverage ratio for the first nine months of 2010 was 2.6 times and for the first nine months of 2009 was 2.7 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.

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

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Interest coverage amount	\$79,539	\$75,814	\$228,939	\$225,589
Divided by interest expense plus preferred stock dividends(1)	\$31,335	\$27,577	\$86,696	\$82,803
Fixed charge coverage ratio	2.5	2.7	2.6	2.7

(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 increased by \$1.3 million to \$6.2 million in the third quarter of 2010 as compared to \$4.9 million in the third quarter of 2009. In the third quarter of 2010, general and administrative expenses as a percentage of total revenue were 7.1% as compared to 6.0% in the third quarter of 2009.

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General and administrative expenses increased by \$3.6 million to \$19.5 million in the first nine months of 2010 as compared to \$15.9 million in the first nine months of 2009. As a percentage of total revenue, general and administrative expenses were 7.7% in the first nine months of 2010, as compared to 6.5% in the first nine months of 2009. General and administrative expenses increased during the three and nine months ended September 30, 2010, primarily because of increases in employee costs, particularly in the acquisitions and research departments. In October 2010, we had 76 employees as compared to 71 employees in October 2009. For the first nine months of 2010, general and administrative expenses also include transaction costs of \$191,000, related to the acquisition of 23 new properties during 2010, as compared to \$44,000 for the acquisition of three new properties during the first nine months of 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 September 30, 2010, 84 properties were available for lease, as compared to 75 at both December 31, 2009 and at September 30, 2009.

Property expenses were \$1.8 million in the third quarter of 2010 and \$1.5 million in the third quarter of 2009. Property expenses were \$5.4 million in the first nine months of 2010 and \$5.3 million in the first nine months of 2009. The increase in property expenses in the first nine months of 2010 is primarily attributable to an increase in maintenance and utilities associated with properties available for lease, partially offset by a decrease in bad debt expense.

Income Taxes

Income taxes were \$335,000 in the third quarter of 2010 as compared to \$74,000 in the third quarter of 2009. Income taxes were \$890,000 in the first nine months of 2010 as compared to \$684,000 for the first nine months of 2009. These amounts are for city and state income taxes paid by Realty Income.

In addition, Crest recorded state and federal income tax benefits of \$88,000 in the third quarter of 2010 as compared to income tax benefits of \$70,000 in the third quarter of 2009. Crest recorded state and federal income tax benefits of \$288,000 in the first nine months of 2010 as compared to income tax benefits of \$206,000 in the first nine months of 2009. These amounts are included in "income from discontinued operations, real estate acquired for resale by Crest" on our consolidated statements of income.

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 as 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.

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

	Three months ended		Nine months ended	
Crest's income from discontinued operations, real estate acquired for resale	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Rental revenue	\$--	\$66	\$22	\$198
Interest and other revenue	348	351	1,050	1,053
Interest expense	(137)	(140)	(400)	(462)
General and administrative expense	(28)	(82)	(213)	(250)
Property expenses	(50)	(29)	(162)	(97)
Provisions for impairment	--	(29)	--	(340)
Income taxes	88	70	288	206
Income from discontinued operations, real estate acquired for resale by Crest	\$221	\$207	\$585	\$308
Per common share, basic and diluted	\$0.00	\$0.00	\$0.01	\$0.00

Operations from 13 of our investment properties were classified as held for sale at September 30, 2010, plus properties sold in 2010 and 2009, 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):

	Three months ended		Nine months ended	
Realty Income's income from discontinued operations, real estate held for investment	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Gain on sales of investment properties	\$1,919	\$1,799	\$3,816	\$4,235
Rental revenue	179	660	1,054	2,232
Other revenue	7	5	25	30
Depreciation and amortization	(101)	(279)	(416)	(976)
Property expenses	(162)	(197)	(711)	(617)
Provisions for impairment	(84)	--	(171)	--
Income from discontinued operations, real estate held for investment	\$1,758	\$1,988	\$3,597	\$4,904
Per common share, basic and diluted	\$0.02	\$0.02	\$0.03	\$0.05

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

	Three months ended		Nine months ended September	
Total discontinued operations	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Real estate acquired for resale by Crest	\$221	\$207	\$585	\$308

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Real estate held for investment	1,758	1,988	3,597	4,904
Income from discontinued operations	\$1,979	\$2,195	\$4,182	\$5,212
Per common share, basic and diluted	\$0.02	\$0.02	\$0.04	\$0.05

The above per share amounts have each been calculated independently.

