

COMMERCIAL NET LEASE REALTY INC

Form PRE 14A

May 14, 2004

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a)

OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (as Permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-12

COMMERCIAL NET LEASE REALTY, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statements, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

COMMERCIAL NET LEASE REALTY, INC.

450 South Orange Avenue, Suite 900

Orlando, Florida 32801

Tel: 407-265-7348

June 9, 2004

To Our Stockholders:

You are cordially invited to attend the annual meeting of stockholders of Commercial Net Lease Realty, Inc. (the Company) on August 5, 2004 at 10:00 a.m., at 450 South Orange Avenue, Suite 900, Orlando, Florida 32801. Our directors and officers look forward to greeting you personally. Enclosed for your review are the Proxy, Proxy Statement and Notice of Meeting for the Annual Meeting of Stockholders, which describe the business to be conducted at the meeting. At the meeting, we will also report on matters of current interest to our stockholders.

At the annual meeting you will be asked to vote to elect the Company s directors and to vote on five additional proposals. The Company considers these proposals important to facilitating its corporate governance and enhancing its future growth. In order to ensure that it had adequate time to prepare these proposals, the Company chose to hold the annual meeting on a date later than that on which it traditionally holds its annual meetings. The Company thanks you for your patience in the delay and appreciates your careful consideration of each of the proposals.

Whether you own a few or many shares of stock of the Company, it is important that your shares be represented. If you cannot personally attend the meeting, we encourage you to make certain you are represented at the meeting by signing and dating the accompanying proxy card and promptly returning it in the enclosed envelope. You may also vote either by telephone (1-800-690-6903) or on the Internet (<http://www.proxyvote.com>). Returning your proxy card, voting by telephone or voting on the Internet will not prevent you from voting in person, but will assure that your vote will be counted if you are unable to attend the meeting.

/s/ JAMES M. SENEFF, JR.

James M. Seneff, Jr.
Chairman of the Board

Sincerely,
/s/ JULIAN E. WHITEHURST

Julian E. Whitehurst
*Executive Vice President,
General Counsel and Secretary*

COMMERCIAL NET LEASE REALTY, INC.

450 South Orange Avenue, Suite 900

Orlando, Florida 32801

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held August 5, 2004**

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of **COMMERCIAL NET LEASE REALTY, INC.** will be held at 10:00 a.m. local time, on August 5, 2004, at 450 South Orange Avenue, Suite 900, Orlando, Florida 32801, for the following purposes:

1. To elect nine directors;
2. To approve an amendment to our articles of incorporation, which we also refer to as our charter, to eliminate supermajority voting requirements for the stockholders to approve certain transactions;
3. To approve an amendment to our charter to permit the Board of Directors to increase the number of authorized shares of common stock;
4. To approve an amendment to our bylaws to conform the definition of independent director to recently adopted corporate governance rules in accordance with current best practices in corporate governance;
5. To approve an amendment to our bylaws to modify the procedure for filling vacancies on the board of directors in accordance with current best practices in corporate governance;
6. To approve an amendment to our bylaws to modify the requirements for stockholder approval of amendments to the bylaws in accordance with current best practices in corporate governance; and
7. To transact such other business as may properly come before the meeting or any adjournment thereof.

Stockholders of record at the close of business on June 2, 2004, will be entitled to notice of and to vote at the annual meeting or at any adjournment thereof.

Stockholders are cordially invited to attend the meeting in person. **PLEASE VOTE, EVEN IF YOU PLAN TO ATTEND THE MEETING, BY COMPLETING, SIGNING AND RETURNING THE ENCLOSED PROXY CARD, BY TELEPHONE (1-800-690-6903) OR ON THE INTERNET (<http://www.proxyvote.com>) BY FOLLOWING THE INSTRUCTIONS ON YOUR PROXY CARD.** If you decide to attend the meeting you may revoke your Proxy and vote your shares in person. It is important that your shares be voted.

By Order of the Board of Directors,

/s/ JULIAN E. WHITEHURST

Julian E. Whitehurst
Secretary

June 9, 2004

Orlando, Florida

COMMERCIAL NET LEASE REALTY, INC.

450 South Orange Avenue, Suite 900
Orlando, Florida 32801
Tel: 407-265-7348

PROXY STATEMENT

General. This Proxy Statement is furnished by the Board of Directors of Commercial Net Lease Realty, Inc. (the Company) in connection with the solicitation by the Board of Directors of proxies to be voted at the annual meeting of stockholders to be held on August 5, 2004, and at any adjournment thereof, for the purposes set forth in the accompanying notice of such meeting. All stockholders of record at the close of business on June 2, 2004 (the Record Date) will be entitled to vote.

Voting/Revocation of Proxy. If you complete and properly sign and mail the accompanying proxy card, it will be voted as you direct. If you are a registered shareholder and attend the meeting, you may deliver your completed proxy card in person. Street name shareholders who wish to vote at the meeting will need to obtain a proxy from the institution that holds their shares.

If you are a registered shareholder, you may vote by telephone (1-800-690-6903), or electronically through the Internet (<http://www.proxyvote.com>), by following the instructions included with your proxy card. If your shares are held in street name, please check your proxy card or contact your broker or nominee to determine whether you will be able to vote by telephone or electronically.

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

Vote Required for Approval; Quorum. The nine nominees for director who receive the most votes will be elected. If you indicate withhold authority to vote for a particular nominee by entering the number of any nominee (as designated on the proxy card) below the pertinent instruction on the proxy card, your vote will not count either for or against the nominee. The amendments to our charter and bylaws will be approved by the affirmative vote of the holders of at least two-thirds of the outstanding shares present (in person or represented by proxy) at the annual meeting. As of the Record Date, [] shares of the common stock of the Company (the Common Stock) were outstanding. Each share of Common Stock entitles the holder thereof to one vote on each of the matters to be voted upon at the annual meeting. As of the Record Date, our executive officers and directors had the power to vote approximately []% of the outstanding shares of Common Stock. Our executive officers and directors have advised us that they intend to vote their shares of Common Stock **FOR** each of the proposals contained herein.

