

COMMERCIAL NET LEASE REALTY INC

Form S-4/A

October 11, 2001

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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON OCTOBER 11, 2001

REGISTRATION NO. 333-66428

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1 TO
FORM S-4
REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

COMMERCIAL NET LEASE REALTY, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MARYLAND
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

6798
(PRIMARY STANDARD INDUSTRIAL
CLASSIFICATION CODE NUMBER)

56-1431377
(I.R.S. EMPLOYER
IDENTIFICATION NUMBER)

450 SOUTH ORANGE AVENUE
SUITE 900
ORLANDO, FL 32801
(407) 265-7348
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER,
INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

MR. KEVIN B. HABICHT
CHIEF FINANCIAL OFFICER
COMMERCIAL NET LEASE REALTY, INC.
450 SOUTH ORANGE AVENUE, SUITE 900
ORLANDO, FL 32801
(407) 265-7348
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER,
INCLUDING AREA CODE, OF AGENT FOR SERVICE)

Copies to:

JOHN MCDONALD

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SHAW PITTMAN
2300 N STREET, NW
WASHINGTON, DC 20037
(202) 663-8000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable following the effectiveness of this Registration Statement.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. []

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registrations statement for the same offering. []

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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October 12, 2001

CAPTEC LOGO

Dear Fellow Captec Stockholder:

On July 2, 2001, the board of directors of Captec unanimously approved a definitive merger agreement with Commercial Net Lease Realty, Inc. (CNLR), a leading net lease REIT. Under the agreement, CNLR will acquire all of Captec's outstanding shares for a combination of cash and stock with an aggregate value of approximately \$124 million, based on a value of \$13.05 per share of Captec common stock, at the time the agreement was executed. The stock portion is expected to be tax-free to Captec stockholders and the transaction is expected to be completed during the fourth quarter of 2001.

Our merger with CNLR will create one of the nation's largest owners of triple net leased, freestanding retail properties with total assets of approximately \$1 billion. We are asking Captec stockholders to approve the merger at a special meeting to be held at 10:00 a.m., local time, on November 19, 2001 at the Ritz-Carlton Hotel, 300 Town Center Drive, Fairlane Plaza, Dearborn, Michigan 48126. To ensure that you receive the value this transaction offers, YOUR BOARD OF DIRECTORS RECOMMENDS THAT ALL CAPTEC STOCKHOLDERS SIGN, DATE AND RETURN THE ENCLOSED WHITE PROXY CARD TODAY TO VOTE FOR THE PROPOSED MERGER.

YOUR BOARD OF DIRECTORS UNANIMOUSLY BELIEVES THAT THE PROPOSED MERGER

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WITH CNLR IS IN THE BEST INTERESTS OF CAPTEC AND ALL OF ITS STOCKHOLDERS.

We expect that the greater scale and financial resources of a combined CNLR-Captec will provide Captec stockholders with greater opportunities for growth and long-term value than Captec could achieve on its own. Captec stockholders will benefit from immediate cash consideration and the opportunity to participate in the upside potential of a continued investment in a combined CNLR-Captec.

- ATTRACTIVE CONSIDERATION FOR YOUR CAPTEC SHARES -- Under the terms of the merger agreement, Captec stockholders will receive in exchange for each share of Captec common stock a combination of \$1.27 in cash, 0.4575 shares of CNLR common stock and 0.21034679 shares of a new class of CNLR preferred stock, 9.0% Series A Non-Voting Preferred Stock. Based upon the closing price of CNLR common stock on June 29, 2001, the last trading day prior to the merger announcement, and assuming the \$25.00 liquidation preference as the value of the preferred stock, Captec stockholders would receive total consideration of approximately \$13.05 per Captec share -- representing a premium of nearly 20% to Captec's closing stock price on September 27, 2000, one day prior to the announcement of the board's decision to pursue a sale of the company.
- CNLR HAS AN 11-YEAR HISTORY OF PAYING INCREASING DIVIDENDS -- For each of the past 11 years, CNLR has paid increasing dividends to its stockholders. CNLR's common stock dividend, which is currently \$1.26 per share, is significantly more secure than Captec's dividend. Captec, which has a dividend payout ratio of 97.8%, would likely have to reduce its dividend in the future were it to continue as an independent company.
- CNLR WILL BECOME A LARGER, MORE DIVERSIFIED REIT -- As a result of this merger, CNLR will become one of the largest public REITs in the net lease sector with an enhanced portfolio of more than 377 properties in 40 states. After the merger, CNLR will have total gross leaseable area of approximately seven million square feet -- approximately seven times Captec's current total gross leaseable area. CNLR's diversified tenant base will become even more diverse with 96 tenants in 27 different retail lines of trade.
- CNLR IS AN ECONOMICALLY ROBUST, INVESTMENT GRADE COMPANY -- The combined CNLR-Captec, in comparison to Captec as an independent company, will have a larger market capitalization and is expected to have higher average trading volumes, increased liquidity and a lower cost of capital.

24 FRANK LLOYD WRIGHT DRIVE - LOBBY L, 4(TH) FLOOR - P.O. BOX 544 - ANN ARBOR,
MICHIGAN 48106-0544

TEL: (734) 994-5505 - FAX: (734) 994-1376 - www.captec.com

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Furthermore, the transaction is expected to be immediately accretive to CNLR's funds from operation (FFO) by adding between \$0.05 and \$0.07 per share. In addition, the nation's leading credit rating agencies, Standard & Poors, Moody's and Fitch, have already affirmed that CNLR's debt will continue to be rated investment grade. We are confident that these factors greatly improve the growth prospects to Captec's stockholders.

THE CNLR MERGER AGREEMENT RESULTS FROM A SALE PROCESS
THAT WAS DESIGNED TO MAXIMIZE THE VALUE OF YOUR INVESTMENT IN CAPTEC

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A SPECIAL COMMITTEE OF YOUR BOARD OF DIRECTORS CONDUCTED A THOROUGH AND COMPLETE SALE PROCESS TO SEEK THE HIGHEST VALUE FOR YOUR CAPTEC SHARES

- A special committee of independent directors, together with its outside financial advisor, UBS Warburg LLC, undertook a thorough sale process in which more than 50 companies were invited to participate.
- UBS Warburg provided the special committee with an opinion that, as of the date of the opinion, the merger consideration to be received by Captec's stockholders in the CNLR merger is fair, from a financial point of view.
- The special committee and the board of directors, considering, among other things, the opinion from UBS Warburg, unanimously determined that the CNLR merger proposal is in the best interests of Captec and all of its stockholders.

As further discussed in our proxy materials, CNLR conditioned its merger proposal on the sale of certain of Captec's non-real estate assets. Patrick Beach, Captec's chairman, president and chief executive officer, agreed to acquire these assets for \$7.5 million, plus the assumption of related liabilities. In recommending to the board of directors that it approve the asset sale agreement with Mr. Beach, the special committee considered the following:

- Other participants in the sale process indicated either that they were not interested in acquiring these non-real estate assets or would offer only nominal value for them.
- Captec's stockholders would receive immediate and certain cash consideration of \$0.79 per share for the non-real estate assets as a result of the asset sale.

The special committee determined, after a comprehensive sale process and consideration of all viable alternatives, that the asset sale agreement was the best option available for those assets, and that the merger with CNLR, together with the asset purchase agreement, were in the best interests of Captec and all of its stockholders.

CAPTEC'S BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE PROPOSED MERGER WITH CNLR. TO VOTE YOUR SHARES, PLEASE SIGN, DATE AND RETURN THE ENCLOSED WHITE PROXY CARD AND MAIL IT PROMPTLY IN THE ENCLOSED, SELF-ADDRESSED, STAMPED ENVELOPE. YOUR VOTE IS EXTREMELY IMPORTANT. FAILURE TO VOTE YOUR SHARES HAS THE SAME EFFECT AS VOTING AGAINST THE MERGER. If you have any questions or require any assistance in executing or delivering your proxy or voting instructions, please call our proxy solicitor, Georgeson Shareholder Communications at 800-223-2064 (toll-free) or (212) 440-9800.

On behalf of Captec's Board of Directors,

/s/ EDWARD G. PTASZEK
Edward G. Ptaszek
Secretary
Captec Net Lease Realty, Inc.

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CAPTEC NET LEASE REALTY, INC.

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LOBBY L, 4TH FLOOR
ANN ARBOR, MICHIGAN 48106

NOTICE OF SPECIAL MEETING TO BE HELD ON

NOVEMBER 19, 2001

To the Stockholders of
Captec Net Lease Realty, Inc.:

We will hold a special meeting of stockholders on Monday, November 19, 2001, 10:00 a.m., local time, at The Ritz-Carlton Hotel, 300 Town Center Drive, Fairlane Plaza, Dearborn, Michigan 48126, for the following purposes:

1. to approve an Agreement and Plan of Merger, dated as of July 1, 2001, pursuant to which Captec Net Lease Realty, Inc., a Delaware corporation, will merge with and into Commercial Net Lease Realty, Inc., a Maryland corporation; and
2. to transact such other business as may properly come before the special meeting or any adjournments or postponements of the special meeting.

The merger proposal is more fully described in the accompanying proxy statement-prospectus and appendices that are part of this notice.

Captec's board of directors has fixed the close of business on October 9, 2001 as the record date for the determination of stockholders entitled to notice of, and to vote at, the special meeting or any adjournments or postponements of the special meeting. Only stockholders of record as of October 9, 2001 will be entitled to notice of, and to vote at, the special meeting or any adjournments or postponements of the special meeting. A list of stockholders of record as of October 9, 2001 will be available for inspection at our offices at 24 Frank Lloyd Wright Drive, Lobby L, 4th Floor, Ann Arbor, Michigan 48106 at least ten days prior to the special meeting.

Captec's board of directors and management welcomes your attendance at the special meeting. Whether or not you plan to attend the special meeting, we request that you complete, sign, date and promptly return the enclosed proxy in the accompanying postage-paid envelope. Your proxy will not affect your right to vote in person if you attend the special meeting. You can revoke your proxy at the special meeting as described under the caption "THE SPECIAL MEETING -- Proxies; Proxy Solicitation" on page 20 of the accompanying proxy statement-prospectus. Simply attending the special meeting, however, will not revoke your proxy. Failure to return a properly executed proxy card or to vote in person at the special meeting will have the same effect as a vote against the merger.

CAPTEC'S BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE MERGER AGREEMENT AND UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE MERGER.

YOUR VOTE IS IMPORTANT.

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TO VOTE YOUR SHARES, PLEASE SIGN, DATE AND COMPLETE
THE ENCLOSED PROXY AND MAIL IT PROMPTLY IN THE
ENCLOSED RETURN ENVELOPE.

Sincerely,

/s/ EDWARD G. PTASZEK
Edward G. Ptaszek
Secretary

October 11, 2001

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CAPTEC NET LEASE REALTY, INC.
MERGER PROPOSAL
YOUR VOTE IS VERY IMPORTANT

The board of directors of Captec Net Lease Realty, Inc., has approved and adopted a merger agreement that provides for the merger of Captec with and into Commercial Net Lease Realty, Inc. pursuant to which the separate corporate existence of Captec will terminate.

We are furnishing this proxy statement-prospectus in connection with our solicitation of proxies for use at a special meeting of stockholders to be held on Monday, November 19, 2001, 10:00 a.m., local time, at The Ritz-Carlton Hotel, 300 Town Center Drive, Fairlane Plaza, Dearborn, Michigan 48126, and any adjournments or postponements of the special meeting. Delaware law requires Captec to obtain stockholder approval of the merger by an affirmative vote of a majority of the outstanding shares of Captec common stock entitled to vote on the merger.

