REALTY INCOME CORP
Form 10-Q
July 29, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010, or

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

Commission File Number 1-13374

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

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

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

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

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

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

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

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

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

There were 104,498,266 shares of common stock outstanding as of July 20, 2010.

REALTY INCOME CORPORATION

Form 10-Q
June 30, 2010

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

REALTY INCOME CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

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

	2010 (unaudited)	2009
ASSETS		
Real estate, at cost:		
Land	$1,329,343	$1,169,295
Buildings and improvements	2,392,959	2,270,161
Total real estate, at cost	3,722,302	3,439,456
Less accumulated depreciation and amortization	(673,979)	(630,840)
Net real estate held for investment	3,048,323	2,808,616
Real estate held for sale, net	7,750	8,266
Net real estate	3,056,073	2,816,882
Cash and cash equivalents	872	10,026
Accounts receivable, net	10,123	10,396
Goodwill	17,206	17,206
Other assets, net	58,881	60,277
Total assets	$3,143,155	$2,914,787
LIABILITIES AND STOCKHOLDERS' EQUITY		
Distributions payable	$17,030	$16,926
Accounts payable and accrued expenses	38,375	38,445
Other liabilities	11,755	16,807
Line of credit payable	26,900	4,600
Notes payable	1,600,000	1,350,000
Total liabilities	1,694,060	1,426,778
Commitments and contingencies		
Stockholders' equity:		
Preferred stock and paid in capital, par value $1.00 per share, 20,000,000 shares authorized, 13,900,000 shares issued and outstanding	337,790	337,790
Common stock and paid in capital, par value $1.00 per share, 200,000,000 shares authorized, 104,497,838 and 104,286,705 shares issued and outstanding as of June 30, 2010 and December 31, 2009, respectively	1,630,974	1,629,237
Distributions in excess of net income	(519,669)	(479,018)
Total stockholders' equity	1,449,095	1,488,009
Total liabilities and stockholders' equity	$3,143,155	$2,914,787

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

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REALTY INCOME CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
REVENUE				
Rental	$82,802	$81,216	$165,884	$162,928
Other	664	85	770	839
Total revenue	83,466	81,301	166,654	163,767
EXPENSES				
Depreciation and amortization	23,524	22,782	46,755	45,529
Interest	21,576	21,367	42,971	42,777
General and administrative	6,650	5,006	13,360	10,956
Property	1,684	1,786	3,798	3,921
Income taxes	277	308	555	610
Total expenses	53,711	51,249	107,439	103,793
Income from continuing operations	29,755	30,052	59,215	59,974
Income from discontinued operations:				
Real estate acquired for resale by Crest	158	226	365	102
Real estate held for investment	1,135	2,282	1,674	2,569
Total income from discontinued operations	1,293	2,508	2,039	2,671
Net income	31,048	32,560	61,254	62,645
Preferred stock cash dividends	(6,063)	(6,063)	(12,127)	(12,127)
Net income available to common stockholders	$24,985	$26,497	$49,127	$50,518
Amounts available to common stockholders per common share:				
Income from continuing operations:				
Basic	$0.23	$0.23	$0.45	$0.46
Diluted	$0.23	$0.23	$0.45	$0.46
Net income:				
Basic	$0.24	$0.26	$0.47	$0.49
Diluted	$0.24	$0.26	$0.47	$0.49
Weighted average common shares outstanding:				
Basic	103,612,454	103,446,949	103,653,250	103,475,185
Diluted	103,765,828	103,450,457	103,778,609	103,479,897

