UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012, or

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

Commission File Number 1-13374

REALTY INCOME CORPORATION

(Exact name of registrant as specified in its charter)

Maryland	**33-0580106**

(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)

600 La Terraza Boulevard, Escondido, California 92025-3873

(Address of Principal Executive Offices)

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

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

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

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

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

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

There were 133,452,011 shares of common stock outstanding as of October 18, 2012.

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REALTY INCOME CORPORATION

Form 10-Q

September 30, 2012

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PART I. FINANCIAL INFORMATION

Item 1. **Financial Statements**

REALTY INCOME CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 2012 and December 31, 2011

(dollars in thousands, except per share data)

[redacted]

[redacted]

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

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REALTY INCOME CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the three and nine months ended September 30, 2012 and 2011

(dollars in thousands, except per share data)

(unaudited)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
REVENUE				
Rental	$ 119,845	$ 105,742	$ 348,682	$ 302,600
Other	392	488	1,250	886
Total revenue	120,237	106,230	349,932	303,486
EXPENSES				
Depreciation and amortization	37,806	31,561	108,282	86,606
Interest	29,720	28,550	87,477	79,318
General and administrative	9,335	7,143	27,775	23,001
Property	1,951	1,657	6,500	4,941
Merger-related costs	5,495	--	5,495	--
Income taxes	405	367	1,215	1,102
Total expenses	84,712	69,278	236,744	194,968
Income from continuing operations	35,525	36,952	113,188	108,518
Income from discontinued operations	1,933	3,828	6,941	7,509
Net income	37,458	40,780	120,129	116,027
Preferred stock dividends	(10,482)	(6,063)	(30,435)	(18,190)
Excess of redemption value over carrying value of preferred shares redeemed	--	--	(3,696)	--
Net income available to common stockholders	$ 26,976	$ 34,717	$ 85,998	$ 97,837
Amounts available to common stockholders per common share:				
Income from continuing operations:				
Basic	$ 0.19	$ 0.24	$ 0.60	$ 0.73
Diluted	$ 0.19	$ 0.24	$ 0.60	$ 0.73
Net income:				
Basic	$ 0.20	$ 0.27	$ 0.65	$ 0.79
Diluted	$ 0.20	$ 0.27	$ 0.65	$ 0.79
Weighted average common shares outstanding:				
Basic	132,764,877	126,376,201	132,731,984	123,921,317
Diluted	132,931,813	126,582,609	132,845,970	124,013,142

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

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REALTY INCOME CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine months ended September 30, 2012 and 2011

(dollars in thousands)(unaudited)

	2012	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 120,129	$ 116,027
Adjustments to net income:		
Depreciation and amortization	108,282	86,606
Income from discontinued operations	(6,941)	(7,509)
Gain on sale of real estate	--	(210)
Amortization of share-based compensation	7,780	6,098
Amortization of net premiums on mortgages payable	(278)	(98)
Provisions for impairment on real estate held for investment	--	10
Other non-cash adjustments	(301)	--
Cash provided by discontinued operations:		
Real estate	2,139	4,758
Collection of notes receivable by Crest	67	110
Change in assets and liabilities:		
Accounts receivable and other assets	5,604	8,672
Accounts payable, accrued expenses and other liabilities	(27,953)	(15,217)
Net cash provided by operating activities	208,528	199,247
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of and improvements to investment properties	(655,128)	(766,148)
Proceeds from the sales of real estate:		
Continuing operations	23	593
Discontinued operations	34,283	11,882
Restricted escrow deposits	(4,753)	(2,830)
Net cash used in investing activities	(625,575)	(756,503)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash distributions to common stockholders	(175,719)	(161,276)
Cash dividends to preferred stockholders	(28,962)	(18,190)
Borrowings on lines of credit	908,000	378,100
Payments on lines of credit	(536,400)	(281,500)
Principal payments on mortgages	(11,171)	(138)
Proceeds from preferred stock offerings, net	395,377	--
Redemption of preferred stock	(127,500)	--
Proceeds from common stock offerings, net	--	489,236
Proceeds from bonds issued	--	150,000
Debt issuance costs	(7,069)	(9,923)
Proceeds from dividend reinvestment and stock purchase plan	2,159	1,242

Other items	(3,039)	(2,359)
Net cash provided by financing activities	415,676	545,192
Net decrease in cash and cash equivalents	(1,371)	(12,064)
Cash and cash equivalents, beginning of period	4,165	17,607
Cash and cash equivalents, end of period	$ 2,794	$ 5,543

For supplemental disclosures, see note 15.