At the effective time of the merger, each issued and outstanding share of Captec common stock will be converted into the right to receive \$1.27 in cash (which may be reduced for stockholders subject to withholding taxes), 0.4575 shares of CNLR common stock and 0.21034679 shares of CNLR 9% Series A Non-Voting Preferred Stock.

After careful consideration, Captec's board of directors has determined that the merger is in your best interest, and the board recommends on behalf of Captec that you vote in favor of the merger.

This proxy statement-prospectus provides you with detailed information about the proposed merger. You also can get information from publicly available documents filed by Captec and CNLR with the Securities and Exchange Commission. We encourage you to read this entire document carefully, including the section entitled "Risk Factors" beginning on page 15.

YOUR VOTE IS IMPORTANT. PLEASE SIGN, DATE AND COMPLETE THE ENCLOSED PROXY AND MAIL IT PROMPTLY IN THE ENCLOSED RETURN ENVELOPE.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES REGULATOR HAS APPROVED THE SHARES OF COMMERCIAL NET LEASE REALTY, INC. TO BE

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ISSUED UNDER THIS PROXY STATEMENT-PROSPECTUS OR HAS DETERMINED WHETHER THIS PROXY STATEMENT-PROSPECTUS IS ACCURATE OR ADEQUATE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This proxy statement-prospectus is dated October 11, 2001 and it is first being mailed to Captec stockholders on or about October 12, 2001.

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WHERE YOU CAN FIND MORE INFORMATION

Captec Net Lease Realty, Inc. and Commercial Net Lease Realty, Inc. are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, pursuant to which they each file reports and other information with the United States Securities and Exchange Commission. These reports and other information may be inspected and copied at public reference facilities maintained by the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the SEC's Regional Office at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies may be obtained at prescribed rates from the Public Reference Section of the SEC at its principal office in Washington, D.C. The SEC also maintains an internet web site that contains periodic and other reports, proxy and information statements and other information regarding registrants, including Captec and CNLR, that file electronically with the SEC. The address of the SEC's web site is <http://www.sec.gov>.

CNLR has filed with the SEC a registration statement under the Securities Act of 1933, as amended, that registers the distribution to Captec stockholders of the shares of CNLR common stock and preferred stock to be issued in connection with the merger. In addition to serving as a proxy statement of Captec for the special meeting of Captec's stockholders, this document also serves as a prospectus for the shares of CNLR common stock and preferred stock to be issued in the merger. The registration statement, including the attached exhibits and schedules, contains additional relevant information about CNLR. The rules and regulations of the SEC permit us to omit from this document some of the information included in the registration statement. Copies of the

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registration statement, including exhibits, may be inspected without charge at the offices of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 and copies may be obtained from the SEC at prescribed rates. The registration statement is also available from the SEC's web site.

The SEC allows Captec and CNLR to "incorporate by reference" information into this document. This means that Captec and CNLR can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this proxy statement-prospectus, except to the extent it has been superseded by information that is included in this document or in a document subsequently filed with the SEC that is incorporated by reference.

This proxy statement-prospectus incorporates by reference the documents listed below. These documents contain important information about Captec and CNLR and their respective financial condition.

DOCUMENTS INCORPORATED BY REFERENCE:

Captec SEC Filings (SEC File Number 0-29650)

1. Captec's Annual Report on Form 10-K for the fiscal year ended December 31, 2000;
2. Captec's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001;
3. Captec's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001; and
4. Captec's Current Reports on Form 8-K filed with the SEC on July 6, 2001, July 17, 2001, July 25, 2001, August 8, 2001 and September 7, 2001, respectively.

CNLR SEC Filings (SEC File Number 0-12989)

1. CNLR's Annual Report on Form 10-K for the fiscal year ended December 31, 2000;
2. CNLR's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001;
3. CNLR's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001;
4. CNLR's Current Report on Form 8-K filed with the SEC on July 3, 2001;

5. CNLR's Definitive Proxy Statement on Schedule 14A filed with the SEC on April 3, 2001 for CNLR's annual meeting of stockholders held on May 31, 2001; and

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6. The description of CNLR's common stock set forth in the registration statement filed with the SEC under Section 12 of the Exchange Act, including any amendment or report filed with the SEC for the purpose of updating the description.

We are also incorporating by reference any additional documents that either Captec or CNLR may file with the SEC between the date of this document and the date of the special meeting. These documents include periodic reports, such as Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as any proxy statements.

Captec has supplied all information contained or incorporated by reference in this proxy statement-prospectus relating to Captec, and CNLR has supplied all information contained or incorporated by reference in this proxy statement-prospectus relating to CNLR.

Documents incorporated by reference are available from Captec and CNLR, as applicable, without charge, excluding any exhibits to those documents, unless the exhibit is specifically incorporated by reference as an exhibit in this proxy statement-prospectus. You can obtain documents incorporated by reference in this proxy statement-prospectus by requesting them in writing or by telephone from Captec and CNLR, as applicable, at the following addresses:

CAPTEC NET LEASE REALTY, INC.
24 Frank Lloyd Wright Drive
Lobby L, 4th Floor
Ann Arbor, Michigan 48106
Attention: W. Ross Martin
(734) 994-5505

COMMERCIAL NET LEASE REALTY, INC.
450 S. Orange Avenue, Suite 900
Orlando, Florida 32801
Attention: Kevin B. Habicht
(407) 265-7348

You also can obtain documents incorporated by reference in this document from the SEC's web site, <http://www.sec.gov>.

If you would like to request documents, please do so by November 1, 2001 to receive them before the special meeting. If you request any incorporated document, Captec or CNLR, as applicable, will mail it to you by first-class mail, or another equally prompt means, as soon as practicable following receipt of your request.

Neither Captec nor CNLR has authorized anyone to give any information or make any representation about the merger or our companies that is different from, or in addition to, that contained in this proxy statement-prospectus. Therefore, if anyone gives you such information, you should not rely on it. This proxy statement-prospectus is dated October 11, 2001. You should not assume that the information contained in this document is accurate as of any other date unless the information specifically indicates that another date applies.

IF YOU WOULD LIKE ADDITIONAL COPIES OF THIS PROXY STATEMENT-PROSPECTUS OR HAVE QUESTIONS ABOUT THE MERGER, YOU SHOULD CONTACT:

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GEORGESON SHAREHOLDER COMMUNICATIONS, INC.
17 STATE STREET
10TH FLOOR
NEW YORK, NEW YORK 10004
(800) 223-2064

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QUESTIONS AND ANSWERS ABOUT THE MERGER

Q. WHAT AM I VOTING ON?

A. You are being asked to vote on the adoption of a merger agreement between Captec and CNLR, as a result of which Captec will merge into CNLR, the separate corporate existence of Captec will cease, and CNLR will be the surviving corporation.

Q. WHAT IS CNLR?

A. CNLR is a fully integrated, self-administered equity real estate investment trust (REIT) formed in 1984 that acquires, owns, manages and indirectly develops a diversified portfolio of high-quality, freestanding properties that are generally leased to major retail businesses under full-credit, long-term commercial net leases. As of June 30, 2001, CNLR owned, either directly or through investment interests, 241 properties in 36 states that are leased to major businesses, including Academy, Barnes & Noble, Bed Bath & Beyond, Best Buy, Borders, CVS, Eckerd, Food 4 Less, IHOP, Office Depot, OfficeMax, Pier 1 Imports, Supervalu, The Sports Authority, Wal-Mart and 7-Eleven. CNLR's property portfolio was 98 percent leased at June 30, 2001. See "THE COMPANIES -- CNLR's Business" (p. 60).

Q. WHAT WILL I RECEIVE IN THE MERGER FOR MY SHARES?

A. For each of your shares of Captec common stock you will receive:

- \$1.27 in cash;
- 0.4575 shares of CNLR common stock; and
- 0.21034679 shares of CNLR 9% Series A Non-Voting Preferred Stock.

See "THE MERGER AGREEMENT -- Conversion of Securities" (p. 44). For a complete discussion of the CNLR common stock and preferred stock, including a discussion of the rights and attributes of such stock, see "DESCRIPTION OF CNLR STOCK" (p. 52).

Q. WHY IS CAPTEC PROPOSING TO MERGE WITH CNLR? HOW WILL I BENEFIT?

A. Captec's ability to increase its share price and maintain its dividend is severely limited by its inability to generate sufficient funds from its net leasing business, its inability to obtain debt or equity capital on reasonable terms, if at all, and its small market capitalization. In contrast to the financial constraints faced by Captec, following the merger, Captec believes CNLR is in the position to provide growth opportunities to Captec's

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stockholders. CNLR will have approximately four times the total assets and approximately seven times the total gross leaseable area of Captec and greater diversification of assets than Captec. In addition, CNLR has unsecured debt ratings of BBB- by Standard & Poors, Baa3 by Moody's and BBB by Fitch. As a result, Captec believes you will have a greater opportunity for growth in the value of your investment and a significantly more secure dividend.

Q. WHY IS THE BOARD OF DIRECTORS RECOMMENDING THAT I VOTE FOR THE MERGER?

A. Captec's board of directors has determined, based upon the unanimous approval and recommendation of the special committee and other factors described in this proxy statement-prospectus, that the terms and provisions of the merger agreement regarding the proposed merger are advisable to and in the best interests of Captec and its stockholders. See "THE SPECIAL MEETING -- Recommendations of the Special Committee and the Board of Directors" (p. 20).

Q. WHAT DID THE BOARD OF DIRECTORS DO TO MAKE SURE THAT THE MERGER CONSIDERATION I WILL RECEIVE IS FAIR TO ME?

A. Captec's board of directors performed a comprehensive analysis of Captec's strategic alternatives to maximize stockholder value. As a result of this analysis, Captec's board of directors determined that a sale of Captec was most likely to maximize stockholder value and appointed a special committee consisting of

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independent directors, who are neither employed by, or otherwise affiliated with, Captec, to assist in a possible sale of Captec. The special committee retained UBS Warburg, LLC, to act as its financial advisor. The special committee conducted an extensive sales process, contacting over 50 parties identified as potential purchasers and provided confidential information concerning Captec to 28 parties that indicated a potential interest in purchasing Captec. At the conclusion of the sales process, the CNLR offer represented the best transaction available in light of the issues facing Captec. The special committee and Captec's board of directors concluded that the merger with CNLR is advisable and in the best interests of Captec and its stockholders and have unanimously recommended approval of the merger to the stockholders. See "THE MERGER -- Captec's Reasons for the Merger" (p. 30).

Q. WAS A FAIRNESS OPINION RENDERED IN CONNECTION WITH THE MERGER?

A. Yes. The special committee has received and the special committee and Captec's board of directors have relied upon an opinion from UBS Warburg that, subject to and based on the considerations in its opinion, as of the date of the merger agreement, the merger consideration Captec stockholders will receive was fair to Captec stockholders from a financial point of view. The full text of UBS Warburg's opinion, dated as of July 1, 2001, which sets forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the review undertaken by UBS Warburg, is attached as Appendix B to this proxy statement-prospectus. We urge you to read the UBS Warburg opinion in its entirety. See "THE MERGER -- Opinion of Captec's Financial Advisor" (p. 33).

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Q. WILL I CONTINUE TO RECEIVE REGULAR QUARTERLY DIVIDENDS?

A. Yes. Regular quarterly dividends will be paid on your shares of Captec common stock until the merger is completed. Depending on the timing of the consummation of the merger, a special prorated dividend may also be paid for the partial quarter ending on the day immediately prior to the effective time of the merger.

Q. WILL I RECEIVE FUTURE DISTRIBUTIONS WITH RESPECT TO THE SHARES OF CNLR COMMON STOCK AND PREFERRED STOCK I RECEIVE IN THE MERGER?

