

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

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2014

Commission File Number 1-13374

REALTY INCOME CORPORATION

(Exact name of registrant as specified in its charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)

33-0580106
(IRS Employer
Identification Number)

11995 El Camino Real, San Diego, California, 92130

(Address of Principal Executive Offices)

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

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

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, \$0.01 Par Value	New York Stock Exchange
Class F Preferred Stock, \$0.01 Par Value	New York Stock Exchange

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

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

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

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

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

Large accelerated filer 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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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PART I

Item 1: Business

THE COMPANY

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

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

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

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

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

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

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

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

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

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

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

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

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

RECENT DEVELOPMENTS**Increases in Monthly Dividends to Common Stockholders**

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

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

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

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

Acquisitions during 2014

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

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

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

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Portfolio Discussion

Leasing Results

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

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

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

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

Investments in Existing Properties

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

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

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

Note Issuance

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

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

Redemption of Preferred Stock

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

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Issuance of Common Stock

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

Modifications to Compensation Program

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

Dividend Reinvestment and Stock Purchase Plan

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

Net Income Available to Common Stockholders

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

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

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

Funds from Operations Available to Common Stockholders (FFO)

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

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

Adjusted Funds from Operations Available to Common Stockholders (AFFO)

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

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

DIVIDEND POLICY

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

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

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

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

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

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

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

BUSINESS PHILOSOPHY AND STRATEGY

Investment Philosophy

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

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

Investment Strategy

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

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

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- Properties that are located within attractive demographic areas relative to the business of our tenants, and have good visibility and easy access to major thoroughfares;
- Properties with real estate valuations that approximate replacement costs;
- Properties with rental or lease payments that approximate market rents; and
- Properties that can be purchased with the simultaneous execution or assumption of long-term, net lease agreements, offering both current income and the potential for future rent increases.

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

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

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

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

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

Underwriting Strategy

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

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

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

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

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

Asset Management Strategy

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

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We regularly review and analyze:

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

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

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

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

Capital Philosophy

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

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

billion credit facility and occasionally through public securities offerings.

Conservative Capital Structure

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

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

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

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Impact of Real Estate and Credit Markets

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

Universal Shelf Registration

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

\$1.5 Billion Acquisition Credit Facility

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

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

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

Cash Reserves

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

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

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Credit Agency Ratings

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

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

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

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

Notes Outstanding

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

Mortgage Debt

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

Term Loan

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

No Unconsolidated Investments

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

Corporate Responsibility

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

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

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

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

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

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

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

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

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

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

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PROPERTY PORTFOLIO INFORMATION

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

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

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

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

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

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

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Industry Diversification (continued)

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

* Less than 0.1%

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

Table of Contents**Property Type Diversification**

The following table sets forth certain property type information regarding Realty Income's property portfolio as of December 31, 2014 (dollars in thousands):

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

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

Tenant Diversification

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

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

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

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

* Less than 0.1%

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

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Lease Expirations

The following table sets forth certain information regarding Realty Income's property portfolio regarding the timing of the lease term expirations (excluding rights to extend a lease at the option of the tenant) on our 4,238 net leased, single-tenant properties as of December 31, 2014 (dollars in thousands):

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

* Less than 0.1%

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

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

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

(4) Represents lease expirations on properties in the portfolio, which have previously been renewed, extended or re-tenanted.

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Geographic Diversification

The following table sets forth certain state-by-state information regarding Realty Income's property portfolio as of December 31, 2014 (dollars in thousands):

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

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* Less than 0.1%

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

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FORWARD-LOOKING STATEMENTS

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

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

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

- Our continued qualification as a real estate investment trust;
- General business and economic conditions;

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

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

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

Item 1A: Risk Factors

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

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In order to grow we need to continue to acquire investment properties. The acquisition of investment properties may be subject to competitive pressures.

We face competition in the acquisition and operation of property. We expect competition from:

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

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

Negative market conditions or adverse events affecting our existing or potential tenants, or the industries in which they operate, could have an adverse impact on our ability to attract new tenants, re-lease space, collect rent or renew leases, which could adversely affect our cash flow from operations and inhibit growth.

Cash flow from operations depends in part on the ability to lease space to tenants on economically favorable terms. We could be adversely affected by various facts and events over which we have limited or no control, such as:

- Lack of demand in areas where our properties are located;
- Inability to retain existing tenants and attract new tenants;
- Oversupply of space and changes in market rental rates;
- Declines in our tenants' creditworthiness and ability to pay rent, which may be affected by their operations, the current economic situation and competition within their industries from other operators;

- Defaults by and bankruptcies of tenants, failure of tenants to pay rent on a timely basis, or failure of tenants to comply with their contractual obligations;
- Economic or physical decline of the areas where the properties are located; and
- Deterioration of the physical condition of our properties.