Crest's Property Sales

During the first nine months of 2010 and 2009, Crest did not sell any properties.

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Gain on Sales of Investment Properties by Realty Income

During the third quarter of 2010, we sold nine investment properties for \$8.9 million, which resulted in a gain of \$1.9 million. During the first nine months of 2010, we sold 19 investment properties for \$16.1 million, which resulted in a gain of \$3.8 million. The results of operations for these properties have been reclassified as discontinued operations. Additionally, we sold excess land from one property for \$600,000, which resulted in a gain of \$468,000. This gain is included in "other revenue" on our consolidated statement of income, for the nine months ended September 30, 2010, because this excess land was associated with a property that continues to be owned as part of our core operations.

In comparison, during the third quarter of 2009, we sold seven investment properties for \$4.4 million, which resulted in a gain of \$1.8 million. During the first nine months of 2009, we sold 17 investment properties for \$10.8 million, which resulted in a gain of \$4.2 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 the three and nine months ended September 30, 2009, because this excess land was associated with a property that continues to be owned as part of our core operations.

Provisions for Impairment on Real Estate Acquired for Resale by Crest

For the three and nine months ended September 30, 2010, no provisions for impairment were recorded by Crest. For the third quarter of 2009, provisions for impairment of \$29,000 were recorded by Crest on two properties held for sale at September 30, 2009, one of which was sold in the fourth quarter of 2009. For the first nine months of 2009, provisions for impairment of \$340,000 were recorded by Crest on five properties held for sale at September 30, 2009, two of which were sold in the fourth quarter of 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 the three and nine months ended September 30, 2009.

Provisions for Impairment on Realty Income Investment Properties

For the third quarter of 2010, we recorded a provision for impairment of \$84,000 on one property, which was sold during the third quarter of 2010. This provision for impairment is included in "income from discontinued operations, real estate held for investment" on our consolidated income statement for the three months ended September 30, 2010. For the third quarter of 2009, we did not record any provisions for impairment.

For the first nine months of 2010, we recorded provisions for impairment of \$171,000 on three properties, all of which were sold in the first nine months of 2010. These provisions for impairment are included in "income from discontinued operations, real estate held for investment" on our consolidated statement of income for the nine months ended September 30, 2010. For the first nine months of 2009, we did not record any provisions for impairment.

Preferred Stock Dividends

Preferred stock cash dividends totaled \$6.1 million in the third quarters of 2010 and 2009 and \$18.2 million in the first nine months of 2010 and 2009.

Net Income Available to Common Stockholders

Net income available to common stockholders was \$25.6 million in the third quarter of 2010, a decrease of \$1.5 million as compared to \$27.1 million in the third quarter of 2009. Net income available to common stockholders was \$74.7 million in the first nine months of 2010, a decrease of \$2.9 million as compared to \$77.6 million in the same period of 2009.

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.

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FUNDS FROM OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS (FFO)

FFO for the third quarter of 2010 decreased by \$350,000, or 0.8%, to \$47.8 million as compared to \$48.2 million in the third quarter of 2009. FFO for the first nine months of 2010 decreased by \$822,000, or 0.6%, to \$141.2 million as compared to \$142.1 million in the same period of 2009. 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):

	Three months ended		Nine months ended September	
	2010	September 30, 2009	2010	2009
Net income available to common stockholders	\$25,591	\$27,089	\$74,717	\$77,606
Depreciation and amortization:				
Continuing operations	24,100	22,680	70,621	67,976
Discontinued operations	101	279	416	976
Depreciation of furniture, fixtures, and equipment	(69)	(80)	(223)	(239)
Gain on sales of land and investment properties:				
Continuing operations	--	(15)	(468)	(15)
Discontinued operations	(1,919)	(1,799)	(3,816)	(4,235)
FFO available to common stockholders	\$ 47,804	\$ 48,154	\$ 141,247	\$ 142,069
FFO per common share:				
Basic	\$0.46	\$0.47	\$1.36	\$1.37
Diluted	\$0.46	\$0.47	\$1.36	\$1.37
Distributions paid to common stockholders	\$45,026	\$44,541	\$134,700	\$133,367
FFO in excess of distributions paid to common stockholders	\$2,778	\$3,613	\$6,547	\$8,702
Weighted average number of common shares used for computation per share:				
Basic	103,830,029	103,470,512	103,781,108	103,528,952
Diluted	103,977,023	103,481,892	103,887,679	103,532,894

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.

