REALTY INCOME CORP
Form 10-K
February 12, 2009

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, 2008

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

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

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, $1.00 Par Value	New York Stock Exchange
Class D Preferred Stock, $1.00 Par Value	New York Stock Exchange
Class E Preferred Stock, $1.00 Par Value	New York Stock Exchange

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

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

At June 30, 2008, the aggregate market value of the Registrant's shares of common stock, $1.00 par value, held by non-affiliates of the Registrant was $2.2 billion, at the New York Stock Exchange ("NYSE") closing price of $22.76.

At February 9, 2009, the number of shares of common stock outstanding was 104,319,051, the number of Class D preferred stock outstanding was 5,100,000 and the number of Class E preferred stock outstanding was 8,800,000.

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, 2009, 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.

REALTY INCOME CORPORATION

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PART I

Item 1: Business

THE COMPANY

Realty Income Corporation, The Monthly Dividend Company®, is a Maryland corporation organized to operate as an equity real estate investment trust, or REIT. Our primary business objective is to generate dependable monthly cash distributions from a consistent and predictable level of funds from operations, or FFO per share. Our monthly distributions are supported by the cash flow from our portfolio of retail properties leased to regional and national retail chains. We have in-house acquisition, leasing, legal, retail and real estate research, portfolio management and capital markets expertise. Over the past 39 years, Realty Income and its predecessors have been acquiring and owning freestanding retail properties that generate rental revenue under long-term lease agreements (primarily 15 to 20 years).

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

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

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

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

At December 31, 2008, we owned a diversified portfolio:

- Of 2,348 retail properties;
- With an occupancy rate of 97.0%, or 2,278 properties occupied of the 2,348 properties in the portfolio;
- With only 70 properties available for lease;
- Leased to 119 different retail chains doing business in 30 separate retail industries;
- Located in 49 states;
- With over 19.1 million square feet of leasable space; and
- With an average leasable retail space per property of approximately 8,130 square feet.

Of the 2,348 properties in the portfolio, 2,337, or 99.5%, are single-tenant, retail properties and the remaining 11 are multi-tenant, distribution and office properties. At December 31, 2008, 2,268 of the 2,337 single-tenant properties were leased with a weighted average remaining lease term (excluding extension options) of approximately 11.9 years.

In addition, at December 31, 2008, our wholly-owned taxable REIT subsidiary, Crest Net Lease, Inc. (“Crest”), had an inventory of five properties with a carrying value of $6.0 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 “Tax Code”). We anticipate Crest will not acquire any properties in 2009.

We typically acquire retail store properties under long-term leases with retail chain store operators. These transactions generally provide capital to owners of retail real estate and retail chains for expansion or other corporate purposes.

Our acquisition and investment activities are concentrated in well-defined target markets and generally focus on retail chains providing goods and services that satisfy basic consumer needs.

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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 to a lesser degree, additional rent calculated as a percentage of the tenants' gross sales above a specified level.

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

The eight senior officers of Realty Income owned 1.2% of our outstanding common stock with a market value of $25.9 million at February 9, 2009. The directors and eight senior officers of Realty Income, as a group, owned 2.5% of our outstanding common stock with a market value of $52.1 million at February 9, 2009.

Our common stock is listed on The New York Stock Exchange ("NYSE") under the ticker symbol "O" with a cusip number of 756109-104. Our central index key number is 726728.

Our Class D cumulative redeemable preferred stock is listed on the NYSE under the ticker symbol "OprD" with a cusip number of 756109-609.

Our Class E cumulative redeemable preferred stock is listed on the NYSE under the ticker symbol "OprE" with a cusip number of 756109-708.

In February 2009, we had 69 permanent employees as compared to 75 permanent employees in February 2008.

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

RECENT DEVELOPMENTS

Increases in Monthly Distributions to Common Stockholders

We continue our 39-year policy of paying distributions monthly. Monthly distributions per share increased in January 2009 by $0.000625 to $0.14175. The increase in January 2009 was our 45th consecutive quarterly increase and the 52nd increase in the amount of our dividend since our listing on the NYSE in 1994. In 2008, we paid three monthly cash distributions per share in the amount of $0.13675, three in the amount of $0.137375, two in the amount of $0.138, one in the amount of $0.1405 and three in the amount of $0.141125, totaling $1.66225. In December 2008 and January 2009, we declared distributions of $0.14175 per share, which were paid in January 2009 and will be paid in February 2009, respectively.

The monthly distribution of $0.14175 per share represents a current annualized distribution of $1.701 per share, and an annualized distribution yield of approximately 8.4% based on the last reported sale price of our common stock on the NYSE of $20.19 on February 9, 2009. Although we expect to continue our policy of paying monthly distributions, we cannot guarantee that we will maintain our current level of distributions, that we will continue our pattern of

increasing distributions per share, or what our actual distribution yield will be in any future period.

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Acquisitions During 2008

During 2008, Realty Income invested $189.6 million in 108 new retail properties and properties under development with an initial weighted average contractual lease rate of 8.7%. $181.4 million of these acquisitions occurred in the first quarter of 2008 while only $8.2 million was invested during the remainder of 2008. These 108 properties are located in 14 states, contain over 714,000 leasable square feet, and are 100% leased with an average lease term of 20.6 years. The 108 new properties acquired by Realty Income are net-leased to eight different retail chains in the following seven industries: automotive tire service, convenience store, drug store, financial services, motor vehicle dealership, restaurant and theater. There were no acquisitions by Crest in 2008.

Our 2008 portfolio acquisitions were lower than in recent years primarily due to uncertainty in the commercial retail real estate market. Property prices continued to decline and lease rates rose throughout 2008. We continue to monitor the acquisition market carefully and will acquire properties for long-term investment when we believe the transactions are accretive to our shareholders.

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

Investments in Existing Properties

In 2008, we capitalized costs of $2.8 million on existing properties in our portfolio, consisting of $956,000 for re-leasing costs and $1.5 million for building improvements.

$355 Million Acquisition Credit Facility

In May 2008, we entered into a new $355 million acquisition credit facility which replaced our existing $300 million acquisition credit facility that was scheduled to expire in October 2008. The term of the new credit facility is for three years until May 2011, plus two, one-year extension options. Under the new credit facility, our investment grade credit ratings provide for financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 100 basis points with a facility fee of 27.5 basis points, for all-in drawn pricing of 127.5 basis points over LIBOR. We also have other interest rate options available to us.

Issuance of Common Stock

In September 2008, we issued 2,925,000 shares of common stock at a price of $26.82 per share. The net proceeds of $74.4 million were used, along with our available cash on hand, to repay the $100 million outstanding principal amount of our 8.25% Monthly Income Senior Notes (“2008 Notes”) in November 2008 and the $20 million outstanding principal amount of our 8% Notes (“2009 Notes”) in January 2009.

Note Redemptions

In November 2008, we redeemed the $100 million outstanding principal amount of our 2008 Notes. In January 2009, we redeemed the $20 million outstanding principal amount of our 2009 Notes. The 2008 Notes and 2009 Notes were redeemed at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest. We now have no debt maturities until 2013.

Retirement of Chairman of the Board of Directors

William E. Clark, our previous non-executive chairman, retired from the Board of Directors effective February 10, 2009. Our Corporate Governance and Nominating Committee recommended, and the Board of Directors elected, Donald R. Cameron as the new non-executive chairman effective upon Mr. Clark’s retirement. Mr. Cameron has served on Realty Income's Board of Directors since 1994, and has been Realty Income's lead independent director

since May 2004.

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Net Income Available to Common Stockholders
Net income available to common stockholders was $107.6 million in 2008 versus $116.2 million in 2007, a decrease of $8.6 million. On a diluted per common share basis, net income was $1.06 per share in 2008 as compared to $1.16 per share in 2007.

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

The gain recognized during 2008 from the sales of investment properties and from the additional proceeds received from a sale of excess land was $13.6 million, as compared to a $3.6 million gain recognized from the sales of investment properties and excess land during 2007.

Funds from Operations (FFO)
In 2008, our FFO decreased by $4.2 million, or 2.2%, to $185.5 million versus $189.7 million in 2007. On a diluted per common share basis, FFO was $1.83 in 2008 compared to $1.89 in 2007, a decrease of $0.06, or 3.2%.

See our discussion of FFO in the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this annual report, which includes a reconciliation of net income available to common stockholders to FFO.

Crest’s Property Sales
During 2008, Crest sold 25 properties from its inventory for an aggregate of $50.7 million, which resulted in a gain of $4.6 million. Crest’s gains are included in “income from discontinued operations, real estate acquired for resale by Crest” on our consolidated statements of income.

Crest’s Property Inventory
Crest’s had an inventory of five properties with a carrying value of $6.0 million at December 31, 2008, which is included in “real estate held for sale, net” on our consolidated balance sheet.

DISTRIBUTION POLICY

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

In order to maintain our tax status as a REIT for federal income tax purposes, we generally are required to distribute dividends to our stockholders aggregating annually at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and excluding net capital gains), and we are subject to income tax to the extent we distribute less than 100% of our REIT taxable income (including net capital gains). In 2008, our cash distributions totaled $193.9 million, or approximately 122.7% of our estimated REIT taxable income of $158.0 million. Our estimated REIT taxable income reflects non-cash deductions for depreciation and amortization. Our estimated REIT taxable income is presented to show our compliance with REIT distribution requirements and is not a measure of our liquidity or performance.

We intend to continue to make distributions to our stockholders that are sufficient to meet this distribution requirement and that will reduce our exposure to income taxes. Our 2008 cash distributions to common stockholders totaled $169.7 million, representing 91.5% of our funds from operations available to common stockholders of $185.5 million.

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

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

Distributions of our current and accumulated earnings and profits for federal income tax purposes generally will be taxable to stockholders as ordinary income, except to the extent that we recognize capital gains and declare a capital gains dividend, or that such amounts constitute "qualified dividend income" subject to a reduced tax rate. The maximum tax rate of non-corporate taxpayers for “qualified dividend income” has generally been reduced to 15% (until it “sunsets” or reverts to the provisions of prior law, which under current law will occur with respect to taxable years beginning after December 31, 2010). In general, dividends payable by REITs are not eligible for the reduced tax rate on corporate dividends, except to the extent the REIT’s dividends are attributable to dividends received from taxable corporations (such as our taxable REIT subsidiary, Crest), to income that was subject to tax at the corporate or REIT level (for example, if we distribute taxable income that we retained and paid tax on in the prior taxable year) or, as discussed above, dividends properly designated by us as “capital gain dividends.” Distributions in excess of earnings and profits generally will be treated as a non-taxable reduction in the stockholders’ basis in their stock. Distributions above that basis, generally, will be taxable as a capital gain to stockholders who hold their shares as a capital asset. Approximately 18.8% of the distributions to our common stockholders, made or deemed to have been made in 2008, were classified as a return of capital for federal income tax purposes. We are unable to predict the portion of future distributions that may be classified as a return of capital.

BUSINESS PHILOSOPHY AND STRATEGY

Investment Philosophy

We believe that owning an actively managed, diversified portfolio of retail properties under long-term, net leases produces consistent and predictable income. Net leases typically require the tenant to be responsible for monthly rent and property operating expenses including property taxes, insurance and maintenance. In addition, tenants are typically responsible for future rent increases based on increases in the consumer price index (typically subject to ceilings), fixed increases or, to a lesser degree, 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.

Investment Strategy

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

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

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

We also focus on, and have selectively made investments in, properties of upper market retail chains. We believe upper market retail chains can be attractive for investment because:

- They typically are of a higher credit quality;
- They usually are larger public and private retailers with more commonly recognized brand names;
- They utilize a larger building ranging in size from 10,000 to 50,000 square feet; and
- They are able to grow because access to capital facilitates larger transaction sizes.

While our investment strategy focuses primarily on acquiring properties leased to middle and upper market retail chains, we also selectively seek investment opportunities with venture market retail chains. Periodically, venture market opportunities arise where we feel that the real estate used by the tenant is high quality and can be purchased at favorable prices. To meet our stringent investment standards, however, venture retail companies must have a well-defined retailing concept and strong financial prospects. These opportunities are examined on a case by case basis and we are highly selective in making investments in this area.

Historically, our investment focus has been on retail industries that have a service component because we believe the lease revenue from these types of businesses is more stable. Because of this investment focus, for the quarter ended December 31, 2008, approximately 83.2% of our rental revenue was derived from retailers with a service component in their business. Furthermore, we believe these service-oriented businesses would be difficult to duplicate over the Internet and that our properties continue to perform well relative to competition from Internet businesses.

Credit Strategy

We generally provide sale-leaseback financing to less than investment grade retail chains. We typically acquire and lease back properties to regional and national retail chains and believe that within this market we can achieve an attractive risk-adjusted return on the financing we provide to retailers. Since 1970, our overall weighted average occupancy rate at the end of each year has been 98.4%, and the occupancy rate at the end of each year has never been below 97%.

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

believe that the risk of default on the real estate leases can be further mitigated by monitoring the performance of the retailers' individual unit locations and considering whether to sell locations that are weaker performers.

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

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

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

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

Acquisition Strategy

We seek to invest in industries in which several, well-organized, regional and national retail chains are capturing market share through service, quality control, economies of scale, advertising and the selection of prime retail locations. We execute our acquisition strategy by acting as a source of capital to regional and national retail chain store owners and operators, doing business in a variety of industries, by acquiring and leasing back retail store locations. We undertake thorough research and analysis to identify 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 retail locations for regional and national retail chains;
- Properties that we deem to be profitable for the retailers;
- Properties that are located within attractive demographic areas relative to the business of their 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 its credit quality. Our executives review industry research, tenant research, property due diligence and significant portfolio management activities. This monitoring typically includes regular review and analysis of:

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

We have an active portfolio management program that incorporates the sale of assets when we believe the reinvestment of the sale proceeds will generate higher returns, enhance the credit quality of our real estate portfolio, or extend our average remaining lease term. At December 31, 2008, we classified real estate with a carrying amount of $6.7 million as held for sale on our balance sheet, which includes $6.0 million for properties owned by Crest. Additionally, we anticipate selling investment properties in our portfolio that have not yet been specifically identified, from which we anticipate receiving between $10 million and $35 million in proceeds during the next 12

months. We intend to invest these proceeds into new property acquisitions. However, we cannot guarantee that we will sell properties during the next 12 months.

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Universal Shelf Registration
In April 2006, we filed a shelf registration statement with the SEC, which is effective for a term of three years. In accordance with the SEC rules, the amount of securities to be issued pursuant to this shelf registration statement was not specified when it was filed. The securities covered by this registration statement include common stock, preferred stock, debt securities, or any combination of such securities. We may periodically offer one or more of these securities in amounts, prices and on terms to be announced when and if the securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of any offering. There is no specific limit to the dollar amount of new securities that can be issued under this shelf registration before it expires in April 2009, and our common stock, preferred stock and notes issued after April 2006 were all issued pursuant to this universal shelf registration statement. Our plan is to file a new shelf registration statement prior to April 2009, when our existing shelf registration statement expires.

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 February 9, 2009, our total outstanding borrowings were $1.35 billion of senior unsecured notes, or approximately 35.5% of our total market capitalization of $3.80 billion. We had no borrowings on our $355 million credit facility.

We define our total market capitalization at February 9, 2009 as the sum of:

- Shares of our common stock outstanding of 104,319,051 multiplied by the last reported sales price of our common stock on the NYSE of $20.19 per share on February 9, 2009, or $2.11 billion;
- Aggregate liquidation value (par value of $25 per share) of the Class D preferred stock of $127.5 million;
- Aggregate liquidation value (par value of $25 per share) of the Class E preferred stock of $220 million; and
- Outstanding notes of $1.35 billion.

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

$355 Million Acquisition Credit Facility
In May 2008, we entered into a new $355 million revolving, unsecured credit facility which replaced our existing $300 million acquisition credit facility that was scheduled to expire in October 2008. The term of the new credit facility is for three years until May 2011, plus two, one-year extension options. Under the new credit facility, our investment grade credit ratings provided for financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 100 basis points with a facility fee of 27.5 basis points, for all-in drawn pricing of 127.5 basis points over LIBOR. We also have other interest rate options available to us. At February 9, 2009, we had a borrowing capacity of $355 million available on our new credit facility and no outstanding balance.

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

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We use our credit facility for the short-term financing of new property acquisitions. When outstanding borrowings under the credit facility reach a certain level (generally in the range of $100 million to $200 million) and 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, convertible preferred stock, debt securities or convertible debt securities. We cannot assure you, however, that we will be able to obtain any such refinancing or that market conditions prevailing at the time of refinancing will enable us to issue equity or debt securities upon acceptable terms.

Credit Agency Ratings

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

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

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

Mortgage Debt

We have no mortgage debt on any of our properties.

No Off-Balance Sheet Arrangements or Unconsolidated Investments

We have no unconsolidated or off-balance sheet investments in "variable interest entities" or off-balance sheet financing, nor do we engage in trading activities involving energy or commodity contracts or other derivative instruments.

As we have no joint ventures, off-balance sheet entities, or mandatory redeemable preferred stock, our financial position or results of operations are currently not affected by Financial Accounting Standards Board Interpretation No. 46R, Consolidation of Variable Interest Entities and Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.

Competitive Strategy

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

- Size and Type of Investment Properties: We believe smaller ($500,000 to $10,000,000) net-leased retail properties represent an attractive investment opportunity in today's real estate environment. Due to the complexities of acquiring and managing a large portfolio of relatively small assets, we believe these types of properties have not experienced significant institutional ownership interest or the corresponding yield reduction experienced by larger income-producing properties. We believe the less intensive day-to-day property management required by net-lease agreements, coupled with the active management of a large portfolio of smaller properties, is an effective investment strategy. The tenants of our freestanding retail properties generally provide goods and services that satisfy basic consumer needs. In order to grow and expand, they generally need capital. Since the acquisition of real estate is typically the single largest capital expenditure of many of these retailers, our method of purchasing the

property and then leasing it back, under a net-lease arrangement, allows the retail chain to free up capital.

- Investment in New Retail Industries: Though we specialize in single-tenant properties, we will seek to further diversify our portfolio among a variety of retail industries. We believe diversification will allow us to invest in retail industries that currently are growing and have characteristics we find attractive. These characteristics include, but are not limited to, retail industries that are dominated by local store operators where regional and national chain store operators can increase market share and dominance by consolidating local operators and streamlining their operations, as well as capitalizing on major demographic shifts in a population base.

- Diversification: Diversification of the portfolio by retail industry type, tenant, and geographic location is key to our objective of providing predictable investment results for our stockholders, therefore further diversification of our portfolio is a continuing objective. At December 31, 2008, our retail property portfolio consisted of 2,348 properties located in 49 states, leased to 119 retail chains doing business in 30 industry segments. Each of the 30 industry segments, represented in our property portfolio, individually accounted for no more than 20.8% of our rental revenue for the quarter ended December 31, 2008.

