

REALTY INCOME CORP

Form DEF 14A

March 29, 2013

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**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 ☒ x

Filed by a Party other than the Registrant ☐ o

Check the appropriate box:

- ☐ o Preliminary Proxy Statement
- ☐ o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- ☒ x Definitive Proxy Statement
- ☐ o Definitive Additional Materials
- ☐ o 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):

- ☒ x No fee required.
- ☐ o 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):
 - (4) Proposed maximum aggregate value of transaction:
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- ☐ o Fee paid previously with preliminary materials.
- ☐ o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
 - (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:

(4)

Date Filed:

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March 29, 2013

Dear Stockholder:

You are cordially invited to attend the 2013 Annual Meeting of Stockholders of Realty Income Corporation, a Maryland corporation, to be held at 9:00 AM, local time, on May 7, 2013 at the California Center for the Arts Escondido, 340 North Escondido Boulevard, Escondido, California 92025.

At the Annual Meeting, you will be asked to consider and vote upon:

(1) The election of the seven directors named in the accompanying Proxy Statement to serve until the 2014 annual meeting of stockholders and until their respective successors are duly elected and qualify.

(2) The ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2013.

(3) A non-binding advisory proposal to approve the compensation of our named executive officers, as described in the accompanying Proxy Statement (the "say on pay vote").

(4) The transaction of such other business as may properly come before the Annual Meeting or any postponements or adjournments of the Annual Meeting.

These proposals are more fully described in the accompanying Proxy Statement. We urge you to carefully review the Proxy Statement.

Our Board of Directors recommends a vote FOR the election of the seven director nominees to serve until the next annual meeting and until their respective successors are duly elected and qualify; a vote FOR the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2013; and a vote

FOR the say on pay vote.

YOUR VOTE IS IMPORTANT TO US, WHETHER YOU OWN FEW OR MANY SHARES!

Please complete, date and sign the enclosed proxy card and return it in the accompanying postage paid envelope or authorize your proxy by internet or telephone, even if you plan to attend the Annual Meeting. If you attend the Annual Meeting, you may, if you wish, withdraw your proxy and vote in person.

Sincerely,

/s/ THOMAS A. LEWIS
THOMAS A. LEWIS
*Vice Chairman of the Board of Directors,
Chief Executive Officer*

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REALTY INCOME CORPORATION

A Maryland corporation

600 La Terraza Boulevard

Escondido, California 92025-3873

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TIME AND DATE

9:00 AM, Pacific Daylight Time, on Tuesday, May 7, 2013.

PLACE

California Center for the Arts Escondido

340 North Escondido Boulevard

Escondido, California 92025.

ITEMS OF BUSINESS

PROPOSAL 1 The election of the following seven nominees to serve until the 2014 annual meeting of stockholders and until their respective successors are duly elected and qualify: (1) Kathleen R. Allen, Ph.D., (2) A. Larry Chapman, (3) Priya Cherian Huskins, (4) Thomas A. Lewis, (5) Michael D. McKee, (6) Gregory T. McLaughlin and (7) Ronald L. Merriman.

PROPOSAL 2 The ratification of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2013.

PROPOSAL 3 The non-binding advisory approval of the compensation of our named executive officers as described in this Proxy Statement.

Additionally, the transaction of such other business as may properly come before the Annual Meeting or any postponements or adjournments of the Annual Meeting.

The above items of business are more fully described in the accompanying Proxy Statement, which forms a part of this Notice.

Management will report on the current activities of Realty Income 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.

RECORD DATE

You can vote if you were a holder of record of our common stock at the close of business on March 7, 2013.

PROXY VOTING

YOUR VOTE IS IMPORTANT! If you plan to be present, please notify Michael R. Pfeiffer, Executive Vice President, General Counsel and Secretary, so that identification can be prepared for you. Whether or not you plan to attend the Annual Meeting, please execute, date and promptly return the enclosed proxy or authorize your proxy by internet or telephone.

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A return envelope is enclosed for your convenience and requires no postage for mailing in the United States. If you are present at the Annual Meeting, you may, if you wish, withdraw your proxy and vote in person.

March 29, 2013

By Order of the Board of Directors,

/s/ MICHAEL R. PFEIFFER

Michael R. Pfeiffer

Executive Vice President, General Counsel and Secretary

Only holders of record of our common stock at the close of business on the Record Date will be entitled to notice of and to vote at the Annual Meeting or any postponements or adjournments thereof.

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REALTY INCOME CORPORATION

600 La Terraza Boulevard

Escondido, California 92025-3873

PROXY STATEMENT

FOR THE

ANNUAL MEETING OF STOCKHOLDERS

May 7, 2013

Beginning at 9:00 A.M. Pacific Daylight Time

and at any postponements or adjournments of the Annual Meeting

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Our Board of Directors is soliciting proxies for the 2013 Annual Meeting of Stockholders, or the Annual Meeting. This Proxy Statement contains important information for you to consider when deciding how to vote on the matters brought before the Annual Meeting. In this Proxy Statement, Realty Income, the company, we and our refer to Realty Income Corporation, a Maryland corporation. A copy of our 2012 Annual Report, the Notice of Annual Meeting, this Proxy Statement and the accompanying proxy card are being mailed to our stockholders beginning on or about April 1, 2013.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to be Held on May 7, 2013:

The Notice of Annual Meeting, this proxy statement, a form of proxy card and our 2012 annual report to stockholders are available on our website at www.realtyincome.com/investing/2013-annual-docs.shtml. You are encouraged to access and review all of the information contained in the proxy materials before voting.

FREQUENTLY ASKED QUESTIONS

Why did I receive these proxy materials?

We are providing these proxy materials to our stockholders in connection with the solicitation of proxies by our Board of Directors for exercise at the Annual Meeting.

You are invited to attend our Annual Meeting, which will be held at the California Center for the Arts Escondido, 340 North Escondido Boulevard, Escondido, California 92025. Stockholders will be admitted to the Annual Meeting at 8:30 AM and refreshments will be provided.

Do I need a ticket to attend the Annual Meeting?

No, you do not need a ticket, but you will need to register and identify yourself as a stockholder in order to receive certain Annual Meeting materials when you arrive.

What is the purpose of the Annual Meeting?

At the Annual Meeting, stockholders will consider and vote upon:

- The election of seven directors to serve until the 2014 annual meeting of stockholders and until their respective successors are duly elected and qualify;

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- The ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2013;
- A non-binding advisory vote to approve the compensation of our named executive officers as described in this Proxy Statement (the "say on pay vote");
- The transaction of such other business as may properly come before the Annual Meeting or any postponements or adjournments of the Annual Meeting.

Who is entitled to vote at the Annual Meeting?

Holders of our common stock at the close of business on March 7, 2013 are entitled to receive notice of and to vote their shares at the Annual Meeting. As of that date, there were 178,926,654 shares of common stock outstanding and entitled to vote. Each outstanding share of our common stock is entitled to one vote on each matter properly brought before the Annual Meeting.

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What is the difference between holding shares as a stockholder of record or as a beneficial owner?

If your shares are registered directly in your name with our transfer agent, Wells Fargo Shareowner Services, you are considered the stockholder of record. In this case, you receive your dividend check from Wells Fargo Shareowner Services. This year we have engaged the services of Broadridge Financial Solutions (Broadridge) to mail our proxy materials to our registered holders.

If your shares are held in a brokerage account, or by a bank or other holder of record, you are considered the beneficial owner of shares held in street name. These proxy materials have been forwarded to you by your broker, bank, or other holder of record. As the beneficial owner, you have the right to direct your broker, bank, or other holder of record on how to vote your shares by using the voting instruction form included in the mailing or by following their instructions for authorizing your proxy by telephone or on the internet.

Is it necessary to vote if my shares are held in my brokerage account?

It is important to vote your shares even if your shares are held in a brokerage account. Otherwise, your shares may not be voted on certain matters unless you have a Legal Proxy in place authorizing them to vote your shares on your behalf, or you provide voting instructions to your broker, bank or other holder of record. If you are unsure, then please vote your Realty Income shares using the voting information provided.

How do I vote?

You may vote using any of the following methods:

By Mail

Be sure to complete, sign and date the proxy card or voting instruction form and return it in the prepaid envelope. If you are a stockholder of record, and the prepaid envelope is missing, please mail your completed proxy to: Realty Income Corporation, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

By Telephone

Stockholders may authorize their proxies by telephone. The telephone voting procedures are designed to authenticate your identity, to allow you to authorize your proxy, to give your voting instructions and to confirm that those

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instructions have been properly recorded. You may authorize your proxy by calling the toll-free number on the proxy card or your broker's voting instruction form. Please have your card or form available when you call as it contains your control number, which will be required to identify yourself and authorize your proxy to vote your shares. Telephone facilities will be available 24 hours a day and will close at 11:59 P.M. Central Daylight Time on May 6, 2013. If you authorize your proxy by telephone, you do not have to return your proxy or voting instruction form.

By Internet

Stockholders may authorize their proxies on the internet by going to the website indicated on the proxy card or your broker's voting instruction form. Step-by-step instructions on how to authorize or vote your proxy are provided on the voting sites.

In person at the Annual Meeting

All stockholders of record may vote in person at the Annual Meeting. You may also be represented by another person at the meeting by executing a proper proxy designating that person as your representative. If you are a beneficial owner of shares, you must obtain a Legal Proxy from your broker, bank or other holder of record and present it to the inspector of election at the Annual Meeting to be able to vote at the Annual Meeting.

What happens if I do not indicate my voting preferences?

If you are a stockholder of record and you submit your proxy card or authorize your proxy by telephone or internet, but do not indicate your voting preferences, the persons named in the proxy will vote the shares represented by that proxy FOR the election to the Board of Directors of the seven nominees listed in this proxy statement, FOR the ratification of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2013, FOR the say on pay vote, and in the discretion of the proxy holders on any other matter that may properly come before the Annual Meeting.

If you hold your shares through a broker and do not instruct your broker on how to vote your shares, your broker cannot vote your shares on the election of directors or the say on pay vote, but can vote your shares on the proposal regarding ratification of the appointment of our auditor.

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Can I change my vote after I submit my proxy?

If you are a stockholder of record, you may revoke your proxy at any time before it is voted at the Annual Meeting by doing any one of the following:

- delivering to our Corporate Secretary a written notice of revocation prior to or at the Annual Meeting;
- signing and returning to our Corporate Secretary a proxy bearing a later date;
- authorizing another proxy by telephone or on the internet (your most recent telephone or internet authorization is used);
or
- voting in person at the Annual Meeting.

If your shares are held in the name of a broker, bank, trust or other nominee, you may change your voting instructions by following the instructions provided by your broker, bank or other record holder in the voting instruction form.

Your attendance at the Annual Meeting will not by itself be sufficient to revoke a proxy unless you vote in person or give written notice of revocation to our Corporate Secretary before the polls are closed. Any written notice revoking a proxy should be sent to Michael R. Pfeiffer, our Corporate Secretary, at our corporate offices at 600 La Terraza Boulevard, Escondido, California 92025-3873.

How does our Board of Directors recommend you vote on the proposals?

Our Board of Directors recommends a vote FOR the election of the seven director nominees listed in this proxy to serve until the 2014 annual meeting and until their respective successors are duly elected and qualify. Our Board of Directors recommends a vote FOR the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the year ended December 31, 2013 and FOR the say on pay vote.

What are the quorum and voting requirements on our three proposals mentioned in this Proxy Statement?

The presence of the holders of a majority of outstanding shares of common stock entitled to vote at the Annual Meeting, present in person or represented by proxy, is necessary to constitute a quorum. Abstentions and broker non-votes are counted as present for purposes of determining a quorum. A broker non-vote occurs when a bank, broker or other holder of record holding shares for

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a beneficial owner properly executes and returns a proxy card, but does not vote because the broker or other holder does not have discretionary voting power and has not received voting instructions from the beneficial owner.

Proposal 1 Election of Directors. Our Bylaws include a majority voting standard for the election of directors in uncontested elections, which are generally defined as elections in which the number of nominees does not exceed the number of directors to be elected at the meeting. In the election of directors, you may either vote **FOR**, **AGAINST** or **ABSTAIN** as to each nominee. Cumulative voting is not permitted. Under the majority voting standard, in uncontested elections of directors, such as this election, each director must be elected by the affirmative vote of a majority of the votes cast by the shares present in person or represented by proxy and entitled to vote. A majority of the votes cast means that the number of votes cast **FOR** a candidate for director exceeds the number of votes cast **AGAINST** that candidate for director. Brokers do not have discretionary authority to vote for directors. Abstentions and broker non-votes will not count as a vote cast **FOR** or **AGAINST** a nominee's election and thus will have no effect in determining whether a director nominee has received a majority of the votes cast.

In accordance with the policy adopted by our Board of Directors, in this election, an incumbent candidate for director who does not receive the required votes for re-election is expected to offer his or her resignation to the Board of Directors. The Nominating/Corporate Governance Committee of the Board of Directors, or a committee of independent directors in the event the incumbent is a member of the Nominating/ Corporate Governance Committee, will then make a determination as to whether to accept or reject the tendered resignation, generally within 90 days after certification of the election results of the stockholder vote. Following such determination, we will publicly disclose the decision regarding any tendered resignation and the rationale behind such decision in a filing of a Current Report on Form 8-K with the Securities and Exchange Commission (**SEC**). If a director's offer to resign is not accepted by the Board of Directors (or properly constituted committee) or such director does not otherwise submit his or her resignation to the Board of Directors, such director shall continue to serve until his or her successor is duly elected, or his or her earlier resignation or removal.

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Proposal 2 Ratification of Selection of Independent Registered Public Accounting Firm. The affirmative vote of a majority of all the votes cast is necessary for the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2013. Accordingly, abstentions will have no effect on the outcome of the vote with respect to ratification of the independent registered public accounting firm for the year ending December 31, 2013. If you are a beneficial owner, your bank, broker or other holder of record is permitted to vote your shares on the ratification of accountants if the broker does not receive voting instructions from you, and thus broker non-votes are not expected to result from this proposal.

Proposal 3 Say on Pay Vote. The affirmative vote of a majority of all the votes cast is necessary for the approval of the say on pay vote. Brokers do not have discretionary authority to vote your shares on the say on pay vote. Abstentions and broker non-votes will not be counted as votes cast and will have no effect on the outcome of the vote.

Will any other business be conducted at the Annual Meeting?

Our Board of Directors does not know of any matters to be presented at the meeting other than those mentioned in this Proxy Statement. If any other matters are properly brought before the meeting, it is intended that the proxies will be voted in accordance with the discretion of the person or persons voting the proxies. Under the New York Stock Exchange rules, if you are a beneficial owner, your bank, broker or other holder of record may not vote your shares on any contested stockholder proposal without instructions from you.

If the Annual Meeting is postponed or adjourned for any reason, at any subsequent convening or resumption of the Annual Meeting, all proxies will be voted in the same manner as such proxies would have been voted at the Annual Meeting as originally convened (except for any proxies that have effectively been revoked or withdrawn).

Who will count the vote?

Representatives of Broadridge will tabulate the votes and act as inspector of election.

Can I access the Notice of Annual Meeting, Proxy Statement and 2012 Annual Report on the internet?

These materials are available on our website and can be accessed at www.realtyincome.com/investing/2013-annual-docs.shtml.

Who bears the cost of soliciting proxies?

We will bear the cost of soliciting proxies from our stockholders. In addition to solicitation by mail, our directors, officers, employees and agents may solicit proxies by telephone, telegram, internet or otherwise. These directors, officers and employees will not be additionally compensated for the solicitation, but may be reimbursed for out-of-pocket expenses incurred in connection with the solicitation. We have retained Georgeson Inc. to assist in the solicitation of proxies for a fee of approximately \$7,500 plus reasonable out-of-pocket costs and expenses. Copies of solicitation material will be furnished to brokerage firms, fiduciaries and other custodians who hold shares of our common stock of record for beneficial owners for forwarding to such beneficial owners. We

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may also reimburse persons representing beneficial owners for their reasonable expenses incurred in forwarding such material.

Stockholders who authorize their proxies through the internet should be aware that they may incur costs to access the internet, such as usage charges from telephone companies or internet service providers and these costs must be borne by the stockholder.

Our common stock is traded on the New York Stock Exchange, or NYSE, under the ticker symbol **O**. On March 7, 2013, the last reported sale price for our common stock on the NYSE was \$46.01 per share.

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.

* * * *

The date of this Proxy Statement is

March 29, 2013.

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PROPOSAL 1

ELECTION OF DIRECTORS

Director Nominees

The authorized number of directors under our Bylaws has been set at seven and our Board of Directors currently consists of seven directors. Based upon the recommendation of our Nominating/Corporate Governance Committee, our Board of Directors has nominated all seven of the following directors for re-election at the Annual Meeting to serve for a one-year term expiring at the annual meeting in 2014 and until their respective successors have been duly elected and qualify:

- | | |
|----|--------------------------|
| 1. | Kathleen R. Allen, Ph.D. |
| 2. | A. Larry Chapman |
| 3. | Priya Cherian Huskins |
| 4. | Thomas A. Lewis |
| 5. | Michael D. McKee |
| 6. | Gregory T. McLaughlin |
| 7. | Ronald L. Merriman |

For more information regarding our nominees, please see Board of Directors below.

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 financial statements for the year ending December 31, 2013. 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 interests 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 for fiscal year 2013. 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 appointed KPMG LLP notwithstanding the failure of the stockholders to ratify its appointment. 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 AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2013.

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PROPOSAL 3

ADVISORY VOTE TO APPROVE THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS

Our Board of Directors has determined to currently hold an annual say on pay advisory vote. In accordance with our Board of Directors determination and Section 14A of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and as a matter of good corporate governance, we are asking our stockholders to approve on a non-binding, advisory basis the compensation of our named executive officers (which consist of our Chief Executive Officer, Chief Financial Officer and our next three highest paid executives), as such compensation is described in the Compensation Discussion and Analysis section beginning on page 22, the tabular disclosure regarding such compensation beginning on page 36 and the accompanying narrative disclosure set forth in this proxy statement.

