REALTY INCOME CORP
Form DEF 14A
April 03, 2017

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:
Preliminary Proxy Statement
Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material Under Rule 14a-12

Realty Income Corporation
(Name of the Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):
No fee required.
Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

2017 PROXY STATEMENT

April 3, 2017

Dear Stockholder:

You are cordially invited to attend our 2017 Annual Meeting of Stockholders (the Annual Meeting) to be held at 9:00 a.m., Pacific Time on May 16, 2017 at the San Diego Marriott Del Mar, 11966 El Camino Real, San Diego, California 92130.

The business that will be conducted at the Annual Meeting is described in the Notice of the 2017 Annual Meeting of Stockholders and Proxy Statement.

We are pleased with the company's performance in 2016, with solid earnings growth and stockholder returns. We invested a record $1.86 billion in high-quality real estate properties, funded the acquisitions with attractively priced permanent and long-term capital, and actively managed our portfolio to maximize value. In 2016, we also surpassed $1 billion in rental revenue generated from our real estate portfolio, a significant milestone representing the growth and achievement of our company.

As The Monthly Dividend Company®, we remain committed to our mission of providing our stockholders with monthly dividends that increase over time. During 2016, we paid twelve monthly dividends and increased the dividend per share by 5.3% over 2015. I would like to thank our team members for their continued hard work and dedication in achieving our mission. We remain focused on continuing our positive momentum into 2017 and beyond.

We encourage you to review the information contained in the Proxy Statement. It is meant to provide an overview of the company's achievements during the year, including further improvements to the company's compensation program and enhancements to our corporate governance practices. After your review, we hope that you will vote at the meeting (either in person or by proxy) in accordance with the Board of Directors' recommendations.

Your vote is important to us and we appreciate your continued support of our company.

Sincerely,

**John P. Case**
*Chief Executive Officer*
*Director, Board of Directors*

**Notice of the 2017**
**Annual Meeting of Stockholders**

NOTICE IS HEREBY GIVEN that the 2017 Annual Meeting of Stockholders (the Annual Meeting) of Realty Income Corporation, a Maryland corporation (the company), will be held as follows:

*MEETING DATE:* **Tuesday, May 16, 2017**
*MEETING TIME:* **9:00 a.m., Pacific Time**
*LOCATION:* **San Diego Marriott Del Mar**
**11966 El Camino Real, San Diego, California 92130**

***RECORD DATE:*** You may vote if you were a holder of record of our common stock at the close of business on March 9, 2017.

***ITEMS OF BUSINESS:***

1. The election of eight director nominees named in this Proxy Statement to serve until the 2018 annual meeting of stockholders and until their respective successors are duly elected and qualify.
2. The ratification of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2017.
3. A non-binding advisory proposal to approve the compensation of our named executive officers as described in this Proxy Statement.
4. A non-binding advisory vote to approve the frequency of future non-binding advisory votes by stockholders on the compensation of our named executive officers.
5. The transaction of such other business as may properly come before the Annual Meeting or any postponement or adjournment of the Annual Meeting.

The Proxy Statement following this Notice describes these matters in detail. We have not received notice of any other proposals to be presented at the Annual Meeting. At the Annual Meeting, management will report on the current activities of the company and comment on its future plans. A discussion period is planned so that stockholders will have an opportunity to ask questions and make appropriate comments. All presentation materials shared at the Annual Meeting will be made available on the company’s website at www.realtyincome.com.

***PROXY VOTING:*** **Your vote is important.** Whether or not you plan to attend our Annual Meeting, we urge you to submit your proxy as soon as possible to ensure your shares are represented and voted at our Annual Meeting. You may authorize a proxy to vote your shares by telephone, via the Internet, or—if you have received and/or requested paper copies of our proxy materials by mail—by signing, dating and returning the proxy card in the envelope provided. If you attend the Annual Meeting, you may, if you wish, withdraw your proxy and vote in person.

No person is authorized to make any representation with respect to the matters described in this Proxy Statement other than those contained herein and, if given or made, such information or representation must not be relied upon as having been authorized by us or any other person.

You are encouraged to read this Proxy Statement in its entirety before voting.

By Order of the Board of Directors,

**Michael R. Pfeiffer**

*Executive Vice President, General Counsel and Secretary*

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**Proxy Summary**

The Board of Directors of Realty Income Corporation, a Maryland corporation, is soliciting proxies for the 2017 Annual Meeting of Stockholders (the Annual Meeting) and any postponement or adjournment of the Annual Meeting. This Proxy Summary provides an overview of the proposals to be considered at the Annual Meeting and information contained in the Proxy Statement, but does not contain all of the information that should be considered before voting. We encourage you to read this Proxy Statement in its entirety before voting.

| | |
|---|---|
| **Meeting Date:** | Tuesday, May 16, 2017 |
| **Time:** | 9:00 a.m., Pacific Time |
| **Location:** | San Diego Marriott Del Mar<br>11966 El Camino Real<br>San Diego, California 92130 |
| **Record Date:** | March 9, 2017 |

***How to Vote***

On or about April 6, 2017, we will mail or e-mail a copy of our Proxy Statement, proxy card, and 2016 Annual Report (collectively Proxy Materials) to our stockholders according to their previously indicated preference. Some of our stockholders will be mailed a Notice of Availability of Proxy Materials which contains instructions on how to request and receive a paper or e-mailed copy of our Proxy Statement and 2016 Annual Report, and how to view these materials online. All methods of correspondence will provide stockholders with instructions on how to vote or authorize a proxy to vote using any of the following methods:

| By Internet: | By Toll-Free Telephone: | By Mail: | In Person: |
|---|---|---|---|
| www.proxyvote.com<br>24/7 through May 15, 2017 | 1-800-690-6903<br>24/7 through May 15, 2017 | Request, complete and return a proxy card by pre-paid mail | Complete a ballot at the Annual Meeting |

**Beneficial Stockholders:** If your shares of common stock are held by a bank, broker or other holder of record, please follow the instructions you receive from your bank, broker or other nominee on how to vote your shares of common stock at our Annual Meeting.

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting to be Held on May 16, 2017:** This Proxy Statement and our 2016 Annual Report are available on our website at http://investors.realtyincome.com/annual-reports-meetings. You can also view these materials at www.proxyvote.com by using the control number that is provided to you either on your proxy card, in your e-mailed Proxy Materials, or on your Notice of Availability of Proxy Materials. You are encouraged to access and review all of the information contained in the Proxy Materials before voting.

***Proposal Guide***

| **PROPOSAL** | **PAGE** | **BOARD VOTE RECOMMENDATION** |
|---|---|---|
| **PROPOSAL 1 – ELECTION OF DIRECTORS**<br>Our Board of Directors believes that the eight director nominees named herein contribute the breadth of knowledge and experience needed for the advancement of our business strategies and objectives | **4** | **For** |
| **PROPOSAL 2 – RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**<br>The Audit Committee of our Board of Directors has appointed KPMG LLP as the independent registered public accounting firm for the year ending December 31, 2017 and requests stockholders to ratify, confirm, and approve the appointment | **4** | **For** |
| **PROPOSAL 3 – ADVISORY VOTE TO APPROVE THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS**<br>Our Board of Directors believes our compensation program is appropriately structured to reward our named executive officers for the continued performance of the company, encourage a disciplined approach to management, and maintain focus on the creation of long-term value for our stockholders | **5** | **For** |
| **PROPOSAL 4 – ADVISORY VOTE ON THE FREQUENCY OF FUTURE ADVISORY VOTES BY STOCKHOLDERS ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS**<br>Our Board of Directors believes an advisory vote to approve executive compensation every one year will lead to a more meaningful and coherent communication between the company and our stockholders on the compensation of our named executive officers | **6** | **For Every One Year** |

*Proxy Summary*

***2016 Performance Highlights***

EARNINGS AND DIVIDEND GROWTH – We surpassed $1.0 billion in rental revenue in 2016 by completing a company-record-high volume of property acquisitions and actively managing our portfolio to maximize value. These activities contributed to healthy 2016 earnings growth, including net income of $1.13 per share and AFFO of $2.88 per share, supporting the payment of multiple dividend increases throughout 2016. Our focus on providing dependable monthly dividends that increase over time helps drive strong total shareholder return (TSR) performance year over year.

(1) *For a calculation of Adjusted Funds from Operations (AFFO) per share, see page 47 of our Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 23, 2017, which also includes a Generally Accepted Accounting Principles (GAAP) reconciliation of this non-GAAP measure.*

(2) *Realty Income TSR does not include reinvestment of dividends. Our TSR would be 15.8% assuming the compounded reinvestment of dividends on the ex-dividend date. Data sourced from FactSet as of December 31, 2016.*

BALANCE SHEET – As we grow our earnings and dividend, we remain committed to managing our balance sheet in a conservative manner.

PORTFOLIO OCCUPANCY – The quality of our real estate portfolio as well as the experience of our team led to another year of consistently high portfolio occupancy.

***Proxy Summary***

***Corporate Governance Highlights***

We remain committed to managing the company for the benefit of our stockholders and maintaining good corporate governance practices. In 2017, we further enhanced our corporate governance practices by instituting an 18-month minimum vesting provision on stock option and stock appreciation rights. In addition to this enhancement, we continue to uphold the following features of our corporate governance practices to maintain the company's reputation for integrity and serving its stockholders responsibly:

ü All directors are subject to an annual election with a majority voting standard.
ü Our Board of Directors is structured with a separate independent Chairman and Chief Executive Officer (CEO).
ü All directors with the exception of our CEO are independent, and all members of our Audit, Compensation, Nominating/Corporate Governance, and Technology Risk committees are independent.
ü Our directors conduct annual self-evaluations and participate in orientation and continuing education programs in accordance with our Corporate Governance Guidelines.
ü Our Board of Directors conducts an annual Enterprise Risk Management process to identify and assess management's visibility into company risk.
ü Our directors, officers, and other employees are subject to a Code of Business Ethics to ensure our business is conducted in accordance with the highest standards of moral and ethical behavior.
ü Our Board of Directors has adopted a "whistleblower" policy to provide a line of communication to directors for anonymously reporting concerns.
ü Our directors, officers, other employees and their family members are subject to anti-hedging and anti-pledging policies to ensure they are not engaging in any transaction that might allow them to realize gains from declines in our securities.
ü Our Board of Directors has voluntarily adopted a formal clawback policy in accordance with the Dodd-Frank Act.
ü Our directors and named executive officers have minimum stock ownership requirements to closely align the interests of these individuals with the interests of our stockholders.
ü The restricted stock and restricted stock unit awards for our named executive officers have double-trigger provisions, so that both a change in control and a qualifying termination need to occur in order for the vesting of outstanding shares to accelerate.