- Management Specialization: We believe that our management's specialization in single-tenant retail properties, operated under net-lease agreements, is important to meeting our objectives. We plan to maintain this specialization and will seek to employ and train high-quality professionals in this specialized area of real estate ownership, finance and management.

- Technology: We intend to stay at the forefront of technology in our efforts to efficiently and economically carry out our operations. We maintain sophisticated information systems that allow us to analyze our portfolio's performance and actively manage our investments. We believe that technology and information-based systems will play an increasingly important role in our competitiveness as an investment manager and source of capital to a variety of industries and tenants.

PROPERTIES

At December 31, 2008, we owned a diversified portfolio:

- Of 2,348 retail properties;
- With an occupancy rate of 97.0%, or 2,278 properties occupied of the 2,348 properties in the portfolio;
- With only 70 properties available for lease;
- Leased to 119 different retail chains doing business in 30 separate retail industries;
- Located in 49 states;
- With over 19.1 million square feet of leasable space; and
- With an average leasable retail space per property of approximately 8,130 square feet.

In addition to our real estate portfolio, our subsidiary, Crest had an inventory of five properties located in five states at December 31, 2008. These properties have a carrying value of $6.0 million and are classified as held for sale.

At December 31, 2008, 2,268 of our 2,348 retail properties were leased under net-lease agreements. A net lease typically requires the tenant to be responsible for minimum monthly rent and property operating expenses including property taxes, insurance and maintenance. In addition, our tenants are typically responsible for future rent increases based on increases in the consumer price index (typically subject to ceilings), fixed increases or, to a lesser degree, additional rent calculated as a percentage of the tenants' gross sales above a specified level.

Our net-leased retail properties primarily are leased to regional and national retail chain store operators. Most buildings are single-story structures with adequate parking on site to accommodate peak retail traffic periods. The

properties tend to be on major thoroughfares with relatively high traffic counts, adequate access and proximity to a sufficient population base to constitute a suitable market or trade area for the retailer's business.

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Industry Diversification

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

	Percentage of Rental Revenue(1)						
	For the Quarter Ended December 31, 2008	For the Years Ended					
Industries		Dec 31, 2008	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005	Dec 31, 2004	Dec 31, 2003
Apparel stores	1.1%	1.1%	1.2%	1.7%	1.6%	1.8%	2.1%
Automotive collision services	1.0	1.0	1.1	1.3	1.3	1.0	0.3
Automotive parts	1.6	1.6	2.1	2.8	3.4	3.8	4.5
Automotive service	4.7	4.8	5.2	6.9	7.6	7.7	8.3
Automotive tire services	6.8	6.7	7.3	6.1	7.2	7.8	3.1
Book stores	0.2	0.2	0.2	0.2	0.3	0.3	0.4
Business services	*	*	0.1	0.1	0.1	0.1	0.1
Child care	7.5	7.6	8.4	10.3	12.7	14.4	17.8
Consumer electronics	0.8	0.8	0.9	1.1	1.3	2.1	3.0
Convenience stores	16.4	15.8	14.0	16.1	18.7	19.2	13.3
Crafts and novelties	0.3	0.3	0.3	0.4	0.4	0.5	0.6
Distribution and office	1.0	1.0	0.6	--	--	--	--
Drug stores	4.2	4.1	2.7	2.9	2.8	0.1	0.2
Entertainment	1.2	1.2	1.4	1.6	2.1	2.3	2.6
Equipment rental services	0.2	0.2	0.2	0.2	0.4	0.3	0.2
Financial services	0.3	0.2	0.2	0.1	0.1	0.1	--
General merchandise	0.8	0.8	0.7	0.6	0.5	0.4	0.5
Grocery stores	0.7	0.7	0.7	0.7	0.7	0.8	0.4
Health and fitness	5.7	5.6	5.1	4.3	3.7	4.0	3.8
Home furnishings	2.6	2.4	2.6	3.1	3.7	4.1	4.9
Home improvement	1.8	1.9	2.1	3.4	1.1	1.0	1.1
Motor vehicle dealerships	3.1	3.1	3.1	3.4	2.6	0.6	--
Office supplies	1.0	1.0	1.1	1.3	1.5	1.6	1.9
Pet supplies and services	0.9	0.8	0.9	1.1	1.3	1.4	1.7
Private education	0.8	0.8	0.8	0.8	0.8	1.1	1.2
Restaurants	20.8	21.8	21.2	11.9	9.4	9.7	11.8

Shoe stores	--	--	--	--	0.3	0.3	0.9
Sporting goods	2.3	2.3	2.6	2.9	3.4	3.4	3.8
Theaters	9.1	9.0	9.0	9.6	5.2	3.5	4.1
Travel plazas	0.2	0.2	0.2	0.3	0.3	0.4	0.3
Video rental	1.0	1.1	1.7	2.1	2.5	2.8	3.3
Other	1.9	1.9	2.3	2.7	3.0	3.4	3.8
Totals	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

* Less than 0.1%

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

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Service Category Diversification

The following table sets forth certain information regarding the properties owned by Realty Income (excluding properties owned by Crest) at December 31, 2008, classified according to the retail business types and the level of services they provide (dollars in thousands):

Industry	Number of Properties		Rental Revenue for the Quarter Ended December 31, 2008(1)	Percentage of Rental Revenue
Tenants Providing Services				
Automotive collision services	13	$	852	1.0%
Automotive service	235		3,908	4.7
Child care	263		6,201	7.5
Entertainment	8		999	1.2
Equipment rental services	3		158	0.2
Financial services	13		209	0.3
Health and fitness	26		4,685	5.7
Private education	7		631	0.8
Theaters	34		7,507	9.1
Other	9		1,557	1.9
	611		26,707	32.4
Tenants Selling Goods and Services				
Automotive parts (with installation)	26		510	0.6
Automotive tire services	155		5,647	6.8
Business services	1		13	*
Convenience stores	574		13,518	16.4
Distribution and office	3		847	1.0
Home improvement	3		108	0.1
Motor vehicle dealerships	21		2,603	3.1
Pet supplies and services	10		666	0.8
Restaurants	642		17,217	20.8
Travel plazas	1		187	0.2
Video rental	32		829	1.0
	1,468		42,145	50.8
Tenants Selling Goods				
Apparel stores	6		902	1.1
Automotive parts	51		842	1.0
Book stores	2		156	0.2
Consumer electronics	13		686	0.8
Crafts and novelties	5		242	0.3
Drug stores	51		3,481	4.2
General merchandise	33		694	0.8
Grocery stores	9		577	0.7
Home furnishings	44		2,127	2.6
Home improvement	29		1,420	1.7
Office supplies	10		788	1.0
Pet supplies	2		43	0.1

Sporting goods	14		1,877	2.3
	269		13,835	16.8
Totals	2,348	$	82,687	100.0%

* Less than 0.1%

(1) Includes rental revenue for all properties owned by Realty Income at December 31, 2008, including revenue from properties reclassified as discontinued operations of $44.

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Lease Expirations

The following table sets forth certain information regarding Realty Income's property portfolio (excluding properties owned by Crest) regarding the timing of the lease term expirations (excluding extension options) on our 2,268 net leased, single-tenant retail properties as of December 31, 2008 (dollars in thousands):

	Total Portfolio			Initial Expirations(3)			Subsequent Expirations(4)		
Year	Total Number of Leases Expiring(1)	Rental Revenue for the Quarter Ended December 31, 2008(2)	% of Total Rental Revenue	Number of Leases Expiring	Rental Revenue for the Quarter Ended December 31, 2008	% of Total Rental Revenue	Number of Leases Expiring	Rental Revenue for the Quarter Ended December 31, 2008	% of Total Rental Revenue
2009	148	$ 3,084	3.9%	36	$ 787	1.0%	112	$ 2,297	2.9%
2010	102	2,197	2.7	48	1,227	1.5	54	970	1.2
2011	105	3,137	3.9	57	2,055	2.6	48	1,082	1.3
2012	113	2,681	3.3	75	1,864	2.3	38	817	1.0
2013	140	5,316	6.7	99	4,329	5.4	41	987	1.3
2014	55	2,125	2.7	36	1,780	2.2	19	345	0.5
2015	108	2,857	3.6	85	2,318	2.9	23	539	0.7
2016	114	2,015	2.5	112	1,987	2.5	2	28	*
2017	49	1,894	2.4	41	1,745	2.2	8	149	0.2
2018	42	1,888	2.4	34	1,689	2.1	8	199	0.3
2019	100	4,856	6.1	94	4,526	5.7	6	330	0.4
2020	82	2,987	3.7	79	2,923	3.6	3	64	0.1
2021	170	7,503	9.4	169	7,448	9.3	1	55	0.1
2022	101	2,951	3.7	100	2,903	3.6	1	48	0.1
2023	245	7,754	9.7	243	7,680	9.6	2	74	0.1
2024	62	1,815	2.3	62	1,815	2.3	--	--	--
2025	70	5,466	6.9	66	5,398	6.8	4	68	0.1
2026	122	6,866	8.6	120	6,809	8.5	2	57	0.1
2027	152	4,622	5.8	151	4,605	5.8	1	17	*
2028	82	4,009	5.0	80	3,938	4.9	2	71	0.1
2029	45	1,099	1.4	45	1,099	1.4	--	--	--
2030	20	924	1.2	20	924	1.2	--	--	--
2031	27	649	0.8	27	649	0.8	--	--	--
2032	2	57	0.1	2	57	0.1	--	--	--
2033	7	422	0.5	7	422	0.5	--	--	--
2034	2	230	0.3	2	230	0.3	--	--	--
2037	2	354	0.4	2	354	0.4	--	--	--
2043	1	13	*	--	--	--	1	13	*
Totals	2,268	$ 79,771	100.0%	1,892	$ 71,561	89.5%	376	$ 8,210	10.5%

* Less than 0.1%

(1) Excludes ten multi-tenant properties and 70 vacant unleased properties, one of which is a multi-tenant property. The lease expirations for properties under construction are based on the estimated date of completion of those properties.

(2) Includes rental revenue of $44 from properties reclassified as discontinued operations and excludes revenue of $2,916 from ten multi-tenant properties and from 70 vacant and unleased properties at December 31, 2008.

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

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

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State Diversification

The following table sets forth certain state-by-state information regarding Realty Income's property portfolio (excluding properties owned by Crest) as of December 31, 2008 (dollars in thousands):

State	Number of Properties	Percent Leased	Approximate Leasable Square Feet	Rental Revenue for the Quarter Ended December 31, 2008(1)	Percentage of Rental Revenue
Alabama	63	98%	425,400	$ 1,893	2.3%
Alaska	2	100	128,500	277	0.3
Arizona	80	98	395,800	2,418	2.9
Arkansas	18	100	98,500	417	0.5
California	64	100	1,160,700	4,505	5.4
Colorado	53	96	486,300	1,902	2.3
Connecticut	24	100	276,600	1,310	1.6
Delaware	17	100	33,300	428	0.5
Florida	168	98	1,449,300	6,786	8.2
Georgia	132	98	926,900	3,992	4.8
Idaho	13	92	85,400	338	0.4
Illinois	74	97	877,800	4,211	5.1
Indiana	82	96	689,600	3,213	3.9
Iowa	22	95	296,100	1,006	1.2
Kansas	33	94	579,100	1,121	1.4
Kentucky	22	100	110,600	673	0.8
Louisiana	33	94	190,400	877	1.1
Maine	3	100	22,500	161	0.2
Maryland	29	97	271,200	1,587	1.9
Massachusetts	66	100	580,400	2,618	3.2
Michigan	52	98	257,300	1,243	1.5
Minnesota	21	100	392,100	1,572	1.9
Mississippi	71	97	347,600	1,478	1.8
Missouri	62	97	640,100	2,076	2.5
Montana	2	100	30,000	76	0.1
Nebraska	19	100	196,300	645	0.8
Nevada	15	93	191,000	883	1.1
New Hampshire	14	100	109,900	557	0.7
New Jersey	33	100	261,300	1,930	2.3
New Mexico	8	100	56,400	191	0.2
New York	40	95	502,700	2,493	3.0
North Carolina	96	99	548,300	2,865	3.5
North Dakota	6	100	36,600	73	0.1
Ohio	137	98	852,200	3,377	4.1
Oklahoma	25	96	145,900	582	0.7
Oregon	18	100	297,300	885	1.1
Pennsylvania	99	100	683,800	3,527	4.3
Rhode Island	3	100	11,000	57	0.1

South Carolina	100	98	374,400	2,190	2.6
South Dakota	9	100	24,900	102	0.1
Tennessee	135	96	635,500	2,920	3.5
Texas	214	92	2,241,700	7,814	9.5
Utah	5	80	30,600	87	0.1
Vermont	4	100	12,700	125	0.2
Virginia	104	99	637,100	3,496	4.2
Washington	35	91	230,300	792	1.0
West Virginia	2	100	23,000	121	0.1
Wisconsin	20	90	248,100	774	0.9
Wyoming	1	100	4,200	23	*
Totals/Average	2,348	97%	19,106,700	$ 82,687	100.0%

* Less than 0.1%

(1) Includes rental revenue for all properties owned by Realty Income at December 31, 2008, including revenue from properties reclassified as discontinued operations of $44.

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Description of Leasing Structure

At December 31, 2008, 2,268 of our 2,348 retail properties were leased under net-lease agreements. Our net-lease agreements generally:

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

Certain Properties under Development

Of the 108 properties Realty Income acquired in 2008, four were development properties, all of which were occupied and paying rent at December 31, 2008. In the case of development properties, we either enter into an agreement with a retail chain where the retailer retains a contractor to construct the building and we fund the costs of that development, or we fund a developer who constructs the building. In either case, there is an executed lease with a retail tenant at the time of the land purchase (with a fixed rent commencement date) and there is a requirement to complete the construction in a timely basis and within a specific budget, typically within eight months after we purchase the land. The tenant or developer generally is required to pay construction cost overruns to the extent that they exceed the construction budget by more than a predetermined amount. We also enter into a lease with the tenant at the time we purchase the land, which generally requires the tenant to begin paying base rent when the store opens for business. The base rent is calculated by multiplying a predetermined capitalization rate by our total investment in the property including the land cost for the property, construction costs and capitalized interest. Crest did not acquire any development property in 2008. Both Realty Income and Crest will continue to pursue development opportunities under similar arrangements in the future.

FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K, including documents incorporated by reference, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934. 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 are subject to risks, uncertainties, and assumptions about Realty Income Corporation, including, among other things:

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

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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 this annual report.

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

Item 1A: Risk Factors

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

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, operation and sale 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.

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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;
- Our tenants' creditworthiness and ability to pay rent 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 to pay rent on a timely basis, or failure to comply with their contractual obligations;
- The need to periodically renovate and repair our properties;
- Physical or weather-related damage to properties;
- Economic or physical decline of the areas where the properties are located; and
- The potential risk of functional obsolescence of properties over time.

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 shareholders 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 be substantially less than the remaining rent we are owed under the leases. In addition, any claim we have for unpaid past rent, if any, may not be paid in full. As a result, tenant bankruptcies may have a material adverse effect on our results of operations.

Seventy of our properties were available for lease or sale at December 31, 2008, of which all but one were single-tenant properties. As of February 9, 2009, transactions to lease or sell 13 of the 70 properties were underway or completed. At December 31, 2008, 30 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 2008, each of our tenants accounted for less than 10% of our rental revenue.

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For 2008, our tenants in the restaurant and convenience store industries accounted for approximately 20.8% and 16.4%, respectively, of our rental revenue. A downturn in either of these industries, whether nationwide or limited to specific sectors of the United States, could adversely affect our tenants in these industries, which in turn could have a material adverse affect 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 stock and preferred stock. Individually, each of the other industries in our property portfolio accounted for less than 10% of our rental revenue for 2008. Nevertheless, downturns in these other industries could also adversely affect our tenants, which in turn could also have a material adverse affect on our financial position, results of operations and our ability to make debt payments and distributions on our common and preferred stock.

In addition, a substantial number of our properties are leased to middle-market retail chains that generally have more limited financial and other resources than certain upper-market retail chains, and therefore they are more likely to be adversely affected by a downturn in their respective businesses or in the regional or national economy.

On January 22, 2008, Buffets Holdings, Inc. (“Buffets Holdings”), together with each of its subsidiaries, filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code. Realty Income owned 116 properties and Crest owned three properties leased to subsidiaries of Buffets, Inc. (“Buffets”) and guaranteed by Buffets. Buffets is a subsidiary of Buffets Holdings. In February 2008, Buffets Holdings elected to reject the leases for 12 properties owned by Realty Income and two properties owned by Crest, and returned those 14 properties to us. In July 2008, Realty Income reached an agreement with Buffets Holdings for the continued lease of all of its remaining properties. The terms of the agreement were approved by the Bankruptcy Court on September 15, 2008. Under the terms of the agreement, all 105 of the remaining leases, including 104 owned by Realty Income and one owned by Crest, will be assumed and continue to be operated by Buffets Holdings. Rents were modified on many of the assumed properties, from an annualized rent of $22.4 million to $19.4 million, or 87% of previous rents. In addition, the majority of the leases call for annual increases in rent. Buffets Holdings continues to be our largest tenant and represents approximately 6.0% of Realty Income’s annualized lease revenue as of December 31, 2008.

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 problems 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. 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 sell that property and we may incur substantial remediation costs. 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 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.

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In addition, several of our properties were built during the period when asbestos was commonly used in building construction and other buildings with asbestos may be acquired by the Company 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 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 also possible that some of our properties may contain or develop harmful mold, which could lead to liability for adverse health effects and costs of remediation of the problem. When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Concern about indoor exposure to mold has been increasing, as exposure to mold may cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, should our tenants or their employees be exposed to mold at any of our properties we could be required to undertake a costly remediation program to contain or remove the mold from the affected property, which would reduce our cash available for distribution. In addition, exposure to mold by our tenants or others could expose us to liability if property damage or health concerns arise.

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 present properties. Nevertheless, if environmental contamination should exist, we could be subject to strict liability by virtue of our ownership interest. In addition, we believe we are in compliance in all material respects with all present federal, state and local laws relating to ACMs.

Insurance and Indemnity. In June 2005, we entered into a seven-year environmental insurance policy on our property portfolio which replaced the previous five-year environmental insurance policy. The limits on our current policy are $10 million per occurrence, and $50 million in the aggregate, subject to a $40,000 self insurance retention, per occurrence, for properties with underground storage tanks and a $100,000 self insurance retention, per occurrence, for all other properties. 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.

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

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

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

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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 REIT taxable income (as defined in the Code and determined without regard to the dividends paid deduction and by excluding net capital gains).

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 in computing our taxable income for amounts distributed to our stockholders;
- 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. Our subsidiary Crest is subject to federal and state taxes at the applicable tax rates on its income and property.