Our compensation programs are designed to:

1. Attract and retain qualified individuals of high integrity;
2. Motivate these individuals to enhance the Company's performance, measured by both short-term and long-term achievements; and
3. Link executive and stockholder interests through incentive-based compensation.

We believe that our compensation policies and procedures are competitive, are focused on pay-for-performance principles and are strongly aligned with the long-term interests of our stockholders. We also believe that both the Company and our stockholders benefit from responsive corporate governance policies. The following is a summary of the key highlights of our executive compensation program:

- **We emphasize pay for performance.** Our compensation program is designed to align company-wide financial and operational achievements and stock price performance with the annual cash bonuses and equity awards granted to our named executive officers. Our annual cash bonuses and shares of restricted stock were paid based upon the Compensation Committee's year-end assessment of our performance under the following key short term and long term performance metrics, and ratings, for 2012 of:

- (i) Short term stockholder returns (weighted 15%, rating Outstanding);
- (ii) The strength of our Balance Sheet (weighted 20%, rating Excellent);
- (iii) Short term growth in earnings metrics (weighted 15%, rating Average);
- (iv) Portfolio performance (weighted 10%, rating Good);
- (v) Acquisitions (weighted 10%, rating Outstanding);
- (vi) Long term (3 year and 5 year) relative Total Stockholder Returns (TSR) (weighted 20%, rating Outstanding); and
- (vii) Long term growth in earnings metrics (weighted 10%, rating Good).

The long-term performance measures were added in 2012 to ensure a balanced approach and further alignment with the interests of our stockholders.

For 2012, based on our strong performance under our performance metrics, we paid 25% above target multiples for cash bonuses and equity awards for each of our named executive officers, other than Mr. Case, who received 71% above target multiple for his cash bonus and 50% above target multiple for his equity awards, based on his leadership role in achieving the highest annual level of acquisitions (in dollar amount) in our history for the second year in a row.

- **Alignment of executive compensation with the creation of value for our stockholders.** We achieved 2012 Total Stockholder Returns of 20.1%. This one-year Total Stockholder Return was at the 76th and 52nd percentile compared to our

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geography and size peer groups, respectively. In 2012, approximately 86% of our CEO's total direct compensation and approximately 77%-81% for our other named executive officers' total direct compensation constituted compensation that was earned based on our performance or has a value which is derived from our stock price.

(continued on next page)

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- **A flexible approach to annual cash incentive compensation and equity based long-term incentive awards.**

Commencing in 2012, the Compensation Committee established targeted goals under each performance metrics to guide it in its evaluation of Company performance and its determination of annual cash bonuses and equity awards. The Compensation Committee employs targeted multiples of salary as guidelines for determination of cash bonuses and equity award values when performance approximates targeted (or good) performance and pays in excess of these multiples for excellent or outstanding performance. While the program provides more structure to the Compensation Committee's determinations, it also preserves the Compensation Committee's flexibility to exercise its discretion in assessing Company performance (including a comparison to our peer group's performance), market conditions and any other relevant data. This ultimately helps to ensure that the incentive bonus program is both responsive to market conditions and linked to the actual performance of the Company.

- **We are mindful of the concerns of our stockholders regarding executive compensation pay practices.** Other highlights of our compensation program include:

- In 2012, a stock ownership program was adopted for our directors, and executive officers with a position of executive vice president and above, with the CEO required to own a fixed number of shares based on five times his base salary;
- In 2012, an anti-hedging policy was implemented that prohibits directors, officers, employees and their families from entering into speculative transactions involving the Company's stock;
- There are no tax gross up payments;
- Severance payments are limited to a maximum of 18 months of salary plus 12 months of bonus; and
- At our 2012 Annual Meeting of Stockholders, our stockholders expressed substantial support for the compensation of our named executive officers, with approximately 91% of the votes cast for approval of the advisory say on pay vote.

Our Board of Directors believes that the information provided above and within the Executive Compensation section of this proxy statement demonstrates that the executive compensation program was designed appropriately and is working to ensure that management's interests are aligned with our stockholders' interests to support long-term value creation.

The following resolution will be submitted for a stockholder vote at the annual meeting:

RESOLVED, that the stockholders of Realty Income Corporation (Realty Income) approve, on an advisory basis, the compensation of Realty Income's named executive officers, as disclosed in the Compensation Discussion and Analysis section and the related tabular and narrative disclosure set forth in the proxy statement.

The say on pay vote is advisory, and therefore not binding on us, the Compensation Committee or our Board of Directors.

We currently conduct annual say on pay advisory votes and we expect to conduct the next say on pay advisory vote at our 2014 annual meeting of stockholders.

OUR BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR ADOPTION OF THE RESOLUTION APPROVING THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS, AS DESCRIBED IN THE COMPENSATION DISCUSSION AND ANALYSIS SECTION AND THE RELATED TABULAR AND NARRATIVE DISCLOSURE SET FORTH IN THIS PROXY STATEMENT.

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The following table sets forth certain information as of March 7, 2013 concerning our current directors. Each person listed below is a director nominee for re-election at the Annual Meeting.

| Name | Title | Age |
|--------------------------|---|------------|
| Kathleen R. Allen, Ph.D. | Director | 67 |
| A. Larry Chapman | Director | 66 |
| Priya Cherian Huskins | Director | 40 |
| Thomas A. Lewis | Vice Chairman and Chief Executive Officer | 60 |
| Michael D. McKee | Chairman | 67 |
| Gregory T. McLaughlin | Director | 53 |
| Ronald L. Merriman | Director | 68 |

Board of Director Biographies

The information presented below highlights each director'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. Finally, we value their significant experience on other company boards of directors and board committees.

Kathleen R. Allen, Ph.D.

Kathleen R. Allen, Ph.D. has been our director since February 2000. She is a professor at the Marshall School of Business and the 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). Dr. Allen incorporated a non-profit institute, the National Network for Technology Entrepreneurship and Commercialization (N2TEC), in January 2006. This institute is dedicated to economic development through technology entrepreneurship and Dr. Allen is the Chief Executive Officer and serves on its board of directors. She also serves as a consultant to a medical technology venture and an aerospace company and is the author of 17 books in the field of entrepreneurship and technology, a field in which she is considered an expert. Dr. Allen is chairwoman of our Strategic Planning Committee and is a member of our Audit Committee and our Compensation Committee.

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 start-up and early growth companies to develop effective leadership and team-building skills, which she has implemented during her participation on various board committees. With her years of experience in risk management in the areas of start-up ventures and the development of new technologies, Dr. Allen brings to the Board of Directors achievement in strategic business planning, which is a key part of our overall strategy.

A. Larry Chapman

A. Larry Chapman has been our director since February 2012. He 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; and member and past trustee of the International Council of Shopping Centers. Mr. Chapman is a member of our Audit and Compensation Committees.

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Mr. Chapman's extensive commercial real estate experience, across many industries and tenant types, provides valuable insight and expertise to the Board 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.

Priya Cherian Huskins

Priya Cherian Huskins has been our director since December 2007. She 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, and served on the board of directors of the National Association of Corporate Directors, Silicon Valley Chapter (2006-2013). Ms. Huskins is Chairwoman of our Nominating/Corporate Governance Committee and is a member of our Strategic Planning Committee.

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 ways that corporate governance can enhance stockholder value. Ms. Huskins's experience makes her a valuable component of a well-rounded Board of Directors and a key member of both committees on which she serves.

Thomas A. Lewis

Thomas A. Lewis is our Chief Executive Officer. He is also vice chairman of our Board of Directors and has been a member of our Board of Directors since September 1993. Mr. Lewis joined us in 1987 and has served in a variety of executive positions, including Senior Vice President, Capital Markets until 1997 when he was named Chief Executive Officer. In 2000-2001, he also held the position of President. Prior to joining us, Mr. Lewis was an executive with Johnstown Capital, a real estate investment company (1982-1987), an investment specialist with Sutro & Co., Inc. (1979-1982), and in marketing with Procter & Gamble (1974-1979). He has also served as a member of the board of directors and is chairman of the compensation committee of Sunstone Hotel Investors, Inc. (NYSE: SHO) (2006-present).

As our Chief Executive Officer, Mr. Lewis has demonstrated leadership capability and extensive knowledge of financial and operational issues facing real estate organizations. His vast understanding of real estate investment trusts and financial strategy, in challenging environments, has helped to guide us and the Board of Directors through the general economic turbulence in recent years. In addition, Mr. Lewis's knowledge of all aspects of our business and history, combined with his drive for innovation and excellence, position him as a valuable member of, and important contributor to, our Board of Directors.

Michael D. McKee

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Michael D. McKee has been our director since August 1994 and Chairman of the Board since February 2012. He is the Chief Executive Officer of Bentall Kennedy (U.S.), a registered real estate investment advisor (February 2010-present). He was the Vice Chairman (1999-2008) and Chief Executive Officer (2007-2008) of The Irvine Company, a privately-held real estate investment company, as well as Chief Operating Officer (2001-2007), Chief Financial Officer (1997-2001) and Executive Vice President (1994-1999) of The Irvine Company. 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) where he serves as Lead Director, 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). In addition to being the chairman of our Board of Directors, Mr. McKee is a member of our Compensation Committee and our Nominating/Corporate Governance Committee.

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

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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.

Gregory T. McLaughlin

Gregory T. McLaughlin has been our director since June 2007. Mr. McLaughlin is currently the President and Chief Executive Officer of the Tiger Woods Corporation and Philanthropic Foundation in Irvine, California (1999-present). Prior to joining the Woods Corporation, Mr. McLaughlin was 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 board of directors of the Tiger Woods Foundation (2005-present). Mr. McLaughlin is Chairman of the Compensation Committee and is a member of our Audit Committee and our Strategic Planning Committee.

Mr. McLaughlin's business and legal experience includes tax exempt organizations and financing as well as business development, capital raising and program development. Additionally, his leadership skills in managing not-for-profit 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 Director committees. With his diverse background, Mr. McLaughlin offers a unique perspective to the Board of Directors on a variety of business and legal matters.

Ronald L. Merriman

Ronald L. Merriman has been our director since July 2005. He 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 & 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 has served on the board of directors and is the chairman of the audit committee of the following public companies: Aircastle Limited (NYSE: AYR)(2006-present), Pentair, Ltd., formerly Pentair, Inc. (NYSE: PNR)(2005-present) and Haemonetics Corporation (NYSE: HAE)(2005-present). Additionally, he serves on the compensation committee for both Aircastle Limited (2012 Present) and Haemonetics Corporation (2011 Present). Mr. Merriman is Chairman of our Audit Committee and is a member of our Nominating/Corporate Governance Committee and our Strategic Planning Committee.

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 Chairman 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.

Corporate Governance

We believe that nothing is more important than a company's reputation for integrity and serving as a responsible fiduciary for its stockholders. We are committed to managing the Company for the benefit of our stockholders and are focused on maintaining good corporate governance. Practices that illustrate this commitment include:

- Our Board of Directors is comprised of six independent, non-employee directors and one employee director (the Chief Executive Officer and Vice Chairman of the Board);
- Our Board of Directors is elected on an annual basis;
- We employ a majority vote standard for director elections;
- Our Compensation Committee works with an independent consultant, in conducting annual compensation reviews for our key executives, and compensates each individual based on reaching certain performance metrics that determine the success of the Company; and
- We adhere to all other corporate governance principles outlined in our Corporate Governance Guidelines document.

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The Charters of each of our standing committees, our Code of Business Ethics and our Corporate Governance Guidelines are posted on our website at www.realtyincome.com and will be provided without charge upon request to the Corporate Secretary, Realty Income Corporation, 600 La Terraza Boulevard, Escondido, CA 92025-3873. During 2012, in accordance with the terms of each of our Committee Charters, each of our respective committees reviewed its charter. Each of our Audit Committee, Strategic Planning Committee, Compensation Committee and Nominating/Corporate Governance Committee determined that no updates to their respective charters were needed in 2012.

Code of Business Ethics. We have adopted a Code of Business Ethics that applies to our employees, officers and directors. 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. Our Code of Business Ethics covers all areas of professional conduct, including conflicts of interest, insider trading and confidentiality, as well as requiring strict adherence to all laws and regulations applicable to our business and industry. We conduct annual training of employees regarding ethical behavior and require all employees to acknowledge the terms of, and abide by, our Code of Business Ethics. We intend to disclose any future amendments to or waivers of certain provisions of our Code of Business Ethics applicable to our principal executive officer, principal financial officer, principal accounting officer, controller and individuals performing similar functions on our website at www.realtyincome.com within five business days following such waiver or as otherwise required by the Securities and Exchange Commission (SEC) or the NYSE.

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.

Anti Hedging Policy. 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 transactions using derivative securities, or otherwise participating in hedging, stop loss, or other speculative transactions involving our securities by officers, directors, other employees and their family members. Short selling our securities, trading in any puts, calls, covered calls or other derivative products involving our securities, or the writing of purchase or call options, short sales and other similar transactions are also prohibited for our officers, directors, other employees and family members.

Planned Adoption of Compensation Clawback Policy. We expected the SEC, in accordance with the requirements of the Dodd-Frank Act, to issue in 2012 regulations regarding clawback policies. We had intended to implement our own formal clawback policy once the applicable SEC regulations were enacted. The SEC did not enact regulations in 2012, but has indicated that it will propose such regulations. We intend to adopt a clawback policy that will apply to our executive officers, in conformity with the SEC regulations, once they have been implemented. We have chosen to wait to adopt a formal policy to ensure that our policy will be fully compliant with SEC regulations.

Stock Ownership Program. In 2012, we adopted a stock ownership program for our directors, and executive vice presidents and above, with our CEO required to own a fixed number of shares based on five times his base salary. A detailed description of each of these programs and the minimum share ownership requirements is included below on page 20 and page 34 for directors and executives, respectively.

Committee Charters. Our Board of Directors has adopted a charter for each of the Audit Committee, the Compensation Committee, the Nominating/Corporate Governance Committee and the Strategic Planning Committee. Each of our charters is reviewed annually. Our Board of Directors may, from time to time, establish certain other committees to facilitate our management. We have also 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 perform its functions. The guidelines include information about the composition of the Board of Directors, orientation and continuing education, director compensation, Board of Directors meetings, Board of Directors committees, management succession, evaluation and compensation of senior officers, expectations of directors and information regarding the annual performance evaluation of the Board of Directors.

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Social Responsibility and Ethical Standards. We are committed to being socially responsible and conducting our business according to the highest ethical standards. Our employees enjoy compensation that is in line with those of our peers and competitors, including healthcare benefits for employees and their families; participation in a 401(k) plan with a matching contribution by Realty Income; competitive vacation and time-off benefits; paid maternity leave and an infant-at-work program for new parents. Our employees also have access to members of our Board of Directors to report any suspicion of misconduct, by any member of our senior management or executive team. We also have a long-standing commitment to equal employment opportunity and adhere to all Equal Employer Opportunity Policy guidelines.

With respect to our vendors and tenants we apply the principles of full and fair disclosure in all of our business dealings, as outlined in our Corporate Code of Business Ethics. We are also committed to dealing fairly with all of our customers, suppliers and competitors.

Environmental Practices. Our focus on energy related matters is demonstrated by how we manage our day-to-day activities in our corporate headquarters building. With respect to other properties that we own, which are net-leased to our tenants who are responsible for maintaining the buildings, we encourage energy conservation and environmental sustainability practices wherever possible. In our headquarters building we promote energy conservation and encourage the following practices:

- Powering down office equipment at the end of the day;
- Setting fax and copier machines to energy saver mode ;
- Encouraging employees to use duplex copy mode to reduce paper usage whenever possible;
- Employing an automated lights out system that is activated 24/7; and
- Programming HVAC to only operate during normal business operating hours.

In addition, our headquarters building was constructed according to the State of California energy standards and we have installed solar panels on our roof to fulfill our energy requirements. All of the windows on our building are dual-paned to increase energy efficiency and reduce our carbon footprint.

With respect to recycling and reuse practices, we encourage the use of recycled products and the recycling of materials during our operations. We will be using recycled paper for the distribution of over 135,000 copies of our 2012 annual report and proxy statement. Recycling bins are placed in all areas where materials are regularly disposed of and at the individual desks of our employees. Cell phones, wireless devices and office equipment is recycled or donated whenever possible. We also continue to pursue a paperless environment since this reduces costs and saves trees. As a result, we encourage file-sharing networks and environments to produce and edit documents in order to reduce the dissemination of hard copy documents.

More information on our corporate responsibility efforts can be found at
<http://www.realtyincome.com/invest/investing-resources/corporate-responsibility.shtml>.

Board Independence

Our Board of Directors has determined that each of our current directors, except for Mr. Lewis, 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) 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; and
- 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 (5%) of that organization's consolidated gross revenues.

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Affiliate includes any person beneficially owning in excess of 10% of the voting power of, or a general partner or managing member of, a company.

COMMITTEES OF THE BOARD OF DIRECTORS (as of the record date)

| Name | Audit | Compensation | Nominating/ Corporate Governance | Strategic Planning |
|--------------------------|--------------|---------------------|---|-------------------------------|
| Kathleen R. Allen, Ph.D. | • | • | | + |
| A. Larry Chapman | • | • | | |
| Priya Cherian Huskins | | | + | • |
| Thomas A. Lewis | | | | • |
| Michael D. McKee | | • | • | |
| Gregory T. McLaughlin | • | + | | • |
| Ronald L. Merriman | + | | • | • |
| • Member | | | | |
| + Chairperson | | | | |

Audit Committee

The Audit Committee of our Board of Directors was established in accordance with Section 10A-3 of the Exchange Act and is comprised of Dr. Allen and Messrs. Chapman, McLaughlin and Merriman (Chairman). Our Board of Directors has determined that Mr. Merriman and Mr. 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. All of the members of the Audit Committee are independent within the meaning of our director independence standards, which reflect the NYSE director independence standards, as discussed above, and the audit committee requirements of the SEC. Additionally, our Board of Directors has considered Mr. Merriman's concurrent service on the audit committees of four public companies and has determined that such simultaneous service does not impair his ability to effectively serve as Chairman of our Audit Committee.