A. Yes. Historically, CNLR has made regular quarterly distributions to its stockholders. Over the past 11 consecutive years, CNLR has paid increasing dividends to stockholders and expects to continue to do so in the future. In order to maintain CNLR's status as a REIT, CNLR must, among other things, distribute at least 90.0% of its taxable income to its stockholders on an annual basis. The CNLR common stock presently pays an annualized dividend of \$1.26 per share and the CNLR preferred stock provides for an annual cumulative dividend of \$2.25 per share.

Q. WHAT ARE THE FEDERAL TAX CONSEQUENCES OF THE MERGER?

A. The merger has been structured to qualify as a "reorganization" for federal income tax purposes. Even if your tax basis in your Captec common stock exceeds the fair market value of the cash, CNLR common stock and preferred stock you receive in the merger, you will not recognize any loss on the exchange. If the fair market value of this cash, CNLR common stock and preferred stock exceeds your tax basis in your Captec common stock, you will recognize taxable gain, but only to the extent the fair market value is greater than your tax basis, or only to the extent of the cash you receive, whichever number is smaller. If the CNLR preferred stock is determined to be "nonqualified preferred stock," you would recognize gain, but only to the extent the fair market value of the cash, CNLR common stock, and preferred stock you receive exceeds your tax basis in your Captec common stock, or to the extent of the cash and the fair market value of the CNLR preferred stock you receive, whichever is smaller. CNLR will take the position, and has represented to Captec, that the CNLR preferred stock is not "nonqualified preferred stock," but its position is not binding on the Internal Revenue Service or any court having jurisdiction over such matters. See "MATERIAL FEDERAL INCOME TAX CONSEQUENCES" (p. 57).

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Q. CAN I SELL CNLR COMMON STOCK AND CNLR PREFERRED STOCK RECEIVED IN THE MERGER IMMEDIATELY?

A. Yes. The CNLR common stock and preferred stock to be issued to Captec stockholders in consideration of the merger will be listed on the NYSE. Unless you are an affiliate of Captec, meaning that you control, are controlled by, or are under common control with Captec, you will be able to sell all or a portion of your CNLR common stock and preferred stock that you receive in the merger immediately following completion of the merger. If you are an affiliate of Captec, you may be subject to restriction on the sale of your CNLR common stock and preferred stock. If you think you may fall within this restriction, you should consult with your legal advisor. See "RESTRICTIONS ON RESALES BY AFFILIATES" (p. 70).

Q. ARE THERE ANY CONDITIONS TO CLOSING THE MERGER?

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A. Yes. In addition to approval by Captec's stockholders, the merger agreement contains customary and transaction-specific conditions to closing the merger. See "THE MERGER AGREEMENT -- Conditions to the Merger" (p. 49).

Q. SHOULD I SEND IN MY SHARE CERTIFICATES NOW?

A. No. You should not send in your share certificates until you receive written notice that the merger has been completed, together with a transmittal letter and written instructions on how to exchange your share certificates. You will receive your cash, and CNLR common stock and preferred stock promptly after the exchange agent receives from you a properly completed letter of transmittal, together with your share certificate. See "THE MERGER AGREEMENT -- Exchange of Stock Certificates" (p. 45).

Q. WHAT VOTE IS REQUIRED TO APPROVE THE MERGER?

A. A vote by the holders of a majority of the outstanding shares of Captec common stock is required to approve the merger. See "THE SPECIAL MEETING -- Vote Required" (p. 21).

Q. HOW DO I VOTE?

A. Complete and sign the enclosed proxy card and return it in the enclosed envelope or vote in person at the special meeting. We urge you to vote to assure the representation of your shares at the special meeting. See "THE SPECIAL MEETING -- Proxies; Proxy Solicitation" (p. 20).

Q. CAN I CHANGE MY VOTE AFTER I HAVE MAILED MY SIGNED PROXY CARD?

A. Yes. You can change your vote prior to the taking of the vote at the special meeting by:

- delivering to Captec's secretary a written revocation of a previously delivered proxy bearing a later date than the proxy;
- executing, dating and delivering to Captec's secretary a subsequently dated proxy; or
- attending the special meeting and voting in person.

Simply attending the special meeting will not revoke your proxy. For a more complete description of voting procedures, see "THE SPECIAL MEETING -- Proxies; Proxy Solicitation" (p. 20).

Q. IF MY SHARES ARE HELD IN "STREET NAME" BY MY BROKER, WILL MY BROKER VOTE MY SHARES FOR ME?

A. No. Unless you provide instructions to your broker on how to vote, your broker will not vote your shares for you. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares. Failure to instruct your broker to vote in favor of the merger will have

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the effect of a vote against the merger. See "THE SPECIAL MEETING -- Effect of Abstentions and Broker Non-Votes" (p. 21).

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Q. CAN I VOTE MY SHARES IN PERSON?

A. Yes. You may attend the special meeting and vote your shares in person, rather than signing and mailing your proxy card. See "THE SPECIAL MEETING -- Proxies; Proxy Solicitations" (p. 20).

Q. HOW WILL MY SHARES BE VOTED IF I RETURN A BLANK PROXY CARD?

A. If you sign and send in your proxy card and do not indicate how you want to vote, your shares will be voted in favor of the merger. See "THE SPECIAL MEETING -- Proxies; Proxy Solicitation" (p. 20).

Q. WHAT WILL HAPPEN IF I DO NOT VOTE?

A. If you do not return your proxy card or vote at the special meeting, it will have the same effect as if you voted against the merger. See "THE SPECIAL MEETING -- Proxies; Proxy Solicitation" (p. 20).

Q. ARE THERE ANY RISKS IN THE MERGER THAT I SHOULD BE AWARE OF?

A. Yes. There are certain risks to Captec stockholders in connection with the merger, which will result in Captec stockholders exchanging their investment in Captec for an investment in the capital stock of CNLR and cash. See "RISK FACTORS" (p. 15).

Q. WHEN DO YOU EXPECT THE MERGER TO BE COMPLETED?

A. We are working to complete the merger as quickly as possible. We hope to complete the merger during the fourth quarter of 2001.

Q. WHAT DO I NEED TO DO NOW?

A. Mail your completed and signed proxy card in the enclosed return envelope, as soon as possible, so that your vote concerning approval of the merger will be counted at the special meeting.

Q. WHAT RIGHTS DO I HAVE IF I OPPOSE THE MERGER?

A. You can vote against the merger by indicating a vote "Against" the merger on your proxy card and signing and mailing your proxy card, or by voting against the merger in person at the special meeting. Failure to submit a proxy or to vote at the special meeting will have the same effect as a vote against the merger. Under Delaware law, you also have the right to a judicial appraisal, and to receive the fair value in cash, of your shares if you do not vote for the merger and fulfill certain other requirements under Delaware law. See "ADDITIONAL INFORMATION -- Appraisal Rights" (p. 70).

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Q. WHAT OTHER MATTERS WILL BE VOTED ON AT THE SPECIAL MEETING?

A. Captec does not expect any other matters to be voted on at the special meeting.

Q. WHO CAN HELP ANSWER MY QUESTIONS?

A. If you would like additional copies of this document, or have any questions about the merger, you should contact:

GEORGESON SHAREHOLDER COMMUNICATIONS, INC.
17 STATE STREET
10TH FLOOR
NEW YORK, NEW YORK 10004
(800) 223-2064

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INTRODUCTION

This proxy statement-prospectus is furnished in connection with the solicitation by Captec's board of directors of proxies for use of at a special meeting of stockholders to be held on November 19, 2001 at 10:00 a.m., local time, at The Ritz-Carlton Hotel, 300 Town Center Drive, Fairlane Plaza, Dearborn, Michigan 48126. At the special meeting, Captec's stockholders will be asked to vote on the approval of an Agreement and Plan of Merger, dated as of July 1, 2001, between Captec and CNLR which, if completed, will result in the merger of Captec into CNLR with CNLR being the surviving corporation.

As of October 9, 2001, the record date for the special meeting, 9,508,108 shares of Captec common stock were outstanding. Only stockholders of record at the close of business on the record date are entitled to notice of, and to vote at, the special meeting. Each stockholder will be entitled to one vote for each share of Captec common stock held as of the record date. The affirmative vote of the holders of a majority of the outstanding shares of Captec common stock entitled to be voted at the special meeting is required to approve the merger described in this proxy statement-prospectus.

CAPTEC'S BOARD OF DIRECTORS, BASED IN PART UPON THE UNANIMOUS RECOMMENDATION OF A SPECIAL COMMITTEE OF THREE INDEPENDENT DIRECTORS, UNANIMOUSLY APPROVED THE MERGER AND THE MERGER AGREEMENT, DETERMINING THEM TO BE ADVISABLE AND IN THE BEST INTERESTS OF CAPTEC AND ITS STOCKHOLDERS. THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" APPROVAL OF THE MERGER.

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SUMMARY

This summary highlights selected information presented in this proxy statement-prospectus and may not contain all of the information that is important to you. To understand more fully the merger proposal to be voted on at the special meeting, and for a more complete description of the legal terms of the merger and merger agreement, you should carefully read this entire proxy statement-prospectus and the documents to which it refers. A copy of the merger

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agreement is attached as Appendix A to this proxy statement-prospectus.

PARTIES TO THE MERGER (P. 60)

CAPTEC

Captec is an externally advised REIT which acquires, develops and owns high-quality freestanding properties leased principally on a long-term triple net basis to national and regional chain and franchised restaurants and national retailers. Captec generally acquires properties from operators or developers in locations which have exhibited growth in retail sales and population. Upon acquiring a property, Captec typically enters into a long-term triple net lease (typically 15 to 20 years plus one or more five year renewal options) with the lessee. Triple net leases generally impose on the lessee responsibility for all operating costs and expenses of the property, including the costs of repairs, maintenance, real property taxes, assessments, utilities and insurance.

Captec believes that the structure of its leases provides steady, periodically escalating, long-term revenue, while reducing operating expenses and capital costs, and that its underwriting standards reduce the risk of lessee default under or non-renewal of the leases. Captec's leases typically provide for minimum rent plus specified fixed periodic rent increases. Other revenues are derived primarily from interest income on loans to affiliates and fee income earned from affiliated ventures.

As of June 30, 2001, Captec had a portfolio of 136 properties located in 26 states, with a cost basis of \$212.0 million. The properties are leased to 46 operators of 33 distinct national and regional restaurant concepts and 10 operators of 12 national and regional retail concepts. Captec's address and phone number are:

Captec Net Lease Realty, Inc.
24 Frank Lloyd Wright Drive
Lobby L, 4th Floor
Ann Arbor, Michigan 48106
(734) 994-5505

CNLR

Commercial Net Lease Realty, Inc. is a fully integrated, self-administered equity real estate investment trust (REIT) formed in 1984 that acquires, owns, manages and indirectly develops a diversified portfolio of high-quality, freestanding properties that are generally leased to major retail businesses under full-credit, long-term commercial net leases.

CNLR's portfolio emphasizes properties that are located within intensive commercial corridors near traffic generators such as regional malls, business developments and major thoroughfares. These properties, which generally have purchase prices of up to \$10.0 million, attract a wide array of established retail tenants, such as Academy, Barnes & Noble, Bed Bath & Beyond, Best Buy, Borders, CVS, Eckerd, Food 4 Less, IHOP, Office Depot, OfficeMax, Supervalu, The Sports Authority, Wal-Mart and 7-Eleven. Consequently, CNLR's management believes that such properties offer attractive opportunities for stable current returns and potential capital appreciation. In addition, management believes that the location and design of properties in this niche provide flexibility in use and tenant selection and an increased likelihood of advantageous re-lease terms upon expiration or early termination of the related leases.