Distributions 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 REIT taxable income, determined without regard to the dividends paid deduction and by 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 REIT 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 upon the exercise of outstanding options or 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 the

Board of Directors). Accordingly, the 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.

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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 $355 million acquisition credit facility. At February 9, 2009, we had no borrowings outstanding under our $355 million acquisition credit facility and we had $1.35 billion of aggregate principal amount of outstanding unsecured senior debt securities. 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 rate on our $355 million credit facility is 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 the recent disruptions in the financial markets, we also face the risk that one or more of the participants in our credit facility may not be able to lend us money.

In addition, our $355 million credit facility contains provisions that could limit the amount of distributions payable by us on our common stock and preferred stock. In particular, our $355 million acquisition credit facility provides that the aggregate amount of cash distributions paid on, plus any payments made to repurchase, our common stock and preferred stock may not exceed the sum of (a) 95% of our funds from operations (as defined in the credit facility) plus (b) cash distributions on our preferred stock, determined as of the end of each fiscal quarter for the four fiscal quarters then ending, except that we may repurchase preferred stock with the net proceeds from the issuance of our common stock or preferred stock. The credit facility further provides that, in the event of a failure to pay principal, interest or any other amount payable there under when due or upon the occurrence of certain events of bankruptcy, insolvency or reorganization with respect to us or any of our subsidiaries, we and our subsidiaries may not pay distributions on, or repurchase, any shares of our capital stock, including our common stock and preferred stock. In addition, the credit facility provides that, if any other event of default (as defined in the credit facility) thereunder occurs, we and our subsidiaries may not pay any distributions on, or repurchase, any shares of our capital stock, including our common stock and preferred stock, except that we may pay cash distributions to stockholders in the minimum amount necessary to maintain our status as a REIT. If this 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 value of our debt securities and may adversely affect our ability to qualify as a REIT or our tax treatment as a REIT.

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

- Increasing our vulnerability to general adverse economic and industry conditions;
- Limiting our ability to obtain additional financing to fund future working capital, 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, 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.

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 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.

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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, including:

- Prevailing interest rates, increases in which may have an adverse effect on the market value of our capital stock and debt securities;
- The market for similar securities issued by other REITs;
- General economic and financial market conditions;
- The financial condition, performance and prospects of us, our tenants and our competitors;
- Changes in 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.

In addition, stock prices in the U.S. markets have recently been experiencing extreme price fluctuations, and the market value of our common stock has 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 economic conditions that may have a negative impact on our revenue.
We are subject to all of the general 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 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;
- 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;
- Acts of terrorism and war; and
- Acts of God and other factors beyond the control of our management.

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 varying between $1,000,000 and $10,000,000 depending on the tenant and the industry in which the tenant operates.

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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 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. Given the recent disruptions in the insurance industry, 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.

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.

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 retail, net-lease industry.

Terrorist attacks and other acts of violence or war may affect the value of our debt and equity securities, the markets in which we operate and our results of operations.
Terrorist attacks may negatively affect our operations and your investment. There can be no assurance that there will not be further terrorist attacks against the United States or U.S. businesses. These attacks, or armed conflicts, may directly impact our physical facilities or the businesses of our tenants.

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Such events could 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.

Recent 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.
The United States stock and credit markets have recently experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks to fluctuate substantially and the spreads on prospective debt financings to widen considerably. 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. 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. These disruptions in the financial markets also may have a material adverse effect on the market value of our common stock and may have 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, 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.

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

Item 1B: Unresolved Staff comments

There are no unresolved staff comments.

Item 2: Properties

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

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Item 3: Legal Proceedings

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

Item 4: Submission of Matters to a Vote of Security Holders

No matters were submitted to stockholders during the fourth quarter of the fiscal year.

PART II

Item 5: Market For The Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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

	Price Per Share of Common Stock		Distributions
	High	Low	Declared(1)
2008			
First quarter	$ 27.16	$ 20.27	$ 0.410875
Second quarter	28.15	22.67	0.412750
Third quarter	34.86	21.38	0.419625
Fourth quarter	26.50	15.00	0.424000
Total			$ 1.667250
2007			
First quarter	$ 30.36	$ 26.02	$ 0.380125
Second quarter	29.13	24.53	0.382000
Third quarter	28.79	22.87	0.399375
Fourth quarter	30.70	26.31	0.409000
Total			$ 1.570500

(1) Common stock cash distributions currently are declared monthly by us based on financial results for the prior months. At December 31, 2008, a distribution of $0.14175 per common share had been declared and was paid in January 2009.

There were 9,046 registered holders of record of our common stock as of January 1, 2009. We estimate that our total number of shareholders is approximately 80,000 when we include both registered and beneficial holders of our common stock.

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Item 6: Selected Financial Data

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

(dollars in thousands, except for per share data)

As of or for the years ended December 31,	2008	2007	2006	2005	2004
Total assets (book value)	$ 2,994,179	$ 3,077,352	$ 2,546,508	$ 1,920,988	$ 1,442,315
Cash and cash equivalents	46,815	193,101	10,573	65,704	2,141
Lines of credit and notes payable	1,370,000	1,470,000	920,000	891,700	503,600
Total liabilities	1,439,518	1,539,260	970,516	931,774	528,580
Total stockholders' equity	1,554,661	1,538,092	1,575,992	989,214	913,735
Net cash provided by operating activities	246,155	318,169	86,945	109,557	178,337
Net change in cash and cash equivalents	(146,286)	182,528	(55,131)	63,563	(2,696)
Total revenue	330,200	294,317	237,416	193,285	170,474
Income from continuing operations	116,846	125,743	104,129	86,784	79,663
Income from discontinued operations	14,995	14,666	6,652	12,335	23,734
Net income	131,841	140,409	110,781	99,119	103,397
Preferred stock cash dividends	(24,253)	(24,253)	(11,362)	(9,403)	(9,455)
Excess of redemption value over carrying value of preferred shares redeemed	--	--	--	--	(3,774)
Net income available to common stockholders	107,588	116,156	99,419	89,716	90,168
Cash distributions paid to common stockholders	169,655	157,659	129,667	108,575	97,420
Basic and diluted net income per common share	1.06	1.16	1.11	1.12	1.15
Cash distributions paid per common share	1.66225	1.56025	1.43725	1.34625	1.24125
Cash distributions declared per common share	1.66725	1.57050	1.44750	1.35250	1.25125
Basic weighted average number of common shares outstanding	101,178,191	100,195,031	89,766,714	79,950,255	78,518,296
Diluted weighted average number of common shares outstanding	101,209,883	100,333,966	89,917,554	80,208,593	78,598,788

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

GENERAL

Realty Income Corporation, The Monthly Dividend Company®, is a Maryland corporation organized to operate as an equity real estate investment trust, or REIT. Our primary business objective is to generate dependable monthly cash distributions from a consistent and predictable level of funds from operations, or FFO per share. The monthly distributions are supported by the cash flow from our portfolio of retail properties leased to regional and national retail chains. We have in-house acquisition, leasing, legal, retail research and real estate research, portfolio management and capital markets expertise. Over the past 39 years, Realty Income and its predecessors have been acquiring and owning freestanding retail properties that generate rental revenue under long-term lease agreements (primarily 15 to 20 years).

In addition, we seek to increase distributions to stockholders and FFO per share through both active portfolio management and the acquisition of additional properties. At December 31, 2008, we owned a diversified portfolio:

- Of 2,348 retail properties;
- With an occupancy rate of 97.0%, or 2,278 properties occupied of the 2,348 properties in the portfolio;
- With only 70 properties available for lease;
- Leased to 119 different retail chains doing business in 30 separate retail industries;
- Located in 49 states;
- With over 19.1 million square feet of leasable space; and
- With an average leasable retail space per property of approximately 8,130 square feet.

Of the 2,348 properties in the portfolio, 2,337, or 99.5%, are single-tenant, retail properties and the remaining 11 are multi-tenant properties. At December 31, 2008, 2,268 of the 2,337 single-tenant properties were leased with a weighted average remaining lease term (excluding extension options) of approximately 11.9 years.

In addition, at December 31, 2008, our wholly-owned taxable REIT subsidiary, Crest Net Lease, Inc. ("Crest"), had an inventory of five properties with a carrying value of $6.0 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 "Tax Code"). In addition to the five properties, Crest also holds notes receivable of $22.3 million at December 31, 2008. We anticipate Crest will not acquire any properties in 2009.

LIQUIDITY AND CAPITAL RESOURCES

Cash Reserves

We are organized to operate as an equity REIT that acquires and leases properties and distributes to stockholders, in the form of monthly cash distributions, a substantial portion of our net cash flow generated from leases on our retail properties. We intend to retain an appropriate amount of cash as working capital. At December 31, 2008, we had cash and cash equivalents totaling $46.8 million. We used $20 million of this amount to retire our 8.0% notes that matured in January 2009.

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

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$355 Million Acquisition Credit Facility

In May 2008, we entered into a new $355 million revolving, unsecured credit facility which replaced our existing $300 million acquisition credit facility that was scheduled to expire in October 2008. The term of the new credit facility is for three years until May 2011, plus two, one-year extension options. Under the new credit facility, our investment grade credit ratings provide for financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 100 basis points with a facility fee of 27.5 basis points, for all-in drawn pricing of 127.5 basis points over LIBOR. We also have other interest rate options available to us. At February 9, 2009, we had a borrowing capacity of $355 million available on our new credit facility and no outstanding balance.

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

Issuance of Common Stock

In September 2008, we issued 2,925,000 shares of common stock at a price of $26.82 per share. The net proceeds of $74.4 million were used, along with our available cash on hand, to repay the $100 million outstanding principal amount of our 8.25% Monthly Income Senior Notes (“2008 Notes”) in November 2008 and the $20 million outstanding principal amount of our 8% Notes (“2009 Notes”) in January 2009.

Note Redemptions

In November 2008, we redeemed the $100 million outstanding principal amount of our 2008 Notes. In January 2009, we redeemed the $20 million outstanding principal amount of our 2009 Notes. The 2008 Notes and 2009 Notes were redeemed at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest. We now have no debt maturities until 2013.

Mortgage Debt

We have no mortgage debt on any of our properties.

Universal Shelf Registration

In April 2006, we filed a shelf registration statement with the SEC, which is effective for a term of three years. In accordance with the SEC rules, the amount of securities to be issued pursuant to this shelf registration statement was not specified when it was filed. The securities covered by this registration statement include common stock, preferred stock, debt securities, or any combination of such securities. We may periodically offer one or more of these securities in amounts, prices and on terms to be announced when and if the securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of any offering. There is no specific limit to the dollar amount of new securities that can be issued under this shelf registration before it expires in April 2009, and our common stock, preferred stock and notes issued after April 2006 were all issued pursuant to this universal shelf registration statement. Our plan is to file a new shelf registration statement prior to April 2009, when our existing shelf registration statement expires.

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 February 9, 2009, our total outstanding credit facility borrowings and outstanding notes were $1.35 billion or approximately 35.5% of our total market capitalization of $3.80 billion.

We define our total market capitalization at February 9, 2009 as the sum of:

- Shares of our common stock outstanding of 104,319,051 multiplied by the last reported sales price of our common stock on the NYSE of $20.19 per share on February 9, 2009, or $2.11 billion;
- Aggregate liquidation value (par value of $25 per share) of the Class D preferred stock of $127.5 million;
- Aggregate liquidation value (par value of $25 per share) of the Class E preferred stock of $220 million; and
- Outstanding notes of $1.35 billion.

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

Credit Agency Ratings

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

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

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

Notes Outstanding

Our senior unsecured note obligations consist of the following as of December 31, 2008, sorted by maturity date (dollars in millions):

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

(1) In January 2009, the 8% notes were paid off and the balance of our outstanding notes was reduced to $1.35 billion.

All of our outstanding notes and bonds have fixed interest rates.

Interest on all of the senior note obligations is paid semiannually. All of these notes contain various covenants, including: (i) a limitation on incurrence of any debt which would cause our debt to total adjusted assets ratio to exceed

60%; (ii) a limitation on incurrence of any secured debt which would cause our secured debt to total adjusted assets ratio to exceed 40%; (iii) a limitation on incurrence of any debt which would cause our debt service coverage ratio to be less than 1.5 times; and (iv) the maintenance at all times of total unencumbered assets not less than 150% of our outstanding unsecured debt. We have been in compliance with these covenants since each of the notes were issued.

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The following is a summary of the key financial covenants to our senior unsecured notes, as defined and calculated per the terms of our notes. These calculations, which are not based on GAAP measurements, are presented to investors to show our ability to incur additional debt under the terms of our notes only and are not measures of our liquidity or performance. The actual amounts as of December 31, 2008 are:

Note Covenants	Required	Actual
Limitation on incurrence of total debt	≤ 60%	39.0%
Limitation on incurrence of secured debt	≤ 40%	0.0%
Debt service coverage (trailing 12 months)	≥ 1.5 x	3.4x
Maintenance of total unencumbered assets	≥ 150% of unsecured debt	256%

The following table summarizes the maturity of each of our obligations as of December 31, 2008 (dollars in millions):

Table of Obligations

Year of Maturity	Credit Facility (1)	Notes (2)	Interest (3)	Ground Leases Paid by Realty Income(4)	Ground Leases Paid by Our Tenants(5)	Other (6)	Totals
2009	$ --	$ 20.0	$ 82.5	$ 0.1	$ 3.8	$ 1.2	$ 107.6
2010	--	--	82.4	0.1	3.7	--	86.2
2011	--	--	82.4	0.1	3.7	--	86.2
2012	--	--	82.4	0.1	3.6	--	86.1
2013	--	100.0	78.1	0.1	3.4	--	181.6
Thereafter	--	1,250.0	427.9	0.9	40.8	--	1,719.6
Totals	$ --	$ 1,370.0	$ 835.7	$ 1.4	$ 59.0	$ 1.2	$ 2,267.3

(1) There was no outstanding credit facility balance on February 9, 2009.
(2) The $20.0 million outstanding principal amount of our 8% notes was paid off in January 2009.
(3) Interest on the credit facility and notes has been calculated based on outstanding balances as of December 31, 2008 through their respective maturity dates.
(4) Realty Income currently pays the ground lessors directly for the rent under the ground leases. A majority of this rent is reimbursed to Realty Income as additional rent from our tenants.
(5) Our tenants, who are generally sub-tenants under the ground leases, are responsible for paying the rent under these ground leases. In the event a tenant fails to pay the ground lease rent, we are primarily responsible.
(6) “Other” consists of $208,000 of commitments under construction contracts and $977,000 of contingent payments for tenant improvements and leasing costs.

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

Preferred Stock Outstanding
In 2004, we issued 5.1 million shares of 7.375% Class D cumulative redeemable preferred stock. Beginning May 27, 2009, shares of Class D preferred stock are redeemable at our option for $25 per share, plus any accrued and unpaid dividends. Dividends on shares of Class D preferred stock are paid monthly in arrears.

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

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No Off-Balance Sheet Arrangements or Unconsolidated Investments

We have no unconsolidated or off-balance sheet investments in "variable interest entities" or off-balance sheet financing, nor do we engage in trading activities involving energy or commodity contracts or other derivative instruments.

As we have no joint ventures, off-balance sheet entities, or mandatory redeemable preferred stock, our financial position or results of operations are currently not affected by Financial Accounting Standard Board Interpretation No. 46R, Consolidation of Variable Interest Entities and Statement of Financial Accounting Standard No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.

Acquisitions During 2008

During 2008, Realty Income invested $189.6 million in 108 new retail properties and properties under development with an initial weighted average contractual lease rate of 8.7%. $181.4 million of these acquisitions occurred in the first quarter of 2008 while only $8.2 million was invested during the remainder of 2008. These 108 properties are located in 14 states, contain over 714,000 leasable square feet, and are 100% leased with an average lease term of 20.6 years. The 108 new properties acquired by Realty Income are net-leased to eight different retail chains in the following seven industries: automotive tire service, convenience store, drug store, financial services, motor vehicle dealership, restaurant and theater. There were no acquisitions by Crest in 2008.

Our 2008 portfolio acquisitions were lower than in recent years primarily due to uncertainty in the commercial retail real estate market. Property prices continued to decline and lease rates rose throughout 2008. We continue to monitor the acquisition market carefully and will acquire properties for long-term investment when we believe the transactions are accretive to our shareholders.

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

Increases in Monthly Distributions to Common Stockholders

We continue our 39-year policy of paying distributions monthly. Monthly distributions per share were increased in January 2009 by $0.000625 to $0.14175. The increase in January 2009 was our 45th consecutive quarterly increase and the 52nd increase in the amount of our dividend since our listing on the New York Stock Exchange, or NYSE, in 1994. In 2008, we paid three monthly cash distributions per share in the amount of $0.13675, three in the amount of $0.137375, two in the amount of $0.138, one in the amount of $0.1405 and three in the amount of $0.141125, totaling $1.66225. In December 2008 and January 2009, we declared distributions of $0.14175 per share, which were paid in January 2009 and will be paid in February 2009, respectively.

The monthly distribution of $0.14175 per share represents a current annualized distribution of $1.701 per share, and an annualized distribution yield of approximately 8.4% based on the last reported sale price of our common stock on the NYSE of $20.19 on February 9, 2009. Although we expect to continue our policy of paying monthly distributions, we cannot guarantee that we will maintain our current level of distributions, that we will continue our pattern of increasing distributions per share, or what our actual distribution yield will be in any future period.

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RESULTS OF OPERATIONS

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Our consolidated financial statements are the basis for our discussion and analysis of financial condition and results of operations. Preparing our consolidated financial statements requires us to make a number of estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. We believe that we have made these estimates and assumptions in an appropriate manner and in a way that accurately reflects our financial condition. We continually test and evaluate these estimates and assumptions using our historical knowledge of the business, as well as other factors, to ensure that they are reasonable for reporting purposes. However, actual results may differ from these estimates and assumptions.

In order to prepare our consolidated financial statements according to the rules and guidelines set forth by GAAP, many subjective judgments must be made with regard to critical accounting policies. One of these judgments is our estimate for useful lives in determining depreciation expense for our properties. Depreciation of buildings and improvements is generally computed using the straight–line method over an estimated useful life of 25 years. If we use a shorter or longer estimated useful life it could have a material impact on our results of operations. We believe that 25 years is an appropriate estimate of useful life. No depreciation has been recorded on properties that are classified as held for sale.

When we acquire a property for investment purposes, we allocate the purchase price to the various components of the acquisition based upon the fair value of each component. The components typically include (i) land, (ii) building and improvements, (iii) intangible assets related to above and below market leases, and (iv) value of costs to obtain tenants.