The Audit Committee's principal responsibilities include:

- Compliance with legal and regulatory requirements;
- The integrity of our financial statements;

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- The appointment, approval and engagement of our independent registered public accounting firm, approval of any special assignments given to the independent registered public accounting firm and review of:
 - o 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;
 - o The independence and qualifications of the independent registered public accounting firm;
 - o The effectiveness and efficiency of our internal accounting function; and
 - o Any proposed significant accounting changes; and
- As necessary, meeting with the Compensation Committee regarding the performance goals for key financial, internal control and risk management personnel.

Compensation Committee

The Compensation Committee of our Board of Directors is comprised of Dr. Allen and Messrs. Chapman, McKee and McLaughlin (Chairman). All of the members of the Compensation Committee are independent within the meaning of our director independence standards, which reflect the NYSE director independence standards as discussed above, 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, or the Code.

The Compensation Committee's principal responsibilities include:

- Establishing remuneration levels for our officers;
- Reviewing management organization and development;

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- Reviewing significant employee benefits programs; and
- Establishing and administering executive compensation programs, including bonus plans, stock option and other equity-based programs, deferred compensation plans and any other cash or stock incentive programs.

The Compensation Committee regularly reviews and approves our executive compensation strategies and principles to ensure that they (i) are aligned with our business strategies and objectives, (ii) encourage high performance, (iii) promote accountability and (iv) assure that employee interests are aligned with the interests of our stockholders. In addition, the Compensation Committee:

- Conducts an annual review of our compensation philosophy, including a review of our company-wide incentive programs to assess whether the incentive programs encourage desirable behavior as it relates to our long-term growth and reflect our risk management philosophies, policies and processes;
- Conducts an annual review of and approves the goals and objectives relating to the compensation of the Chief Executive Officer, evaluates the performance of the Chief Executive Officer in light of our business strategies and performance and determines and approves the compensation of the Chief Executive Officer based on such evaluation;
- Conducts an annual review of and approves all compensation for all other officers (as such term is defined in Rule 16a-1 promulgated under the Exchange Act), all of our other employees and the employees of our subsidiaries with a base salary greater than or equal to \$200,000;
- Reviews and approves all officers' employment agreements and severance arrangements;
- Manages and annually reviews executive annual bonus and long-term incentive compensation;
- Manages and annually reviews employee pension and welfare benefit plans (including 401(k) and other plans);
- Sets performance metrics under all annual bonus and long-term incentive compensation plans as appropriate; and
- As necessary, meets with the Audit Committee and/or senior management regarding the role risk management plays in setting appropriate performance objectives and incentives.

The Compensation Committee's charter reflects these various responsibilities, and the Compensation Committee periodically reviews and revises its charter. To assist in carrying out its responsibilities, the Compensation Committee regularly receives reports and recommendations from the Chief Executive Officer and management, from an outside independent compensation consultant it selects and retains and, as appropriate, in consultation with its own legal or other advisors, all in accordance with the authority granted to the Compensation Committee in its charter.

To assist in its efforts to meet the objectives outlined above, the Compensation Committee has retained FPL Associates, LP, or FPL, a nationally-known executive compensation and benefits consulting firm specializing in real estate companies, to advise it on a regular basis on the amount and form of our executive compensation and benefit programs. During 2012, the Compensation Committee engaged the consultant to provide peer group compensation data, compensation and benchmarking analysis and general executive compensation consulting services and to respond to any Compensation Committee member's questions as further described in the Compensation Discussion and Analysis section. Additionally, during 2012 the Nominating and Corporate Governance Committee engaged FPL to review the competitiveness of the compensation program for non-employee directors.

After review and consultation with FPL, the Compensation Committee has determined that FPL is independent and has determined that there is no conflict of interest resulting from retaining FPL currently or during the year ended December 31, 2012.

The Chief Executive Officer, as well as the President, Chief Operating Officer, annually assist in the review of the compensation of the other officers and members of senior management. The Chief Executive Officer makes recommendations with respect to salary adjustments, annual bonuses and restricted stock awards to the Compensation Committee based on his review of each executive's performance in relation to the guidelines and metrics established at the commencement of the year, compensation for similar positions at peer companies and the Company's performance for that year.

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Nominating/Corporate Governance Committee

The Nominating/Corporate Governance Committee of our Board of Directors is comprised of Ms. Huskins (Chairwoman) and Messrs. McKee and Merriman. All of the members of the Nominating/Corporate Governance Committee are independent within the meaning of our director independence standards, which reflect the NYSE director independence standards, as previously discussed. The Nominating/Corporate Governance Committee's principal purpose is to provide counsel to our Board of Directors on the broad range of issues surrounding the composition and operation of the Board of Directors, including:

- Development and review of the qualifications and competencies required for membership on our Board of Directors;
- Reviewing and interviewing qualified candidates to serve on our Board of Directors;
- Structure and membership of the committees of our Board of Directors; and
- Succession planning for our executive management.

The Nominating/Corporate Governance Committee also provides recommendations to the Board of Directors in the areas of committee selection and rotation practices, evaluation of the overall effectiveness of the Board of Directors and management, review of Board of Director compensation, and review and consideration of developments in corporate governance practices. The Nominating/Corporate Governance Committee retains the sole authority to retain and terminate any search firm to be used to identify director candidates, including sole authority to approve the search firm's fees and other retention terms. On an annual basis, the Nominating/Corporate Governance Committee solicits input from the full Board of Directors and conducts a review of the effectiveness of the operation of the Board of Directors and all committees thereof, including reviewing governance and operating practices and the Corporate Governance Guidelines for operation of the Board of Directors.

Strategic Planning Committee

The Strategic Planning Committee of our Board of Directors is comprised of Dr. Allen (Chairwoman), Ms. Huskins and Messrs. McLaughlin, Merriman and Lewis. With the exception of Mr. Lewis, our Chief Executive Officer, all of the members of the Strategic Planning Committee are independent within the meaning of our director independence standards, which reflect the NYSE director independence standards as previously discussed. The Strategic Planning Committee works with management to review initiatives designed to achieve continued growth and to enhance stockholder value. The Strategic Planning Committee also assists management in looking beyond traditional quarterly and annual perspectives in considering our longer-term goals.

Director Qualifications

The director qualifications developed to date focus on what the Nominating/Corporate Governance Committee believes to be the essential competencies required to effectively serve on the Board of Directors. In reviewing and considering potential nominees for the Board of Directors, the Nominating/Corporate Governance Committee looks at 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 publicly-held 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 and accounting matters; and
- Diversity in terms of background, expertise, perspective, age, gender and ethnicity.

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Identifying and Evaluating Nominees for Directors

The Nominating/Corporate Governance Committee identifies nominees for directors by first evaluating the current members of our Board of Directors willing to continue in service. Current members with 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 management for their recommendations. The Nominating/Corporate Governance Committee has 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 chairwoman 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. 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 will be considered and processed and are subject to the same criteria as are candidates nominated by the Nominating/Corporate Governance Committee.

Stockholder Recommendations

The Nominating/Corporate Governance Committee's policy is to consider candidates recommended by stockholders. The stockholder must submit 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 and how the candidate satisfies our Board of Directors' criteria. The stockholder must also provide such other information about the candidate as would be required by the SEC rules to be included in a proxy statement and as is required by our Bylaws. In addition, the stockholder must include the consent of the candidate and describe any arrangements or undertakings between the stockholder and the candidate regarding the recommendation. The stockholder must submit proof of Realty Income stockholdings and must also comply with the advance notice provisions of our Bylaws. All communications are to be directed to the chairwoman of the Nominating/Corporate Governance Committee, c/o Corporate Secretary, Realty Income Corporation, 600 La Terraza Boulevard, Escondido, CA 92025-3873. Recommendations received before October 30, 2013 or after November 29, 2013 (more than 150 days or less than 120 days prior to the first anniversary of the date of the Proxy Statement 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 2014 Annual Meeting" in this Proxy Statement. Properly submitted stockholder recommendations will be evaluated by the Nominating/Corporate Governance Committee using the same criteria used to evaluate other director candidates.

Board Leadership/Independent Chairman of the Board

The Nominating/Corporate Governance Committee also evaluates the Board of Directors leadership structure. Since 1997, the positions of Chairman of the Board of Directors and Chief Executive Officer have been separated in recognition of the differences between the two roles. Mr. McKee serves as our Chairman of the Board of Directors and presides as lead Independent Director, while Mr. Lewis serves as our Chief Executive Officer and as the Vice Chairman of our Board of Directors. 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 Mr. McKee and Mr. Lewis. In addition, separating the roles of Chairman and Chief Executive Officer allows our Chairman to serve as a liaison between the Board of Directors and management, while providing our Chief Executive Officer 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 us. The Board of Directors reviews and oversees our enterprise risk management, or ERM, program, which is a company-wide program designed to enable effective and efficient identification of and management visibility into critical company risks and to facilitate the incorporation of risk considerations into decision making. The ERM program was established to clearly define risk management roles and responsibilities, bring together senior management to discuss risk, promote visibility and constructive dialogue around risk at the senior management and Board of Director levels, and facilitate appropriate risk response strategies. During the year, as part of the ERM program, management and the Board of

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Directors jointly discuss major risks that they feel face our business. Throughout the year, the Board of Directors, and the committees to which it has delegated responsibility, dedicate a portion of their meetings to review and discuss specific risk topics in greater detail. Strategic and operational risks are presented and discussed in the context of the Chief Executive Officer's report on operations to the Board of Directors at regularly scheduled Board of Directors meetings and at presentations to the Board of Directors and its committees by senior management. The Board of Directors has delegated responsibility for the oversight of specific risks to Board of Directors committees as follows:

- The Audit Committee oversees our risk policies and processes relating to the financial statements and financial reporting processes, as well as key credit risks, liquidity risks, market risks and compliance, and the guidelines, internal controls, policies and processes for monitoring and mitigating those risks;
- The Strategic Planning Committee monitors the risks associated with meeting long-term goals, including evaluating the impact that future initiatives 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 Compensation Committee monitors the risks associated with management resources and structure, including evaluating the effect the compensation structure may have on risk decisions.

Compensation Risk Assessment

The Compensation Committee reviews our company-wide incentive programs to assess whether the incentive programs encourage desirable behavior as it relates to our long-term growth and reflect our risk management philosophies, policies and processes. The total compensation of our executive officers is established after consideration of performance metrics and is compared to the Company's geographic-based and size-based peer groups by the Compensation Committee. The incentive program metrics include absolute and relative performance, single year and multi-year performance and a diversification and balance of metrics across financial, portfolio and value creation goals.

In addition to the compensation awarded to management, which is authorized by the Compensation Committee, management monitors incentive awards made to our staff and reviews those awards in light of the risks to which we may be subject. Our investor relations team receives bonuses based on their communications with financial advisors, and their time is monitored and approved by the Vice President, Corporate Communications. Our portfolio management team receives bonuses based on the releasing and sales of properties in our portfolio. All of these transactions are approved by the Executive Vice President, Portfolio Management.

We do not believe that the compensation programs give rise to any risks that are reasonably likely to have a material adverse effect on us. Non-management employees are largely compensated on a fixed salary basis. Any additional bonuses or other compensation awards are unlikely to encourage the taking of unnecessary or excessive risks that threaten our long-term value. 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 our long-term value.

Meetings and Attendance

Our Board of Directors met 19 times during 2012. In 2012, the Audit Committee met six times, the Compensation Committee met eight times, the Nominating/Corporate Governance Committee met three times and the Strategic Planning Committee met two times. 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 directors attended the 2012 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 four executive sessions held during 2012.

Table of Contents**Communications with the Board**

Stockholders and other interested parties may communicate with the chairman of our Board of Directors or with the non-employee directors, as a group, by sending an email to mpfeiffer@realtyincome.com or by regular mail addressed to the Chairman of the Board of Directors, c/o the Corporate Secretary, Realty Income Corporation, 600 La Terraza Boulevard, Escondido, CA 92025-3873. All correspondence will be forwarded promptly by the corporate Secretary to the chairman of our Board of Directors.

Compensation of the Company's Directors for 2012

Mr. Lewis is our only director who is a member of management, and as an Inside Director does not receive any compensation for serving as a member of our Board of Directors or any of its committees. Our non-employee directors, received the following aggregate amounts of compensation for the year ended December 31, 2012:

| Name | Fees earned or paid in cash(1) | Stock awards(2) | All other compensation(3) | Total |
|-----------------------------|--------------------------------|-----------------|---------------------------|------------|
| Kathleen R. Allen, Ph.D.(4) | \$ 46,500 | \$ 157,760 | \$ 0 | \$ 204,260 |
| Donald R. Cameron(4)(5) | 13,816 | 0 | 1,429 | 15,245 |
| Priya Cherian Huskins(4) | 39,500 | 157,760 | 0 | 197,260 |
| Thomas A. Lewis(6) | 0 | 0 | 0 | 0 |
| Michael D. McKee(4)(5) | 67,786 | 157,760 | 0 | 225,546 |
| Gregory T. McLaughlin(4) | 49,714 | 157,760 | 8,571 | 216,045 |
| Ronald L. Merriman(4) | 54,000 | 157,760 | 0 | 211,760 |
| A. Larry Chapman(4) | 30,857 | 303,960 | 0 | 334,817 |

(1) Fees earned or paid in cash include retainers and Board of Director meeting fees. 2012 fees included (i) an annual retainer of \$15,000 for each Board of Director member, other than the chairman of our Board of Directors, who receives a \$50,000 annual retainer, (ii) an Audit Committee chair retainer of \$18,000, (iii) a Compensation Committee chair retainer of \$12,500, (iv) a Nominating/Corporate Governance Committee chair retainer of \$7,500 and (v) a Strategic Planning Committee chair retainer of \$7,500. Board of Director and committee meeting fees are \$1,000 per meeting attended in person and \$500 for telephonic attendance.

(2) On May 8, 2012, the date of our 2012 Annual Meeting of Stockholders, each non-employee director, excluding Mr. Cameron who retired effective May 8, 2012, received 4,000 shares of restricted stock with a grant date fair value of \$157,760, which is calculated by multiplying the 4,000 shares by the closing market price of our common stock on May 8, 2012 of \$39.44, as prescribed by Accounting Standards Codification Topic 718. The stock awards for Mr. Chapman also include 4,000 shares of restricted stock, which he received upon joining our Board of Directors on February 21, 2012, with a grant date fair value of \$146,200, which is calculated by multiplying the 4,000 shares by the closing market price of our common stock on February 21, 2012 of \$36.55. All of these stock grants vest according to the vesting schedule described below under Stock Awards for Directors and all shares, including shares of restricted stock, are paid dividends from the date of grant.

(3) Amounts represent the annual retainer of \$10,000 for serving as the director of Crest Net Lease, Inc., or Crest, a wholly owned subsidiary of Realty Income, which is prorated between Mr. Cameron and Mr. McLaughlin for 2012. This position was held by Mr. Cameron through February 21, 2012. Effective as of February 21, 2012, Mr. Cameron retired as director of Crest and was replaced by Mr. McLaughlin.

(4) As of December 31, 2012, the non-employee directors did not hold any stock options, but held the following number of shares of unvested restricted stock:

| Name | Shares of unvested restricted stock held at December 31, 2012 |
|--------------------------|---|
| Kathleen R. Allen, Ph.D. | 0 |
| Donald R. Cameron(5) | 0 |
| Priya Cherian Huskins | 8,001 |
| Michael D. McKee | 0 |
| Gregory T. McLaughlin | 8,001 |
| Ronald L. Merriman | 8,001 |
| A. Larry Chapman | 8,000 |

(5) Mr. Cameron served as the Chairman of the Board of Directors and was an ex officio member of each of the Committees through February 20, 2012. He retired from the Board of Directors effective as of our 2012 Annual Meeting on May 8, 2012. Mr. McKee became Chairman of the Board of Directors effective as of February 21, 2012.

(6) Mr. Lewis, our Chief Executive Officer, does not receive any compensation for his services on our Board of Directors or as a director of Crest. His compensation is reflected as part of the Summary Compensation Table on page [36].

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

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meeting, each non-employee director is automatically granted 4,000 shares of restricted stock. The vesting schedule for restricted shares granted to non-employee directors is as follows:

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

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, in accordance with our travel policy. Additionally, our Board of Director members 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.

Compensation of the Company's Directors for 2013

During the third quarter of 2012, FPL was engaged by the Nominating and Corporate Governance Committee to provide a review of the competitiveness of the compensation program for our Independent Directors as compared to other public real estate companies. Based on the result of the FPL report, the Nominating and Corporate Governance Committee determined that certain elements of our director compensation structure were not in line with our peers. To bring our fee structure in line with other REITs, the Committee implemented changes to our directors' retainer fees for certain committees for 2013. Effective January 1, 2013, the Board of Directors elected to modify its compensation structure as follows: (a) annual cash retainers paid to the chairperson of each Committee will be as follows, (i) \$35,000 to the chairman of the Board of Directors, (ii) \$15,000 to the chair of the Compensation Committee, (iii) \$10,000 to the chair of the Nominating/Corporate Governance Committee, and (iv) \$10,000 to the chair of the Strategic Planning Committee; and (b) as discussed below, to implement director stock ownership requirements. The annual cash retainer paid to the Audit Committee Chair will remain consistent with 2012 at \$18,000. Board of Director annual cash retainers of \$15,000 and committee meeting fees of \$1,000 per meeting attended in person (\$500 for telephonic attendance), also remained unchanged from 2012.

