

COMMERCIAL NET LEASE REALTY INC
Form DEF 14A
April 18, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
 Confidential, for Use of the Commission Only
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 Definitive Proxy Statement
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Commercial Net Lease Realty, Inc.

(Name of Registrant as Specified In Its Charter)

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

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- No Fee Required
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1. Amount previously paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

COMMERCIAL NET LEASE REALTY, INC.

**450 S. Orange Avenue, Suite 900
Orlando, Florida 32801
Tel: 407-265-7348**

April 15, 2003

To Our Stockholders:

You are cordially invited to attend the annual meeting of stockholders of Commercial Net Lease Realty, Inc. (the Company) on May 30, 2003 at 9:30 a.m., at CNL Center, 450 South Orange Avenue, 9th Floor, Orlando, Florida 32801. The directors and officers of the Company look forward to greeting you personally. Enclosed for your review are the Proxy, Proxy Statement and Notice of Meeting for the Annual Meeting of Stockholders, which describe the business to be conducted at the meeting. We will also report on matters of current interest to our stockholders.

Whether you own a few or many shares of stock of Commercial Net Lease Realty, it is important that your shares be represented. If you cannot personally attend the meeting, we encourage you to make certain you are represented at the meeting by signing and dating the accompanying proxy card and promptly returning it in the enclosed envelope. Returning your proxy card will not prevent you from voting in person, but will assure that your vote will be counted if you are unable to attend the meeting.

Sincerely,

/s/ James M. Seneff, Jr.

/s/ Kevin B. Habicht

James M. Seneff, Jr.

Kevin B. Habicht

April 15, 2003

COMMERCIAL NET LEASE REALTY, INC.

450 S. Orange Avenue, Suite 900
Orlando, Florida 32801

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD May 30, 2003**

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of Commercial Net Lease Realty, Inc. will be held at 9:30 a.m. local time, on May 30, 2003, at CNL Center, 450 South Orange Avenue, 9th Floor, Orlando, Florida 32801, for the following purposes:

1. To elect nine directors.
2. To approve the 2003 Employee Stock Purchase Plan.
3. To transact such other business as may properly come before the meeting or any adjournment thereof.

Stockholders of record at the close of business on April 8, 2003, will be entitled to notice of and to vote at the annual meeting or at any adjournment thereof.

Stockholders are cordially invited to attend the meeting in person. **WHETHER OR NOT YOU NOW PLAN TO ATTEND THE MEETING, YOU ARE ASKED TO COMPLETE, DATE, SIGN AND MAIL PROMPTLY THE ENCLOSED PROXY CARD FOR WHICH A POSTAGE PAID RETURN ENVELOPE IS PROVIDED.** If you decide to attend the meeting you may revoke your Proxy and vote your shares in person. It is important that your shares be voted.

By Order of the Board of Directors,

/s/ Kevin B. Habicht

Kevin B. Habicht
Secretary

April 15, 2003
Orlando, Florida

COMMERCIAL NET LEASE REALTY, INC.
450 S. Orange Avenue, Suite 900
Orlando, Florida 32801
Tel: 407-265-7348

PROXY STATEMENT

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This Proxy Statement is furnished by the Board of Directors of Commercial Net Lease Realty, Inc. (the Company) in connection with the solicitation by the Board of Directors of proxies to be voted at the annual meeting of stockholders to be held on May 30, 2003, and at any adjournment thereof, for the purposes set forth in the accompanying notice of such meeting. All stockholders of record at the close of business on April 8, 2003 (the Record Date) will be entitled to vote.

Any proxy, if received in time, properly signed and not revoked, will be voted at such meeting in accordance with the directions of the stockholder. If no directions are specified, the proxy will be voted FOR the election of directors. Any stockholder giving a proxy has the power to revoke it at any time before it is exercised. A proxy may be revoked (1) by delivery of a written statement to the Secretary of the Company stating that the proxy is revoked, (2) by presentation at the annual meeting of a subsequent proxy executed by the person executing the prior proxy, or (3) by attendance at the annual meeting and voting in person.

The election of directors, the proposal to approve the 2003 Employee Stock Purchase Plan and any other matter submitted to a vote at the annual meeting will be approved by the affirmative vote of the holders of a majority of the outstanding shares present (in person or represented by proxy) at the annual meeting.

Votes cast in person or by proxy at the annual meeting will be tabulated and a determination will be made as to whether or not a quorum is present. The Company will treat abstentions as shares that are present and entitled to vote for purposes of determining the presence or absence of a quorum, but as unvoted for purposes of determining the approval of any matter submitted to the stockholders. If a broker submits a proxy indicating that it does not have discretionary authority as to certain shares to vote on a particular matter, those shares will not be considered as present and entitled to vote with respect to such matter.

Solicitation of proxies will be primarily by mail. However, directors and officers of the Company may also solicit proxies by telephone or telegram or in person. All of the expenses of soliciting proxies, including preparing, assembling, printing and mailing the materials used in the solicitation of proxies, will be paid by the Company. Arrangements may be made with brokerage houses and other custodians, nominees and fiduciaries to forward soliciting materials, at the expense of the Company, to the beneficial owners of shares held of record by such persons. It is anticipated that this Proxy Statement and the enclosed Proxy will be mailed to stockholders on or about April 18, 2003.

As of the Record Date, 40,489,296 shares of the common stock of the Company (the Common Stock) were outstanding. Each share of Common Stock entitles the holder thereof to one vote on each of the matters to be voted upon at the annual meeting. As of the Record Date, executive officers and directors of the Company had the power to vote approximately 8.5% of the outstanding shares of Common Stock.

