

REALTY INCOME CORP

Form 424B5

November 29, 2006

Subject to Completion

Preliminary Prospectus Supplement dated November 29, 2006

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS SUPPLEMENT  
(To prospectus dated April 12, 2006)

Filed Pursuant to Rule 424(b)(5)  
Registration Number 333-133241

Shares

**% Monthly Income Class E Cumulative Redeemable Preferred Stock  
(Liquidation Preference \$25.00 Per Share)**

We will pay monthly cumulative dividends, in arrears, on the Class E preferred stock from the date of original issuance. The Class E preferred stock will not be redeemable before December 31, 2011, except under circumstances intended to preserve our status as a real estate investment trust for federal and/or state income tax purposes. Beginning December 31, 2011, we may redeem any or all of the shares of the Class E preferred stock at \$25.00 per share plus any accrued and unpaid dividends. The shares of Class E preferred stock have no stated maturity, are not subject to any sinking fund or mandatory redemption and will remain outstanding indefinitely unless we redeem or otherwise repurchase them.

Realty Income Corporation, The Monthly Dividend Company®, is a Maryland corporation organized to operate as an equity real estate investment trust, or REIT. We are a fully integrated, self-administered real estate company with in-house acquisition, leasing, legal, retail research, real estate research, portfolio management and capital markets expertise. As of September 30, 2006, we owned a diversified portfolio of 1,766 retail properties located in 48 states with over 15.0 million square feet of leasable space leased to 101 different retail chains doing business in 29 separate retail industries.

Currently no market exists for the Class E preferred stock. We intend to file an application to list the Class E preferred stock on the New York Stock Exchange. If the application is approved, trading of the Class E preferred stock on the NYSE is expected to begin within 30 days after the date of initial issuance of the Class E preferred stock.

Investing in the Class E preferred stock involves risks. See **Risk Factors** beginning on page S-12 of this prospectus supplement.

|   | Per Share | Total |
|---|-----------|-------|
| Public offering price(1)                                | \$        | \$    |
| Underwriting discount(2)                                | \$        | \$    |
| Proceeds, before expenses, to Realty Income Corporation | \$        | \$    |

(1) Plus accrued dividends from December 31, 2006, if settlement occurs after that date.

(2) Per share data reflects the weighted average underwriting discount and may reflect rounding. See **Underwriting** beginning on page S-29 of this prospectus supplement for a discussion regarding underwriting compensation and discounts.

The underwriters may also purchase up to an additional \_\_\_\_\_ shares from us to cover overallotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares of Class E preferred stock will be ready for delivery on or about December , 2006.

**Citigroup**

**Merrill Lynch & Co.**

**Wachovia Securities**

*Joint Book-Running Managers*

**A.G. Edwards**

**Banc of America Securities LLC  
Robert W. Baird & Co.  
JPMorgan**

**Credit Suisse Raymond James  
BNY Capital Markets, Inc.  
Stifel Nicolaus**

**UBS Investment Bank**

**RBC Capital Markets  
BB&T Capital Markets  
Wells Fargo Securities**

This date of this prospectus supplement is , 2006

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus and, if applicable, any other offering materials we may provide you in connection with this offering. We have not, and the underwriters have not, authorized any person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities or soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, the documents incorporated by reference and, if applicable, any other offering materials we may provide you in connection with this offering is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

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## PROSPECTUS SUPPLEMENT SUMMARY

*This summary may not contain all the information that may be important to you. You should read the entire prospectus supplement and the accompanying prospectus and the documents incorporated and deemed to be incorporated by reference herein and therein, including the financial statements and related notes, and, if applicable, any other offering materials we may provide you in connection with this offering before making an investment decision. Unless this prospectus supplement otherwise indicates or the context otherwise requires, the terms Realty Income, our, us and we as used in this prospectus supplement refer to Realty Income Corporation and its subsidiaries on a consolidated basis. Unless otherwise expressly stated or the context otherwise requires, all information in this prospectus supplement assumes that the over-allotment option granted to the underwriters is not exercised, and information relating to our properties excludes properties owned by our wholly-owned subsidiary Crest Net Lease, Inc. and its wholly-owned subsidiary, CrestNet 1 LLC, which we collectively refer to as Crest Net or Crest.*

*In this prospectus supplement, we sometimes refer to the \_\_\_\_\_ % Monthly Income Class E Cumulative Redeemable Preferred Stock we are offering as the Class E preferred stock, and we sometimes refer to our outstanding 7.375% Monthly Income Class D Cumulative Redeemable Preferred Stock, our 9.375% Class B Cumulative Redeemable Preferred Stock, which was redeemed by us on June 6, 2004, and our 9.50% Class C Cumulative Redeemable Preferred Stock, which was redeemed by us on July 30, 2004, as the Class D preferred stock, the Class B preferred stock and the Class C preferred stock, respectively.*

### **Realty Income**

Realty Income is organized to operate as an equity real estate investment trust, commonly referred to as a 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. Additionally, we seek to increase distributions to stockholders and FFO per share through both active portfolio management and the acquisition of additional properties.

We are a fully integrated, self-administered real estate company with in-house acquisition, leasing, legal, retail research, real estate research, portfolio management and capital markets expertise. As of September 30, 2006, we owned a diversified portfolio of 1,766 retail properties located in 48 states, with over 15.0 million square feet of leasable space leased to 101 different retail chains doing business in 29 separate retail industries. Of the 1,766 properties in the portfolio, 1,759, or 99.6%, were single-tenant, retail properties and the remaining seven were multi-tenant, distribution and office properties. At September 30, 2006, 1,739, or 98.9%, of the 1,759 single-tenant properties were leased with a weighted average remaining lease term (excluding extension options) of approximately 12.2 years.

### **Recent Developments**

#### **Acquisition of \$349.5 Million of Buffets/Ryan's Restaurant Properties**

On November 1, 2006, Realty Income and Crest acquired 144 Buffets/Ryan's restaurant properties for approximately \$349.5 million. The properties are leased under 20-year (on average), triple-net lease agreements. These properties were acquired subsequent to a merger between Buffets, Inc. and Ryan's Restaurant Group. This acquisition was funded with cash and cash equivalents held at September 30, 2006, proceeds from the public offering of common stock and borrowings under our credit facility. Of the 144 restaurant properties, 116 were acquired by Realty Income and 28 were acquired by Crest Net.

#### **Acquisition of 94 Pizza Hut Properties for \$65.5 Million**

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Between September 14, 2006 and October 12, 2006, Realty Income acquired a portfolio of 94 Pizza Hut properties for \$65.5 million that have been leased back to NPC International, Inc. Through

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September 30, 2006, we had acquired 75 of the 94 properties for approximately \$49.6 million. These acquisitions were funded with borrowings under our credit facility.

**Senior Unsecured Debt Rating Assigned a Positive Outlook by Moody's Investors Service**

Moody's Investors Service announced on February 17, 2006 that it had assigned a positive outlook to Realty Income's senior unsecured debt rating of Baa2. Realty Income's current senior unsecured debt ratings are BBB+ (stable outlook) by Fitch Ratings, Baa2 (positive outlook) by Moody's Investors Service, and BBB (stable outlook) by Standard & Poor's Ratings Group. These rating agencies have also assigned investment grade credit ratings to our preferred stock. Fitch Ratings has assigned a rating of BBB (stable outlook), Moody's Investors Service has assigned a rating of Baa3 (positive outlook) and Standard & Poor's Ratings Group has assigned a rating of BBB- (stable outlook) to our preferred stock. These ratings are subject to ongoing evaluation by credit rating agencies and we cannot assure you that any such rating will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. Moreover, a rating is not a recommendation to buy, sell or hold our debt securities, preferred stock (including the Class E preferred stock offered hereby) or common stock.

**Net Income Available to Common Stockholders**

Net income available to common stockholders was \$24.2 million in the third quarter of 2006 versus \$20.8 million in the same quarter of 2005, an increase of \$3.4 million. On a diluted per common share basis, net income was \$0.27 per share in the third quarter of 2006 compared to \$0.26 in the third quarter of 2005.

Net income available to common stockholders was \$71.0 million in the first nine months of 2006 versus \$64.2 million in the same period of 2005, an increase of \$6.8 million. On a diluted per common share basis, net income was \$0.82 per share in the first nine months of 2006 compared to \$0.81 in the first nine months of 2005.

The calculation to determine net income available to common stockholders includes gains from the sale of properties. The amount of gains varies from period to period based on the timing of property sales and can significantly impact net income available to common stockholders. The gain recognized from the sales of investment properties during the third quarter of 2006 was \$843,000 as compared to \$303,000 for the third quarter of 2005. The gain recognized from the sales of investment properties during the first nine months of 2006 was \$3.0 million as compared to \$3.8 million for the first nine months of 2005.

**Funds from Operations (FFO)**

In the third quarter of 2006, our FFO increased by \$6.3 million, or 19.9%, to \$38.0 million versus \$31.7 million in the third quarter of 2005. On a diluted per common share basis, FFO was \$0.43 in the third quarter of 2006 compared to \$0.40 for the third quarter of 2005, an increase of \$0.03, or 7.5%.

In the first nine months of 2006, our FFO increased by \$17.1 million, or 18.2%, to \$110.9 million versus \$93.8 million in the first nine months of 2005. On a diluted per common share basis, FFO was \$1.27 in the first nine months of 2006 compared to \$1.18 for the first nine months of 2005, an increase of \$0.09, or 7.6%. For information on how we define FFO, as well as a reconciliation of net income available to common stockholders to FFO, see Management's Discussion and Analysis of Financial Condition and Results of Operations Funds From Operations Available to Common Stockholders (FFO) in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, which is incorporated by reference in the accompanying prospectus.

### Notes and Common Stock Offerings

On September 13, 2006, we issued and sold 4,100,000 shares of common stock in an underwritten offering and, on September 28, 2006, we issued and sold an additional 615,000 shares of common stock upon the underwriters' overallotment option that was exercised in full. On September 18, 2006, we issued and sold \$275 million aggregate principal amount of 5.95% Notes due 2016 in an underwritten public offering, which we refer to herein as the notes offering. On October 23, 2006, we issued and sold 6,000,000 shares of common stock in an underwritten offering and, on November 20, 2006, we issued and sold an additional 900,000 shares of common stock upon the underwriters' overallotment option that was exercised in full.

Total net proceeds of the September common stock offering, the notes offering and the October common stock offering, to us, after underwriting discounts and commissions but before deducting estimated expenses payable by us, were approximately \$109.0 million, \$272.5 million and \$173.3 million, respectively. We used the net proceeds from these offerings to pay the redemption price of our 7¾% Notes Due 2007 (the 2007 Notes) as described below under "Redemption of 2007 Notes", to repay borrowings outstanding under our \$300 million acquisition credit facility, to fund a portion of the purchase price of the Buffets/Ryan's properties as described under "Acquisition of \$349.5 million of Buffets/Ryan's Restaurant Properties" and for other general corporate purposes.

### Redemption of 2007 Notes

On September 22, 2006, we redeemed all of our outstanding 2007 Notes issued in May 1997. Approximately \$114.8 million of the net proceeds from the notes offering was used to fund the redemption, which included interest of \$3.2 million that was paid at the time of the redemption.

### Increases in Monthly Cash Distributions to Common Stockholders

We continue our 37-year policy of paying distributions monthly to our common stockholders. Monthly distributions per share were increased in April 2006 by \$0.000625 to \$0.116875, in July 2006 by \$0.000625 to \$0.1175, in September 2006 by \$0.00775 to \$0.12525 and in October 2006 by \$0.000625 to \$0.125875. The increase in October 2006 was our 36th consecutive quarterly increase and the 41st increase in the amount of our dividend since our listing on the New York Stock Exchange in 1994. In the first 11 months of 2006, we paid three monthly cash distributions per share in the amount of \$0.11625, three in the amount of \$0.116875, two in the amount of \$0.1175, one in the amount of \$0.12525 and two in the amount of \$0.125875, totaling \$1.311375 per share. In November 2006 we declared distributions of \$0.125875 per share, which will be paid on December 15, 2006.