Another significant judgment must be made as to if, and when, impairment losses should be taken on our properties when events or a change in circumstances indicate that the carrying amount of the asset may not be recoverable. Generally, a provision is made for impairment loss if estimated future operating cash flows (undiscounted and without interest charges) plus estimated disposition proceeds (undiscounted) are less than the current book value. Impairment losses are measured as the amount by which the current book value of the asset exceeds the fair value of the asset. If a property is held for sale, it is carried at the lower of carrying cost or estimated fair value, less cost to sell. The carrying value of our real estate is the largest component of our consolidated balance sheet. If events should occur that require us to reduce the carrying value of our real estate by recording provisions for impairment losses, it could have a material impact on our results of operations.

The following is a comparison of our results of operations for the years ended December 31, 2008, 2007 and 2006.

Rental Revenue

Rental revenue was $328.3 million for 2008 versus $288.0 million for 2007, an increase of $40.3 million, or 14.0%. Rental revenue was $235.4 million in 2006. The increase in rental revenue in 2008 compared to 2007 is primarily attributable to:

- The 108 retail properties acquired by Realty Income in 2008, which generated $13.1 million of rent in 2008;
- The 325 retail properties acquired by Realty Income in 2007, which generated $41.1 million of rent in 2008 compared to $13.6 million in 2007, an increase of $27.5 million;
- Same store rents generated on 1,772 properties during the entire years of 2008 and 2007, which includes rent modifications on some of the 104 leases to Buffets, Inc., increased by $2.7 million, or 1.1%, to $258.7 million from $255.9 million; and
-

An increase in straight-line rent and other non-cash adjustments to rent of $766,000 in 2008 as compared to 2007; net of

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- A net decrease of $3.9 million relating to the aggregate of (i) development properties acquired before 2007 that started paying rent in 2007, (ii) properties that were vacant during part of 2008 or 2007, (iii) properties sold during 2008 and 2007 and (iv) lease termination settlements. These items totaled $13.24 million, in aggregate, in 2008 compared to $17.18 million in 2007.

Excluding 104 leases with Buffets Holdings, Inc., same store rents generated on 1,668 properties during the entire years of 2008 and 2007 increased in 2008 by $3.2 million, or 1.4%, to $237.1 million from $233.9 million in 2007.

Of the 2,348 properties in the portfolio at December 31, 2008, 2,337, or 99.5%, are single-tenant properties and the remaining 11 are multi-tenant properties. Of the 2,337 single-tenant properties, 2,268, or 97.0%, were net leased with a weighted average remaining lease term (excluding rights to extend a lease at the option of the tenant) of approximately 11.9 years at December 31, 2008. Of our 2,268 leased single-tenant properties, 2,066 or 91.1% were under leases that provide for increases in rents through:

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

Percentage rent, which is included in rental revenue, was $1.3 million in 2008, $831,000 in 2007 and $1.1 million in 2006. Percentage rent in 2008 was less than 1% of rental revenue and we anticipate percentage rent to be less than 1% of rental revenue in 2009.

Our portfolio of retail real estate, leased primarily to regional and national chains under net leases, continues to perform well and provide dependable lease revenue supporting the payment of monthly dividends to our stockholders. At December 31, 2008, our portfolio of 2,348 retail properties was 97.0% leased with 70 properties available for lease, one of which is a multi-tenant property.

As of February 9, 2009, transactions to lease or sell 13 of the 70 properties available for lease at December 31, 2008 were underway or completed. We anticipate these transactions will be completed during the next several months, although we cannot guarantee that all of these properties can be leased or sold within this period. It has been our experience that approximately 1% to 3% of our property portfolio will be unleased at any given time; however, we cannot assure you that the number of properties available for lease will not exceed these levels.

Interest Expense

Interest expense was $94.0 million in 2008 versus $64.3 million in 2007 and $51.4 million in 2006. Interest expense increased in 2008 primarily due to higher average senior notes outstanding and, to a lesser extent, due to higher interest rates. We issued $550 million of 12-year notes in September 2007, which contributed to the increase in average outstanding balances and higher average interest rates on our debt.

In May 2008, as a result of entering into our new credit facility, we incurred $3.2 million of credit facility origination costs which were capitalized to other assets. Also, we expensed $235,000 of unamortized credit facility origination costs from our prior credit facility, which are included in amortization of credit facility origination costs in the table below.

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

	2008	2007	2006
Interest on our credit facility and notes	$ 91,213	$ 67,964	$ 54,068
Interest included in discontinued operations from real estate acquired for resale by Crest	(1,797)	(6,201)	(3,708)
Amortization of settlements on treasury lock agreement	759	870	717
Credit facility commitment fees	795	456	456
Amortization of credit facility origination costs and deferred bond financing costs	3,078	2,235	2,014
Interest capitalized	(92)	(993)	(2,184)
Interest expense	$ 93,956	$ 64,331	$ 51,363

Credit facility and notes outstanding	2008	2007	2006
Average outstanding balances (dollars in thousands)	$ 1,457,222	$ 1,111,914	$ 881,669
Average interest rates	6.26%	6.11%	6.13%

At February 9, 2009, the weighted average interest rate on our notes payable of $1.35 billion was 6.10% and the average interest rate on our credit line was 1.45%. There was no outstanding balance on our credit line at February 9, 2009.

Interest Coverage Ratio

Our interest coverage ratio for 2008 was 3.2 times and for 2007 and 2006 was 4.1 times. Interest coverage ratio is calculated as: the interest coverage amount (as calculated in the following table) divided by interest expense, including interest recorded as discontinued operations. We consider interest coverage ratio to be an appropriate supplemental measure of a company's ability to meet its interest expense obligations. Our calculation of interest coverage ratio may be different from the calculation used by other companies and, therefore, comparability may be limited. This information should not be considered as an alternative to any GAAP liquidity measures.

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

	2008	2007	2006
Net cash provided by operating activities	$ 246,155	$ 318,169	$ 86,945
Interest expense	93,956	64,331	51,363
Interest expense included in discontinued operations(1)	1,797	6,201	3,708
Income taxes	1,230	1,392	747
Income taxes included in discontinued operations(1)	225	3,039	494
Investment in real estate acquired for resale(1)	9	29,886	113,166
Proceeds from sales of real estate acquired for resale(1)	(31,455)	(119,790)	(22,405)
Collection of a note receivable by Crest(1)	(87)	(651)	(1,333)
Crest provisions for impairment(1)	(3,374)	--	(1,188)
Gain on sales of real estate acquired for resale(1)	4,642	12,319	2,219
Amortization of share-based compensation	(5,049)	(3,857)	(2,951)
Changes in assets and liabilities:			
Accounts receivable and other assets	930	49	(4,418)
Accounts payable, accrued expenses and other liabilities	(1,675)	(21,675)	(3,208)
Interest coverage amount	$ 307,304	$ 289,413	$ 223,139
Divided by interest expense(2)	$ 95,753	$ 70,532	$ 55,071
Interest coverage ratio	3.2	4.1	4.1

(1) Crest activities.

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

Fixed Charge Coverage Ratio

Our fixed charge coverage ratio for 2008 was 2.6 times, for 2007 was 3.1 times and for 2006 was 3.4 times. Fixed charge coverage ratio is calculated in exactly the same manner as interest coverage ratio, except that preferred stock dividends are also added to the denominator. We consider fixed charge coverage ratio to be an appropriate supplemental measure of a company’s ability to make its interest and preferred stock dividend payments. Our calculation of the fixed charge coverage ratio may be different from the calculation used by other companies and, therefore, comparability may be limited. This information should not be considered as an alternative to any GAAP liquidity measures or information presented in Exhibit 12.1 to this Annual Report.

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

	2008	2007	2006
Interest coverage amount	$ 307,304	$ 289,413	$ 223,139
Divided by interest expense plus preferred stock dividends (1)	$ 120,006	$ 94,785	$ 66,433
Fixed charge coverage ratio	2.6	3.1	3.4

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

Depreciation and Amortization

Depreciation and amortization was $90.7 million in 2008 versus $76.7 million in 2007 and $58.8 million in 2006. The increases in depreciation and amortization in 2008 and 2007 were due to the acquisition of properties in 2008, 2007 and 2006, which was partially offset by property sales in these years. As discussed in the section entitled “Funds from

Operations Available to Common Stockholders," depreciation and amortization is a non-cash item that is excluded from our calculation of FFO.

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General and Administrative Expenses
General and administrative expenses decreased by $1.1 million to $21.6 million in 2008 as compared to $22.7 million in 2007. General and administrative expenses were $17.5 million in 2006. In 2008, general and administrative expenses as a percentage of total revenue were 6.5% as compared to 7.7% in 2007 and 7.4% in 2006. General and administrative expenses decreased during 2008 primarily due to decreases in employee costs.

In February 2009, we had 69 permanent employees as compared to 75 permanent employees in February 2008.

Property Expenses
Property expenses are broken down into costs associated with non-net leased multi-tenant properties, unleased single-tenant properties and general portfolio expenses. Expenses related to the multi-tenant and unleased single-tenant properties include, but are not limited to, property taxes, maintenance, insurance, utilities, property inspections, bad debt expense and legal fees. General portfolio costs include, but are not limited to, insurance, legal, bad debt expense, property inspections and title search fees. At December 31, 2008, 70 properties were available for lease, as compared to 48 at December 31, 2007 and 26 at December 31, 2006.

Property expenses were $5.8 million in 2008, $3.5 million in 2007 and $3.3 million in 2006. The increase in property expenses in 2008 is primarily attributable to an increase in property taxes, maintenance, utilities, legal fees and bad debt expense associated with properties available for lease. In 2007, property expenses included provisions for impairment of $138,000 recorded for one property.

Income Taxes
Income taxes were $1.2 million in 2008 as compared to $1.4 million in 2007 and $747,000 in 2006. These amounts are for city and state income taxes paid by Realty Income.

In addition, Crest incurred state and federal income taxes of $225,000 in 2008 as compared to $3.0 million in 2007 and $494,000 in 2006. These amounts are included in “income from discontinued operations, real estate acquired for resale by Crest” on our consolidated statements of income.

Loss on Extinguishment of Debt
In September 2006, we redeemed all of our outstanding $110 million, 7.75%, unsecured notes due May 2007 (the “2007 Notes”). The 2007 Notes were redeemed at a redemption price equal to 100% of the principal amount of the 2007 Notes, plus accrued and unpaid interest, as well as a make-whole payment of $1.6 million. The make-whole payment was recorded as a loss on extinguishment of debt on our 2006 consolidated statement of income. For 2006, the make-whole payment represented approximately $0.017 per share.

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

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

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

Crest's income from discontinued operations, real estate acquired for resale	2008	2007	2006
Gain on sales of real estate acquired for resale	$ 4,642	$ 12,319	$ 2,219
Rental revenue	1,830	8,165	5,065
Other revenue	914	190	15
Interest expense	(1,797)	(6,201)	(3,708)
General and administrative expense	(511)	(691)	(440)
Property expenses	(133)	(40)	(67)
Provisions for impairment	(3,374)	--	(1,188)
Depreciation (1)	(771)	--	--
Income taxes	(225)	(3,039)	(494)
Income from discontinued operations, real estate acquired for resale by Crest	$ 575	$ 10,703	$ 1,402
Per common share, basic and diluted	$ 0.01	$ 0.11	$ 0.02

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

Realty Income's operations from two investment properties classified as held for sale at December 31, 2008, plus properties sold in 2008, 2007 and 2006 have been classified as discontinued operations. The following is a summary of Realty Income's "income from discontinued operations, real estate held for investment" on our consolidated statements of income (dollars in thousands, except per share data):

Realty Income's income from discontinued operations, real estate held for investment	2008	2007	2006
Gain on sales of investment properties	$ 13,314	$ 1,724	$ 3,036
Rental revenue	1,461	3,075	3,177
Other revenue	40	4	34
Depreciation and amortization	(302)	(636)	(825)
Property expenses	(93)	(70)	(156)
Provisions for impairment	--	(134)	(16)
Income from discontinued operations, real estate held for investment	$ 14,420	$ 3,963	$ 5,250
Per common share, basic and diluted	$ 0.14	$ 0.04	$ 0.06

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

	2008	2007	2006
Real estate acquired for resale by Crest	$ 575	$ 10,703	$ 1,402
Real estate held for investment	14,420	3,963	5,250
Income from discontinued operations	$ 14,995	$ 14,666	$ 6,652
Per common share, basic and diluted	$ 0.15	$ 0.15	$ 0.07

The above per share amounts have each been calculated independently.

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Crest's Property Sales
In 2008, Crest sold 25 properties for $50.7 million, which resulted in a gain of $4.6 million. As part of two sales during 2008, Crest provided partial financing to the buyers of $19.2 million. In 2007, Crest sold 62 properties for $123.6 million, which resulted in a gain of $12.3 million. In 2007, as part of two sales, Crest provided partial financing to the buyer of $3.8 million, of which $619,000 was paid in full in November 2007. In 2006, Crest sold 13 properties for $22.4 million, which resulted in a gain of $2.2 million. In 2005, as part of one sale, Crest provided partial buyer financing of $1.3 million, which was paid in full in February 2006. Crest's gains on sales are reported before income taxes and are included in discontinued operations.

Crest's Property Inventory
At December 31, 2008, Crest had an inventory of five properties with a carrying value of $6.0 million, all of which are classified as held for sale. At December 31, 2007, Crest had a property inventory of 30 properties with a carrying value of $56.2 million.

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

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

In 2006, we sold or exchanged 13 investment properties for $10.7 million, which resulted in a gain of $3.0 million, which is included in discontinued operations.

We have an active portfolio management program that incorporates the sale of assets when we believe the reinvestment of the sale proceeds will generate higher returns, enhance the credit quality of our real estate portfolio or extend our average remaining lease term. At December 31, 2008, we classified real estate with a carrying amount of $6.7 million as held for sale on our balance sheet, which includes five properties owned by Crest, with a carrying value of $6.0 million. Additionally, we anticipate selling investment properties from our portfolio that we 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. However, we cannot guarantee that we will sell properties during the next 12 months.

Provisions for Impairment on Real Estate Acquired for Resale by Crest
In 2008, provisions for impairment of $3.4 million were recorded by Crest on three properties held for sale. In February 2008, Buffets Holdings elected to reject the leases for two of these three properties. No provisions for impairment were recorded by Crest in 2007. In 2006, provisions for impairment of $1.2 million were recorded by Crest on three properties. One of the three properties was sold in 2007 and the other two properties were sold in 2008. The above provisions for impairment reduced the carrying costs to the estimated fair-market value of those properties, net of estimated selling costs, and are included in "income from discontinued operations, real estate acquired for resale by Crest."

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Provisions for Impairment on Realty Income Investment Properties

No provisions for impairment were recorded in 2008. In 2007, we recorded a provision for impairment of $134,000 on one property, which is included in "income from discontinued operations, real estate held for investment" on our consolidated statements of income, as the property was subsequently sold. Additionally, we recorded a provision for impairment of $138,000 on another property in 2007, which is included in property expense on our consolidated statements of income. In 2006, we recorded a provision for impairment of $16,000 on one property, which is included in "income from discontinued operations, real estate held for investment."

Preferred Stock Dividends

Preferred stock cash dividends totaled $24.3 million in 2008 and 2007 as compared to $11.4 million in 2006.

Net Income Available to Common Stockholders

Net income available to common stockholders was $107.6 million in 2008, a decrease of $8.6 million as compared to $116.2 million in 2007. Net income available to common stockholders in 2006 was $99.4 million.

The calculation to determine net income available to common stockholders includes gains from the sales 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.

During 2008, the gain recognized from the sales of investment properties and from the additional proceeds received from a sale of excess land was $13.6 million, as compared to gains recognized from the sales of investment properties of $3.6 million during 2007 and $3.0 million during 2006. Crest's gain recognized from the sale of properties during 2008 was $4.6 million as compared to $12.3 million during 2007 and $2.2 million during 2006.

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FUNDS FROM OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS (FFO)

FFO for 2008 decreased by $4.2 million, or 2.2%, to $185.5 million as compared to $189.7 million in 2007 and $155.8 million in 2006. The following is a reconciliation of net income available to common stockholders (which we believe is the most comparable GAAP measure) to FFO. Also presented is information regarding distributions paid to common stockholders and the weighted average number of shares used for the basic and diluted computation per share (dollars in thousands, except per share amounts):

	2008	2007	2006
Net income available to common stockholders	$ 107,588	$ 116,156	$ 99,419
Depreciation and amortization:			
Continuing operations	90,732	76,686	58,783
Discontinued operations	1,073	636	825
Depreciation of furniture, fixtures and equipment	(319)	(244)	(192)
Gain on sales of land and investment properties:			
Continuing operations	(236)	(1,835)	--
Discontinued operations	(13,314)	(1,724)	(3,036)
FFO available to common stockholders	$ 185,524	$ 189,675	$ 155,799
FFO per common share:			
Basic	$ 1.83	$ 1.89	$ 1.74
Diluted	$ 1.83	$ 1.89	$ 1.73
Distributions paid to common stockholders	$ 169,655	$ 157,659	$ 129,667
FFO in excess of distributions paid to common stockholders	$ 15,869	$ 32,016	$ 26,132
Weighted average number of common shares used for computation per share:			
Basic	101,178,191	100,195,031	89,766,714
Diluted	101,209,883	100,333,966	89,917,554

We define FFO, a non-GAAP measure, consistent with the National Association of Real Estate Investment Trust's definition, as net income available to common stockholders, plus depreciation and amortization of real estate assets, reduced by gains on sales of investment properties and extraordinary items.

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

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

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

(dollars in thousands)	2008	2007	2006
Amortization of settlements on treasury lock agreements(1)	$ 759	$ 870	$ 717
Amortization of deferred note financing costs(2)	1,748	1,494	1,287
Amortization of share-based compensation	5,049	3,857	2,951
Capitalized leasing costs and commissions	(956)	(614)	(761)
Capitalized building improvements	(1,498)	(1,258)	(203)
Straight-line rent revenue(3)	(1,997)	(1,217)	(1,515)
Provisions for impairment	--	272	16
Crest provisions for impairment	3,374	--	1,188
Gain on reinstatement of property carrying value	--	--	(716)

(1) The settlement on the treasury lock agreements resulted from an interest rate risk prevention strategy that we used in 1997 and 1998, which correlated to pending issuances of senior note securities. We have not employed this strategy since 1998.
(2) Amortization of deferred note financing costs includes the amortization of costs incurred and capitalized when our notes were issued in May 1997, October 1998, January 1999, March 2003, November 2003, March 2005, September 2005, September 2006 and September 2007. These costs are being amortized over the lives of these notes. No costs associated with our credit facility agreements or annual fees paid to credit rating agencies have been included.
(3) A negative amount indicates that our straight-line rent was greater than our actual cash rent collected.