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

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REALTY INCOME CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2010 and 2009
(dollars in thousands)(unaudited)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$61,254	$62,645
Adjustments to net income:		
Depreciation and amortization	46,755	45,529
Income from discontinued operations:		
Real estate acquired for resale	(365)	(102)
Real estate held for investment	(1,674)	(2,569)
Gain on sale of land	(468)	--
Amortization of share-based compensation	3,476	2,739
Cash provided by (used in) discontinued operations:		
Real estate acquired for resale	365	413
Real estate held for investment	(56)	597
Collection of notes receivable by Crest	68	64
Change in assets and liabilities:		
Accounts receivable and other assets	6,075	2,946
Accounts payable, accrued expenses and other liabilities	(4,914)	(5,453)
Net cash provided by operating activities	110,516	106,809
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sales of investment properties, discontinued operations	6,352	6,365
Restricted escrow deposit for Section 1031 tax-deferred exchange	(399)	--
Acquisition of and improvements to investment properties	(290,643)	(3,032)
Net cash provided by (used in) investing activities	(284,690)	3,333
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash distributions to common stockholders	(89,674)	(88,826)
Cash dividends to preferred stockholders	(12,127)	(12,127)
Borrowings from line of credit	337,600	--
Payments under line of credit	(315,300)	--
Proceeds from notes issued, net of financing costs of $3,740	246,260	--
Principal payment on notes payable	--	(20,000)
Other items	(1,739)	(181)
Net cash provided by (used in) financing activities	165,020	(121,134)
Net decrease in cash and cash equivalents	(9,154)	(10,992)
Cash and cash equivalents, beginning of period	10,026	46,815
Cash and cash equivalents, end of period	$872	$35,823

For supplemental disclosures, see note 11.

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

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REALTY INCOME CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010
(unaudited)

1. Management Statement

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

At June 30, 2010, we owned 2,350 properties, located in 49 states, containing over 19.5 million leasable square feet, along with three properties owned by our wholly-owned taxable REIT subsidiary, Crest Net Lease, Inc. ("Crest"). Crest was created to buy and sell properties, primarily to individual investors who are involved in tax-deferred exchanges under Section 1031 of the Internal Revenue Code of 1986, as amended (the "Code").

2. Summary of Significant Accounting Policies and Procedures

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

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

C. We recognize an allowance for doubtful accounts relating to accounts receivable for amounts deemed uncollectible. We consider tenant specific issues, such as financial stability and ability to pay rent, when determining collectibility of accounts receivable and appropriate allowances to record. The allowance for doubtful accounts at June 30, 2010 was $1.2 million and at December 31, 2009 was $865,000.

D. Other assets consist of the following (dollars in thousands) at:	June 30, 2010	December 31, 2009
Notes receivable issued in connection with Crest property sales	$22,146	$22,214
Deferred bond financing costs, net	14,946	11,899
Value of in-place and above-market leases, net	10,121	10,928
Prepaid expenses	7,550	7,738
Credit facility organization costs, net	939	1,470
Corporate assets, net of accumulated depreciation and amortization	924	1,058
Restricted escrow deposit for Section 1031 tax-deferred exchange	399	4,479

Other items	1,856	491
	$58,881	$60,277

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E. Distributions payable consist of the following declared distributions (dollars in thousands) at:	June 30, 2010	December 31, 2009
Common stock distributions	$15,009	$14,905
Preferred stock dividends	2,021	2,021
	$17,030	$16,926

F. Accounts payable and accrued expenses consist of the following (dollars in thousands) at:	June 30, 2010	December 31, 2009
Bond interest payable	$26,052	$25,972
Other items	12,323	12,473
	$38,375	$38,445

G. Other liabilities consist of the following (dollars in thousands) at:	June 30, 2010	December 31, 2009
Rent received in advance	$ 5,345	$ 10,341
Security deposits	4,404	4,334
Value of in-place below-market leases, net	2,006	2,132
	$ 11,755	$ 16,807

H. Goodwill is tested for impairment during the second quarter of each year as well as when events or circumstances occur indicating that our goodwill might be impaired. During our test for impairment of goodwill during the second quarters of 2010 and 2009, we determined that the estimated fair values of our reporting units exceeded their carrying values. We did not record any impairment on our existing goodwill in 2010 or 2009.

3. Properties Acquired

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

A. During the first six months of 2010, Realty Income invested $289.0 million in 21 new properties with an initial weighted average contractual lease rate of 7.6%. These 21 properties are located in seven states, contain over 501,000 leasable square feet, and are 100% leased with an average lease term of 19.2 years. The initial weighted average contractual lease rate is computed by dividing the estimated aggregate base rent for the first year of each lease by the estimated total cost of the properties. In connection with these acquisitions, transaction costs of $88,000 were recorded to "general and administrative" expense on our consolidated statement of income for the six months ended June 30, 2010.