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PROPOSAL I

ELECTION OF DIRECTORS

Nominees

The persons named below have been nominated by the Board of Directors of the Company (the Board of Directors or the Board) for election as directors to serve until the next annual meeting of stockholders or until their successors shall have been elected and qualified. Mr. Lanier became a director in 1988. Messrs. Bourne and Seneff became directors in 1992. Mr. Hinkle became a director in 1993. Messrs. Habicht, Jennings and Ralston became directors in 2000. Messrs. Legler and Martinez became directors in 2002. The table sets forth each nominee's name, age, principal occupation or employment during at least the last five years, and directorships in other public corporations.

The Company's officers and directors have advised the Company that they intend to vote their shares of Common Stock for the election of each of the nominees. Proxies will be voted **FOR** the election of the nominees below unless authority is withheld. Stockholders may withhold authority to vote for any nominee, in lieu of voting for the entire slate of directors, by entering the number of any nominee (as designated on the proxy card) below the pertinent instruction on the proxy card.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ALL OF THE NOMINEES DESCRIBED BELOW FOR ELECTION AS DIRECTORS.

Name and Age

Background

Robert A. Bourne, 55

Mr. Bourne has served as Vice Chairman of the Board since February 1996. Previously, Mr. Bourne served as Secretary and Treasurer of the Company from February 1996 through December 31, 1997 and as President of the Company from July 1992 until February 1996. Mr. Bourne also served as Vice Chairman of the Board, Secretary and Treasurer of CNL Realty Advisors, Inc. (the external advisor of the Company from July 1992 through December 31 1997, the Advisor) from February 1996 until December 1997 and as President and a director of the Advisor from 1991 until February 1996. On January 1, 1998, the Advisor merged into a wholly-owned subsidiary of the Company which resulted in the Company becoming a self-administered and self-managed real estate investment trust. Mr. Bourne has served as a director of CNL American Properties Fund, Inc., a public, unlisted real estate investment trust, since May 1994. He also served as President of CNL American Properties Fund, Inc. from May 1994 to February 1999 and as Treasurer from February 1999 through August 1999 and from May 1994 through December 1994. Mr. Bourne has also served as President, Vice Chairman of the Board and as a director of CNL Hospitality Properties, Inc. since June 1996, and as President and a director of CNL Retirement Properties, Inc. since December 1997, both of which are public, unlisted real estate investment trusts. Mr. Bourne also serves as President and Treasurer of CNL Financial Group, Inc. (CNL Group), a privately held, diversified real estate company engaged in the principal business of real estate finance. In addition, Mr. Bourne is President, Treasurer, a director and a registered principal of CNL Securities Corp., President, Treasurer and a director of CNL Investment Company, President of CNL Realty Corp. and Chief Investment Officer, Treasurer, director and, until July 1997, also served as President, of CNL Institutional Advisors, Inc., a registered investment advisor. All of the entities discussed in the preceding sentence are engaged in the principal business of real estate finance as affiliates of CNL Group. Mr. Bourne also serves as a director of CNL Bank, a Florida state-chartered

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community bank. Since joining CNL Group in 1979, Mr. Bourne has been active in the acquisition, development and management of real estate projects throughout the United States. Mr. Bourne formerly was a Certified Public Accountant with Coopers & Lybrand.

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Kevin B. Habicht, 44

Mr. Habicht has been Executive Vice President and Chief Financial Officer of the Company since December 1993 and has been Secretary and Treasurer of the Company since January 1998. Since May 1999, Mr. Habicht has served as a director of Commercial Net Lease Realty Services, Inc. (Services), a 98.7% owned, non-controlled taxable subsidiary of the Company. Mr. Habicht previously served as Assistant Secretary of the Company from December 1993 through December 1997, as Vice President of the Company from July 1992 through December 1993, as Assistant Secretary of the Advisor from December 1993 through December 1997, and as Vice President of the Advisor from its inception in 1991 through December 1993. From 1990 through December 1997, Mr. Habicht served as Senior Vice President of CNL Institutional Advisors, Inc. and from 1992 through 1997, Mr. Habicht served as Treasurer of CNL Investment Company, Senior Vice President of CNL Management Company and Treasurer of CNL Securities Corp. Prior to 1983, Mr. Habicht, a Certified Public Accountant and a Chartered Financial Analyst, was employed by Coopers & Lybrand, Certified Public Accountants. Since 2000, Mr. Habicht has been a director of CNL Commercial Finance, Inc. (Finance), a commercial real estate lending company. Mr. Habicht is the brother-in-law of James M. Seneff, Jr., a director, Chief Executive Officer and Chairman of the Board of the Company.

Clifford R. Hinkle, 54

Since 1991, Mr. Hinkle has been a founder, director and executive officer of the Flagler companies and related companies, including Flagler Capital Corporation (1991-1998), and Flagler Holdings, Inc., a merchant banking company, of which Mr. Hinkle has been the Chairman and Chief Executive Officer since 1996. He was a director of Century Capital Markets, LLC, a private financial consulting company, from 1999 to 2002. Since 2000, Mr. Hinkle has been a Vice President and Director of Murphy Investment Management Company, a registered investment advisor. From 1996 to 2000, Mr. Hinkle was a director of Integrated Orthopaedics, Inc., an American Stock Exchange company, which owned orthopaedic physician practices and related facilities and was a director of Prime Succession, Inc., a private funeral services company. Additionally, Mr. Hinkle was a director of MHI Group, Inc., a New York Stock Exchange company, which owned and operated funeral homes and cemeteries from November 1993 until November 1995, and was the Chief Executive Officer of MHI Group, Inc. from April 1995 until November 1995 when it was acquired by a subsidiary of The Loewen Group. From 1987 to 1991, Mr. Hinkle was the Executive Director and Chief Investment Officer of the State Board of Administration of Florida and managed over \$40 billion in various trust funds.