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

present and entitled to vote with respect to such matter. Broker non-votes with respect to the election of directors will have no effect on the outcome of the vote on this proposal. Broker non-votes with respect to the amendments to our charter and bylaws will have the effect of votes cast against the proposal.

YOUR VOTE AT THE ANNUAL MEETING IS VERY IMPORTANT TO US.

Solicitation of Proxies. Solicitation of proxies will be primarily by mail. However, our directors and officers may also solicit proxies by telephone or telegram or in person. All of the expenses of soliciting proxies, including preparing, assembling, printing and mailing the materials used in the solicitation of proxies, will be paid by us. Arrangements may be made with brokerage houses and other custodians, nominees and fiduciaries to forward soliciting materials, at our expense, to the beneficial owners of shares held of record by such persons. In addition, we have engaged Morrow & Company, Inc. to assist in the solicitation of proxies. We anticipate that we will incur total fees of \$10,000.00, plus \$5.00 per phone call and reasonable out-of-pocket expenses. It is anticipated that this Proxy Statement and the enclosed Proxy will be mailed to stockholders on or about June 10, 2004.

TABLE OF CONTENTS

PROPOSAL I: ELECTION OF DIRECTORS	
3	
Nominees	
3	
Corporate Governance	
7	
Audit Committee	
8	
Governance and Nominating Committee	
9	
Compensation Committee	
9	
Code of Business Conduct	
10	
Compensation of Directors	
10	
Executive Officers	
10	
Other Officers	
11	
AUDIT COMMITTEE REPORT	
15	
EXECUTIVE COMPENSATION	
18	
Executive Compensation Tables	
18	
Employment Agreements	
20	
Equity Compensation Plan Information	
21	
COMPENSATION COMMITTEE REPORT	
21	
PERFORMANCE GRAPH	
23	
PROPOSAL II	
24	
PROPOSAL III	
25	
PROPOSAL IV	
26	
PROPOSAL V	
28	
PROPOSAL VI	
29	
SECURITY OWNERSHIP	

30	Section 16(a) Beneficial Ownership Reporting Compliance
32	CERTAIN TRANSACTIONS
32	INDEPENDENT AUDITORS
34	OTHER MATTERS
34	PROPOSALS FOR NEXT ANNUAL MEETING
35	ANNUAL REPORT
35	ANNEX
A	COMMERCIAL NET LEASE REALTY, INC. AUDIT COMMITTEE CHARTER

PROPOSAL I

ELECTION OF DIRECTORS

Nominees

The persons named below have been nominated by the Board of Directors of the Company (the Board of Directors or the Board) for election as directors to serve until the next annual meeting of stockholders or until their successors shall have been elected and qualified. The table sets forth each nominee's name, age, principal occupation or employment during at least the last five years, and directorships in other public corporations.

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

Name and Age	Background
Robert A. Bourne, 56	<p>Mr. Bourne has served as Vice Chairman of the Board since February 1996 and a director since 1992. Previously, Mr. Bourne served as Secretary and Treasurer of the Company from February 1996 through December 31, 1997, and as President of the Company from July 1992 until February 1996. Mr. Bourne also served as Vice Chairman of the Board, Secretary and Treasurer of CNL Realty Advisors, Inc. (the external advisor of the Company from July 1992 through December 31, 1997, the Advisor) from February 1996 until December 1997 and as President and a director of the Advisor from 1991 until February 1996. On January 1, 1998, the Advisor merged into a wholly-owned subsidiary of the Company which resulted in the Company becoming a self-administered and self-managed real estate investment trust. Mr. Bourne has served as a director of CNL Restaurant Properties, Inc. (f/k/a CNL American Properties Fund, Inc.), a public, unlisted real estate investment trust, since May 1994. He also served as President of CNL Restaurant Properties, Inc. from May 1994 to February 1999, and as Treasurer from February 1999 through August 1999, and from May 1994 through December 1994. Mr. Bourne has also served as President, Vice Chairman of the Board and as a director of CNL Hospitality Properties, Inc. from June 1996 to February 2003, and from June 2003 to present, and as a director of CNL Retirement Properties, Inc. since December 1997 and was President from March 1998 to June 2002, both of which are public, unlisted real estate investment trusts. Mr. Bourne also serves as President and Treasurer of CNL Financial Group, Inc. (CNL Group), a privately held, diversified real estate company engaged in the principal business of real estate finance. In addition, Mr. Bourne is President, Treasurer, a director and a registered principal of CNL Securities Corp., President, Treasurer and a director of CNL Investment Company, President of CNL Realty Corporation and Chief Investment Officer, Treasurer, director and, until July 1997, also served as President of CNL Fund Advisors, Inc. (f/k/a CNL Institutional Advisors, Inc.), a registered investment advisor. All of the entities discussed in the preceding sentence are engaged in the principal business of real estate finance as affiliates of CNL Group. Mr. Bourne also serves as a director of CNLBank, a Florida state-chartered community bank. Since joining CNL Group in 1979, Mr. Bourne has been active in the acquisition, development and management of real estate projects throughout the United States. Mr. Bourne formerly was a Certified Public Accountant with Coopers & Lybrand.</p>