Included in the $289.0 million invested by Realty Income during the first six months of 2010 is the acquisition and lease-back of approximately $258 million of winery and vineyard properties under 20-year triple-net lease agreements with Diageo Chateau & Estates Wine Company and guaranteed by Diageo plc (NYSE: ADR: DEO) (together with its subsidiaries, "Diageo"). The properties are all located in California's Napa Valley and include the wineries that produce wines for Diageo's Sterling Vineyards ("Sterling") and Beaulieu Vineyards ("BV") brands and 10 vineyards producing grapes for their Sterling, BV and other brands. The properties include approximately 1,690 acres and 394,000 square feet of winery, production, storage, shipping and tourist buildings. Diageo will continue to operate the wineries and vineyards.

In comparison, during the first six months of 2009, Realty Income invested $1.3 million in previously acquired properties with an initial weighted average contractual lease rate of 8.7%.

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

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

4. Credit Facility

We have a $355 million revolving, unsecured credit facility that expires in May 2011, unless extended by two, one-year extension options. Under our credit facility, our investment grade credit ratings provide for financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 100 basis points with a facility fee of 27.5 basis points, for all-in drawn pricing of 127.5 basis points over LIBOR. The borrowing rate is not subject to a LIBOR floor. We also have other interest rate options available to us. Our credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation.

In May 2008, as a result of entering into our current credit facility, we incurred $3.2 million of credit facility origination costs that were capitalized and are being amortized over three years. The costs that were capitalized are included in "other assets" on our consolidated balance sheets, with balances of $939,000 at June 30, 2010 and $1.5 million at December 31, 2009.

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

5. Notes Payable

A. General

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

	June 30, 2010	December 31, 2009
5.375% notes, issued in March 2003 and due in March 2013	$ 100.0	$ 100.0
5.5% notes, issued in November 2003 and due in November 2015	150.0	150.0
5.95% notes, issued in September 2006 and due in September 2016	275.0	275.0
5.375% notes, issued in September 2005 and due in September 2017	175.0	175.0
6.75% notes, issued in September 2007 and due in August 2019	550.0	550.0
5.75% notes, issued in June 2010 and due in January 2021	250.0	--
5.875% bonds, issued in March 2005 and due in March 2035	100.0	100.0
	$ 1,600.0	$ 1,350.0

B. Note Issuance

In June 2010, we issued $250.0 million in aggregate principal amount of 5.75% senior unsecured notes due January 2021 (the "2021 Notes"). The price to the investor for the 2021 Notes was 99.404% of the principal amount for an effective yield of 5.826%. The net proceeds of approximately $246.3 million from this offering were used to repay borrowings under our acquisition credit facility, which were incurred to finance the acquisition of the Diageo properties. Interest is paid semiannually on the 2021 Notes.

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C. Note Redemption

On their maturity date in January 2009, we redeemed, using cash on hand, all of our outstanding 8.00% notes issued in January 1999 at a redemption price equal to 100% of the principal amount of $20 million, plus accrued and unpaid interest.

6. Fair Value of Financial Assets and Liabilities

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

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

At June 30, 2010	Carrying value per balance sheet	Estimated fair value
Notes receivable issued in connection with Crest property sales	$22.1	$21.5
Notes payable	$1,600.0	$1,678.8

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

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

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

7. Gain on Sales of Investment Properties by Realty Income

During the second quarter of 2010, we sold seven investment properties for $5.4 million, which resulted in a gain of $1.2 million. During the first six months of 2010, we sold ten investment properties for $7.2 million, which resulted in a gain of $1.9 million. The results of operations for these properties have been reclassified as discontinued operations. Additionally, we sold excess land from one property for $600,000, which resulted in a gain of $468,000. This gain is included in "other revenue" on our consolidated statement of income for the three and six months ended June 20, 2010 because this excess land was associated with a property that continues to be owned as part of our core operations.

In comparison, during the second quarter of 2009, we sold nine investment properties for $5.3 million, which resulted in a gain of $2.2 million. During the first six months of 2009, we sold ten investment properties for $6.4 million, which resulted in a gain of $2.4 million. The results of operations for these properties have been reclassified as discontinued operations.

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

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8. Discontinued Operations

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

For the second quarter of 2010, a provision for impairment of $53,000 was recorded by Realty Income on one property, which was sold during the second quarter of 2010. This provision for impairment is included in "income from discontinued operations, real estate held for investment" on our consolidated income statement for the three months ended June 30, 2010. For the second quarter of 2009, no provisions for impairment were recorded by Realty Income.