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Richard B. Jennings, 59

Mr. Jennings currently serves as President of Realty Capital International Inc., a real estate investment banking firm, which he founded in 1991, as President of Jennings Securities LLC, a National Association of Securities Dealers, Inc. (NASD) member securities firm, which he founded in 1995, and as President of Realty Capital International LLC, a real estate investment banking firm, since 1999. From 1990 to 1991, Mr. Jennings served as Senior Vice President of Landauer Real Estate Counselors, and from 1986 to 1989, Mr. Jennings served as Managing Director Real Estate Finance at Drexel Burnham Lambert Incorporated. From 1969 to 1986, Mr. Jennings oversaw the REIT investment banking business at Goldman, Sachs & Co. During his tenure at Goldman, Sachs & Co., Mr. Jennings founded and managed the Mortgage Finance Group from 1979 to 1986. Mr. Jennings also serves as an outside director of Alexandria Real Estate Equities, Inc. and MBOP Liquidating Trust. He is a licensed NASD Principal and a New York Real Estate Broker.

Ted B. Lanier, 68

Mr. Lanier was the Chief Executive Officer of the Triangle Bank and Trust Company, Raleigh, North Carolina (Triangle), from January 1988 until March 1991. Mr. Lanier also was the Chairman of Triangle from January 1989 until March 1991 and its President from January 1988 until January 1989. Since his retirement in 1991 as Chairman and Chief Executive Officer of Triangle, Mr. Lanier has

managed his personal investments and managed investment accounts for various individuals and trusts.

Robert C. Legler, 60

Mr. Legler has served as a director of Ligonier Ministries of Lake Mary, Florida for more than 20 years. From October 1999 through October 2001, he served as director of the Indian River Hospital Foundation of Vero Beach, Florida. From 1973 until 1990, Mr. Legler was the founder and chairman of privately-held First Marketing Corporation, America's largest publisher of newsletters serving nearly 500 clients in the commercial banking, brokerage, health care, cable television, travel and retail industries. Upon the sale of the company to Reed (now Reed Elsevier) in 1990, Mr. Legler served as non-executive Chairman of the Board of First Marketing until his retirement in September 2000.

Robert Martinez, 68

From 1987 until 1991, Mr. Martinez served as the fortieth governor of the state of Florida and, from 1991 to 1993, served as the Director of the Office of National Drug Control reporting to the President of the United States. From 1979 until 1986, Mr. Martinez served as the mayor of Tampa, Florida. Since 1993, he has been the principal of Bob Martinez & Co., a Tampa, Florida based government consulting firm and since 1999, he has also served as a managing director for Carlton Fields Government Consulting, providing state and local executive branch and legislative branch government lobbying services throughout the state of Florida. Mr. Martinez also has served on the Management Advisory Committee of Koning Restaurants International, an operator of Pizza Hut restaurants, since 2001. From 1997 to 2001, Mr. Martinez served as a director of PRIMEX Technologies, Inc., a manufacturer of ordnance and aerospace products for the United States Department of Defense and commercial enterprises. From 1996 through 1999, he was a co-founder, president, and director of Pro-Tech Monitoring, Inc., producer of a global positioning technology system for criminal justice agencies. In addition, Mr. Martinez served as a director of Circle K, a national convenience store chain, from 1995 to 1996.

Gary M. Ralston, 52

Mr. Ralston has served as President and Chief Operating Officer of the Company since February 1996. Since May 1999, Mr. Ralston has served as a director of Services and, since 2000, has been a director of Finance. From February 1996 until December 1997 he served as President of the Advisor. From December 1993 until February 1996 he served as Executive Vice President and Chief Operating Officer of the Company. Mr. Ralston previously served as Vice President of the Company from July 1992 through December 1993 and as Vice President of the Advisor from its inception in 1991 through December 1993. From 1988 to 1992, he also served as a Senior Vice President of CNL Properties, Inc., a real estate investment and asset/property management company affiliated with CNL Group, Inc. From 1983 until 1988, Mr. Ralston was Vice President of ENCO, a real estate investment and asset/property management firm located in Lakeland, Florida. Mr. Ralston holds the Certified Commercial Investment Member, Society of Industrial and Office Realtors, Specialist in Real Estate Securities, Certified Property Manager and Counselor of Real Estate designations and is also a Florida licensed Real Estate Broker, Mortgage Broker and Certified Building Contractor. Mr. Ralston is a member of the International Council of Shopping Centers, a full member of the Urban Land Institute, a former member of the Board of Governors of the National Association of Real Estate Investment Trusts, a member of the Governing Council of the CCIM Institute and a member of the Steering Committee of the Capital Consortium.

James M. Seneff, Jr., 56

Mr. Seneff has been Chief Executive Officer of the Company since July 1992 and Chairman of the Board of the Company since June 1992. Mr. Seneff has served as Chairman of the Board, Chief Executive Officer, director, and principal stockholder of CNL Group since its formation in 1973. From 1991 to December 1997, Mr. Seneff served as Chief Executive Officer and Chairman of the Board of the Advisor. Mr. Seneff has served as Chairman of the Board, Chief Executive Officer and a director of CNL Hospitality Properties, Inc. and CNL Retirement Properties, Inc. since 1996 and 1997, respectively. Mr. Seneff has been a director of Finance since 2000. He has served as a director of CNL American Properties Fund, Inc. since its inception in 1994, as its Chairman of the Board from 1994 to 2000, as its Chief Executive Officer from 1994 through August 1999 and as Co-Chief Executive Officer since December 2000. Mr. Seneff has been Chairman of the Board of Directors, director, and Chief Executive Officer of CNL Securities Corp. since its formation in 1979. Mr. Seneff also has held the position of Chief Executive Officer, Chairman of the Board and a director of CNL Institutional Advisors, Inc., a registered investment advisor, since its inception in December 1990. Mr. Seneff serves

as Chairman of the Board of CNL Bank and previously served as a member of the board of directors of First Union National Bank of Florida and as a member of the Orlando Advisory Board of First Union. From 1986 to 1994, Mr. Seneff served on the Florida Investment Advisory Council (the Council), which oversees the \$40 billion Florida state retirement plan, and was Chairman of the Council from 1991 to 1992. Since 1971, Mr. Seneff has been active in the acquisition, development and management of real estate projects throughout the United States. Mr. Seneff is the brother-in-law of Kevin B. Habicht, a director, Executive Vice President, Secretary, Treasurer and Chief Financial Officer of the Company.