***Executive Compensation Highlights***

We believe our performance demonstrates the effectiveness, over time, of the execution of our strategic business plan, and the alignment of our compensation program with our philosophy to reward executives for enhancing long-term stockholder value. In structuring executive compensation, the Compensation Committee, in consultation with its independent compensation consultant, considers how each component of compensation motivates performance and allows us to attract and retain highly qualified named executive officers. Our compensation program focuses on pay for performance principles that are linked to short-term and long-term financial and operational metrics, including relative total stockholder return. The following are some key highlights of the 2016 plan:

- ü Our 2016 Short-Term Incentive Program (STIP) consisted of variable cash (two-thirds) and equity (one-third) compensation based primarily on the achievement of our short-term corporate operating and financial goals as well as individual performance. 70% of compensation awarded under this program was based on objective criteria and 30% was based on subjective evaluation of individual performance.
- ü Our 2016 Long-Term Incentive Program (LTIP) consisted of equity compensation based on the achievement of our long-term performance goals over a three-year performance period. 70% of compensation awarded under this program was based on our TSR performance relative to select industry indices and 30% was based on achieving objective operating metrics.
- ü Under both the STIP and LTIP programs, no compensation is awarded for below-threshold performance and maximum payouts for 2016 awards were capped at 150% of target. All of the compensation awarded under the programs is at-risk.
- ü Approximately 70% of our CEO’s total target direct compensation for the 2016 performance year consisted of compensation that was at-risk based on the achievement of certain performance metrics.

We believe our compensation program effectively links the compensation awarded to our executives to the achievement of the company’s financial and strategic goals, thus creating alignment with the interests of our stockholders.

**Proposals**

**Proposal 1 - Election of Directors**

Our Board of Directors currently consists of eight directors who contribute the breadth of knowledge and experience necessary for the advancement of our business strategies and objectives. Based on the recommendation of our Nominating/Corporate Governance Committee, our Board of Directors has nominated the following current eight directors for re-election at the Annual Meeting to serve for a one-year term expiring at our annual meeting of stockholders in 2018, and until their respective successors have been duly elected and qualify:

| Director Name | *Age* | *Independent* | *Audit* | *Compensation* | *Nominating/ Corporate Governance* | *Technology* | *Risk* |
|---|---|---|---|---|---|---|---|
| Kathleen R. Allen | 71 | | | | | Chair | |
| John P. Case | 53 | | | | | | |
| A. Larry Chapman | 70 | | | | | | |
| Priya Cherian Huskins | 44 | | | Chair | | | |
| Michael D. McKee | 71 | | | | Chair | | |
| Gregory T. McLaughlin | 57 | | | | | | |
| Ronald L. Merriman | 72 | | Chair | | | | |
| Stephen E. Sterrett | 61 | | | | | | |

For more information regarding our nominees, please see the “Board of Directors and Corporate Governance” section of this Proxy Statement beginning on page 7.

**OUR BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE “FOR” EACH OF THE NOMINEES LISTED ABOVE.**

**Proposal 2 - Ratification of Appointment of Independent Registered Public Accounting Firm**

The Audit Committee of our Board of Directors has appointed KPMG LLP as the independent registered public accounting firm to audit our consolidated financial statements and internal control over financial reporting for the year ending December 31, 2017. Representatives of KPMG LLP are expected to be present at the Annual Meeting and will be provided an opportunity to make a statement if the representatives desire to do so. The representatives are also expected to be available to respond to appropriate questions.

Although ratification by our stockholders is not a prerequisite to the power of the Audit Committee to appoint KPMG LLP as our independent registered public accounting firm, our Board and the Audit Committee believes such ratification to be advisable and in the best interest of the company. Accordingly, stockholders are being requested to ratify, confirm, and approve the appointment of KPMG LLP as our independent registered public accounting firm to conduct the annual audit of our consolidated financial statements and internal control over financial reporting for the year ending December 31, 2017. If the stockholders do not ratify the appointment of KPMG LLP, the appointment of an independent registered public accounting firm will be reconsidered by the Audit Committee; however, the Audit Committee has no obligation to change its appointment based on stockholder ratification. If the appointment of KPMG LLP is ratified, the Audit Committee will continue to conduct an ongoing review of KPMG LLP's scope of engagement, pricing and work quality, among other factors, and will retain the right to replace KPMG LLP at any time.

**OUR BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF KPMG LLP.**

*Proposals*

**Proposal 3 - Advisory Vote to Approve the Compensation of Our Named Executive Officers**

Our Board of Directors has adopted a policy of providing for annual “say-on-pay” advisory votes. In accordance with Section 14A of the Securities Exchange Act of 1934, as amended (Exchange Act), and as a matter of good corporate governance, we are asking our stockholders to vote on a non-binding, advisory basis to approve the compensation paid to our named executive officers, as described in the “Executive Compensation” of this Proxy Statement, including the Compensation Discussion and Analysis and the executive compensation tables that follow.

In an effort to align the interests of management with those of our stockholders, our compensation program focuses on pay for performance principles that are linked to short-term and long-term financial and operational metrics, including relative total stockholder return. Our compensation mix rewards for the continued performance of the company, encourages a disciplined approach to management, and maintains focus on the creation of long-term value for our stockholders. We believe this structure is competitive and allows us to attract, motivate, and retain highly qualified executive officers.

In connection with reviewing our compensation program and the 2016 compensation paid to our named executive officers, it is important to consider the company’s excellent performance results achieved in 2016, which include:

ü We invested $1.86 billion in high-quality real estate properties and funded the acquisitions by raising approximately $573 million in attractively-priced equity capital, and $600 million in unsecured, long-term fixed rate debt at a record-low yield for our company.

ü We remained committed to a conservative capital structure. At December 31, 2016, 70% of our balance sheet was represented by common equity.

ü We maintained high portfolio occupancy while managing another active year for lease expiration activity, recapturing 105% of expiring rent on properties re-leased during the year. Our proactive approach to managing our portfolio continues to maximize the cash flow generated from our properties.

These factors contributed to net income per share of $1.13, and AFFO per share growth of 5.1% to $2.88 in 2016, which allowed us to increase our dividend paid per share in 2016 by 5.3% over 2015, which helped drive a 16.0% TSR (refer to page 47 of our Annual Report on Form 10-K filed with the SEC on February 23, 2017 for a GAAP reconciliation of net income available to common stockholders to AFFO per share, a non-GAAP measure).

Based on the company's performance in 2016, our named executive officers were awarded compensation in accordance with our STIP and LTIP, in addition to a fixed compensation component. All of the compensation awarded under the 2016 STIP and LTIP is based on the following performance goals and is at-risk, and not guaranteed:

The performance hurdles and weightings for each program are determined by the Compensation Committee, in consultation with its independent compensation consultant. This structure effectively links the compensation awarded to our executives to the achievement of the company's financial and strategic goals. The independent members of our Board of Directors believe that the performance-based structure of our compensation program, as summarized above and detailed in the "Executive Compensation" section on page 23, allows the company to attract and retain talented executives while appropriately aligning their interests with the interests of our stockholders to support long-term value creation. Unless our Board of Directors modifies its determination on the frequency of future "say-on-pay" advisory votes, the next vote will be held at the annual meeting of stockholders in 2018.

**OUR BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" APPROVAL, ON A NON-BINDING ADVISORY BASIS, OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS.**

*Proposals*

**Proposal 4 - Advisory Vote on the Frequency of Future Advisory Votes by Stockholders on the Compensation of Our Named Executive Officers**

In accordance with the Dodd-Frank Act of 2010, we are seeking a non-binding, advisory vote as to the frequency with which stockholders would have an opportunity to provide an advisory vote to approve the executive compensation of our named executive officers. Stockholders have the option of selecting a frequency of one, two, or three years, or abstaining.

While we will continue to monitor developments in this area, our Board of Directors believes that an advisory vote to approve executive compensation every one year is appropriate. This will enable our stockholders to vote, on an advisory basis, to approve the most recent executive compensation information that is presented in our proxy statement, relative to that year's company performance, leading to a more meaningful and coherent communication between us and our shareholders on the executive compensation of our named executive officers.

Based on the factors discussed, our Board of Directors recommends that future advisory votes to approve executive compensation occur every one year until the next advisory vote on the frequency of advisory votes to approve executive compensation. Shareholders are not being asked to approve or disapprove our Board's recommendation, but rather to indicate their choice among the following frequency options: one year, two years, or three years, or to abstain from voting.

This vote is advisory, and therefore not binding on us, the Compensation Committee or our Board of Directors. However, we value the opinions of our stockholders and will take into account the outcome of the vote when considering the frequency of submitting to stockholders a resolution to afford stockholders the opportunity to vote on executive compensation.

**OUR BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE "FOR EVERY ONE YEAR" APPROVAL, ON A NON-BINDING ADVISORY BASIS, OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS.**

**Board of Directors and Corporate Governance**

**Director Nominees**

The Board of Directors has nominated our current eight directors, identified below, for re-election at the Annual Meeting to serve for a one-year term expiring at our annual meeting of stockholders in 2018, and until their respective successors are duly elected and qualify. The information presented below highlights each director nominee's specific experience, qualifications, attributes, and skills that led our Board of Directors to the conclusion that he/she should serve as a director. We believe that all of our director nominees have a reputation for integrity, honesty, and adherence to high ethical standards. They each have demonstrated business acumen and an ability to exercise sound judgment, as well as a commitment of service to Realty Income and our Board of Directors. We also value the additional perspective that comes from the experience of serving on other companies' boards of directors and board committees.