Name and Age	Background
Kevin B. Habicht, 45	<p>Mr. Habicht has served as a director of the Company from June 2000 to the present, as Executive Vice President and Chief Financial Officer of the Company since December 1993 and as Treasurer of the Company since January 1998. Mr. Habicht served as Secretary of the Company from January 1998 to May 2003. Since May 1999, Mr. Habicht has served as Executive Vice President and director of Commercial Net Lease Realty Services, Inc. (Services), a 98.7% owned, non-controlled taxable subsidiary of the Company. Mr. Habicht previously served as Assistant Secretary of the Company from December 1993 through December 1997, as Vice President of the Company from July 1992 through December 1993, as Assistant Secretary of the Advisor from December 1993 through December 1997, and as Vice President of the Advisor from its inception in 1991 through December 1993. Since 2000, Mr. Habicht has been a director of CNL Commercial Finance, Inc. (Finance), a commercial real estate lending company. From 1983 to 1997, Mr. Habicht served as a senior officer of various affiliates of CNL Financial Group, Inc. Prior to 1983, Mr. Habicht, a Certified Public Accountant and a Chartered Financial Analyst, was employed by Coopers & Lybrand, Certified Public Accountants. Mr. Habicht is the brother-in-law of James M. Seneff, Jr., a director and Chairman of the Board of the Company.</p>
Clifford R. Hinkle, 55	<p>Mr. Hinkle has served as a director of the Company since 1993. Since 1991, Mr. Hinkle has been a founder, director and executive officer of the Flagler companies and related companies, including Flagler Capital Corporation (1991-1998), and Flagler Holdings, Inc., a merchant banking company, of which Mr. Hinkle has been the Chairman and Chief Executive Officer since 1996. He was a director of Century Capital Markets, LLC, a private financial consulting company, from 1999 to 2002. Since 2000, Mr. Hinkle has been a Vice President and Director of Murphy Investment Management Company, a registered investment advisor. From 1996 to 2000, Mr. Hinkle was a director of Integrated Orthopaedics, Inc., an American Stock Exchange company, which owned orthopaedic physician practices and related facilities and was a director of Prime Succession, Inc., a private funeral services company. Additionally, Mr. Hinkle has served in the capacity as a director and Chief Executive Officer of MHI Group, Inc., a New York Stock Exchange company, until its acquisition by a subsidiary of The Loewen Group, and further as Executive Director and Chief Investment Officer of the State Board of Administration of Florida and managed over \$40 billion in various trust funds.</p>

Name and Age	Background
Richard B. Jennings, 60	Mr. Jennings has served as a director of the Company since 2000. Mr. Jennings currently serves as President of Realty Capital International Inc., a real estate investment banking firm, which he founded in 1991, as President of Jennings Securities LLC, a National Association of Securities Dealers, Inc. (NASD) member securities firm, which he founded in 1995, and as President of Realty Capital International LLC, a real estate investment banking firm, since 1999. From 1990 to 1991, Mr. Jennings served as Senior Vice President of Landauer Real Estate Counselors, and from 1986 to 1989, Mr. Jennings served as Managing Director Real Estate Finance at Drexel Burnham Lambert Incorporated. From 1969 to 1986, Mr. Jennings oversaw the real estate investment trust investment banking business at Goldman, Sachs & Co. During his tenure at Goldman, Sachs & Co., Mr. Jennings founded and managed the Mortgage Finance Group from 1979 to 1986. Mr. Jennings also serves as director of Alexandria Real Estate Equities, Inc. and as managing trustee of MBOP Liquidating Trust. He is a licensed NASD Principal and a New York Real Estate Broker.
Ted B. Lanier, 69	Mr. Lanier has served as a director of the Company since 1988. Mr. Lanier was the Chief Executive Officer of the Triangle Bank and Trust Company, Raleigh, North Carolina (Triangle), from January 1988 until March 1991. Mr. Lanier also was the Chairman of Triangle from January 1989 until March 1991 and its President from January 1988 until January 1989. Since his retirement in 1991 as Chairman and Chief Executive Officer of Triangle, Mr. Lanier has managed his personal investments and managed investment accounts for various individuals and trusts.
Robert C. Legler, 60	Mr. Legler has served as a director of the Company since 2002. Mr. Legler has served as a director of Ligonier Ministries of Lake Mary, Florida for more than 20 years. From October 1999 through October 2001, he served as director of the Indian River Hospital Foundation of Vero Beach, Florida. From 1973 until 1990, Mr. Legler was the founder and chairman of privately-held First Marketing Corporation, America's largest publisher of newsletters serving nearly 500 clients in the commercial banking, brokerage, health care, cable television, travel and retail industries. Upon the sale of the company to Reed (now Reed Elsevier) in 1990, Mr. Legler served as non-executive Chairman of the Board of First Marketing until his retirement in September 2000.
Craig Macnab, 48	Mr. Macnab has served as Chief Executive Officer of the Company since February 16, 2004. Prior to joining the Company, Mr. Macnab was the Chief Executive Officer of JDN Realty Corporation (JDN), a publicly traded real estate investment trust, from April 2000 through March 2003, and was the President of JDN from September 2000 until March 2003. Mr. Macnab also served as a director of JDN from 1993 until

2003. Mr. Macnab served as the President of Tandem Capital, a structured finance company, from 1997 through 1999. Mr. Macnab is currently a director of Developers Diversified Realty Corp., which owns and manages over 83 million square feet of shopping centers and, which acquired JDN in March 2003, and Per Se Technologies Inc., the leader in connective healthcare solutions that enable physicians and hospitals to achieve their income potential.

Name and Age	Background
Robert Martinez, 69	<p>Mr. Martinez has served as a director of the Company since 2002. From 1987 until 1991, Mr. Martinez served as the fortieth governor of the state of Florida and, from 1991 to 1993, served as the Director of the Office of National Drug Control reporting to the President of the United States. From 1979 until 1986, Mr. Martinez served as the mayor of Tampa, Florida. From 1993 to 1999, he served as principal of Bob Martinez & Co., a Tampa, Florida based government consulting firm. Since 1999, he has served as managing director for Carlton Fields Government Consulting, providing state and local executive branch and legislative branch government lobbying services throughout the state of Florida. From 2001 to 2003, Mr. Martinez also served on the Management Advisory Committee of Koning Restaurants International, an operator of Pizza Hut restaurants. From 1997 to 2001, Mr. Martinez served as a director of PRIMEX Technologies, Inc., a manufacturer of ordnances and aerospace products for the United States Department of Defense and commercial enterprises. From 1996 through 1999, he was a co-founder, president, and director of Pro-Tech Monitoring, Inc., producer of a global positioning technology system for criminal justice agencies. In addition, Mr. Martinez served as a director of Circle K, a national convenience store chain, from 1995 to 1996.</p>