In the event that any nominee(s) should be unable to accept the office of director, which is not anticipated, it is intended that the persons named in the Proxy will vote **FOR** the election of such other person in the place of such nominee(s) for the office of director as the Board of Directors may recommend. The affirmative vote of the holders of a majority of the outstanding shares present in person or represented by proxy is required for the election of directors. Any director that does not receive an affirmative vote of the holders of a majority of the outstanding shares of Common Stock present in person or represented by proxy will not be elected.

A majority of the Company's directors are required to be independent, as that term is defined in the Company's Bylaws, as amended (the Bylaws). Messrs. Hinkle, Jennings, Lanier, Legler and Martinez qualify as independent directors (the Independent Directors). Independent Directors are those persons who are not affiliated, directly or indirectly, with any person, corporation, association, company, trust, partnership (general or limited) or other organization to whom the Board of Directors has delegated management duties. In addition, an Independent Director cannot perform any services for the Company other than as a director.

Compensation of Directors

During the year ended December 31, 2002, the Company paid each director who was a director for the entire year \$18,000 for serving on the Board of Directors. Each director received \$1,000 per Board of Directors meeting attended and \$1,000 per committee meeting attended. Additionally, the Company awarded each Independent Director 1,000 shares of restricted stock which vests over two years. Messrs. Habicht, Ralston and Seneff have waived all of their director compensation. The Board of Directors believes this compensation level has been comparable to that provided by many other companies in the real estate investment trust (REIT) industry.

The Board of Directors met five times during the year ended December 31, 2002. Each nominated member attended 100% of the total meetings of the Board of Directors and of any committee on which he served.

Committees of the Board of Directors

Audit Committee. The Company has a standing Audit Committee, the members of which are selected by the full Board of Directors each year. The current members of the Audit Committee are Mr. Lanier, who has served since June 1992, Mr. Hinkle, who has served since June 1998, and Mr. Martinez, who has served since June 2002. All of the members of the Audit Committee are independent in accordance with Sections 303.01(B)(2)(a) and (3) of the New York Stock Exchange's listing standards.

The Audit Committee operates pursuant to a written charter, which was filed as an appendix to the Company's 2001 proxy statement. The Audit Committee makes recommendations to the Board of Directors as to the independent accountants of the Company and reviews with such accounting firm the scope of the audit and the results of the audit upon its completion. Additionally, the Audit Committee reviews the adequacy of the Company's internal accounting controls. The Audit Committee met five times during the year ended December 31, 2002.

Compensation Committee. The Company has a standing Compensation Committee, the members of which are selected by the full Board of Directors each year. The current members of the Compensation Committee are Messrs. Hinkle, Jennings and Legler. The Compensation Committee is responsible for establishing and administering executive compensation programs including administration of the 2000 Commercial Net Lease Realty, Inc. Performance Incentive Plan (the 2000 Plan) as well as approval of changes in directors' fees. The Compensation Committee met four times during the year ended December 31, 2002.

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Nominating Committee. The Company has a standing Nominating Committee. The current members of the Nominating Committee are Messrs. Jennings and Lanier. The Nominating Committee's primary responsibility is to consider potential new directors for the Company and recommend candidates to the Board. The Nominating Committee will consider nominees recommended by the Company's stockholders in submitting its recommendations to the Board, provided that such recommendations are submitted in accordance with the procedures described in this proxy statement at PROPOSALS FOR NEXT ANNUAL MEETING. The Nominating Committee met once during the year ended December 31, 2002.

Corporate Governance

The Company is committed to sound corporate governance standards. In July 2002, Congress passed the Sarbanes-Oxley Act of 2002, which established a number of new corporate governance standards and disclosure requirements. In addition, the New York Stock Exchange (NYSE) has proposed changes to its corporate governance and listing requirements. Many of the requirements of the Sarbanes-Oxley Act and the NYSE proposed rules have, as of the date of this proxy statement, not yet become effective. The Board of Directors has commenced a comprehensive review of its corporate governance policies and practices to ensure that those policies and practices meet all of the requirements of both the Sarbanes-Oxley Act and the NYSE rules. It is currently not anticipated that the Company will need to make any significant adjustments to its governance practices on account of these new requirements.

Executive Officers

The executive officers of the Company are listed below. Messrs. Cobb and Tracy are executive officers of Commercial Net Lease Realty Services, Inc.

<u>Name</u>	<u>Position</u>
James M. Seneff, Jr.	Chief Executive Officer and Chairman of the Board
Gary M. Ralston	President and Chief Operating Officer
Kevin B. Habicht	Executive Vice President, Chief Financial Officer, Secretary and Treasurer
Julian E. Whitehurst	Executive Vice President and General Counsel
David W. Cobb	Executive Vice President and Chief Investment Officer of Commercial Net Lease Realty Services, Inc.
Dennis E. Tracy	Executive Vice President and Chief Development Officer of Commercial Net Lease Realty Services, Inc.

The background of Messrs. Seneff, Ralston and Habicht are described at PROPOSAL I ELECTION OF DIRECTORS Nominees.

Julian E. Whitehurst, age 45, has served as Executive Vice President and General Counsel of the Company since February 1, 2003. Prior to that date, Mr. Whitehurst was on retainer to the Company as its General Counsel from the law firm of Lowndes, Drosdick, Doster, Kantor & Reed, P.A., in which he had been a shareholder since 1987. Mr. Whitehurst has served on the board of directors of Services since 2001. Mr. Whitehurst is a graduate of The Ohio University (B.A., summa cum laude, 1979, Phi Beta Kappa) and Duke University School of Law (J.D., 1982). Mr. Whitehurst is av-rated by Martindale-Hubbell and is Board Certified as a Specialist in Real Estate Law by The Florida Bar. He is a member of the International Council of Shopping Centers and the National Association of Real Estate Investment Trusts.