Director Stock Ownership Requirements

Effective January 1, 2013, the Nominating and Corporate Governance Committee began implementation of stock ownership requirements for our Board of Directors. 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. For each of our non-employee directors, the stock ownership goal was determined using five times their annual cash retainers as of January 1, 2013 of \$15,000, or \$75,000, divided by the closing price of our common stock as of December 31, 2012 of \$40.21, which equals a minimum share ownership requirement of 1,865 shares.

All vested and unvested restricted stock awards qualify towards satisfaction of the requirement; however, pledged shares are not eligible. For any new director, compliance with the guidelines will be required within five years after being elected to the Board of Directors. As of January 1, 2013, each director subject to the guidelines met or exceeded the stock ownership requirements.

Table of Contents**EXECUTIVE OFFICERS OF THE COMPANY**

The following table sets forth certain information as of the record date of March 7, 2013 concerning our executive officers:

| Name | Title | Age |
|---------------------|--|------------|
| Thomas A. Lewis | Vice Chairman of the Board of Directors and Chief Executive Officer | 60 |
| Gary M. Malino | President, Chief Operating Officer | 55 |
| John P. Case | President, Chief Investment Officer | 49 |
| Paul M. Meurer | Executive Vice President, Chief Financial Officer and Treasurer | 47 |
| Michael R. Pfeiffer | Executive Vice President, General Counsel and Secretary | 52 |
| Richard G. Collins | Executive Vice President, Portfolio Management | 64 |
| Sumit Roy | Executive Vice President, Acquisitions | 43 |
| Robert J. Israel | Senior Vice President, Research | 53 |
| Laura S. King | Senior Vice President, Assistant General Counsel and Assistant Secretary | 51 |
| Greg Fahey | Senior Vice President, Controller | 52 |

Executive Officer Biographies

Thomas A. Lewis's biographical information is set forth above under Board of Director Biographies.

Gary M. Malino is our President, Chief Operating Officer, a position he has held since September 2001. He joined us in 1985 and served in various executive positions until 1994 when he was named Chief Financial Officer and Treasurer. Prior to joining Realty Income, he was a certified public accountant for a Los Angeles based accounting firm (1981-1985) and assistant controller with McMillin Development Company, a real estate development company (1979-1981).

John P. Case is our President, Chief Investment Officer, a position he has held since March 2013. From April 2010 through February 2013, he served as our Executive Vice President, Chief Investment Officer. Prior to joining us, Mr. Case was a real estate investment banker in New York for 19 years, most recently as Co-Head of Real Estate Investment Banking for RBC Capital Markets from 2009 to 2010 where he also served on the firm's Global Investment Banking Management Committee. Additionally, Mr. Case was Co-Head of Americas Real Estate Investment Banking at UBS from 2006 to 2009 and began his career in Real Estate Investment Banking at Merrill Lynch where he worked for 15 years and was named a Managing Director in 2000. Mr. Case was a member of the Board of Directors of the National Multi-Housing Council (NMHC) from 2001 to 2009, serving on the Executive Committee from 2002 to 2004, and is also a member of the President's Council of The Real Estate Roundtable.

Paul M. Meurer is our Executive Vice President, Chief Financial Officer and Treasurer, positions he has held 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).

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Michael R. Pfeiffer is our Executive Vice President, General Counsel and Secretary, positions he has held 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 1990, 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.

Richard G. Collins is our Executive Vice President, Portfolio Management, a position he has held since August 2005. Prior to becoming Executive Vice President, Portfolio Management, Mr. Collins served as the President of our subsidiary, Crest. He joined us in 1990 and has served in a variety of positions, including Vice President, Portfolio Management and Senior Vice President, Portfolio Acquisitions. Prior to joining us, he was involved as a principal in the acquisition and sale of land and commercial real estate, as a general partner for land and commercial real estate partnerships (1979-1990) and as a leasing and sales specialist in the Office Properties Division for Grubb & Ellis Commercial Real Estate Services (1974-1979).

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Sumit Roy is our Executive Vice President, Acquisitions, a position he has held since March 2013. From September 2011 to February 2013, he was our Senior Vice President, Acquisitions. Prior to joining us, Mr. Roy was an Executive Director, Global Real Estate, Lodging & Leisure, for UBS Investment Bank in New York (UBS). Prior to working at UBS, Mr. Roy was a Manager in the Corporate Finance Group at Meadwestvaco (2003-2004), an Associate in the Technology Investment Banking Group at Merrill Lynch (2001-2003), and a Principal at Cap Gemini Ernst & Young LLP (1994-1999).

Robert J. Israel is our Senior Vice President, Research, a position he has held 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.

Laura S. King is our Senior Vice President, Assistant General Counsel and Assistant Secretary, positions she has held since December 2008. From November 1998 to December 2008, she was our Vice President, Assistant General Counsel and Assistant Secretary. She joined us in 1985 and held various investor services and legal positions until her promotion to Vice President, Assistant General Counsel in 1998. Prior to joining us, Ms. King held various accounting positions with Southern California Savings and Loan Associations. She is a licensed attorney and member of the State Bar of California.

Greg Fahey is our Senior Vice President, Controller, a position he has held since February 2013. From April 1998 to February 2013, he served as Vice President, Controller. He joined us in January 1986 and served in a variety of accounting positions prior to becoming Vice President, Controller in 1998. Prior to joining us, Mr. Fahey gained experience as an accountant, loan officer and mortgage broker. He is accredited as a Certified Management Accountant.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This Compensation Discussion and Analysis discusses the compensation policies and programs for the Company's executive officers, including named executive officers, as such term is defined in the Summary Compensation Table in this Proxy Statement. The Compensation Committee administers the compensation policies and programs for our executive officers and certain other officers. The Compensation Committee regularly reviews and approves our executive compensation principles and programs to ensure that they are aligned with our business strategies and objectives, encourage high performance, promote accountability, minimize risk, and assure that management's interests are aligned with the interests of our stockholders.

Executive Summary

The primary objectives of the Company's compensation program are to link executive compensation to Company performance, align interests of management with those of the stockholders and to attract, motivate and retain Realty Income's executive officers

through competitive compensation arrangements that, within appropriate risk parameters, provide strong financial incentives for executives to maximize stockholder value.

2012 Strong Performance

Realty Income continued to deliver strong corporate and stock price performance in 2012, including the following accomplishments:

- *Strong Total Stockholder Returns.* Achieved 2012 total stockholder returns of 20.1%. This one-year total stockholder return was at the 76th and 52nd percentile compared to our geographic-based and size-based peer groups, respectively. Not only did our one year total stockholder return exceed the median of our peer group, but it also exceeded the following indexes: FTSE NAREIT US Equity REIT index (+0.4%), the Dow Jones Industrial Average (+9.9%), the S&P 500 (+4.1%) and the NASDAQ Composite (+4.2%);
- *Record Acquisitions.* Recorded another record year for new property acquisitions as we invested \$1.16 billion in real estate, acquiring 423 properties at an initial lease yield of 7.2%. Providing monthly dividends that increase over time is our mission, and the revenues generated from new property acquisitions support the payment of monthly dividends to our stockholders that increase

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over time. We also made progress on our strategic initiatives of improving the credit quality of our tenant base and diversifying our portfolio to include non-retail properties. Of the 423 properties acquired during 2012, 64% are leased to investment grade tenants and 22% are non-retail properties;

- *Increased Monthly Dividend.* Increased monthly dividends paid in 2012 five times during the year for a year to year increase of 2.0% to \$1.771625 per share in 2012 from \$1.736625 per share for 2011;
- *Increased Rent Revenue.* Achieved a 15.9% increase in rental revenue for 2012 compared to 2011. We also maintained a high occupancy rate of 97.2% as of year-end;
- *Increased FFO.* Achieved a 4.6% increase in funds from operations available to common stockholders (FFO) for 2012 compared to 2011. Achieved a 7.8% increase in normalized FFO available to common stockholders for 2012 compared to 2011. We define normalized FFO as FFO excluding the merger related costs for our January 2013 acquisition of American Realty Capital Trust, Inc., or ARCT;
- *Access to Capital.* Accessed the capital markets to raise over \$1.21 billion in capital during 2012. This capital raising activity allowed us to fund our acquisitions during 2012. We also expanded our credit facility to a capacity of \$1 billion providing us with ample access to funds which allows us to pursue additional real estate investment opportunities. Throughout the year, we maintained a conservative capital structure with 32.5% debt as a percentage of total market capitalization as of the end of the 2012; and
- *Negotiation of Merger with ARCT.* In the third quarter of 2012 we entered into an Agreement and Plan of Merger with American Realty Capital Trust, or ARCT. This acquisition, valued at approximately \$3.1 billion, closed in January 2013, and added 515 properties to our portfolio. The 515 properties that were added to our real estate portfolio are immediately accretive to our earnings and significantly advance our objective to increase the overall credit quality of the lease revenue supporting the payment of dividends.

We have also achieved outstanding long term performance, including the following accomplishments:

- Achieved a three-year and five-year total stockholder returns at the 85th and 95th percentile, respectively, compared to our geographic-based peer group and at the 77th and 94th percentile, respectively, compared to our size-based peer group;
- Achieved 104.9% total stockholder returns since the REIT market peaked on February 7, 2007, ranking among the top 10 of over 150 real estate investment companies during this period; and

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- Since listing on the NYSE in October 1994, our compounded average annual total stockholder return was 17.4%. As illustrated in the graph below our performance far exceeded the following indexes during the same period: FTSE NAREIT US Equity REIT index (+6.4%), the Dow Jones Industrial Average (+8.1%), the S&P 500 (+9.1%) and the NASDAQ Composite (+9.6%). Each of these compounded average annual total stockholder return rates are calculated in the same manner, assuming reinvestment of dividends, except for NASDAQ.

Comparison Chart of \$100 Invested in Realty Income vs. Major Stock Indices (1994-2012)

1994=\$100

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Overview of Compensation Philosophy

Executive compensation consists of the following elements; base salary, annual cash incentive bonus, equity based long-term incentive awards, and severance and change in control payments and benefits. Each of these elements and their combination are necessary to support the Company's overall compensation objectives.

The Compensation Committee's philosophy is that executive compensation should reflect the value created for our stockholders, while supporting our business strategies, operational goals, long-range plans, and that such compensation should assist the Company in attracting and retaining key executives critical to our long-term success.

- **We emphasize pay for performance.** The Company's compensation program is designed to align Company-wide financial, operational and stock price achievements with the annual cash bonuses and equity awards granted to its named executive officers. Annual cash bonuses are paid based upon the Compensation Committee's assessment of Company-wide performance under the following key short term and long term performance metrics of: (i) short term stockholder returns (weighted 15%); (ii) the strength of its balance sheet (weighted 20%); (iii) short term growth in earnings metrics (weighted 15%); (iv) portfolio performance (weighted 10%); (v) acquisitions (weighted 10%); (vi) long term (3 year and 5 year) stockholder returns (weighted 20%); and long term (3 year and 5 year) growth in earnings metrics (weighted 10%), with an available rating of poor, average, good, excellent or outstanding for each measure. The long-term (3 year and 5 year) performance measures were added in 2012 to ensure a balanced approach and further alignment with our stockholders. Equity awards, which are granted after fiscal year end, consist of annual grants of restricted stock, with the amount also based on the Company's performance under these performance metrics as well as each executive officer's individual performance for the prior fiscal year.

- **Alignment of executive compensation with the creation of value for our stockholders.** The combination of annual cash bonuses and restricted stock grants, which generally vest over a period of several years depending on the age of the officer, creates a balanced focus on the achievement of short-term and long-term financial and operational goals and stock price performance. The Compensation Committee believes that this at risk compensation of annual bonuses and long-term equity incentives play a significant role in aligning management's interests with those of the Company's stockholders. In 2012, approximately 86% of our CEO's total direct compensation (as shown in the following chart) and approximately 77%-81% for our other named executive officer's total direct compensation, constituted compensation that is earned based on our performance or has a value which is derived from the Company's stock price.

CEO Total Direct Compensation(1)

(1) The term total direct compensation means the aggregate amount of the CEO's base salary, actual annual cash incentive bonus for 2012 performance (paid in January 2013), and the grant date fair value of long term incentive awards based on 2012 performance (granted on January 4, 2013) calculated as prescribed by Accounting Standards Codification 718.

- **A flexible approach to annual cash incentive compensation and equity based long-term incentive awards.** Commencing in 2012, the Compensation Committee established targeted goals

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under each of the performance metrics to guide it in its evaluation of Company performance and its determination of annual cash bonuses and equity awards. While the program provides more structure to the Compensation Committee's determinations, it also preserves the Compensation Committee's flexibility to exercise its discretion in assessing company performance (including a comparison to our peer group's performance), market conditions and any other relevant data. This ultimately helps to ensure that the incentive bonus program is both responsive to market conditions and linked to the actual performance of the company. In addition to these performance metrics, the Compensation Committee employs targeted multiples of salary as guidelines for determination of cash bonuses and equity award values when performance approximates targeted (or good) performance and pay in excess of these multiples for excellent or outstanding performance. For 2012, based on performance under its performance metrics, the Company paid 25% above target multiples for cash bonuses and equity awards for each of its named executive officers, other than Mr. Case, who received 71% above target multiple for his cash bonus and 50% above target multiple for his equity awards, based on his leadership role in achieving the highest annual level of acquisitions (in dollar amount) in Company history for the second year in a row.

- **Competitive Aggregate Total Direct Compensation.** The Compensation Committee, with the assistance of its independent compensation consultant, annually reviews the executive compensation program to ensure that it provides competitive pay opportunities. The Compensation Committee believes it is important to provide aggregate total direct compensation to named executive officers as a group that is competitive within a range of median aggregate total direct compensation paid by the Company's peer groups during the same time frame. Due to the lagging nature of the compensation data available for review, this information lags one year. Thus, in 2012, the Compensation Committee reviewed the consultant's report that reflected the Company paid aggregate total direct compensation in 2011 to named executive officers at approximately 117% of the median of aggregate total direct compensation paid to the named executive officers of its peer groups in 2011. Since 2011, the Compensation Committee has targeted the competitive position for aggregate total direct compensation for named executive officers at 70% to 130% of the Company's peer group median (calculated by taking the average of both peer group statistics), to encourage stronger performance and create more variability in the Company's compensation levels to better align compensation with performance.

- **Other Highlights of Our Compensation Practices.** The Compensation Committee is mindful of the concerns of the Company's stockholders and of proxy advisory groups regarding executive compensation pay practices and strives to implement responsible compensation and governance practices. Highlights include:

- In 2012, a stock ownership program was adopted for our directors and executive officers with a position of executive vice president and above, with the CEO required to own a fixed number of shares based on five times his base salary;

- In 2012, an anti-hedging policy was implemented that prohibits directors, officers, employees and their families from entering into speculative transactions involving the Company's stock;

- There are no tax gross up payments;

- Severance payments are limited to a maximum of 18 months of salary plus 12 months of bonus;

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- In 2012, no perquisites were provided;
- The only retirement benefit provided is the opportunity to participate in a 401(k) plan;
- The Compensation Committee employs the services of an independent compensation consultant, who assists the Committee in its review of the market competitiveness of the compensation program and apprises the Committee of market trends; and
- The Compensation Committee carefully considers the risks associated with all of the compensation programs.

Favorable Stockholder Say on Pay Vote

The Company provides its stockholders an advisory say on pay vote on the compensation of named executive officers on an annual basis. At our 2012 Annual Meeting of Stockholders, stockholders expressed substantial support for the compensation of named executive officers, with approximately 91%

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of the votes cast for approval of the advisory say on pay vote. Following our 2012 Annual Meeting of Stockholders, our Compensation Committee evaluated the results of the 2012 advisory say on pay vote. The Compensation Committee also considered many other factors in evaluating our executive compensation programs as discussed in this Compensation Discussion and Analysis, including the Compensation Committee's assessment of the interaction of the Company's compensation programs with its financial and operational objectives, evaluations of its programs by an external consultant, and review of data of a comparator group of peers, each of which is evaluated in the context of the Compensation Committee's responsibility to act in the Company's best interests. While each of these factors bore on the Compensation Committee's decisions regarding our named executive officers' compensation, the Compensation Committee did not make any material changes to our executive compensation program and policies as a result of the 2012 advisory say on pay vote. The Compensation Committee will continue to consider the outcome of say on pay proposals when making future compensation decisions for the named executive officers.

Objectives Served by Elements of Compensation

To achieve their goals, the Compensation Committee offers executive officers a compensation package that is primarily comprised of the elements described in the table below. In structuring executive compensation packages, the Compensation Committee considers how each component promotes retention and motivates performance. Base salaries and severance and other termination benefits are primarily intended to attract and retain highly qualified executives. We believe that in order to attract and retain top executives, we need to provide them with compensation levels that reward their continued service.