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ADJUSTED FUNDS FROM OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS (AFFO)

AFFO for the third quarter of 2010 was \$48.6 million as compared to \$48.5 million in the third quarter of 2009. AFFO for the first nine months of 2010 was \$143.9 million as compared to \$144.1 million in the same period of 2009. We consider AFFO to be an appropriate supplemental measure of our performance because it provides analysts and investors with an additional indicator of our ability to pay dividends. Most companies in our industry use a similar measurement, but they may use the term "CAD" (for Cash Available for Distribution) or "FAD" (for Funds Available for Distribution). AFFO further adjusts FFO by adding back non-cash items that reduce net income in accordance with GAAP, and deducting such items as capitalized expenditures and straight-line rent revenue.

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net income available to common stockholders	\$25,591	\$27,089	\$74,717	\$77,606
Cumulative adjustments to calculate FFO(1)	22,213	21,065	66,530	64,463
FFO available to common stockholders	47,804	48,154	141,247	142,069
Amortization of share-based compensation	1,347	994	4,824	3,733
Amortization of deferred note financing costs(2)	431	341	1,114	1,022
Provisions for impairment	84	29	171	340
Capitalized leasing costs and commissions	(238)	(348)	(874)	(957)
Capitalized building improvements	(438)	(438)	(1,404)	(1,279)
Straight-line rent revenue(3)	(405)	(233)	(1,148)	(810)
Total AFFO available to common stockholders	\$48,585	\$48,499	\$143,930	\$144,118
AFFO per common share:				
Basic	\$0.47	\$0.47	\$1.39	\$1.39
Diluted	\$0.47	\$0.47	\$1.39	\$1.39
Distributions paid to common stockholders	\$45,026	\$44,541	\$134,700	\$133,367
AFFO in excess of distributions paid to common stockholders	\$3,559	\$3,958	\$9,230	\$10,751
Weighted average number of common shares used for computation per share:				
Basic	103,830,029	103,470,512	103,781,108	103,528,952
Diluted	103,977,023	103,481,892	103,887,679	103,532,894

(1) See reconciling items for FFO presented on the previous page.

(2) Amortization of deferred note financing costs includes the amortization of costs incurred and capitalized when our notes were issued in January 1999, March 2003, November 2003, March 2005, September 2005, September 2006,

September 2007 and June 2010. 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.

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

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

PROPERTY PORTFOLIO INFORMATION

At September 30, 2010, we owned a diversified portfolio:

Of 2,342 properties;
With an occupancy rate of 96.4%, or 2,258 properties occupied and only 84 properties available for lease;
Leased to 118 different retail and other commercial enterprises doing business in 32 separate industries;
Located in 49 states;
With over 19.5 million square feet of leasable space; and
With an average leasable space per property of approximately 8,300 square feet.

In addition to our real estate portfolio, our subsidiary, Crest, had an inventory of three properties located in three states at September 30, 2010. These properties are valued at \$3.8 million and are classified as held for sale.

At September 30, 2010, of our 2,342 properties, 2,248 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.

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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 September 30, 2010		Dec 31, 2009		Dec 31, 2008		Dec 31, 2007		Dec 31, 2006		Dec 31, 2005		Dec 31, 2004	
Apparel stores	1.0	%	1.1	%	1.1	%	1.2	%	1.7	%	1.6	%	1.8	%
Automotive														
collision services	1.0		1.1		1.0		1.1		1.3		1.3		1.0	
Automotive parts	1.3		1.5		1.6		2.1		2.8		3.4		3.8	
A u t o m o t i v e														
service	4.7		4.8		4.8		5.2		6.9		7.6		7.7	
Automotive tire														
services	6.3		6.9		6.7		7.3		6.1		7.2		7.8	
Book stores	0.1		0.2		0.2		0.2		0.2		0.3		0.3	
Business services	*		*		*		0.1		0.1		0.1		0.1	
Child care	6.6		7.3		7.6		8.4		10.3		12.7		14.4	
C o n s u m e r														
electronics	0.6		0.7		0.8		0.9		1.1		1.3		2.1	
C o n v e n i e n c e														
stores	16.5		16.9		15.8		14.0		16.1		18.7		19.2	
C r a f t s a n d														
novelties	0.3		0.3		0.3		0.3		0.4		0.4		0.5	
Distribution and														
office	1.0		1.0		1.0		0.6		--		--		--	
Drug stores	4.0		4.3		4.1		2.7		2.9		2.8		0.1	
Entertainment	1.2		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	
G e n e r a l														
merchandise	0.7		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	6.9		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	
H o m e														
improvement	1.7		1.9		1.9		2.1		3.4		1.1		1.0	
Motor vehicle														
dealerships	2.6		2.7		3.1		3.1		3.4		2.6		0.6	
Office supplies	0.9		1.0		1.0		1.1		1.3		1.5		1.6	
Pet supplies and														
services	0.8		0.9		0.8		0.9		1.1		1.3		1.4	
Private education	0.8		0.9		0.8		0.8		0.8		0.8		1.1	
Restaurants	19.7		21.3		21.8		21.2		11.9		9.4		9.7	