David W. Cobb, age 55, has served as Executive Vice President and Chief Investment Officer of Services since April 29, 2002. Prior to joining Services, Mr. Cobb was Chairman and CEO at Realty Logix, Inc., a commercial real estate risk management software company, from 2000 to 2002. Previously Mr. Cobb was Chairman and CEO of National Capital Holdings, Inc., a mortgage origination and securitization company, from 1996 to 2000. Prior to that he served as Senior Managing Director of Furman Selz LLC, an investment banking company (1995-1996), Senior Vice President with Raymond James & Associates, an investment firm (1993-1996), Senior Vice President for Donaldson, Lufkin & Jenrette, an investment banking company (1990-1993) and Regional Manager for Drexel Burnham Lambert, an investment banking company (1983 to 1990). Mr. Cobb graduated from Armstrong State College with a BBA degree in accounting and completed the Graduate School of Banking at Indiana University. Mr. Cobb currently is a member of the Association for Financial Professionals, the International Council of Shopping Centers and CoreNet Global. He currently serves on the Board of Directors of Merry Land Properties, Inc.

Dennis E. Tracy, age 53, has served as Executive Vice President and Chief Development Officer of Services since January 2002 and has served as a director of Services since 1999. From August 2000 to December 2001, he served as Senior Vice President and Chief Development Officer of Services, and from May 1999 to July 2000 as Senior Vice President of Development for Services. He served in that same capacity for the Company from January 1998 to April 1999 and for the Advisor from January 1996 to December 1997. From January 1994 to December

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1995, Mr. Tracy served as Vice President of Development for the Advisor and from June 1992 to December 1993, Project Manager for the Advisor. From November 1990 to June 1992, he served as Project Manager for CNL Group. Prior to joining CNL Group, Mr. Tracy founded Tracy Homes, Inc., a luxury custom home building company and served as its president and owner. Mr. Tracy holds the Certified Commercial Investment Member professional designation and is a past member of the Advisory Board of the Retail Contractors Association.

The Company also employs certain other officers listed below:

Christopher F. Barry, 36, has served as Vice President of Corporate Communications of the Company since February 2003. From January 1998 through February 2003, Mr. Barry served as Corporate Communications Manager of the Company. From May 1996 through January 1998, Mr. Barry was Corporate Communications Manager of the Advisor. From 1994 through May 1996, Mr. Barry was Account Supervisor for Carlman Booker Reis Public Relations. From 1990 through 1994, Mr. Barry was Account Supervisor with G.S. Schwartz & Co., a New York City-based public relations agency, and from 1988 through 1990 he was an associate with Howard J. Rubenstein and Associates, Inc. He earned a Bachelor of Arts degree in Communication Arts from Marist College. Mr. Barry is a member of the National Association of Real Estate Editors, the National Association of Real Estate Investment Trusts and the International Council of Shopping Centers.

Paul Bayer, age 41, has served as Vice President of Leasing of the Company since June 2002. From September 1999 until June 2002, Mr. Bayer served as Director of Leasing. From 1996 to September 1999, Mr. Bayer was a leasing agent for J. Donegan Company, a retail leasing and development company, and from 1993 to 1996 he was a leasing agent for Combined Properties, Incorporated, owner of 31 shopping centers in the Washington, D.C. metropolitan area. Mr. Bayer is a graduate of Dartmouth College (B.A. 1984). Mr. Bayer was awarded a leadership fellowship by Rutgers University Graduate School of Management, which he attended in 1987. He is a member of the International Council of Shopping Centers and has earned the designation of Certified Leasing Specialist from the ICSC.

Mez R. Birdie, age 53, has served as Senior Vice President of Asset Management of the Company since April 1998. From January 1998 to April 1998, Mr. Birdie served as Vice President of Asset Management of the Company. From December 1993 to December 1997, Mr. Birdie served as Vice President of Asset Management of the Advisor. From June 1992 to November 1993, Mr. Birdie served as Director of Retail Management of the Advisor and from 1987 to 1992, Mr. Birdie served as Director of Property Management for Charles Wayne Properties, Inc., a real estate company. Mr. Birdie has been awarded the Certified Commercial Investment Member, Certified Property Manager and Senior Certified Shopping Center Manager professional designations, and has a total of 23 years of experience in the field of commercial asset management. Mr. Birdie is a member of the faculty and has served on the Executive Committee of the Institute of Real Estate Management.

Courtney S. Hubbard, age 39, has served as Director of Due Diligence and Research of the Company since January 1, 1998. From February 1995 to December 1997, Ms. Hubbard served as Director of Due Diligence and Research of the Advisor. From 1991 to 1995, Ms. Hubbard was a senior associate at Clayton, Roper & Marshall, a real estate appraisal and consulting firm, and from 1989 to 1991 she was a senior associate with Kampe Appraisals, Inc., a real estate appraisal company. She earned a Master of Arts Degree in Real Estate from the University of Florida. Ms. Hubbard holds the MAI (Member, Appraisal Institute) and CCIM (Certified Commercial Investment Member) designations, and serves on the Steering Committee for the University of Florida Real Estate Alumni Network.

David M. Lachicotte, age 36, has served as Vice President Information Technology of the Company since 2000. Mr. Lachicotte served as Manager of Information Systems from June 1999 until 2000. From 1992 to 1999, Mr. Lachicotte was employed by Eckerd Corporation (a subsidiary of the JC Penney Corporation) where he last held the position of Directing Manager of Financial Planning, Analysis, and Information Systems. Mr. Lachicotte earned a Bachelor of Arts degree in Accountancy from the University of South Florida.