Annual bonuses and long term equity incentives are the elements of the executive compensation program that are designed to reward performance and provide incentives to create stockholder value. Annual bonuses are primarily intended to motivate named executive officers to achieve specific strategies and operating objectives, although we also believe it helps us attract and retain top executives. Our long-term 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.

| Element | Objective Served |
|---|--|
| <i>Base Salary</i> | Fixed base pay that rewards performance of core job duties, and recognizes individual achievements, contributions and tenure. |
| <i>Annual Cash Incentive Bonus</i> | Variable cash awards based on performance and responsibility levels to compensate each executive for achieving our annual stockholder returns and other corporate goals and achievement of our long term objectives. |
| <i>Equity Based Long Term Incentive Awards Restricted Stock</i> | Variable equity awards also granted based on performance and responsibility levels and designed to foster retention and align the executive officers' interests with the long-term interests of our stockholders. |
| <i>Severance and Change in Control Payments and Benefits</i> | Promotes executive recruitment and retention. Ensures best efforts for the benefit of our stockholders in the event of an actual or threatened change of control. |

*Compensation Process**Compensation Consultant*

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To assist in its efforts to meet the objectives outlined above, the Compensation Committee has retained FPL Associates, LP, or FPL, a nationally-known executive compensation and benefits consulting firm specializing in real estate companies, to provide general executive compensation consulting services and to respond to any Compensation Committee member's questions. In addition, the consultant performs special executive compensation projects and consulting services from time to time, as directed by the Compensation Committee. In 2012, as in the prior year, the Compensation Committee continued to review its program designs and guidelines, and conducted its annual review of the competitiveness of its compensation program and the market practices of our peer groups. The consulting services provided by FPL in connection with these reviews included:

- Evaluating the current compensation program in place for the named executive officers and structuring a compensation program that meets the objectives outlined by the Compensation Committee;

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- Benchmarking the compensation for the named executive officers against appropriate peer groups;
- Identifying the appropriate mix between compensation components, including base salary, annual incentives, long-term incentive compensation and total remuneration;
- Discussing market-based incentive programs, including performance metrics and targets, within the peer group companies, and providing guidance and recommendations for design modifications to program elements; and
- Reviewing an overview of industry trends as it relates to human capital across the entire real estate industry.

FPL reports to the chairman of the Compensation Committee and the other committee members 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.

Peer Group Data

The Compensation Committee uses comparison data from various companies in certain peer groups as a guide in its review and determination of base salaries, annual cash bonuses and restricted stock awards. From November 2012 through January 2013, the Compensation Committee reviewed peer group data to assist in its determination regarding bonuses and equity awards to be earned for 2012 performance, as well as any salary increases for 2013. A similar process was conducted at the end of 2011 for the salaries established for 2012 and for the equity awards granted on January 4, 2012. The Compensation Committee evaluates our performance and determines whether the compensation elements and levels that are provided to our 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 executive officer's contribution to our performance. This approach enables us to respond to dynamics in the labor market and provides us with flexibility in maintaining and enhancing our executive officers' engagement, focus, motivation and enthusiasm for the future.

The Compensation Committee, with the help of the compensation consultant, periodically reviews the composition of our peer groups and the criteria and data used in compiling our peer group lists, and considers modifications to this group. During November and December 2012, the Compensation Committee reviewed data provided by FPL regarding the appropriate companies to include in the peer group and the effect any change in the peer group would have on our standing within the peer groups. The peer groups recommended by the compensation consultant and used by the Compensation Committee are all public real estate companies and are divided into two groups based on size and geography, consistent with prior years, as listed below:

- **Size-Based Peer Group.** A size peer group was used because companies of the same size have similar characteristics to our company when considering management of the portfolio and acquisition and capital markets activities. This peer group consists of 15 public real estate companies that focus on a variety of asset classes and are similar in size to us in terms of total capitalization (common and preferred stock, convertible partnership units and balance sheet long term debt). This peer group has total capitalization ranging from approximately \$3.8 billion to \$13.2 billion. Companies were selected so that our total capitalization approximates the median.
- **Geographic-Based Peer Group.** A geographic peer group was used to reflect the cost of living in the region of the country where our executives live. We also look at geographic peers to ensure that we have a competitive compensation package if we need to compete for talent in our region. This peer group consists of 10 public real estate companies, each with corporate headquarters located within the state of California. This peer group focuses on a variety of asset classes and has total capitalization ranging from approximately \$3.3 billion to \$28.8 billion.

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| Size-Based Peer Group | Geographic-Based Peer Group |
|-----------------------------------|---------------------------------------|
| BioMed Realty Trust, Inc. | Alexandria Real Estate Equities, Inc. |
| Corporate Office Properties Trust | BioMed Realty Trust, Inc. |
| Digital Realty Trust, Inc. | BRE Properties, Inc. |
| Entertainment Properties Trust | Digital Realty Trust, Inc. |
| Essex Property Trust, Inc. | Douglas Emmett, Inc. |
| Federal Realty Investment Trust | Essex Property Trust, Inc. |
| Home Properties, Inc. | HCP, Inc. |
| Lexington Realty Trust | Macerich Company |
| Liberty Property Trust | PS Business Parks, Inc. |
| Macerich Company | Sunstone Hotel Investors, Inc. |
| National Retail Properties, Inc. | |
| Regency Centers Corporation | |
| Taubman Centers, Inc. | |
| UDR, Inc. | |
| Weingarten Realty Investors | |

The peer groups listed above differ slightly from the peer groups used in 2011. In November 2012, the Compensation Committee replaced Mission West Properties, Inc. with Macerich Company from the geographic-based peer group. This was the result of Mission West Properties, Inc. disposing of all of their real estate assets during 2012. The Compensation Committee added Macerich Company to maintain a consistent number of companies in the geographic peer group with the prior years.

At the end of 2012, our total capitalization placed us in the 67th percentile of the Size-Based Peer Group. Despite the fact that our total capitalization was above the targeted median of the peer group, the Compensation Committee felt that it was not necessary to change the members of the size peer group this year. The Compensation Committee anticipates changing the members of the size peer group for 2013 based on the increase in our market capitalization subsequent to the \$3.1 billion acquisition of ARCT that was completed in January 2013. In contemplation of the increase in our total market capitalization, as part of its November 2012 review, FPL provided compensation information for an additional group of peers referred to as the Future Size Peer Group, comprised of 16 public real estate companies with market capitalization ranging from approximately \$4.2 billion to \$24.3 billion. The purpose of this Future Size Peer Group is to provide additional context for our compensation review for future periods. We anticipate making changes to our Size-Based Peer Group during 2013 so that our total capitalization approximates the median of the new peer group.

Management Involvement

In setting compensation for executive officers, the Compensation Committee solicits appropriate input from the Chief Executive Officer and President, Chief Operating Officer, concerning each of the other executive officers. In addition, from time to time, the Compensation Committee will direct management to work with its consultant in providing proposals, program design, and compensation recommendations. Each year the Chief Executive Officer provides the Compensation Committee with a report regarding performance for the past fiscal year under the Company's performance metrics and discusses his personal assessment of individual performance, as requested. In addition, at the request of the Compensation Committee, the Chief Executive Officer makes recommendations regarding salary, bonus and equity awards for each executive officer other than himself. The Compensation Committee considers these recommendations and other factors as discussed below in making the final determinations.

Compensation Decisions and Programs

Base Salaries

Base salaries provide our executive officers with a degree of financial certainty and stability, reward them for performing their core job duties and responsibilities, recognize their tenure and are used to attract and retain highly qualified individuals. The Compensation Committee annually reviews and determines the base salaries of our executive officers at the commencement of each year, after review of performance over the prior year. Base salaries are also evaluated at the time of a promotion or other significant change in responsibilities. Increases in base salaries are based on the Compensation Committee's evaluation of such factors as an executive officer's level of responsibility and development potential, the results previously achieved by the executive officer, and the level of pay of the executive officer relative to other similarly situated executive officers at our peer companies.

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In connection with its review of fiscal 2012 performance and setting of compensation in January 2013, the Compensation Committee decided to increase the base salaries paid to all of our named executive officers commencing on January 1, 2013. The Compensation Committee's decision to increase 2013 salaries was based on their review of peer compensation data with the objective of aligning the base salaries of our named executive officers with those of their peers. FPL provided the Committee with 2011 base salary averages and medians of our peer group for each executive position. The Compensation Committee established a 2013 base salary for each named executive officer that was within a range of 94% to 107% of the median average 2011 base salary of each executive position of our peer groups (calculated by taking the average of the two peer groups), as reported by FPL. Additionally, Mr. Case's salary, which was increased to \$400,000 in January 2013 was further increased to \$425,000, effective as of March 1, 2013, upon promotion to President, Chief Investment Officer, to compensate for his new position and additional responsibilities.

| Named Executive Officer | Title | 2011 Salary | 2012 Salary | 2013 Salary |
|-------------------------|---|-------------|-------------|-------------|
| Thomas A. Lewis | Vice Chairman of the Board of Directors and Chief Executive Officer | \$ 550,000 | \$ 650,000 | \$ 700,000 |
| Gary M. Malino | President, Chief Operating Officer | 400,000 | 400,000 | 425,000 |
| John P. Case | President, Chief Investment Officer(1) | 325,000 | 350,000 | 425,000 |
| Paul M. Meurer | Executive Vice President, Chief Financial Officer and Treasurer | 325,000 | 325,000 | 350,000 |
| Michael R. Pfeiffer | Executive Vice President, General Counsel and Secretary | 325,000 | 325,000 | 350,000 |

(1) Mr. Case was promoted to this position in March 2013 and his 2013 salary is effective as of March 1, 2013, the date of his promotion.

Performance Metrics

The Compensation Committee has established certain general performance metrics, weightings and, as of 2012, target guidelines, to provide a more formal structure to guide management in its performance and to guide the Compensation Committee in its determinations. The Compensation Committee did not establish any specified formula to determine bonus or equity earned for a particular rating within these metrics, believing it is best to base its determinations on its year-end assessment of our absolute and relative performance under these metrics, and the challenges faced by the Company and the markets.

During 2012, the Compensation Committee performed a review of the existing performance metrics and decided to use the same metrics as used during 2011 with the following enhancements:

- The performance metrics for stockholder returns and earnings were separated into short-term and long-term metrics that are assessed and weighted separately. The short-term performance metrics review the results of the current year and the long-term performance metrics include three-year and five-year results for total stockholder return relative to the Company's peer groups as well as three-year and five-year FFO per share growth on an absolute basis and relative to its peer groups.

- Benchmark ranges were established for each performance metric to assist the Compensation Committee in assigning ratings based on performance. These benchmark ranges are defined in the table included below on page 30.

At the end of each year, the Chief Executive Officer provides the Compensation Committee with his personal assessment of the performance of each executive officer, excluding himself, for the year and an evaluation based on a scale of poor, average, good, excellent and outstanding for each metric. The Compensation Committee evaluates actual performance under these metrics and considers this evaluation in determining the executive officer's annual cash bonuses and equity awards. In determining the amount of bonus and equity earned, the Compensation Committee employs guidelines, based on a multiple of the officer's base salary and a rating of good performance.

Table of Contents*Target Guidelines*

Below is a summary of the target guidelines established by the Compensation Committee in 2012 for each of the performance metrics clarifying the targeted results that correspond to each of the ratings.

Short-Term Targets

| <i>Stockholder Returns</i> | <u>Outstanding</u> | <u>Excellent</u> | <u>Good</u> | <u>Average</u> | <u>Poor</u> |
|--|---------------------------|-------------------------|--------------------|-----------------------|--------------------|
| Dividend Increases | 5 | 4 | 1 | 0 | Decrease |
| Dividend Per Share Growth | 5.0% | 2.5% | 1.0% | 0.0% | Decrease |
| Stock Price Growth | 8.0% | 5.0% | 3.0% | 0.0% | Decrease |
| Total Stockholder Return (current year) | 12.0% | 9.0% | 7.0% | 5.0% | Decrease |
| Total Stockholder Return Relative to Peers (Percentile Rank) | 75th | 60th | 50th | 40th | 25th |

| <i>Balance Sheet</i> | <u>Outstanding</u> | <u>Excellent</u> | <u>Good</u> | <u>Average</u> | <u>Poor</u> |
|---|---------------------------|-------------------------|--------------------|-----------------------|--------------------|
| Debt to Total Market Capitalization | 25% | 30% | 35% | 40% | 45% |
| Interest Coverage Ratio | 3.75x | 3.50x | 3.25x | 3.00x | 2.75x |
| Fixed Charge Coverage Ratio | 3.00x | 2.75x | 2.50x | 2.25x | 2.00x |
| Debt to Adjusted EBITDA | 4.0x | 5.0x | 5.5x | 6.0x | 6.5x |
| Relative Comparison to Peers of Above Metrics (Percentile Rank) | 75th | 60th | 50th | 40th | 25th |

| <i>Earnings Metrics</i> | <u>Outstanding</u> | <u>Excellent</u> | <u>Good</u> | <u>Average</u> | <u>Poor</u> |
|---|---------------------------|-------------------------|--------------------|-----------------------|--------------------|
| FFO per Share Growth Absolute current year | 8% | 5% | 3% | 1% | 0% |
| FFO per Share Growth Relative to Peers current year (Percentile Rank) | 75th | 60th | 50th | 40th | 25th |

| <i>Portfolio Performance</i> | <u>Outstanding</u> | <u>Excellent</u> | <u>Good</u> | <u>Average</u> | <u>Poor</u> |
|-------------------------------------|---------------------------|-------------------------|--------------------|-----------------------|--------------------|
| Portfolio Occupancy | 98% | 97% | 96% | 95% | 94% |
| Same Store Rent Growth | 2.0% | 1.5% | 1.0% | 0.0% | Negative |

| <i>Acquisitions</i> | <u>Outstanding</u> | <u>Excellent</u> | <u>Good</u> | <u>Average</u> | <u>Poor</u> |
|----------------------------|---------------------------|-------------------------|--------------------|-----------------------|--------------------|
| Acquisition Levels | \$1 Billion | \$600 Million | \$300 Million | \$150 Million | \$100 Million |

Long-Term Targets

| <i>Stockholder Returns</i> | <u>Outstanding</u> | <u>Excellent</u> | <u>Good</u> | <u>Average</u> | <u>Poor</u> |
|--|---------------------------|-------------------------|--------------------|-----------------------|--------------------|
| Total Stockholder Return Relative to Peers (Percentile Rank) | 75th | 60th | 50th | 40th | 25th |

| <i>Earnings Metrics</i> | <u>Outstanding</u> | <u>Excellent</u> | <u>Good</u> | <u>Average</u> | <u>Poor</u> |
|--------------------------------|---------------------------|-------------------------|--------------------|-----------------------|--------------------|
|--------------------------------|---------------------------|-------------------------|--------------------|-----------------------|--------------------|

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|---|------|------|------|------|------|
| FFO per Share Growth Absolute | | | | | |
| 3 year | 20% | 13% | 8% | 3% | 0% |
| 5 year | 30% | 19% | 11% | 4% | 0% |
| FFO per Share Growth Relative to Peers (3&5 year, in Percentile Rank) | 75th | 60th | 50th | 40th | 25th |

Table of Contents*Actual Performance*

The 2012 guideline performance metrics, their weightings and the Compensation Committee's ultimate assessment at the end of 2012 based on 2012 performance are as follows:

| Performance Metric | Weighting | Results | Assessment |
|---|------------------|----------------|--------------------|
| Short-Term Metrics | | | |
| STOCKHOLDER RETURNS | | | |
| Dividend Increases | | 5 | Outstanding |
| Dividend Per Share Growth | | 2.0% | |
| Stock Price Growth | 15.0% | 15.0% | |
| Total Stockholder Return (current year) | | 20.1% | |
| Total Stockholder Return Relative to Peers | | | |
| Geography Peer Group | | 76% | |
| Size Peer Group | | 52% | |
| BALANCE SHEET | | | |
| Debt to Total Market Capitalization | | 32.5% | Excellent |
| Interest Coverage Ratio | | 3.6x | |
| Fixed Charge Coverage Ratio | | 2.7x | |
| Debt to Adjusted EBITDA | 20.0% | 6.6x | |
| Relative Comparison to Peers of Above Metrics | | | |
| Geography Peer Group | | 45% | |
| Size Peer Group | | 81% | |
| EARNING METRICS | 15.0% | | Average |
| FFO per Share Growth Absolute (current year) | | (1.0)% | |
| Normalized FFO per share Growth Absolute (current year) | | 2.0% | |
| FFO per Share Growth Relative to its Peers | | | |
| Geography Peer Group | | 51% | |

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| | | | |
|---|-------|----------------|-------------|
| Size Peer Group | | 9% | |
| PORTFOLIO PERFORMANCE | | | |
| Portfolio Occupancy | 10.0% | 97.2% | Good |
| Same Store Rent Growth | | 0.1% | |
| ACQUISITIONS | 10.0% | \$1.16 Billion | Outstanding |
| Acquisition Levels | | | |
| Long-Term Metrics | | | |
| STOCKHOLDER RETURNS | | | |
| Total Stockholder Return Relative to Peers (3 Year) | | 85% | |
| Geography Peer Group | | 77% | |
| Size Peer Group | 20.0% | | Outstanding |
| Total Stockholder Return Relative to Peers (5 Year) | | 95% | |
| Geography Peer Group | | 94% | |
| Size Peer Group | | | |
| EARNING METRICS | | | |
| FFO per Share Growth Absolute (3 Year) | | 6.5% | |
| FFO per Share Growth Absolute (5 Year) | | 3.7% | |
| Normalized FFO per Share Growth Absolute (3 Year) | | 9.8% | |
| Normalized FFO per Share Growth Absolute (5 Year) | | 6.9% | |
| FFO per Share Growth Relative to Peers (3 Year) | | | |
| Geography Peer Group | 10.0% | 75% | Good |
| Size Peer Group | | 31% | |
| FFO per Share Growth Relative to Peers (5 Year) | | | |
| Geography Peer Group | | 59% | |
| Size Peer Group | | 62% | |

Non-formulaic Incentive Structure

The Compensation Committee has continued to refine the performance metrics, added more specific measurement guidelines and divided certain performance metrics into long-term and short-term targets. The Committee continues to believe that employing a non-formulaic incentive structure is beneficial to the stockholders, as more tightly formulaic incentive structures can lead to senior executives focusing on achieving specific targets to increase their compensation, to the detriment of long-term stockholder

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success and returns. The flexibility that the Compensation Committee has in the current compensation program allows the Compensation Committee to focus on the specific performance metrics, but also allows them to make compensation decisions regarding other areas that it deems to be beneficial to stockholder interests.

Although the Compensation Committee will continue to review its processes and consider implementing a more tightly formulaic incentive structure, it has decided that the current program has been successful and strikes a proper balance between providing direction and incentives for management to achieve short-term and long-term financial, operational and stock price objectives, while preserving discretion to ensure continued proper alignment after its year-end performance evaluation.