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Shoe stores	0.2	--	--	--	--	0.3	0.3							
Sporting goods	2.6	2.6	2.3	2.6	2.9	3.4	3.4							
Theaters	8.7	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	*	1.0	1.1	1.7	2.1	2.5	2.8							
Wine and spirits	5.5	--	--	--	--	--	--							
Other	1.7	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.

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Service Category Diversification

The following table sets forth certain information regarding the properties owned by Realty Income (excluding properties owned by Crest) at September 30, 2010, classified according to the business types and the level of services they provide (dollars in thousands):

Industry	Number of Properties	Rental Revenue for the Quarter Ended September 30, 2010(1)	Percentage of Rental Revenue	
Tenants Providing Services				
Automotive collision services	13	\$ 898	1.0	%
Automotive service	240	4,052	4.7	
Child care	250	5,786	6.6	
Entertainment	8	1,064	1.2	
Equipment rental services	2	150	0.2	
Financial services	13	191	0.2	
Health and fitness	34	5,966	6.9	
Private education	11	729	0.8	
Theaters	34	7,563	8.7	
Other	12	1,464	1.7	
	617	27,863	32.0	
Tenants Selling Goods and Services				
Automotive parts (with installation)	22	453	0.5	
Automotive tire services	154	5,467	6.3	
Business services	1	5	*	
Convenience stores	585	14,361	16.5	
Distribution and office	3	865	1.0	
Home improvement	2	36	*	
Motor vehicle dealerships	17	2,236	2.6	
Pet supplies and services	12	709	0.8	
Restaurants	634	17,178	19.7	
Travel plazas	1	187	0.2	
Video rental	18	28	*	
	1,449	41,525	47.6	
Tenants Selling Goods				
Apparel stores	6	902	1.0	
Automotive parts	46	685	0.8	
Book stores	1	128	0.1	
Consumer electronics	9	521	0.6	
Crafts and novelties	5	236	0.3	
Drug stores	50	3,479	4.0	
General merchandise	33	641	0.7	
Grocery stores	9	579	0.7	
Home furnishings	42	1,137	1.3	
Home improvement	29	1,464	1.7	
Office supplies	10	788	0.9	
Pet supplies	3	33	*	
Shoe stores	1	168	0.2	

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Sporting goods	19	2,232	2.6
Wine and spirits	13	4,838	5.5
	276	17,831	20.4
Totals	2,342	\$ 87,219	100.0 %

* Less than 0.1%

(1)Includes rental revenue for all properties owned by Realty Income at September 30, 2010, including revenue from properties reclassified as discontinued operations of \$130.

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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 2,248 net leased, single-tenant properties as of September 30, 2010 (dollars in thousands):