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Philip Melaugh, age 53, joined the Company as Vice President of Underwriting and Due Diligence on January 1, 2003. From March 1999 to December 2002, Mr. Melaugh was employed by Allied Capital Corporation, a finance company, as a consultant to their CMBS B-piece acquisitions group. From 1997 to 1999 he served as Vice President and Supervising Underwriter for J.P. Morgan, an investment bank, in their CMBS group, and also acted as unit head of the Credit Tenant Lending team. In addition, Mr. Melaugh spent several years working as Director of National Account Workouts for The Travelers Insurance Company, and he has had experience working as a licensed commercial real estate appraiser. Mr. Melaugh received a B.A. in Economics and a Masters in Business Administration with a concentration in Information Systems and Finance from the University of Colorado.

Michelle Miller, age 34, has served as Vice President of Financial and Information Planning of the Company since 2003 and served as Director of Accounting and Lease Administration of the Company from 2001 to 2003. From 1999 to 2001, Ms. Miller served as Director of Accounting for CNL American Properties Fund, Inc. From 1991 to 1999, Ms. Miller was employed by KPMG LLP as a Certified Public Accountant (CPA). Ms. Miller attended Florida State University and earned a Bachelor of Science degree in Accounting and Finance. She is a member of the American Institute of Certified Public Accountants.

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Suzanne Miller, age 50, has served as Vice President of Asset Management of the Company since July 2002. Prior to joining the Company, Ms. Miller served as Senior Investment Manager for Schnitzer Northwest, a privately held real estate company. From July 1998 to January 2002, Ms. Miller was Vice President and Director of Property Management for Prime West Real Estate Service, a privately held real estate company, and from 1997 to 1998, she was Property and Leasing Manager for Stapleton Development Corporation, a not for profit company set up by the City and County of Denver to work with the aviation department and the community to redevelop the old Stapleton airport site. From 1994 to 1997, Ms. Miller served as Real Estate Portfolio Manager for Pacifica Holding Company, and from 1991 to 1994, Ms. Miller served as Oversight Manager for the Resolution Trust Corporation. From 1986 to 1991, Ms. Miller was Real Estate Portfolio Manager and Leasing for CB Commercial Real Estate. Ms. Miller has been awarded the Certified Property Manager and Certified Commercial Investment Member professional designations. Ms. Miller recently obtained a Masters degree in Real Estate and Construction Management from the University of Denver and holds both a Colorado and Oregon Real Estate Brokers license. Ms. Miller was the 2001 Northern Colorado IREM Chapter President and was a previous faculty member for CLE International.

Dawn A. Peterson, age 39, has served as Senior Vice President and Controller of the Company since 2003 and Vice President and Controller since 1999. Ms. Peterson served as Director of Accounting and Financial Reporting of the Company from January 1, 1998 until December 1999 and of the Advisor from July 1994 until December 1997. From 1991 to 1994, Ms. Peterson was employed by Coopers & Lybrand as a Certified Public Accountant (CPA). Ms. Peterson earned a Bachelor of Science degree in Business Administration and a Master of Science Degree in Accountancy from the University of Central Florida. She is a member of the American Institute of Certified Public Accountants.

Commercial Net Lease Realty Services, Inc. is a 98.7% owned, non-controlled taxable subsidiary of the Company. Services provides development and leasing services to the Company and third parties and employs the following senior officers:

David F. Ballew, age 49, has served as Senior Vice President of Services since August 2001 and is responsible for business development and establishing developer affiliate relationships. From 1999 to 2001, Mr. Ballew was President and CEO of BVT Equity Holdings, Inc., a real estate investment and development company, in Atlanta, Georgia. He was a Regional Director of Acquisitions and Development for Weingarten Realty Investors, a real estate investment trust, from 1998 to 1999. He also served as Vice President of Acquisitions and Retail for Insignia/ESG & Paragon Group, Inc., a commercial development company, from 1994 to 1998. Mr. Ballew received an A.B. from Bowdoin College in Brunswick, Maine. He received a J.D. from Suffolk University Law School. He holds broker's licenses in Florida, Massachusetts, Maine and Georgia. He is a member of the International Council of Shopping Centers, the Urban Land Institute, the Massachusetts Bar Association and is admitted to practice before the U.S. Supreme Court.

Jay Bastian, age 52, has served as Senior Vice President of Acquisitions of Services since May 1, 1999 and previously held the same position at the Company, serving with the Company and its affiliate CNL Investment Company from 1989 to 1992. He is responsible for developing new acquisitions for the Company. Prior to 1989, he was Director of Real Estate for a number of firms, including Rite Aid, Quaker State Minit Lube, Wendy's International, and a Holiday Inn franchisee for a total corporate real estate career of 26 years. He is a member of the National Association of Corporate Executives, the International Council of Shopping Centers, and the Turnaround Management Association.

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David Carter, age 43, has served as Vice President of Acquisitions of Services since August 2002 and is responsible for the origination of new acquisitions for the Company. Mr. Carter has over 18 years of commercial real estate experience involving a variety of assignments with properties exceeding \$4 billion in value and totaling more than 100 million square feet. Prior to joining Services, Mr. Carter served as Vice President of GE Capital, a real estate finance company, from 2000 until 2002 and as an associate of CB Richard Ellis, a real estate company, where he specialized in single tenant assets from 1999 until 2000. From 1996 to 1999, Mr. Carter served as Vice President for the Weitzman Group, a retail brokerage company, and from 1994 to 1996, he was President of Carter Realty Capital, Inc., a consulting company. From August 1984 to March 1994, Mr. Carter was employed by LR. Denton & Company, a regional appraisal and consulting firm, where he completed all aspects of appraisal, due diligence and consulting assignments involving all types of commercial property. Mr. Carter earned a Bachelor of Business Administration from Stephen F. Austin State University. Mr. Carter holds the MAI (Member, Appraisal Institute) designation retired status. He is a member of the International Council of Shopping Centers, CoreNet Global and a licensed Texas Real Estate Broker.