**Kathleen R. Allen, Ph.D.**

**Age:** 71

**Director Since:** 2000

**Committees:** Audit and Technology Risk (Chair)

**Independent:** Yes

***Experience***

Kathleen R. Allen, Ph.D. is Professor Emeritus at the Marshall School of Business and the founding director of the Center for Technology Commercialization at the University of Southern California (1991-present). She was the co-founder and chairwoman of Gentech Corporation (1994-2004) and in 2006 co-founded and became the Chief Executive Officer and served on the board of directors of N2TEC Institute, a nonprofit company focused on technology commercialization in rural America, until it completed its mission in 2013. Dr. Allen has co-founded four private companies, is currently a principal and on the board of directors of a real estate investment and development company, and serves on the board of advisors for two life science companies. She is a Visiting Scholar at the Department of Homeland Security where she advises on issues related to technology deployment, including cybersecurity. She is the author of 15 books in the field of entrepreneurship and technology commercialization, a field in which she is considered an expert.

***Qualifications***

As a distinguished businesswoman, entrepreneur, and consultant, Dr. Allen has helped our Board of Directors identify and assess the risks associated with new endeavors. She has also worked with many early-growth and established companies to develop effective leadership and team-building skills. With her years of experience in risk management in the areas of business models, investment opportunities, and technology, Dr. Allen brings to the Board of Directors achievement in strategic business planning, which is a key part of our growth strategy.

***Board of Directors and Corporate Governance***

**John P. Case**

Chief Executive Officer and Director

**Age:** 53

**Director Since:** 2013

**Committees:** None

**Independent:** No

***Experience***

Mr. Case has been the Chief Executive Officer since September 2013. He joined Realty Income in 2010 as Executive Vice President, Chief Investment Officer and served in this capacity until March 2013, when he was promoted to President, Chief Investment Officer. Prior to joining Realty Income, Mr. Case served for 19 years as a New York-based real estate investment banker. He began his investment banking career at Merrill Lynch, where he worked for 14 years, and was named a Managing Director in 2000. Following his tenure at Merrill Lynch, Mr. Case was co-head of Americas Real Estate Investment Banking at UBS and later the co-head of Real Estate Investment Banking for RBC Capital Markets, where he also served on the firm's Global Investment Banking Management Committee. During Mr. Case's investment banking career, he was responsible for more than $100 billion in real estate capital markets and advisory transactions. Mr. Case currently serves as a member of the Board of Trustees of Washington and Lee University. In addition, Mr. Case is extensively involved in the broader real estate industry, serving on the Executive Board of the National Association of Real Estate Investment Trusts (NAREIT), The President's Council of the Real Estate Roundtable, and as a member of the International Council of Shopping Centers (ICSC). Previously, he served on the Executive Committee of the Board of Directors for the National Multi-Housing Council (NMHC) and as a member of the Urban Land Institute.

***Qualifications***

Mr. Case has demonstrated extensive knowledge of the financial and operating issues facing real estate organizations. His vast experience and understanding of real estate, REITs, and financial strategy has helped guide the company and successfully execute its business plan. In addition, Mr. Case's knowledge of all aspects of the company's business positions him as a valuable member of, and contributor to, our Board of Directors.

**A. Larry Chapman**

***Experience***

**Age:** 70

**Director Since:** 2012

**Committees:** Audit and Technology Risk

**Independent:** Yes

A. Larry Chapman is a retired 37-year veteran of Wells Fargo, having served most recently as Executive Vice President and the Head of Commercial Real Estate from 2006 until his retirement in June 2011, and as a member of the Wells Fargo Management Committee. Mr. Chapman joined Wells Fargo in 1974 in its Houston Real Estate office. In 1987, he was promoted to President of Wells Fargo Realty Advisors, a wholly-owned subsidiary of Wells Fargo & Co. The subsidiary's primary responsibility was managing Wells Fargo Mortgage and Equity Trust, which was formed in 1970 and sold in 1989. He remained President of Wells Fargo Realty Advisors until 1990, and was promoted to Group Head of the Wells Fargo Real Estate Group in 1993. Mr. Chapman managed the Wells Fargo Real Estate Group until his 2006 promotion to Executive Vice President and Head of Commercial Real Estate for Wells Fargo on a nationwide basis. Mr. Chapman is a former board member of the Fisher Center for Real Estate and Urban Economics at the University of California, Berkeley, past governor and trustee of the Urban Land Institute, former member of the National Association of Real Estate Investment Trusts (NAREIT), and member and past trustee of the International Council of Shopping Centers (ICSC). He currently serves on the board of directors of CBL & Associates Properties, Inc. (NYSE: CBL) (August 2013-present).

***Qualifications***

Mr. Chapman's financial acumen and extensive commercial real estate experience across many industries and tenant types, provide valuable insight and expertise to the Board of Directors and our senior management team as we continue to expand our real estate portfolio. In addition, his background as a leader of a Fortune 500 company, and as a member of its management team, further enhances the quality of leadership and oversight provided by our Board of Directors.

***Board of Directors and Corporate Governance***

| | |
|---|---|
| | ***Experience*** |
| **Priya Cherian Huskins**<br><br>**Age:** 44<br><br>**Director Since:** 2007<br><br>**Committees:** Compensation (Chair), Nominating/Corporate Governance, and Technology Risk<br><br>**Independent:** Yes | Priya Cherian Huskins is Senior Vice President and partner at Woodruff-Sawyer & Co., a commercial insurance brokerage firm (2003-present). Prior to joining Woodruff-Sawyer & Co., Ms. Huskins served as a corporate and securities attorney at the law firm of Wilson Sonsini Goodrich & Rosati (1997-2003). She has served on the advisory board of the Stanford Rock Center for Corporate Governance since 2012, the board of directors of Woodruff-Sawyer & Co. since 2016, the board of directors of the Silicon Valley Directors' Exchange (SVDX) since 2013, and served on the board of directors of the National Association of Corporate Directors, Silicon Valley Chapter (2006-2013).<br><br>***Qualifications***<br><br>With her background in law, insurance, and risk management, Ms. Huskins brings a focus on these areas to our Board of Directors. As a recognized expert in directors and officers liability risk and its mitigation, Ms. Huskins provides valuable insight into our risk management strategy. In addition, she brings experience regarding corporate governance matters, including compensation best practices, and ways that corporate governance can enhance stockholder value. Ms. Huskins' experience makes her a valuable component of a well-rounded Board of Directors. |
| **Michael D. McKee** | ***Experience*** |
| **Age:** 71<br><br>**Director Since:** 1994 | Michael D. McKee is the Executive Chairman of HCP, Inc. (NYSE: HCP) (May 2016-present). Prior to that, he was the Chief Executive Officer of Bentall Kennedy (U.S.), a registered real estate investment advisor (February 2010-April 2016). He was the Vice Chairman (1999-2008) and Chief Executive Officer (2007-2008) of The Irvine Company, a |

**Non-Executive Chairman Since:** 2012

**Committees:**
Compensation and Nominating/Corporate Governance (Chair)

**Independent:** Yes

privately-held real estate investment company, as well as its Chief Operating Officer (2001-2007), Chief Financial Officer (1997-2001) and Executive Vice President (1994-1999). Prior to joining The Irvine Company, Mr. McKee was a partner in the law firm of Latham & Watkins (1986-1994). Through each of these positions, Mr. McKee has obtained extensive real estate experience and provides valuable insight and expertise to the Board and our senior management team. He has served on the board of directors of HCP, Inc. (NYSE: HCP) (1987-present), Bentall Kennedy (U.S.) (2008-2012), First American Financial Corporation (NYSE: FAF) (2011-present), the Tiger Woods Foundation (2006-present), The Irvine Company (1998-2008) and Hoag Hospital Foundation (1999-2008).

***Qualifications***

Mr. McKee's business and legal experience includes numerous acquisition and disposition transactions, as well as a variety of public and private offerings of equity and debt securities. Additionally, he has been exposed to various compliance issues as they relate to real estate investment trusts. With his knowledge of the complex issues facing real estate companies today and his understanding of what makes businesses work effectively and efficiently, Mr. McKee provides valuable insight to our Board of Directors.

***Board of Directors and Corporate Governance***

**Gregory T. McLaughlin**

**Age:** 57

**Director Since:** 2007

**Committees:** Audit and Compensation

**Independent:** Yes

***Experience***

Gregory T. McLaughlin is the President, PGA TOUR Champions and a Senior Vice President with the PGA TOUR in Ponte Vedra Beach, Florida (2014-present). Prior to joining the PGA TOUR, Mr. McLaughlin was President and Chief Executive Officer of the Tiger Woods Event Corporation and Tiger Woods Foundation in Irvine, California (1999-2014), Vice President of Business Development of the Western Golf Association/Evans Scholars Foundation (1993-1999), and Vice President of Business Development of the Los Angeles Junior Chamber of Commerce (1988-1993). He is currently a member of the PGA TOUR Executive Committee.

***Qualifications***

With his diverse background, Mr. McLaughlin offers a unique perspective to the Board of Directors on a variety of business and legal matters. His business and legal experience includes tax-exempt status and financing as well as business development, capital raising, and program development. Additionally, his leadership skills in managing a variety of different organizations brings financial reporting expertise, especially as it relates to audit and tax matters. His proven effectiveness working with complex issues makes him a valuable member of our Board of Directors.

**Ronald L. Merriman**

**Age:** 72

**Director Since:** 2005

***Experience***

Ronald L. Merriman is a retired Vice Chairman and partner of KPMG LLP, a global accounting and consulting firm (1967-1997). At KPMG LLP, Mr. Merriman served as Vice Chairman of the Executive Management Committee. More recently, Mr. Merriman was the managing director of Merriman Partners, a management advisory firm (2003-2011). Prior to founding Merriman Partners, Mr. Merriman served as a managing director of O’Melveny

**Committees:** Audit (Chair) and Nominating/Corporate Governance

**Independent:** Yes

& Myers law firm (2000-2003), Executive Vice President of Carlson Wagonlit Travel (1999-2000), and President of Ambassador Performance Group, Inc. (1997-1999). Mr. Merriman serves on the board of directors and is the chairman of the audit committee of the following public companies: Aircastle Limited (NYSE: AYR) (2006-present), and Pentair, Plc, formerly Pentair, Ltd. (NYSE: PNR) (2005-present). Additionally, he serves on the compensation committee of Aircastle Limited (2012-Present) and on the audit committee of Haemonetics Corporation (NYSE: HAE) (2005-Present).