For the first six months of 2010, provisions for impairment of $87,000 were recorded by Realty Income on two properties, both of which were sold in the second quarter of 2010. These provisions for impairment are included in "income from discontinued operations, real estate held for investment" on our consolidated statement of income for the six months ended June 30, 2010. For the first six months of 2009, no provisions for impairment were recorded by Realty Income.

For the second quarters of 2010 and 2009 and for the first six months of 2010, no provisions for impairment were recorded by Crest. For the first six months of 2009, provisions for impairment of $311,000 were recorded by Crest on five properties held for sale at June 30, 2009, two of which were sold in the fourth quarter of 2009. These provisions for impairment are included in "income from discontinued operations, real estate acquired for resale by Crest" on our consolidated statement of income for the six months ended June 30, 2009.

Realty Income's operations from four investment properties classified as held for sale at June 30, 2010, plus properties sold in 2010 and 2009, are reported as discontinued operations. Their respective results of operations have been reclassified to "income from discontinued operations, real estate held for investment" on our consolidated statements of income. We do not depreciate properties that are classified as held for sale.

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

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

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If circumstances arise that were previously considered unlikely and, as a result, we decide not to sell a property previously classified as held for sale, the property is reclassified as real estate held for investment. A property that is reclassified as held for investment is measured and recorded at the lower of (i) its carrying amount before the property was classified as held for sale, adjusted for any depreciation expense that would have been recognized had the property been continuously classified as held for investment, or (ii) the fair value at the date of the subsequent decision not to sell.

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

Crest's income from discontinued operations, real estate acquired for resale	Three months ended June 30, 2010	June 30, 2009	Six months ended June 30, 2010	June 30, 2009
Rental revenue	$--	$66	$22	$132
Interest and other revenue	351	351	701	703
Interest expense	(135)	(149)	(263)	(322)
General and administrative expense	(87)	(83)	(184)	(168)
Property expenses	(82)	(34)	(112)	(68)
Provisions for impairment	--	--	--	(311)
Income taxes	111	75	201	136
Income from discontinued operations, real estate acquired for resale by Crest	$158	$226	$365	$102

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

Realty Income's income from discontinued operations, real estate held for investment	Three months ended June 30, 2010	June 30, 2009	Six months ended June 30, 2010	June 30, 2009
Gain on sales of investment properties	$1,195	$2,239	$1,898	$2,436
Rental revenue	84	412	271	899
Other revenue	7	2	17	15
Depreciation and amortization	(21)	(219)	(81)	(464)
Property expenses	(77)	(152)	(344)	(317)
Provisions for impairment	(53)	--	(87)	--
Income from discontinued operations, real estate held for investment	$1,135	$2,282	$1,674	$2,569

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

Total discontinued operations	Three months ended June 30, 2010	June 30, 2009	Six months ended June 30, 2010	June 30, 2009
Real estate acquired for resale by Crest	$158	$226	$365	$102
Real estate held for investment	1,135	2,282	1,674	2,569

Income from discontinued operations	$1,293	$2,508	$2,039	$2,671
Per common share, basic and diluted	$0.01	$0.02	$0.02	$0.03

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

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9. Distributions Paid and Payable

A. Common Stock

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

Month	2010	2009
January	$ 0.1430000	$ 0.1417500
February	0.1430000	0.1417500
March	0.1430000	0.1417500
April	0.1433125	0.1420625
May	0.1433125	0.1420625
June	0.1433125	0.1420625
Total	$ 0.8589375	$ 0.8514375

At June 30, 2010, a distribution of $0.143625 per common share was payable and was paid in July 2010.

B. Preferred Stock

In 2004, we issued 5.1 million shares of 7.375% Monthly Income Class D cumulative redeemable preferred stock. In May 2009, the Class D preferred shares became redeemable, at our option, for $25 per share. During each of the first six months of 2010 and 2009, we paid six monthly dividends to holders of our Class D preferred stock totaling $0.9218754 per share, or $4.7 million, and at June 30, 2010, a monthly dividend of $0.1536459 per share was payable and was paid in July 2010.