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

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

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

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Seventy of our properties were available for lease or sale at December 31, 2014, all of which were single-tenant properties. At December 31, 2014, thirty-nine of our properties under lease were unoccupied and available for sublease by the tenants, all of which were current with their rent and other obligations. During 2014, each of our tenants accounted for less than 10% of our rental revenue.

Individually, each of the industries in our property portfolio accounted for less than 10% of our rental revenue for 2014. Nevertheless, downturns in these industries could also adversely affect our tenants, which in turn could also have a material adverse effect on our financial position, results of operations and our ability to pay the principal of and interest on our debt securities and other indebtedness and to make distributions on our common and preferred stock.

In addition, some of our properties are leased to tenants that may have more limited financial and other resources, and therefore, they are more likely to be adversely affected by a downturn in their respective businesses or in the regional, national, or international economy.

Furthermore, we have made and may continue to make selected acquisitions of properties that fall outside our historical focus on freestanding, single-tenant, net lease retail locations in the United States. We may be exposed to a variety of new risks by expanding into new property types and/or new jurisdictions outside the United States and properties leased to tenants engaged in non-retail businesses. For example, our acquisition of ARCT included tenants in the aerospace, freight, governmental services, healthcare, home maintenance, manufacturing, pharmacy, retail banking, technology, and telecommunications businesses, some of which are non-retail businesses and none of which was in an industry segment that was within our property portfolio prior to our acquisition of ARCT. These risks may include limited experience in managing certain types of new properties, new types of real estate locations and lease structures, and the laws and culture of any non-U.S. jurisdiction.

As a property owner, we may be subject to unknown environmental liabilities.

Investments in real property can create a potential for environmental liability. An owner of property can face liability for environmental contamination created by the presence or discharge of hazardous substances on the property. We can face such liability regardless of:

- Our knowledge of the contamination;
- The timing of the contamination;
- The cause of the contamination; or

- The party responsible for the contamination of the property.

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

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

In addition, several of our properties were built during the period when asbestos was commonly used in building construction and we may acquire other buildings with asbestos in the future. Environmental laws govern the presence, maintenance, and removal of asbestos-containing materials, or ACMs, and require that owners or operators of buildings containing asbestos properly manage and maintain the asbestos, that they adequately

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inform or train those who may come into contact with asbestos and that they undertake special precautions, including removal or other abatement in the event that asbestos is disturbed during renovation or demolition of a building. These laws may impose fines and penalties on building owners or operators for failure to comply with these requirements and may allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos fibers.

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

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

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

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

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

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

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

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

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

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

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

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

Distribution requirements imposed by law limit our flexibility.

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

In addition, we are subject to a 4% nondeductible excise tax to the extent that we fail to distribute during any calendar year at least the sum of 85% of our ordinary income for that calendar year, 95% of our capital gain net income for the calendar year, and any

amount of that income that was not distributed in prior years.

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

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

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

We may acquire properties or portfolios of properties through tax deferred contribution transactions, which could result in stockholder dilution and limit our ability to sell or refinance such assets.

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

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

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

We intend to incur additional indebtedness in the future, including borrowings under our \$1.5 billion acquisition credit facility. At December 31, 2014, we had \$223.0 million of outstanding borrowings under our acquisition credit facility, a total of \$3.8 billion of outstanding unsecured senior debt securities (excluding unamortized original issuance discounts of \$14.6 million), \$70 million of borrowings outstanding under a senior unsecured term loan and approximately \$836.0 million of outstanding mortgage debt (excluding net premiums totaling \$16.6 million on these mortgages). To the extent that new indebtedness is added to our current debt levels, the related risks that we now face would increase. As a result, we are and will be subject to risks associated with debt financing, including the risk that our cash flow could be insufficient to meet required payments on our debt. We also face variable interest rate risk as the interest rates on our acquisition credit facility, our term loan and some of our mortgage debt are variable and could therefore increase over time. We also face the risk that we may be unable to refinance or repay our debt as it comes due. Given past disruptions in the financial markets and the ongoing global financial crisis, we also face the risk that one or more of the participants in our acquisition credit facility may not be able to lend us money.

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

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

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

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ability to qualify, or prevent us from qualifying, as a REIT. Likewise, one of our subsidiaries is the borrower under our \$70 million term loan facility and that facility requires that this subsidiary maintain its consolidated tangible net worth (as defined in the term loan facility) above a certain minimum dollar amount and comply with certain other financial covenants. This minimum consolidated tangible net worth covenant may limit the ability of this subsidiary, as well as other subsidiaries that are owned by this subsidiary, to provide funds to us in order to pay dividend and other distributions on our common stock, including the shares of common stock offered hereby, and preferred stock and amounts due on our indebtedness. Any failure by this subsidiary to comply with these financial covenants will, and any failure by this subsidiary to comply with other covenants in the term loan facility may, result in an event of default under that facility, which could have adverse consequences similar to those that may result from an event of default under our acquisition credit facility as described above.