***Qualifications***

Mr. Merriman is an experienced financial leader with the skills necessary to lead our Audit Committee. Throughout his career, he has been exposed to various issues involving accounting and auditing standards, business law and corporate ethics. His professional background and experience on other audit committees make him a valuable asset, both on our Board of Directors and as the Chair of our Audit Committee. Mr. Merriman's positions have provided him with a wealth of knowledge in addressing financial and accounting matters. The depth and breadth of his exposure to complex financial issues makes him a skilled advisor to the Board of Directors.

***Board of Directors and Corporate Governance***

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|---|---|
| | ***Experience*** |
| **Stephen E. Sterrett**<br><br>**Age:** 61<br><br>**Director Since:** 2014 | Stephen E. Sterrett retired as the Senior Executive Vice President and Chief Financial Officer of Indianapolis-based Simon Property Group, Inc., an S&P 100 company, in December 2014. Mr. Sterrett joined the Simon organization in 1988, was named Treasurer in 1993, and was the Chief Financial Officer from 2000 until his retirement. Prior to joining Simon Property Group, Inc., he was a Senior Manager with the international accounting firm of Price Waterhouse. Mr. Sterrett serves on the boards of Berry Plastics Group, Inc. (NYSE: BERY) and Equity Residential (NYSE: EQR). Mr. Sterrett is active in several professional organizations, including the National Association of Real Estate Investment Trusts (NAREIT), the International Council of Shopping Centers (ICSC) and is a past member of the Indiana CPA Society. |
| **Committees:** Compensation and Technology Risk | ***Qualifications*** |
| **Independent:** Yes | As the former Chief Financial Officer of Simon Property Group, Inc., Mr. Sterrett has direct experience with matters arising from the business and financial issues pertaining to the company, particularly in the areas of corporate finance and capital markets. His experience as a Chief Financial Officer in the REIT industry brings to our Board of Directors a comprehensive understanding of matters unique to REITs and enables him to make significant contributions to our Board of Directors. |

**Committees of the Board**

Our Board of Directors has three standing committees that perform certain delegated functions of the Board: the Audit Committee, the Compensation Committee, and the Nominating/Corporate Governance Committee. The Board also has one special purpose committee, the Technology Risk Committee, which provides governance and oversight of the possible risks associated with the company’s technology and information systems. Each committee is composed entirely of independent directors within the meaning of our director independence standards, which reflect the NYSE director independence standards and the audit committee requirements of the SEC.

Each committee operates under a written charter, all of which were reviewed by their respective committees during 2016. Our Compensation and Nominating/Corporate Governance Committees updated their charters in 2016, and the Audit Committee updated its charter in February 2017 to provide additional enhancements. The Technology Risk Committee established its charter in connection with its formation in May 2015. In February 2017, the Board of Directors extended the duration of the Technology Risk Committee such that this committee will be deemed terminated, if not re-appointed, by the Board of Directors on or before June 1, 2018. Our Board of Directors may, from time to time, establish certain other committees to facilitate oversight over the management of the company. The charters of each of our standing committees are available on our company's website at www.realtyincome.com.

*Board of Directors and Corporate Governance*

**AUDIT**

**COMMITTEE**

| | |
|---|---|
| | ***Responsibilities*** |
| **Members:** | Oversee compliance with legal and regulatory requirements;<br>Oversee the integrity of our financial statements;<br>Appoint, retain, and oversee our independent registered public accounting firm, approve any special assignments given to the independent registered public accounting firm, and review: |
| Ronald L. Merriman (Chair)<br>Kathleen R. Allen, Ph.D.<br>A. Larry Chapman<br>Gregory T. McLaughlin | The scope and results of the audit engagement with the independent registered public accounting firm, including the independent registered public accounting firm's letters to the Audit Committee;<br>The independence and qualifications of the independent registered public accounting firm; |
| | The compensation of the independent registered public accounting firm; |
| **Independent:** All<br>**Meetings in 2016:** 8 | |
| | The performance of our internal audit function; and<br>Any proposed significant accounting changes. |

Our Board of Directors has determined that Messrs. Merriman, Chapman and McLaughlin qualify as audit committee financial experts, as defined in Item 407(d) of Regulation S-K, and that all members of the Audit Committee are financially literate under the current listing standards of the NYSE and meet the Securities and Exchange Commission (the SEC) independence requirements for audit committee membership. Our Board of Directors has considered Mr. Merriman's concurrent service on the audit committees of three other public companies and has determined that such simultaneous service does not impair his ability to effectively serve as Chair of our Audit Committee.

**COMPENSATION**

**COMMITTEE**

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|---|---|
| | ***Responsibilities*** |
| **Members:** | Establish remuneration levels for our executive officers;<br>Review significant employee benefits programs;<br>Establish and administer executive compensation programs;<br>Conduct an annual review of our compensation philosophy; |
| Priya Cherian Huskins (Chair)<br>Michael D. McKee<br>Gregory T. McLaughlin<br>Stephen E. Sterrett | Conduct an annual review of and approve the goals and objectives relating to the compensation of the CEO, including a performance evaluation to help determine and approve his compensation;<br>Review and approve all executive officers' employment agreements and severance arrangements;<br>Manage and annually review executive officer short-term and long-term incentive compensation; and |
| **Independent:** All<br>**Meetings in 2016:** 8 | Set performance metrics under all short-term and long-term incentive compensation plans as appropriate. |

Our Board of Directors has determined that all of the members of the Compensation Committee are "independent" within the meaning of our director independence standards, the NYSE director independence standards (including those applicable to Compensation Committee members), are "non-employee directors" within the meaning of Rule 16b-3 of the Exchange Act, and are "outside directors" under the regulations promulgated under Section 162(m) of the Internal Revenue Code of 1986, as amended. The Compensation Committee may delegate any or all of its responsibilities to a subcommittee of the Committee to the extent permitted by applicable law.

*Board of Directors and Corporate Governance*

**NOMINATING/**

**CORPORATE**

**GOVERANCE**

**COMMITTEE**

| | |
|---|---|
| | ***Responsibilities*** |
| **Members:** | Provide counsel to our Board of Directors on the broad range of issues concerning the composition and operation of the Board of Directors; |
| | Develop and review the qualifications and competencies required for membership on our Board of Directors; |
| Michael D. McKee (Chair) | Review and interview qualified candidates to serve on our Board of Directors; |
| | Oversee the structure, membership, and rotation of the committees of our Board of Directors; |
| | Review the Board of Directors compensation; |
| Priya Cherian Huskins | Assess the effectiveness of the Board of Directors and executive management; |
| Ronald L. Merriman | Oversee succession planning for our executive management; and |
| **Independent:** All<br>**Meetings in 2016**: 2 | Review and consider developments in corporate governance to ensure best practices are being followed. |

As part of these responsibilities, the Nominating/Corporate Governance Committee annually solicits input from each member of the Board of Directors to review the effectiveness of its operation and all committees thereof. The review consists of an assessment of its governance and operating practices which includes the Corporate Governance Guidelines that govern the operation of the Board of Directors.

**TECHNOLOGY RISK**

**COMMITTEE**

| | |
|---|---|
| | ***Responsibilities*** |
| **Members:** | Review and assess risks, including cyber security, associated with the company's technology and information systems; |

| | |
|---|---|
| | Receive reports from management or other third party organizations on key metrics for the company's technology and information systems; and |
| Kathleen R. Allen, Ph.D. (Chair)<br>A. Larry Chapman<br>Priya Cherian Huskins<br>Stephen E. Sterrett | Provide guidance on matters specifically related to the company's technology and information systems. |

**Independent:** All
**Meetings in 2016**: 2

It is intended for the Technology Risk Committee to be of limited duration, and to help engage in assessing any potential technology risks at the company. The Technology Risk Committee will be deemed terminated, if not re-appointed, by the Board of Directors on or before June 1, 2018.

***Board of Directors and Corporate Governance***

**Corporate Governance**

We believe a company's reputation for integrity and serving its stockholders responsibly is of critical importance. We are committed to managing the company for the benefit of our stockholders and are focused on maintaining good corporate governance.

*Corporate Governance Guidelines*

Our company has adopted Corporate Governance Guidelines that promote the functioning of the Board of Directors and its committees and sets forth expectations as to how the Board of Directors should operate. The guidelines include information about the composition of the Board of Directors, orientation and continuing education, director compensation, Board of Director meetings, Board of Director committees, management succession, evaluation and compensation of named executive officers, expectations of directors, and information regarding the annual performance evaluation of the Board of Directors. A current copy is available on our company's website at www.realtyincome.com.

*Code of Business Ethics*

*Whistleblower Policy*

Our Board of Directors has adopted a "whistleblower" policy, which outlines a procedure for all interested parties, including employees, to submit confidential complaints, concerns, unethical business practices, violations or suspected violations for any and all matters pertaining to accounting, internal control or auditing.

We have adopted a Code of Business Ethics that applies to our directors, officers, and other employees. The Board of Directors adopted the Code of Business Ethics to codify and formalize certain of our long-standing policies and principles that help ensure our business is conducted in accordance with the highest standards of moral and ethical behavior. We conduct annual training with our employees regarding ethical behavior and require all employees to acknowledge the terms of, and abide by, our Code of Business Ethics. A current copy, as updated in May 2015, is available on our company's website at www.realtyincome.com. We intend to disclose any future amendments to or waivers of certain provisions of our Code of Business Ethics applicable to our officers and directors on our website, within five business days following such waiver or as otherwise required by the SEC or the NYSE.

*Anti-Hedging and Anti-Pledging Policy*

To ensure proper alignment with our stockholders, we have established policies that prohibit our directors, officers, other employees, and their family members from engaging in any transaction that might allow them to realize gains from declines in our securities. Specifically, we prohibit our directors, officers, employees, and their family members from engaging in transactions using derivative securities, short selling our securities, trading in any puts, calls or covered calls, writing purchase or call options and short sales, or otherwise participating in hedging, “stop loss,” or other speculative transactions involving our securities. In addition, margin purchases of our securities and pledging any of our securities as collateral to secure loans is prohibited. This prohibition means that our directors, officers, other employees, and their family members cannot hold our securities in a “margin account” nor can they pledge any of our securities for any loans or indebtedness.