In 2006, we issued 8.8 million shares of 6.75% Monthly Income Class E cumulative redeemable preferred stock. Beginning December 7, 2011, the Class E preferred shares become redeemable, at our option, for $25 per share. During each of the first six months of 2010 and 2009, we paid six monthly dividends to holders of our Class E preferred stock totaling $0.84375 per share, or $7.4 million, and at June 30, 2010, a monthly dividend of $0.140625 per share was payable and was paid in July 2010.

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

10. Net Income Per Common Share

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

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

	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Weighted average shares used for the basic net income per share computation	103,612,454	103,446,949	103,653,250	103,475,185
Incremental shares from share-based compensation	153,374	3,508	125,359	4,712
Adjusted weighted average shares used for diluted net income per share computation	103,765,828	103,450,457	103,778,609	103,479,897
Unvested shares from share-based compensation that were anti-dilutive	87,000	654,462	87,200	666,462

11. Supplemental Disclosures of Cash Flow Information

Interest paid in the first six months of 2010 was $41.3 million and in the first six months of 2009 was $42.0 million.

Interest capitalized to properties under development in the first six months of 2010 was $3,000 and there was zero in the first six months of 2009.

Income taxes paid by Realty Income and Crest in the first six months of 2010 was $872,000 and in the first six months of 2009 was $1.1 million.

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

A. Share-based compensation expense for the first six months of 2010 was $3.5 million and for the first six months of 2009 was $2.7 million.

B. See note 8 for a discussion of impairments recorded by Realty Income and Crest in the first six months of 2010 and 2009.

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

12. Segment Information

We evaluate performance and make resource allocation decisions on an industry by industry basis. For financial reporting purposes, we have grouped our tenants into 33 industry and activity segments (including properties owned by Crest that are grouped together as a segment). All of the properties are incorporated into one of the applicable segments. Because almost all of our leases require the tenant to pay operating expenses, revenue is the only component of segment profit and loss we measure.

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

Assets, as of:	June 30, 2010	December 31, 2009
Segment net real estate:		
Automotive service	$108,370	$105,084
Automotive tire services	198,158	201,233
Child care	74,738	77,398
Convenience stores	471,116	477,640
Drug stores	138,844	141,057
Health and fitness	219,608	200,316
Restaurants	719,212	730,459
Theaters	285,729	290,386
Wine and spirits	257,826	--
24 non-reportable segments	582,472	593,309
Total segment net real estate	3,056,073	2,816,882
Other intangible assets - Automotive tire services	618	647
Other intangible assets - Drug stores	5,532	6,066
Other intangible assets - Grocery stores	835	860
Other intangible assets - Health and fitness	814	845
Other intangible assets - Theaters	1,732	1,885
Other intangible assets - Other	591	625
Goodwill - Automotive service	1,338	1,338
Goodwill - Child care	5,353	5,353
Goodwill - Convenience stores	2,074	2,074
Goodwill - Home furnishings	1,557	1,557
Goodwill - Restaurants	3,779	3,779
Goodwill - non-reportable segments	3,105	3,105
Other corporate assets	59,754	69,771
Total assets	$3,143,155	$2,914,787

Revenue	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Segment rental revenue:				
Automotive service	$4,046	$3,828	$7,957	$8,031
Automotive tire services	5,467	5,801	10,924	11,609
Child care	5,612	6,001	11,245	11,829
Convenience stores	14,264	13,810	28,476	27,384
Drug stores	3,432	3,431	6,864	6,863
Health and fitness	6,353	4,718	12,019	9,428
Restaurants	17,239	17,242	35,513	34,912
Theaters	7,563	7,498	15,127	14,995
Wine and spirits	320	--	320	--
24 non-reportable segments(1)	18,506	18,887	37,439	37,877
Total rental revenue	82,802	81,216	165,884	162,928

Other revenue	664	85	770	839
Total revenue	$83,466	$81,301	$166,654	$163,767

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

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13. Common Stock Incentive Plan

In 2003, our Board of Directors adopted, and our stockholders approved, the 2003 Incentive Award Plan of Realty Income Corporation (the "Stock Plan") to enable us to attract and retain the services of directors, employees, and consultants, considered essential to our long-term success. The Stock Plan offers our directors, employees, and consultants an opportunity to own stock in Realty Income and/or rights that will reflect our growth, development, and financial success. The Stock Plan was amended and restated by our Board of Directors in February 2006 and in May 2007.