The monthly distribution of \$0.125875 per share represents a current annualized distribution of \$1.5105 per share, and an annualized distribution yield of approximately 5.6% based on the last reported sale price of our common stock on the NYSE of \$26.80 on November 28, 2006. Although we expect to continue our policy of paying monthly distributions, we cannot guarantee that we will maintain the current level of distributions, that we will continue our pattern of increasing distributions per share, or what the actual distribution yield will be in any future period.

### Property Portfolio Information

At September 30, 2006, we owned a diversified portfolio:

- Of 1,766 retail properties;
- With an occupancy rate of 98.8%, or 1,745 properties occupied of the 1,766 properties in the portfolio;

- Leased to 101 different retail chains doing business in 29 separate retail industries;
- Located in 48 states;
- With over 15.0 million square feet of leasable space; and
- With an average leasable retail space per property of approximately 8,500 square feet.

In addition to our real estate portfolio at September 30, 2006, our subsidiary, Crest had invested \$40.3 million in 13 retail properties located in six states. These properties are classified as held for sale.

At September 30, 2006, 1,739, or 98.5%, of our 1,766 retail properties were leased under net-lease agreements. Net leases typically require the tenant to be responsible for minimum monthly rent and property operating expenses including property taxes, insurance and maintenance. In addition, tenants are typically responsible for future rent increases (generally subject to ceilings) based on increases in the consumer price index or fixed increases or, to a lesser degree, for 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.

The following tables provide certain information with respect to our properties, tenants and leases. For additional information, you should review the documents we have filed with the Securities and Exchange Commission, or SEC, that are incorporated and deemed to be incorporated by reference in the accompanying prospectus and which you may obtain as described under "Incorporation by Reference" in the accompanying prospectus.

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**Industry Diversification**

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

| Industries                    | Percentage of Rental Revenue(1)<br>For the Quarter |   |  |   |                 |   |                 |   |                 |   |                 |   |                 |   |
|-------------------------------|--|---|--|---|-----------------|---|-----------------|---|-----------------|---|-----------------|---|-----------------|---|
|                               | Ended<br>Sept. 30,<br>2006                         |   | For the Years Ended<br>Dec 31,<br>2005 |   | Dec 31,<br>2004 |   | Dec 31,<br>2003 |   | Dec 31,<br>2002 |   | Dec 31,<br>2001 |   | Dec 31,<br>2000 |   |
| Apparel stores                | 1.4  | % | 1.6                                    | % | 1.8             | % | 2.1             | % | 2.3             | % | 2.4             | % | 2.4             | % |
| Automotive collision services | 1.4  |   | 1.3                                    |   | 1.0             |   | 0.3             |   |                 |   |                 |   |                 |   |
| Automotive parts              | 2.7  |   | 3.4                                    |   | 3.8             |   | 4.5             |   | 4.9             |   | 5.7             |   | 6.0             |   |
| Automotive service            | 9.0  |   | 7.6                                    |   | 7.7             |   | 8.3             |   | 7.0             |   | 5.7             |   | 5.8             |   |
| Automotive tire services      | 5.8  |   | 7.2                                    |   | 7.8             |   | 3.1             |   | 2.7             |   | 2.6             |   | 2.3             |   |
| Book stores                   | 0.3  |   | 0.3                                    |   | 0.3             |   | 0.4             |   | 0.4             |   | 0.4             |   | 0.5             |   |
| Business services             | 0.1  |   | 0.1                                    |   | 0.1             |   | 0.1             |   | 0.1             |   | 0.1             |   | 0.1             |   |
| Child care                    | 10.6   |   | 12.7                                   |   | 14.4            |   | 17.8            |   | 20.8            |   | 23.9            |   | 24.7            |   |
| Consumer electronics          | 1.1  |   | 1.3                                    |   | 2.1             |   | 3.0             |   | 3.3             |   | 4.0             |   | 4.9             |   |
| Convenience stores            | 16.2   |   | 18.7                                   |   | 19.2            |   | 13.3            |   | 9.1             |   | 8.4             |   | 8.4             |   |
| Crafts and novelties          | 0.4  |   | 0.4                                    |   | 0.5             |   | 0.6             |   | 0.4             |   | 0.4             |   | 0.4             |   |
| Drug stores                   | 3.0  |   | 2.8                                    |   | 0.1             |   | 0.2             |   | 0.2             |   | 0.2             |   | 0.2             |   |
| Entertainment                 | 1.6  |   | 2.1                                    |   | 2.3             |   | 2.6             |   | 2.3             |   | 1.8             |   | 2.0             |   |
| Equipment rental services     | 0.3  |   | 0.4                                    |   | 0.3             |   | 0.2             |   |                 |   |                 |   |                 |   |
| Financial services            | 0.2  |   | 0.1                                    |   | 0.1             |   |                 |   |                 |   |                 |   |                 |   |
| General merchandise           | 0.7  |   | 0.5                                    |   | 0.4             |   | 0.5             |   | 0.5             |   | 0.6             |   | 0.6             |   |
| Grocery stores                | 0.6  |   | 0.7                                    |   | 0.8             |   | 0.4             |   | 0.5             |   | 0.6             |   | 0.6             |   |
| Health and fitness            | 4.5  |   | 3.7                                    |   | 4.0             |   | 3.8             |   | 3.8             |   | 3.6             |   | 2.4             |   |
| Home furnishings              | 3.2  |   | 3.7                                    |   | 4.1             |   | 4.9             |   | 5.4             |   | 6.0             |   | 5.8             |   |
| Home improvement              | 2.9  |   | 1.1                                    |   | 1.0             |   | 1.1             |   | 1.2             |   | 1.3             |   | 2.0             |   |
| Motor vehicle dealerships     | 3.6  |   | 2.6                                    |   | 0.6             |   |                 |   |                 |   |                 |   |                 |   |
| Office supplies               | 1.3  |   | 1.5                                    |   | 1.6             |   | 1.9             |   | 2.1             |   | 2.2             |   | 2.3             |   |
| Pet supplies and services     | 1.1  |   | 1.3                                    |   | 1.4             |   | 1.7             |   | 1.7             |   | 1.6             |   | 1.5             |   |
| Private education             | 1.0  |   | 0.8                                    |   | 1.1             |   | 1.2             |   | 1.3             |   | 1.5             |   | 1.4             |   |
| Restaurants                   | 9.7  |   | 9.4                                    |   | 9.7             |   | 11.8            |   | 13.5            |   | 12.2            |   | 12.3            |   |
| Shoe stores                   |  |   | 0.3                                    |   | 0.3             |   | 0.9             |   | 0.8             |   | 0.7             |   | 0.8             |   |
| Sporting goods                | 2.9  |   | 3.4                                    |   | 3.4             |   | 3.8             |   | 4.1             |   | 0.9             |   |                 |   |
| Theaters                      | 9.4  |   | 5.2                                    |   | 3.5             |   | 4.1             |   | 3.9             |   | 4.3             |   | 2.7             |   |
| Travel plazas                 | 0.3  |   | 0.3                                    |   | 0.4             |   | 0.3             |   |                 |   |                 |   |                 |   |
| Video rental                  | 2.1  |   | 2.5                                    |   | 2.8             |   | 3.3             |   | 3.3             |   | 3.7             |   | 3.9             |   |
| Other                         | 2.6  |   | 3.0                                    |   | 3.4             |   | 3.8             |   | 4.4             |   | 5.2             |   | 6.0             |   |
| Totals                        | 100.0  | % | 100.0                                  | % | 100.0           | % | 100.0           | % | 100.0           | % | 100.0           | % | 100.0           | % |

(1) Includes rental revenue for all properties owned by Realty Income at the end of each period presented.

**Service Category Diversification**

The following table sets forth certain information regarding the properties owned by Realty Income (excluding properties owned by Crest) at September 30, 2006, classified according to the retail business types and the level of services they provide (dollars in thousands):

| Industry   | Number of<br>Properties | Rental Revenue<br>for the Quarter<br>Ended<br>Sept. 30, 2006(1) | Percentage of<br>Rental<br>Revenue |
|--|-------------------------|---|------------------------------------|
| <b><i>Tenants Providing Services</i></b>         |                         |   |                                    |
| Automotive collision services                    | 13                      | \$ 825  | 1.4 %                              |
| Automotive service                               | 219                     | 5,331   | 9.0                                |
| Child care                                       | 267                     | 6,256   | 10.6                               |
| Entertainment                                    | 8                       | 970   | 1.6                                |
| Equipment rental services                        | 2                       | 150   | 0.3                                |
| Financial services                               | 4                       | 89  | 0.2                                |
| Health and fitness                               | 16                      | 2,648   | 4.5                                |
| Private education                                | 7                       | 580   | 1.0                                |
| Theaters   | 30                      | 5,574   | 9.4                                |
| Other  | 10                      | 1,560   | 2.6                                |
|  | 576                     | 23,983  | 40.6                               |
| <b><i>Tenants Selling Goods and Services</i></b> |                         |   |                                    |
| Automotive parts (with installation)             | 30                      | 583   | 1.0                                |
| Automotive tire services                         | 101                     | 3,424   | 5.8                                |
| Business services                                | 1                       | 32  | 0.1                                |
| Convenience stores                               | 393                     | 9,572   | 16.2                               |
| Home improvement                                 | 1                       | 57  | 0.1                                |
| Motor vehicle dealerships                        | 21                      | 2,112   | 3.6                                |
| Pet supplies and services                        | 9                       | 595   | 1.0                                |
| Restaurants                                      | 334                     | 5,756   | 9.7                                |
| Travel plazas                                    | 1                       | 170   | 0.3                                |
| Video rental                                     | 34                      | 1,236   | 2.1                                |
|  | 925                     | 23,537  | 39.9                               |
| <b><i>Tenants Selling Goods</i></b>              |                         |   |                                    |
| Apparel stores                                   | 6                       | 832   | 1.4                                |
| Automotive parts                                 | 73                      | 1,038   | 1.7                                |
| Book stores                                      | 2                       | 149   | 0.3                                |
| Consumer electronics                             | 21                      | 668   | 1.1                                |
| Crafts and novelties                             | 4                       | 212   | 0.4                                |
| Drug stores                                      | 34                      | 1,787   | 3.0                                |
| General merchandise                              | 23                      | 429   | 0.7                                |
| Grocery stores                                   | 6                       | 347   | 0.6                                |
| Home furnishings                                 | 40                      | 1,881   | 3.2                                |
| Home improvement                                 | 31                      | 1,684   | 2.8                                |
| Office supplies                                  | 10                      | 791   | 1.3                                |
| Pet supplies                                     | 2                       | 37  | 0.1                                |
| Sporting goods                                   | 13                      | 1,687   | 2.9                                |
|  | 265                     | 11,542  | 19.5                               |
| Totals   | 1,766                   | \$ 59,062   | 100.0 %                            |

(1) Includes rental revenue for all properties owned by Realty Income at September 30, 2006.