CNLR generally acquires properties that are newly constructed or re-developed as of the time of acquisition. In addition, CNLR generally acquires properties that are subject to a lease in order to avoid the risks of not finding a tenant on a timely basis and to provide an immediate revenue stream. CNLR's leases typically provide that the tenant bears responsibility for substantially all property costs and expenses associated with ongoing maintenance and operation, including utilities, property taxes and insurance, and generally also provide that the tenant is responsible for roof and structural repairs. Such leases typically do not limit CNLR's recourse against the tenant and any guarantor in the event of a default and for this reason are considered "full-credit" leases. CNLR's properties are leased on a long-term basis, generally 10 to 20 years, with renewal options for an additional 10 to 20 years.

As of June 30, 2001, CNLR owned, either directly or through investment interests, 241 properties, which were 98% leased, located in 36 states. The average remaining initial lease term of CNLR's properties was approximately 13 years. Leases representing approximately 74% of annualized base rental income from CNLR's properties, as of June 30, 2001, have initial terms extending until at least December 31, 2011. Approximately 83% of annualized base rental income is derived from leases that provide for periodic, contractually fixed increases in base rent.

CNLR's address and phone number are:

Commercial Net Lease Realty, Inc.
450 S. Orange Avenue
Suite 900
Orlando, Florida 32801
(407) 265-7348

MERGER DESCRIPTION (P. 22)

The Merger Structure. The merger agreement provides that Captec will be merged with and into CNLR. The merger will become effective when certificates of merger have been filed with, and accepted by, the Maryland State Department of Assessments and Taxation in accordance with the Maryland General Corporation Law and by the Secretary of the State of Delaware in accordance with the Delaware General Corporation Law or at a subsequent time as CNLR and Captec may agree and specify in the certificates of merger. At that time, Captec will be merged with and into CNLR. CNLR will be the surviving corporation in the merger, and Captec will cease to exist as a separate entity. Captec expects the merger to become effective as soon as practicable after the approval of the merger by Captec's stockholders and the satisfaction or waiver of all other conditions to the merger. See "THE MERGER AGREEMENT" (p. 44).

What You Will Receive in the Merger. At the effective time of the merger, each issued and outstanding share of Captec common stock will be converted into the right to receive \$1.27 in cash (which may be reduced for stockholders subject to withholding taxes), 0.4575 shares of CNLR common stock and 0.21034679 shares of CNLR preferred stock. It is a condition to closing of the merger that the CNLR common stock and preferred stock to be issued to Captec stockholders in

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the merger be listed on the New York Stock Exchange. See "DESCRIPTION OF CNLR STOCK" (p. 52).

YOU SHOULD NOT SEND IN YOUR SHARE CERTIFICATES UNTIL YOU RECEIVE A LETTER OF TRANSMITTAL.

Quarterly Dividends. Regular quarterly dividends will be paid by Captec until the merger is completed. Depending on the timing of completion of the merger, a special prorated dividend will be paid for the partial quarterly period, if any, ending on the day immediately prior to the effective time of the

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merger. The CNLR common stock presently pays an annual dividend of \$1.26 per share and the CNLR preferred stock provides for a cumulative annual dividend of \$2.25 per share.

Recommendation of the Special Committee and Board of Directors. Captec's board of directors, based in part on the unanimous recommendation of a special committee of three independent directors, unanimously approved the merger and the merger agreement, determining them to be advisable and in the best interests of Captec and its stockholders, and unanimously recommends that you vote "FOR" the proposal to approve the merger. See "THE SPECIAL MEETING -- Recommendations of the Special Committee and the Board of Directors" (p. 20).

Background and Reasons for the Merger. In making the determination to approve the merger, Captec's board of directors considered various factors and alternatives to the merger, including those described under the heading "THE MERGER -- Captec's Reasons for the Merger" (p. 30).

Opinion of Financial Advisor to the Special Committee. In connection with the merger, the special committee received an opinion from UBS Warburg LLC, its financial advisor, which also was relied upon by Captec's board of directors, that, as of the date of the merger agreement, the merger consideration to be received by Captec stockholders was fair to Captec's stockholders from a financial point of view. UBS Warburg's written opinion, dated as of July 1, 2001, is attached to this proxy statement-prospectus as Appendix B. We encourage you to carefully read this opinion in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the review undertaken by UBS Warburg in providing its opinion. See "THE MERGER -- Opinion of Captec's Financial Advisor" (p. 33).

Appraisal Rights. Under Delaware law you have the right to a judicial appraisal and to receive the fair value in cash of your Captec common stock, provided that you do not vote in favor of the merger and you fulfill the other requirements of Delaware law. See "ADDITIONAL INFORMATION -- Appraisal Rights" (p. 70).

SPECIAL MEETING AND VOTING (P. 20)

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The Special Meeting. The special meeting of the stockholders will be held on Monday, November 19, 2001 at 10:00 a.m. at The Ritz-Carlton Hotel, 300 Town Center Drive, Fairlane Plaza, Dearborn, Michigan 48126. At the special meeting, Captec's stockholders will be asked to consider and vote upon a proposal to approve the merger. See "THE SPECIAL MEETING" (p. 20).

Record Date and Voting Power. Captec's board of directors has fixed the close of business on October 9, 2001 as the record date for determining stockholders entitled to notice of, and to vote at, the special meeting. As of the record date, 9,508,108 shares of Captec common stock were outstanding and held by approximately 75 stockholders of record. Captec has no other class of voting securities outstanding. Stockholders of record on the record date will be entitled to one vote for each share of Captec common stock held by them on the proposal to approve the merger and any other matter that may properly come before the meeting and any adjournment or postponement of the meeting. See "THE SPECIAL MEETING" (p. 20).

Quorum and Vote Required. Captec's bylaws require the presence, in person or by duly executed proxy, of shares representing at least a majority of the votes entitled to be cast at the special meeting in order to constitute a quorum. Delaware law requires the affirmative vote of shares representing a majority of the outstanding shares entitled to be voted at the special meeting to approve the merger. Failure to return your proxy or direct your broker or nominee how to vote your proxy will have the same effect as a vote against the merger. See "THE SPECIAL MEETING -- Proxies; Proxy Solicitation" (p. 20).

Proxies, Voting and Revocation. Shares represented at the special meeting by properly executed proxies received prior to or at the special meeting and not revoked will be voted at the special meeting, and at any adjournments or postponements of the special meeting, in accordance with the instructions on the proxies. If a proxy is duly executed and submitted without instructions, except for broker non-votes,

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the shares represented by that proxy will be voted "FOR" the approval of the merger. Proxies are being solicited on behalf of Captec's board of directors.

A proxy may be revoked by the person who executed it at, or before, the taking of the vote at the special meeting by:

- delivering to Captec's secretary a written revocation of a previously delivered proxy bearing a later date than the proxy;
- executing, dating and delivering to Captec's secretary a subsequently dated proxy; or
- attending the special meeting and voting in person.

Attendance at the special meeting will not, by itself, constitute revocation of a proxy. See "THE SPECIAL MEETING -- Proxies; Proxy Solicitation" (p. 20).

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Captec will bear the cost of solicitation of proxies and reimburse brokerage houses, fiduciaries, nominees and others for out-of-pocket expenses in forwarding proxy materials to beneficial owners of Captec common stock held in their names. Captec has retained the services of Georgeson Shareholder Communications, Inc. to assist in the solicitation.

Broker Votes. Shares held in the name of your broker or a nominee, or in "street name," will not be voted by your broker or nominee unless you provide instructions on how to vote. Your broker or nominee will provide directions regarding how to instruct your broker or nominee to vote your shares. Without your instructions, your shares will not be voted, which will have the same effect as a vote against the merger.

If you hold your shares in a brokerage account, your brokerage firm may also provide you with the ability to vote electronically, including voting by internet and/or telephone. Instructions for these voting methods, if they are being made available to you, are included on the ballot that accompanies this proxy statement.

SELECTED MERGER AGREEMENT PROVISIONS (P. 44)

Conditions to the Merger. Each party's obligation to complete the merger depends upon the satisfaction or waiver of certain conditions, including:

- approval of the merger by Captec's stockholders;
- absence of governmental actions having the effect of making the merger illegal or otherwise prohibiting the merger; and
- listing on the New York Stock Exchange of the CNLR common stock and preferred stock to be issued to Captec's stockholders.

CNLR's obligation to complete the merger also depends upon the satisfaction or waiver of a number of additional conditions, including:

- the material correctness of the representations and warranties of Captec in the merger agreement and the material performance by Captec of its obligations under the merger agreement;
- receipt by CNLR of an opinion of its counsel that the merger will be treated as a tax-free reorganization for federal income tax purposes;
- receipt by CNLR of an opinion of Captec's counsel as to the status of Captec as a REIT;
- receipt by CNLR of a letter from Captec's independent auditors confirming that Captec has distributed all of its earnings and profits for all taxable years through the date of the closing of the merger; and

- other than completion of the merger, the satisfaction of all of the conditions to closing contained in the asset purchase agreement relating to the sale of the excluded assets. See "THE MERGER -- Asset Purchase Agreement" (p. 42).

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For a more detailed description of the conditions to the merger, see "THE MERGER AGREEMENT -- Conditions to the Merger" (p. 49).

Termination of the Merger Agreement. Captec and CNLR may, by mutual written consent, terminate the merger agreement without completing the merger. The merger agreement may also be terminated:

By either Captec or CNLR:

- if the merger is not approved by Captec's stockholders;
- if the merger is not completed by January 31, 2002;
- if any final, nonappealable order of any governmental entity or court is in effect that prevents the completion of the merger;
- if any of the conditions to a party's obligation to complete the merger becomes impossible to fulfill and is not waived by the other party; or
- if it is not in material breach of its obligations under the merger agreement and if any of the representations and warranties of the other party are materially untrue or inaccurate or the other party has breached any of its covenants or agreements in the merger agreement so that any of the other party's conditions to complete the merger would not be satisfied.

By CNLR:

- if Captec's board of directors approves or recommends, or proposes to approve or recommend, an acquisition proposal other than the merger; withdraws or modifies its recommendation or approval of the merger or causes Captec to enter into any letter of intent or agreement for a competing acquisition proposal; or
- if a tender or exchange offer for Captec is commenced and, within 10 business days thereof, Captec's board of directors fails to recommend rejection of the tender offer or exchange offer.

For a more detailed description relating to termination of the merger agreement, see "THE MERGER AGREEMENT -- Termination and Termination Fee" (p. 50).

Termination Fee. Captec must pay to CNLR a termination fee of up to \$5.0 million if the merger agreement is terminated by CNLR because:

- Captec's board of directors approves or recommends, or proposes to approve or recommend, an acquisition proposal other than the merger; withdraws or modifies its recommendation or approval of the merger, or causes Captec to enter into any letter of intent or agreement for a competing acquisition proposal;
- a tender or exchange offer for Captec is commenced and, within 10 business days thereof, Captec's board of directors fails to recommend rejection of the tender offer or exchange offer; or
- Captec's stockholders fail to approve the merger agreement or the merger agreement is terminated by CNLR as a result of any of Captec's

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representations and warranties being materially untrue or inaccurate, or Captec's breach of any of its covenants or agreements in the merger agreement such that its conditions to complete the merger would not be satisfied and, within nine months thereafter, Captec enters into any written agreement for a competing acquisition proposal which is subsequently completed.

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If the merger agreement is terminated under certain other circumstances Captec and CNLR are obligated to pay to the other the lesser of \$1.0 million or the other party's actual out-of-pocket expenses incurred in connection with the merger agreement and the transactions contemplated thereby. For a more detailed description relating to termination of the merger agreement, see "THE MERGER AGREEMENT -- Termination and Termination Fee" (p. 50).

FINANCING, ACCOUNTING AND TAX MATTERS (P. 57)

Financing. There are no financing contingencies to the completion of the merger.

Accounting. The merger will be accounted for under the "purchase" method of accounting in accordance with generally accepted accounting principles. The aggregate consideration paid by CNLR in connection with the merger will be allocated to Captec's assets and liabilities based on their fair values.