Name and Age	Background
James M. Seneff, Jr., 57	<p>Mr. Seneff has been Chairman of the Board of the Company since June 1992 and served as Chief Executive Officer of the Company from July 1992 until February 2004. Mr. Seneff has served as Chairman of the Board, Chief Executive Officer and principal stockholder of CNL Holdings, Inc., the parent company of CNL Financial Group, Inc., since its formation in 1973. From 1991 to December 1997, Mr. Seneff served as Chief Executive Officer and Chairman of the Board of the Advisor. Mr. Seneff serves as Chairman of the Board since 1997 and Chief Executive Officer from 1997 to 2003, and from 2003 to present as Co-Chief Executive Officer of CNL Hospitality Corp., the Advisor to CNL Hospitality Properties, Inc. He serves as the Chairman of the Board since 1997 and served as Chief Executive Officer from 1997 to 2003 of CNL Retirement Corp., the Advisor to CNL Retirement Properties. Mr. Seneff has been a director of CNL Commercial Finance, Inc. since 2000. He has served as a director of CNL Restaurant Properties, Inc., formerly CNL American Properties Fund, Inc., since its inception in 1994, as its Chairman of the Board from 1994 to 2000, as its Chief Executive Officer from 1994 through August 1999 and as Co-Chief Executive Officer from December 2000 to September 2003. Mr. Seneff has been Chairman of the Board of Directors of CNL Securities Corp. since its formation in 1979, and served as President from 1997 to 1992 and as Chief Executive Officer since 1992. Mr. Seneff has also held the position of Chief Executive Officer and Chairman of the Board of CNL Fund Advisors, Inc., formerly CNL Institutional Advisors, Inc., a registered investment advisor, since its inception in December 1990. He serves as Chairman of the Board of CNLBank and previously served as a member of the board of directors of First Union National Bank of Florida and as a member of the Orlando Advisory Board of First Union. From 1986 to 1994, Mr. Seneff served on the Florida Investment Advisory Council (the Council), which oversees the \$40 billion Florida state retirement plan, and was Chairman of the Council from 1991 to 1992. Mr. Seneff is currently a Resident Member of the Florida Council of 100 and also serves on the board of directors of Atlantic Blue Trust, Inc. Since 1971, Mr. Seneff has been active in acquisition, development, and management of real estate projects throughout the United States. He is the brother-in-law of Kevin B. Habicht, a director, Executive Vice President, Assistant Secretary, Treasurer and Chief Financial Officer of the Company.</p>

In the event that any nominee(s) should be unable to accept the office of director, which is not anticipated, it is intended that the persons named in the Proxy will vote **FOR** the election of such other person in the place of such nominee(s) for the office of director as the Board of Directors may recommend.

Corporate Governance

General. We are currently managed by an eight member Board of Directors that consists of Messrs. Bourne, Habicht, Hinkle, Jennings, Lanier, Legler, Martinez, and Seneff. Gary M. Ralston also served as a director of the Company until his retirement on May 1, 2004. The Board has adopted a set of corporate governance guidelines, which, along with the written charters for our Board committees described below, provide the framework for the Board's governance of the Company. Our corporate governance guidelines are available on our website at <http://www.nnnreit.com>.

Independence and Composition. Our corporate governance guidelines and the rules and regulations of the New York Stock Exchange, which we refer to as the NYSE listing standards, each require that a majority of our Board of Directors are independent directors, as that term is defined in the NYSE listing standards.

The Board of Directors, upon the unanimous recommendation of the Governance and Nominating Committee, has determined that Messrs. Hinkle, Jennings, Lanier, Legler and Martinez, representing a majority of our Board of Directors, qualify as independent directors (the Independent Directors) as that term is defined in the NYSE listing standards.

Meetings and Attendance. The Board of Directors met 14 times in the fiscal year ended December 31, 2003. Each of the current nominees currently serving on the Board of Directors attended at least 85% of the meetings of (i) the Board of Directors and (ii) the committees of the Board of Directors that he was eligible to attend. During fiscal year 2003, each of Messrs. Hinkle, Jennings, Legler, Martinez, Ralston, and Habicht attended 100% of the meetings of (i) the Board of Directors and (ii) the committees of the Board of Directors that he was eligible to attend. Our corporate governance guidelines provide that it is the responsibility of individual directors to make themselves available to attend scheduled and special Board meetings on a consistent basis. All of our nine directors as of the date of the 2003 annual meeting of the Company's stockholders were in attendance for the 2003 annual meeting.

Shareholder Communications. The Board of Directors has adopted a process whereby our shareholders can send communications to our directors. Any stockholder wishing to communicate directly with one or more directors may do so in writing addressed to the director or directors, c/o Commercial Net Lease Realty, Inc., 450 South Orange Avenue, Suite 900, Orlando, Florida 32801. All correspondence will be reviewed by the Company and forwarded directly to the addressee.

Audit Committee

General. The Board of Directors has established an Audit Committee, which is governed by a written charter, a copy of which is attached hereto as Annex A and is available on our website at <http://www.nnnreit.com>. Among the duties, powers and responsibilities of the Audit Committee as provided in its charter, the Audit Committee:

- has sole power and authority concerning the engagement and fees of independent public accountants;
- reviews with the independent accountants the plans and results of the audit engagement;
- pre-approves all audit services and permitted non-audit services provided by the independent public accountants;
- reviews the independence of the independent public accountants;
- reviews the adequacy of our internal control over financial reporting; and
- reviews accounting, auditing and financial reporting matters with our independent accountants and management.

Independence and Composition. The composition of the Audit Committee is subject to the independence and other requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated by the SEC thereunder, which we refer to as the Exchange Act, and the NYSE listing standards.

The Board of Directors, upon the unanimous recommendation of the Governance and Nominating Committee, has determined that all current members of the Audit Committee meet the audit committee composition requirements of the Exchange Act and the NYSE listing standards and that Mr. Lanier qualifies as an audit committee financial expert as that term is defined in the Exchange Act.

Meetings. The Audit Committee met four times in the fiscal year ended December 31, 2003. In fiscal year 2003, Messrs. Lanier, Hinkle and Martinez were, and currently are, the members of the Audit Committee, with Mr. Lanier serving as Chairman.