**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 1,739 net leased, single-tenant retail properties as of September 30, 2006 (dollars in thousands):

| Year   | Total Portfolio                    |   |                           | Initial Expirations(3)    |  |                           | Subsequent Expirations(4) |  |                           |
|--------|------------------------------------|---|---------------------------|---------------------------|--|---------------------------|---------------------------|--|---------------------------|
|        | Total Number of Leases Expiring(1) | Rental Revenue for the Quarter Ended 9/30/06(2) | % of Total Rental Revenue | Number of Leases Expiring | Rental Revenue for the Quarter Ended 9/30/06 | % of Total Rental Revenue | Number of Leases Expiring | Rental Revenue for the Quarter Ended 9/30/06 | % of Total Rental Revenue |
| 2006   | 28                                 | \$ 601  | 1.1 %                     | 11                        | \$ 290                                       | 0.5 %                     | 17                        | \$ 311                                       | 0.6 %                     |
| 2007   | 133                                | 2,435   | 4.3                       | 91                        | 1,688  | 3.0                       | 42                        | 747  | 1.3                       |
| 2008   | 115                                | 2,515   | 4.5                       | 63                        | 1,490  | 2.7                       | 52                        | 1,025  | 1.8                       |
| 2009   | 103                                | 2,245   | 4.0                       | 33                        | 773  | 1.4                       | 70                        | 1,472  | 2.6                       |
| 2010   | 74                                 | 1,580   | 2.8                       | 36                        | 898  | 1.6                       | 38                        | 682  | 1.2                       |
| 2011   | 73                                 | 2,137   | 3.9                       | 40                        | 1,367  | 2.5                       | 33                        | 770  | 1.4                       |
| 2012   | 45                                 | 1,405   | 2.5                       | 43                        | 1,354  | 2.4                       | 2                         | 51   | 0.1                       |
| 2013   | 75                                 | 3,333   | 6.0                       | 67                        | 3,119  | 5.6                       | 8                         | 214  | 0.4                       |
| 2014   | 48                                 | 2,040   | 3.7                       | 36                        | 1,798  | 3.2                       | 12                        | 242  | 0.5                       |
| 2015   | 90                                 | 1,787   | 3.2                       | 65                        | 1,228  | 2.2                       | 25                        | 559  | 1.0                       |
| 2016   | 90                                 | 652   | 1.2                       | 89                        | 630  | 1.2                       | 1                         | 22   | *                         |
| 2017   | 22                                 | 1,603   | 2.9                       | 18                        | 1,536  | 2.8                       | 4                         | 67   | 0.1                       |
| 2018   | 23                                 | 1,014   | 1.8                       | 23                        | 1,014  | 1.8                       |                           |  |                           |
| 2019   | 94                                 | 4,649   | 8.4                       | 93                        | 4,456  | 8.0                       | 1                         | 193  | 0.4                       |
| 2020   | 83                                 | 3,184   | 5.8                       | 81                        | 3,151  | 5.7                       | 2                         | 33   | 0.1                       |
| 2021   | 143                                | 4,856   | 8.7                       | 142                       | 4,802  | 8.6                       | 1                         | 54   | 0.1                       |
| 2022   | 94                                 | 2,529   | 4.5                       | 94                        | 2,529  | 4.5                       |                           |  |                           |
| 2023   | 233                                | 6,416   | 11.5                      | 232                       | 6,389  | 11.5                      | 1                         | 27   | *                         |
| 2024   | 57                                 | 1,802   | 3.2                       | 57                        | 1,802  | 3.2                       |                           |  |                           |
| 2025   | 66                                 | 5,802   | 10.4                      | 62                        | 5,739  | 10.3                      | 4                         | 63   | 0.1                       |
| 2026   | 38                                 | 1,909   | 3.5                       | 37                        | 1,870  | 3.4                       | 1                         | 39   | 0.1                       |
| 2028   | 2                                  | 54  | 0.1                       | 2                         | 54   | 0.1                       |                           |  |                           |
| 2030   | 2                                  | 213   | 0.4                       | 2                         | 213  | 0.4                       |                           |  |                           |
| 2033   | 3                                  | 357   | 0.6                       | 3                         | 357  | 0.6                       |                           |  |                           |
| 2034   | 2                                  | 230   | 0.4                       | 2                         | 230  | 0.4                       |                           |  |                           |
| 2037   | 2                                  | 325   | 0.6                       | 2                         | 325  | 0.6                       |                           |  |                           |
| 2043   | 1                                  | 13  | *                         |                           |  |                           | 1                         | 13   | *                         |
| Totals | 1,739                              | \$ 55,686                                       | 100.0 %                   | 1,424                     | \$ 49,102                                    | 88.2 %                    | 315                       | \$ 6,584                                     | 11.8 %                    |

\* Less than 0.1%

(1) Excludes six multi-tenant properties and 21 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) Excludes revenue of \$3.4 million from six multi-tenant properties and from 21 vacant and unleased properties at September 30, 2006.

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

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

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**State Diversification**

The following table sets forth certain state-by-state information regarding Realty Income's property portfolio (excluding properties owned by Crest) as of September 30, 2006 (dollars in thousands):

| State          | Number of Properties | Percent Leased | Approximate Leasable Square Feet | Rental Revenue For the Quarter Ended September 30, 2006(1) | Percentage of Rental Revenue |
|----------------|----------------------|----------------|----------------------------------|--|------------------------------|
| Alabama        | 34                   | 97 %           | 237,700                          | \$ 455   | 0.8 %                        |
| Alaska         | 2                    | 100            | 128,500                          | 259  | 0.4                          |
| Arizona        | 71                   | 100            | 344,500                          | 1,912  | 3.2                          |
| Arkansas       | 10                   | 100            | 55,900                           | 156  | 0.3                          |
| California     | 61                   | 100            | 1,101,900                        | 5,586  | 9.5                          |
| Colorado       | 46                   | 100            | 385,800                          | 1,789  | 3.0                          |
| Connecticut    | 16                   | 100            | 245,600                          | 977  | 1.7                          |
| Delaware       | 15                   | 100            | 27,700                           | 316  | 0.5                          |
| Florida        | 132                  | 99             | 1,281,000                        | 5,162  | 8.7                          |
| Georgia        | 102                  | 99             | 712,800                          | 2,810  | 4.8                          |
| Idaho          | 14                   | 100            | 91,900                           | 367  | 0.6                          |
| Illinois       | 55                   | 100            | 696,200                          | 3,249  | 5.5                          |
| Indiana        | 41                   | 95             | 417,700                          | 1,698  | 2.9                          |
| Iowa           | 16                   | 94             | 105,400                          | 257  | 0.4                          |
| Kansas         | 27                   | 89             | 539,200                          | 831  | 1.4                          |
| Kentucky       | 17                   | 100            | 58,900                           | 387  | 0.7                          |
| Louisiana      | 23                   | 100            | 90,100                           | 299  | 0.5                          |
| Maryland       | 25                   | 100            | 230,000                          | 1,158  | 2.0                          |
| Massachusetts  | 37                   | 100            | 203,100                          | 997  | 1.7                          |
| Michigan       | 14                   | 100            | 92,800                           | 336  | 0.6                          |
| Minnesota      | 20                   | 100            | 337,100                          | 1,258  | 2.1                          |
| Mississippi    | 61                   | 95             | 278,400                          | 805  | 1.4                          |
| Missouri       | 50                   | 98             | 525,300                          | 1,483  | 2.5                          |
| Montana        | 2                    | 100            | 30,000                           | 74   | 0.1                          |
| Nebraska       | 17                   | 100            | 190,100                          | 600  | 1.0                          |
| Nevada         | 15                   | 100            | 191,000                          | 837  | 1.4                          |
| New Hampshire  | 10                   | 100            | 95,400                           | 377  | 0.6                          |
| New Jersey     | 25                   | 100            | 194,500                          | 992  | 1.7                          |
| New Mexico     | 7                    | 100            | 53,300                           | 137  | 0.2                          |
| New York       | 28                   | 96             | 419,400                          | 2,017  | 3.4                          |
| North Carolina | 52                   | 100            | 348,200                          | 1,601  | 2.7                          |
| North Dakota   | 5                    | 100            | 31,900                           | 54   | 0.1                          |
| Ohio           | 105                  | 100            | 661,500                          | 2,552  | 4.3                          |
| Oklahoma       | 22                   | 100            | 110,600                          | 457  | 0.8                          |
| Oregon         | 19                   | 100            | 294,800                          | 647  | 1.1                          |
| Pennsylvania   | 83                   | 100            | 510,600                          | 2,345  | 4.0                          |
| Rhode Island   | 1                    | 100            | 3,500                            | 29   | 0.1                          |
| South Carolina | 56                   | 100            | 218,700                          | 1,424  | 2.4                          |
| South Dakota   | 7                    | 100            | 18,300                           | 76   | 0.1                          |
| Tennessee      | 105                  | 100            | 476,500                          | 2,206  | 3.7                          |
| Texas          | 193                  | 98             | 2,133,400                        | 6,502  | 11.0                         |
| Utah           | 6                    | 83             | 35,100                           | 95   | 0.2                          |
| Vermont        | 1                    | 100            | 2,500                            | 22   | *                            |
| Virginia       | 62                   | 100            | 431,900                          | 2,313  | 3.9                          |
| Washington     | 37                   | 100            | 243,900                          | 746  | 1.3                          |
| West Virginia  | 1                    | 0              | 12,200                           |  | 0.0                          |
| Wisconsin      | 17                   | 94             | 157,400                          | 394  | 0.7                          |
| Wyoming        | 1                    | 100            | 4,200                            | 18   | *                            |
| Totals/Average | 1,766                | 99 %           | 15,056,400                       | \$ 59,062  | 100.0 %                      |

\* Less than 0.1%

(1) Includes rental revenue for all properties owned by Realty Income at September 30, 2006.



**The Offering**

We are selling all of the shares of the Class E preferred stock offered by this prospectus supplement. For a description of our Class E preferred stock, see [Description of Class E Preferred Stock](#) in this prospectus supplement and [General Description of Preferred Stock](#) in the accompanying prospectus.

|                               |  |
|-------------------------------|--|
| <b>Issuer</b>                 | Realty Income Corporation  |
| <b>Securities Offered</b>     | shares of % Monthly Income Class E Cumulative Redeemable Preferred Stock, plus up to an additional shares if the underwriters exercise their overallotment option in full.   |
| <b>Dividends</b>              | Investors will be entitled to receive cumulative cash dividends at a rate of % per annum of the \$25.00 per share liquidation preference (equivalent to \$ per annum per share). Dividends will be payable monthly in arrears on the 15th day of each month (or, if the 15th day of the month is not a business day, on the next business day), commencing January 15, 2007. Dividends will accrue and be cumulative from the date of original issuance, which is expected to be December , 2006. Because the first dividend payment date is January 15, 2007, the dividend payable on a share of Class E preferred stock on that date will be greater than the amount of a regular monthly dividend per share and will be equal to the sum of (1) the regular monthly dividend per share plus (2) a pro rated portion of the regular monthly dividend per share which will be calculated based on the number of days from and including the original issue date of the Class E preferred stock to but excluding December 15, 2006 (computed on the basis of a 360-day year consisting of twelve 30-day months). The dividend payable on January 15, 2007 will be paid to the persons who are the holders of record of the Class E preferred stock at the close of business on the corresponding record date, which will be January 1, 2007. |
| <b>Maturity</b>               | The Class E preferred stock does not have any maturity date nor are we required to redeem or otherwise repurchase the Class E preferred stock. Accordingly, the Class E preferred stock will remain outstanding unless we decide to redeem or otherwise repurchase it. In addition, we are not required to set aside funds to redeem the Class E preferred stock.  |
| <b>Optional Redemption</b>    | The Class E preferred stock is not redeemable by us prior to December , 2011, except under circumstances intended to preserve our status as a real estate investment trust for federal and/or state income tax purposes. On and after December , 2011, we may, at our option, redeem the Class E preferred stock, in whole or from time to time in part, for cash at a redemption price equal to \$25.00 per share, plus, subject to exceptions, any accrued and unpaid dividends to the date of redemption. See <a href="#">Description of Class E Preferred Stock</a> <a href="#">Optional Redemption</a> .  |
| <b>Liquidation Preference</b> | If we liquidate, dissolve or wind up, holders of the Class E preferred stock will have the right to receive \$25.00 per share, plus any accrued and unpaid dividends to the date of payment, before any payment is made to the holders of our common stock. See <a href="#">Description of Class E Preferred Stock</a> <a href="#">Liquidation Preference</a> .  |

|  |  |
|--|--|
| Rank                                   | <p>The Class E preferred stock will rank senior to our common stock and on a parity with our outstanding Class D preferred stock with respect to the payment of dividends and the distribution of assets in the event of our liquidation, dissolution or winding up. See Description of Class E Preferred Stock Rank.</p>  |
| Voting Rights                          | <p>Holders of Class E preferred stock will generally have no voting rights. However, if we do not pay dividends on the Class E preferred stock for 18 or more monthly dividend periods (whether or not consecutive), the holders of the Class E preferred stock (voting separately as a class with the holders of all other classes or series of our preferred stock, which may include the Class D preferred stock, upon which like voting rights have been conferred and are exercisable and which are entitled to vote as a class with the Class E preferred stock in the election referred to below) will be entitled to vote for the election of two additional directors to serve on our board of directors until we pay all dividends which we owe on the Class E preferred stock. In addition, the affirmative vote of the holders of at least two-thirds of the outstanding shares of Class E preferred stock is required for us to authorize or issue any class or series of stock ranking prior to the Class E preferred stock with respect to the payment of dividends or the distribution of assets on liquidation, dissolution or winding up, to amend any provision of our charter so as to materially and adversely affect any rights of the Class E Preferred Stock or to take certain other actions. See Description of Class E Preferred Stock Voting Rights.</p> |
| Listing                                | <p>Currently no market exists for the Class E preferred stock. We intend to file an application to list the Class E preferred stock on the New York Stock Exchange, or NYSE. If approved for listing, we expect that trading on the NYSE will commence within 30 days after the date of initial issuance of the Class E preferred stock. The underwriters have advised us that they intend to make a market in the Class E preferred stock prior to the commencement of any trading on the NYSE. However, the underwriters have no obligation to do so, and we cannot assure you that a market for the Class E preferred stock will develop prior to commencement of trading on the NYSE or, if developed, will be maintained or will provide you with adequate liquidity.</p>   |
| Restrictions on Ownership and Transfer | <p>The Class E preferred stock will be subject to certain restrictions on ownership and transfer intended to assist us in maintaining our status as a REIT for United States federal income tax purposes. For example, the terms of the Class E preferred stock will restrict any person from acquiring actual or constructive ownership of more than 9.8% (in value or in number of shares, whichever is more restrictive) of the outstanding Class E preferred shares. See Description of Class E Preferred Stock Restrictions on Ownership and Transfer.</p>  |
| Conversion                             | <p>The Class E preferred stock will not be convertible into or exchangeable for any other property or securities.</p>  |

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Use of proceeds

We intend to use the net proceeds from this offering of the Class E preferred stock to repay borrowings under our \$300 million acquisition credit facility and for other general corporate purposes.