Federal Income Tax Consequences. The merger has been structured to qualify as a "reorganization" for federal income tax purposes. Even if your tax basis in your Captec common stock exceeds the fair market value of the cash, CNLR common stock and preferred stock you receive in the merger, you will not recognize any loss on the exchange. If the fair market value of this cash, CNLR common stock and preferred stock exceeds your tax basis in your Captec common stock, you will recognize taxable gain, but only to the extent this fair market value is greater than your tax basis, or only to the extent of the cash you receive, whichever number is smaller. If the CNLR preferred stock is determined to be "nonqualified preferred stock," you will recognize gain, but only to the extent the fair market value of the cash, CNLR common stock, and preferred stock you receive exceeds your tax basis in your Captec common stock, or to the extent of the cash and the fair market value of the CNLR preferred stock you receive, whichever is smaller. CNLR will take the position, and has represented to Captec, that the CNLR preferred stock is not "nonqualified preferred stock," but its position is not binding on the Internal Revenue Service or any court having jurisdiction over such matters.

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FORWARD-LOOKING STATEMENTS

This proxy statement-prospectus, including the documents incorporated herein by reference, contains "forward-looking statements" which represent Captec's and CNLR's expectations or beliefs, including, but not limited to, statements concerning industry performance and Captec's and CNLR's results, operations, performance, financial condition, plans, growth and strategies, which include, without limitation:

- statements concerning implementation of CNLR's business plan following

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- the merger;
- statements concerning CNLR's financial performance following the merger;
- statements concerning CNLR's anticipated dividend policy following the merger;
- statements concerning the anticipated financial and other benefits of the merger;
- statements concerning the operating efficiencies or synergies, competitive positions and growth opportunities expected to be achieved following the merger;
- statements concerning the market for CNLR common stock and preferred stock following the merger;
- statements preceded or followed by or that include the words "may," "will," "expect," "anticipate," "intend," "could," "estimate," or "continue" or the negative or other variations thereof or comparable terminology; and
- the matters discussed in "Risk Factors" beginning on page 15.

Any statements contained in this proxy statement-prospectus or any document incorporated herein by reference that are not statements of historical fact may be deemed to be forward-looking statements. These statements by their nature involve substantial risks and uncertainties, some of which are beyond Captec's and CNLR's control, and actual results may differ materially depending on a variety of important factors, many of which are also beyond Captec's and CNLR's control. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this proxy statement-prospectus. Neither Captec nor CNLR undertakes any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this proxy statement-prospectus or to reflect the occurrence of unanticipated events.

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RISK FACTORS

The merger involves certain risks. Also, by voting in favor of the merger, Captec's stockholders will be choosing to invest in CNLR's capital stock. An investment in CNLR's capital stock involves certain risks. In addition to the other information contained or incorporated by reference in this proxy statement-prospectus, Captec's stockholders should carefully consider the following risk factors in deciding whether to vote for the merger.

RISKS RELATED TO CNLR'S BUSINESS

Three of CNLR's tenants, HomePlace of America, Inc., d/b/a Waccamaw's HomePlace, Heilig-Meyers Company and HomeLife Company, have each respectively filed voluntary petitions for bankruptcy under Chapter 11 of the United States Bankruptcy Code. As a result, each of these tenants has a right to reject or affirm its leases with CNLR.

HomePlace has rejected all 6 of its leases with CNLR. In addition, Heilig-Meyers has rejected 12 of its 17 leases with CNLR and assigned one of its leases to a new tenant pursuant to Bankruptcy Code procedures. There can be no

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assurance that Heilig-Meyers will not reject some or all of the remaining leases held by it in the future. HomeLife has filed a motion to reject all 5 of its leases in the bankruptcy proceeding. Regardless of such election by HomeLife, Sears, Roebuck & Co., as assignor of the leases to HomeLife, will remain liable under the leases.

The lost revenues resulting from the rejection by any bankrupt tenant of any of their respective leases with CNLR could have a material adverse affect on CNLR's liquidity and results of operations, if CNLR is unable to re-lease the properties at comparable rental rates and in a timely manner.

ABSENCE OF PRIOR PUBLIC MARKET FOR THE CNLR PREFERRED STOCK

Prior to the merger there has been no public market for the CNLR preferred stock. There is no assurance that an active trading market will develop or be sustained following the merger or that at any time the CNLR preferred stock may be resold at or above its stated value of \$25.00 per share. The price, if any, at which the CNLR preferred stock trades on the New York Stock Exchange will depend upon numerous factors, including market conditions at the time of completion of the merger and thereafter.

CAPTEC STOCKHOLDERS HAVE FILED THREE LAWSUITS AGAINST CAPTEC IN CONNECTION WITH THE MERGER

Following the public announcement by Captec and CNLR of the merger, certain Captec stockholders filed three lawsuits against Captec and its directors alleging breaches of fiduciary duty in connection with the merger. One of these lawsuits also named CNLR as a defendant, but CNLR has since been dismissed as a party to that lawsuit. In the lawsuits, the plaintiffs are seeking a declaration that the action is properly maintainable as a class action, equitable relief that would enjoin the proposed merger, and unspecified damages. Such lawsuits could delay the completion of the merger or result in substantial damage claims against Captec.

CNLR MAY FACE OPERATIONAL AND STRATEGIC CHALLENGES THAT MAY PREVENT IT FROM SUCCESSFULLY INTEGRATING CAPTEC WITH CNLR

The merger involves risks related to the integration and management of acquired properties and operations. Because CNLR currently intends not to retain any of the existing management of Captec, the integration of CNLR and Captec will be a complex and time-consuming process and may disrupt CNLR's

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business if not completed in a timely and efficient manner. CNLR may encounter substantial difficulties, costs and delays involved in integrating its operations with those of Captec, including:

- perceived adverse changes in business focus;
- potential conflicts in marketing or other important relationships; and
- the diversion of management's attention from other ongoing business concerns.

Further, the completion of the merger poses risks for the ongoing operations of CNLR, including that:

- following the merger, CNLR may not achieve the expected cost savings and

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operating efficiencies; and

- the Captec portfolio may not perform as well as CNLR anticipates.

If CNLR fails to integrate Captec successfully and/or fails to realize the intended benefits of the merger, the market price of CNLR common stock subsequent to the merger could decline from its current market price and the price at which the CNLR preferred stock trades also may be adversely affected.

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HISTORICAL, PRO FORMA CONSOLIDATED AND PRO FORMA EQUIVALENT PER SHARE DATA

Summarized below is specified per common share information for Captec and CNLR on a historical basis, pro forma consolidated basis and pro forma equivalent basis. The pro forma amounts are based on the purchase method of accounting.

The data presented below is not necessarily indicative of the results which would have actually been attained if the merger had been completed in the past or the results that may be attained in the future. The per share data included in the following table should be read in conjunction with the Unaudited Pro Forma Condensed Consolidated Financial Statements of Captec and CNLR included elsewhere in this proxy statement-prospectus.

	FOR THE SIX MONTHS ENDED JUNE 30, 2001		FOR THE YEAR DECEMBER 31,	
	BASIC	DILUTED	BASIC	DILUTED
Net income per common share:				
Captec.....	\$0.64	\$0.64	\$1.53	
CNLR.....	\$0.72	\$0.72	\$1.27	
Captec and CNLR pro forma consolidated.....	\$0.72	\$0.72	\$1.36	
Captec pro forma equivalent(1)				

	FOR THE SIX MONTHS ENDED JUNE 30, 2001		FOR THE YEAR END DECEMBER 31, 2001	
Cash distributions declared per common share:				
Captec.....	\$ 0.76		\$ 1.52	
CNLR.....	\$ 0.63		\$1.245	
Captec and CNLR pro forma consolidated.....	\$ 0.63		\$1.245	
Captec pro forma equivalent(1)				
Stockholders' equity (book value) per common share (end of period):				
Captec.....	\$14.08			
CNLR.....	\$13.02			

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Captec and CNLR pro forma consolidated..... \$14.18
 Captec pro forma equivalent(1)

(1) Per the merger agreement, consideration of \$1.27 in cash, 0.4575 shares of CNLR common stock and 0.21034679 shares of CNLR preferred stock will be exchanged for each share of Captec common stock. As a result, disclosure on an equivalent per common share basis is not meaningful.

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COMPARATIVE PER SHARE MARKET INFORMATION

Captec common stock is listed for quotation on NASDAQ under the symbol "CRRR." CNLR common stock is listed for quotation on the New York Stock Exchange under the symbol "NNN." On June 29, 2001, the business day immediately preceding the public announcement of the execution of the merger agreement by Captec and CNLR, the closing market prices of Captec common stock and CNLR common stock and the equivalent price per share of CNLR giving effect to the merger, respectively, were as follows:

CAPTEC AND CNLR
 COMPARATIVE MARKET VALUE

	CAPTEC	CNLR	CAPTEC EQUIVALENT PER SHARE PRICE
	-----	-----	-----
June 29, 2001.....	\$13.31	\$14.25	\$13.05

The Captec equivalent per share price is based on the assumption that stockholders will receive the liquidation preference of \$25.00 on the CNLR preferred stock and based on the \$14.25 per share closing price of the CNLR common stock on June 29, 2001.

Prior to the merger there has been no public market for the CNLR preferred stock. Absent a current quoted market price for the CNLR preferred stock, the liquidation preference value has been used to compute the CNLR equivalent per share price of the Captec common stock.

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PRICE RANGE OF COMMON STOCK AND DIVIDENDS

The following sets forth, for the periods indicated, the high and low prices per share of Captec common stock on NASDAQ and CNLR common stock on the NYSE and the cash dividends declared per share of Captec common stock and CNLR common stock. On October 9, 2001, the record date for the special meeting, there were approximately 75 record holders and 4,060 beneficial holders of Captec common stock and approximately 1,274 record holders and 21,565 beneficial holders of CNLR common stock. Prior to the completion of the merger there will be no issued and outstanding shares of CNLR preferred stock.

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	CAPTEC			CNLR		
	HIGH	LOW	DIVIDEND	HIGH	LOW	DIVIDEND
Calendar 1999						
First Quarter.....	\$13.50	\$12.25	\$0.380	\$13.94	\$11.13	\$0.310
Second Quarter.....	13.81	11.88	0.380	13.81	11.06	0.310
Third Quarter.....	13.56	10.06	0.380	13.19	10.44	0.310
Fourth Quarter.....	11.00	6.25	0.380	11.56	9.44	0.310
Calendar 2000						
First Quarter.....	\$ 8.94	\$ 7.38	\$0.380	\$10.81	\$ 9.50	\$0.310
Second Quarter.....	11.06	8.38	0.380	11.50	10.16	0.310
Third Quarter.....	11.50	10.13	0.380	11.06	10.25	0.310
Fourth Quarter.....	11.81	10.56	0.380	11.16	9.81	0.315
Calendar 2001						
First Quarter.....	\$12.56	\$11.06	\$0.380	\$11.81	\$10.13	\$0.315
Second Quarter.....	13.85	12.05	0.380	14.25	11.50	0.315
Third Quarter.....	12.38	11.20	0.380	14.15	11.25	0.315
Fourth Quarter*.....	12.39	12.00	0.380	13.68	12.75	--

* Through October 9, 2001

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THE SPECIAL MEETING

GENERAL

This proxy statement-prospectus is being furnished to holders of Captec common stock in connection with the solicitation of proxies by Captec's board of directors for use at the special meeting to be held on Monday, November 19, 2001, 10:00 a.m., local time, at The Ritz-Carlton Hotel, 300 Town Center Drive, Fairlane Plaza, Dearborn, Michigan 48126, and at any adjournments or postponements of the special meeting. This proxy statement-prospectus, the attached notice of the special meeting and the accompanying proxy card are first being mailed to stockholders of Captec on or about October 12, 2001.