*Clawback Policy*

In accordance with the Dodd-Frank Act, our Board of Directors has voluntarily adopted a formal clawback policy which applies to outstanding awards and will apply to future awards. Our clawback policy provides that the company may recover certain cash and/or equity-based incentive compensation paid or granted to an executive officer during the three-year period preceding a “triggering event.” A “triggering event” includes:

(i) a decision by the Audit Committee to effect an accounting restatement of previously published financial statements caused by material non-compliance by the company with any financial reporting requirement under the federal securities laws due to fraud, misconduct, negligence, or lack of sufficient oversight on the part of any named executive officer, and

(ii) a decision by the Compensation Committee that one or more performance metrics used for determining previously paid compensation was incorrectly calculated and, if calculated correctly, would have resulted in a lower payment to one or more executive officers.

The requirement to repay the incentive compensation that is recoverable under this policy shall only exist if the Board of Directors has actively taken steps to evaluate restating the financials or operating results, or recalculating other associated metrics prior to the end of the fifth year following the year in question. The company will not be bound by the three-year recoupment period or this five-year limitation in cases involving fraud or intentional misconduct. As applicable SEC regulations are adopted, we will reassess our clawback policy and implement appropriate changes to ensure that our policy is fully compliant with SEC regulations.

***Board of Directors and Corporate Governance***

*Social Responsibility and Ethical Standards*

An extension of our mission is our commitment to being socially responsible and conducting our business according to the highest ethical standards. Our employees are awarded compensation that is in line with those of our peers and competitors, including generous healthcare benefits for employees and their families, participation in a 401(k) plan with a matching contribution by Realty Income, competitive paid time-off benefits, and an infant-at-work program for new parents. We also have a longstanding commitment to equal employment opportunity and adhere to all Equal Employer Opportunity Policy guidelines. Our employees have access to members of our Board of Directors to report anonymously, if desired, any suspicion of misconduct by any member of our senior management or executive team. We apply the principles of full and fair disclosure in all of our business dealings, and we encourage all of our directors, officers, and other employees to conduct our business in accordance with the highest standards of moral and ethical behavior, in each case, as outlined in our Corporate Code of Business Ethics. We are also committed to dealing fairly with all of our customers, suppliers, and competitors.

Realty Income and its employees have taken an active role in supporting communities through civic involvement with charitable organizations, and corporate donations. Focusing our impact on social responsibility, our non-profit partnerships have resulted in approximately 700 employee volunteer hours during 2016, principally through our partnership with San Diego Habitat for Humanity. Our employees have also provided educational services to at-risk youth, funding to local foodbanks, and toys for under-served children. Our dedication to being a responsible corporate citizen has a direct and positive impact in the communities in which we operate and contributes to the strength of our reputation and our financial performance.

*Environmental Practices*

Our focus on environmental conservationism is demonstrated by how we manage our day-to-day activities at our corporate headquarters. At our headquarters, we promote energy efficiency and encourage practices such as powering down office equipment at the end of the day, implementing file-sharing technology and automatic “duplex mode” to limit paper use, adopting an electronic approval system, carpooling to our headquarters, and recycling paper waste. In 2016, we sent more than 29,500 pounds of paper to our off-site partner for recycling.

With respect to other recycling and reuse practices, we encourage the use of recycled products and the recycling of materials used in our operations. Cell phones, wireless devices and office equipment are recycled or donated whenever possible.

In addition, our headquarters building was retrofitted according to the State of California energy efficiency standards (specifically following California Green Building Standards Code and Title 24 of the California Code of Regulations), with features such as an automatic lighting control system with light-harvesting technology, a Building Management System that monitors and controls energy use, an energy-efficient PVC roof and heating and cooling system, LED lighting, and drought-tolerant landscaping with recycled materials.

The properties in our portfolio are net leased to our tenants who are responsible for maintaining the buildings and are in control of their energy usage and environmental sustainability practices. We remain active in working with our tenants to promote environmental responsibility at the properties we own and to promote the importance of energy efficient facilities.

Our Asset Management team has engaged with a renewable energy development company to identify assets that would maximize energy efficiency initiatives throughout our property portfolio. These initiatives include solar energy arrays, battery storage, and charging stations. In addition, we continue to explore regional opportunities with our tenants in order to qualify for city and county energy programs.

More information on our social responsibility and environmental practices can be found on our company’s website at http://www.realtyincome.com/about-realty-income/corporate-responsibility/default.aspx.

***Board of Directors and Corporate Governance***

**Director Selection Process**

*Director Qualifications*

Director qualifications are determined by what the Nominating/Corporate Governance Committee believes to be the essential competencies required to effectively serve on the Board of Directors. The Nominating/Corporate Governance Committee seeks to include on our Board of Directors a complementary mix of professionals with the following qualities, skills, and attributes:

Personal and professional integrity, ethics, values, and absence of conflicts of interest;
Experience in corporate governance, for example as an officer or former officer of a public company;
Experience in our industry and a general business understanding of major issues facing public companies;
Experience as a member of the board of directors of another publicly-held company;
Ability to fairly and equally represent all stockholders of the company and time to devote to being a director;
Practical and mature business judgment, including the ability to make independent analytical inquiries and function effectively in an oversight role;
Academic expertise in an area of our operations and achievement in one or more applicable fields;
Background in financial capital markets and accounting matters; and
Diversity in terms of background, expertise, perspective, age, gender, and ethnicity.

*Identifying and Evaluating Nominees for Directors*

Our Corporate Governance Guidelines set forth the process by which our Nominating/Corporate Governance Committee identifies and evaluates nominees for our Board of Directors. The Nominating/Corporate Governance Committee first evaluates the current members of our Board of Directors to identify nominees for directors. Current members who are willing to continue service and who have qualifications and skills that are consistent with the Nominating/Corporate Governance Committee's criteria for Board of Directors service are re-nominated.

As to new candidates, the Nominating/Corporate Governance Committee will generally poll members of our Board of Directors and members of executive management for their recommendations. The Nominating/Corporate Governance Committee has at times in the past retained a search firm to assist with identifying new candidates for membership on our Board of Directors, and in the future, may hire a search firm if deemed appropriate. An initial slate of candidates will be presented to the Chair of the Nominating/Corporate Governance Committee, who will then make an initial determination as to the qualification and fit of each candidate. Final candidates will be interviewed by one or more members of the Nominating/Corporate Governance Committee and other directors. The Nominating/Corporate Governance Committee will then approve final director candidates and, after review and deliberation of all feedback and data, will make its recommendation to our Board of Directors. Recommendations received from stockholders are subject to the same criteria as are candidates nominated by the Nominating/Corporate Governance Committee and will be considered and processed accordingly.

*Stockholder Recommendations*

The Nominating/Corporate Governance Committee's policy is to consider candidates recommended by our stockholders. The stockholder must submit proof of Realty Income stock ownership along with a detailed resume of the candidate and an explanation of the reasons why the stockholder believes the candidate is qualified for service on our Board of Directors. The stockholder must also demonstrate how the candidate satisfies our Board of Directors' criteria and provide such other information about the candidate as would be required by the SEC rules to be included in a proxy statement, as well as our bylaws. The consent of the candidate must be included along with a description of any arrangements or undertakings between the stockholder and the candidate regarding the recommendation. All communications are to be directed to the Chair of the Nominating/Corporate Governance Committee and sent to the address noted under "Communications with the Board" in this Proxy Statement on page 18.

Recommendations received before November 7, 2017 or after December 7, 2017 (more than 150 days or less than 120 days prior to the first anniversary of the date the company's Proxy Statement is released to stockholders for the previous year's annual meeting of stockholders) will not be considered timely for consideration at next year's annual meeting of stockholders. See "Stockholder Proposals for 2018 Annual Meeting" in this Proxy Statement on page 57. Properly submitted stockholder recommendations will be evaluated by the Nominating/Corporate Governance Committee using the same criteria used to evaluate other director candidates.

***Board of Directors and Corporate Governance***

**Board Independence**

Our Board of Directors has determined that each of our current directors, except for Mr. Case, has no material relationship with us (either directly or indirectly through an immediate family member or as a partner, stockholder or officer of an organization that has a relationship with us) and is “independent” within the meaning of our director independence standards and NYSE director independence standards. Our Board of Directors established and employed categorical standards in determining whether a relationship is material and thus would disqualify such director from being independent. Our categorical standards of independence mirror NYSE independence requirements, except that our categorical standards additionally consider a director to be not independent if:

The director (or an immediate family member of the director) received more than $100,000 per year in direct compensation from the company or any of its subsidiaries, other than director and committee fees, pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);

The director (or an immediate family member of the director) was, within the last three years, an affiliate or executive officer of another company which was indebted to us, or to which we were indebted, where the total amount of either company’s indebtedness to the other was five percent (5%) or more of our total consolidated assets or the total consolidated assets of such other company; or

The director (or an immediate family member of the director) was, within the last three years, an officer, director, or trustee of a charitable organization where our (or an affiliated charitable foundation’s) annual discretionary charitable contributions to the charitable organization exceeded the greater of $1 million, or five percent of that organization’s consolidated gross revenues. For the purposes of independence, we consider an “Affiliate” any person beneficially owing in excess of ten percent of the voting power of, or a general partner or managing member of, a company.

**Non-Executive Independent Chairman of the Board**

The Nominating/Corporate Governance Committee also evaluates the Board of Directors leadership structure. Since 1997, the positions of Non-Executive Chairman of the Board of Directors and CEO have been separate in recognition of the differences between the two roles. Mr. McKee serves as our Non-Executive Chairman of the Board of Directors and presides as lead independent director, while Mr. Case serves as our CEO. The Board of Directors believes this is the most appropriate structure at this time because it enables the independent directors to participate meaningfully in the leadership of our Board of Directors while utilizing most efficiently the leadership skills of both Messrs. McKee and Case. In addition, separating the roles of Non-Executive Chairman and CEO allows our Non-Executive Chairman to serve as a liaison between the Board of Directors and executive management, while providing our CEO with the flexibility and focus needed to oversee our operations.

**Board Risk Oversight**

Our Board of Directors has overall responsibility for risk oversight with a focus on the more significant risks facing our company. The Board of Directors reviews and oversees our enterprise risk management (ERM) program, which is a company-wide program designed to effectively and efficiently identify and assess management's visibility into critical company risks and to facilitate the incorporation of risk considerations into decision making. The ERM program does this by clearly defining risks facing the company and bringing together executive management to discuss these risks. This promotes visibility and constructive dialogue around risk at the executive management and Board of Director levels, and facilitates appropriate risk response strategies. Throughout the year, as part of the ERM program, management and the Board of Directors jointly discuss major risks that face our business.