William E. Haberman, age 37, has served as Vice President of Acquisitions for Services since October 2002 and is responsible for the origination of new acquisitions for the Company. Prior to joining Services, Mr. Haberman was responsible for the origination and structuring of debt and equity secured by commercial real estate at a number of finance companies, acting as a director of JP Morgan Mortgage Capital from March 2002 until October 2002, a director at Johnson Capital Group from 2000 until 2002, a Vice President at FINOVA Realty Capital from 1997 until 2000 and an analyst at MassMutual from 1989 until 1991. From 1994 to 1997, he practiced law with Shumaker Loop & Kendrick specializing in commercial real estate transactions and was a member of the Ohio Bar. In various positions, he has been involved in the origination, underwriting and/or closing of more than \$750 million in aggregate commercial real estate transactions. Mr. Haberman earned a Bachelor of Arts in Economics from Albion College, a Master of Business Administration from the University of Michigan and a Juris Doctorate from the University of Michigan.

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Fred J. Hohnadel, Jr., age 60, has served as Senior Vice President of Real Estate of Services since June 2001. Mr. Hohnadel is responsible for developing and maintaining tenant relationships. Additionally, Mr. Hohnadel assists each of the regional business units with implementing their development plans. Prior to joining the Company, Mr. Hohnadel served from 1990 to 2000 as a consultant and exclusive broker in representing Wal-Mart Stores, Inc. in the northeast United States. From 1974 to 1990, Mr. Hohnadel was the Owner and Chief Executive Officer of Community Shopping Centers, a shopping center development company based in Orlando, Florida, that developed approximately 4,000,000 square feet consisting of 32 shopping centers in the southeast. Mr. Hohnadel has been a member of the International Council of Shopping Centers since 1974 and is a licensed Florida Real Estate Broker.

Edwin B. Hopkins, age 62, has served as Regional Vice President of Real Estate of Services since May 1999 and held the same position at the Company from May 1997 until May 1999. He is responsible for the management and development of the Eckerd build-to-suit program in North Texas, Oklahoma, Kansas, and North Louisiana. Prior to joining the Company, Mr. Hopkins was a managing agent with the FDIC/RTC from 1990 to 1995, responsible for oversight of approximately \$1.5 billion of real estate assets in the southwest region. Prior to that, he served as president and CEO of Southern Federal Savings Bank from 1983 until 1990 and as group vice president and manager of the commercial real estate development division of Hunt Properties, Inc., a Dallas-based real estate development company, from 1975 until 1983. He is a Board member of the North Texas Commercial Association of Realtors, a member of the Dallas Forty, a Certified Commercial Investment Member, a member of International Council of Shopping Center and holds a Texas Real Estate Broker's license.

Jeffrey P. Jennings, age 43, has served as Vice President of Acquisitions of Services since October 2002 and is responsible for identifying and pursuing property acquisition opportunities. From 1999 to 2002, Mr. Jennings was Vice President of Real Estate Services & Development for CNL Franchise Network, LLC, a subsidiary of CNL American Properties Fund, Inc. From 1996 to 1999 he was Vice President of Acquisitions for CNL American Properties Fund, Inc. and from 1994 to 1996 he served as Director of Real Estate for CNL Institutional Advisors, Inc. Mr. Jennings has also served as a Real Estate Manager for Taco Bell Corporation and as a Loan Officer for the finance companies, United Mortgage Company and United Companies Financial Corporation. Mr. Jennings has over 15 years experience in commercial real estate acquisition, development and financing activities. Mr. Jennings earned a Bachelor of Science in Business Administration from the University of Denver and a Master of Business Administration from the University of Texas.

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Diane L. McCarey, age 48, has served as Vice President of Build to Suit since 1999, and is responsible for the management of Services and the Company's build-to-suit program for numerous retailers in the state of Florida. She joined Services in May 1999, as Director of Build-to-Suit, and held the same position at the Company from March 1995 until that time. Prior to joining the Company, Ms. McCarey was co-owner of McCarey Builders, a custom home building company from 1987 to 1995 and senior associate for Matonis, MacDermott & Company, an appraisal company, specializing in commercial property and eminent domain appraisals from 1985 to 1991. She has 25 years of real estate experience encompassing a broad range of development, construction and consulting disciplines. Ms. McCarey graduated from the University of Florida with a Bachelor of Science degree in Real Estate. She is a licensed real estate salesman, holds the Certified Commercial Investment Member professional designation, is a member of the International Council of Shopping Centers and serves on the board of directors for CCIM Central District.

Cynthia C. Shelton, age 49, has served as Vice President of Acquisitions of Services since May 1999 and held the same position at the Company from January 1998 until May 1999. From May 1996 to December 1997, Ms. Shelton served as Director of Acquisitions of the Advisor. Ms. Shelton served from 1995 to 1996 as Vice President of the Ross Realty Group, a real estate brokerage and property management company that specializes in retail properties, and from 1985 to 1995 as the Real Estate Manager for KinderCare Learning Centers, Inc., the largest child care company in the United States. Ms. Shelton has 27 years of experience in commercial brokerage and site selection and she holds the Certified Commercial Investment Member designation and is a Florida licensed Real Estate Broker. Ms. Shelton was the 2002 President of The CCIM Institute and serves on the board of directors for the Florida Association of Realtors, the National Association of Realtors and the Florida CCIM Chapter.