IMPACT OF INFLATION

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

Approximately 96.6% or 2,268 of our 2,348 retail properties in the portfolio are leased to tenants under net leases where the tenant is responsible for property expenses. Net leases tend to reduce our exposure to rising property expenses due to inflation. Inflation and increased costs may have an adverse impact on our tenants if increases in their operating expenses exceed increases in revenue.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

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

Item 7A: Quantitative and Qualitative Disclosures about Market Risk

We are exposed to interest rate changes primarily as a result of our credit facility and long-term notes used to maintain liquidity and expand our real estate investment portfolio and operations. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flow and to lower our overall borrowing costs. To achieve these objectives we issue long-term notes, primarily at fixed rates, and may selectively enter into derivative financial instruments, such as interest rate lock agreements, interest rate swaps and caps in order to mitigate our interest rate risk on a related financial instrument. We were not a party to any derivative financial instruments at December 31, 2008. We do not enter into any derivative transactions for speculative or trading purposes.

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Our interest rate risk is monitored using a variety of techniques. The following table presents by year of expected maturity, the principal amounts, average interest rates and fair values as of December 31, 2008. This information is presented to evaluate the expected cash flows and sensitivity to interest rate changes (dollars in millions):

Expected Maturity Data

Year of maturity	Fixed rate debt	Average interest rate on fixed rate debt	Variable rate debt	Average interest rate on variable rate debt
2009(1)	$ 20.0	8.000%	$ --	--%
2010	--	--	--	--
2011(2)	--	--	--	--
2012	--	--	--	--
2013(3)	100.0	5.375	--	--
Thereafter(4)	1,250.0	6.162	--	--
Totals	$ 1,370.0	6.131%	$ --	--%
Fair Value(5)	$ 949.4		$ --	

(1) $20 million matured and was retired in January 2009.
(2) The credit facility expires in May 2011. There was no outstanding credit facility balance as of February 9, 2009.
(3) $100 million matures in March 2013.
(4) $150 million matures in November 2015, $275 million matures in September 2016, $175 million matures in September 2017, $550 million matures in August 2019 and $100 million matures in March 2035.
(5) We base the fair value of the fixed rate debt at December 31, 2008 on the closing market price or indicative price per each note.

The table incorporates only those exposures that exist as of December 31, 2008. It does not consider those exposures or positions that could arise after that date. As a result, our ultimate realized gain or loss, with respect to interest rate fluctuations, would depend on the exposures that arise during the period, our hedging strategies at the time, and interest rates.

All of our outstanding notes and bonds have fixed interest rates. Our credit facility interest rate is variable. At December 31, 2008, our credit facility balance was zero; however, we intend to borrow funds on our credit facility in the future. Based on a hypothetical credit facility borrowing of $50 million, a 1% change in interest rates would change our interest costs by $500,000 per year.

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Item 8: Financial Statements and Supplementary Data

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A. Report of Independent Registered Public Accounting Firm

B. Consolidated Balance Sheets,
December 31, 2008 and 2007

C. Consolidated Statements of Income,
Years ended December 31, 2008, 2007 and 2006

D. Consolidated Statements of Stockholders' Equity,
Years ended December 31, 2008, 2007 and 2006

E. Consolidated Statements of Cash Flows,
Years ended December 31, 2008, 2007 and 2006

F. Notes to Consolidated Financial Statements

G. Consolidated Quarterly Financial Data
(unaudited) for 2008 and 2007

H. Schedule III Real Estate and Accumulated Depreciation

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

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Realty Income Corporation:

We have audited the accompanying consolidated balance sheets of Realty Income Corporation and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2008. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule III of the Company. We have also audited Realty Income Corporation's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Realty Income Corporation's management is responsible for these consolidated financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule, and an opinion on Realty Income Corporation's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Realty Income Corporation and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in

conformity with U.S. generally accepted accounting principles. Additionally, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also in our opinion, Realty Income Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ KPMG
San Diego, California
February 10, 2009

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REALTY INCOME CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets

December 31, 2008 and 2007
(dollars in thousands, except per share data)

	2008	2007
ASSETS		
Real estate, at cost:		
Land	$ 1,157,885	$ 1,110,897
Buildings and improvements	2,251,025	2,127,897
	3,408,910	3,238,794
Less accumulated depreciation and amortization	(553,417)	(470,695)
Net real estate held for investment	2,855,493	2,768,099
Real estate held for sale, net	6,660	56,156
Net real estate	2,862,153	2,824,255
Cash and cash equivalents	46,815	193,101
Accounts receivable	10,624	7,142
Goodwill	17,206	17,206
Other assets, net	57,381	35,648
Total assets	$ 2,994,179	$ 3,077,352
LIABILITIES AND STOCKHOLDERS' EQUITY		
Distributions payable	$ 16,793	$ 15,844
Accounts payable and accrued expenses	38,027	38,112
Other liabilities	14,698	15,304
Lines of credit payable	--	--
Notes payable	1,370,000	1,470,000
Total liabilities	1,439,518	1,539,260
Commitments and contingencies		
Stockholders' equity:		
Preferred stock and paid in capital, par value $1.00 per share, 20,000,000 shares authorized, 13,900,000 shares issued and outstanding in 2008 and 2007	337,790	337,790
Common stock and paid in capital, par value $1.00 per share, 200,000,000 shares authorized, 104,211,541 and 101,082,717 shares issued and outstanding in 2008 and 2007, respectively	1,624,622	1,545,037
Distributions in excess of net income	(407,751)	(344,735)
Total stockholders' equity	1,554,661	1,538,092
Total liabilities and stockholders' equity	$ 2,994,179	$ 3,077,352

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

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REALTY INCOME CORPORATION AND SUBSIDIARIES
Consolidated Statements Of Income

Years Ended December 31, 2008, 2007 and 2006
(dollars in thousands, except per share data)

	2008	2007	2006
REVENUE			
Rental	$ 328,266	$ 287,965	$ 235,374
Other	1,934	6,352	2,042
	330,200	294,317	237,416
EXPENSES			
Interest	93,956	64,331	51,363
Depreciation and amortization	90,732	76,686	58,783
General and administrative	21,618	22,694	17,539
Property	5,818	3,471	3,300
Income taxes	1,230	1,392	747
Loss on extinguishment of debt	--	--	1,555
	213,354	168,574	133,287
Income from continuing operations	116,846	125,743	104,129
Income from discontinued operations:			
Real estate acquired for resale by Crest	575	10,703	1,402
Real estate held for investment	14,420	3,963	5,250
	14,995	14,666	6,652
Net income	131,841	140,409	110,781
Preferred stock cash dividends	(24,253)	(24,253)	(11,362)
Net income available to common stockholders	$ 107,588	$ 116,156	$ 99,419
Amounts available to common stockholders per common share:			
Income from continuing operations:			
Basic	$ 0.92	$ 1.01	$ 1.03
Diluted	$ 0.91	$ 1.01	$ 1.03
Net income, basic and diluted	$ 1.06	$ 1.16	$ 1.11
Weighted average common shares outstanding:			
Basic	101,178,191	100,195,031	89,766,714
Diluted	101,209,883	100,333,966	89,917,554

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 Stockholders' Equity

Years Ended December 31, 2008, 2007 and 2006
(dollars in thousands)

	Shares of preferred stock	Shares of common stock	Preferred stock and paid in capital	Common stock and paid in capital	Distributions in excess of net income	Total
Balance, December 31, 2005	5,100,000	83,696,647	$ 123,804	$ 1,134,300	$ (268,890)	$ 989,214
Net income	--	--	--	--	110,781	110,781
Distributions paid and payable	--	--	--	--	(144,045)	(144,045)
Shares issued in stock offerings, net of offering costs of $20,911	--	16,815,000	--	402,745	--	402,745
Shares issued in stock offering, net of offering costs of $6,023	8,800,000	--	213,977	--	--	213,977
Share-based compensation	--	234,579	--	3,320	--	3,320
Balance, December 31, 2006	13,900,000	100,746,226	337,781	1,540,365	(302,154)	1,575,992
Net income	--	--	--	--	140,409	140,409
Distributions paid and payable	--	--	--	--	(182,990)	(182,990)
Preferred stock issuance cost	--	--	9	--	--	9
Share-based compensation	--	336,491	--	4,672	--	4,672
Balance, December 31, 2007	13,900,000	101,082,717	337,790	1,545,037	(344,735)	1,538,092
Net income	--	--	--	--	131,841	131,841
Distributions paid and payable	--	--	--	--	(194,857)	(194,857)
Shares issued in stock offering, net of offering costs of $4,024	--	2,925,000	--	74,425	--	74,425
Share-based compensation	--	203,824	--	5,160	--	5,160
Balance, December 31, 2008	13,900,000	104,211,541	$ 337,790	$ 1,624,622	$ (407,751)	$ 1,554,661

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

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REALTY INCOME CORPORATION
AND SUBSIDIARIES
Consolidated Statements Of Cash
Flows

Years Ended December 31, 2008, 2007 and 2006
(dollars in thousands)

	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 131,841	$ 140,409	$ 110,781
Adjustments to net income:			
Depreciation and amortization	90,732	76,686	58,783
Income from discontinued operations:			
Real estate acquired for resale	(575)	(10,703)	(1,402)
Real estate held for investment	(14,420)	(3,963)	(5,250)
Gain on sales of land and improvements	(236)	(1,835)	--
Gain on reinstatement of property carrying value	--	--	(716)
Amortization of share-based compensation	5,049	3,857	2,951
Provisions for impairment on real estate held for investment	--	138	--
Cash provided by (used in) discontinued operations:			
Real estate acquired for resale	78	(1,610)	371
Real estate held for investment	1,408	3,009	3,055
Investment in real estate acquired for resale	(9)	(29,886)	(113,166)
Proceeds from sales of real estate acquired for resale	31,455	119,790	22,405
Collection of notes receivable by Crest	87	651	1,333
Change in assets and liabilities:			
Accounts receivable and other assets	(930)	(49)	4,418
Accounts payable, accrued expenses and other liabilities	1,675	21,675	3,382
Net cash provided by operating activities	246,155	318,169	86,945
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of investment properties:			
Continuing operations	439	4,370	2
Discontinued operations	24,191	7,014	9,804
Acquisition of and improvements to investment properties	(194,106)	(506,360)	(654,149)
Intangibles acquired in connection with acquisitions of investment properties	(397)	(997)	(937)
Restricted escrow funds acquired in connection with acquisitions of investment properties	--	(2,648)	--
Net cash used in investing activities	(169,873)	(498,621)	(645,280)

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REALTY INCOME
CORPORATION AND SUBSIDIARIES
Consolidated Statements Of Cash Flows
(Continued)

Years Ended December 31, 2008, 2007 and 2006
(dollars in thousands)

	2008	2007	2006
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash distributions to common stockholders	(169,655)	(157,659)	(129,667)
Cash dividends to preferred stockholders	(24,253)	(24,583)	(9,403)
Proceeds from common stock offerings, net	74,425	--	402,745
Credit facility origination costs	(3,196)	--	--
Principal payment on notes payable	(100,000)	--	(110,000)
Proceeds from notes issued, net	--	544,397	271,883
Borrowings from lines of credit	--	407,800	523,200
Payments under lines of credit	--	(407,800)	(659,900)
Proceeds from preferred stock offerings, net	--	9	213,977
Proceeds from other stock issuances	111	816	369
Net cash provided by (used in) financing activities	(222,568)	362,980	503,204
Net increase (decrease) in cash and cash equivalents	(146,286)	182,528	(55,131)
Cash and cash equivalents, beginning of year	193,101	10,573	65,704
Cash and cash equivalents, end of year	$ 46,815	$ 193,101	$ 10,573

For supplemental disclosures, see note 13.
The accompanying notes to consolidated financial statements are an integral part of these statements.

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REALTY INCOME CORPORATION AND SUBSIDIARIES
Notes To Consolidated Financial Statements

December 31, 2008, 2007 and 2006

1. Organization and Operation

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

At December 31, 2008, we owned 2,348 properties, located in 49 states, containing over 19.1 million leasable square feet, along with five 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 "Tax Code").

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

2. Summary of Significant Accounting Policies and Procedures

Federal Income Taxes. We have elected to be taxed as a real estate investment trust ("REIT") under the Tax 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 federal income taxes of Crest, which totaled $181,000 in 2008, $2.5 million in 2007 and $396,000 in 2006 and are included in discontinued operations.

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

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

	2008(1)	2007	2006
Net income available to common stockholders	$ 107,588	$ 116,156	$ 99,419
Preferred dividends	24,253	24,583	11,362
Depreciation and amortization timing differences	28,624	22,668	16,612
Tax gain on the sales of real estate less than book gain	(3,925)	--	--
Tax loss on the sale of real estate less than book gain	--	(3,839)	(3,529)
Dividends received from Crest	2,500	3,300	500
Elimination of net revenue and expenses from Crest	270	(6,677)	2,440
Adjustment for share-based compensation	2,270	314	(63)
Adjustment for straight-line rent	(1,997)	(1,217)	(1,515)
	(1,226)	5,608	(1,681)

Adjustment for an increase (decrease) in prepaid rent			
Other adjustments	(358)	(453)	(718)
Taxable net income, before our dividends paid deduction	$ 157,999	$ 160,443	$ 122,827

(1) The 2008 information presented is a reconciliation of our net income available to common stockholders to estimated taxable net income.

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In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109. Interpretation No. 48 applies to all tax positions accounted for under Statement No. 109 and clarifies the accounting for uncertainty in income taxes by defining criteria that a tax position on an individual matter must meet before that position is recognized in the financial statements. We were subject to the provisions of Interpretation No. 48 since January 2007 and from that time we have analyzed our various federal and state filing positions. We believe that our income tax positions would more likely than not be sustained upon examination by all relevant taxing authorities. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to Interpretation No. 48 and we did not record a cumulative effect adjustment related to its adoption.

Absent an election to the contrary, if a REIT acquires property that is or has been owned by a C corporation in a transaction in which the tax basis of the property in the hands of the REIT is determined by reference to the tax basis of the property in the hands of the C corporation, and the REIT recognizes gain on the disposition of such property during the 10 year period beginning on the date on which it acquired the property, then the REIT will be required to pay tax at the highest regular corporate tax rate on this gain to the extent of the excess of the fair market value of the property over the REIT's adjusted basis in the property, in each case determined as of the date the REIT acquired the property. In August 2007, we acquired 100% of the stock of a C corporation that owned real property. At the time of acquisition, the C corporation became a Qualified REIT Subsidiary, was deemed to be liquidated for Federal income tax purposes, and the real property was deemed to be transferred to us with a carryover tax basis. As of December 31, 2008, we have built-in gains of $59 million with respect to such property. We do not expect that we will be required to pay income tax on the built-in gains in these properties during the ten-year period ending August 28, 2017. It is our intent, and we have the ability, to defer any dispositions of these properties to periods when the related gains would not be subject to the built-in gain income tax or otherwise to defer the recognition of the built-in gain related to these properties. However, our plans could change and it may be necessary to dispose of one or more of these properties in a taxable transaction before August 28, 2017, in which case we would be required to pay corporate level tax with respect to the built-in gains on these properties as described above.

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

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

	2008	2007	2006
Weighted average shares used for the basic net income per share computation	101,178,191	100,195,031	89,766,714
Incremental shares from share-based compensation	31,692	138,935	150,840
Adjusted weighted average shares used for diluted net income per share computation	101,209,883	100,333,966	89,917,554
Unvested shares from share-based compensation that were anti-dilutive	614,917	243,631	235,035

No stock options were anti-dilutive in 2008, 2007 or 2006.

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Discontinued Operations. In accordance with FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, Realty Income's operations from two investment properties classified as held for sale at December 31, 2008, plus properties sold in 2008, 2007 and 2006, 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 once they 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. In accordance with Statement No. 144, the operations of Crest's properties are classified as "income from discontinued operations, real estate acquired for resale by Crest" on our consolidated statements of income.

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

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

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

Crest's income from discontinued operations, real estate acquired for resale	2008	2007	2006
Gain on sales of real estate acquired for resale	$ 4,642	$ 12,319	$ 2,219
Rental revenue	1,830	8,165	5,065
Other revenue	914	190	15
Interest expense	(1,797)	(6,201)	(3,708)
General and administrative expense	(511)	(691)	(440)
Property expenses	(133)	(40)	(67)
Provisions for impairment	(3,374)	--	(1,188)
Depreciation (1)	(771)	--	--
Income taxes	(225)	(3,039)	(494)
Income from discontinued operations, real estate acquired for resale by Crest	$ 575	$ 10,703	$ 1,402

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

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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	2008	2007	2006
Gain on sales of investment properties	$ 13,314	$ 1,724	$ 3,036
Rental revenue	1,461	3,075	3,177
Other revenue	40	4	34
Depreciation and amortization	(302)	(636)	(825)
Property expenses	(93)	(70)	(156)
Provisions for impairment	--	(134)	(16)
Income from discontinued operations, real estate held for investment	$ 14,420	$ 3,963	$ 5,250

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

Total discontinued operations	2008	2007	2006
Real estate acquired for resale by Crest	$ 575	$ 10,703	$ 1,402
Real estate held for investment	14,420	3,963	5,250
Income from discontinued operations	$ 14,995	$ 14,666	$ 6,652
Per common share, basic and diluted	$ 0.15	$ 0.15	$ 0.07

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

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

We recognize an allowance for doubtful accounts relating to accounts receivable for amounts deemed uncollectible. We consider tenant specific issues, such as financial stability and ability to pay rent, when determining collectibility of accounts receivable and appropriate allowances to record. The allowance for doubtful accounts was $637,000 at December 31, 2008 and $795,000 at December 31, 2007.

Other revenue includes non-operating interest earned from investments in money market funds and other notes of $1.4 million in 2008, $3.6 million in 2007 and $1.2 million in 2006.

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

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

Gain on Sales of Properties. We recognize gains on sales of properties in accordance with FASB Statement No. 66, Accounting for Sales of Real Estate.

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Allocation of the Purchase Price of Real Estate Acquisitions. When we acquire a property for investment purposes, we allocate the purchase price to the various components of the acquisition based upon the fair value of each component. The components typically include (i) land, (ii) building and improvements, (iii) intangible assets related to above and below market leases, and (iv) value of costs to obtain tenants.

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

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

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

Provisions for Impairment. We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Generally, a provision is made for impairment if estimated future operating cash flows (undiscounted and without interest charges) plus estimated disposition proceeds (undiscounted) are less than the current book value. Impairment loss is measured as the amount by which the current book value of the asset exceeds the fair value of the asset. If a property is held for sale, it is carried at the lower of cost or estimated fair value, less estimated cost to sell. In 2008, Crest recorded provisions for impairment of $3.4 million on three retail properties, which were held for sale at December 31, 2008. These provisions for impairment are included in “income from discontinued operations, real estate acquired for resale by Crest” on our consolidated statements of income.