In addition to the overall risk oversight that our Board of Directors provides, each of our committees exercises its own oversight related to the risks associated with the responsibilities of that committee:

The Audit Committee oversees our risk policies and processes relating to the financial statements and financial reporting procedures, as well as key credit risks, liquidity risks, market risks and compliance, and the guidelines, internal controls, policies and procedures for monitoring and mitigating those risks;
The Compensation Committee monitors the risks associated with management resources and structure, including evaluating the effect the compensation structure may have on risk decisions;
The Nominating/Corporate Governance Committee oversees the risk related to our governance structure and processes and risks arising from related party transactions; and
The Technology Risk Committee monitors the risks associated with the company's technology and information systems.

***Board of Directors and Corporate Governance***

By dividing responsibilities as such, the Board of Directors believes it can more effectively identify and address risk. Throughout the year, the Board of Directors, and the committees to which it has delegated responsibility, dedicates a portion of their meetings to review and discuss specific risk topics in greater detail.

**Compensation Risk Assessment**

The Compensation Committee reviews our company-wide incentive programs to assess whether the incentive programs for all employees, including our named executive officers, encourage desirable behavior as it relates to our long-term growth, and reflect our risk management philosophies, policies and processes.

*Named Executive Officers.* The total compensation is established after the Compensation Committee determines the appropriate performance metrics to best align the interests of management with those of our stockholders. The short-term incentive program metrics are based on financial, operational, and individual goals. The long-term incentive program metrics are primarily based on our TSR performance relative to our peers, a value creation goal, and secondarily based on financial and operational goals. In addition, as previously discussed, we have adopted a clawback policy that enables us to recover incentive compensation awards in the event of negligence or misconduct directly related to a material restatement of our financial results, or miscalculated performance metrics that, if calculated correctly, would have resulted in a lower payment.

*All Other Employees.* Non-named executive officer employee compensation awards are unlikely to encourage the taking of unnecessary or excessive risks that could threaten long-term value creation. Management monitors the cash and equity incentive awards made to our employees and reviews those awards in light of the potential risks relative to the control environment, each respective employee’s responsibilities, and the general policies and procedures of our company. The Compensation Committee has sought to align the interests of our employees with that of our stockholders through grants of restricted stock awards, thereby giving employees additional incentives to protect and align with long-term value creation. Based on its evaluation, the Compensation Committee does not believe that the compensation programs give rise to any risks that are reasonably likely to have a material adverse effect on our company.

**Meetings and Attendance**

Our Board of Directors met 14 times during 2016. All directors attended at least 75% of the aggregate of (i) the total number of meetings of our Board of Directors while they were on our Board of Directors, and (ii) the total number of meetings of the committees of our Board of Directors on which such directors served. Although we have no policy with regard to Board of Director members' attendance at our annual meeting of stockholders, it is customary for, and we expect, all Board of Director members to attend. All of our Board of Director members, with the exception of Mr. Merriman, attended our 2016 annual meeting of stockholders.

To ensure free and open discussion among the independent directors, only independent directors attend executive sessions of our Board of Directors and Committee meetings. As the Non-Executive Independent Chairman of our Board of Directors, Mr. McKee presided at each of the five executive sessions held during 2016.

**Communications with the Board**

Stockholders and other interested parties may communicate with the Non-Executive Chairman of our Board of Directors or with the non-employee directors, as a group, by either of the following methods:

| | |
|---|---|
| *Email:* | *Mail:* |
| Non-Executive Chairman of the Board of Directors | Non-Executive Chairman of the Board of Directors |
| c/o Corporate Secretary | c/o Corporate Secretary |
| mpfeiffer@realtyincome.com | Realty Income Corporation |
| | 11995 El Camino Real |
| | San Diego, CA 92130 |

All appropriate correspondence will be promptly forwarded by the Corporate Secretary to the Non-Executive Chairman of our Board of Directors.

**Director Compensation**

On an annual basis, the Nominating/Corporate Governance Committee is responsible for reviewing the compensation of the Board of Directors. Compensation for the independent directors of our Board of Directors during 2016 consisted of an annual cash retainer and an additional cash retainer for acting as the Non-Executive Chairman or Chairperson of one of the committees of our Board of Directors as set forth below. In addition, each independent director receives an annual equity retainer based on a fixed number of shares provided for in the 2012 Incentive Award Plan. Lastly, independent directors receive Board of Director and committee meeting fees of $1,000 per meeting attended in person and $500 for telephonic attendance.

| **POSITION HELD** | **ANNUAL EQUITY GRANT (IN SHARES)[1]** | **ANNUAL CASH RETAINER** |
|---|---|---|
| Board of Directors – Member (including Non-Executive Chair) | 4,000 | $15,000 |
| Board of Directors – Non-Executive Chair | — | 35,000 |
| Audit Committee Chair | — | 18,000 |
| Compensation Committee Chair | — | 15,000 |
| Nominating/Corporate Governance Committee Chair | — | 10,000 |
| Technology Risk Committee Chair | — | 10,000 |

*(1) The value of the annual equity retainer is variable, based on the closing share price on the date of grant.*

Our directors received the following aggregate amounts of compensation for the year ended December 31, 2016:

| NAME | FEES EARNED OR PAID IN CASH | **STOCK AWARDS[1]** | **ALL OTHER COMPENSATION[2]** | TOTAL |
|---|---|---|---|---|
| Kathleen R. Allen, Ph.D. [3] | $ 42,000 | $ 250,000 | $ — | $ 292,000 |
| John P. Case[4] | — | — | — | — |
| A. Larry Chapman[3] | 32,500 | 250,000 | — | 282,500 |
| Priya Cherian Huskins[3] | 48,500 | 250,000 | — | 298,500 |
| Michael D. McKee[3] | 76,500 | 250,000 | — | 326,500 |
| Gregory T. McLaughlin[3] | 36,000 | 250,000 | 10,000 | 296,000 |
| Ronald L. Merriman[3] | 48,000 | 250,000 | — | 298,000 |
| Stephen E. Sterrett[3] | 32,000 | 250,000 | — | 282,000 |

*(1) On May 17, 2016, the date of our 2016 Annual Meeting of Stockholders, each non-employee director received 4,000 shares of restricted stock with a grant date fair value of $250,000, which is calculated by multiplying the 4,000 shares by the closing market price of our common stock on May 17, 2016 of $62.50, as prescribed by*

*Accounting Standards Codification Topic 718. All of these restricted stock grants vest according to the vesting schedule described below under "Stock Awards for Directors" and include dividends paid from the date of grant.*

(2) *Amount represents the annual retainer of $10,000 for serving as the director of Crest Net Lease, Inc. (Crest), a wholly owned subsidiary of Realty Income.*

(3) *As of December 31, 2016, the non-employee directors did not hold any stock options. Messrs. Chapman and Sterrett each held 8,001 shares of unvested restricted stock.*

(4) *Mr. Case, our Chief Executive Officer and Director, did not receive any compensation for his services on our Board of Directors or as a director of Crest during 2016. His compensation is reflected as part of the "Summary Compensation Table" on page 39.*

*Stock Awards for Directors*

The 2012 Incentive Award Plan provides that upon the initial election to our Board of Directors, and at each annual meeting of stockholders thereafter, if the director continues to serve as a director after the meeting, each non-employee director is automatically granted 4,000 shares of restricted stock. This annual equity grant of 4,000 shares is specifically provided for in the 2012 Incentive Award Plan, which has been approved by our stockholders. The vesting schedule for restricted shares granted to non-employee directors is as follows and is subject to the director's continued service through each applicable vesting date:

| **YEARS OF SERVICE** | **VESTING** |
|---|---|
| < 6 years | 33.33% increments on each of the first three anniversaries of the grant date |
| 6 years | 50% increments on each of the first two anniversaries of the grant date |
| 7 years | 100% vested on the first anniversary of the grant date |
| ≥ 8 years | Immediately |

***Director Compensation***

*Other Payments for Directors*

The members of our Board of Directors are also entitled to reimbursement of their travel expenses incurred in connection with attendance at Board of Director and committee meetings and conferences. Additionally, the members of our Board of Directors are reimbursed for expenses incurred in connection with attending continuing education programs to assist them in remaining abreast of developments in corporate governance and other critical issues relating to the operation of public company boards.

*Director Stock Ownership Guidelines*

Our non-employee directors are subject to stock ownership guidelines. Under these guidelines, each non-employee director will be required, within five years of January 1, 2013, to hold stock valued at no less than five times the amount of the annual cash retainer paid to such director for service as a member of the Board of Directors, without reference to committee service. The current stock ownership goal for each of our non-employee directors is five times their annual cash retainers as of January 1, 2017 of $15,000, or $75,000, divided by the closing price of our common stock as of December 31, 2016 of $57.48, which equals a minimum share ownership requirement of 1,305 shares.

All vested and unvested restricted stock awards qualify towards satisfaction of the requirement. For any new director, compliance with the guidelines will be required within five years after being elected to the Board of Directors. As of December 31, 2016, each director subject to the guidelines met or exceeded the stock ownership requirements.