MATTERS TO BE CONSIDERED

At the special meeting, holders of record of shares of Captec common stock on October 9, 2001 will consider and vote upon:

- the merger of Captec with and into CNLR pursuant to which CNLR will be the surviving corporation and the separate corporate existence of Captec will terminate; and

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- such other business as may properly come before the special meeting or any adjournments or postponements of the special meeting.

RECOMMENDATIONS OF THE SPECIAL COMMITTEE AND THE BOARD OF DIRECTORS

Captec's board of directors, based, in part, on the unanimous recommendation of a special committee, has unanimously approved the merger and the merger agreement, having concluded that the merger and the merger agreement are fair to, and in the best interests of, Captec and its stockholders. Captec's board of directors unanimously recommends that stockholders vote for the merger.

RECORD DATE; SHARES ENTITLED TO BE VOTED; QUORUM

Captec's board of directors has fixed the close of business on October 9, 2001 as the record date for determining the holders of shares of Captec common stock who are entitled to notice of and to vote at the special meeting. As of the record date, 9,508,108 shares of Captec common stock were issued and outstanding and held of record by approximately 75 stockholders. The holders of record on the record date of shares of Captec common stock are entitled to one vote per share of Captec common stock. Pursuant to Captec's bylaws, the presence of the holders of shares representing a majority of the outstanding shares of Captec common stock entitled to be voted, whether in person or by properly executed proxy, is necessary to constitute a quorum for the transaction of business at the special meeting. Under Delaware law, abstentions and "broker non-votes," which are proxies from brokers or nominees indicating that such persons have not received instructions from the beneficial owner or other persons entitled to vote shares as to a matter with respect to which the brokers or nominees do not have discretionary power to vote, will be treated as present for purposes of determining the presence of a quorum.

PROXIES; PROXY SOLICITATION

Shares of Captec common stock represented by properly executed proxies received at or prior to the special meeting that have not been revoked will be voted at the special meeting in accordance with the instructions indicated on the proxies. Shares of Captec common stock represented by properly executed proxies for which no instruction is given will be voted for approval of the merger. Stockholders are requested to complete, sign, date and promptly return the enclosed proxy card in the postage-prepaid envelope provided for this purpose to ensure that their shares are voted. Failure to return your proxy card or vote at the special meeting will have the same effect as a vote against the merger.

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is voted. Proxies may be revoked by:

- filing with Captec's Secretary, at or before the taking of the vote at the special meeting, a written revocation bearing a later date than the proxy;

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- executing a later dated proxy relating to the same shares of Captec common stock and delivering it to Captec's secretary, including by facsimile, before the taking of the vote at the special meeting; or
- attending the special meeting and voting in person.

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Attendance at the special meeting will not, in and of itself, revoke a proxy. Any written revocation or subsequent proxy should be sent so as to be delivered to Captec Net Lease Realty, Inc., 24 Frank Lloyd Wright Drive, Lobby L, 4th Floor, Ann Arbor, Michigan 48106, Attention: Corporate Secretary, or hand delivered to Captec's secretary or his representative at or before the taking of the vote at the special meeting.

If the special meeting is postponed or adjourned, at any subsequent reconvening of the special meeting all proxies will be voted in the same manner as such proxies would have been voted at the original convening of the special meeting, except for any proxies that previously have been revoked or withdrawn effectively, and notwithstanding that they may have been effectively voted on the same or any other matter at a previous meeting. Proxies voting against the merger will not be voted for a proposal to adjourn the meeting to permit further solicitation of proxies.

Captec will bear the cost of soliciting proxies from its stockholders. Captec will pay Georgeson Shareholder Communications, Inc. a fee of \$20,000 plus reimbursement of out-of-pocket expenses for its services in soliciting the return of proxies. In addition to solicitation by mail, directors, officers and employees of Captec may solicit proxies by telephone, facsimile transmission, or otherwise. Directors, officers and employees of Captec will not be additionally compensated for any such solicitation, but may be reimbursed for out-of-pocket expenses incurred. Brokerage firms, fiduciaries and other custodians who forward soliciting material to the beneficial owners of Captec common stock held of record by them will be reimbursed for their reasonable expenses incurred in forwarding such material.

VOTE REQUIRED

Delaware law requires Captec to obtain stockholder approval of the merger by the affirmative vote of a majority of the outstanding shares of Captec common stock entitled to be voted on the merger. The affirmative vote of 4,754,055 shares of Captec common stock is required to approve the merger. If the stockholders approve the merger proposal and the transaction is subsequently challenged, Captec may be entitled under Delaware law to assert stockholder approval as a defense to such challenge.

As of July 2, 2001, Patrick L. Beach, Chairman of the Board of Directors, President and Chief Executive Officer of Captec, and W. Ross Martin, Executive Vice President, Chief Financial Officer and a director of Captec, in the aggregate exercised voting power with respect to 727,552 shares of Captec common stock, representing 7.65% of the issued and outstanding shares of Captec common stock on such date. Simultaneously with the execution of the merger agreement by Captec, Messrs. Beach and Martin executed and delivered to CNLR a stockholders agreement pursuant to which they agreed to vote all of the shares of Captec common stock beneficially owned by them at the time of the special meeting in favor of the merger. See "THE MERGER -- Stockholders Agreement" (p. 41).

In addition, as of the record date, Captec's directors and executive officers (including Messrs. Beach and Martin) in the aggregate exercised voting power with respect to 922,356 shares of Captec common stock, representing 9.7% of the issued and outstanding shares of Captec common stock. Captec anticipates that all directors and officers will vote their shares of Captec common stock in favor of the merger.

EFFECT OF ABSTENTIONS AND BROKER NON-VOTES

For purposes of determining approval of the proposals to be presented at

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the special meeting, abstentions and broker non-votes will be deemed present for purposes of determining the presence of a quorum and will have the same legal effect as a vote against the merger and any other business that may properly be voted on at the special meeting.

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THE MERGER

BACKGROUND

At a regular meeting on May 19, 2000, Captec's board of directors discussed engaging Prudential Securities Incorporated, then the financial advisor to Captec, to identify and analyze Captec's strategic options and alternatives to enhance stockholder value. Captec's board of directors discussed generally that:

- Captec had been and continued to be capital constrained, lacking both the debt and equity capital necessary to generate meaningful growth;
- given Captec's small size and other market conditions it could not reasonably be expected that these constraints could be eliminated or overcome in the foreseeable future;
- Captec's credit facility would be maturing in less than a year and then-current market conditions indicated that Captec would not be able to refinance the credit facility on nearly as favorable terms;
- Captec had derived little, if any, benefit from its successful joint venture investments in terms of improvements in its stock price and equity multiple; and
- Captec's board of directors continued to be concerned about the immediate and long-term impact of all of these factors on Captec's ability to maintain its dividend rate and to realize a share price indicative of a favorable equity multiple relative to the REIT market in general.

Following this discussion, a resolution was unanimously adopted authorizing the engagement of Prudential Securities for the purpose of conducting a study of strategic alternatives.

On June 29, 2000, Captec announced that it had retained Prudential Securities to study strategic alternatives to maximize Captec's value for stockholders, including continuation of operations, sale, merger and other alternatives.

At a September 19, 2000 meeting, Captec's board of directors received a presentation and written report from Prudential Securities analyzing the various alternatives available to Captec to maximize stockholder value.

Prudential Securities' report described that its representatives had met with Captec's management to discuss Captec's strategies, reviewed management's financial projections for Captec, its properties, joint ventures and other assets, discussed Captec's competitive position with Prudential Securities REIT research analysts, analyzed the current status and outlook for the net lease sector of the REIT market; assessed Captec's standing within the net lease sector and the REIT market generally, and analyzed recent transactions within the REIT sector.

Prudential Securities' report stated that:

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- Captec faced numerous challenges in the capital and real estate markets and these challenges would make it difficult to increase stockholder value;
- Captec traded at an equity multiple discount relative to both the net lease REIT sector and the overall REIT market;
- Captec's equity multiple discount reflected its small market capitalization, limited float, constrained capital capacity, externally advised structure, absence of research sponsorship and, more generally, the out-of-favor net lease sector;
- to enhance stockholder value, Captec would need to demonstrate significant, consistent and profitable growth over the foreseeable future;
- due to the inability of long-term net leases to generate significant internal growth, Captec would require additional capital to generate earnings growth through the accretive acquisition of assets;

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- Captec was unable to raise additional capital because:
 - issuing common stock would be extremely dilutive at current stock price and dividend levels;
 - issuing preferred stock was not an alternative for a small, non-investment grade REIT;
 - limited remaining debt capacity would make growth through additional leverage difficult; and
- Captec's financial constraints, coupled with market forces, would make it increasingly difficult for Captec to enhance stockholder value without a substantial transaction such as a merger or sale.

Prudential Securities reported that it had studied four strategic alternatives:

- maintaining Captec as an independent, public REIT;
- merging or combining with another REIT in a stock-for-stock transaction;
- selling all or substantially all of Captec's assets in a single transaction; and
- liquidating Captec.

The Prudential Securities report concluded that:

- maintaining Captec's existing strategy would fail to maximize stockholder value;
- a protracted liquidation process is complex and unusual for a public company, would be costly and subject to substantial risks that are financially immeasurable, and would not be reasonably likely to result in any greater value to the stockholders irrespective of those risks; and
- stockholder value would most likely be maximized through an asset sale or

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merger, each of which could be pursued through a common process.

Prudential Securities' report also noted the possibility that Captec management might have interests in certain possible strategic transactions that could be different from, or in addition to, the interests of Captec's stockholders generally, and that could create potential conflicts of interest. Mr. Beach acknowledged that he had advised Prudential Securities that management could have an interest in pursuing a strategic transaction with Captec. As a result of these discussions, Captec's board of directors established the special committee to assist it in conducting a process to solicit expressions of interest for the potential sale of Captec or its assets, to determine if any potential transaction would be in the best interests of Captec and its public stockholders, to negotiate the terms of any potential transaction, to consider the fairness of the consideration to be received in any potential transaction and to recommend whether the Captec board of directors should approve any potential transaction. The special committee initially was comprised of Richard J. Peters (Chairman), Lee C. Howley, William H. Krul, III and William J. Chadwick, all of whom are independent directors not employed by or otherwise affiliated with Captec. Mr. Chadwick subsequently decided not to serve on the special committee.

Thereafter, the special committee began to negotiate with Prudential Securities with respect to the possible selection of Prudential Securities as the special committee's financial advisor. On October 28, 2000, prior to the completion of those negotiations, Prudential Securities announced that it was curtailing its investment banking business. That announcement did not clearly indicate Prudential Securities' intentions with respect to its real estate financial advisory business, but the special committee became concerned at that time about the ability of Prudential Securities to serve as its financial advisor. During November 2000, it became increasingly clear that Prudential Securities intended to reduce significantly its real estate financial advisory group. As a result, the special committee determined that it needed to interview other financial advisors. These events delayed the special committee's efforts to pursue a possible sale of Captec.

At a meeting on December 6, 2000, the special committee interviewed UBS Warburg LLC. Following the interview, the special committee requested Mr. Peters to solicit an engagement proposal from UBS Warburg.

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On January 4, 2001, the special committee met and authorized the retention of Morris, Nichols, Arsht & Tunnell as its counsel.

On January 9, 2001, the special committee formally retained UBS Warburg.

On January 12, 2001, the special committee met to discuss with UBS Warburg the procedures for the sale of Captec and to review the confidential information memorandum to be prepared by UBS Warburg and Captec management.

With the assistance of UBS Warburg, the special committee established a process for the solicitation of interested buyers that was designed to attract the broadest array of interested parties by allowing them to submit preliminary, non-binding indications of interest without conducting any due diligence. It was expected that this procedure, while enabling the special committee to consider the greatest number of interested parties, would also result in a significant number of parties expressing interest and subsequently "dropping out" during the due diligence phase. The special committee believed that proceeding in this manner would maximize the likelihood of receiving an acceptable bid that was fair to Captec's stockholders.