Year	Total Portfolio			Initial Expirations(3)			Subsequent Expirations(4)		
	Number of Leases Expiring(1)	Rental Revenue for the Quarter Ended Sept. 30, 2010(2)	% of Total Rental Revenue	Number of Leases Expiring	Rental Revenue for the Quarter Ended Sept. 30, 2010	% of Total Rental Revenue	Number of Leases Expiring	Rental Revenue for the Quarter Ended Sept. 30, 2010	% of Total Rental Revenue
2010	72	\$1,410	1.6 %	7	\$180	0.2 %	65	\$1,230	1.4 %
2011	115	3,278	3.8	54	1,874	2.2	61	1,404	1.6
2012	125	2,774	3.2	36	1,026	1.2	89	1,748	2.0
2013	146	4,958	5.8	66	3,096	3.6	80	1,862	2.2
2014	106	3,366	3.9	41	1,913	2.2	65	1,453	1.7
2015	146	3,562	4.2	77	2,152	2.5	69	1,410	1.7
2016	123	2,349	2.7	111	2,105	2.4	12	244	0.3
2017	50	1,822	2.1	39	1,604	1.9	11	218	0.2
2018	42	1,839	2.1	34	1,635	1.9	8	204	0.2
2019	98	5,081	5.9	90	4,657	5.4	8	424	0.5
2020	85	3,731	4.4	74	3,361	3.9	11	370	0.5
2021	178	7,733	9.0	176	7,512	8.7	2	221	0.3
2022	99	2,930	3.4	98	2,882	3.3	1	48	0.1
2023	250	8,405	9.8	248	8,331	9.7	2	74	0.1
2024	62	2,118	2.5	62	2,118	2.5	--	--	--
2025	71	5,676	6.6	66	5,566	6.5	5	110	0.1
2026	110	6,409	7.5	108	6,350	7.4	2	59	0.1
2027	159	4,821	5.6	158	4,803	5.6	1	18	*
2028	81	4,099	4.8	79	4,049	4.7	2	50	0.1
2029	49	1,281	1.5	48	1,266	1.5	1	15	*
2030	40	5,859	6.8	40	5,859	6.8	--	--	--
2031	27	661	0.8	27	661	0.8	--	--	--
2032	2	638	0.8	2	638	0.8	--	--	--
2033	7	460	0.5	7	460	0.5	--	--	--
2034	2	258	0.3	2	258	0.3	--	--	--
2037	2	354	0.4	2	354	0.4	--	--	--
2043	1	13	*	--	--	--	1	13	*
Totals	2,248	\$85,885	100.0 %	1,752	\$74,710	86.9 %	496	\$11,175	13.1 %

* Less than 0.1%

(1) Excludes ten multi-tenant properties and 84 vacant unleased properties, one of which is a multi-tenant property. The lease expirations for properties under construction are based on the estimated date of completion of those properties.

(2) Includes rental revenue of \$130 from properties reclassified as discontinued operations and excludes revenue of \$1,334 from ten multi-tenant properties and from 84 vacant and unleased properties at September 30, 2010.

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

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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 September 30, 2010 (dollars in thousands):

State	Number of Properties	Percent Leased	Approximate Leasable Square Feet	Rental Revenue for the Quarter Ended September 30, 2010(1)	Percentage of Rental Revenue
Alabama	62	97 %	420,200	\$1,807	2.1 %
Alaska	2	100	128,500	277	0.3
Arizona	80	99	395,800	2,417	2.8
Arkansas	17	94	92,400	379	0.4
California	78	97	1,569,600	9,493	10.9
Colorado	51	96	471,400	1,798	2.1
Connecticut	23	96	269,100	941	1.1
Delaware	17	100	33,300	431	0.5
Florida	166	92	1,426,700	6,508	7.5
Georgia	131	95	905,500	3,779	4.3
Hawaii	--	--	--	--	--
Idaho	12	100	80,700	340	0.4
Illinois	85	98	1,008,800	4,939	5.7
Indiana	81	95	729,900	3,431	3.9
Iowa	21	100	290,600	1,015	1.2
Kansas	32	88	570,000	1,052	1.2
Kentucky	22	95	110,600	653	0.7
Louisiana	32	100	184,900	899	1.0
Maine	3	100	22,500	161	0.2
Maryland	28	100	266,600	1,597	1.8
Massachusetts	64	98	575,400	2,517	2.9
Michigan	52	100	257,300	1,278	1.5
Minnesota	20	100	389,000	1,541	1.8
Mississippi	71	97	347,600	1,526	1.7
Missouri	62	97	640,100	2,168	2.5
Montana	2	100	30,000	76	0.1
Nebraska	19	95	196,300	490	0.6
Nevada	14	93	153,200	727	0.8
New Hampshire	14	100	109,900	584	0.7
New Jersey	33	100	261,300	1,938	2.2
New Mexico	9	100	58,400	197	0.2
New York	39	97	495,000	2,544	2.9
North Carolina	94	99	531,700	2,896	3.3
North Dakota	6	100	36,600	57	0.1
Ohio	136	94	846,200	3,186	3.6
Oklahoma	24	100	137,400	589	0.7
Oregon	18	94	297,300	834	1.0
Pennsylvania	98	99	677,200	3,551	4.1