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

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REALTY INCOME CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(unaudited)

1. Management Statement

The consolidated financial statements of Realty Income Corporation (Realty Income , the Company , we , our or us) were prepare from our books and records without audit and include all adjustments (consisting of only normal recurring accruals) necessary to present a fair statement of results for the interim periods presented. Readers of this quarterly report should refer to our audited consolidated financial statements for the year ended December 31, 2011, which are included in our 2011 Annual Report on Form 10-K, except the portions updated by the Current Report on Form 8-K, dated October 1, 2012, as certain disclosures that would substantially duplicate those contained in the audited financial statements have not been included in this report.

We report, in discontinued operations, the results of operations of properties that have either been disposed or are classified as held for sale. As a result of these discontinued operations, certain of the 2011 balances have been reclassified to conform to the 2012 presentation.

At September 30, 2012, we owned 2,838 properties, located in 49 states, containing over 34.3 million leasable square feet, along with three properties owned by our wholly-owned taxable REIT subsidiary, Crest Net Lease, Inc., or Crest.

2. Summary of Significant Accounting Policies and Procedures

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

B. We have elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Code. We believe we have qualified and continue to qualify as a REIT. Under the REIT operating structure, we are permitted to deduct dividends paid to our stockholders in determining our taxable income. Assuming our dividends equal or exceed our net income, we generally will not be required to pay federal corporate income taxes on such income. Accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements, except for the federal income taxes of Crest, which are included in discontinued operations. The income taxes recorded on our consolidated statements of income represent amounts paid by Realty Income for city and state income and franchise taxes.

C. We recognize an allowance for doubtful accounts relating to accounts receivable for amounts deemed uncollectible. We consider tenant specific issues, such as financial stability and ability to pay rent, when determining collectability of accounts receivable and appropriate allowances to record. The allowance for doubtful accounts was $432,000 at September 30, 2012 and $507,000 at December 31, 2011.

D. We assign a portion of goodwill to our property sales, which results in a reduction of the carrying amount of our goodwill. In order to allocate goodwill to the carrying amount of properties that we sell, we utilize a relative fair value approach based on the original methodology for assigning goodwill. As we sell properties, our goodwill will likely continue to gradually decrease over time.

E. Under the amendments issued in conjunction with *ASU No. 2011-08, Intangibles Goodwill and Other (Topic 350)*, an entity, through an assessment of qualitative factors, is not required to calculate the estimated fair value of a reporting unit, in connection with the two-step goodwill impairment test, unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. Despite the issuance of ASU No. 2011-08, we elected to continue testing goodwill for impairment during

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the second quarter of each year as well as when events or circumstances occur, indicating that our goodwill might be impaired. During our tests for impairment of goodwill during the second quarters of 2012 and 2011, we determined that the estimated fair values of our reporting units exceeded their carrying values. We did not record any impairment on our existing goodwill in 2012 or 2011.

3. Supplemental Detail for Certain Components of Consolidated Balance Sheets

A. Other assets, net, consist of the following (dollars in thousands) at:	**September 30, 2012**	**December 31, 2011**
Value of in-place leases, net	$ 160,002	$ 123,255
Value of above-market leases, net	30,579	30,081
Deferred bond financing costs, net	20,573	22,209
Notes receivable issued in connection with property sales	18,958	19,025
Credit facility origination costs, net	8,822	3,141
Note receivable acquired in connection with an acquisition	8,780	8,780
Prepaid expenses	8,615	9,833
Restricted escrow deposits	4,753	50
Deferred financing costs on mortgages payable, net	1,200	751
Corporate assets, net	882	849
Loans receivable	368	2,554
Other items	1,115	2,107
	$ 264,647	$ 222,635

B. Distributions payable consist of the following declared distributions (dollars in thousands) at:	**September 30, 2012**	**December 31, 2011**
Common stock distributions	$ 20,210	$ 19,384
Preferred stock dividends	3,494	2,021
	$ 23,704	$ 21,405

C. Accounts payable and accrued expenses consist of the following (dollars in thousands) at:	**September 30, 2012**	**December 31, 2011**
Bond interest payable	$ 12,925	$35,195
Accrued costs on properties under development	1,760	4,766
Other items	23,341	18,809
	$ 38,026	$58,770