The amount of share-based compensation costs recognized in "general and administrative" expense on our consolidated statements of income during the second quarter of 2010 was $1.7 million, during the second quarter of 2009 was $1.3 million, during the first six months of 2010 was $3.5 million and during the first six months of 2009 was $2.7 million.

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

	For the six months ended June 30, 2010		For the year ended December 31, 2009	
	Number of shares	Weighted average price (1)	Number of shares	Weighted average price (1)
Outstanding nonvested shares, beginning of year	853,234	$19.14	994,453	$19.70
Shares granted	277,400	28.98	142,860	22.86
Shares vested	(203,353)	23.66	(214,521)	23.14
Shares forfeited	(369)	25.38	(69,558)	25.95
Outstanding nonvested shares, end of each period	926,912	$ 22.53	853,234	$ 19.14

(1) Grant date fair value.

During the first six months of 2010, we issued 277,400 shares of common stock under our Stock Plan. These shares vest over the following service periods: 32,000 vested immediately, 5,000 vest over a service period of two years, 12,000 vest over a service period of three years, 50,000 vest over a service period of four years, and 178,400 vest over a service period of five years.

As of June 30, 2010, the remaining unamortized share-based compensation expense totaled $20.9 million, which is being amortized on a straight-line basis over the service period of each applicable award.

Due to a historically low turnover rate, we do not estimate a forfeiture rate for our nonvested shares. Accordingly, unexpected forfeitures will lower share-based compensation expense during the applicable period. Under the terms of our Stock Plan, we pay non-refundable dividends to the holders of our nonvested shares. Applicable accounting guidance requires that the dividends paid to holders of these nonvested shares be charged as compensation expense to the extent that they relate to nonvested shares that do not or are not expected to vest. However, since we do not estimate forfeitures given our historical trends, we did not record any amount to compensation expense related to dividends paid in 2010 or 2009.

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As of June 30, 2010, there were 5,192 vested stock options outstanding and exercisable with an exercise price of $14.70. There were 654 stock options exercised in the first six months of 2010, at an exercise price of $14.70. There were no stock option forfeitures in the first six months of 2010. No stock options were granted after January 1, 2002. Stock options were granted with an exercise price equal to the underlying stock's fair value at the date of grant. The outstanding stock options expire on December 31, 2011, ten years from the date they were granted.

14. Commitments and Contingencies

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

At June 30, 2010, we have contingent payments of $2.0 million for tenant improvements and leasing costs. In addition, we have committed $7.2 million under construction contracts, which is expected to be paid in the next twelve months.

15. Subsequent Events

In July 2010, we declared the following dividends, which will be paid in August 2010:

- $0.143625 per share to our common stockholders;
- $0.1536459 per share to our Class D preferred stockholders; and
- $0.140625 per share to our Class E preferred stockholders.

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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THE COMPANY

Realty Income Corporation, The Monthly Dividend Company®, is a Maryland corporation organized to operate as an equity real estate investment trust, or REIT. Our primary business objective is to generate dependable monthly cash distributions from a consistent and predictable level of funds from operations, or FFO, per share. Our monthly distributions are supported by the cash flow from our portfolio of properties leased to retail and other commercial enterprises. We have in-house acquisition, leasing, legal, credit research, real estate research, portfolio management, and capital markets expertise. Over the past 41 years, Realty Income and its predecessors have been acquiring and owning freestanding retail and other properties that generate rental revenue under long-term lease agreements (primarily 15 to 20 years).

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

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

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

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

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

- Of 2,350 properties;
- With an occupancy rate of 96.2%, or 2,260 properties occupied and only 90 properties available for lease;
- Leased to 118 different retail and other commercial enterprises doing business in 32 separate industries;
- Located in 49 states;
- With over 19.5 million square feet of leasable space; and
- With an average leasable space per property of approximately 8,300 square feet.

Of the 2,350 properties in the portfolio, 2,339, or 99.5%, are single-tenant properties, and the remaining 11 are multi-tenant, distribution and office properties. At June 30, 2010, of the 2,339 single-tenant properties, 2,250 were leased with a weighted average remaining lease term (excluding extension options) of approximately 11.4 years.