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

In 2006, we recorded a provision for impairment of $16,000 on one retail investment property in the restaurant industry. This provision for impairment is included in Discontinued Operations. Additionally, in 2006, Crest recorded provisions for impairment of $1.2 million on three retail properties. One was sold in 2007 and two were sold in 2008. The provisions for impairment recorded by Crest are included in “income from discontinued operations, real estate acquired for resale by Crest” on our consolidated statements of income.

The provisions for impairment recorded in 2008, 2007 and 2006 reduced the carrying values to the estimated fair-market value of those properties, net of estimated selling costs.

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Acquired In-place Leases. In accordance with FASB Statement No. 141, Business Combinations, the fair value of the real estate acquired with in-place operating leases is allocated to the acquired tangible assets, consisting of land, building and improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, the value of in-place leases and tenant relationships, based in each case on their fair values.

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

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

The aggregate value of other acquired intangible assets consists of the value of in-place leases and tenant relationships. These are measured by the excess of the purchase price paid for a property, after adjusting for above or below-market lease value, less the estimated fair value of the property “as if vacant,” determined as set forth above. The value of in-place leases, exclusive of the value of above-market and below-market in-place leases, is amortized to expense over the remaining periods of the respective leases. If a lease were to be terminated prior to its stated expiration, all unamortized amounts relating to that lease would be recorded to revenue or expense as appropriate.

Share-based Compensation. Effective January 1, 2006, we adopted FASB Statement No. 123R, Share-Based Payments. Statement No. 123R requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees. Effective January 1, 2002, we adopted the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, and starting January 1, 2002 expensed costs for all stock option awards granted, modified, or settled.

Goodwill. Goodwill is tested for impairment during the second quarter of each year as well as when events or circumstances occur indicating that our goodwill might be impaired. We did not record any new goodwill or impairment on our existing goodwill during 2008, 2007 or 2006.

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

December 31,	2008	2007
Notes receivable issued in conjunction with Crest property sales	$ 22,344	$ 3,132
Deferred bond financing costs, net	13,249	14,940
Value of in-place and above-market leases, net	10,534	11,211
Prepaid expenses	4,244	3,803
Escrow deposits for Section 1031 tax-deferred exchanges	3,174	--
	2,552	434

Credit facility organization costs, net		
Corporate assets, net of accumulated depreciation and amortization	1,277	1,356
Settlements on treasury lock agreements	--	759
Other items	7	13
	$ 57,381	$ 35,648

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

December 31,	2008	2007
Common stock distributions	$ 14,772	$ 13,823
Preferred stock dividends	2,021	2,021
	$ 16,793	$ 15,844

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

December 31,	2008	2007
Bond interest payable	$ 26,706	$ 24,987
Other items	11,321	13,125
	$ 38,027	$ 38,112

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

December 31,	2008	2007
Rent received in advance	$ 9,083	$ 10,626
Security deposits	3,937	2,818
Value of in-place below-market leases, net	1,678	1,860
	$ 14,698	$ 15,304

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

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

Impact of Recent Accounting Pronouncements. In September 2006, the FASB issued Statement No. 157, Fair Value Measurements. Statement No. 157 sets out a framework for measuring fair value, and requires additional disclosures about fair-value measurements. Statement No. 157 became effective for us at the beginning of 2008 and did not have an impact on our financial position or results of operations. In February 2008, the FASB delayed the effective date of Statement No. 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, to the beginning of 2009. For additional discussion of Statement No. 157, see note 12.

In February 2007, the FASB issued Statement No. 159, The Fair Value option for Financial Assets and Financial Liabilities-including an Amendment of FASB Statement No. 115. Statement No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. We have elected not to use the fair value measurement provisions of Statement No. 159.

In December 2007, the FASB issued Statement No. 141R (revised 2007), Business Combinations. Effective January 1, 2009, Statement No. 141R changes the accounting treatment and disclosures for certain specific items in a business combination. Under Statement No. 141R, a company that acquires another entity is required to recognize all the assets acquired and liabilities assumed at the acquisition-date fair value with limited exceptions. Statement 141R requires transaction costs to be expensed as incurred, rather than capitalized. Statement No. 141R is not expected to have a significant impact on our financial position or results of operations.

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In December 2007, the FASB issued Statement No. 160, Noncontrolling Interest in Consolidated Financial Statements. Effective January 1, 2009, Statement No. 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This statement also requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest and requires disclosure, on the face of the consolidated statement of income, of the amounts of the consolidated net income attributable to the parent and to the noncontrolling interest. We currently do not have any minority or noncontrolling interest in a subsidiary, and, therefore, Statement No. 160 will not have an impact on our consolidated financial statements.

In June 2008, the FASB issued FASB Staff Position ("FSP") EITF No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. Effective January 1, 2009, FSP EITF No. 03-6-1 clarifies that all outstanding nonvested share-based payment awards that contain rights to nonforfeitable dividends are considered "participating securities," as defined by FSP EITF No. 03-6-1, which requires the two-class method of computing basic and diluted earnings per share to be applied. FSP EITF
No. 03-6-1 is not expected to have a significant impact on our calculation of basic and diluted earnings per share.

Reclassifications. Certain of the 2007 and 2006 balances have been reclassified to conform to the 2008 presentation.

3. Retail Properties Acquired

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

A. During 2008, Realty Income invested $189.6 million in 108 new retail properties and properties under development with an initial weighted average contractual lease rate of 8.7%. These 108 properties are located in 14 states, contain over 714,000 leasable square feet, and are 100% leased with an average lease term of 20.6 years. 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 comparison, during 2007, Realty Income and Crest invested $533.7 million, in aggregate, in 357 new retail properties and properties under development. These 357 retail properties are located in 38 states, contain over 1.9 million leasable square feet, and are 100% leased with an average lease term of 19.3 years.

Of the $533.7 million invested during 2007, Realty Income invested $503.8 million in 325 new retail properties and properties under development with an initial weighted average contractual lease rate of 8.6%. These 325 properties are located in 38 states, contain over 1.8 million leasable square feet, and are 100% leased with an average lease term of 19.2 years.

B. During 2008, Crest did not invest in any new retail properties. In comparison, during 2007, Crest invested $29.9 million in 32 retail properties.

C. Crest's property inventory at December 31, 2008 consisted of five properties for $6.0 million and at December 31, 2007 consisted of 30 properties for $56.2 million. These amounts are included on our consolidated balance sheets in "real estate held for sale, net."

D. Of the $189.6 million invested by Realty Income in 2008, $10.0 million was used to acquire two retail properties with existing leases. In accordance with FASB Statement No. 141, Business Combinations, Realty Income recorded $397,000 as the intangible value of the in-place leases. This amount is recorded to "other assets" on our consolidated balance sheets and amortized over the life of the respective leases.

Of the $533.7 million invested in 2007, $14.7 million was used to acquire five properties with existing leases already in-place with retail tenants. In accordance with Statement No. 141, Realty Income recorded $1.8 million as the intangible value of the in-place leases and $784,000 as the intangible value of below-market leases. These amounts are recorded to “other assets” and “other liabilities,” respectively, on our consolidated balance sheets and are amortized over the life of the respective leases.

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4. Credit Facility

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

In May 2008, as a result of entering into our new credit facility, we incurred $3.2 million of credit facility origination costs which were capitalized to other assets. Also, we expensed $235,000 of unamortized credit facility origination costs from our prior credit facility, which are included in interest expense.

We did not utilize our credit facility during 2008. Our effective borrowing rate at December 31, 2008 was 1.4% and at December 31, 2007 was 5.2%. Our average borrowing rate on our credit facility during 2007 was 6.0%, compared to 5.7% in 2006. Our current and prior credit facilities are subject to various leverage and interest coverage ratio limitations. We are and have been in compliance with these covenants.

5. Notes Payable

A. General

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

December 31,	2008	2007
8.25% notes, issued in October 1998 and due in November 2008	$ --	$ 100.0
8% notes, issued in January 1999 and due in January 2009	20.0	20.0
5.375% notes, issued in March 2003 and due in March 2013	100.0	100.0
5.5% notes, issued in November 2003 and due in November 2015	150.0	150.0
5.95% notes, issued in September 2006 and due in September 2016	275.0	275.0
5.375% notes, issued in September 2005 and due in September 2017	175.0	175.0
6.75% notes, issued in September 2007 and due in August 2019	550.0	550.0
5.875% bonds, issued in March 2005 and due in March 2035	100.0	100.0
	$ 1,370.0	$ 1,470.0

The following table summarizes the maturity of our notes payable as of December 31, 2008 (dollars in millions):

Year of Maturity(1)	Notes
2009(2)	$ 20.0
2013	100.0
After 2013	1,250.0
Totals	$ 1,370.0

(1) There are no maturities in 2010, 2011 and 2012.
(2) $20.0 million matured and was paid off in January 2009.

Interest incurred on all of the notes for 2008 was $91.2 million, for 2007 was $67.1 million and for 2006 was $49.6 million. The interest rate on each of these notes is fixed.

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

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

B. Note Redemptions

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

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

In May 1998, we entered into a treasury interest rate lock agreement associated with the 2008 Notes. In settlement of the agreement, we made a payment of $8.7 million in 1998. The payment on the agreement was amortized over 10 years (the life of the notes) as a yield adjustment to interest expense. After taking into effect the results of the treasury lock settlement, the effective rate to us on the 2008 Notes was 9.12%.

In September 2006, we redeemed all of our outstanding 2007 Notes at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest and a make-whole payment of $1.6 million. The make-whole payment was recorded as a "loss on extinguishment of debt" on our 2006 consolidated statement of income. For 2006, the make-whole payment represented approximately $0.017 per share.

C. Note Issuances

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

In September 2006, we issued $275 million in aggregate principal amount of 5.95% senior unsecured notes due 2016 (the "2016 Notes"). The price to the investor for the 2016 Notes was 99.74% of the principal amount for an effective yield of 5.985%. The net proceeds of approximately $271.9 million from this offering were used for general corporate purposes and to redeem the outstanding $110 million 7.75% unsecured notes due May 2007 (the "2007 Notes"), which were issued in May 1997.

6. Common Stock Offerings

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

B. In October and November 2006, we issued an aggregate of 6.9 million shares of common stock at a price of $26.40 per share. The net proceeds of approximately $173.2 million were used to fund new property acquisitions and

for other general corporate purposes.

C. In September 2006, we issued 4.715 million shares of common stock at a price of $24.32 per share. The net proceeds of approximately $109 million from this offering were used to fund new property acquisitions, repay borrowings under our credit facility and for other general corporate purposes.

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D. In March 2006, we issued 5.2 million shares of common stock at a price of $24.39 per share. The net proceeds of approximately $120.5 million were used to fund new property acquisitions and for other general corporate purposes.

7. Preferred Stock

A. In 2004, we issued 5.1 million shares of 7.375% Monthly Income Class D cumulative redeemable preferred stock. The net proceeds of $123.8 million from this issuance were used to redeem a portion of the outstanding Class B and Class C preferred stock, repay borrowings outstanding under our acquisition credit facility and for other general corporate purposes. Beginning May 27, 2009, the Class D preferred shares are redeemable, at our option, for $25 per share. During 2008, 2007 and 2006, we paid twelve monthly dividends to holders of our Class D preferred stock totaling $1.8437508 per share, or $9.4 million, and at December 31, 2008 a monthly dividend of $0.1536459 per share was payable and was paid in January 2009.

B. In 2006, we issued 8.8 million shares of 6.75% Monthly Income Class E cumulative redeemable preferred stock. The net proceeds of $214 million from this issuance were used to repay borrowings under our credit facility and for other general corporate purposes. Beginning December 7, 2011, the Class E preferred shares are redeemable, at our option, for $25 per share. During 2008, we paid twelve monthly dividends to holders of our Class E preferred stock totaling $1.6875 per share, or $14.9 million, and at December 31, 2008 a monthly dividend of $0.140625 per share was payable and was paid in January 2009. During 2007, we paid twelve monthly dividends to holders of our Class E preferred stock totaling $1.725 per share, or $15.2 million. In January 2007, we paid the first Class E preferred dividend of $0.178125 per share, which covered a period of 38 days.

8. Distributions Paid and Payable

A. Common Stock

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

Month	2008	2007	2006
January	$ 0.136750	$ 0.126500	$ 0.116250
February	0.136750	0.126500	0.116250
March	0.136750	0.126500	0.116250
April	0.137375	0.127125	0.116875
May	0.137375	0.127125	0.116875
June	0.137375	0.127125	0.116875
July	0.138000	0.127750	0.117500
August	0.138000	0.127750	0.117500
September	0.140500	0.135500	0.125250
October	0.141125	0.136125	0.125875
November	0.141125	0.136125	0.125875
December	0.141125	0.136125	0.125875
Total	$ 1.662250	$ 1.560250	$ 1.437250

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

	2008	2007	2006
Ordinary income	$ 1.2681285	$ 1.3847719	$ 1.2945466
Nontaxable distributions	0.3121490	0.1754781	0.1427034
Capital gain	0.0819725	--	--
Totals	$ 1.6622500	$ 1.5602500	$ 1.4372500

At December 31, 2008, a distribution of $0.14175 per common share was payable and was paid in January 2009. At December 31, 2007, a distribution of $0.13675 per common share was payable and was paid in January 2008.

B. Class D Preferred Stock

Dividends of $0.1536459 per share are paid monthly in arrears on the Class D preferred stock. We declared dividends to holders of our Class D preferred stock totaling $9.4 million in 2008, $9.4 million in 2007, and $9.8 million in 2006.

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

	2008	2007	2006
Ordinary income	$ 1.7528280	$ 1.8437508	$ 1.8437508
Capital gain	0.0909228	--	--
Totals	$ 1.8437508	$ 1.8437508	$ 1.8437508

C. Class E Preferred Stock

Dividends of $0.140625 per share are paid monthly in arrears on the Class E preferred stock. We declared dividends to holders of our Class E preferred stock totaling $14.9 million in 2008, $14.9 million in 2007 and $1.6 million in 2006. The first Class E dividend was paid in January 2007.

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

	2008	2007	2006
Ordinary income	$ 1.6042824	$ 1.7250000	$ --
Capital gain	0.0832176	--	--
Totals	$ 1.6875000	$ 1.7250000	$ --

9. Operating Leases

A. At December 31, 2008, we owned 2,348 properties in 49 states, plus an additional five properties owned by Crest. Of the 2,348 properties, 2,337, or 99.5%, are single-tenant, retail properties and the remaining 11 are multi-tenant properties. At December 31, 2008, 70 properties were vacant and available for lease or sale.

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

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Rent based on a percentage of a tenants' gross sales (percentage rents) for 2008 was $1.3 million, for 2007 was $851,000 and for 2006 was $1.1 million, including amounts recorded to discontinued operations.

At December 31, 2008, minimum future annual rents to be received on the operating leases for the next five years and thereafter are as follows (dollars in thousands):

2009	$ 318,175
2010	307,087
2011	297,390
2012	285,142
2013	269,336
Thereafter	2,416,358
Total	$ 3,893,488

B. Major Tenants – No individual tenant's rental revenue, including percentage rents, represented more than 10% of our total revenue for each of the years ended December 31, 2008, 2007 or 2006.

10. Gain on Sales of Real Estate Acquired for Resale by Crest

In 2008, Crest sold 25 properties for $50.7 million, which resulted in a gain of $4.6 million. As part of two sales during 2008, Crest provided partial financing to the buyers of $19.2 million. In 2007, Crest sold 62 properties for $123.6 million, which resulted in a gain of $12.3 million. In 2007, as part of two sales, Crest provided partial financing to the buyer of $3.8 million, of which $619,000 was paid in full in November 2007. In 2006, Crest sold 13 properties for $22.4 million, which resulted in a gain of $2.2 million. Partial buyer financing of $1.3 million, related to one 2005 property sale, was paid in full in February 2006. Crest's gains on sales are reported before income taxes and are included in discontinued operations.

11. Gain on Sales of Investment Properties by Realty Income

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

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

In 2006, we sold or exchanged 13 investment properties for $10.7 million, which resulted in a gain of $3.0 million which is included in discontinued operations.

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12. Fair Value of Financial Instruments

Statement No. 157 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value. Statement No. 157 also establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. This statement applies to fair value measurements and disclosures that are already required or permitted by most existing FASB accounting standards.

We believe that the carrying values reflected in the consolidated balance sheets, at December 31, 2008 and 2007, respectively, reasonably approximate the fair values for cash and cash equivalents, accounts receivable, and all liabilities, due to their short-term nature, except for the notes payable and the notes receivable issued in conjunction with Crest property sales, which are disclosed below (dollars in millions):

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

At December 31, 2007	Carrying value per balance sheet	Estimated fair market value
Notes receivable issued in conjunction with Crest property sales	$ 3.1	$ 2.8
Notes payable	$ 1,470.0	$ 1,412.5

The estimated fair value of the notes receivable issued in conjunction with Crest property sales has been calculated by discounting the future cash flows using an interest rate based upon the current 7-year or 10-year Treasury Yield Curve plus an applicable credit-adjusted spread. Because this methodology includes unobservable inputs that reflect our own internal assumptions and calculations, the measurement of fair value related to these notes receivable issued in conjunction with Crest property sales is categorized as level 3 on the three-level valuation hierarchy as defined by Statement No. 157.

The estimated fair value of the notes payable is based upon the closing market price per note or indicative price per note. Because these note prices represent inputs that are less observable by the public and are not necessarily reflected in active markets, the measurement of the fair value related to these notes payable is categorized as level 2 on the three-level valuation hierarchy as defined by Statement No. 157.

13. Supplemental Disclosures of Cash Flow Information

Interest paid in 2008 was $90.3 million, in 2007 was $56.7 million and in 2006 was $52.4 million.

Interest capitalized to properties under development in 2008 was $92,000, in 2007 was $993,000 and in 2006 was $2.2 million.

Income taxes paid by Realty Income and Crest in 2008 were $1.7 million, in 2007 were $4.3 million and in 2006 were $775,000.

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

A. Share-based compensation expense for 2008 was $5.0 million, for 2007 was $3.9 million and for 2006 was $3.0 million.

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

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C. In 2008, Crest sold two properties for $23.5 million and received notes totaling $19.2 million from the buyers, which are included in “other assets” on our consolidated balance sheet at December 31, 2008.

D. In 2007, Crest sold two properties for an aggregate of $5.5 million and received notes totaling $3.8 million from the buyers, of which $619,000 was paid in full in November 2007. The remaining note is included in “other assets” on our consolidated balance sheets at December 31, 2008 and December 31, 2007.

E. At December 31, 2008, Realty Income has escrow deposits of $3.2 million held for tax-deferred exchanges under Section 1031 of the Tax Code. The $3.2 million is included in “other assets” on our consolidated balance sheet at December 31, 2008.

F. In accordance with FASB Statement No. 143, Accounting for Asset Retirement Obligations, we recorded an additional $335,000 in 2008 of estimated legal obligations related to asset retirement obligations on two land leases and an additional $239,000 in 2007 of estimated legal obligations on these two land leases. These asset retirement obligations account for the difference between our obligations to the landlord under the two land leases and our subtenant’s obligations to us under the subleases.