Governance and Nominating Committee

General. In August 2003, the Company reorganized the Nominating Committee into the Governance and Nominating Committee, which is governed by a written charter, a copy of which is available on our website at <http://www.nnnreit.com>. As provided in the Governance and Nominating Committee charter, the Governance and Nominating Committee:

identifies and recommends to the Board of Directors individuals to stand for election and reelection to the Board at our annual meeting of stockholders and to fill vacancies that may arise from time to time;

develops and makes recommendations to the Board for the creation, and ongoing review and revision of, a set of effective corporate governance principles that promote our competent and ethical operation and a policy governing ethical business conduct of our employees and Directors; and

makes recommendations to the Board of Directors as to the structure and membership of committees of the Board of Directors.

Selection of Director Nominees. Our corporate governance guidelines provide that the Governance and Nominating Committee will endeavor to identify individuals to serve on the Board who have expertise that is useful to us and complimentary to the background, skills and experience of other Board members. The Governance and Nominating Committee's assessment of the composition of the Board includes (a) skills—business and management experience, real estate experience, accounting experience, finance and capital markets experience, and an understanding of corporate governance regulations and public policy matters, (b) character—ethical and moral standards, leadership abilities, sound business judgment, independence and innovative thought, and (c) composition diversity, age and public company experience. The principal qualification for a director is the ability to act in the best interests of the Company and its stockholders. Each of the candidates for director named in this proxy statement have been recommended by the Governance and Nominating Committee and approved by the Board of Directors for inclusion on the attached proxy card.

The Governance and Nominating Committee also considers director nominees recommended by stockholders. See the section of this proxy statement entitled **PROPOSALS FOR NEXT ANNUAL MEETING** for a description of how stockholders desiring to make nominations for directors and/or to bring a proper subject before a meeting should do so. The Governance and Nominating Committee evaluates director candidates recommended by stockholders in the same manner as it evaluates director candidates recommended by our directors, management or employees.

Independence and Composition. The NYSE listing standards require that the Governance and Nominating Committee consist solely of independent directors. The Board of Directors, upon the unanimous recommendation of the Governance and Nominating Committee, has determined that all current members of the Governance and Nominating Committee are independent as that term is defined in the NYSE listing standards.

Meetings. The Governance and Nominating Committee met two times in the fiscal year ended December 31, 2003. Messrs. Jennings and Legler served in fiscal year 2003, and are currently serving as members of the Governance and Nominating Committee. Mr. Hinkle was appointed to the committee in November 2003. Upon his appointment, Mr. Hinkle was named, and currently serves, as Chairman of the committee.

Compensation Committee

General. The Board of Directors has established a Compensation Committee, which is governed by a written charter, a copy of which is available on our website at <http://www.nnnreit.com>. The Compensation Committee is responsible for:

approving and evaluating the compensation plans, policies and programs for our executive officers and directors;
and

approving all awards to any employees and directors under our equity incentive plan.

Independence and Composition. The NYSE listing standards require that the Compensation Committee consist solely of independent directors. The Board of Directors, upon the unanimous recommendation of the Governance and Nominating Committee, has determined that all current members of the Compensation Committee are independent as that term is defined in the NYSE listing standards.

Meetings. The Compensation Committee met four times in the fiscal year ended December 31, 2003. Messrs. Jennings and Legler served in fiscal year 2003, and are currently serving, as the members of the Compensation Committee, with Mr. Jennings serving as Chairman. Mr. Hinkle served on the committee during fiscal year 2003 until November 2003. Mr. Martinez was appointed to the committee in November 2003, and is currently serving on the committee.

Code of Business Conduct

Our directors, as well as our officers and employees, are also governed by our code of business conduct. Our code of business conduct is available on our website at <http://www.nnnreit.com>. Amendments to, or waivers from, a provision of the code of business conduct that applies to our directors, executive officers or employees will be posted to our website promptly following the date of the amendment or waiver.

Compensation of Directors

During the year ended December 31, 2003, the Company paid each director who was a director for the entire year \$18,000 for serving on the Board of Directors. Each director received \$1,000 per Board of Directors meeting attended and \$1,000 per committee meeting attended. Additionally, the Company awarded each Independent Director 1,000 shares of restricted stock which vests over two years. Messrs. Habicht, Ralston and Seneff have waived all of their director compensation. In addition, if elected, Mr. Macnab will waive all of his director compensation. The Board of Directors believes this compensation level has been comparable to that provided by many other companies in the real estate investment trust (REIT) industry.

Executive Officers

The executive officers of the Company are listed below. Messrs. Cobb and Tracy are executive officers of Commercial Net Lease Realty Services, Inc., which we refer to as Services. Services is a 98.7% owned, non-controlled taxable subsidiary of the Company that provides development and leasing services to the Company and third parties.

Name	Position
James M. Seneff, Jr. Craig Macnab Chief Executive Officer (as of February 16, 2004) and President (as of May 1, 2004)	Chief Executive Officer (through February 16, 2004) and Chairman of the Board
Kevin B. Habicht Executive Vice President, Chief Financial Officer, Assistant Secretary and Treasurer	
Julian E. Whitehurst Executive Vice President, General Counsel and Secretary	
David W. Cobb Executive Vice President and Chief Investment Officer of Services	

Dennis E. Tracy
Executive Vice President and Chief
Development Officer of Services

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

Julian E. Whitehurst, age 46, has served as Executive Vice President and General Counsel of the Company since February 1, 2003. He has also served as Secretary of the Company since May 30, 2003. Prior to February 2003, Mr. Whitehurst was on retainer to the Company as its General Counsel from the law firm of Lowndes, Drosdick, Doster, Kantor & Reed, P.A., in which he had been a shareholder since 1987. Mr. Whitehurst has served on the board of directors of Services since 2001. Mr. Whitehurst is a graduate of

The Ohio University (B.A., summa cum laude, 1979, Phi Beta Kappa) and Duke University School of Law (J.D., 1982). Mr. Whitehurst is av-rated by Martindale-Hubbell and is Board Certified as a Specialist in Real Estate Law by the Florida Bar. He is a member of the International Council of Shopping Centers and the National Association of Real Estate Investment Trusts and the Association of Corporate Counsel.