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Between late January and late February 2001, UBS Warburg contacted over 50 parties it had identified as potentially having an interest in receiving the confidential information memorandum concerning Captec. Those parties included both potential strategic and financial buyers. Parties who received the confidential information memorandum were requested to submit non-binding indications of interest by February 16, 2001. Twenty-eight parties received the confidential information memorandum after signing confidentiality agreements.

In connection with Captec's solicitation of offers, CNLR requested that UBS Warburg distribute a confidential information memorandum to CNLR in January 2001.

On January 12, 2001, CNLR and Captec entered into a confidentiality agreement.

On January 23, 2001, Captec publicly announced that the special committee had retained UBS Warburg as its financial advisor in connection with a possible sale of Captec.

The special committee established February 16, 2001 as the deadline for the submission of non-binding indications of interest. Of those 28 parties who received the confidential information memorandum, seven submitted written, non-binding indications of interest by February 16, 2001 which are summarized below:

	PRELIMINARY INDICATION OF INTEREST (\$/SHARE)

1.....	6.48
2.....	12.16 -- 13.74
3.....	13.67 -- 14.09
4.....	13.00 -- 15.00
5.....	5.85
6.....	9.00 -- 10.50
7.....	10.94 -- 12.51

On February 22, 2001, the special committee met to review the indications of interest and invited four parties (2, 3, 4 and 7), one of which was CNLR, to participate in the second round of the sale process, which involved due diligence, visits to Captec and management meetings.

On February 27, 2001, Captec announced that it had successfully negotiated and closed an extension to its credit facility, which otherwise would have expired on February 28, 2001, for up to nine months. As a result of the extension, interest rates on the credit facility immediately increased from a range of LIBOR plus 1.50% to LIBOR plus 1.75%, depending upon certain leverage ratios to a new range of LIBOR plus 2.25% to LIBOR plus 2.50%, increasing an additional 50 basis points for the last three months of the facility.

On March 6, 2001, the special committee met to review the status of the sale process and to review an indication of interest submitted by another potential bidder which had submitted a non-binding indication of interest of \$12.00 to \$13.00 per share after the February 16, 2001 deadline. The special committee elected to invite this party into the second round of the sale process.

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Through March 2001, four parties that had been invited to participate in the second round of the sale process visited Captec's offices, met with management and conducted due diligence.

On March 13, 2001, Gary M. Ralston, President and Chief Operating Officer of CNLR, and Kevin B. Habicht, Executive Vice President and Chief Financial Officer of CNLR, Mr. Beach and Mr. Martin, as well as various representatives of both parties, including their respective financial advisors and CNLR's legal counsel, conducted a management meeting as part of the second round of the sales process.

On March 16, 2001, CNLR received a draft merger agreement with instructions that CNLR's bid would be evaluated on the basis of many factors, including the nature and extent of CNLR's requested changes to the draft merger agreement. At or about the same time these materials also were transmitted to the other interested parties.

At a meeting on March 19, 2001, held to review the status of the sale process, the special committee was advised by UBS Warburg that, during management meetings with parties conducting due diligence, Captec Financial Group, Inc., an affiliate of Captec controlled by Messrs. Beach, Martin and H. Reid Sherard, a director and Senior Vice President-Sales & Marketing of Captec, had advised UBS Warburg and prospective bidders that, while it intended to continue to make interest payments when due, its financial condition would not permit it to repay the \$9.6 million outstanding balance due under the demand loan with Captec were a demand for payment made. The special committee discussed with counsel and UBS Warburg the terms of the Financial Group note, including Financial Group's right under the note to borrow up to \$25.0 million from Captec, Captec's right to demand repayment of the note at any time, the 10.0% interest rate, and the security for the note. The special committee observed that the Financial Group note had been in place prior to Captec's initial public offering in 1997, had been disclosed in Captec's prospectus for its initial public offering and subsequent SEC filings and that Financial Group had repaid to Captec approximately \$11.5 million of the outstanding principal balance of the Financial Group note since Captec's initial public offering in November, 1997.

On March 19 and March 20, 2001, legal and financial representatives of CNLR conducted initial due diligence at Captec's principal offices in Ann Arbor, Michigan, at which time CNLR representatives were given the opportunity to inspect Captec's books and records and ask questions of its management and UBS Warburg.

On March 26, 2001, the special committee met to review the status of the sales process. The special committee was advised that two of the interested parties that had been invited into the second round of the sales process had withdrawn. Another party had submitted a non-binding indication of interest of \$12.50 per share, and the special committee elected to invite that party to participate in the second round. The special committee then discussed further the Financial Group note. After reviewing again the terms and background of the Financial Group note, the special committee was advised that, at the beginning of the sales process, it had been Financial Group's intention to engage in a financing transaction that Financial Group expected would permit it to repay the Financial Group note. Due to adverse changes in the securitization markets in which Financial Group operates, such a transaction was not currently feasible and Financial Group had advised Captec that it would not be able to repay the Financial Group note were a demand for payment made. Representatives of Financial Group had advised UBS Warburg that, in the context of the sale of Captec, Financial Group might be willing to negotiate the terms of the repayment of the Financial Group note with a prospective purchaser. The special committee discussed the effect of the Financial Group note and Financial Group's financial

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condition on the amount interested parties might be willing to pay for Captec. The special committee then reviewed the terms of Captec's interests in various joint ventures. UBS Warburg advised the special committee that, given the nature of these assets, prospective purchasers were ascribing little or no value to the Financial Group note and Captec's interest in the joint ventures.

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The special committee established April 18, 2001 as the deadline for the submission of definitive bids. Bidders were requested to submit written proposals and a markup of the form of merger agreement that had been supplied to prospective bidders. One bidder submitted a bid letter, without a markup of the merger agreement, with a price of less than \$10.00 per share, consisting mostly of cash and some preferred stock. The bidder proposed numerous contingencies and complications that the special committee believed made the completion of the proposed transaction unlikely. CNLR submitted a bid which would result in Captec's stockholders receiving a combination of cash, preferred stock and common stock. Under CNLR's proposal, a portion of the consideration to be received by Captec's stockholders would have been obtained as a result of the sale by Captec of interests in certain affiliated ventures and the Financial Group note to a third party, and the distribution of the proceeds thereof to Captec's stockholders. CNLR's bid was conditioned upon Captec locating a third party purchaser for the excluded assets and negotiating the sale of the excluded assets to that purchaser. CNLR's bid letter assumed the excluded assets would be sold for \$16,639,189 or \$1.75 per share of Captec common stock. CNLR's bid included a markup of the draft merger agreement. No other definitive bids were submitted.

Pursuant to the first written offer from CNLR, Captec's stockholders would have received aggregate consideration as a result of the merger equal to \$10.50 per share (excluding the value of any proceeds from the sale of the excluded assets), the composition of which would have been as follows:

- 4,200,000 shares of CNLR common stock, equivalent to \$5.35 per share of Captec common stock (based on CNLR's closing common stock price on April 17, 2001);
- 1,800,000 shares of CNLR Series A Non-Voting Preferred Stock, equivalent to \$4.73 per share of Captec common stock (based on a stated value of \$25.00 per preferred share); and
- \$4,015,134 in cash, equivalent to \$0.42 per share of Captec common stock.

Based on the foregoing, the aggregate consideration to be received by Captec's stockholders was \$10.50 per share plus whatever proceeds could be realized from the sale of the excluded assets.

The special committee concluded the CNLR bid was the superior of the two bids. The special committee noted that CNLR's bid, at its face value, and assuming that \$1.75 per share could be realized from the excluded asset sale, was nonetheless below the price at which the Captec common stock recently had traded and discussed whether it was advisable to proceed with the sale process under these circumstances. The special committee reviewed with UBS Warburg the strategic issues facing Captec, including the strong likelihood that Captec would need to reduce the dividend on its common stock if Captec were not sold because, among other things, Captec's credit facility would expire on August 31, 2001 subject only to a one-time three month extension. Given Captec's prospects and the current financial market, the special committee determined that Captec's ability to obtain a new credit facility on reasonably acceptable terms was doubtful. The special committee discussed that, based upon Captec's relatively

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high dividend rate, Captec would be unable to generate funds internally to fund growth. The special committee discussed the substantial likelihood that if, as a result of these factors, Captec were to reduce its dividend rate, its stock price would fall significantly. The special committee also discussed with UBS Warburg the disparity between the private market value of Captec as indicated by the results of the sales process and the trading price of Captec common stock. The special committee noted that, prior to the September 28, 2000 announcement concerning the sale of Captec, Captec common stock traded in the range of \$8.00 to \$10.00 per share and that the trading volume in the Captec common stock subsequent to September 28, 2000 had been light. Based on all of these factors, the special committee determined that it was advisable to continue to pursue a transaction with CNLR.

The special committee then discussed the disposition of the excluded assets. The special committee believed, based on the nature of the excluded assets and the low valuations ascribed to them by third parties in the sales process, that it was highly unlikely that the excluded assets could be sold to a third party prior to the completion of a transaction with CNLR. The special committee reviewed with counsel the ability to place the excluded assets into a liquidating trust or other entity, the ownership interests in

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which would be transferred to Captec's stockholders. Given the nature and size of the excluded assets and the cost of maintaining such a vehicle, this option did not appear practicable to the special committee.

UBS Warburg advised the special committee that CNLR had suggested that it might be willing to loan funds to Mr. Beach to assist him in the purchase of the excluded assets. The special committee discussed with its advisors that, based on the results of the sales process, the excluded assets appeared to have a greater value to Mr. Beach than to any other potential acquiror and, therefore, Mr. Beach appeared to be the best possible purchaser. On that basis, the special committee considered whether a sale of the excluded assets was feasible prior to entering into definitive discussions with CNLR. The special committee asked UBS Warburg to propose to CNLR a three-way meeting between representatives of the special committee, Mr. Beach and CNLR for the purpose of attempting to negotiate the sale of the excluded assets to Mr. Beach on terms acceptable to the special committee. Mr. Peters was asked to contact Mr. Beach to ask him to participate in these discussions. The special committee decided not to enter into an exclusivity arrangement requested by CNLR until resolution of the issue of the disposition of the excluded assets. The special committee also requested UBS Warburg to seek to improve the other financial terms of CNLR's offer.

On May 2, 2001, Messrs. Beach and Martin and other Captec representatives, including UBS Warburg, met with Mr. Ralston and other CNLR representatives in Denver, Colorado to discuss CNLR's first written offer and the excluded asset sale. The parties reiterated their interest in pursuing a merger and exchanged information, including short-term and long-term business objectives. Subsequent to this meeting, the parties agreed that the excluded assets would be sold to an entity controlled by Mr. Beach for a purchase price of \$7.5 million in cash. CNLR also agreed to loan the purchaser \$6.75 million to be used to pay a portion of the purchase price of the excluded assets. The loan would be collateralized in part by the excluded assets and \$1.0 million of the merger consideration to be received by Mr. Beach.

As a result of CNLR's additional due diligence and negotiations with Captec's senior management and UBS Warburg acting on behalf of the special committee, CNLR submitted a revised written offer on May 14, 2001. Under the revised offer, CNLR agreed to increase the number of shares of CNLR common stock and preferred stock to be included in the merger consideration and the amount of

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assets subject to the excluded asset sale was reduced. Pursuant to the revised written offer, Captec's stockholders would have received aggregate consideration as a result of the merger equal to \$11.46 per share, (excluding the value of any proceeds from the sale of the excluded assets), and the composition of which would have been as follows:

- 4,350,000 shares of CNLR common stock, equivalent to \$5.72 per share of Captec common stock (based on CNLR's closing common stock price on May 11, 2001);
- 2,000,000 shares of CNLR preferred stock, equivalent to \$5.26 per share of Captec common stock (based on a stated value of \$25.00 per preferred share); and
- \$4,599,000 in cash, equivalent to \$.48 per share of Captec common stock.