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Rhode Island	3	100	11,000	58	0.1
South Carolina	99	100	372,500	2,256	2.6
South Dakota	9	100	24,900	102	0.1
Tennessee	131	93	606,700	2,686	3.1
Texas	212	97	2,241,100	7,996	9.2
Utah	4	100	25,200	94	0.1
Vermont	4	100	12,700	126	0.1
Virginia	104	96	636,500	3,359	3.8
Washington	34	94	274,900	982	1.1
West Virginia	2	100	23,000	121	0.1
Wisconsin	21	90	252,700	819	0.9
Wyoming	1	0	5,400	4	*
Totals/Average	2,342	96	% 19,503,600	\$87,219	100.0 %

* Less than 0.1%

(1) Includes rental revenue for all properties owned by Realty Income at September 30, 2010, including revenue from properties reclassified as discontinued operations of \$130.

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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 the 2,342 properties in our portfolio, approximately 96.0% or 2,248 are leased to tenants under net leases where the tenant is responsible for property expenses. Net leases tend to reduce our exposure to rising property expenses due to inflation. Inflation and increased costs may have an adverse impact on our tenants if increases in their operating expenses exceed increases in revenue.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

As of September 30, 2010, the impact of recent accounting pronouncements on our business is not considered to be material.

OTHER INFORMATION

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

Our 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.

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 SEC. None of the information on our website is deemed to be a part of this report.

Item 3. 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 September 30, 2010. We do not enter into any derivative transactions for speculative or trading purposes.

The following table presents, by year of expected maturity, the principal amounts, average interest rates, and estimated fair values of our fixed and variable rate debt as of September 30, 2010. This information is presented to evaluate the expected cash flows and sensitivity to interest rate changes (dollars in millions):

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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)	--	--	--	--
2012	--	--	--	--
2013(2)	100.0	5.38	--	--
2014	--	--	--	--
Thereafter(3)	1,500.0	6.09	--	--
Totals	\$1,600.0	6.05	% \$--	--
Fair Value(4)	\$1,737.8		\$--	

(1)The credit facility expires in May 2011. There was no outstanding credit facility balance as of September 30, 2010.

(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, \$250 million matures in January 2021 and \$100 million matures in March 2035.

(4)We base the estimated fair value of the fixed rate debt at September 30, 2010 on the indicative market prices and recent trading activity of our notes payable. The estimated fair value of the variable rate debt approximates its carrying value because its terms are similar to those available in the marketplace at September 30, 2010.

The table incorporates only those exposures that exist as of September 30, 2010. 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. Interest on our credit facility balance is variable. At September 30, 2010, our credit facility balance was zero; however, we intend to borrow funds on our credit facility in the future. Based on a hypothetical credit facility borrowing of \$50 million, a 1% change in interest rates would change our interest costs by \$500,000 per year.

Item 4.

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 quarter ended September 30, 2010, 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.

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Changes in Internal Controls

There have not been any 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 first nine months of 2010. As of September 30, 2010, 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.

PART II.

OTHER INFORMATION

Item 1A.

Risk Factors

There have been no material changes in our risk factors from those disclosed in our 2009 Annual Report on Form 10-K.

Item 2.

Unregistered Sales of Equity Securities and Use of Proceeds

During July 2010, 270 shares of stock, at a price of \$31.91, were withheld for state and federal payroll taxes on the vesting of stock awards, as permitted under the 2003 Incentive Award Plan of Realty Income Corporation.

Item 6.

Exhibits

Exhibit No.

Description

Articles of Incorporation and By-Laws

- | | |
|-----|--|
| 3.1 | Articles of Incorporation of the Company, as amended by amendment No. 1 dated May 10, 2005 and amendment No. 2 dated May 10, 2005 (filed as exhibit 3.1 to the Company's Form 10-Q dated June 30, 2005, and incorporated herein by reference). |
| 3.2 | Amended and Restated Bylaws of the Company dated December 12, 2007 (filed as exhibit 3.1 to the Company's Form 8-K, filed on December 13, 2007 and dated December 12, 2007 and incorporated herein by reference), as amended on May 13, 2008 (amendment filed as exhibit 3.1 to the Company's Form 8-K, filed on May 14, 2008 and dated May 13, 2008, and incorporated herein by reference). |
| 3.3 | Articles Supplementary to the Articles of Incorporation of the Company classifying and designating the 7.375% Monthly Income Class D Cumulative Redeemable Preferred Stock (filed as exhibit 3.8 to the Company's Form 8-A, filed on May 25, 2004 and incorporated herein by reference). |

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3.4 Articles Supplementary to the Articles of Incorporation of the Company classifying and designating additional shares of the 7.375% Monthly Income Class D Cumulative Redeemable Preferred Stock (filed as exhibit 3.2 to the Company's Form 8-K, filed on October 19, 2004 and dated October 12, 2004 and incorporated herein by reference).