Annual Cash Bonuses

Annual cash bonuses are designed to supplement the pay of our executive officers (and our key management personnel) so that their total compensation is competitive and properly rewards the participants for their efforts in achieving our objectives. As in prior years, the Compensation Committee employed targeted cash bonus payments, expressed as a multiple of base salary for targeted performance, ranging from one times to two times the officer's base salary based on position, to guide it in its determinations regarding the amount of bonus to be paid to each executive officer. The Compensation Committee, in its discretion, may pay higher or lower amounts than these targeted bonus amounts based on company short-term and long-term performance, the status of our industry, market conditions, individual performance, peer group practices and other factors as it deems relevant.

Based on performance, as discussed above, our Chief Executive Officer made recommendations to the Compensation Committee regarding the amount of cash bonuses to be paid to the executive officers, other than himself. The Compensation Committee reviewed individual performance, the targeted base salary multiples, the recommendations of our Chief Executive Officer, past bonus payments and the market data in determining the final bonus payment for each executive officer. For 2012, based on our performance under our performance metrics, the Company paid 25% above target multiples for cash bonuses for each of our named executive officers, other than Mr. Case, who received 71% above target multiple for his cash bonus, based on his leadership role in achieving the highest annual level of acquisitions (in dollar amount) in our history for the second year in a row.

The guideline percentages for 2012 and the actual percentages paid for 2012 are in the following table. The guideline percentages to be utilized in 2013 are the same as below, except that, in conjunction with his promotion in March 2013, Mr. Case's target multiple increased to 1.25 times his base salary.

| Named Executive Officer | Title | Targeted Base Salary Multiple | Targeted Cash Bonus | Actual Base Salary Multiple | Actual 2012 Bonus(1) | Percent Increase - Actual over Target Salary Multiple |
|-------------------------|---|-------------------------------|---------------------|-----------------------------|----------------------|---|
| Thomas A. Lewis | Vice Chairman of the Board of Directors and Chief Executive Officer | | | | | |

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| | | | | | | |
|---------------------|---|-------|-------------|-------|-------------|-----|
| | | 2.00x | \$1,300,000 | 2.50x | \$1,625,000 | 25% |
| Gary M. Malino | President, Chief Operating Officer | 1.25x | 500,000 | 1.56x | 625,000 | 25% |
| John P. Case | President, Chief Investment Officer | 1.00x | 350,000 | 1.71x | 600,000 | 71% |
| Paul M. Meurer | Executive Vice President, Chief Financial Officer and Treasurer | 1.00x | 325,000 | 1.25x | 406,000 | 25% |
| Michael R. Pfeiffer | Executive Vice President, General Counsel and Secretary | 1.00x | 325,000 | 1.25x | 406,000 | 25% |

(1) The bonuses shown for 2012 were paid in January 2013 to each of the named executive officers based on 2012 performance.

Equity Based Long-Term Incentive Awards

The Compensation Committee grants restricted stock awards on an annual basis, generally in January, in recognition of individual executive and company performance for the prior fiscal year as well as long term achievements. The restricted stock awards are designed to increase executive officers

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common stock ownership, motivate our executive officers to improve long-term common stock dividend performance, align their interests with the interests of stockholders, encourage long-term dedication and operate as a retention mechanism for key members of our management.

The determination of the amount of restricted stock awards granted each January is based on how we performed under our performance metrics, as discussed above, and taking into consideration market data for the just completed fiscal year. The Compensation Committee considers these awards as earned based on our performance for the prior year. SEC disclosure rules require that the restricted stock awards shown in the Grants of Plan Based Award table for 2012 reflect those shares granted in the most recently completed fiscal year which, in our case, is January 2012 (though reflective of the 2011 performance year). As such, to provide a more complete and relevant disclosure of compensation for the 2012 performance year, we have provided supplemental information in the footnotes to the table regarding restricted stock earned, based on 2012 performance and granted in 2013, as discussed below.

As part of its process of implementing its objectives to target aggregate total direct compensation at or around the median of our peer groups, and to increase the percentage of compensation that is variable, at risk and tied to the interests of our stockholders, the Compensation Committee employs targeted base salary multiples, ranging from 1.75 times to 3 times the officer's base salary based on position, for the restricted stock awards to be granted to each executive officer. Actual awards depend on our performance in accordance with the performance metrics reviewed by the Compensation Committee, at the close of each year, and other factors that the Compensation Committee determines are relevant. The targeted base salary multiples and awards for the grants made for our 2012 performance, to our named executive officers, are set forth in the table below, along with the actual base salary multiples and awards granted to these officers in early 2013. The Compensation Committee may, in its discretion, choose to grant shares either below or above this multiple.

For 2012, based on our performance under our performance metrics, the Company paid 25% above target multiples for equity awards for each of our named executive officers, other than Mr. Case, who received 50% above target multiple for his equity awards, based on his leadership role in our year of strong acquisitions. The guideline percentages to be utilized for 2013 are the same as below, except that, in conjunction with his promotion in March 2013, Mr. Case's target multiple increased to two times his base salary.

| Named Executive Officer | Title | Targeted Base Salary Multiple (2012) | Targeted Equity Award (in shares)(1) | Actual Base Salary Multiple(2) | 2013 Award for 2012 Performance (in shares) (3) | Percent Increase - Actual over Target Salary Multiple |
|-------------------------|---|--------------------------------------|--------------------------------------|--------------------------------|---|---|
| Thomas A. Lewis | Vice Chairman of the Board of Directors and Chief Executive Officer | 3.00x | 47,181 | 3.75x | 58,989 | 25% |
| Gary M. Malino | President, Chief Operating Officer | 2.00x | 19,356 | 2.50x | 24,195 | 25% |
| John P. Case | President, Chief Investment Officer | 1.75x | 14,820 | 2.63x | 22,236 | 50% |
| Paul M. Meurer | Executive Vice President, Chief Financial Officer and | 1.75x | 13,761 | 2.19x | 17,203 | 25% |

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|---------------------|---|-------|--------|-------|--------|-----|
| | Treasurer | | | | | |
| Michael R. Pfeiffer | Executive Vice President, General Counsel and Secretary | 1.75x | 13,761 | 2.19x | 17,203 | 25% |

(1) The targeted equity award represents the value calculated by multiplying the base salary paid to the respective executive officer in 2012 by the targeted base salary multiple, and then dividing by the closing price of our common stock on January 4, 2013.

(2) The actual base salary multiple represents the value of the January 4, 2013 award of restricted stock, calculated by multiplying the number of shares awarded times the closing price of our common stock on such date, as a percentage of the base salary paid to the respective executive officer in 2012.

(3) The grants of restricted stock on January 4, 2013 represent the awards to each of the named executive officers based on 2012 performance.

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To be competitive with our peers and align our compensation programs with other REITs, during 2012, the Compensation Committee revised the terms of our equity awards to provide for accelerated vesting upon death and continued vesting upon disability. We define disability as the total and permanent incapacity of an employee due to physical and mental impairment.

Perquisites and Other Benefits

We provide medical and other benefits to our named executive officers that are similar to those benefits offered to our full-time employees, including employer matching contributions to their 401(k) savings accounts and coverage under a health and disability insurance program.

In 2012, the named executive officers did not receive any perquisites. However, the Compensation Committee may occasionally supply perquisites if they believe it is necessary to successfully compete for executive talent.

Severance and Change in Control Arrangements

We have employment agreements with each of our named executive officers, and other executive officers, which provide for severance payments and other benefits to the officers if their employment is terminated by us without cause or by the executive due to a constructive termination, including any such termination following a change of control of us. We do not provide any tax gross-up payments.

In general, the employment agreements provide that in the event of a change in control and a qualifying termination within 12 months after the change in control, we will provide severance equal to 18 months of base salary plus the average bonus paid over the past three years, and we will provide continued medical insurance for 18 months following termination. In the event a qualifying termination occurs prior to, or later than 12 months following a change of control, the benefits equal 12 months of base salary plus the average bonus paid over the past three years, and we will provide continued medical insurance for 12 months following termination. In addition, in accordance with the terms of our restricted stock agreements, upon a change of control, the vesting of all unvested shares of restricted stock accelerates.

The Compensation Committee believes these benefit levels are reasonable. The payments and benefit levels under the employment agreements did not influence and were not influenced by other elements of compensation. The agreements were designed to help attract and retain key employees, preserve employee morale and productivity and promote continuity of management in the event of an actual or threatened change in the control of us. These change in control benefits allow executives to assess takeover bids objectively without regard to the potential impact on their individual job security.

Executive Stock Ownership Requirements

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Effective January 1, 2013, the Board of Directors implemented stock ownership requirements for the Company's CEO, President, and the Executive Vice Presidents, to more closely align the interests of these individuals with the interests of our stockholders and to further promote the long-term growth of the price of our common stock. The minimum share requirements were established as follows:

| Position | Guideline(1) | Minimum Share Ownership Requirement(2) |
|--------------------------|---------------------|---|
| Chief Executive Officer | 5 times base salary | 88,161 |
| President | 4 times base salary | 42,821 |
| Executive Vice President | 3 times base salary | 26,488 |

(1) The requirement for each person subject to these Guidelines is determined on an individual basis, first in dollars as a multiple of the executive's annual base salary, and then by converting such amount to a fixed number of shares.

(2) John Case's minimum share ownership requirement at January 1, 2013 was 42,821 based on his anticipated promotion to President and associated salary increase.

As of January 1, 2013, each executive subject to the guidelines met or exceeded the stock ownership requirements.

For each of these executives, the stock ownership goal was determined using their base salaries as of January 1, 2013 and the average closing price of the Company's common stock for the period

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November 1, 2012 through December 31, 2012, and they have until January 1, 2018 to satisfy their ownership level. For persons assuming an Executive-level position after January 1, 2013, the stock ownership goal under these guidelines will be determined using their base salaries as of the date they become subject to these guidelines and using the average closing common stock price for the 60 trading days prior to such date, with five years to achieve the goals. If an individual's share ownership goal increases because of a change in position, a five-year period to achieve the incremental amount of shares will begin on the effective date of the change in position. All vested and unvested restricted stock awards qualify towards satisfaction of the requirement; however, pledged shares are not eligible. Compliance will be evaluated on an annual basis, as of December 31 of each year.

Tax Considerations

Section 162(m) of the Code limits the deductibility of compensation paid to our Chief Executive Officer and our three other most highly compensated executive officers, other than the Chief Financial Officer. To qualify for deductibility under Section 162(m), compensation (including base salary, annual bonus, stock option exercises, compensation attributable to vesting of stock grants and nonqualified benefits) in excess of \$1,000,000 per year, paid to each of these executive officers, generally must be performance-based compensation as determined under Section 162(m). While the Compensation Committee considers whether to structure compensation so that it satisfies the performance-based compensation requirements under Section 162(m), the Compensation Committee balances the costs and burdens involved in doing so against the value to us, and our stockholders, of the potential tax benefits. Accordingly, the Compensation Committee reserves the right to design programs that recognize a full range of performance criteria important to our success, even where the compensation paid under such programs may not be fully deductible as a result of Section 162(m).

Despite the fact that the incentive bonuses and stock-related awards for 2012 were determined by taking into consideration certain financial and strategic goals, the Compensation Committee did not apply these factors on a purely objective basis. As a result, incentive bonuses and stock-related awards, granted or earned in 2012, did not satisfy the performance-based compensation requirements of Section 162(m). As a result, compensation of \$7.6 million, in aggregate, was not deductible from a tax perspective for 2012. We believe that we qualify as a REIT under the Code and generally are not subject to federal income taxes, provided we distribute to our stockholders at least 90% of our taxable income each year. As a result of the Company's tax status as a REIT, the loss of this deduction did not affect the amount of Federal income tax payable by the Company for its 2012 taxable year. However, the loss of this deduction increased the portion of the Company's 2012 distributions that were taxed as dividends to its stockholders and reduced the portion of such distributions treated as a return of capital. The Compensation Committee will continue to evaluate the advisability of providing performance-based compensation under Section 162(m).

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management, and based on the review and discussions, the Compensation Committee recommended to the Board of Directors of Realty Income Corporation, a Maryland corporation, or Realty Income, that the Compensation Discussion and Analysis be included in this Proxy Statement for the 2013 Annual Meeting of stockholders and in Realty Income's 2012 Annual Report on Form 10-K.

Submitted on March 11, 2013 by the members of the Compensation Committee of Realty Income's Board of Directors.

Kathleen R. Allen, Ph.D.

A. Larry Chapman

Michael D. McKee

Gregory T. McLaughlin, Chairman

The above report of the Compensation Committee will not be deemed to be incorporated by reference into any filing by the Company under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates the same by reference.

[Table of Contents](#)**Summary Compensation Table**

The following table sets forth information concerning the compensation earned by our Chief Executive Officer, our Chief Financial Officer, and our three other most highly compensated executive officers, or collectively, the named executive officers, for the fiscal years ended December 31, 2012, 2011 and 2010.

| Name and Principal Position in 2012 | Year | Salary(1) | Bonus(2) | Stock Awards(3)(4) | All other Compensation(5) | Total |
|--|-------------|------------------|-----------------|---------------------------|----------------------------------|--------------|
| Thomas A. Lewis | 2012 | \$ 650,000 | \$ 1,625,000 | \$ 2,229,992 | 10,338 | \$ 4,515,330 |
| Vice Chairman of the Board | 2011 | 550,000 | 1,490,000 | 1,974,504 | 10,188 | 4,024,692 |
| and Chief Executive Officer | 2010 | 550,000 | 1,200,000 | 1,327,000 | 10,188 | 3,087,188 |
| Gary M. Malino | 2012 | 400,000 | 625,000 | 1,000,010 | 10,338 | 2,035,348 |
| President and | 2011 | 400,000 | 630,000 | 988,604 | 8,868 | 2,027,472 |
| Chief Operating Officer | 2010 | 400,000 | 550,000 | 796,200 | 8,868 | 1,755,068 |
| John P. Case(6) | 2012 | 350,000 | 600,000 | 900,005 | 8,490 | 1,858,495 |
| Executive Vice President, | 2011 | 325,000 | 440,000 | 692,023 | 8,340 | 1,465,363 |
| Chief Investment Officer | 2010 | 205,769 | 375,000 | 2,517,750 | 220,417 | 3,318,936 |
| Paul M. Meurer | 2012 | 325,000 | 406,000 | 699,997 | 8,490 | 1,439,487 |
| Executive Vice President, | 2011 | 325,000 | 390,000 | 692,023 | 8,340 | 1,415,363 |
| Chief Financial Officer and | 2010 | 325,000 | 375,000 | 530,800 | 8,340 | 1,239,140 |
| Treasurer | | | | | | |
| Michael R. Pfeiffer | 2012 | 325,000 | 406,000 | 699,997 | 9,018 | 1,440,015 |
| Executive Vice President, | 2011 | 325,000 | 390,000 | 692,023 | 8,868 | 1,415,891 |
| General Counsel and | 2010 | 300,000 | 375,000 | 530,800 | 8,868 | 1,214,668 |
| Secretary | | | | | | |

(1) The amounts shown include amounts earned, but a portion of which may be deferred, at the election of the officer under our 401(k) retirement plan.

(2) The bonuses shown were paid in January of the following year, for performance during the year shown.

(3) Represents the grant date fair value of restricted stock grants, which is calculated by multiplying the applicable shares by the closing market price of our common stock on the date of grant of January 4, 2012, of \$34.52, as prescribed by Accounting Standards Codification Topic 718.

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(4) The stock awards shown reflect the grants of restricted stock during each of the fiscal years presented above. Because we believe that the information is relevant to our investors, we have chosen to present supplemental disclosure regarding the grant of restricted stock on January 4, 2013, which represents the award to each of the named executive officers based on their 2012 performance. See footnote 1 to the Grants of Plan-Based Awards Table.

(5) The following table sets forth matching contributions by us to the named executive officer's 401(k) savings account and the cost of term life premiums paid by us in 2012.

| Name | 401(k) Matching Contributions | Group Term Life Insurance Payments |
|---------------------|--|---|
| Thomas A. Lewis | \$ 7,500 | \$ 2,838 |
| Gary M. Malino | 7,500 | 2,838 |
| John P. Case | 7,500 | 990 |
| Paul M. Meurer | 7,500 | 990 |
| Michael R. Pfeiffer | 7,500 | 1,518 |

(6) Mr. Case's employment with us began on April 26, 2010. The amount shown for 2010 in the table above represents the pro-rated portion of his base salary of \$300,000, as actually paid to him in 2010.

Grants of Plan-Based Awards Table

The following table sets forth summary information concerning all grants of plan-based awards made to the named executive officers during the 2012 fiscal year.

| Name | Grant Date(1) | All Other Stock Awards: Number of Shares of Stock or Units(1) | Grant Date Fair Value of Stock and Option Awards(1)(2)(3) |
|---------------------|--------------------------|--|--|
| Thomas A. Lewis | 1/4/12 | 64,600 | \$ 2,229,992 |
| Gary M. Malino | 1/4/12 | 28,969 | 1,000,010 |
| John P. Case | 1/4/12 | 26,072 | 900,005 |
| Paul M. Meurer | 1/4/12 | 20,278 | 699,997 |
| Michael R. Pfeiffer | 1/4/12 | 20,278 | 699,997 |

(1) The grant date fair value has been calculated by multiplying the closing market price of our common stock at January 4, 2012 of \$34.52 by the number of restricted stock awards, as prescribed under Accounting Standards Codification Topic 718.