David W. Cobb, age 56, has served as Executive Vice President and Chief Investment Officer of Services since April 29, 2002. Prior to joining Services, Mr. Cobb was Chairman and CEO at Realty Logix, Inc., a commercial real estate risk management software company, from 2000 to 2002. Previously Mr. Cobb was Chairman and CEO of National Capital Holdings, Inc., a mortgage origination and securitization company, from 1996 to 2000. Prior to that he served as Senior Managing Director of Furman Selz LLC, an investment banking company (1995-1996), Senior Vice President with Raymond James & Associates, an investment firm (1993-1996), Senior Vice President for Donaldson, Lufkin & Jenrette, an investment banking company (1990-1993) and Regional Manager for Drexel Burnham Lambert, an investment banking company (1983 to 1990). Mr. Cobb graduated from Armstrong State College with a BBA degree in accounting and completed the Graduate School of Banking at Indiana University. Mr. Cobb currently is a member of the Association for Financial Professionals, the International Council of Shopping Centers and CoreNet Global.

Dennis E. Tracy, age 54, has served as Executive Vice President and Chief Development Officer of Services since January 2002 and has served as a director of Services since 1999. From August 2000 to December 2001, he served as Senior Vice President and Chief Development Officer of Services, and from May 1999 to July 2000 as Senior Vice President of Development for Services. He served in that same capacity for the Company from January 1998 to April 1999 and for the Advisor from January 1996 to December 1997. From January 1994 to December 1995, Mr. Tracy served as Vice President of Development for the Advisor and from June 1992 to December 1993, Project Manager for the Advisor. From November 1990 to June 1992, he served as Project Manager for CNL Group. Prior to joining CNL Group, Mr. Tracy founded Tracy Homes, Inc., a luxury custom home building company and served as its president and owner. Mr. Tracy holds the Certified Commercial Investment Member professional designation and is a past member of the Advisory Board of the Retail Contractors Association. Mr. Tracy received his MBA at Gonzaga University in Spokane, Washington.

Other Officers

The Company also employs certain other officers listed below:

Christopher F. Barry, 37, has served as Vice President of Corporate Communications of the Company since February 2003. From January 1998 through February 2003, Mr. Barry served as Corporate Communications Manager of the Company. From May 1996 through January 1998, Mr. Barry was Corporate Communications Manager of the Advisor. From 1994 through May 1996, Mr. Barry was Account Supervisor for Carlman Booker Reis Public Relations. From 1990 through 1994, Mr. Barry was Account Supervisor with G.S. Schwartz & Co., a New York City-based public relations agency, and from 1988 through 1990 he was an associate with Howard J. Rubenstein and Associates, Inc. He earned a Bachelor of Arts degree in Communication Arts from Marist College. Mr. Barry is a member of the National Association of Real Estate Editors, the National Association of Real Estate Investment Trusts and the International Council of Shopping Centers.

Paul Bayer, age 42, has served as Vice President of Leasing of the Company since June 2002. From September 1999 until June 2002, Mr. Bayer served as Director of Leasing. From 1996 to September 1999, Mr. Bayer was a leasing agent for J. Donegan Company, a retail leasing and development company, and from 1993 to 1996 he was a leasing agent for Combined Properties, Incorporated, owner of 31 shopping centers in the Washington, D.C. metropolitan area. Mr. Bayer is a graduate of Dartmouth College (B.A. 1984). Mr. Bayer was awarded a leadership fellowship by Rutgers University Graduate School of Management, which he attended in 1987. He is a member of the

International Council of Shopping Centers and has earned the designation of Certified Leasing Specialist from the ICSC.

Robert L. Bryan, age 52, has served as Senior Vice President of Asset Management of the Company since October 2003. From 1996 to 2003, Mr. Bryan served as Florida Regional Manager and Senior Vice President

of Jones Lang LaSalle Americas, Inc., a real estate services company. From 1994 to 1996, Mr. Bryan served as President of the Galbreath Company, Florida, which merged with LaSalle Partners in 1996. From 1973 to 1994, Mr. Bryan was President and owner of Grover Bryan, Inc., an Orlando-based commercial real estate brokerage and management firm. Mr. Bryan is a graduate of the University of Florida (B.S.B.A., summa cum laude, 1973, Beta Gamma Sigma), and earned an MBA degree from Rollins College (1983). He attended the United States Air Force Academy from 1969-1971. Mr. Bryan holds the professional designations of CCIM (Certified Commercial Investment Member), CPM (Certified Property Manager), CRB (Certified Real Estate Brokerage Manager), and GRI (Graduate REALTORS Institute). Mr. Bryan is licensed by the State of Florida as a Real Estate Broker and as a Certified Building Contractor.

David M. Lachicotte, age 37, has served as Vice President Information Technology of the Company since 2000. Mr. Lachicotte served as Manager of Information Systems from June 1999 until 2000. From 1992 to 1999, Mr. Lachicotte was employed by Eckerd Corporation (a subsidiary of the JC Penney Corporation) where he last held the position of Directing Manager of Financial Planning, Analysis, and Information Systems. Mr. Lachicotte earned a Bachelor of Arts degree in Accountancy from the University of South Florida.

Philip C. Melaugh, age 55, has served as Senior Vice President of Underwriting and Research since December 2003. From January 2003 through November 2003, Mr. Melaugh served as Vice President of Underwriting and Due Diligence. From March 1999 to December 2002, Mr. Melaugh was employed by Allied Capital Corporation, a finance company, as a consultant to their CMBS B-piece acquisitions group. From 1997 to 1999 he served as Vice President and Supervising Underwriter for J.P. Morgan, an investment bank, in their CMBS group, and also acted as unit head of the Credit Tenant Lending team. In addition, Mr. Melaugh spent several years working as Director of National Account Workouts for The Travelers Insurance Company, and he has had experience working as a licensed commercial real estate appraiser. Mr. Melaugh received a B.A. in Economics and a Masters in Business Administration with a concentration in Information Systems and Finance from the University of Colorado.