3.5 Articles Supplementary to the Articles of Incorporation of the Company classifying and designating the 6.75% Class E Cumulative Redeemable Preferred Stock (filed as exhibit 3.5 to the Company's Form 8-A, filed on December 5, 2006 and incorporated herein by reference).

Instruments defining the rights of security holders, including indentures

4.1 Indenture dated as of October 28, 1998 between the Company and The Bank of New York (filed as exhibit 4.1 to the Company's Form 8-K, filed on October 28, 1998 and dated October 27, 1998 and incorporated herein by reference).

4.2 Form of 5.375% Senior Notes due 2013 (filed as exhibit 4.2 to the Company's Form 8-K, filed on March 7, 2003 and dated March 5, 2003 and incorporated herein by reference).

4.3 Officer's Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York, as Trustee, establishing a series of securities entitled 5.375% Senior Notes due 2013 (filed as exhibit 4.3 to the Company's Form 8-K, filed on March 7, 2003 and dated March 5, 2003 and incorporated herein by reference).

4.4 Form of 5.50% Senior Notes due 2015 (filed as exhibit 4.2 to the Company's Form 8-K, filed on November 24, 2003 and dated November 19, 2003 and incorporated herein by reference).

4.5 Officer's Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York, as Trustee, establishing a series of securities entitled 5.50% Senior Notes due 2015 (filed as exhibit 4.3 to the Company's Form 8-K, filed on November 24, 2003 and dated November 19, 2003 and incorporated herein by reference).

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

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

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

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4.9	Officer's Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York, as Trustee, establishing a series of securities entitled 5.375% Senior Notes due 2017 (filed as exhibit 4.3 to the Company's Form 8-K, filed on September 16, 2005 and dated September 8, 2005 and incorporated herein by reference).
4.10	Form of 5.95% Senior Notes due 2016 (filed as exhibit 4.2 to the Company's Form 8-K, filed on September 18, 2006 and dated September 6, 2006 and incorporated herein by reference).
4.11	Officer's Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York, as Trustee, establishing a series of securities entitled 5.95% Senior Notes due 2016 (filed as exhibit 4.3 to the Company's Form 8-K, filed on September 18, 2006 and dated September 6, 2006 and incorporated herein by reference).
4.12	Form of 6.75% Notes due 2019 (filed as exhibit 4.2 to Company's Form 8-K, filed on September 5, 2007 and dated August 30, 2007 and incorporated herein by reference).
4.13	Officer's Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York Trust Company, N.A., as Trustee, establishing a series of securities entitled 6.75% Senior Notes due 2019 (filed as exhibit 4.3 to the Company's Form 8-K, filed on September 5, 2007 and dated August 30, 2007 and incorporated herein by reference).
4.14	Form of 5.75% Notes due 2021 (filed as exhibit 4.2 to Company's Form 8-K, filed on June 29, 2010 and dated June 24, 2010 and incorporated herein by reference).
4.15	Officer's Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee, establishing a series of securities entitled "5.75% Senior Notes due 2021" (filed as exhibit 4.3 to the Company's Form 8-K, filed on June 29, 2010 and dated June 24, 2010 and incorporated herein by reference).

Certifications

* 31.1	Rule 13a-14(a) Certifications as filed by the Chief Executive Officer pursuant to SEC release No. 33-8212 and 34-47551.
* 31.2	Rule 13a-14(a) Certifications as filed by the Chief Financial Officer pursuant to SEC release No. 33-8212 and 34-47551.
* 32	Section 1350 Certifications as furnished by the Chief Executive Officer and the Chief Financial Officer pursuant to SEC release No. 33-8212 and 34-47551.

* Filed herewith

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

R E A L T Y I N C O M E
CORPORATION

Date: October 27, 2010/s/ GREGORY J. FAHEY

Gregory J. Fahey
Vice President, Controller
(Principal Accounting Officer)