Risk Factors

An investment in the Class E preferred stock involves various risks and prospective investors should carefully consider the matters discussed under Risk Factors in this prospectus supplement, as well as the other risks described in this prospectus supplement and the accompanying prospectus and the documents incorporated and deemed to be incorporated by reference herein and therein, before making a decision to invest in the Class E preferred stock.

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## RISK FACTORS

*In evaluating an investment in our preferred stock, you should carefully consider the following risk factors and the risk factors described under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2005, which is incorporated by reference in the accompanying prospectus, in addition to the other risks and uncertainties described in this prospectus supplement, the accompanying prospectus, the documents incorporated by reference therein and, if applicable, any other offering materials we may provide you in connection with this offering. As used under the captions "Risk Factors" in this prospectus supplement and in our Annual Report on Form 10-K for the year ended December 31, 2005, references to our capital stock include both our common stock and any class or series of our preferred stock, including the Class E preferred stock offered by this prospectus supplement, and references to our stockholders include holders of our common stock and any class or series of our preferred stock, including the Class E preferred stock, in each case unless otherwise expressly stated or the context otherwise requires.*

### **Increases in market interest rates may adversely affect the market price of our Class E preferred stock.**

One of the factors that will influence the market price of our Class E preferred stock in public trading markets is the annual yield from distributions on our Class E preferred stock as compared to yields on other financial instruments. Thus, an increase in market interest rates generally will result in higher yields on other financial instruments, which could adversely affect the market price of our Class E preferred stock. Likewise, since listing our common stock on the NYSE in 1994, we have established a history of periodically increasing distributions per share on our common stock. See "Prospectus Supplement Summary - Increases in Monthly Cash Distributions to Common Stockholders." The market price of the Class E preferred stock may also be adversely affected to the extent that the distributions per share on our common stock increase.

### **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, including the Class E 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.

### **We are subject to risks associated with debt and preferred stock financing.**

We intend to incur additional indebtedness in the future, including additional borrowings under our \$300 million acquisition credit facility.

At November 28, 2006, we had \$211.9 million of borrowings outstanding under our \$300 million acquisition credit facility and a total of \$920 million 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 \$300 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. In addition, our \$300 million credit facility contains financial covenants that could limit the amount of distributions payable by us on our common stock and preferred stock, including the Class E preferred stock offered hereby, in the event of a deterioration in our results of operations or financial condition, and our \$300 million credit facility provides that, in the event of a failure to pay principal of or interest on borrowings thereunder when due (subject to any applicable grace period),

we and our subsidiaries may not pay any dividends on our capital stock, including our outstanding common and preferred stock, including the Class E preferred stock. If this were to occur, it would likely have a material adverse effect on the market price of our outstanding common and preferred stock, including the Class E preferred stock, and on the value of our debt securities.

Our indebtedness could also have other important consequences to holders of our Class E 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 of, 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.

In addition, as of November 28, 2006, we had 5,100,000 shares of Class D preferred stock outstanding, the holders of which are entitled to receive monthly dividends, when, as and if authorized by our board of directors, at the rate of \$1.84375 per annum per share. As a result, we are subject to risks associated with preferred stock financing, including the risk that our cash flow will be insufficient to pay dividends on our preferred stock, including the Class E preferred stock offered by this prospectus supplement.

**The market value of the Class E preferred stock could be substantially affected by various factors.**

The market value of the Class E preferred stock 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 the Class E preferred stock;
- the market for similar securities issued by REITs;
- general economic and financial market conditions;
- the financial condition, performance and prospects of us 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.

As a result of these and other factors, investors who purchase Class E preferred stock in this offering may experience a decrease, which could be substantial, in the market value of those shares, including decreases unrelated to our operating performance or prospects.

**Matters pertaining to certain properties and tenants.**

Twenty-one of our properties were available for lease or sale at September 30, 2006, of which all but one were single-tenant properties. As of November 28, 2006, transactions to lease or sell three of the twenty-one properties available for lease at September 30, 2006 were underway or completed. At September 30, 2006, 16 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.

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For the quarter ended September 30, 2006, our tenants in the convenience store and child care industries accounted for approximately 16.2% and 10.6%, respectively, of our rental revenue. In addition, after giving effect to our recent acquisition of certain Pizza Hut properties as described under Prospectus Supplement Summary Recent Developments Acquisition of 94 Pizza Hut Properties for \$65.5 Million and our recent acquisition of certain Buffets/Ryan s properties described under Prospectus Supplement Summary Recent Developments Acquisition of \$349.5 Million of Buffets/Ryan s Restaurant Properties we anticipate that tenants in the restaurant industry will account for more than 10% of our rental revenue. A downturn in any of these industries, whether nationwide or limited to specific sectors of the United States, could adversely affect tenants in these industries, which in turn could have a material adverse effect on our financial position, results of operations and our ability to pay the principal of and interest on our debt securities and other indebtedness and to make distributions on our common stock and preferred stock, including the Class E preferred stock offered hereby. Individually, each of the other industries in our property portfolio accounted for less than 10% of our rental revenue for the quarter ended September 30, 2006.

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.

**The Class E preferred stock is a new issue of securities and does not have an established trading market, which may negatively affect its value and your ability to transfer and sell your shares.**

The Class E preferred stock is a new issue of securities and currently no market exists for the Class E preferred stock. We intend to file an application to list the Class E preferred stock on the NYSE. However, we cannot assure you that the Class E preferred stock will be approved for listing on the NYSE. Even if so approved, trading of the Class E preferred stock on the NYSE is not expected to begin until some time during the period ending 30 days after the date of initial issuance of the Class E preferred stock and, in any event, we cannot assure you that a trading market on the NYSE for the Class E preferred stock will develop or, even if one develops, that it will be maintained or will provide you with adequate liquidity. As a result, the ability to transfer or sell the Class E preferred stock and the amount you receive upon any sale or transfer of the Class E preferred stock could be adversely affected. We have been advised by the underwriters that they intend to make a market in the Class E preferred stock prior to the commencement of trading on the NYSE. However, the underwriters have no obligation to do so and may discontinue any market making in the Class E preferred stock at any time without notice. Accordingly, we cannot assure you that a market for the Class E preferred stock will develop prior to the commencement of trading on the NYSE or, if a market develops, that it will be maintained or will provide you with adequate liquidity.

**RATIOS OF EARNINGS TO FIXED CHARGES AND COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS**

The following table sets forth the ratios of earnings to fixed charges and the ratios of earnings to combined fixed charges and preferred stock dividends for the periods shown. The ratios of earnings to fixed charges were computed by dividing our earnings by our fixed charges. For this purpose, earnings consist of net income before interest expense. Fixed charges consist of interest costs (including capitalized interest) and the amortization of debt issuance costs. In computing the ratios of earnings to combined fixed charges and preferred stock dividends, preferred stock dividends consist of dividends on our Class B preferred stock, Class C preferred stock and our outstanding Class D preferred stock, as applicable. We redeemed our Class B preferred stock on June 6, 2004 and our Class C preferred stock on July 30, 2004. On May 27, 2004 and October 19, 2004 we issued 4,000,000 shares and 1,100,000 shares, respectively, of our Class D preferred stock.

|   | <b>Nine Months<br/>Ended<br/>September 30, 2006</b> | <b>Year Ended December 31,</b> |             |             |             |             |
|---|---|--------------------------------|-------------|-------------|-------------|-------------|
|   |   | <b>2005</b>                    | <b>2004</b> | <b>2003</b> | <b>2002</b> | <b>2001</b> |
| Ratio of Earnings to Fixed Charges  | 2.8x  | 3.2x                           | 3.9x        | 4.1x        | 4.3x        | 3.5x        |
| Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends | 2.4x  | 2.6x                           | 3.1x        | 3.0x        | 3.0x        | 2.6x        |

**USE OF PROCEEDS**

We estimate the net proceeds from the sale of Class E preferred stock offered by this prospectus supplement will be approximately \$ million, or approximately \$ million if the underwriters overallotment option is exercised in full, in each case after deducting the underwriting discounts and estimated expenses payable by us. We intend to use the net proceeds from this offering of Class E preferred stock to repay borrowings under our \$300 million acquisition credit facility and for other general corporate purposes.

The acquisition credit facility expires in 2008, unless extended as provided in the credit agreement. As of November 28, 2006, total borrowings under the acquisition credit facility were \$211.9 million and the acquisition credit facility currently bears interest at a rate of 6.0%, although the credit facility offers us other interest rate options. These borrowings were generally used to acquire properties. Borrowings we repay under the \$300 million acquisition credit facility may be reborrowed, subject to customary conditions.

Pending application of the net proceeds for the purposes described above, we intend to temporarily invest the net proceeds in short term government securities and/or a short-term money market fund.

**DESCRIPTION OF CLASS E PREFERRED STOCK**

This description of the particular terms of the Class E preferred stock supplements, and to the extent inconsistent therewith replaces, the description of the general terms and provisions of our preferred stock set forth in the accompanying prospectus, to which description reference is hereby made. As used under this caption Description of Class E Preferred Stock, references to Realty Income, us, our and we mean Realty Income Corporation excluding its subsidiaries, unless otherwise expressly stated or the context otherwise requires; and the term Articles Supplementary means the articles supplementary creating and establishing the terms of the Class E preferred stock that we will file with the Maryland State Department of Assessments and Taxation.

## General

Pursuant to our charter, we are authorized to issue up to 20,000,000 shares of preferred stock, \$1.00 par value per share, in one or more series, with such designations, preferences, conversion or other rights, voting powers, restrictions, limitations as to transferability, dividends or other distributions, qualifications and terms and conditions of redemption as our board of directors may determine without any vote or action by our stockholders. As of the date of this prospectus supplement, 5,100,000 shares of Class D preferred stock are outstanding. The outstanding shares of Class D preferred stock have a liquidation preference of \$25.00 per share, plus accrued and unpaid dividends, and are entitled to monthly dividends at a rate of \$1.84375 per share per annum. See General Description of Preferred Stock in the accompanying prospectus, as well as the descriptions of our Class D preferred stock that we have filed with the SEC on Form 8-A as described under Incorporation by Reference in the accompanying prospectus.