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(2) The stock awards shown in the table above reflect the grants of restricted stock during the 2012 fiscal year based on 2011 performance. Because we believe that the information is relevant to our investors, we have chosen to present supplemental disclosure regarding the grants of restricted stock on January 4, 2013, which represent the awards to each of the named executive officers based on their 2012 performance. The grant date fair value in the following chart has been calculated by multiplying the closing market price of our common stock at January 4, 2013 of \$41.33, by the number of shares of restricted stock awarded in 2013 for 2012 performance, as prescribed under Accounting Standards Codification Topic 718:

| Name | Grant Date | All Other Stock Awards: Number of Shares of Stock or Units | Grant Date Fair Value of Stock and Option Awards |
|---------------------|-------------------|---|---|
| Thomas A. Lewis | 1/4/13 | 58,989 | \$ 2,438,015 |
| Gary M. Malino | 1/4/13 | 24,195 | 999,979 |
| John P. Case | 1/4/13 | 22,236 | 919,014 |
| Paul M. Meurer | 1/4/13 | 17,203 | 711,000 |
| Michael R. Pfeiffer | 1/4/13 | 17,203 | 711,000 |

(3) The Compensation Committee awards grants of restricted stock awards in accordance with the provisions of our 2012 Incentive Award Plan. The vesting schedule is as follows: (i) for employees age 55 and below at the grant date, shares vest in 20% increments on each of the first five anniversaries of the grant date; (ii) for employees age 56 at the grant date, shares vest in 25% increments on each of the first four anniversaries of the grant date; (iii) for employees age 57 at the grant date, shares vest in 33.33% increments on each of the first three anniversaries of the grant date; (iv) for employees age 58 at the grant date, shares vest in 50% increments on each of the first two anniversaries of the grant date; (v) for employees age 59 at the grant date, shares are 100% vested on the first anniversary of the grant date; and (vi) for employees age 60 and above at the grant date, shares vest immediately on the grant date. Cash and stock dividends are paid on our restricted stock from the date of grant.

Outstanding Equity Awards Table as of December 31, 2012

The following table sets forth summary information concerning outstanding equity awards held by each of the named executive officers as of December 31, 2012. None of the named executive officers held any exercisable or unexercisable options as of December 31, 2012.

| Name | Stock Awards(8) | |
|--------------------|---|--|
| | Number of Shares or Units of Stock That Have | Market Value of Shares or Units |
| | Not Vested as of | of Stock That Have |
| | December 31, 2012(1) | Not Yet Vested(2) |
| Thomas A. Lewis(3) | 242,834 | \$ 9,764,355 |

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| | | |
|------------------------|---------|-----------|
| Gary M. Malino(4) | 136,611 | 5,493,128 |
| John P. Case(5) | 87,447 | 3,516,244 |
| Paul M. Meurer(6) | 101,053 | 4,063,341 |
| Michael R. Pfeiffer(7) | 100,353 | 4,035,194 |

(1) The amounts in this column represent the portion of the stock awards that were granted from January 1, 2003 through January 4, 2012 to the named executive officers and that were unvested at December 31, 2012.

(2) Market value has been calculated by multiplying the closing market price of our common stock at December 31, 2012 of \$40.21 by the outstanding restricted stock awards for each named executive officer.

(3) The restricted stock awards for Mr. Lewis vest according to the following schedule: 110,067 shares vest on 1/1/13, 94,767 shares vest on 1/1/14, 20,500 shares vest on 1/1/15, 11,500 shares vest on 1/1/16 and 6,000 shares vest on 1/1/17.

(4) The restricted stock awards for Mr. Malino vest according to the following schedule: 44,941 shares vest on 1/1/13, 35,942 shares vest on 1/1/14, 28,442 shares vest on 1/1/15, 17,942 shares vest on 1/1/16 and 9,344 shares vest on 1/1/17.

(5) The restricted stock awards for Mr. Case vest according to the following schedule: 15,000 shares vest on each of: 4/26/13, 4/26/14 and 4/26/15, 9,308 shares vest on 1/1/13, 9,307 shares vest on 1/1/14, 9,309 shares vest on 1/1/15, 9,308 vest on 1/1/16 and 5,215 shares vest on 1/1/17.

(6) The restricted stock awards for Mr. Meurer vest according to the following schedule: 28,049 shares vest on 1/1/13, 26,149 shares vest on 1/1/14, 21,649 shares vest on 1/1/15, 14,650 shares vest on 1/1/16, 8,556 shares vest on 1/1/17 and 2,000 shares vest on 1/1/18.

(7) The restricted stock awards for Mr. Pfeiffer vest according to the following schedule: 27,349 shares vest on 1/1/13, 26,149 shares vest on 1/1/14, 21,649 shares vest on 1/1/15, 14,650 shares vest on 1/1/16, 8,556 shares vest on 1/1/17 and 2,000 shares vest on 1/1/18.

(8) The outstanding stock awards information is as of December 31, 2012 and does not include the awards granted to the named executive officers as of January 4, 2013 based on their performance for the 2012 fiscal year. Because we believe that the information is relevant to our investors, we have chosen to present supplemental disclosure regarding the outstanding stock award information as of January 4, 2013:

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| Name | Number of Shares or Units of Stock That Have Not Vested as of January 4, 2013(a) | Market Value of Shares or Units of Stock That Have Not Yet Vested as of January 4, 2013(b) |
|------------------------|---|---|
| Thomas A. Lewis(c) | 191,756 | \$ 7,925,275 |
| Gary M. Malino(d) | 115,865 | 4,788,700 |
| John P. Case(e) | 100,375 | 4,148,499 |
| Paul M. Meurer(f) | 90,207 | 3,728,255 |
| Michael R. Pfeiffer(g) | 90,207 | 3,728,255 |

- (a) The amounts in this column represent the portion of the stock awards that were granted from January 1, 2004 through January 4, 2013 to the named executive officers and that were unvested at January 4, 2013. None of the named executive officers held any options at January 4, 2013.
- (b) Market value has been calculated by multiplying the closing market price of our common stock at January 4, 2013 of \$41.33 by the outstanding restricted stock awards for each named executive officer.
- (c) The restricted stock awards for Mr. Lewis vest according to the following schedule: 153,756 shares vest on 1/1/14, 20,500 shares vest on 1/1/15, 11,500 shares vest on 1/1/16 and 6,000 shares vest on 1/1/17.
- (d) The restricted stock awards for Mr. Malino vest according to the following schedule: 40,781 shares vest on 1/1/14, 33,281 shares vest on 1/1/15, 22,781 shares vest on 1/1/16, 14,183 shares vest on 1/1/17 and 4,839 shares vest on 1/1/18.
- (e) The restricted stock awards for Mr. Case vest according to the following schedule: 15,000 shares vest on each of: 4/26/13, 4/26/14 and 4/26/15, 13,754 shares vest on 1/1/14, 13,756 shares vest on 1/1/15, 13,755 shares vest on 1/1/16, 9,662 shares vest on 1/1/17 and 4,448 shares vest on 1/1/18.
- (f) The restricted stock awards for Mr. Meurer vest according to the following schedule: 29,589 shares vest on 1/1/14, 25,090 shares vest on 1/1/15, 18,090 shares vest on 1/1/16, 11,997 shares vest on 1/1/17 and 5,441 shares vest on 1/1/18.
- (g) The restricted stock awards for Mr. Pfeiffer vest according to the following schedule: 29,589 shares vest on 1/1/14, 25,090 shares vest on 1/1/15, 18,090 shares vest on 1/1/16, 11,997 shares vest on 1/1/17 and 5,441 shares vest on 1/1/18.

Stock Vested During 2012 Table

The following table sets forth summary information concerning the vesting of stock awards for each of the named executive officers during the year ended December 31, 2012. During the year ended December 31, 2012, none of the named executive officers held or exercised any stock options.

| Name | Stock Awards | |
|---------------------|---|-------------------------------------|
| | Number of Shares Acquired on Vesting(1)(2) | Value Realized on Vesting(3) |
| Thomas A. Lewis | 83,766 | \$2,928,459 |
| Gary M. Malino | 41,548 | 1,452,518 |
| John P. Case | 19,093 | 734,241 |
| Paul M. Meurer | 25,993 | 908,715 |
| Michael R. Pfeiffer | 23,293 | 814,323 |

(1)

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Represents the portion of the stock awards that vested on January 1, 2012, and for Mr. Case, also includes the portion of his stock awards that vested April 26, 2012.

- (2) The number of shares acquired on vesting includes the following number of shares that each applicable named executive officer elected to withhold to pay his federal and state income taxes: 30,725 shares for Mr. Lewis, 7,003 shares for Mr. Case, 9,534 shares for Mr. Meurer, and 8,543 shares for Mr. Pfeiffer.
- (3) For Messrs. Lewis, Malino, Meurer and Pfeiffer, this column represents the value realized on vesting as calculated by multiplying the closing market price of our common stock on December 30, 2011 (i.e., the business day immediately preceding the January 1, 2012 vesting date) of \$34.96, by the number of shares that vested. For Mr. Case, this column represents the value realized on vesting as calculated by multiplying the closing market price of our common stock on December 30, 2011 of \$34.96 and April 26, 2012 of \$39.41, by the number of shares that vested on each respective date. Of the 19,093 shares acquired on vesting by Mr. Case during 2012, 4,093 shares vested on January 1, 2012 and 15,000 shares vested on April 26, 2012.

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No Pension Benefits or Nonqualified Deferred Compensation

We do not provide any retirement benefits, other than the opportunity to participate in a 401(k) plan. We do not currently sponsor any qualified or non-qualified defined benefit plans, any non-qualified defined contribution plans or deferred compensation plans. The Compensation Committee may elect to adopt such benefits if they determine that doing so is in the Company's best interest.

Potential Payments upon Termination or Change in Control

Each of the named executive officers has the right to receive severance compensation upon the occurrence of certain events as specified in their employment agreements. The employment agreements provide that the executive officers will be entitled to receive severance payments, upon a termination by us without cause or a constructive termination by the executive (each a Qualifying Termination), including a Qualifying Termination that occurs within 12 months after a change in control.

Qualifying Termination Not in Connection with a Change in Control. For a Qualifying Termination not in connection with a change in control each of our named executive officers is entitled to receive the following:

- a severance payment equal to twelve months' base salary;
- an amount equal to the average of the last three years' cash bonus paid;
- payment of any accrued but unpaid wages and accrued but unused vacation pay to which the executive officer may be entitled prorated through the date of termination; and
- continuation of group medical insurance coverage at our expense for a period of twelve months from the date of termination or until the executive officer becomes covered under another group medical insurance plan, whichever occurs first.

Our restricted stock agreements for all employees provide that in the event of an employee's Qualifying Termination within eighteen (18) months following a merger or consolidation of the Company with or into another corporation in a transaction that is not a change in control, all unvested restricted stock shall immediately become vested.

Change in Control. In the event of a Qualifying Termination on or within twelve months after a change in control, each of our named executive officers is entitled to receive the following:

- a severance payment equal to eighteen months' base salary;
- an amount equal to the average of the last three years' cash bonuses paid;
- payment of any accrued but unpaid wages and accrued but unused vacation pay to which the executive officer may be entitled, prorated through the date of termination; and
- continuation of group medical insurance coverage, at our expense, for a period of eighteen months from the date of termination or until the executive officer becomes covered under another group medical insurance plan, whichever occurs first.

In addition, our restricted stock agreements for all employees provide that in the event of a change in control all outstanding restricted stock awards will automatically vest in full immediately prior to the change in control.

Termination for Death or Disability. In the event that the executive officer dies, or is physically or mentally unable to perform his or her duties, the executive officer is entitled to receive his accrued but unpaid wages and accrued but unused vacation pay, if any, as of the date of his death or disability. If the executive officer dies, pursuant to the terms of the employment agreement, he or she is entitled to life insurance benefits under our group life insurance program. In accordance with the terms of our restricted stock agreements for all employees, upon termination of employment as a result of death, all shares of unvested restricted stock held by the employee will immediately vest in full, and upon termination of employment as a result of disability, all shares of unvested restricted stock will continue to vest as scheduled, except for the initial grant to Mr. Case in April 2010, which vests in full.

Termination For Cause. Upon termination for failure to perform duties, the executive officer is not entitled to any payment or benefit other than the payment of accrued but unpaid wages and accrued but unused vacation pay as of the date of such termination.

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Termination by Executive Officer. The executive officer may also terminate the agreement at any time, upon two weeks' notice to us, which will not result in any severance payments other than the payment of any accrued but unpaid wages and accrued but unused vacation pay to which the employee may be entitled, prorated through the date of termination.

The employment agreements provide that the executive officer must devote his or her full time, attention and energy to our business and may not engage in any other business activity which would interfere with the performance of his or her duties or be competitive with us, unless specifically permitted by our Board of Directors. This restriction does not prevent the executive officer from making passive investments, so long as the investment does not require the executive officer's services in a manner that would impair the performance of his or her duties under the employment agreement.

Definitions. A termination for cause means a discharge resulting from (a) theft, dishonesty or falsification of any employment or company records; (b) malicious or reckless disclosure of the company's confidential or proprietary information; (c) the commission of any immoral or illegal act or any gross or willful misconduct, where the company reasonably determines that such act or misconduct has: (1) seriously undermined the ability of the company's management to entrust the executive officer with important matters or otherwise work effectively with the executive officer; (2) contributed to the company's loss of significant revenues or business opportunities; or (3) significantly and detrimentally effected the business or reputation of the company or any of its subsidiaries; and/or (d) the failure or refusal to work diligently to perform tasks or achieve goals reasonably requested by the Board of Directors, provided such breach, failure or refusal continues after the receipt of reasonable notice in writing of such failure or refusal and an opportunity to correct the problem.

A change in control means (i) an acquisition in one transaction, or a series of related transactions of the company's voting securities, by any individual or entity, immediately after which such person has beneficial ownership of fifty percent (50%) or more of the combined voting power of the company's then outstanding voting securities; (ii) a contested election of directors resulting in a change in composition of at least a majority of the members of the Board of Directors; or (iii) with limited exceptions, the consummation of a merger, consolidation or reorganization involving the Company.

A constructive termination means an employee's resignation of employment within 60 days of one or more of the following events which remain uncured 30 days after employee's delivery of written notice thereof, and which resignation is effective not more than 30 days following the expiration of such cure period: (a) a material diminution in employee's authority, duties or responsibilities from those in effect immediately prior to such diminution; (b) a material reduction in employee's base salary in effect immediately prior to such reduction; or (c) a material relocation by the Company of employee's principal office location greater than 40 miles from the Company's headquarters.

[Table of Contents](#)**Termination Scenario Table**

The table below estimates the payments and benefits to each of the named executive officers assuming that on December 31, 2012: (i) a Qualifying Termination occurred, not in connection with a change in control (as defined) or any other merger or consolidation of the Company, (ii) a change in control and Qualifying Termination (Change in Control Termination) occurred, (iii) a change in control occurred, or (iv) employment terminated due to death. Not included are the effects of a termination of employment as a result of disability, in which case, except for the April 2010 grant of restricted stock to Mr. Case, all shares of unvested restricted stock held by the executive officer will continue to vest as scheduled, as set forth under the Outstanding Equity Awards Table as of December 31, 2012 on page 37. The value of Mr. Case's accelerated vesting upon disability as of December 31, 2012 is \$1,809,450 and is not included in the table. Excluded from the table below are certain benefits provided to all employees, such as accrued vacation, and benefits provided under our other insurance policies. With the exception of medical benefits, which are to be paid monthly, the following amounts represent lump-sum payments and benefits.

| Name and Trigger | Salary Payment(1) | Bonus Payment(2) | Medical Benefits(3) | Value of Accelerated Equity Awards(4) | Life Insurance Benefit(5) | Total |
|-------------------------------|-------------------|------------------|---------------------|---------------------------------------|---------------------------|--------------|
| Thomas A. Lewis | | | | | | |
| Qualifying Termination(6) | \$ 650,000 | \$ 1,438,333 | \$ 19,020 | \$ 0 | 0 | \$ 2,107,353 |
| Change in Control Termination | 975,000 | 1,438,333 | 28,530 | 9,764,355 | 0 | 12,206,218 |
| Change in Control | 0 | 0 | 0 | 9,764,355 | 0 | 9,764,355 |
| Death | 0 | 0 | 0 | 9,764,355 | 600,000 | 10,364,355 |
| Gary M. Malino | | | | | | |
| Qualifying Termination(6) | 400,000 | 601,667 | 19,020 | 0 | 0 | 1,020,687 |
| Change in Control Termination | 600,000 | 601,667 | 28,530 | 5,493,128 | 0 | 6,723,325 |
| Change in Control | 0 | 0 | 0 | 5,493,128 | 0 | 5,493,128 |
| Death | 0 | 0 | 0 | 5,493,128 | 600,000 | 6,093,128 |
| John P. Case | | | | | | |
| Qualifying Termination(6) | 350,000 | 471,667 | 19,020 | 0 | 0 | 840,687 |
| Change in Control Termination | 525,000 | 471,667 | 28,530 | 3,516,244 | 0 | 4,541,441 |
| Change in Control | 0 | 0 | 0 | 3,516,244 | 0 | 3,516,244 |
| Death | 0 | 0 | 0 | 3,516,244 | 600,000 | 4,116,244 |
| Paul M. Meurer | | | | | | |
| Qualifying Termination(6) | 325,000 | 390,333 | 19,020 | 0 | 0 | 734,353 |
| Change in Control Termination | 487,500 | 390,333 | 28,530 | 4,063,341 | 0 | 4,969,704 |
| Change in Control | 0 | 0 | 0 | 4,063,341 | 0 | 4,063,341 |
| Death | 0 | 0 | 0 | 4,063,341 | 600,000 | 4,663,341 |
| Michael R. Pfeiffer | | | | | | |
| Qualifying Termination(6) | 325,000 | 390,333 | 14,300 | 0 | 0 | 729,633 |
| Change in Control Termination | 487,500 | 390,333 | 21,450 | 4,035,194 | 0 | 4,934,477 |
| Change in Control | 0 | 0 | 0 | 4,035,194 | 0 | 4,035,194 |
| Death | 0 | 0 | 0 | 4,035,194 | 600,000 | 4,635,194 |

(1) Amount represents twelve months base salary in the case of a Qualifying Termination and eighteen months base salary in the case of a Change in Control Termination.