D. Other liabilities consist of the following (dollars in thousands) at:	**September 30, 2012**	**December 31, 2011**
Value of in-place below-market leases, net	$ 25,335	$ 6,423
Rent received in advance	9,066	18,149
Security deposits	5,098	4,607
	$ 39,499	$ 29,179

4. Investments in Real Estate

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

A. During the first nine months of 2012, we invested $717.6 million in 234 new properties and properties under development, with an initial weighted average contractual lease rate of 7.1%. The majority of the lease revenue from these properties is generated from investment grade tenants. These 234 new properties are located in 33 states, will contain over 7.0 million leasable square feet, and are 100% leased with an average lease term of 14.3 years. The tenants of the 234 properties acquired, operate in 19 industries: apparel stores, automotive collision services, aviation, consumer appliances, consumer goods, convenience stores, crafts and novelties, diversified industrial, dollar stores, drug stores, equipment services, food processing, health and fitness, insurance, machinery, restaurants quick service, theaters, transportation services, and wholesale clubs. None of the investments in these

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properties caused any one tenant to be 10% or more of our total assets at December 31, 2011. 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. Acquisition transaction costs of $1.4 million were recorded to general and administrative expense on our consolidated statement of income, for the nine months ended September 30, 2012.

Our aggregate acquisitions, during the first nine months of 2012, were allocated as follows: $179.8 million to land, $516.2 million to buildings and improvements, $49.6 million to intangible assets and $28.0 million to intangible and assumed liabilities, which includes mortgage premiums of $7.1 million. The majority of our acquisitions, during the first nine months of 2012, were cash purchases, except for five transactions that included the assumption of $70.0 million in mortgages payable. There was no contingent consideration associated with these acquisitions.

The purchase price allocation for $98.3 million of the $717.6 million invested by us in the first nine months of 2012 is based on a preliminary measurement of fair value that is subject to change. The allocation for these properties represents our current best estimate of fair value and we expect to finalize the valuations and complete the purchase price allocation in the fourth quarter of 2012.

In comparison, during the first nine months of 2011, we invested $826.4 million in 125 properties and properties under development, with an initial weighted average contractual lease rate of 7.9%. These 125 properties and properties under development are located in 25 states, contain over 5.5 million leasable square feet, and are 100% leased with an average lease term of 11.3 years. The tenants of the 125 properties acquired operate in 15 industries: automotive collision services, aviation, beverages, drug store, equipment services, financial services, food processing, health and fitness, packaging, paper, restaurants quick service, telecommunications, theaters, transportation services, and wholesale club. Acquisition transaction costs of $1.1 million were recorded to general and administrative expense, on our consolidated statement of income, for the nine months ended September 30, 2011.

Our aggregate acquisitions during the first nine months of 2011 were allocated as follows: $173.4 million to land, $528.3 million to buildings and improvements, $129.9 million to intangible assets and $5.2 million to intangible and assumed liabilities, which includes mortgage premiums of $820,000. The majority of our acquisitions during the first nine months of 2011 were cash purchases, except for one transaction that included the assumption of an $8.8 million note receivable and four transactions that included the assumption of $67.4 million in mortgages payable. There was no contingent consideration associated with these acquisitions.

During the first nine months of 2012, we capitalized costs of $4.5 million on existing properties in our portfolio, consisting of $1.2 million for re-leasing costs and $3.3 million for building and tenant improvements. In comparison, during the first nine months of 2011, we capitalized costs of $3.0 million on existing properties in our portfolio, consisting of $1.3 million for re-leasing costs and $1.7 million for building and tenant improvements.

B. Of the $717.6 million invested by us in the first nine months of 2012, approximately $351.7 million was used to acquire 78 properties with existing leases. Associated with these 78 properties, we recorded $47.1 million as the intangible value of the in-place leases, $2.5 million as the intangible value of above-market leases and $19.5 million as the intangible value of below-market leases. Of the $826.4 million invested by us in the first nine months of 2011, approximately $573.1 million was used to acquire 93 properties with existing leases. Associated with these 93 properties, we recorded $107.6 million as the intangible value of the in-place leases, $22.3 million as the intangible value of above-market leases and $3.5 million as the intangible value of below-market leases.