Michelle Miller, age 35, has served as Vice President of Financial and Information Planning of the Company since 2003 and served as Director of Accounting and Lease Administration of the Company from 2001 to 2003. From 1999 to 2001, Ms. Miller served as Director of Accounting for CNL American Properties Fund, Inc. From 1991 to 1999, Ms. Miller was employed by KPMG LLP as a Certified Public Accountant (CPA). Ms. Miller attended Florida State University and earned a Bachelor of Science degree in Accounting and Finance. She is a member of the American Institute of Certified Public Accountants.

Suzanne Miller, age 51, has served as Vice President of Asset Management of the Company since July 2002. From 1998 to 2002, Ms. Miller was Vice President and Director of Property Management for Prime West Real Estate Service, a privately held real estate company, where she was in charge of more than three million square feet of office, retail and industrial properties. From 1997 to 1998, she was Property and Leasing Manager for Stapleton Development Corporation. From 1994 to 1997, Ms. Miller served as Real Estate Portfolio Manager for Pacifica Holding Company, and from 1991 to 1994, Ms. Miller served as Oversight Manager for the Resolution Trust Corporation, and from 1986 to 1991, Ms. Miller was Real Estate Portfolio Manager and Leasing for CB Commercial Real Estate, now CB Richard Ellis. Ms. Miller has a Masters Degree in Real Estate and Construction Management from the University of Denver. She is a member of the International Council of Shopping Centers, Commercial Investment Real Estate Institute, and earned the Certified Commercial Investment Member professional designation. She is a member of the Institute of Real Estate Management, and has been awarded the Certified Property Manager designation. Ms. Miller is a licensed Real Estate Broker in Colorado and Oregon and was a previous faculty member for CLE International.

Dawn A. Peterson, age 40, has served as Senior Vice President and Controller of the Company since 2003 and Vice President and Controller since 1999. Ms. Peterson served as Director of Accounting and Financial Reporting of

the Company from January 1, 1998 until December 1999 and of the Advisor from July 1994 until December 1997. From 1991 to 1994, Ms. Peterson was employed by Coopers & Lybrand as a Certified Public Accountant (CPA). Ms. Peterson earned a Bachelor of Science degree in Business Administration and a

Master of Science Degree in Accountancy from the University of Central Florida. She is a member of the American Institute of Certified Public Accountants.

In addition to Messrs. Cobb and Tracy described above, Services employs the following officers:

James W. (Jay) Bastian, age 53, has served as Senior Vice President of Acquisitions of Services since May 1, 1999 and previously held the same position at the Company, serving with the Company and its affiliate CNL Investment Company from 1989 to 1992. Prior to 1989, he was Director of Real Estate for a number of firms, including Rite Aid, Quaker State Minit Lube, Wendy's International, and a Holiday Inn franchisee for a total corporate real estate career of 26 years. He is a member of the National Association of Corporate Executives, the International Council of Shopping Centers, and the Turnaround Management Association.

Mez R. Birdie, age 54, has served as Senior Vice President of Acquisitions of Services since April 2003. From January 1998 to April 2003, Mr. Birdie served as Senior Vice President of Asset Management for Services. From December 1993 to December 1997, Mr. Birdie served as Vice President of Asset Management of the Advisor. From June 1992 to November 1993, Mr. Birdie served as Director of Retail Management of the Advisor and from 1987 to 1992, Mr. Birdie served as Director of Property Management for Charles Wayne Properties, Inc., a real estate development company. Mr. Birdie has been awarded the Certified Commercial Investment Member (CCIM), Certified Property Manager (CPM) and Senior Certified Shopping Center Manager (SCSM) professional designations, and has a total of 24 years of experience in the field of commercial brokerage and asset management. Mr. Birdie is a member of the faculty and has served on the Executive Committee of the Institute of Real Estate Management (IREM). He is also on the Board of Governors for National Retail Tenants Association (NRTA).

David Carter, age 44, has served as Vice President of Acquisitions of Services since August 2002. Mr. Carter has over 18 years of commercial real estate experience involving a variety of assignments with properties exceeding \$4 billion in value and totaling more than 100 million square feet. Prior to joining Services, Mr. Carter served as Vice President of GE Capital, a real estate finance company, from 2000 until 2002 and as an associate of CB Richard Ellis, a real estate company, where he specialized in single tenant assets from 1999 until 2000. From 1996 to 1999, Mr. Carter served as Vice President for the Weitzman Group, a retail brokerage company, and from 1994 to 1996, he was President of Carter Realty Capital, Inc., a consulting company. From August 1984 to March 1994, Mr. Carter was employed by LR. Denton & Company, a regional appraisal and consulting firm, where he completed all aspects of appraisal, due diligence and consulting assignments involving all types of commercial property, including office, industrial, retail and special use properties. Mr. Carter earned a Bachelor of Business Administration from Stephen F. Austin State University. Mr. Carter holds the MAI (Member, Appraisal Institute) designation retired status. He is a member of the International Council of Shopping Centers, CoreNet Global and a licensed Texas Real Estate Broker.

Peter M. Goffstein, age 32, has served as Vice President of Services since October, 2002. He joined Services in May 2001, as Director of Business Development. From 2000 to 2001, Mr. Goffstein was Vice President of Acquisitions with Equity Investment Group, a private retail REIT, and Vice President of Development for BVT Development Partners in Atlanta from 1997 to 2000. Prior to that, he was a Broker Associate with Equis Corporation, a national office tenant services firm. Mr. Goffstein received a B.A. from Vanderbilt University in Nashville, Tennessee. He is a member of the International Council of Shopping Centers, the Urban Land Institute and holds a Georgia Real Estate Broker's license.

William E. Haberman, age 38, has served as Vice President of Acquisitions for Services since October 2002. Prior to joining Services, Mr. Haberman was responsible for the origination and structuring of debt and equity secured by commercial real estate at a number of finance companies, acting as a director of JP Morgan Mortgage Capital from March 2002 until October 2002, a director at Johnson Capital Group from 2000 until 2002, a Vice President at FINOVA Realty Capital from 1997 until 2000, and an analyst at MassMutual from 1989 until 1991. From 1994 to

1997, he practiced law with Shumaker Loop & Kendrick specializing in commercial real estate transactions and was a member of the Ohio Bar. In various positions, he has been involved in the origination, underwriting and/or closing of more than \$900 million in aggregate commercial real estate transactions. Mr. Haberman earned a Bachelor of Arts in Economics from Albion College, a

Master of Business Administration from the University of Michigan and a Juris Doctorate from the University of Michigan.