**Executive Officers of the Company**

The following table sets forth certain information as of the record date of March 9, 2017 concerning our executive officers:

| NAME AND CURRENT TITLE | AGE | BUSINESS EXPERIENCE |
|---|---|---|
| **John P. Case** Chief Executive Officer | 53 | Mr. Case's business experience is set forth in this Proxy Statement under "Director Nominees" on page 8. |
| **Sumit Roy** President and Chief Operating Officer | 47 | Mr. Roy has been our President since November 2015 and our Chief Operating Officer since October 2014. He served as Executive Vice President, Chief Investment Officer from October 2013 to November 2015. Prior to that, he served as Executive Vice President, Acquisitions from March 2013 to October 2013, after being promoted from his prior role as Senior Vice President, Acquisitions from September 2011 to February 2013. Prior to joining us in September 2011, Mr. Roy was an Executive Director, Global Real Estate, Lodging & Leisure for UBS Investment Bank. Mr. Roy has also held positions at Merrill Lynch, and at Cap Gemini Ernst & Young LLP. |
| **Paul M. Meurer** Executive Vice President, Chief Financial Officer and Treasurer | 51 | Mr. Meurer has been our Executive Vice President, Chief Financial Officer and Treasurer since joining us in 2001. Prior to joining us, he was a director in Merrill Lynch & Co.'s Real Estate Investment Banking Group (1992-2001), a real estate consultant with General Atlantic Partners (1991) and worked in the Real Estate Investment Banking Department at Goldman Sachs & Co. (1987-1990). |
| **Michael R. Pfeiffer** Executive Vice President, General Counsel and Secretary | 56 | Mr. Pfeiffer has been our Executive Vice President, General Counsel and Secretary since May 2002. He joined us in 1990 and served as Corporate Counsel until 1995, when he was named General Counsel and Secretary. Mr. Pfeiffer left us in September 2001 and served as Executive Vice President and General Counsel for Westfield Corporation, Inc., a retail shopping mall owner, until May 2002, at which time he returned to us as Executive Vice President, General Counsel and Secretary. Prior to joining us, Mr. Pfeiffer was in private practice with a law firm specializing in real estate transactional law and served as associate counsel with First American Title Insurance Company. He is a licensed attorney and member of the State Bar of California and Florida. Mr. Pfeiffer is a licensed Real Estate Broker in California and holds the real estate officer license for us. |
| **Neil M. Abraham** Executive Vice President, Chief | 45 | Mr. Abraham has been our Executive Vice President, Chief Investment Officer since November 2015. Prior to that, he was our Senior Vice President, Investments, a position he held from April 2015 to November 2015. Prior to joining us, Mr. Abraham was a Portfolio Manager for equity and mortgage REITs at Alliance Bernstein – Global Equities in New York (2007-2015). Prior to joining Alliance Bernstein, he held positions as Associate Principal for McKinsey & Company, and Vice President, Fixed Income Derivatives at Salomon Brothers (later Citigroup). |

Investment
Officer

*Executive Officers of the Company*

| NAME AND CURRENT TITLE | AGE | BUSINESS EXPERIENCE |
|---|---|---|
| **Benjamin N. Fox**<br>Senior Vice President, Asset and Portfolio Management | 37 | Mr. Fox has been our Senior Vice President, Asset and Portfolio Management since 2015. Prior to that, he was our Vice President, Asset Management, a position he held from 2013 to 2015. He joined us in 2007 and served as Acquisitions Director before being promoted to Associate Vice President in 2009, and then to Vice President of Strategic Investments in 2011. Prior to joining us, Mr. Fox worked in investment banking at JPMorgan and in merchant banking at Cappello Capital. |
| **Robert J. Israel**<br>Senior Vice President, Research | 57 | Mr. Israel has been our Senior Vice President, Research since 2006. He joined us in 1997 and served as Senior Research Director, Associate Vice President and Vice President of Research prior to being promoted to his current position. Prior to joining us, Mr. Israel was a Vice President of corporate banking for First National Bank and a Corporate Banker for City National Bank. |
| **Dawn Nguyen**<br>Senior Vice President, Portfolio Management | 54 | Ms. Nguyen has been our Senior Vice President, Portfolio Management since 2015. Prior to that, she was our Vice President, Portfolio Management, a position she held from 2007 to 2015. She joined us in 2001 as an Associate Vice President, Research before transitioning to the Portfolio Management department as a Director in 2005. Prior to joining us, Ms. Nguyen was a financial and real estate consultant for KPMG and Arthur Andersen, and a commercial lending officer at Bank of America and Citigroup. |
| **Sean P. Nugent**<br>Senior Vice President, Controller | 44 | Mr. Nugent has been our Senior Vice President, Controller since January 2017. Prior to that, he was our Vice President, Controller, a position he held from 2014 to December 2016. He joined us in 2006 and served as Accounting Manager before being promoted to Associate Vice President, Assistant Controller, in 2012. Prior to joining us, Mr. Nugent worked in various accounting positions for a number of San Diego companies. Mr. Nugent is a licensed Certified Public Accountant in California. |
| **Joel W. Tomlinson**<br>Senior Vice President, Acquisitions | 40 | Mr. Tomlinson has been our Senior Vice President, Acquisitions since 2015. Prior to that, he was our Vice President, Senior Director of Acquisitions, a position he held from 2011 to 2015. He joined us in 1999 and worked in a variety of capacities, including as an Acquisitions Director and Manager in the Portfolio Management Group. Mr. Tomlinson left us in 2006 to work in the franchise finance group at Merrill Lynch Capital. Subsequent to that, Mr. Tomlinson served as Senior Acquisitions Director for Cole Real Estate Investments, a net lease financing firm, until 2010, at which time he returned to us as Associate Vice President and Director of Acquisitions. |
| **Cary J. Wenthur**<br>Senior Vice President, Acquisitions | 53 | Mr. Wenthur has been our Senior Vice President, Acquisitions since 2015. Prior to that, he was our Vice President, Acquisitions, a position he held from 2003 to 2015. He joined us in 1997 as an Acquisitions Director. Prior to joining us, Mr. Wenthur was a Vice President and Loan Officer at a bank and an Appraiser and Loan Officer for a real estate company. |

**Executive Compensation**

**Compensation Discussion and Analysis**

This Compensation Discussion and Analysis section discusses the compensation policies and programs for the following executive officers of the company (the named executive officers or NEOs):

| NAME | CURRENT TITLE |
|---|---|
| John P. Case | Chief Executive Officer |
| Sumit Roy | President and Chief Operating Officer |
| Paul M. Meurer | Executive Vice President, Chief Financial Officer and Treasurer |
| Michael R. Pfeiffer | Executive Vice President, General Counsel and Secretary |
| Neil M. Abraham | Executive Vice President, Chief Investment Officer |

**Executive Summary**

The primary objectives of our compensation program are to:

ü Align the interests of management with those of the stockholders;

ü Link executive compensation to the company's short-term and long-term performance; and

ü Attract, motivate and retain highly qualified executive officers through competitive compensation arrangements.

We continue to adhere to best in class compensation and corporate governance practices as set forth in the following table:

| WHAT WE DO: | WHAT WE DO NOT DO: |
|---|---|
| ü DO align pay to performance by linking a substantial portion of compensation to the achievement of predefined performance metrics that | **X** Do NOT allow for uncapped award opportunities |

| | | | |
|---|---|---|---|
| | drive stockholder value creation | | |
| ü | DO cap payouts for awards under our Short-Term Incentive Program (STIP) and our Long-Term Incentive Program (LTIP) | X | Do NOT provide any perquisites to our named executive officers |
| ü | DO set meaningful and measurable performance goals at the beginning of the performance period and evaluate such performance over both an annual and multi-year period on a relative basis | X | Do NOT permit executives officers or directors to pledge or hedge our securities |
| ü | DO maintain stock ownership requirements for our directors, CEO, and other named executive officers | X | Do NOT incentivize excessive risk taking |
| ü | DO perform an annual compensation risk assessment to ensure our compensation programs and policies do not encourage excessive risk taking behavior | X | Do NOT pay accrued dividends on performance shares unless and until they vest |
| ü | DO allow for the Board to "clawback" incentive compensation in the event of certain financial restatements or incentive miscalculations | X | Do NOT provide our named executive officers with tax gross-ups on perquisites or other benefits |
| ü | DO employ the services of an independent compensation consultant | X | Do NOT provide for excise tax gross ups |
| ü | DO grant performance-based equity, which is "at-risk" and not guaranteed | X | Do NOT provide supplemental or other retirement plans, other than a 401(k) plan |

***Executive Compensation***

*2016 Performance*

Prior to reviewing the compensation program and earned amounts for our named executive officers, it is important to review and acknowledge the company's performance for the year. The company achieved solid growth and strong operating and financial performance in 2016. Here are some key highlights:

| **2016 Highlights:** | **Resulted in the following 2016 Achievements:** |
|---|---|
| We sourced $28.5 billion in real estate acquisition opportunities and closed on a company-record $1.86 billion in acquisitions. | **5.1% AFFO** |
| Our acquisitions further diversified the portfolio and improved our tenant credit quality, which enhanced the stability of our revenue. | **per Share Increase[1]** |
| Moody's and S&P raised their outlook on our Baa1/BBB+ credit ratings to "Positive," recognizing the growing strength of our credit profile. | |
| We raised $573 million in common equity capital, at attractive pricing. Additionally, with one of the highest credit ratings in the REIT industry, we issued $600 million in 10-year unsecured debt at the lowest yield for debt of this term in our company's history. | **5.3% Increase in Dividends** |
| We achieved a high level of year-end occupancy of 98.3%, while recapturing 105% of expiring rent on properties re-leased during the year. | **Paid per Share During 2016** |
| We increased the dividend six times throughout the year, and again in February 2017, growing the dividend by 6% compared to February 2016. | **16.0%** |
| We continued to capitalize on the scalability and efficiency of our business platform, with G&A expense as a percentage of rental revenue at 4.9%, the lowest in our history and the lowest amongst our net lease peers. We also achieved $1.13 net income per share. | **Total Stockholder Return** |

(1) *For a calculation of Adjusted Funds from Operations (AFFO) per share, see page 47 of our Annual Report on Form 10-K filed with the SEC on February 23, 2017, which also includes a GAAP reconciliation of net income available to common stockholders to this non-GAAP measure.*

The company's performance results are a significant contributor in determining the compensation awarded to our executives. Our compensation program is structured to effectively link compensation to the achievement of certain company performance metrics in order to create alignment with the interests of our stockholders. We believe our performance in 2016 demonstrates the effectiveness, over time, of the execution of our strategic business plan, and the alignment of our compensation program with our philosophy to reward executives for enhancing long-term stockholder value.

*Strategic Planning*

Our goal is to continue managing the company in a manner that supports sustainable, long-term value creation for stockholders. In 2016, the Board of Directors and the company's named executive officers completed an in-depth strategic review of each facet of our business, focusing on the long-term vision for our company. While discussion of the company's strategy is frequently a part of regularly scheduled Board meetings, this dedicated strategic review allowed the Board to further assess potential opportunities and threats to the business to properly position the company to continue to perform in the future. Additional members of management and outside experts were invited to participate in discussions on topics such as disruptive technologies, changing demographics, the macroeconomic and political landscape, and their implications for our company. We will continue to incorporate similar strategic reviews in our Board meetings and strive to stay in front of emerging trends by making adjustments to our strategy as needed.