We have authorized the issuance of a class of our preferred stock, consisting of \_\_\_\_\_ shares, plus up to an additional \_\_\_\_\_ shares which may be issued upon exercise of the underwriters' over-allotment options, designated as \_\_\_\_\_ % Monthly Income Class E Cumulative Redeemable Preferred Stock. The following summary of some of the terms and provisions of the Class E preferred stock does not purport to be complete and is qualified in its entirety by reference to the pertinent sections of the Articles Supplementary creating the Class E preferred stock, our charter and our bylaws, all of which we will make available to you upon request as described under Incorporation by Reference in the accompanying prospectus, and applicable law.

The registrar, transfer agent and dividend and redemption price disbursement agent in respect of the Class E preferred stock will be The Bank of New York. The Articles Supplementary fixing the terms of the Class E preferred stock will provide that we will maintain an office or agency in the Borough of Manhattan, The City of New York, where shares of Class E preferred stock may be surrendered for payment (including redemption), registration of transfer or exchange.

The certificates representing the Class E preferred stock will initially be issued in the form of temporary certificates. Holders of temporary certificates will be entitled to exchange them for definitive certificates as soon as they are available, which we anticipate will be within 150 days after the date of original issuance.

## Maturity

The Class E preferred stock has no stated maturity and will not be subject to any sinking fund or mandatory redemption, and will remain outstanding indefinitely unless we redeem or otherwise repurchase it.

## Rank

The Class E preferred stock will rank, with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up:

- (1) Senior to all classes or series of our common stock and to all other equity securities issued by us other than equity securities referred to in clauses (2) and (3) below;
- (2) On a parity with the Class D preferred stock and all equity securities issued by us with terms specifically providing that those equity securities rank on a parity with the Class E preferred stock with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up; and

(3) Junior to all equity securities issued by us with terms specifically providing that those equity securities rank senior to the Class E preferred stock with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up.

See **Voting Rights** below. The term **equity securities** does not include convertible debt securities, which debt securities would rank senior to the Class E preferred stock. The information in this paragraph supersedes and replaces in its entirety the information set forth under the caption **General Description of Preferred Stock Rank** in the accompanying prospectus.

### **Dividends**

Holders of shares of the Class E preferred stock are entitled to receive, when, as, and if authorized by our board of directors and declared by us, out of funds we have legally available for the payment of dividends, cumulative cash dividends at the rate of % of the \$25.00 per share liquidation preference per annum (equivalent to \$ per annum per share).

Dividends on the Class E preferred stock shall accrue daily, shall accrue and be cumulative from the date of original issue and shall be payable monthly in arrears on the 15th day of each month (each, a **dividend payment date**); provided that if any dividend payment date is not a business day, as defined in the Articles Supplementary, then the dividend which would otherwise have been payable on that dividend payment date may be paid on the next succeeding business day and no interest, additional dividends or other sums will accrue on the amount so payable for the period from and after that dividend payment date to that next succeeding business day. The first dividend on the Class E preferred stock is scheduled to be paid on January 15, 2007 and will be more than the amount of a regular monthly dividend, and that dividend will be paid to the persons who are the holders of record of the Class E preferred stock at the close of business on the corresponding record date, which will be January 1, 2007. See **Prospectus Supplement Summary The Offering Dividends**. Any dividend payable on the Class E preferred stock, including dividends payable for any partial dividend period, will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as they appear in our stock records at the close of business on the applicable dividend record date, which shall be the first day of the calendar month, whether or not a business day, in which the applicable dividend payment date falls.

No dividends on shares of Class E preferred stock shall be authorized by our board of directors or paid or set apart for payment by us at any time when the terms and provisions of any agreement of ours, including any agreement relating to our indebtedness, prohibit the authorization, payment or setting apart for payment or provide that the authorization, payment or setting apart for payment would constitute a breach of the agreement or a default under the agreement, or if the authorization, payment or setting apart for payment shall be restricted or prohibited by law. You should review the information appearing above under **Risk Factors** We are subject to risks associated with debt and preferred stock financing and the information appearing in the last paragraph under this caption **Dividends** for information regarding the circumstances under which the terms of our \$300 million acquisition credit facility may limit or prohibit the payment of dividends on the Class E preferred stock. You also should review the information appearing in the accompanying prospectus under the **General Description of Preferred Stock Dividends** for information as to, among other things, other circumstances under which we may be prohibited by the terms of the Articles Supplementary from paying dividends on the Class E preferred stock.

Notwithstanding the foregoing, dividends on the Class E preferred stock will accrue whether or not we have earnings, whether or not there are funds legally available for the payment of those dividends and whether or not those dividends are declared. No interest, or sum in lieu of interest, will be payable in respect of any dividend payment or payments on the Class E preferred stock which may be in arrears, and holders of the Class E preferred stock will not be entitled to any dividends in excess of full cumulative

dividends described above. Any dividend payment made on the Class E preferred stock shall first be credited against the earliest accrued but unpaid dividend due with respect to those shares.

If, for any taxable year, we designate as a capital gain dividend, as defined in Section 857 of the Internal Revenue Code of 1986, any portion (the Capital Gains Amount) of the dividends, as determined for federal income tax purposes, paid or made available for that year to holders of all classes of our stock, then, except as otherwise required by applicable law, the portion of the Capital Gains Amount that shall be allocable to the holders of the Class E preferred stock will be in proportion to the amount that the total dividends, as determined for federal income tax purposes, paid or made available to holders of Class E preferred stock for the year bears to the total dividends paid or made available for that year to holders of all classes of our stock. In addition, except as otherwise required by applicable law, we will make a similar allocation with respect to any undistributed long-term capital gains which are to be included in our stockholders' long-term capital gains, based on the allocation of the Capital Gains Amount which would have resulted if those undistributed long-term capital gains had been distributed as capital gain dividends by us to our stockholders. See United States Federal Income Tax Considerations for Holders of Our Class E Preferred Stock.

Future distributions on our common stock and preferred stock, including the Class E preferred stock offered hereby, will be at the discretion of our board of directors and will depend on, among other things, our results of operations, funds from operations, cash flow from operations, financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code of 1986, as amended, our debt service requirements and any other factors our board of directors deems relevant. In addition, our \$300 million acquisition credit facility contains financial covenants that could limit the amount of distributions payable by us on our common stock and preferred stock, including the Class E preferred stock offered hereby, in the event of a deterioration in our results of operations or financial condition, and our \$300 million credit facility provides that, in the event of a failure to pay principal of or interest on borrowings thereunder when due (subject to any applicable grace period), we and our subsidiaries may not pay any dividends on our capital stock, including our outstanding common stock and preferred stock (including the Class E preferred stock offered hereby). Accordingly, although we expect to continue our policy of paying monthly distributions on our common stock and scheduled dividends on our preferred stock, we cannot guarantee that we will maintain these distributions or what the actual distributions will be for any future period.

#### **Liquidation Preference**

In the event of our voluntary or involuntary liquidation, dissolution or winding up, the holders of shares of Class E preferred stock will be entitled to be paid out of the assets we have legally available for distribution to our stockholders, subject to the preferential rights of the holders of any class or series of our stock ranking senior to the Class E preferred stock with respect to the distribution of assets upon liquidation, dissolution or winding up, a liquidation preference of \$25.00 per share, plus an amount equal to any accrued and unpaid dividends to the date of payment, before any distribution of assets is made to holders of our common stock or any other class or series of our stock that ranks junior to the Class E preferred stock as to liquidation rights. After payment of the full amount of the liquidating distributions to which they are entitled, holders of Class E preferred stock, as such, will have no further right or claim to any of our remaining assets. For further information regarding the rights of the holders of the Class E preferred stock upon our liquidation, dissolution or winding up, see Description of Preferred Stock Liquidation Preference in the accompanying prospectus.



In determining whether a distribution (other than upon voluntary or involuntary liquidation, dissolution or winding up) by dividend, redemption or other acquisition of shares of our stock or otherwise is permitted under the Maryland General Corporation Law, no effect shall be given to amounts that would be needed, if we would be dissolved at the time of the distribution, to satisfy the preferential rights upon distribution of holders of shares of our Class E preferred stock.

### **Optional Redemption**

The Class E preferred stock is not redeemable by us prior to December , 2011, except that, as provided in the Articles Supplementary, we may purchase or redeem shares of the Class E preferred stock prior to that date in order to preserve our status as a REIT for federal and/or state income tax purposes. See Restrictions on Ownership and Transfer.

On and after December , 2011, we, at our option, upon not less than 30 nor more than 60 days written notice, may redeem shares of the Class E preferred stock, in whole or in part, at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus, subject to exceptions described in the accompanying prospectus under General Description of Preferred Stock Redemption, any accrued and unpaid dividends thereon to the date fixed for redemption. If we elect to redeem any shares of Class E preferred stock, we may use any available cash to pay the redemption price, and we will not be required to pay the redemption price only out of the proceeds from the issuance of other equity securities or any other specific source.

Holders of Class E preferred stock to be redeemed shall surrender the Class E preferred stock at the place designated in the notice of redemption and shall be entitled to the redemption price and any accrued and unpaid dividends payable upon the redemption following the surrender. If notice of redemption of any shares of Class E preferred stock has been given and if we have irrevocably set aside the funds necessary for redemption in trust for the benefit of the holders of the shares of Class E preferred stock so called for redemption, then from and after the redemption date (unless default shall be made by us in providing for the payment of the redemption price plus accrued and unpaid dividends, if any), dividends will cease to accrue on those shares of Class E preferred stock, those shares of Class E preferred stock shall no longer be deemed outstanding and all rights of the holders of those shares will terminate, except the right to receive the redemption price plus accrued and unpaid dividends, if any, payable upon redemption. If any redemption date is not a business day, then the redemption price and accrued and unpaid dividends, if any, payable upon redemption may be paid on the next business day and no interest, additional dividends or other sums will accrue on the amount payable for the period from and after that redemption date to that next business day. If less than all of the outstanding Class E preferred stock is to be redeemed, the Class E preferred stock to be redeemed shall be selected pro rata (as nearly as may be practicable without creating fractional shares) or by any other equitable method we determine but that will not result in the automatic transfer of any shares of Class E preferred stock to a trust as described below under Restrictions on Ownership and Transfer. See General Description of Preferred Stock Redemption in the accompanying prospectus.

### **Voting Rights**

Holders of the Class E preferred stock will not have any voting rights, except as set forth below and in Description of Preferred Stock Voting Rights in the accompanying prospectus. In that regard, the two immediately succeeding paragraphs supersede and replace in their entirety the first paragraph appearing under the caption Description of Preferred Stock Voting Rights in the accompanying prospectus.

Whenever dividends on any shares of Class E preferred stock shall be in arrears for 18 or more monthly dividend periods, whether or not consecutive, the number of directors constituting our board of directors will be automatically increased by two (if not already increased by two by reason of the election of

directors by the holders of any other class or series of our preferred stock upon which like voting rights have been conferred and are exercisable and with which the Class E preferred stock is entitled to vote as a class with respect to the election of those two directors, which may include our Class D preferred stock) and the holders of Class E preferred stock (voting separately as a class with all other classes or series of preferred stock upon which like voting rights have been conferred and are exercisable and which are entitled to vote as a class with the Class E preferred stock in the election of those two directors) will be entitled to vote for the election of those two additional directors at a special meeting called by us at the request of the holders of record of at least 10% of the outstanding shares of Class E preferred stock or by the holders of any other class or series of preferred stock upon which like voting rights have been conferred and are exercisable and which are entitled to vote as a class with the Class E preferred stock in the election of those two directors (unless the request is received less than 90 days before the date fixed for the next annual or special meeting of stockholders, in which case such vote will be held at the earlier of the next annual or special meeting of stockholders), and at each subsequent annual meeting until all dividends accumulated on the Class E preferred stock for all past dividend periods and the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment. In that case, the right of the Class E preferred stock to elect those two directors will cease and, unless there are other classes or series of our preferred stock upon which like voting rights have been conferred and are exercisable, the term of office of the two directors shall automatically terminate and the number of directors constituting the board of directors shall be reduced accordingly.

If a special meeting is not called by us within 30 days after request from the holders of Class E preferred stock as described above, then the holders of record of at least 10% of the outstanding Class E preferred stock may designate a holder to call the meeting at our expense.