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

H. In 2006, we exchanged one of our properties for a different property that was leased to the same tenant. As part of this transaction, accumulated depreciation was reduced by $67,000 and a gain of $67,000 was recorded. The original cost of and the value received for the property exchanged was $900,000. This transaction had no impact on land or building and improvements.

I. In 2006, we received shares of a public company as settlement of a bankruptcy claim associated with a former tenant. We recorded a value of $207,000, which is in “other revenue” on our 2006 consolidated income statement. The shares were sold in January 2007.

J. Accrued costs on properties under development resulted in an increase in buildings and improvements and accounts payable of $1.7 million in 2006.

K. In 2004, we recorded an impairment of $716,000 on one property to reduce its carrying value to zero. This loss was the result of a dispute with the original owner and tenant in their bankruptcy proceeding. Our title insurance company failed to timely record the deed on this property upon our original acquisition, which resulted in a claim by the bankruptcy trustee that Realty Income did not have legal title to the property. In the second quarter of 2006, this issue was resolved and we obtained title to the property. At that time we reinstated the original carrying value adjusted for depreciation on our balance sheet and recorded other revenue of $716,000. We also reversed accrued liabilities and property expenses of $133,000 associated with this property. As part of the settlement, these costs became the responsibility of the title insurance company.

14. Employee Benefit Plan

We have a 401(k) plan covering substantially all of our employees. Under our 401(k) plan, employees may elect to make contributions to the plan up to a maximum of 60% of their compensation, subject to limits under the IRS Code. We match 50% of our employee’s contributions, up to 3% of the employee’s compensation. Our aggregate matching contributions each year have been immaterial to our results of operations.

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15. Common Stock Incentive Plan

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

The amount of share-based compensation costs charged against income during 2008 was $5.0 million, during 2007 was $3.9 million and during 2006 was $3.0 million.

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

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

	2008		2007		2006	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding options, beginning of year	45,007	$ 12.71	106,368	$ 13.06	135,348	$ 13.02
Options exercised	(23,713)	12.15	(61,361)	13.32	(28,696)	12.86
Options forfeited	--	--	--	--	(284)	14.70
Outstanding and exercisable options, end of year	21,294	$ 13.33	45,007	$ 12.71	106,368	$ 13.06

At December 31, 2008, the options outstanding and exercisable had exercise prices ranging from $11.78 to $14.70, with a weighted average price of $13.33, and expiration dates ranging from May 2009 to December 2011 with a weighted average remaining term of 3.8 years.

The intrinsic value of a stock option is the amount by which the market value of the underlying stock at December 31 of each year exceeds the exercise price of the option. The market value of the Company's stock was $23.15, $27.02 and $27.70 at December 31, 2008, 2007 and 2006, respectively. The total intrinsic value of options exercised during the years ended December 31, 2008, 2007 and 2006 was $319,000, $904,000 and $268,000, respectively. The total intrinsic value of options vested during the year ended December 31, 2006 was $143,000. The aggregate intrinsic value of options outstanding and exercisable was $209,000, $644,000 and $1.6 million at December 31, 2008, 2007 and 2006, respectively.

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The following table summarizes our common stock grant activity under our Stock Plan for the years 2008, 2007 and 2006. Our common stock grants vest over periods ranging from immediately to 10 years.

	2008		2007		2006	
	Number of shares	Weighted average price(1)	Number of shares	Weighted average price(1)	Number of shares	Weighted average price(1)
Outstanding nonvested shares, beginning of year	994,572	$ 19.46	868,726	$ 17.96	788,722	$ 17.83
Shares granted	249,447	26.63	276,631	27.64	210,332	21.72
Shares vested	(188,215)	21.96	(149,284)	20.94	(125,879)	20.39
Shares forfeited	(61,351)	22.13	(1,501)	24.81	(4,449)	21.35
Outstanding nonvested shares, end of year	994,453	$ 19.70	994,572	$ 19.46	868,726	$ 17.96

(1) Grant date fair value.

During 2008, we issued 249,447 shares of common stock under our Stock Plan. These shares vest over the following service periods: 24,350 vested immediately, 16,000 vest over a service period of one year, 156 vest over a service period of two years, 12,000 vest over a service period of three years, 3,681 vest over a service period of four years, 92,553 vest over a service period of five years and 100,707 vest over a service period of 10 years.

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

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

The vesting schedule for shares granted to employees in 2008 is as follows:

- For employees age 49 and below at the grant date, shares vest in 10% increments on each of the first ten anniversaries of the grant date;
- For employees age 50 through 55 at the grant date, shares vest in 20% increments on each of the first five anniversaries of the grant date;
- For employees age 56 at the grant date, shares vest in 25% increments on each of the first four anniversaries of the grant date;
- For employees age 57 at the grant date, shares vest in 33.33% increments on each of the first three anniversaries of the grant date;
- For employees age 58 at the grant date, shares vest in 50% increments on each of the first two anniversaries of the grant date;
- For employees age 59 at the grant date, shares are 100% vested on the first anniversary of the grant date; and
- For employees age 60 and above at the grant date, shares vest immediately on the grant date.

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

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As of December 31, 2008, the remaining unamortized share-based compensation expense totaled $19.6 million, which is being amortized on a straight-line basis over the service period of each applicable award. The amount of share-based compensation is based on the fair value of the stock at the grant date. We define the grant date as the date the recipient and Realty Income have a mutual understanding of the key terms and condition of the award and the recipient of the grant begins to benefit from, or be adversely affected by, subsequent changes in the price of the shares.

The effect of pre-vesting forfeitures on our recorded expense has historically been negligible. Any future pre-vesting forfeitures are also expected to be negligible and we will record the benefit related to such forfeitures as they occur. Under the terms of our Stock Plan, we pay non-refundable dividends to the holders of our nonvested shares. Under Statement No. 123R, the dividends paid to holders of these nonvested shares should be charged as compensation expense to the extent that they relate to nonvested shares that do not or are not expected to vest. Given the negligible historical and prospective forfeiture rate determined by us, we did not record any amount to compensation expense related to dividends paid in 2008, 2007 or 2006.

16. Segment Information

We evaluate performance and make resource allocation decisions on an industry by industry basis. For financial reporting purposes, we have grouped our tenants into 31 industry and activity segments (including properties owned by Crest that are grouped together as a segment). All of the properties are incorporated into one of the applicable segments. Because almost all of our leases require the tenant to pay operating expenses, revenue is the only component of segment profit and loss we measure.

The following tables set forth certain information regarding the properties owned by us, classified according to the business of the respective tenants as of December 31, 2008 (dollars in thousands):

Assets, as of December 31:	2008	2007
Segment net real estate:		
Automotive service	$ 106,581	$ 110,100
Automotive tire services	208,770	212,747
Child care	85,120	90,757
Convenience stores	472,588	408,119
Drug stores	145,919	100,154
Health and fitness	167,658	169,109
Home furnishings	51,910	55,503
Home improvement	57,664	59,497
Motor vehicle dealerships	105,087	101,887
Restaurants	751,466	776,715
Theaters	299,690	267,413
20 non-reportable segments	409,700	472,254
Total segment net real estate	2,862,153	2,824,255
Other intangible assets – Automotive tire service	706	765
Other intangible assets – Drug stores	6,727	6,988
Other intangible assets – Grocery stores	911	962
Other intangible assets – Theaters	2,190	2,496
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	104,286	224,680
Total assets	$ 2,994,179	$ 3,077,352

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	Revenue		
For the years ended December 31,	2008	2007	2006
Segment rental revenue(1):			
Automotive service	$ 15,819	$ 15,051	$ 16,415
Automotive tire services	22,165	21,235	14,501
Child care	24,848	23,895	24,207
Convenience stores	52,027	40,727	38,283
Drug stores	13,323	7,830	6,986
Health and fitness	18,390	14,874	10,212
Home furnishings	7,879	7,786	7,629
Home improvement	6,108	6,116	7,127
Motor vehicle dealerships	10,358	9,540	7,890
Restaurants	71,508	59,585	26,945
Theaters	29,640	26,121	22,905
20 non-reportable segments	56,201	55,205	52,274
Total rental revenue	328,266	287,965	235,374
Other revenue	1,934	6,352	2,042
Total revenue	$ 330,200	$ 294,317	$ 237,416

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

17. Commitments and Contingencies

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

At December 31, 2008, we have committed $208,000 under construction contracts. These costs are expected to be paid in the next six months. In addition, we also have contingent payments for tenant improvements and leasing costs of $977,000.

We have certain properties that are subject to ground leases which are accounted for as operating leases. At December 31, 2008, minimum future rental payments for the next five years and thereafter are as follows (dollars in thousands):

	Ground Leases Paid by Realty Income (1)	Ground Leases Paid by Our Tenants (2)	Total
2009	$ 92	$ 3,791	$ 3,883
2010	82	3,680	3,762
2011	69	3,667	3,736
2012	69	3,563	3,632
2013	69	3,420	3,489
Thereafter	900	40,801	41,701
Total	$ 1,281	$ 58,922	$ 60,203

(1) Realty Income currently pays the ground lessors directly for the rent under the ground leases. A majority of this rent is reimbursed to Realty Income as additional rent from our tenants.
(2) Our tenants, who are generally sub-tenants under the ground leases, are responsible for paying the rent under these ground leases. In the event a tenant fails to pay the ground lease rent, we are primarily responsible.

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REALTY INCOME CORPORATION AND SUBSIDIARIES
Consolidated Quarterly Financial Data

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year(2)
2008(1)					
Total revenue	$ 82,776	$ 82,177	$ 82,521	$ 82,726	$ 330,200
Interest expense	23,386	23,929	23,915	22,726	93,956
Depreciation and amortization expense	22,848	22,080	22,869	22,935	90,732
Other expenses	7,188	7,237	7,170	7,071	28,666
Income from continuing operations	29,354	28,931	28,567	29,994	116,846
Income from discontinued operations	407	4,120	6,130	4,338	14,995
Net income	29,761	33,051	34,697	34,332	131,841
Net income available to common stockholders	23,698	26,988	28,634	28,269	107,588
Net income per common share:					
Basic and diluted	0.24	0.27	0.29	0.27	1.06
Dividends paid per common share	0.410250	0.412125	0.416500	0.423375	1.66225
2007(1)					
Total revenue	$ 70,642	$ 70,030	$ 73,530	$ 80,115	$ 294,317
Interest expense	12,420	13,029	16,163	22,719	64,331
Depreciation and amortization expense	17,956	18,349	19,433	20,948	76,686
Other expenses	6,193	7,148	7,442	6,774	27,557
Income from continuing operations	34,073	31,504	30,492	29,674	125,743
Income from discontinued operations	2,250	5,432	3,481	3,502	14,666
Net income	36,323	36,936	33,973	33,176	140,409
Net income available to common stockholders	30,260	30,873	27,910	27,113	116,156
Net income per common share:					
Basic and diluted	0.30	0.31	0.28	0.27	1.16
Dividends paid per common share	0.379500	0.381375	0.391000	0.408375	1.56025

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

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

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

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

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Item 9A: Controls and Procedures

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

As of and for the year ended December 31, 2008, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective and were operating at a reasonable assurance level.

Management's Report on Internal Control Over Financial Reporting.
Internal control over financial reporting refers to the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

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

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

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

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

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

Submitted on February 10, 2009 by,

Thomas A Lewis, Chief Executive Officer and Vice Chairman
Paul M. Meurer, Chief Financial Officer, Executive Vice President and Treasurer

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Changes in Internal Controls. There have not been any significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation. There were no material weaknesses in our internal controls, and therefore no corrective actions were taken.

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

Item 9B: Other Information

None.

PART III

Item 10: Directors, Executive Officers and Corporate Governance

The information required by this item is set forth under the captions "Board of Directors" and "Executive Officers of the Company" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive Proxy Statement for the 2009 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference. The Annual Meeting of Stockholders is presently scheduled to be held on May 12, 2009.

Item 11: Executive Compensation

The information required by this item is set forth under the caption "Executive Compensation" in our definitive Proxy Statement for the 2009 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference.

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

The information required by this item is set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in our definitive Proxy Statement for the 2009 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference.

Item 13: Certain Relationships, Related Transactions and Director Independence

The information required by this item is set forth under the caption "Related Party Transactions" in our definitive Proxy Statement for the 2009 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A, and is incorporated herein by reference.

Item 14: Principal Accounting Fees and Services

The information required by this item is set forth under the caption "Independent Registered Public Accounting Firm Fees and Services" in our definitive Proxy Statement for the 2009 Annual Meeting of Stockholders, to be filed pursuant

to Regulation 14A, and is incorporated herein by reference.

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PART IV

Item 15: Exhibits and Financial Statement Schedules

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

1. Financial Statements (see Item 8)

a. Reports of Independent Registered Public Accounting Firm

b. Consolidated Balance Sheets,
December 31, 2008 and 2007

c. Consolidated Statements of Income,
Years ended December 31, 2008, 2007 and 2006

d. Consolidated Statements of Stockholders' Equity,
Years ended December 31, 2008, 2007 and 2006

e. Consolidated Statements of Cash Flows,
Years ended December 31, 2008, 2007 and 2006

f. Notes to Consolidated Financial Statements

g. Consolidated Quarterly Financial Data,
(unaudited) for 2008 and 2007

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

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

3. Exhibits

Articles of Incorporation and By-Laws

Exhibit No.	Description
3.1	Articles of Incorporation of the Company, as amended by amendment No. 1 dated May 10, 2005 and amendment No. 2 dated May 10, 2005 (filed as exhibit 3.1 to the Company's Form 10-Q for the quarter ended June 30, 2005, and incorporated herein by reference).
3.2	Bylaws of the Company, as amended by amendment No. 1 dated March 20, 2000 and amendment No. 2 dated June 15, 2005 , and as amended and restated on December 12, 2007 and as amended and restated on May 13, 2008 (filed as exhibit 3.1 to the Company's Form 8-K, filed on May 14, 2008 and dated May 13, 2008 and incorporated herein by reference).

3.3 Articles Supplementary to the Articles of Incorporation of the Company classifying and designating the 7.375% Monthly Income Class D Cumulative Redeemable Preferred Stock (filed as exhibit 3.8 to the Company's Form 8-A, filed on May 25, 2004 and incorporated herein by reference).

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

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

Instruments defining the rights of security holders, including indentures

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

4.2 Pricing Committee Resolutions and Form of 8% Notes due 2009 (filed as exhibit 4.2 to the Company's Form 8-K, filed on January 22, 1999 and dated January 21, 1999 and incorporated herein by reference).

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

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

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

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

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

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

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

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

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4.11 Form of 5.95% Senior Notes due 2016 (filed as exhibit 4.2 to the Company's Form 8-K, filed on September 18, 2006 and dated September 6, 2006 and incorporated herein by reference).

4.12 Officer's Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York, as Trustee, establishing a series of securities entitled 5.95% Senior Notes due 2016 (filed as exhibit 4.3 to the Company's Form 8-K, filed on September 18, 2006 and dated September 6, 2006 and incorporated herein by reference).

4.13 Form of 6.75% Notes due 2019 (filed as exhibit 4.2 to Company's Form 8-K, filed on September 5, 2007 and dated August 30, 2007 and incorporated herein by reference).

4.14 Officer's Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York Trust Company, N.A., as Trustee, establishing a series of securities entitled 6.75% Senior Notes due 2019 (filed as exhibit 4.3 to the Company's Form 8-K, filed on September 5, 2007 and dated August 30, 2007 and incorporated herein by reference).

Material Contracts

10.1 Form indemnification agreement between the Company and each executive officer and each director of the Board of Directors of the Company (filed as exhibit 10.1 to the Company's Form 8-K, filed on August 26, 2005 and dated August 23, 2005 and incorporated herein by reference).

10.2 1994 Stock Option and Incentive Plan (filed as Exhibit 4.1 to the Company's Registration Statement on Form S-8 (registration number 33-95708), dated August 11, 1995, and incorporated herein by reference).

10.3 First Amendment to the 1994 Stock Option and Incentive Plan, dated June 12, 1997 (filed as Exhibit 10.9 to the Company's Form 8-B, filed on July 29, 1997 and incorporated herein by reference).

10.4 Second Amendment to the 1994 Stock Option and Incentive Plan, dated December 16, 1997 (filed as Exhibit 10.9 to the Company's Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).

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

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

10.7 Form of Restricted Stock Agreement between the Company and Executive Officers (filed as exhibit 10.11 to the Company's Form 8-K, filed on January 6, 2005 and dated January 1, 2005 and incorporated herein by reference).

10.8 2003 Stock Incentive Award Plan of Realty Income Corporation, as amended and restated February 21, 2006 (filed as exhibit 10.10 to the Company's Form 10-K for the year ended December 31, 2005 and incorporated herein by reference).

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

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10.10 Form of Restricted Stock Agreement (filed as exhibit 10.2 to the Company's Form 10-Q, for the quarter ended June 30, 2007 and incorporated herein by reference).

10.11 $355 million Credit Agreement dated May 15, 2008 (filed as exhibit 10.1 to the Company's Form 8-K, filed on May 16, 2008 and dated May 15, 2008 and incorporated herein by reference).

10.12 Amended and Restated Form of Employment Agreement between the Company and its Executive Officers (filed as exhibit 10.2 to the Company's Form 10-Q for the quarter ended September 30, 2008 and incorporated herein by reference).

Statement of Ratios

*12.1 Statements re computation of ratios.

Subsidiaries of the Registrant

*21.1 Subsidiaries of the Company as of February 10, 2009.

Consents of Experts and Counsel

*23.1 Consent of Independent Registered Public Accounting Firm.

Certifications

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

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

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

* Filed herewith.