The value of the in-place and above-market leases is recorded to other assets on our consolidated balance sheet, and the value of the below-market leases is recorded to other liabilities on our consolidated balance sheet. The value of the in-place leases is amortized as depreciation and amortization expense, while the value of the above-market and below-market leases is amortized as rental revenue on our consolidated statements of income. All of these amounts are amortized over the expected lives of the respective leases.

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C. The amounts amortized as a net decrease to rental income, for capitalized above-market and below-market leases, was $1.4 million for the first nine months of 2012 and was $669,000 for the first nine months of 2011. The value of in-place leases amortized to expense was $10.3 million for the first nine months of 2012 and was $5.0 million for the first nine months of 2011.

D. On September 6, 2012, we signed a definitive agreement with American Realty Capital Trust, Inc., or ARCT, under which we will acquire all of the outstanding shares of ARCT in a transaction valued at approximately $2.95 billion. With this acquisition, we will add approximately 500 properties to our portfolio. The boards of directors of both companies have unanimously approved the acquisition. Following a shareholder vote by both companies, the transaction is expected to close during the fourth quarter of 2012 or early in the first quarter of 2013, although we cannot assure you that the transaction will close during that time or at all. Under the terms of the agreement, ARCT shareholders will receive shares determined using a fixed exchange ratio of 0.2874 of our shares for each share of ARCT common stock that they own. We have incurred $5.5 million of one-time merger-related costs, including estimated accruals, for the three and nine months ended September 30, 2012.

5. Credit Facility

In May 2012, we entered into a new $1 billion unsecured acquisition credit facility, which replaced our $425 million acquisition credit facility that was scheduled to expire in March 2014. The initial term of the new credit facility expires in May 2016 and includes, at our option, a one-year extension. Under this new credit facility, our current investment grade credit ratings provide for financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 1.075% with a facility commitment fee of 0.175%, for all-in drawn pricing of 1.25% over LIBOR. The borrowing rate is not subject to an interest rate floor or ceiling. We also have other interest rate options available to us. Our credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation.

As a result of entering into our new credit facility, we incurred credit facility origination costs of $7.1 million. At September 30, 2012, $6.4 million of the $7.1 million is included in other assets, net, on our consolidated balance sheet, along with $2.4 million incurred as a result of entering into our previous credit facilities. These costs are being amortized over the remaining term of our current $1 billion credit facility.

At September 30, 2012, we had a borrowing capacity of $391.0 million available on our credit facility (subject to customary conditions of borrowing) and an outstanding balance of $609.0 million, as compared to an outstanding balance of $237.4 million at December 31, 2011. In October 2012, we repaid all outstanding borrowings under our acquisition credit facility using the net proceeds from two note offerings, as described in note 21.

The average interest rate on our outstanding borrowings under our credit facilities was 1.6% during the first nine months of 2012, and was 2.1% during the first nine months of 2011. At September 30, 2012, the effective interest rate was 1.3%. Our credit facility is subject to various leverage and interest coverage ratio limitations. At September 30, 2012, we remain in compliance with these covenants.

6. Mortgages Payable

During the first nine months of 2012, we assumed mortgages totaling $70.0 million, payable to third-party lenders, as compared to $67.4 million of mortgages assumed in the first nine months of 2011. These mortgages are secured by the properties on which the debt was placed and are non-recourse. We expect to pay off the mortgages as soon as prepayment penalties and costs make it economically feasible to do so. We intend to continue our policy of primarily identifying property acquisitions that are free from mortgage indebtedness. In the first nine months of 2012, we repaid one mortgage in full for $10.7 million.

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During the first nine months of 2012, aggregate net premiums totaling $7.1 million were recorded upon assumption of the mortgages for above-market interest rates, as compared to net premiums totaling $820,000 recorded in 2011. Amortization of these net premiums is recorded as a reduction to interest expense over the remaining term of the respective notes, using a method that approximates the effective-interest method. These mortgages contain customary covenants, such as limiting our ability to further mortgage each applicable property or to discontinue insurance coverage, without the prior consent of the lender. At September 30, 2012, we remain in compliance with these covenants.

As a result of assuming these mortgages payable, we incurred deferred financing costs of $685,000 during the first nine months of 2012 and $917,000 during the first nine months of 2011, which were classified as part of other assets on our consolidated balance sheet. The balance of these deferred financing costs was $1.2 million at September 30, 2012, and $751,000 at December 31, 2011, which is being amortized over the remaining term of each mortgage.