On each matter on which holders of Class E preferred stock are entitled to vote, each share of Class E preferred stock will be entitled to one vote, except that when shares of any other class or series of our preferred stock have the right to vote with the Class E preferred stock as a single class on any matter, the Class E preferred stock and the shares of each such other class or series will have one vote for each \$25.00 of liquidation preference (excluding accrued dividends).

Except as expressly stated in the Articles Supplementary or as may be required by applicable law, the Class E preferred stock will not have any relative, participating, optional or other special voting rights or powers and the consent of the holders thereof shall not be required for the taking of any corporate action.

#### **Conversion**

The Class E preferred stock is not convertible into or exchangeable for any of our other property or securities.

#### **Restrictions on Ownership and Transfer**

In order for us to qualify as a REIT under the Internal Revenue Code, no more than 50% in value of our outstanding shares of stock may be owned, actually or constructively, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) during the last half of a taxable year. In addition, if we, or an owner of 10% or more of our shares, actually or constructively owns 10% or more of one of our tenants (or a tenant of any partnership or limited liability company that is treated as a partnership for federal income tax purposes in which we are a partner or member), the rent we receive (either directly or through one or more subsidiaries) from that tenant will not be qualifying income for purposes of the REIT gross income tests of the Internal Revenue Code. A REIT's stock must also be beneficially owned by 100 or more persons during at least 335 days of a taxable year of twelve months or during a proportionate part of a shorter taxable year (other than the first year for which an election to be treated as a REIT has been made).

The Articles Supplementary establishing the terms of the Class E preferred stock contain restrictions on the ownership and transfer of Class E preferred stock which are intended to assist us in complying with these requirements and continuing to qualify as a REIT. The Articles Supplementary establish an ownership limit (the ownership limit ) which provides that, subject to certain specified exceptions, no person or entity may own, or be deemed to own by virtue of the applicable constructive ownership provisions of the Internal Revenue Code, more than 9.8% (by number of shares or value, whichever is more restrictive) of the outstanding shares of Class E preferred stock. The constructive ownership rules are complex, and may cause shares of Class E preferred stock owned actually or constructively by a group of related individuals and/or entities to be constructively owned by one individual or entity. As a result, the acquisition of less than 9.8% of the shares of Class E preferred stock (or the acquisition of an interest in an entity that owns, actually or constructively, Class E preferred stock) by an individual or entity, could, nevertheless cause that individual or entity, or another individual or entity, to own constructively in excess of 9.8% of the outstanding Class E preferred stock and thus violate the ownership limit, or any other limit as permitted by the board of directors. The board of directors may, but in no event will be required to, waive the ownership limit with respect to a particular stockholder if it determines that the ownership will not jeopardize our status as a REIT and the board of directors otherwise decides the action would be in our best interest. As a condition of the waiver, the board of directors may require an opinion of counsel satisfactory to it, a ruling from the Internal Revenue Service and/or undertakings or representations from the applicant with respect to preserving our REIT status.

The Articles Supplementary further prohibit:

- any person from actually or constructively owning shares of our Class E preferred stock that would result in our being closely held under Section 856(h) of the Internal Revenue Code or otherwise cause us to fail to qualify as a REIT; and
- any person from transferring shares of our Class E preferred stock if the transfer would result in shares of our stock being beneficially owned by fewer than 100 persons (determined without reference to any rules of attribution).

Any person who acquires or attempts or intends to acquire actual or constructive ownership of shares of Class E preferred stock in violation of any of the foregoing restrictions on transferability and ownership will be required to give us notice immediately and provide us with any other information we may request in order to determine the effect of the transfer or attempted transfer on our status as a REIT. The foregoing restrictions on transferability and ownership will not apply if the board of directors determines that it is no longer in our best interest to attempt to qualify, or to continue to qualify, as a REIT and such determination is approved by not less than two-thirds of all votes entitled to be cast on the matter as required by the charter.

Pursuant to the Articles Supplementary, if any purported transfer of Class E preferred stock or any other event occurs that, if effective, would result in any person violating the ownership limit or would result in our being closely held under Section 856(h) of the Internal Revenue Code or otherwise failing to qualify as a REIT, then the number of shares (which we sometimes refer to as excess shares ) of Class E preferred stock that would otherwise cause such person to violate the ownership limit or that would result in our being closely held under Section 856(h) of the Internal Revenue Code or otherwise failing to qualify as a REIT will be automatically transferred to a trust for the benefit of a qualified charitable beneficiary selected by us, effective as of the close of business on the business day prior to the date of the purported transfer or other event, and the purported transferee will thereafter have no rights in those excess shares. If, for any reason, the transfer to the charitable trust is not automatically effective, then the purported transfer of the number of shares of Class E preferred stock that would otherwise cause any person to violate the ownership limit or result in our being closely held or cause us to fail as a REIT as aforesaid shall be void and the purported transferee will have no rights in those shares.

Within 20 days of receiving notice from us of the transfer of excess shares to the trust, the trustee of the trust (which shall be designated by us) will be required to sell those excess shares to a person or entity who could own those shares without violating the ownership limit, and distribute to the purported transferee an amount equal to the lesser of

- the price paid by the purported transferee or purported beneficial owner, as the case may be, for those excess shares (or, if the event which resulted in the transfer to the trust did not involve a purchase of Class E preferred stock for fair value, the market price, as defined in the Articles Supplementary, of those shares on the day of the event which resulted in the transfer to the trust) and
- the net sales proceeds received by the trust for those excess shares.

In either case, any proceeds in excess of the amount distributable to the purported transferee will be distributed to the charitable organization that is the beneficiary of the trust, together with any dividends or other distributions thereon.

Prior to a sale of any excess shares by the trust, the trustee will be entitled to receive, in trust for the beneficiary, all dividends and other distributions we have paid with respect to those excess shares, and also will be entitled to exercise all voting rights with respect to those excess shares. Subject to Maryland law, effective as of the date that those shares have been transferred to the trust, the trustee shall have the authority (at the trustee's sole discretion):

- to rescind as void any vote cast by a purported transferee prior to our discovery that the shares have been transferred to the trust; and
- to recast the vote in accordance with the desires of the trustee acting for the benefit of the beneficiary.

However, if we have already taken irreversible corporate action, then the trustee shall not have the authority to rescind and recast its vote. Any dividend or other distribution paid to the purported transferee or other prohibited owner prior to our discovery that the shares had been automatically transferred to a trust as described above will be required to be repaid to the trustee upon demand for distribution to the beneficiary.

In addition, shares of our Class E preferred stock held in the trust shall be deemed to have been offered for sale to us, or our designee, at a price per share equal to the lesser of:

- the price paid in the transaction that resulted in the transfer to the trust (or, if the event which resulted in the transfer to the trust did not involve a purchase of Class E preferred stock for fair value, the market price, as defined, as of the date of that event); or
- the market price on the date we, or our designee, accepts the offer.

We shall have the right to accept the offer until the trustee has sold the shares of stock held in the trust. Upon a sale to us, the interest of the beneficiary in the shares sold shall terminate and the trustee shall distribute the net proceeds of the sale to the purported transferee.

If any purported transfer of shares of Class E preferred stock would cause us to be beneficially owned by fewer than 100 persons, that transfer will be null and void in its entirety and the intended transferee will acquire no rights to the stock. In addition, the Articles Supplementary permit the board of directors to take such action as it deems necessary or advisable to preserve our status as a REIT, including redeeming Class E preferred stock whose ownership or transfer violates the restrictions described above.

All certificates representing shares of Class E preferred stock will bear a legend referring to the restrictions described above.

Each actual or constructive owner of Class E preferred stock is required to provide to us such information as we may request, in good faith, in order to determine our status as a REIT. In addition, as set forth in U.S. Treasury Regulations, all owners of a specified percentage (or more) of our total outstanding shares of stock (regardless of type or class and including the Class E preferred stock) must complete and return to us questionnaires regarding their ownership of our shares. Under current Treasury Regulations, the specified percentage is between 0.5% and 5.0%, depending upon the number of holders of record of our total outstanding shares.

The provisions set forth herein under **Restrictions on Ownership and Transfer** shall apply to the Class E preferred stock notwithstanding any contrary provisions of the Class E preferred stock described elsewhere in this prospectus supplement or the accompanying prospectus.

#### **UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS FOR HOLDERS OF OUR CLASS E PREFERRED STOCK**

The following is a general summary of the material United States federal income tax consequences to you of purchasing, owning and disposing of our Class E preferred stock. This summary is a supplement to, and should be read in connection with, the accompanying prospectus (including the discussion in such prospectus under the heading **United States Federal Income Tax Considerations Related to Our REIT Election** ). This summary is for general information only and is not tax advice.

The information in this summary is based on:

- the Internal Revenue Code of 1986, as amended (the **Code** );
- current, temporary and proposed United States Treasury regulations ( **Treasury Regulations** ) promulgated under the Code;
- the legislative history of the Code;
- current administrative interpretations and practices of the Internal Revenue Service ( **IRS** ); and
- court decisions;

in each case, as of the date of this prospectus supplement. In addition, the administrative interpretations and practices of the IRS include its practices and policies as expressed in private letter rulings that are not binding on the IRS except with respect to the particular taxpayers who requested and received those rulings. Future legislation, Treasury Regulations, administrative interpretations and practices and/or court decisions may adversely affect the tax considerations described in this prospectus supplement. Any such change could apply retroactively to transactions preceding the date of the change. We have not requested, and do not plan to request, any rulings from the IRS concerning our tax treatment, and the statements in this prospectus supplement are not binding on the IRS or any court. Thus, we can provide no assurance that the tax considerations contained in this summary will not be challenged by the IRS or will be sustained by a court if challenged by the IRS. This summary does not discuss any state, local or foreign tax considerations.

**You are urged to consult your tax advisors regarding the tax consequences to you of:**

- **the acquisition, ownership and sale or other disposition of the Class E preferred stock offered under this prospectus supplement, including the federal, state, local, foreign and other tax consequences;**
- **our election to be taxed as a REIT for United States federal income tax purposes; and**
- **potential changes in the tax laws.**

## Edgar Filing: REALTY INCOME CORP - Form 424B5

The following summary describes the principal United States federal income tax consequences to you of purchasing, owning and disposing of our Class E preferred stock. This summary deals only with Class E preferred stock held as a capital asset (generally, property held for investment within the meaning of Section 1221 of the Code). This discussion assumes that the Class E preferred stock will properly be treated as equity (and not indebtedness) for United States federal income tax purposes. It does not address all the tax consequences that may be relevant to you in light of your particular circumstances. In addition, this discussion does not consider all of the rules which may affect the United States federal income tax treatment of your investment in our Class E preferred stock in light of your particular circumstances. For example, special rules not discussed here may apply to:

- financial institutions, banks and thrifts;
- insurance companies;
- tax-exempt organizations;
- S corporations;
- traders in securities that elect to mark to market;
- persons holding the Class E preferred stock through a partnership or other pass-through entity;
- stockholders subject to the alternative minimum tax;
- regulated investment companies and real estate investment trusts;
- broker-dealers or dealers in securities or currencies;
- stockholders who are neither residents or citizens of the United States, or that are foreign corporations or foreign estates or trusts for United States federal income tax purposes;
- United States expatriates;
- persons holding our Class E preferred stock as a hedge against currency risks, as part of a conversion or integrated transaction, or as a position in a straddle; and
- U.S. stockholders (as defined below) whose functional currency is not the United States dollar.

If you are considering purchasing our Class E preferred stock, you should consult your tax advisors concerning the application of United States federal income tax laws to your particular situation as well as any consequences of the purchase, ownership and disposition of our Class E preferred stock arising under the laws of any state, local or foreign taxing jurisdiction.

When we use the term U.S. stockholder, we mean a holder of shares of our Class E preferred stock that, for United States federal income tax purposes:

- is a citizen or resident of the United States;
- is a corporation, partnership, limited liability company or other entity treated as a corporation or partnership for United States federal income tax purposes created or organized in or under the laws of the United States or of any state thereof or in the District of Columbia unless, in the case of a partnership, limited liability company, or other entity treated as a partnership for United States federal income tax purposes, Treasury Regulations provide otherwise;
- is an estate the income of which is subject to United States federal income taxation regardless of its source; or

- is a trust whose administration is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial

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decisions of the trust. Notwithstanding the preceding sentence, to the extent provided in the Treasury Regulations, certain trusts in existence on August 20, 1996, and treated as United States persons prior to this date that elect to continue to be treated as United States persons, shall also be considered U.S. stockholders.