SIGNATURES

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

REALTY INCOME CORPORATION

By: /s/THOMAS A. LEWIS Date: February 10, 2009
Thomas A. Lewis
Vice Chairman of the Board of Directors,
Chief Executive Officer

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

By: /s/DONALD R. CAMERON Date: February 10, 2009
Donald R. Cameron
Chairman of the Board of Directors

By: /s/THOMAS A. LEWIS Date: February 10, 2009
Thomas A. Lewis
Vice Chairman of the Board of Directors,
Chief Executive Officer
(Principal Executive Officer)

By: /s/KATHLEEN R. ALLEN, Ph.D. Date: February 10, 2009
Kathleen R. Allen, Ph.D.
Director

By: /s/PRIYA CHERIAN HUSKINS Date: February 10, 2009
Priya Cherian Huskins
Director

By: /s/ROGER P. KUPPINGER Date: February 10, 2009
Roger P. Kuppinger
Director

By: /s/MICHAEL D. MCKEE Date: February 10, 2009
Michael D. McKee
Director

By: /s/GREGORY T. MCLAUGHLIN Date: February 10, 2009
Gregory T. McLaughlin
Director

By: /s/RONALD L. MERRIMAN Date: February 10, 2009
Ronald L. Merriman
Director

By: /s/WILLARD H. SMITH JR Date: February 10, 2009
Willard H. Smith Jr
Director

By: /s/PAUL M. MEURER Date: February 10, 2009
Paul M. Meurer
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

By: /s/GREGORY J. FAHEY Date: February 10, 2009
Gregory J. Fahey
Vice President, Controller

(Principal Accounting Officer)

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REALTY INCOME CORPORATION AND SUBSIDIARIES SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

		Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (Notes 2, 3, 5, 6 and 7)					
ription (...e 1)		Land	Buildings, Improvements and Acquisition Fees	Improvements	Carrying Costs	Land	Buildings, Improvements and Acquisition Fees	Total	Accumulated Depreciation (Note 4)	Date of Construction	Date Acquired
arel Stores											
e Rock	AR	1,079,232	2,594,956	40,439	52,746	1,079,232	2,688,141	3,767,373	1,121,148		07/21/98
a	AZ	619,035	867,013	1,760	43,447	619,035	912,220	1,531,255	372,484		02/11/99
bury	CT	1,083,296	6,217,688	40,544	6	1,083,296	6,258,238	7,341,534	2,834,275		09/30/97
chester	CT	771,660	3,653,539	1,661	None	771,660	3,655,200	4,426,860	1,577,280		03/26/98
chester	CT	1,250,464	5,917,037	3,555	None	1,250,464	5,920,592	7,171,056	2,554,704		03/26/98
en Island	NY	4,202,093	3,385,021	None	898	4,202,093	3,385,919	7,588,012	1,461,787		03/26/98
omotive Collision ices											
lands ch	CO	583,289	2,139,057	None	None	583,289	2,139,057	2,722,346	402,145	07/10/07	08/11/03
eton	CO	601,388	2,169,898	None	None	601,388	2,169,898	2,771,286	261,175	02/02/06	11/12/04
er	CO	678,768	2,100,854	None	None	678,768	2,100,854	2,779,622	401,709	02/20/04	07/03/03
rnton	CO	693,323	1,896,616	None	128	693,323	1,896,744	2,590,067	304,667	10/05/04	10/15/03
ming	GA	661,624	1,822,363	None	None	661,624	1,822,363	2,483,987	380,990	09/18/03	12/31/02
glasville	GA	679,868	1,935,515	None	None	679,868	1,935,515	2,615,383	410,390	08/11/03	12/30/02
row	GA	725,948	1,846,315	None	None	725,948	1,846,315	2,572,263	396,892	07/07/03	08/30/02
htree	GA	1,190,380	689,284	None	None	1,190,380	689,284	1,879,664	165,122	12/16/02	09/19/02
Lake	MN	192,610	1,930,958	None	None	192,610	1,930,958	2,123,568	312,384	07/01/04	10/31/03
	NC	610,389	1,492,235	None	None	610,389	1,492,235	2,102,624	156,685		05/25/06
ham	NC	680,969	1,323,140	None	24	680,969	1,323,164	2,004,133	138,933		05/25/06
mington	NC	378,813	1,150,679	None	None	378,813	1,150,679	1,529,492	158,225	07/15/05	12/21/04
lett	TN	648,526	1,960,733	None	None	648,526	1,960,733	2,609,259	317,207	08/03/04	10/27/03
omotive s											

brook	AL	108,000	518,741	None	276	108,000	519,017	627,017	206,617	12/10/98	01/21/99
tgomery	AL	254,465	502,350	None	211	254,465	502,561	757,026	211,898		06/30/98
neville	AR	137,913	509,447	6,000	211	137,913	515,658	653,571	220,826		06/30/98
ne	AR	70,000	547,576	26,595	211	70,000	574,382	644,382	242,780	11/10/98	02/24/99
enix	AZ	231,000	513,057	None	88	231,000	513,145	744,145	427,793		11/09/87
enix	AZ	71,750	159,359	13,463	198	71,750	173,020	244,770	133,337		11/19/87
enix	AZ	222,950	495,178	None	88	222,950	495,266	718,216	375,665		11/02/89
on	AZ	194,250	431,434	None	176	194,250	431,610	625,860	361,310		10/30/87
s Valley	CA	325,000	384,955	None	None	325,000	384,955	709,955	312,547		05/20/88
son	CA	300,000	390,849	None	371	300,000	391,220	691,220	316,199		05/17/88
amento	CA	210,000	466,419	None	127	210,000	466,546	676,546	388,887		11/25/87
ock	CA	222,250	493,627	None	None	222,250	493,627	715,877	409,841		12/30/87
ver	CO	141,400	314,056	None	146	141,400	314,202	455,602	261,900		11/18/87
ver	CO	315,000	699,623	None	128	315,000	699,751	1,014,751	569,058		05/16/88
eton	CO	252,925	561,758	None	274	252,925	562,032	814,957	462,699		02/12/88
rna	DE	232,273	472,855	None	None	232,273	472,855	705,128	196,235		08/07/98
nta	GA	652,551	763,360	None	45,476	652,551	808,836	1,461,387	307,174		12/18/98
ncil fs	IA	194,355	431,668	None	6	194,355	431,674	626,029	351,102		05/19/88
e	ID	190,080	422,172	None	414	190,080	422,586	612,666	343,569		05/06/88
iston	ID	138,950	308,612	None	None	138,950	308,612	447,562	259,387		09/16/87
cow	ID	117,250	260,417	None	None	117,250	260,417	377,667	218,879		09/14/87
ia	IL	193,868	387,737	19,808	230	193,868	407,775	601,643	189,795		11/26/96
il	IN	183,952	453,831	1,525	173	183,952	455,529	639,481	177,841		03/31/99
cie	IN	148,901	645,660	147,678	28,972	148,901	822,310	971,211	327,512		11/26/96
ceton	IN	134,209	560,113	None	211	134,209	560,324	694,533	219,383		03/31/99
ennes	IN	185,312	489,779	None	173	185,312	489,952	675,264	191,863		03/31/99
sas City	KS	185,955	413,014	None	146	185,955	413,160	599,115	335,961		05/13/88

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Description		Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (Notes 2, 3, 5, 6 and 7)			Accumulated Depreciation	Date of	Date	Life on which depreciati in latest Income Statemen is Compute (in
(Note 1)		Land	Buildings, Improvements and Acquisition Fees	Improvements	Carrying Costs	Land	Buildings, Improvements and Acquisition Fees	Total	(Note 4)	Construction	Acquired	Months
Kansas City	KS	222,000	455,881	18,738	146	222,000	474,765	696,765	371,938		05/16/88	300
Alma	MI	155,000	600,282	None	None	155,000	600,282	755,282	231,047	04/29/99	02/10/99	300
Lansing	MI	265,000	574,931	57,278	None	265,000	632,209	897,209	238,126	04/30/99	12/03/98	300
Sturgis	MI	109,558	550,274	None	None	109,558	550,274	659,832	221,004		12/30/98	300
Independence	MO	210,643	467,844	None	239	210,643	468,083	678,726	358,875		07/31/89	300
Batesville	MS	190,124	485,670	None	211	190,124	485,881	676,005	203,248		07/27/98	300
Horn Lake	MS	142,702	514,779	None	211	142,702	514,990	657,692	217,140		06/30/98	300
Jackson	MS	248,483	572,522	None	211	248,483	572,733	821,216	209,058		11/16/99	300
Richland	MS	243,565	558,645	None	211	243,565	558,856	802,421	202,134		12/21/99	300
Missoula	MT	163,100	362,249	None	None	163,100	362,249	525,349	303,231		10/30/87	300
Kearney	NE	173,950	344,393	None	179	173,950	344,572	518,522	252,882		05/01/90	300
Omaha	NE	196,000	435,321	None	None	196,000	435,321	631,321	354,068		05/26/88	300
Omaha	NE	199,100	412,042	None	6	199,100	412,048	611,148	334,598		05/27/88	300
Rio Rancho	NM	211,577	469,923	None	None	211,577	469,923	681,500	386,970		02/26/88	300
Las Vegas	NV	161,000	357,585	260,000	None	161,000	617,585	778,585	377,327		10/29/87	300
Canton	OH	396,560	597,553	None	230	396,560	597,783	994,343	248,028		08/14/98	300
Hamilton	OH	183,000	515,727	2,941	122	183,000	518,790	701,790	200,924	04/07/99	12/03/98	300
Hubbard	OH	147,043	481,217	450	230	147,043	481,897	628,940	202,996		06/30/98	300
Albany	OR	152,250	338,153	None	218	152,250	338,371	490,621	285,478		08/24/87	300
Beaverton	OR	210,000	466,419	None	218	210,000	466,637	676,637	393,724		08/26/87	300
Portland	OR	190,750	423,664	None	218	190,750	423,882	614,632	357,642		08/12/87	300
Portland	OR	147,000	326,493	None	218	147,000	326,711	473,711	275,638		08/26/87	300
Salem	OR	136,500	303,170	None	218	136,500	303,388	439,888	255,955		08/20/87	300
Butler	PA	339,929	633,078	9,175	230	339,929	642,483	982,412	268,527		08/07/98	300
Dover	PA	265,112	593,341	None	None	265,112	593,341	858,453	250,191		06/30/98	300
Enola	PA	220,228	546,026	None	None	220,228	546,026	766,254	221,147		11/10/98	300
Hanover	PA	132,500	719,511	None	232	132,500	719,743	852,243	269,988	07/26/99	05/13/99	300
Harrisburg	PA	327,781	608,291	None	None	327,781	608,291	936,072	256,494		06/30/98	300
Harrisburg	PA	283,417	352,473	None	None	283,417	352,473	635,890	145,106		09/30/98	300
Lancaster	PA	199,899	774,838	10,913	None	199,899	785,751	985,650	326,712		08/14/98	300
New Castle	PA	180,009	525,774	3,860	230	180,009	529,864	709,873	225,602		06/30/98	300
Reading	PA	379,000	658,722	10,100	232	379,000	669,054	1,048,054	255,946	06/09/99	12/04/98	300
Columbia	TN	273,120	431,716	None	211	273,120	431,927	705,047	164,781		06/30/99	300
Lubbock	TX	49,000	108,831	None	None	49,000	108,831	157,831	91,100		10/29/87	300
Bellevue	WA	185,500	411,997	None	225	185,500	412,222	597,722	347,853		08/06/87	300

Bellingham	WA	168,000	373,133	None	117	168,000	373,250	541,250	314,947	08/20/87	300
Hazel Dell	WA	168,000	373,135	None	None	168,000	373,135	541,135	302,274	05/23/88	300
Kenmore	WA	199,500	443,098	None	225	199,500	443,323	642,823	374,101	08/20/87	300
Kennewick	WA	161,350	358,365	None	373	161,350	358,738	520,088	302,622	08/26/87	300
Kent	WA	199,500	443,091	None	117	199,500	443,208	642,708	373,986	08/06/87	300
Lakewood	WA	191,800	425,996	None	225	191,800	426,221	618,021	359,668	08/18/87	300
Moses Lake	WA	138,600	307,831	None	None	138,600	307,831	446,431	259,785	08/12/87	300
Pasco	WA	161,700	359,142	None	364	161,700	359,506	521,206	303,277	08/18/87	300
Renton	WA	185,500	412,003	None	225	185,500	412,228	597,728	346,447	09/15/87	300
Seattle	WA	162,400	360,697	None	225	162,400	360,922	523,322	304,561	08/20/87	300
Silverdale	WA	183,808	419,777	None	117	183,808	419,894	603,702	352,873	09/16/87	300
Tacoma	WA	196,000	435,324	None	117	196,000	435,441	631,441	364,453	10/15/87	300
Vancouver	WA	180,250	400,343	None	215	180,250	400,558	580,808	337,958	08/20/87	300
Walla Walla	WA	170,100	377,793	None	6,604	170,100	384,397	554,497	320,118	08/06/87	300
Wenatchee	WA	148,400	329,602	None	None	148,400	329,602	478,002	278,159	08/25/87	300

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Description (Note 1)		Initial Cost to Company: Land	Initial Cost to Company: Buildings, Improvements and Acquisition Fees	Cost Capitalized Subsequent to Acquisition: Improvements	Cost Capitalized Subsequent to Acquisition: Carrying Costs	Gross Amount at Which Carried at Close of Period (Notes 2, 3, 5, 6 and 7): Land	Gross Amount: Buildings, Improvements and Acquisition Fees	Gross Amount: Total	Accumulated Depreciation (Note 4)	Date of Construction	Date Acquired	Life on which depreciat in latest Income Stateme is Compute (in Months
Automotive Service												
Flagstaff	AZ	144,821	417,485	None	None	144,821	417,485	562,306	172,841	04/11/02	08/29/97	300
Mesa	AZ	210,620	475,072	None	None	210,620	475,072	685,692	125,890		05/14/02	300
Phoenix	AZ	189,341	546,984	None	110	189,341	547,094	736,435	144,969		05/14/02	300
Phoenix	AZ	384,608	279,824	None	None	384,608	279,824	664,432	74,151		05/14/02	300
Sierra Vista	AZ	175,114	345,508	None	None	175,114	345,508	520,622	91,558		05/14/02	300
Tucson	AZ	226,596	437,972	None	None	226,596	437,972	664,568	116,061		05/14/02	300
Bakersfield	CA	65,165	206,927	None	None	65,165	206,927	272,092	54,834		05/14/02	300
Chula Vista	CA	313,293	409,654	None	16	313,293	409,670	722,963	206,891	05/01/96	01/19/96	300
Dublin	CA	415,620	1,153,928	None	None	415,620	1,153,928	1,569,548	305,789		05/14/02	300
Folsom	CA	471,813	325,610	None	None	471,813	325,610	797,423	86,284		05/14/02	300
Indio	CA	264,956	265,509	None	None	264,956	265,509	530,465	70,358		05/14/02	300
Los Angeles	CA	580,446	158,876	None	None	580,446	158,876	739,322	42,100		05/14/02	300
Oxnard	CA	186,980	198,236	None	None	186,980	198,236	385,216	52,531		05/14/02	300
Simi Valley	CA	213,920	161,012	None	None	213,920	161,012	374,932	42,666		05/14/02	300
Vacaville	CA	358,067	284,931	None	None	358,067	284,931	642,998	75,505		05/14/02	300
Aurora	CO	231,314	430,495	None	None	231,314	430,495	661,809	22,242		09/04/07	300
Broomfield	CO	154,930	503,626	None	450	154,930	504,076	659,006	249,745	08/22/96	03/15/96	300
Denver	CO	79,717	369,587	None	169	79,717	369,756	449,473	348,567		10/08/85	300
Denver	CO	239,024	444,785	None	None	239,024	444,785	683,809	22,980		09/04/07	300
Lakewood	CO	70,422	132,296	None	None	70,422	132,296	202,718	6,835		09/04/07	300
Longmont	CO	87,385	163,169	None	None	87,385	163,169	250,554	8,430		09/04/07	300
Thornton	CO	276,084	415,464	None	205	276,084	415,669	691,753	198,778	12/31/96	10/31/96	300
Hartford	CT	248,540	482,460	None	None	248,540	482,460	731,000	237,209		09/30/96	300
Southington	CT	225,882	672,910	None	None	225,882	672,910	898,792	310,549		06/06/97	300
Vernon	CT	81,529	300,518	None	None	81,529	300,518	382,047	78,636		06/27/02	300
Carol City	FL	163,239	262,726	None	None	163,239	262,726	425,965	68,747		06/27/02	300
Jacksonville	FL	76,585	355,066	6,980	124	76,585	362,170	438,755	333,927		12/23/85	300
Lauderdale Lakes	FL	65,987	305,931	None	None	65,987	305,931	371,918	284,727		02/19/86	300
Orange City	FL	99,613	139,008	None	None	99,613	139,008	238,621	36,835		05/14/02	300
Seminole	FL	68,000	315,266	None	124	68,000	315,390	383,390	295,392		12/23/85	300
Sunrise	FL	80,253	372,070	None	None	80,253	372,070	452,323	346,492		02/14/86	300
Tampa	FL	70,000	324,538	None	162	70,000	324,700	394,700	304,100		12/27/85	300

Tampa	FL	67,000	310,629	None	124	67,000	310,753	377,753	291,050		12/27/85	300
Tampa	FL	86,502	401,041	None	141	86,502	401,182	487,684	367,312		07/23/86	300
Atlanta	GA	55,840	258,889	None	244	55,840	259,133	314,973	243,363		11/27/85	300
Bogart	GA	66,807	309,733	None	None	66,807	309,733	376,540	290,102		12/20/85	300
Douglasville	GA	214,771	129,519	None	None	214,771	129,519	344,290	34,320		05/14/02	300
Duluth	GA	222,275	316,925	None	151	222,275	317,076	539,351	139,506	10/24/97	06/20/97	300
Duluth	GA	290,842	110,056	None	None	290,842	110,056	400,898	29,163		05/14/02	300
Gainesville	GA	53,589	248,452	None	None	53,589	248,452	302,041	232,706		12/19/85	300
Kennesaw	GA	266,865	139,425	None	None	266,865	139,425	406,290	36,946		05/14/02	300
Marietta	GA	60,900	293,461	67,871	239	60,900	361,571	422,471	276,197		12/26/85	300
Marietta	GA	69,561	346,024	None	356	69,561	346,380	415,941	318,360		06/03/86	300
Norcross	GA	244,124	151,831	None	None	244,124	151,831	395,955	40,233		05/14/02	300
Riverdale	GA	58,444	270,961	None	None	58,444	270,961	329,405	252,986		01/15/86	300
Rome	GA	56,454	261,733	None	None	56,454	261,733	318,187	245,145		12/19/85	300
Snellville	GA	253,316	132,124	None	None	253,316	132,124	385,440	35,011		05/14/02	300
Tucker	GA	78,646	364,625	None	5,237	78,646	369,862	448,508	345,769		12/18/85	300
Arlington Hts	IL	441,437	215,983	None	None	441,437	215,983	657,420	57,234		05/14/02	300
Chicago	IL	329,076	255,294	None	None	329,076	255,294	584,370	67,651		05/14/02	300
Round Lake Beach	IL	472,132	236,585	None	None	472,132	236,585	708,717	62,693		05/14/02	300
Westchester	IL	421,239	184,812	None	None	421,239	184,812	606,051	48,973		05/14/02	300
Anderson	IN	232,170	385,661	None	163	232,170	385,824	617,994	170,405		12/19/97	300

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	Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (Notes 2, 3, 5, 6 and 7)						
Description (Note 1)	Land	Buildings, Improvements and Acquisition Fees	Improvements	Carrying Costs	Land	Buildings, Improvements and Acquisition Fees	Total	Accumulated Depreciation (Note 4)	Date of	Date	Life on which depreciation in latest Income Statement is Computed