The revised offer also provided for the sale of the excluded assets for \$7.5 million, or the equivalent of \$0.79 per share of Captec common stock, and further, that such amount would be paid in cash to Captec stockholders in conjunction with the merger. Including the distribution to Captec stockholders of the proceeds of the sale of the excluded assets, the total value of the consideration to be received by Captec's stockholders was \$12.25 per share.

On May 15, 2001, the special committee met to receive a report from UBS Warburg on the negotiations with CNLR. UBS Warburg described to the special committee the improved financial terms of the offer from CNLR as well as the terms of the excluded asset sale and the loan CNLR would make in connection with that sale. The special committee discussed the \$21.0 million aggregate book value of the excluded assets and that parties who participated in the second round of the sales process had ascribed little or no value to them. The special committee again discussed the lack of interest by potential purchasers in Captec's various joint venture interests. The special committee discussed the possibility of

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transferring the excluded assets to a liquidating trust or other entity as an alternative to the sale but concluded that this option was not practicable.

The special committee also reviewed a revised non-binding indication of interest from a party that previously had offered \$9.00 to \$10.50 per share. This revised non-binding indication of interest was for between \$9.70 and \$11.20 per share in cash for each share of Captec common stock. The special committee discussed the value of this non-binding indication of interest as compared with the terms of the revised offer from CNLR and that, unlike CNLR, the bidder had not conducted due diligence. The special committee discussed that other bidders had withdrawn from the process or reduced their bids during the due diligence process. The special committee concluded that the opportunity to achieve the best overall value would be maximized by negotiating exclusively with CNLR.

The special committee thereafter authorized Captec to enter into a thirty-day exclusivity agreement with CNLR, which subsequently was extended an additional week.

By letter dated May 21, 2001, the special committee granted CNLR a thirty-day exclusivity period for the purpose of conducting additional due diligence and negotiating a definitive agreement.

On May 30, 2001, the CNLR board of directors and representatives of its financial advisor and legal counsel met in Orlando, Florida to discuss the status of the merger transaction.

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By letter dated May 31, 2001, UBS Warburg received another revision to the non-binding indication of interest from the party that had previously submitted a proposal for a transaction at \$9.00 and \$10.50 per share, and that had subsequently revised its proposal to \$9.70 and \$11.20 per share and discussed by the special committee at its meeting on May 15, 2001. This letter proposed an alternate structure involving a merger between Captec and two affiliates of the party submitting the letter, both of which were private companies that owned triple net lease assets. As described in the letter, Captec's stockholders would own 49.9% of the merged entity and Captec stockholders would have the option to receive cash for up to 30.0% of their shares at a price of \$12.00 per share or to retain an equity interest in the merged entity. The letter assigned a stated value to Captec's common stock of \$12.00 per share, based on a number of assumptions and a specified valuation formula and was submitted without the benefit of due diligence. The letter specifically provided for a longer due diligence period than this party's prior proposal. Captec was precluded from responding to this new proposal under the terms of Captec's exclusivity letter with CNLR.

By letter dated June 1, 2001, counsel to the special committee informed CNLR at the request of the special committee and pursuant to the May 21, 2001 exclusivity letter between the parties, of Captec's receipt of a proposal from another party for a sale transaction.

Throughout June 2001, the parties and their representatives negotiated a definitive merger agreement and related agreements, including a stockholders agreement and irrevocable proxy, an asset purchase agreement and a loan agreement relating to the excluded assets sale.

On June 4, 2001, the special committee met with its financial advisor and legal counsel to discuss the status of negotiations with CNLR and negotiating strategy, including whether to attempt to obtain contractual protection for the value of the CNLR common stock to be issued in the merger.

On June 13, 2001, UBS Warburg conducted due diligence on CNLR including a management meeting and a tour of certain properties.

On June 18, 2001, Mr. Peters, together with counsel to the special committee, discussed with Mr. Martin the financial status of Financial Group and its inability to repay the Financial Group note if payment were demanded. Mr. Peters and special committee counsel also discussed with Mr. Martin the consequences of calling the Financial Group note, including that calling the Financial Group note would cause a default on the Financial Group note, which in turn would constitute an event of default under Captec's credit facility. Mr. Peters reviewed with Mr. Martin the nature of the excluded assets and the expected income and returns to Captec from those assets. Mr. Martin noted in this conversation that approximately \$1.9 million in annual income to Captec attributable to management agreements with Family Realty, Inc. and Family Realty II, Inc., which are affiliates of Mr. Beach, is not assured to Captec

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because the contracts are terminable without penalty on 90 days notice at the option of Mr. Beach. Mr. Martin was asked if it would be reasonable for Captec to assume that the contracts would be terminated if Captec were not sold, and Mr. Martin replied that it would not be unreasonable for Captec to make that assumption. Mr. Martin also reviewed the status of FC Venture I, LLC, the co-venturers of which had the unilateral ability and had expressed a desire to begin liquidation of the venture. During this conversation, Mr. Peters sought, on behalf of the special committee, to increase the amount to be paid for the excluded assets. Mr. Martin observed that Mr. Beach was pledging his personal assets, both for the balance of the \$7.5 million purchase price and as

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additional security for the loan to be made by CNLR, and that he believed Mr. Beach was unwilling to pay more for these assets. Mr. Peters subsequently confirmed this position with Mr. Beach.

On June 21, 2001, the special committee met to review the terms of the merger agreement and asset purchase agreement. The special committee agreed to extend the exclusivity period with CNLR through June 29, 2001. Thereafter, Captec's board of directors met to receive from special committee counsel and UBS Warburg a presentation concerning the contemplated transaction and UBS Warburg's preliminary analysis of financial aspects of the transaction. During this presentation, Captec's board of directors reviewed the same strategic issues facing Captec that the special committee considered at its April 13, 2001 meeting and heard a report from the special committee on its efforts to obtain an increase in the purchase price for the excluded assets.

During the meeting, Captec's board of directors requested a variety of materials to review prior to its next meeting. The purpose of this request was to provide Captec's board of directors information to review and allow them time to consider the various actions taken and the resulting facts and findings that arose out of the analysis of strategic alternatives, the process of pursuing a sale of Captec and the negotiation of the proposed merger transaction.

Following the June 21, 2001 meeting, materials were sent to Captec's board of directors including:

- a draft chronology of the special committee's activities;
- copies of draft minutes of meetings of the special committee;
- a copy of the September 19, 2000 report on strategic alternatives from Prudential Securities;
- the December 31, 2000 balance sheet of Financial Group;
- a description of the Financial Group note and the joint venture interests comprising the excluded assets, including their book value;
- drafts of the transaction documents, together with summaries thereof; and
- draft presentation materials prepared by UBS Warburg.

On June 25, 2001, Captec and CNLR agreed to extend the exclusivity period through June 29, 2001.

On or about June 23, 2001, the parties were advised that the purchaser of the excluded assets would be a newly created entity owned solely by Mr. Beach in which Mr. Martin would have the option, but not the obligation, to invest at a later time.

On June 28, 2001, Captec's board of directors met to review the relevant transaction documents and to receive presentations from counsel concerning the transaction documents and from UBS Warburg concerning its financial analysis. During a recess, the special committee met and determined to report to Captec's board of directors that, subject to the resolution of certain pending issues concerning the merger agreement and the receipt of UBS Warburg's fairness opinion, it was prepared to recommend to Captec's board of directors that the transactions be approved. The special committee advised Captec's board of directors of this when the meeting reconvened, and the meeting was adjourned until the evening of July 1, 2001.

On June 28, 2001, CNLR's board of directors met to discuss and consider, and consequently unanimously approved, the merger.

Throughout the weekend of June 30, 2001, the parties and their respective legal counsel negotiated the remaining terms of the merger agreement, the asset purchase agreement and the loan agreement.

On July 1, 2001, the June 28, 2001 meeting of Captec's board of directors reconvened. Counsel and management reported on the resolution of the issues that had been open following adjournment on June 28, 2001. UBS Warburg advised that it was prepared to deliver to the special committee its opinion that the merger consideration to be received by Captec's stockholders in the merger was fair to Captec's stockholders from a financial point of view as of July 1, 2001. The special committee made its unanimous recommendation to Captec's board of directors that it approve the merger agreement and the asset purchase agreement for the excluded assets sale. Following the recommendation of the special committee, Captec's board of directors unanimously approved the merger agreement and the asset purchase agreement.

The parties executed the definitive agreement and plan of merger, the asset purchase agreement and the loan agreement on July 1, 2001.

On July 2, 2001, Captec and CNLR each issued press releases concerning the execution of the merger agreement and management for both CNLR and Captec held conference calls to review the transaction and answer stockholder questions.

CAPTEC'S REASONS FOR THE MERGER

In making the determination and recommendation described above, the special committee considered various factors, including:

- Captec's business, current financial condition, results of operations, future prospects, and the historical trading range and volume of Captec common stock;
- the September 19, 2000 presentation of Prudential Securities to Captec's board of directors of Captec's strategic alternatives;
- Captec's inability to raise additional debt or equity capital on an accretive basis and its deteriorating prospects for being able to obtain additional capital in the future;
- CNLR's greater ability to raise capital following the merger due to its investment grade credit rating and significantly larger market capitalization;
- Captec's relatively small market capitalization;
- Captec's status as an externally advised REIT;
- Captec's high dividend payout ratio, which leaves it with little internally generated funds for growth;
- Captec's limited growth potential due to its lack of access to additional capital and the resulting potential adverse effect on the price of the Captec common stock;
- the expiration of Captec's credit facility in August, 2001, subject to a one-time, three month extension and the uncertainties related to Captec's ability to refinance that indebtedness on acceptable terms;
- the likelihood that if Captec were not sold, it would have to

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significantly reduce its dividend rate and the expected adverse effect such a reduction would have on the price of the Captec common stock;

- the greater size, property diversification, and market capitalization of CNLR which, following the merger, will be the second largest REIT in the net lease sector;
- CNLR's historical performance, including CNLR's lower dividend payout ratio and that, over the past 11 consecutive years, CNLR had paid increasing dividends to its stockholders;

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- the extensive solicitation process conducted by the special committee and UBS Warburg involving, the public announcement of the process, contacts with over 50 potentially interested parties, the review of confidential information by 28 parties, the receipt of nine non-binding indications of interest, the invitation to six parties to conduct due diligence, the conduct of due diligence by four parties and the receipt of two definitive proposals to acquire Captec;
- CNLR's proposal being substantially higher than that of the other party submitting a definitive proposal;
- that the value of the merger consideration as of July 1, 2001, represented a premium of 19.4% over the \$10.75 price per share of Captec common stock on September 27, 2000, the date one day prior to the date on which Captec announced that it would pursue a sale of the company;
- the special committee's belief that, given the extensive sales process, Captec was unlikely to receive an acquisition proposal that was superior to CNLR's proposal;
- the fairness opinion of UBS Warburg, dated July 1, 2001, to the effect that, as of that date, the merger consideration to be received by Captec stockholders in the merger was fair to Captec's stockholders from a financial point of view;
- the terms and conditions of the merger agreement, including terms which enable Captec's board of directors to review and evaluate and, under stated circumstances, accept a higher proposal, subject to its obligations to pay a \$5.0 million termination fee;
- Captec's right under the merger agreement to continue to pay its regularly scheduled quarterly dividend until completion of the merger, including a prorated dividend for the period ending immediately before the effective time of the merger;
- the other terms and conditions of the merger agreement;
- the availability to Captec's stoc