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

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

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

Our business operations may not generate the cash needed to make distributions on our capital stock or to service our indebtedness.

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

The market value of our capital stock and debt securities could be substantially affected by various factors.

The market value of our capital stock and debt securities will depend on many factors, which may change from time to time and may be outside of our control, including:

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

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

Real estate ownership is subject to particular conditions that may have a negative impact on our revenue.

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

- Adverse changes in general or local economic conditions;

- Changes in supply of, or demand for, similar or competing properties;
- Changes in interest rates and operating expenses;

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

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

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

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

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

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

An uninsured loss or a loss that exceeds the policy limits on our properties could subject us to lost capital or revenue on those properties.

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

In addition to the indemnities and required insurance policies identified above, many of our properties are also covered by flood and earthquake insurance policies (subject to substantial deductibles) obtained and paid for by the tenants as part of their risk management programs. Additionally, we have obtained blanket liability, flood and earthquake (subject to substantial deductibles) and property damage insurance policies to protect us and our properties against loss should the indemnities and insurance policies provided by the tenants fail to restore the properties to their condition prior to a loss. However, should a loss occur that is uninsured or in an amount exceeding the combined aggregate limits for the policies noted above, or in the event of a loss that is subject to a substantial deductible under an insurance policy, we could lose all or part of our capital invested in, and anticipated revenue from, one or more of the properties, which could have a material adverse effect on our

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results of operations or financial condition and on our ability to pay the principal of and interest on our debt securities and other indebtedness and to make distributions to our stockholders. We also face the risk that our insurance carriers may not be able to provide payment under any potential claims that might arise under the terms of our insurance policies, and we may not have the ability to purchase insurance policies we desire.

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

Compliance with the Americans with Disabilities Act of 1990 and fire, safety, and other regulations may require us to make unintended expenditures that could adversely impact our results of operations.

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

Litigation risks could affect our business.

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

Property taxes may increase without notice.

The real property taxes on our properties and any other properties that we develop or acquire in the future may increase as property tax rates change and as those properties are assessed or reassessed by tax authorities.

We depend on key personnel.

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

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

Natural disasters, terrorist attacks, other acts of violence or war, or other unexpected events may negatively affect our operations, the market price of our capital stock and the value of our debt securities. There can be no assurance that events like these will not occur or have a direct impact on our tenants, our business or the United States generally.

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

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

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

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

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

Inflation may adversely affect our financial condition and results of operations.

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

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Current volatility in market and economic conditions may impact the accuracy of the various estimates used in the preparation of our financial statements and footnotes to the financial statements.

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

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

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

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

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

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

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

Item 1B: **Unresolved Staff comments**

There are no unresolved staff comments.

Item 2: **Properties**

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

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

Item 4: Mine Safety Disclosures

None.

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

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

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

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

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

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

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

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

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

GENERAL

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

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

Capital Philosophy

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

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

Conservative Capital Structure

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

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

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

Mortgage Debt

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

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

Term Loan

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

\$1.5 Billion Acquisition Credit Facility

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

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

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

Notes Outstanding

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

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

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

Cash Reserves

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

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

Acquisitions During 2014

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

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

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

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

Portfolio Discussion

Leasing Results

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

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

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

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

Investments in Existing Properties

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

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

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

Impact of Real Estate and Credit Markets

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

Increases in Monthly Dividends to Common Stockholders

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

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

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

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

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Universal Shelf Registration

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

Issuance of Common Stock

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

Dividend Reinvestment and Stock Purchase Plan

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

Credit Agency Ratings

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

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

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

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

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Notes Outstanding

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

5.5% notes, issued in November 2003 and due in November 2015	\$	150
5.95% notes, issued in September 2006 and due in September 2016		275
5.375% notes, issued in September 2005 and due in September 2017		175
2.0% notes, issued in October 2012 and due in January 2018		350
6.75% notes, issued in September 2007 and due in August 2019		550
5.75% notes, issued in June 2010 and due in January 2021		250
3.25% notes, issued in October 2012 and due in October 2022		450
4.65% notes, issued in July 2013 and due in August 2023		750
3.875% notes, issued in June 2014 and due in July 2024		350
4.125% notes, issued in September 2014 and due in October 2026		250
5.875% bonds, \$100 issued in March 2005 and \$150 issued in June 2011, both due in Ma		