In addition, at June 30, 2010, our wholly-owned taxable REIT subsidiary, Crest, had an inventory of three properties valued at $3.8 million, which are classified as held for sale. Crest was created to buy and sell properties, primarily to individual investors who are involved in tax-deferred exchanges under Section 1031 of the Internal Revenue Code of 1986, as amended (the "Code"). In addition to the three properties, Crest also holds notes receivable of $22.1 million at June 30, 2010.

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

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Our net-lease agreements generally:

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

Investment Philosophy

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

Credit Strategy

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

Acquisition Strategy

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

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

Portfolio Management Strategy

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

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Our executives regularly review and analyze:

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

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

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

At June 30, 2010, we classified real estate with a carrying amount of $7.8 million as held for sale on our balance sheet, which includes three properties owned by Crest, valued at $3.8 million. Additionally, we anticipate selling investment properties from our portfolio that have not yet been specifically identified, from which we anticipate receiving between $10 million and $35 million in proceeds during the next 12 months. We intend to invest these proceeds into new property acquisitions, if there are attractive opportunities available. However, we cannot guarantee that we will sell properties during the next 12 months or be able to invest the proceeds from the sales of any properties in new properties.

Impact of Real Estate and Credit Markets

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

RECENT DEVELOPMENTS

Increases in Monthly Distributions to Common Stockholders

We continue our 41-year policy of paying distributions monthly. Monthly distributions per share increased in April 2010 by $0.0003125 to $0.1433125 and in July 2010 by $0.0003125 to $0.143625. The increase in July 2010 was our 51st consecutive quarterly increase, which was the 58th increase in the amount of our dividend since our listing on the New York Stock Exchange, or NYSE, in 1994. In the first six months of 2010, we paid three monthly cash distributions per share in the amount of $0.143 and three in the amount of $0.1433125, totaling $0.8589375. In June 2010 and July 2010, we declared distributions of $0.143625 per share, which were paid in July 2010 and will be paid in August 2010, respectively.

The monthly distribution of $0.143625 per share represents a current annualized distribution of $1.7235 per share, and an annualized distribution yield of approximately 5.7% based on the last reported sale price of our common stock on the NYSE of $30.33 on June 30, 2010. Although we expect to continue our policy of paying monthly distributions, we cannot guarantee that we will maintain our current level of distributions, that we will continue our pattern of increasing distributions per share, or what our actual distribution yield will be in any future period.

Acquisitions during the Second Quarter of 2010

During the second quarter of 2010, Realty Income invested $261.2 million in 13 new properties with an initial weighted average contractual lease rate of 7.5%. These 13 properties are located in two states, contain over 397,000 leasable square feet, and are 100% leased with an average lease term of 19.8 years. The 13 new properties acquired by

Realty Income are net-leased to commercial enterprises in the convenience store and wine and spirits industries.

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Included in the $261.2 million invested by Realty Income during the second quarter of 2010 is the acquisition and lease back of approximately $258 million of winery and vineyard properties under 20-year triple-net lease agreements with Diageo Chateau & Estates Wine Company and guaranteed by Diageo plc (together with its subsidiaries, "Diageo"). The properties are all located in California's Napa Valley and include the wineries that produce wines for Diageo's Sterling Vineyards ("Sterling") and Beaulieu Vineyards ("BV") brands and 10 vineyards producing grapes for their Sterling, BV and other brands. The properties include approximately 1,690 acres and 394,000 square feet of winery, production, storage, shipping and tourist buildings. Diageo will continue to operate the wineries and vineyards. As a result of this acquisition of properties, Diageo has become our third largest tenant based on our rental revenue. Headquartered in London, Diageo is a global premium drinks company with a well-known portfolio of international brands of spirits, beer and wine. Diageo ordinary shares trade on the London Stock Exchange under the symbol "DGE.L" and the New York stock exchange ("NYSE") under the symbol "DEO."

Acquisitions during the First Six Months of 2010
During the first six months of 2010, Realty Income invested $289.0 million in 21 new properties with an initial weighted average contractual lease rate of 7.6%. These 21 properties are located in seven states, contain over 501,000 leasable square feet, and are 100% leased with an average lease term of 19.2 years. The 21 new properties acquired by Realty Income are net-leased to commercial enterprises i