The following is a summary of our mortgages payable at September 30, 2012 and December 31, 2011, sorted by maturity date (dollars in thousands):

At September 30, 2012

[redacted]

At December 31, 2011

[redacted]

(1) The mortgages require monthly payments, with a principal payment due at maturity.

(2) The mortgages are at fixed interest rates, except for: (1) the mortgage maturing on June 10, 2015 with a floating variable interest rate calculated as the sum of the current 1 month LIBOR plus 4.5%, not to exceed an all-in interest rate of 5.5%, and (2) the mortgage maturing on September 3, 2021 with a floating interest rate calculated as the sum of the current 1 month LIBOR plus 2.4%.

(3) These are mortgages, with different maturity dates, associated with one property.

(4) These are mortgages, with the same maturity date, associated with one property.

(5) As part of the assumption of these mortgages payable related to our 2011 acquisitions, we also acquired an $8.8 million note receivable, upon which we will receive interest income at a stated rate of 8.14% through December 28, 2013.

(6) As part of the assumption of this mortgage payable related to our 2012 acquisitions, we also acquired an interest rate swap which essentially fixes the interest rate on this mortgage payable at 6.0%.

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7. Notes Payable

A. Our senior unsecured notes and bonds consist of the following at September 30, 2012 and December 31, 2011, sorted by maturity date (dollars in millions):

5.375% notes, issued in March 2003 and due in March 2013	$ 100
5.5% notes, issued in November 2003 and due in November 2015	150
5.95% notes, issued in September 2006 and due in September 2016	275
5.375% notes, issued in September 2005 and due in September 2017	175
6.75% notes, issued in September 2007 and due in August 2019	550
5.75% notes, issued in June 2010 and due in January 2021	250
5.875% bonds, $100 issued in March 2005 and $150 issued in June 2011, both due in March 2035	250
	$ 1,750

B. Re-opening of Unsecured Bonds due 2035

In June 2011, we re-opened our 5.875% senior unsecured bonds due 2035, or the 2035 Bonds, and issued $150 million in aggregate principal amount of these 2035 Bonds. The public offering price for the additional 2035 Bonds was 94.578% of the principal amount for an effective yield of 6.318% per annum. Those 2035 Bonds constituted an additional issuance of, and a single series with, the $100 million in aggregate principal amount of the 2035 Bonds that we issued in March 2005. The net proceeds of $140.1 million were used to fund property acquisitions.

8. Issuance and Redemption of Preferred Stock

A. In February 2012, we issued 14.95 million shares of our 6.625% Monthly Income Class F Cumulative Redeemable Preferred Stock at a price of $25 per share, including 1.95 million shares purchased by the underwriters upon the exercise of their overallotment option. In April 2012, we issued an additional 1.4 million shares of our Class F preferred stock at a price of $25.2863 per share. After aggregate underwriting discounts and other offering costs totaling $13.8 million, we received total net proceeds of $395.4 million for the February and April offerings combined, of which $127.5 million was used to redeem all of our outstanding 7.375% Monthly Income Class D Cumulative Redeemable Preferred Stock and the balance was used to repay a portion of the borrowings under our credit facility. Beginning February 15, 2017, the Class F preferred shares are redeemable, at our option, for $25 per share. The initial dividend of $0.1702257 per share was paid on March 15, 2012 and covered 37 days. Thereafter, dividends of $0.138021 per share will be paid monthly in arrears on the Class F preferred stock.

B. We redeemed all of the 5.1 million shares of our 7.375% Monthly Income Class D Cumulative Redeemable Preferred Stock in March 2012 for $25 per share, plus accrued dividends. We incurred a charge of $3.7 million, representing the Class D preferred stock original issuance costs that we paid in 2004.

9. Issuance of Common Stock

In September 2011, we issued 6,300,000 shares of common stock at a price of $34.00 per share. After underwriting discounts and other offering costs of $10.6 million, the net proceeds of $203.6 million were used to repay borrowings under our acquisition credit facility, which were used to fund property acquisitions.

In March 2011, we issued 8,625,000 shares of common stock at a price of $34.81 per share. After underwriting discounts and other offering costs of approximately $14.6 million, the net proceeds of approximately $285.6 million were used to fund property acquisitions.

10. Fair Value of Financial Assets and Liabilities