If you hold shares of our Class E preferred stock and are not a U.S. stockholder, you are a non-U.S. stockholder.

### **Taxation of Taxable U.S. Stockholders Generally**

*Distributions Generally.* Distributions out of our current or accumulated earnings and profits will be treated as dividends and, other than with respect to capital gain dividends and certain amounts which have previously been subject to corporate level tax discussed below, will be taxable to our taxable U.S. stockholders as ordinary income. See *Tax Rates* below. As long as we qualify as a REIT, these distributions will not be eligible for the dividends-received deduction in the case of U.S. stockholders that are corporations. For purposes of determining whether distributions to holders of Class E preferred stock are out of current or accumulated earnings and profits, our earnings and profits will be allocated first to distributions on our outstanding preferred stock and then to distributions on our outstanding common stock.

To the extent that we make distributions on our Class E preferred stock in excess of our current and accumulated earnings and profits, these distributions will be treated first as a tax-free return of capital to a U.S. stockholder. This treatment will reduce the adjusted tax basis which the U.S. stockholder has in its shares of preferred stock by the amount of the distribution, but not below zero. Distributions in excess of our current and accumulated earnings and profits and in excess of a U.S. stockholder's adjusted tax basis in its shares will be taxable as capital gain. Such gain will be taxable as long-term capital gain if the shares have been held for more than one year. Dividends we declare in October, November, or December of any year and which are payable to a stockholder of record on a specified date in any of these months will be treated as both paid by us and received by the stockholder on December 31 of that year, provided we actually pay the dividend on or before January 31 of the following year. U.S. stockholders may not include in their own income tax returns any of our net operating losses or capital losses.

*Capital Gain Dividends.* Distributions that we properly designate as capital gain dividends will be taxable to our taxable U.S. stockholders as gain from the sale or disposition of a capital asset, to the extent that such gain does not exceed our actual net capital gain for the taxable year. Depending on the characteristics of the assets which produced these gains, and on specified designations, if any, which we may make, these gains may be taxable to non-corporate U.S. stockholders at a 15% or 25% rate. U.S. stockholders that are corporations may, however, be required to treat up to 20% of some capital gain dividends as ordinary income. If, for any taxable year, we designate as a capital gain dividend, as defined in Section 857 of the Code, any portion (the *Capital Gains Amount*) of the dividends, as determined for United States federal income tax purposes, paid or made available for that year to holders of all classes of our stock, then, except as otherwise required by applicable law, the portion of the Capital Gains Amount that shall be allocable to the holders of the Class E preferred stock will be in proportion to the amount that the total dividends, as determined for United States federal income tax purposes, paid or made available to holders of Class E preferred stock for the year bear to the total dividends paid or made available for that year to holders of all classes of our stock. In addition, except as otherwise required by applicable law, we will make a similar allocation with respect to any undistributed long-term capital gains which are to be included in our stockholders' long-term capital gains, based on the allocation of the Capital Gains Amount which would have resulted if those undistributed long-term capital gains had been distributed as capital gain dividends by us to our stockholders.



*Passive Activity Losses and Investment Interest Limitations.* Distributions we make and gain arising from the sale or exchange by a U.S. stockholder of our shares will not be treated as passive activity income. As a result, U.S. stockholders generally will not be able to apply any passive losses against this income or gain. A U.S. stockholder may elect to treat capital gain dividends, capital gains from the disposition of stock and qualified dividend income as investment income for purposes of computing the investment interest limitation, but in such case, the stockholder will be taxed at ordinary income rates on such amount. Other distributions made by us, to the extent they do not constitute a return of capital, generally will be treated as investment income for purposes of computing the investment interest limitation.

*Retention of Net Capital Gains.* We may elect to retain, rather than distribute as a capital gain dividend, all or a portion of our net capital gains. If we make this election, we would pay tax on our retained net capital gains. In addition, to the extent we so elect, a U.S. stockholder generally would:

- include its pro rata share of our undistributed net capital gains in computing its long-term capital gains in its return for its taxable year in which the last day of our taxable year falls, subject to certain limitations as to the amount that is includable;
- be deemed to have paid the capital gains tax imposed on us on the designated amounts included in the U.S. stockholder's long-term capital gains;
- receive a credit or refund for the amount of tax deemed paid by it;
- increase the adjusted basis of its Class E preferred stock by the difference between the amount of includable gains and the tax deemed to have been paid by it; and
- in the case of a U.S. stockholder that is a corporation, appropriately adjust its earnings and profits for the retained capital gains in accordance with Treasury Regulations to be promulgated by the IRS.

*Dispositions of Our Class E Preferred Stock.* If a U.S. stockholder sells or disposes of shares of Class E preferred stock to a person other than us, it will recognize gain or loss for United States federal income tax purposes in an amount equal to the difference between the amount of cash and the fair market value of any property received on the sale or other disposition and the holder's adjusted basis in the shares for tax purposes. This gain or loss, except as provided below, will be long-term capital gain or loss if the holder has held the Class E preferred stock for more than one year. In general, if a U.S. stockholder recognizes loss upon the sale or other disposition of Class E preferred stock that it has held for six months or less, after applying certain holding period rules, the loss recognized will be treated as a long-term capital loss to the extent the U.S. stockholder received distributions from us which were required to be treated as long-term capital gains.

*Redemption of Class E Preferred Stock.* A redemption of shares of the Class E preferred stock will be treated under Section 302 of the Code as a distribution taxable as a dividend to the extent of our current and accumulated earnings and profits at ordinary income rates unless the redemption satisfies one of the tests set forth in Section 302(b) of the Code and is therefore treated as a sale or exchange of the redeemed shares. The redemption will be treated as a sale or exchange if it:

- is substantially disproportionate with respect to the U.S. stockholder;
- results in a complete termination of the U.S. stockholder's stock interest in us; or
- is not essentially equivalent to a dividend with respect to the U.S. stockholder,

all within the meaning of Section 302(b) of the Code.

In determining whether any of these tests have been met, shares of capital stock, including common stock and other equity interests in us, considered to be owned by the U.S. stockholder by reason of certain

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constructive ownership rules set forth in the Code, as well as shares of our capital stock actually owned by the U.S. stockholder, must generally be taken into account. Because the determination as to whether any of the alternative tests of Section 302(b) of the Code will be satisfied with respect to the U.S. stockholder depends upon the facts and circumstances at the time that the determination must be made, U.S. stockholders are advised to consult their tax advisors to determine such tax treatment.

If a redemption of shares of the Class E preferred stock is treated as a distribution taxable as a dividend, the amount of the distribution will be measured by the amount of cash and the fair market value of any property received. See **Distributions Generally**. A U.S. stockholder's adjusted basis in the redeemed shares of the Class E preferred stock for tax purposes will be transferred to its remaining shares of our capital stock, if any. If a U.S. stockholder owns no other shares of our capital stock, such basis may, under certain circumstances, be transferred to a related person or it may be lost entirely.

If a redemption of shares of the Class E preferred stock is not treated as a distribution taxable as a dividend, it will be treated as a taxable sale or exchange in the manner described under **Dispositions of Our Class E Preferred Stock**.

### **Tax Rates**

The maximum tax rate for non-corporate taxpayers for (1) capital gains, including certain capital gain dividends, has generally been reduced to 15% (although depending on the characteristics of the assets which produced these gains and on designations which we may make, certain capital gain dividends may be taxed at a 25% rate) and (2) qualified dividend income has generally been reduced to 15%. In general, dividends payable by REITs are not eligible for the reduced tax rate on corporate dividends, except to the extent that certain holding requirements have been met and the REIT's dividends are attributable to dividends received from taxable corporations (such as its taxable REIT subsidiaries) or to income that was subject to tax at the corporate/REIT level (for example, if it distributed taxable income that it retained and paid tax on in the prior taxable year). The currently applicable provisions of the United States federal income tax laws relating to the 15% tax rate are currently scheduled to sunset or revert to the provisions of prior law effective for taxable years beginning after December 31, 2010, at which time the capital gains tax rate will be increased to 20% and the rate applicable to dividends will be increased to the tax rate then applicable to ordinary income.

### **Backup Withholding**

We report to our U.S. stockholders and the IRS the amount of dividends paid during each calendar year, and the amount of any tax withheld. Under the backup withholding rules, a stockholder may be subject to backup withholding with respect to dividends paid unless the holder is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact, or provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding, and otherwise complies with applicable requirements of the backup withholding rules. A U.S. stockholder that does not provide us with its correct taxpayer identification number may also be subject to penalties imposed by the IRS. Backup withholding is not an additional tax. Any amount paid as backup withholding will be creditable against the stockholder's United States federal income tax liability.

### **Taxation of Tax Exempt Stockholders**

Dividend income from us and gain arising upon a sale of Class E preferred stock generally will not be unrelated business taxable income to a tax-exempt stockholder, except as described below. This income or gain will be unrelated business taxable income, however, if a tax-exempt stockholder holds its shares as debt-financed property within the meaning of the Code or if the shares are used in a trade or business of

the tax-exempt stockholder. Generally, debt-financed property is property the acquisition or holding of which was financed through a borrowing by the tax-exempt stockholder.

For tax-exempt stockholders which are social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, or qualified group legal services plans exempt from United States federal income taxation under Sections 501(c)(7), (c)(9), (c)(17) or (c)(20) of the Code, respectively, income from an investment in our Class E preferred stock will constitute unrelated business taxable income unless the organization is able to properly claim a deduction for amounts set aside or placed in reserve for specific purposes so as to offset the income generated by its investment in our shares. These prospective investors should consult their tax advisors concerning these set aside and reserve requirements.

Notwithstanding the above, however, a portion of the dividends paid by a pension-held REIT may be treated as unrelated business taxable income as to certain trusts that hold more than 10%, by value, of the interests in the REIT. A REIT will not be a pension-held REIT if it is able to satisfy the not closely held requirement described in the accompanying prospectus under the heading United States Federal Income Tax Considerations Related to Our REIT Election, without relying on the look-through exception with respect to certain trusts or if such REIT is not predominantly held by qualified trusts. As a result of limitations on the transfer and ownership of stock contained in our charter, we do not expect to be classified as a pension-held REIT, and as a result, the tax treatment described in this paragraph should be inapplicable to our stockholders. However, because our stock is publicly traded, we cannot guarantee that this will always be the case.

### **Taxation of Non-U.S. Stockholders**

The preceding discussion does not address the rules governing United States federal income taxation of the ownership and disposition of our Class E preferred stock by persons that are non-U.S. stockholders. In general, non-U.S. stockholders may be subject to special tax withholding requirements on distributions from us and with respect to their sale or other disposition of our Class E preferred stock, except to the extent reduced or eliminated by an income tax treaty between the United States and the non-U.S. stockholder's country of residence. A non-U.S. stockholder that is a stockholder of record and is eligible for reduction or elimination of withholding must file an appropriate form with us in order to claim such treatment. Non-U.S. stockholders should consult their own tax advisors concerning the United States federal income tax consequences to them of an acquisition of shares of our Class E preferred stock, including the United States federal income tax treatment of dispositions of interests in and the receipt of distributions from us.

### **Other Tax Consequences**

State, local and foreign income tax laws may differ substantially from the corresponding United States federal income tax laws, and this discussion does not purport to describe any aspect of the tax laws of any state, local or foreign jurisdiction. You should consult your tax advisors regarding the effect of state, local and foreign tax laws with respect to our tax treatment as a REIT and on an investment in our Class E preferred stock.