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(2) Amount represents the average of annual bonuses paid based on performance for 2012, 2011 and 2010.

(3) Amount represents continuation of group medical insurance coverage at our expense for a period of twelve months in the case of a Qualifying Termination and for eighteen months in the case of a Change in Control Termination.

(4) Amount represents the aggregate value of the acceleration of vesting of the executive officer's restricted stock. For purposes of this calculation, each officer's total restricted stock awards on December 31, 2012 are multiplied by our common stock closing price on December 31, 2012 of \$40.21.

(5) Amount represents life insurance benefits that would have been paid by a third-party insurance company to the beneficiaries of the named executive officers if they had died on December 31, 2012. This amount is calculated as two times the 2012 base salary of each named executive officer plus \$15,000, up to a maximum amount of \$600,000.

(6) In the event of a Qualifying Termination that occurs within 18 months following a merger or consolidation of the Company that does not constitute a change in control, the executive officer would also be entitled to accelerated vesting of all outstanding shares of restricted stock (see Footnote 4)

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AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors of Realty Income Corporation is comprised of independent directors as required by the listing standards of the New York Stock Exchange, or NYSE. The Audit Committee operates pursuant to a written charter, as required by the NYSE and the rules and regulations of the Securities and Exchange Commission, or the SEC, which was adopted by Realty Income's Board of Directors. In 2012, the Audit Committee met six times.

The role of the Audit Committee is to select and engage KPMG LLP, our independent registered public accounting firm, and to oversee Realty Income's financial reporting process on behalf of the Board of Directors. Management of Realty Income has the primary responsibility for the preparation of Realty Income's consolidated financial statements as well as executing Realty Income's financial reporting process, principles and internal controls. The independent registered public accounting firm is responsible for performing an audit of Realty Income's consolidated financial statements and Realty Income's internal controls over financial reporting and expressing an opinion as to the conformity of such consolidated financial statements with U.S. generally accepted accounting principles and expressing an opinion on management's assessment of and the effectiveness of Realty Income's internal controls over financial reporting.

In this context, the Audit Committee has reviewed and discussed with management and KPMG LLP the audit of the consolidated financial statements and the audit of internal controls over financial reporting of Realty Income, as of and for the year ended December 31, 2012. The Audit Committee has discussed with KPMG LLP the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1 A.U. section 380), as adopted by the Public Company Oversight Board (PCAOB) in Rule 3200T. In addition, the Audit Committee has received the written disclosures and the letter from KPMG LLP required by applicable requirements of the PCAOB regarding KPMG LLP's communications with the Audit Committee concerning independence, and it has discussed with the auditors their independence from Realty Income and its management. The Audit Committee has also considered whether KPMG LLP's preparation of tax returns, tax consulting services and other non-audit services to Realty Income is compatible with maintaining KPMG LLP's independence.

Based on the reports and discussions described above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in Realty Income's Annual Report on Form 10-K for the year ended December 31, 2012, for filing with the SEC.

Submitted on March 11, 2013 by the members of the Audit Committee of Realty Income's Board of Directors.

*Kathleen R. Allen, Ph.D.
A. Larry Chapman
Gregory T. McLaughlin
Ronald L. Merriman, Chairman*

The above report of the Audit Committee will not be deemed to be incorporated by reference into any filing by the Company under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that Realty Income specifically incorporates the same by reference.

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SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our officers and directors, and persons who own more than ten percent of a registered class of our equity securities, or collectively, Insiders, to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and other equity securities of Realty Income. Insiders are required by regulation of the SEC to furnish us with copies of all Section 16(a) forms they file.

Based solely on our review of copies of Forms 3, 4 and 5, and the amendments thereto, received by the Company for the year ended December 31, 2012, or written representations from certain reporting persons, we believe that during the year ended December 31, 2012, all filing requirements were complied with by our executive officers, directors and beneficial owners of more than ten percent of our stock.

RELATED PARTY TRANSACTIONS

We have adopted a written policy regarding the review, approval and ratification of any related party transaction. Under this policy, the Audit Committee shall review the relevant facts and circumstances of each related party transaction, including whether the transaction is on terms comparable to those that could be obtained in arm's length dealings with an unrelated third party and the extent of the related party's interest in the transaction, taking into account the conflicts of interest and corporate opportunity provisions of our Code of Business Ethics, and the Audit Committee either approves or disapproves the related party transaction. Any related party transaction shall be consummated and shall continue only if the Audit Committee has approved or ratified such transaction in accordance with the guidelines set forth in the policy. For purposes of our policy, a Related Party is: (1) any person who is, or at any time since the beginning of the Company's last fiscal year was, our director or executive officer or a nominee to become our director; (2) any person who is known to be the beneficial owner of more than 5% of any class of our voting securities; (3) any immediate family member of any of the foregoing persons, which means any spouse, child, stepchild, parent, stepparent, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law; and (4) any firm, corporation or other entity in which any of the foregoing persons is employed, is a general partner, principal or in a similar position, or in which such person has a 5% or greater beneficial ownership interest.

We had no related party transactions in 2012.

Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth, as of March 7, 2013, based on 178,926,654 shares of common stock outstanding on that date, certain information with respect to the beneficial ownership of shares of our common stock by (i) each director, each nominee and each named executive officer; (ii) all current directors and executive officers of Realty Income as a group; and (iii) each person known to us to own beneficially more than 5% of the outstanding shares of our common stock. Except as otherwise noted, we believe the beneficial owners of shares of our common stock listed below, based on information furnished by those owners, have sole voting and investment power with respect to their shares.

| Name of Beneficial Owner | Shares of Beneficial Ownership of Common Stock of the Company | Percent of Class |
|---|--|-------------------------|
| Thomas A. Lewis(1) | 357,267 | 0.2 |
| Gary M. Malino(2) | 364,558 | 0.2 |
| John P. Case(3) | 127,857 | 0.1 |
| Paul M. Meurer(4) | 124,427 | 0.1 |
| Michael R. Pfeiffer(5) | 116,025 | 0.1 |
| Michael D. McKee(6) | 121,500 | 0.1 |
| Kathleen R. Allen, Ph.D.(7) | 62,000 | * |
| Priya Cherian Huskins(8) | 22,533 | * |
| Gregory T. McLaughlin(9) | 18,364 | * |
| Ronald L. Merriman(10) | 14,949 | * |
| A. Larry Chapman(11) | 7,531 | * |
| | | |
| All directors and executive officers of the Company, as a group (16 persons) | 1,544,197 | 0.9% |
| | | |
| *Less than one-tenth of one percent | | |
| | | |
| | Shares of Beneficial Ownership of Common Stock of the Company | Percent of Class |
| Stockholders Holding 5% or more | | |
| The Vanguard Group, Inc.(12) 100 Vanguard Blvd. Malvern, PA 19355 | 15,401,476 | 8.6 |

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| | | | |
|---|------------|--|-----|
| BlackRock, Inc.(13) 40 East 52nd Street New York, NY 10022 | 10,634,367 | | 5.9 |
| Vanguard Specialized Funds Vanguard REIT Index Fund(14) 100 Vanguard Blvd. Malvern, PA 19355 | 8,833,546 | | 4.9 |

(1) Mr. Lewis' s total includes 191,756 shares of unvested restricted stock, 95,816 shares owned of record by The Lewis Revocable Living Trust dated January 20, 2005, of which he is a trustee and has sole voting and investment power, and 69,695 shares held in a joint account of which he and his wife have shared voting and investment power.

(2) Mr. Malino' s total includes 115,865 shares of unvested restricted stock and 247,539 shares owned of record by The Malino Revocable Living Trust dated August 14, 1999, of which he is a trustee and has shared voting and investment power, 742 shares owned of record by an IRA, in the account of Mr. Malino, and 412 shares owned of record by his ex-wife, as to which he disclaims beneficial ownership.

(3) Mr. Case' s total includes 100,375 shares of unvested restricted stock and 27,482 shares of vested stock.

(4) Mr. Meurer' s total includes 90,207 shares of unvested restricted stock and 34,220 shares of vested stock.

(5) Mr. Pfeiffer' s total includes 90,207 shares of unvested restricted stock and 25,818 shares owned of record by The Pfeiffer Revocable Living Trust dated November 23, 2009, of which he is a trustee and has sole voting and investment power. Of his 90,207 shares of restricted stock, Mr. Pfeiffer' s ex-wife is entitled to 5,143 shares pursuant to a domestic relations order, as to which she has voting power and to which Mr. Pfeiffer disclaims beneficial ownership.

(6) Mr. McKee' s total includes 89,200 shares owned of record by The McKee Family Trust dated February 11, 1995, of which he is a trustee and has shared voting and investment power, 12,800 shares owned of record by MCCR Holdings, LLC, a family limited liability company, of which he and his wife have shared voting and investment power, and 19,500 shares owned of record by an IRA, in the account of Mr. McKee.

(7) Dr. Allen' s total includes 62,000 shares owned of record by The Allen Family Trust dated December 5, 2006, of which she is a trustee and has shared voting and investment power.

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- (8) Ms. Huskins' s total includes 8,001 shares of unvested restricted stock and 14,532 shares owned of record by The Michael and Priya Huskins Revocable Trust dated February 12, 2001, of which she is a trustee and has shared voting and investment power.
- (9) Mr. McLaughlin' s total includes 8,001 shares of unvested restricted stock, 7,715 shares of vested stock and 2,648 shares owned of record by The McLaughlin Family Trust dated May 28, 2009, of which he is a trustee and has shared voting and investment power.
- (10) Mr. Merriman' s total includes 8,001 shares of unvested restricted stock and 6,948 shares owned of record by The Ronald Merriman Family Trust dated July 17, 1997, of which he is a trustee and has shared voting and investment power.
- (11) Mr. Chapman' s total includes 6,667 shares of unvested restricted stock and 864 shares of vested stock owned of record by A. Larry Chapman and Patricia L. Chapman, Trustees of the Chapman Family Trust, dated March 18, 1998, of which he is a trustee and has sole voting power and shared investment power.
- (12) Based on the information provided pursuant to a statement on a Schedule 13G/A filed with the SEC on February 11, 2013, The Vanguard Group, Inc. (Vanguard) has sole power to vote or direct the vote, and sole power to dispose or direct the disposition of, 337,790 and 15,138,366 shares of our common stock, respectively, and shared power to vote or direct the vote and shared power to dispose or direct the disposition of 101,400 and 263,110 shares of our common stock, respectively. Vanguard Fiduciary Trust Company (VFTC), a wholly-owned subsidiary of Vanguard, is the beneficial owner of the 90,010 shares of our common stock as a result of its serving as investment manager of collective trust accounts and directs the voting of these shares. Vanguard Investments Australia, Ltd. (VIA), a wholly-owned subsidiary of Vanguard, is the beneficial owner of the 420,880 shares of our common stock as a result of its serving as investment manager of Australian investment offerings and directs the voting of these shares. Vanguard is an investment adviser in accordance with Section 13d-1(b)(1)(ii)(E) of the Exchange Act.
- (13) Based on the information provided pursuant to a statement on a Schedule 13G/A filed with the SEC on February 8, 2013, BlackRock, Inc. has sole power to vote or direct the vote, and sole power to dispose or direct the disposition of, 10,634,367 shares of our common stock.
- (14) Based on the information provided pursuant to a statement on a Schedule 13G/A filed with the SEC on January 30, 2013, Vanguard Specialized Funds Vanguard REIT Index Fund (Vanguard REIT Index Fund) has sole power to vote or direct the vote of 8,833,546 shares of our common stock and does not have the power to dispose or direct the disposition of any shares of our common stock. Vanguard REIT Index Fund is an investment company registered under Section 8 of the Investment Company Act of 1940.

EQUITY COMPENSATION PLAN INFORMATION AS OF DECEMBER 31, 2012

The following table sets forth certain equity compensation plan information as of December 31, 2012. We only grant shares of restricted stock under the equity plan:

| Plan Category(1) | | Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|--|--|--|---|---|
| Equity compensation plans approved by security holders | | 0 | n/a | 3,050,183(2) |
| Equity compensation plans not approved by security holders | | 0 | n/a | 0 |
| Total | | 0 | | 3,050,183 |

(1) Each of our equity compensation plans has been approved by our stockholders.

(2) Represents shares of our common stock available for issuance under our 2012 Stock Incentive Award Plan.

Table of Contents**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FEES AND SERVICES****Fees Paid to Independent Registered Public Accounting Firm**

The fees paid to KPMG LLP, our independent registered public accounting firm, relating to 2012 and 2011 were as follows:

| | | 2012 | | 2011 | |
|------------------------|--|--------------|--|-------------|--|
| Total audit fees(1)(2) | | \$ 1,178,000 | | \$ 723,424 | |
| | | | | | |
| Tax fees(3) | | 494,000 | | 168,750 | |
| All other fees(4) | | 450,000 | | 0 | |
| Total non-audit fees | | \$ 944,000 | | \$ 168,750 | |
| | | | | | |

(1) Includes the aggregate fees billed by KPMG LLP for the audit of our annual financial statements, the reviews of the financial statements included in our Quarterly Reports on Form 10-Q and the audit of internal controls. Includes \$31,000 paid in 2012 for the stand-alone audit of CRG-CS, LLC, our subsidiary.

(2) Includes the aggregate fees billed by KPMG LLP, which are associated with the issuances of comfort letters to underwriters and review of registration statements in connection with the issuance of consents totaling \$400,000 in 2012 and \$90,675 in 2011.

(3) Includes the aggregate fees billed by KPMG LLP for tax services. Tax services consisted of tax return preparation and tax compliance. 2012 fees include \$294,000 of tax due-diligence on the acquisition of American Realty Capital Trust, Inc. that closed on January 22, 2013. Also includes \$25,200 paid in 2012 and \$25,200 paid in 2011 by our subsidiary, Crest.

(4) Includes the aggregate fees billed by KPMG LLP for services other than those separately disclosed. The services consisted of due-diligence on the acquisition of American Realty Capital Trust, Inc., other than tax due diligence discussed in footnote 3 above.

Pre-Approval Policies and Procedures

The Audit Committee's charter provides that the Audit Committee has the sole authority and responsibility to pre-approve all audit and permitted non-audit services to be provided to us. Pursuant to its charter, the Audit Committee has established pre-approval policies and procedures for permitted non-audit services. The Audit Committee considers each engagement on a case-by-case basis according to certain required criteria, including the skill set necessary for the engagement and that the engagement should not involve work that would result in our registered public accounting firm eventually auditing their own work. The Audit Committee is regularly updated on the status of all outstanding engagements. If we anticipate that the fees for specific engagements may exceed the amount initially approved by the Audit Committee, the Audit Committee will consider proposals to increase the fees for such engagements on a case-by-case basis. The Audit Committee has delegated authority to its chairman to approve certain non-audit engagement fees, provided that the decisions made pursuant to this delegated authority must be presented to the full Audit Committee at its next scheduled meeting. All of the services performed by KPMG LLP in 2012 were approved in advance by the Audit Committee pursuant to the foregoing pre-approval policy and procedures.

STOCKHOLDER PROPOSALS FOR 2014 ANNUAL MEETING

In order for stockholder proposals otherwise satisfying the eligibility requirements of SEC Rule 14a-8 to be considered for inclusion in our proxy statement for our 2014 annual meeting of stockholders, they must be received by us at our principal office, 600 La Terraza Boulevard, Escondido, CA 92025-3873 on or before December 1, 2013.

In addition, if a stockholder desires to bring business (including director nominations) before our 2013 annual meeting of stockholders that is not the subject of a proposal timely submitted for inclusion in our 2014 proxy statement, written notice of such business, as currently prescribed in our Bylaws, must be received by our Corporate Secretary between October 30, 2013 and November 29, 2013. For additional requirements, a stockholder may refer to our current Bylaws, Article III, Section 12, Nominations and Stockholder Business, a copy of which may be obtained from our Corporate Secretary upon request and without charge. If we do not receive timely notice pursuant to our Bylaws, the proposal will be excluded from consideration at the meeting.

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FORWARD-LOOKING STATEMENTS

This proxy statement contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. When used in this annual report, the words estimated, anticipated, expect, believe, intend and similar expressions are intended to identify forward-looking statements. Forward-looking statements include discussions of strategy, plans or intentions of management. Forward-looking statements are subject to risks, uncertainties, and assumptions about Realty Income Corporation, and future events and actual results, financial and otherwise, may differ materially from the results discussed in the forward-looking statements.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this proxy statement. While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date of this proxy statement or to reflect the occurrence of unanticipated events.

HOUSEHOLDING OF PROXY MATERIALS

SEC rules permit companies and intermediaries (such as banks and brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, which is commonly referred to as householding, potentially means extra convenience for stockholders and cost savings for companies.

A number of banks and brokers with account holders who are our stockholders will be householding our proxy materials. A single proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. If you have received notice from your bank or broker that it will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement and annual report, please notify your bank or broker, direct your written request to Investor Relations, 600 La Terraza Blvd., or contact Investor Relations by telephone at (760) 741-2111. Stockholders who currently receive multiple copies of the proxy statement at their address and would like to request householding of their communications should contact their bank or broker.

INCORPORATION BY REFERENCE

Notwithstanding anything to the contrary set forth in any of our previous filings under the Securities Act of 1933, as amended, or the Exchange Act, which might incorporate future filings made by us under those statutes, neither the preceding Compensation Committee Report nor the Audit Committee Report will be incorporated by reference into any of those prior filings, nor will any such report be incorporated by reference into any future filings made by us under those statutes. In addition, information on our website, other than our proxy statement, Notice of Annual Meeting and form of proxy, is not part of the proxy soliciting material and is not incorporated herein by reference.

By Order of the Board of Directors,
/s/ MICHAEL R. PFEIFFER
Michael R. Pfeiffer
Executive Vice President, General Counsel and
Secretary

March 29, 2013

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