***Executive Compensation***

*Favorable Say-on-Pay Vote and Stockholder Engagement*

We provide our stockholders with an annual advisory "say-on-pay" vote on the compensation of named executive officers. At our 2016 Annual Meeting of Stockholders, our stockholders expressed substantial support for the compensation of named executive officers, with approximately 96% of the votes cast approving the advisory say-on-pay vote. This continued support of our compensation program, as demonstrated below, reflects a strong alignment with the company's performance and long-term value creation for our stockholders.

During 2016, we continued to engage and interact with our active stockholders through various means of communication including in-person meetings and conference calls.

In addition to the say-on-pay results and feedback from stockholders (as provided), the Compensation Committee considered other factors in evaluating our executive compensation programs, including but not limited to:

ü The Compensation Committee's assessment of the interaction of our compensation program with our financial and operational objectives;
ü Recommendations provided by its independent consultant; and
ü A review of peer data.

Each factor is evaluated in the context of the Compensation Committee's responsibility to act in the company's best interest. The Compensation Committee reviewed the company's agreements for restricted stock and restricted stock unit awards and found them to be well aligned with current market practices. The Compensation Committee will continue to consider the outcome of say-on-pay proposals and stockholder input when making future compensation decisions for the named executive officers.

**Compensation Process**

*Compensation Consultant*

In 2016, the Compensation Committee retained FPL, a nationally-known independent executive compensation and benefits consulting firm specializing in real estate companies, to provide general executive compensation consulting services. In addition, the consultant performs special executive compensation projects and consulting services, as directed by the Compensation Committee. The consulting services provided by FPL include:

ü Evaluating the current compensation program design and guidelines for the named executive officers and assisting in structuring a compensation program that meets the objectives outlined by the Compensation Committee;
ü Providing peer information to assist the Compensation Committee in selecting the appropriate peer group;
ü Benchmarking the compensation for the named executive officers against the appropriate peer group;
ü Identifying the appropriate mix between compensation components, including base salary, annual incentives, and short-term and long-term incentive compensation to ensure proper incentive alignment;
ü Discussing market-based incentive programs, including performance metrics and target, within the peer group companies, and providing guidance and recommendations for modifications to program elements to ensure competitiveness; and
ü Reviewing an overview of industry trends as it relates to human capital across the entire real estate industry.

***Executive Compensation***

FPL reports to the Compensation Committee and works with management as directed by the Compensation Committee. The Compensation Committee retains the right to terminate or replace the consultant at any time. Pursuant to the Compensation Committee's charter, the Compensation Committee has the power to engage such consultants and other advisors as it deems necessary.

Through a review and consultation with FPL, the Compensation Committee assessed the independence of FPL in light of, among other factors, the independence factors established by the NYSE. As a result of this assessment, the Compensation Committee has determined that FPL's work raised no conflict of interest currently or during the year ended December 31, 2016.

*Peer Group Data*

The Compensation Committee uses comparison data from various companies it considers peers as a guide in its review and determination of base salaries, cash payments, equity awards, and long-term performance awards. Prior to approving the 2016 incentive compensation program, the Compensation Committee reviewed peer group data to assist in its determination of total target direct compensation (on an aggregate and individual basis), as well as the appropriate mix of equity versus cash, short-term versus long-term, and performance-based versus time-based awards to be paid or granted for 2016 performance. The Compensation Committee evaluates whether the compensation elements and levels that are provided to our named executive officers are generally appropriate relative to the compensation elements and levels provided to their counterparts at our peer companies, in light of our performance relative to our peers and in light of each named executive officer's contribution to our performance. This approach allows us to respond to competitive dynamics in the market and provides us with the flexibility needed to maintain and enhance our named executive officers' engagement, focus, and motivation for the future.

*2016 Peer Group for 2016 Compensation Decisions*

The Compensation Committee, with the help of FPL, periodically reviews the composition of our peer group and the criteria and data used in compiling our peer group to ensure that each company's size and operations remain comparable to ours. In January 2016, the Compensation Committee reviewed data provided by FPL regarding the appropriate companies to include in the peer group. The peer group recommended by FPL and used by the Compensation Committee for 2016 compensation decisions (2016 Peer Group), was amended from the prior year to include three companies: Equinix, Inc., Essex Property Trust, Inc. and VEREIT, Inc. Additionally, Aimco, CBL &

Associates Properties, Inc. and Duke Realty Corporation were removed from the 2016 Peer Group. Given our company's substantial growth in size and addition to the S&P 500 Index during 2015, the Compensation Committee determined these substitutions were warranted to ensure, among other factors, that our total and equity market capitalization remained near the median of the peer group for 2016. Our 2016 Peer Group consists of the following 17 public real estate companies:

| **2016 Peer Group** | |
|---|---|
| Avalon Bay Communities, Inc. | National Retail Properties, Inc. |
| DDR Corp. | SL Green Realty Corp. |
| Digital Realty Trust, Inc. | Spirit Realty Capital, Inc. |
| Equinix, Inc. | The Macerich Company |
| Essex Property Trust, Inc. | UDR, Inc. |
| Federal Realty Investment Trust | VEREIT, Inc. |
| HCP, Inc. | W.P. Carey, Inc. |
| Host Hotels & Resorts, Inc. | Welltower, Inc. |
| Kimco Realty Corporation | |

The companies in our 2016 Peer Group focus on a variety of asset classes, including those having a net lease component to the extent available, and those that are similar in size to us in terms of total market capitalization and equity market capitalization (common and preferred stock, partnership units convertible into stock and long and short-term debt). The companies were selected so that our total and equity market capitalization remained near the median of the peer group:

***Executive Compensation***

*2016 Peer Group Comparison*[(1)]
(in billions)

(1) *As of December 31, 2015, the 2016 Peer Group had total market capitalization ranging from approximately $8.1 billion to $37.2 billion, placing us in the 58*$^{th}$ *percentile of our peer group. In terms of equity market capitalization, we were in the 66*$^{th}$ *percentile of our peer group.*

*Management Involvement*

In setting compensation for named executive officers, the Compensation Committee solicits input from the CEO concerning each of the other named executive officers other than himself. In addition, from time to time, the Compensation Committee will direct management to work with the Compensation Committee's consultant in providing proposals, program design, and compensation recommendations. Each year, the CEO provides the Compensation Committee with a report of the company's operating and financial results for the past fiscal year relative to the company's performance metrics. He also discusses his personal assessment of individual performance of each of the other named executive officers. In addition, at the request of the Compensation Committee, the CEO makes recommendations regarding salary and incentive compensation awards for each named executive officer other than himself. The Compensation Committee considers these recommendations and other factors as discussed above in making the final determinations.

**Elements of Compensation**

In structuring executive compensation, the Compensation Committee considers how each component of compensation motivates performance, promotes retention, and creates long-term stockholder value. Base salaries are primarily intended to attract and retain highly qualified executives and to reward them for their continued service. Annual incentive cash payments, equity awards, and long-term performance shares are designed to (i) directly reward performance, (ii) achieve specific strategic and operating objectives, and (iii) provide incentives to create long-term stockholder value. All of our equity incentives are primarily intended to align named executive officers' long-term interests with stockholders' long-term interests, although we believe they also play a role in helping us reward performance and to attract and retain top executives. The following outlines the primary elements of our 2016 executive compensation program:

| ELEMENT | OBJECTIVE SERVED |
| --- | --- |
| *Base Salary* | Fixed base pay rewards performance of core job duties and recognizes individual achievements, contributions, and tenure. |
| *Short-term Incentive Program* | Variable cash and equity compensation motivates each executive to achieve our short-term corporate operating and financial goals, rewards for personal performance, ties the interests of executives with stockholders, and facilitates executive retention. |
| *Long-term Incentive Program* | Variable equity compensation motivates executives to achieve long-term financial goals, such as stock price appreciation on a relative basis to market. |
| *Equity Based Incentive Awards – Restricted Shares (Time-Based)* | Fixed equity compensation fosters retention and aligns the named executive officers' interest with the long-term interests of our stockholders. |

***Executive Compensation***

*Total Target Direct Compensation*

The Compensation Committee worked with FPL Associates, L.P. (FPL), the Compensation Committee's independent consultant, to determine the levels of total target direct compensation to achieve the appropriate balance between (i) cash and equity compensation, (ii) long-term and short-term compensation, (iii) performance-based and time-based equity, and (iv) fixed and variable compensation. The Compensation Committee reviewed the median and aggregate total target direct compensation within our peer group, based on market data provided in November 2015 by FPL, to assess the structure of the program, as well as individual and aggregate compensation levels. When establishing total target direct compensation levels for each named executive officer, the Compensation Committee gave consideration and special emphasis to individuals' personal contributions to the organization, as well as skill sets, qualifications, and experience. Other factors considered were historical pay and the recent trajectory of individual's pay. After review and consideration, the Compensation Committee approved the following total target direct compensation and structure for 2016 compensation. Total target direct compensation for 2016 was composed of (i) base salary, (ii) target annual short-term incentive opportunity (two-thirds cash and one-third equity), (iii) performance shares, and (iv) the annual grant of restricted shares. In the aggregate, the 2016 total target direct compensation established for the named executive officers approximated the estimated peer group median.

**TOTAL TARGET DIRECT COMPENSATION**

| **EXECUTIVE** | **2016** |
|---|---|
| John P. Case | $6,250,000 |
| Sumit Roy | $3,000,000 |
| Paul M. Meurer | $2,100,000 |
| Michael R. Pfeiffer | $1,500,000 |
| Neil M. Abraham | $1,250,000 |
| **Total** | **$14,100,000** |

For our CEO, the Compensation Committee used the following structure for determining the various elements of direct compensation payable for 2016:

Set forth below is a table that illustrates the application of the structure for 2016 compensation decisions for our CEO.

| CEO ANNUAL CASH | CEO ANNUAL EQUITY | | | CEO TOTAL |
|---|---|---|---|---|
| | TARGET STIP | TARGET LTIP | ANNUAL | TOTAL TARGET |