**UNDERWRITING**

Subject to the terms and conditions contained in a purchase agreement between us and each of the underwriters named below, for whom Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Wachovia Capital Markets, LLC are acting as book-running managers, we have agreed to sell to the underwriters, and the underwriters have severally agreed to purchase from us, the number of shares of Class E preferred stock listed opposite their names below.

| <b>Underwriter</b>   | <b>Number of Shares</b> |
|--|-------------------------|
| Citigroup Global Markets Inc.                                  |                         |
| Merrill Lynch, Pierce, Fenner & Smith Incorporated             |                         |
| Wachovia Capital Markets, LLC                                  |                         |
| A.G. Edwards & Sons, Inc.                                      |                         |
| UBS Securities LLC   |                         |
| Banc of America Securities LLC                                 |                         |
| Credit Suisse Securities (USA) LLC                             |                         |
| Raymond James & Associates, Inc.                               |                         |
| RBC Capital Markets Corporation                                |                         |
| Robert W. Baird & Co. Incorporated                             |                         |
| BNY Capital Markets, Inc.                                      |                         |
| BB&T Capital Markets, a division of Scott & Stringfellow, Inc. |                         |
| J.P. Morgan Securities Inc.                                    |                         |
| Stifel, Nicolaus & Company, Incorporated                       |                         |
| Wells Fargo Securities, LLC                                    |                         |
|  |                         |
|  |                         |
| <b>Total</b>   |                         |

The purchase agreement provides that the obligations of the several underwriters to purchase the shares offered hereby are subject to certain conditions and that the underwriters will purchase all of the shares offered by this prospectus supplement if any of these shares are purchased. If an underwriter defaults, the purchase agreement provides that the purchase commitments of the non-defaulting underwriters may be increased or the purchase agreement may be terminated.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel and other conditions contained in the purchase agreement, such as the receipt by the underwriters of officers' certificates. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, and to contribute to payments the underwriters may be required to make in respect of any of these liabilities.

**Commissions and Discounts**

The representatives of the underwriters have advised us that the underwriters propose initially to offer the shares of Class E preferred stock to the public at the public offering price listed on the cover page of this

prospectus supplement and to dealers at that price less a concession not in excess of \$      per share for (or, in the case of sales to certain institutions, less a concession not in excess of \$      per share). The underwriters may allow, and the dealers may reallocate, a discount not in excess of \$      per share to other dealers. After the initial public offering, the public offering price, concessions and discount may be changed.

The following table shows the underwriting discounts that we are to pay to the underwriters in connection with this offering. As reflected in the following table, the underwriting discount will be \$      per share, except that, for sales to certain institutions, the underwriting discount will be \$      per share. The underwriting discount per share on the front cover of this prospectus supplement is a weighted average of the underwriting discounts per share in the following table and may reflect rounding. The total underwriting discount shown on the front cover of this prospectus and in the following table reflects the actual total underwriting discount that we are to pay to the underwriters. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares of Class E preferred stock.

|   | No Exercise | Full Exercise |
|---|-------------|---------------|
| Per share                                     | \$          | \$            |
| Per share (for sales to certain institutions) | \$          | \$            |
| Total   | \$          | \$            |

The expenses of this offering, not including the underwriting discounts, are estimated at \$500,000 and are payable by Realty Income.

**Over-allotment Option**

We have granted an option to the underwriters to purchase up to      additional shares of Class E preferred stock at the initial public offering price less an underwriting discount of \$      per share. The underwriters may exercise this option for 30 days from the date of this prospectus supplement solely to cover any over-allotments. If the underwriters exercise this option, each underwriter will be obligated, subject to conditions contained in the purchase agreement, to purchase approximately the same percentage of those additional shares that the number of shares of Class E preferred stock to be purchased by that underwriter as shown in the above table represents as a percentage of the total number of shares shown in that table.

**No Sale of Similar Securities**

We have agreed not to sell or transfer, among other things, any Class E preferred stock or other preferred stock for 30 days after the date of this prospectus supplement without first obtaining the written consent of Citigroup Global Markets Inc. Specifically, we have agreed not to directly or indirectly:

- offer, pledge, sell or contract to sell any Class E preferred stock or other preferred stock;
- sell any option or contract to purchase any Class E preferred stock or other preferred stock;
- purchase any option or contract to sell any Class E preferred stock or other preferred stock;
- grant any option, right or warrant to purchase any Class E preferred stock or other preferred stock;
- otherwise transfer or dispose of any Class E preferred stock or other preferred stock; or
- enter into any swap or other agreement or transaction that transfers, in whole or in part, the economic consequence of ownership of any Class E preferred stock or other preferred stock,



whether any such swap, agreement or transaction is to be settled by delivery of Class E preferred stock or other securities, in cash or otherwise.

This lock-up provision applies to Class E preferred stock and other preferred stock and to securities convertible into or exchangeable or exercisable for Class E preferred stock or other preferred stock. Citigroup Global Markets Inc. may, in its sole discretion and at any time or from time to time, without notice, release all or any of the shares or other securities subject to this lock-up provision.

### **New York Stock Exchange Listing**

Currently no market exists for the Class E preferred stock. We intend to file an application to list the Class E preferred stock on the NYSE. If approved for listing, we expect that trading of the Class E preferred stock on the NYSE will commence within 30 days after the date of initial issuance of the Class E preferred stock. We cannot assure you that a trading market on the NYSE for the Class E preferred stock will develop or, even if one develops, that it will be maintained or will provide you with adequate liquidity. The underwriters have advised us that they intend to make a market in the Class E preferred stock prior to the commencement of trading on the NYSE. However, the underwriters have no obligation to do so, and may discontinue any market making in the Class E preferred stock at any time without notice. Accordingly, we cannot assure you that a market for the Class E preferred stock will develop prior to commencement of trading on the NYSE or, if a market develops, that it will be maintained or will provide you with adequate liquidity.

### **Price Stabilization and Short Positions**

Until the distribution of the Class E preferred stock is completed, Securities and Exchange Commission rules may limit the underwriters and selling group members from bidding for or purchasing our Class E preferred stock. However, the underwriters may engage in transactions that stabilize the price of the Class E preferred stock, such as bids or purchases to peg, fix or maintain that price.

If the underwriters create a short position in the Class E preferred stock in connection with the offering, i.e., if they sell more shares of Class E preferred stock than are listed on the cover of this prospectus supplement, the underwriters may reduce that short position by purchasing shares in the open market. The underwriters may also elect to reduce any short position by exercising all or part of the over-allotment option described above. Purchases of the Class E preferred stock to stabilize its price or to reduce a short position may cause the price of the Class E preferred stock to be higher than it might be in the absence of such purchases.

In addition, the underwriting syndicate may also reclaim selling concessions allowed to an underwriter or a dealer for distributing Class E preferred stock in this offering if the syndicate repurchases previously distributed Class E preferred stock to cover syndicate short positions or to stabilize the price of the Class E preferred stock.

Neither we, nor any of the underwriters, makes any representation or prediction as to the direction or the magnitude of any effect that the transactions described above, if commenced, may have on the price of our Class E preferred stock. In addition, neither we, nor any of the underwriters, makes any representation that the underwriters will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

### **Delayed Settlement**

We expect that the delivery of the Class E preferred stock will be made against payment therefor on or about the closing date specified on the cover page of this prospectus supplement, which will be the business day following the date of this prospectus supplement. Under rules of the SEC, trades in the



secondary market generally are required to settle in three business days, unless the parties to that trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Class E preferred stock before the third business day prior to the closing date specified on the cover page of this prospectus supplement will be required, by virtue of the fact that the normal settlement date for that trade would occur prior to the closing date for the issuance of the Class E preferred stock, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement, and should consult their own advisors with respect to these matters.

#### **Electronic Distribution**

A prospectus supplement and prospectus in electronic format may be made available on websites maintained by one or more of the underwriters. Other than the electronic prospectus supplement and prospectus, the information on any such website is not part of this prospectus supplement or the accompanying prospectus. The underwriters may agree to allocate a number of shares for sale to their online brokerage account holders.

#### **Other Relationships**

Some of the underwriters and/or their affiliates have provided and in the future may continue to provide investment banking, commercial banking and/or other financial services, including in some cases the provision of credit facilities, to us in the ordinary course of business for which they have received and may in the future receive compensation. In particular, affiliates of some of the underwriters participating in this offering are lenders under our \$300 million credit facility and therefore will receive a portion of the net proceeds from this offering through the repayment of borrowings under that facility.

#### **LEGAL MATTERS**

The validity of the Class E preferred stock offered hereby will be passed upon for us by Venable LLP, Baltimore, Maryland. Certain legal matters relating to this offering will be passed upon for us by Latham & Watkins LLP, Costa Mesa, California. Sidley Austin LLP, San Francisco, California will act as counsel for the underwriters. William J. Cernius, a partner of Latham & Watkins LLP, beneficially owns 8,652 shares of our common stock. Eric S. Haueter, a partner of Sidley Austin LLP, beneficially owns approximately 7,132 shares of our common stock and \$10,000 aggregate principal amount of our 8 $\frac{1}{4}$ % Monthly Income Senior Notes due 2008. Paul C. Pringle, a partner of Sidley Austin LLP, beneficially owns approximately 51,510 shares of our common stock.

#### **EXPERTS**

The consolidated financial statements and schedule of Realty Income Corporation and subsidiaries as of December 31, 2005 and 2004, and for each of the years in the three-year period ended December 31, 2005, and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005, have been incorporated by reference in the accompanying prospectus in reliance upon the reports of KPMG LLP, independent registered public accounting firm, incorporated by reference therein, and upon the authority of said firm as experts in accounting and auditing.

#### **INCORPORATION BY REFERENCE**

As described in the accompanying prospectus under the caption *Incorporation by Reference*, we have incorporated by reference in the accompanying prospectus specified documents that we have filed or may file with the SEC under the Securities Exchange Act of 1934. However, no document or information that we have furnished or may in the future furnish with the SEC pursuant to the Exchange Act shall be incorporated by reference into this prospectus supplement or the accompanying prospectus.

## PROSPECTUS

### REALTY INCOME CORPORATION

#### Debt Securities, Preferred Stock and Common Stock

Realty Income Corporation, a Maryland corporation, may from time to time offer in one or more series (1) our debt securities, (2) shares of our preferred stock, \$1.00 par value per share, or (3) shares of our common stock, \$1.00 par value per share, on terms to be determined at the time of the offering. Our debt securities, our preferred stock and our common stock (collectively referred to as our securities), may be offered, separately or together, in separate series, in amounts, at prices and on terms that will be set forth in one or more prospectus supplements to this prospectus or other offering materials.

The specific terms of the securities with respect to which this prospectus is being delivered will be set forth in the applicable prospectus supplement or other offering materials and will include, where applicable:

- in the case of our debt securities, the specific title, aggregate principal amount, currency, form (which may be registered, bearer, certificated or global), authorized denominations, maturity, rate (or manner of calculating the rate) and time of payment of interest, terms for redemption at our option or repayment at the holder's option, terms for sinking fund payments, terms for conversion into shares of our preferred stock or common stock, covenants and any initial public offering price;
- in the case of our preferred stock, the specific designation, preferences, conversion and other rights, voting powers, restrictions, limitations as to transferability, dividends and other distributions and terms and conditions of redemption and any initial public offering price; and
- in the case of our common stock, any initial public offering price.

In addition, the specific terms may include limitations on actual, beneficial or constructive ownership and restrictions on transfer of the securities, in each case as may be appropriate to preserve our status as a real estate investment trust, or REIT, for federal income tax purposes. The applicable prospectus supplement or other offering materials will also contain information, where applicable, about United States federal income tax considerations, and any exchange listing of the securities covered by the prospectus supplement or other offering materials, as the case may be.

**Investing in our securities involves risks. See Risk Factors in our most recent Annual Report on Form 10-K, and any subsequent Quarterly Reports on Form 10-Q, which are incorporated by reference in this prospectus.**

Our common stock is traded on the New York Stock Exchange under the symbol O. On April 10, 2006, the last reported sale price of the common stock was \$22.49 per share.

Our securities may be offered directly, through agents designated from time to time by us, or to or through underwriters or dealers. If any agents or underwriters are involved in the sale of any of our securities, their names, and any applicable purchase price, fee, commission or discount arrangement between or among them, will be set forth in the applicable prospectus supplement or other offering materials.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

The date of this prospectus is April 12, 2006.

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**ABOUT THIS PROSPECTUS**

This prospectus is part of an automatic shelf registration statement that we filed with the SEC as a well-known seasoned issuer as defined in Rule 405 under the Securities Act of 1933, as amended.