Mary E. Wilkes, age 47, has served as Vice President/In-House Counsel for Services since December 2002 and In-House Counsel for Services since May 1999 and held the same position at the Company from November 1997 until that time. From 1994 to November 1997, Ms. Wilkes was an attorney with James A. Hartman, P.A., a law firm that represented the Company in its build-to-suit development program. Prior to 1994 she was an associate with the Winderweede, Haines, Ward & Woodman, P.A. Law Firm in Winter Park, Florida for six years specializing in commercial real estate transactions and a claims attorney for Commonwealth Land Title Insurance Company for two years. Ms. Wilkes received a Bachelor of Science in Finance, a Masters in Business Administration, and a Juris Doctorate in Law from the University of Florida and is a member of the Florida Bar.

Thomas L. Yeager, age 61, has served as Vice President of BTS Program Business of Services since May 1999 and held the same position at the Company from May 1998 until May 1999. Mr. Yeager is responsible for managing BTS program business in the midwest region. Prior to joining the Company in 1998, he served as real estate director of Extended Stay of America Inc., a hotel development company, from 1996 until 1997, as a divisional real estate manager with Long John Silver's Inc., from 1980 until 1996, as a real estate manager at Tenneco Automotive, a

retail auto parts company, from 1979 until 1980, as a real estate development manager with Dunkin' Donuts of America, Inc. from 1973 until 1979 and as a real estate representative of Shell Oil Corporation from 1967 until 1972. He is currently a member of the International Council of Shopping Centers.

AUDIT COMMITTEE REPORT

The information contained in this report shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission (the Commission), nor shall such information be incorporated by reference into any previous or future filings under the Securities Act of 1933, as amended or the Securities Exchange Act of 1934, as amended, except to the extent that the Company incorporated it by specific reference.

The Audit Committee of the Commercial Net Lease Realty Board of Directors (the Committee) is composed of three independent directors in accordance with the Audit Committee Policy of the New York Stock Exchange and operates under a written charter adopted by the Board of Directors. As required by the Committee's charter, each Committee member is financially literate with a fundamental understanding of financial statements and key business and financial risks, as such qualification may be determined by the Board of Directors. The members of the Committee are Ted B. Lanier (Chair), Clifford R. Hinkle and Robert Martinez. The Committee held five meetings during 2002.

Management is responsible for the Company's financial statements, internal controls and financial reporting process. The independent accountants are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The Committee's responsibility is to monitor and oversee these processes. In this regard, the Committee, subject to any action taken by the full Board, has the ultimate authority and responsibility to select, evaluate and replace the independent accountants. The Committee also monitors legal matters that could have a significant impact on the Company's financial results.

In this context, the Committee has met and held discussions with management and the independent accountants. Management represented to the Committee that the Company's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and the Committee has reviewed and discussed the consolidated financial statements with management and the independent accountants. The Committee discussed with the independent accountants matters required to be discussed by Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards, AU § 380), issues regarding accounting and auditing principles and practices and the adequacy of internal controls that could significantly affect the Company's financial statements.

The Company's independent accountants also provided to the Committee the written disclosures required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Committee discussed with the independent accountants that firm's independence. The Committee has reviewed the original proposed scope of the annual audit of the Company's financial statements and the associated fees and any significant variations in the actual scope of the audit and fees. The Audit Committee has considered the payments made under the heading "All Other Fees" below to be compatible with maintaining the independent accountants' independence.

Based on the review and discussions referred to above, the Committee recommended that the Board of Directors include the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2002 filed with the Securities and Exchange Commission.

Ted B. Lanier, Chairman
Clifford R. Hinkle
Robert Martinez

AUDIT COMMITTEE DISCLOSURE

Fees billed to the Company for the year ended December 31, 2002 by the independent accountants were as follows:

Audit Fees: \$106,200 for services rendered in connection with the annual audit and the quarterly reviews of the financial statements of the Company and its affiliates.

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Financial Information Systems Design and Implementation Fees: None.

All Other Fees: \$143,949 for tax services of the Company and its affiliates; \$26,000 for consents and comfort letters in connection with securities registrations and offerings.

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EXECUTIVE COMPENSATION

Executive Compensation Tables

The following table shows the annual and long-term compensation paid by the Company to the Chief Executive Officer and the four other most highly compensated executive officers of the Company or Services for services rendered in all capacities during the fiscal years ended December 31, 2002, 2001 and 2000.

Summary Compensation Table

Name and Principle Position	Year	Annual Compensation			Long-Term Compensation		All Other Compensation
		Salary	Bonus	Other Annual Compensation (1)	Restricted Stock Awards	Stock Option Awards (Shares)	
James M. Seneff, Jr. <i>Chief Executive Officer & Chairman of the Board</i>	2002	\$ 144,200	\$ 75,705	\$ 22,545	\$ 72,100(2)	0	\$ 0
	2001	\$ 140,000	\$ 0	\$ 0	\$ 534,000(3)	0	\$ 0
	2000	\$ 135,000	\$ 0	\$ 0	\$ 0	23,000	\$ 0
Gary M. Ralston <i>President and Chief Operating Officer</i>	2002	\$ 305,910	\$ 0	\$ 56,363	\$ 313,558(2)	0	\$ 56,579(4)
	2001	\$ 297,000	\$ 60,000	\$ 0	\$ 1,335,000(3)	0	\$ 5,100(5)
	2000	\$ 286,000	\$ 0	\$ 0	\$ 0	46,000	\$ 4,800(5)
Kevin B. Habicht <i>Executive Vice President, Chief Financial Officer, Secretary and Treasurer</i>	2002	\$ 206,000	\$ 0	\$ 30,436	\$ 211,150(2)	0	\$ 75,830(6)
	2001	\$ 200,000	\$ 40,000	\$ 0	\$ 720,900(3)	0	\$ 5,100(5)
	2000	\$ 182,000	\$ 0	\$ 0	\$ 0	23,000	\$ 4,800(5)
David W. Cobb <i>Executive Vice President and Chief Investment Officer</i>	2002	\$ 129,808	\$ 25,000	\$ 0	\$ 460,500(7)	0	\$ 0