Fred J. Hohnadel, Jr., age 61, has served as Senior Vice President of Real Estate of Services since June 2001. Prior to joining Services, Mr. Hohnadel served from 1990 to 2000 as a consultant and exclusive broker in representing Wal-Mart Stores, Inc. in the northeast United States. From 1974 to 1990, Mr. Hohnadel was the owner and Chief Executive Officer of Community Shopping Centers. Mr. Hohnadel has been a member of the International Council of Shopping Centers since 1974 and is a licensed Florida Real Estate Broker.

Edwin B. Hopkins, age 63, has served as Regional Vice President of Real Estate of Services since May, 1999 and held the same position at the Company from May 1997 until May 1999. In January 2004, Mr. Hopkins was promoted to Senior Vice President of Services. Prior to joining Services, Mr. Hopkins was a managing agent for the FDIC/ RTC from 1990 to 1995. Prior to that, he served as president and CEO of Southern Federal Saving and Loan Association from 1983 until 1990 and as group vice president and manager of the commercial real estate development division of Hunt Properties, Inc., from 1975 until 1983. He is a past Board member of the North Texas Commercial Association of Realtors, a Certified Commercial Investment Member, a member of International Council of Shopping Centers and holds a Texas Real Estate Broker's license.

Jeffrey P. Jennings, age 44, has served as Vice President of Acquisitions of Services since October 2002. From 1999 to 2002, Mr. Jennings was Vice President of Real Estate Services & Development for CNL Franchise Network, LLC, a subsidiary of CNL American Properties Fund, Inc. From 1996 to 1999, he was Vice President of Acquisitions for CNL American Properties Fund, Inc. and, from 1994 to 1996, he served as Director of Real Estate for CNL Institutional Advisors, Inc. Mr. Jennings has over 17 years experience in commercial real estate acquisition, development and financing activities. Mr. Jennings earned a Bachelor of Science in Business Administration from the University of Denver and a Master of Business Administration from the University of Texas.

Diane L. McCarey, age 49, has served as Vice President of Build-to-Suit since 1999. She joined Services in May 1999, as Director of Build-to-Suit, and held the same position at the Company from March 1995 until that time. Prior to joining the Company, Ms. McCarey was co-owner of McCarey Builders, a custom home building company from 1987 to 1995 and senior associate for Matonis, MacDermott & Company, an appraisal company, specializing in commercial property and eminent domain appraisals from 1985 to 1991. She has 25 years of real estate experience encompassing a broad range of development, construction and consulting disciplines. Ms. McCarey graduated from the University of Florida with a Bachelor of Science degree in Real Estate. She is a licensed real estate salesman, holds the Certified Commercial Investment Member professional designation, is a member of the International Council of Shopping Centers and CRFW, serves on the board of directors for CCIM Central District and is on the ICSC Alliance Program Committee for Central Florida.

Paul R. Montgomery, age 47, has served as Regional Vice President since September 2000. From December 1998 to August 2000, he served as Director of Build-to-Suit and from January 1998 to December 1998, he served as Manager of Build-to-Suit. During November 1997 and December 1997, Mr. Montgomery served in that same capacity for the Advisor. Mr. Montgomery was a Senior Director of Commercial Development for Michael Swerdlow Companies. Prior to that, he served as Senior Construction Manager for General Growth Properties, Homart Development Co. and the Edward J. DeBartolo Corporation. Mr. Montgomery is a graduate of the University of Florida. He holds the Certified Commercial Investment Member (CCIM) professional designation and is a member of the International Council of Shopping Centers.

Lane Ramsfield, age 45, Regional Vice President, joined Services in December 1997. He is responsible for the development, management and client services of various projects in the Build-to-Suit program in the Southeastern United States region. Prior to joining the company, Mr. Ramsfield functioned as Director and Sr. Project Manager for

large commercial development projects with a combined value of approximately \$700,000,000 and totaling over 8,000,000 square feet of building space. Mr. Ramsfield's background includes the Orange County Courthouse Complex, a major metropolitan airport, high-rise office towers, a convention

center, and hotels. He has more than 21 years of real estate development experience. Lane is a candidate for Certified Commercial Investment Manager and a member of the International Council of Shopping Centers.

Cynthia C. Shelton, age 50, has served as Vice President of Acquisitions of Services since January 1998. From May 1996 to December 1997, Ms. Shelton served as Director of Acquisitions of the Advisor. Ms. Shelton served from 1995 to 1996 as Vice President/ Owner of the Ross Realty Group, a real estate brokerage and property management company that specializes in retail properties, and from 1985 to 1995 as the Real Estate Manager for KinderCare Learning Centers, Inc., the largest child care company in the United States. Ms. Shelton has 28 years of experience in commercial brokerage and site selection and she holds the Certified Commercial Investment Member designation and is a Florida licensed Real Estate Broker. Ms. Shelton was the 2002 President of The CCIM Institute and serves on the board of directors for the Florida Association of Realtors and the National Association of Realtors.

Thomas Sowa, age 53, joined Services as Regional Vice President of the South Texas Region in January of 2004. Prior to joining Services, Mr. Sowa was the Southwest Regional Vice President for Cedarwood Development Companies responsible for the expansion of the CVS Pharmacy real estate acquisition program in South Texas. Prior to that, he served as Vice President of Real Estate for ShopKo Stores, Inc., responsible for increasing ShopKo's store base by almost 90 big boxes during his 8 years there. From 1985 until 1992, Mr. Sowa was Director of Real Estate for the Southwest Region of Northern Automotive delivering 20-30 stores per year during his 7 year tenure. Mr. Sowa is a member of International Council of Shopping Centers (ICSC), a licensed real estate agent in Texas and holds brokers real estate licenses in Wisconsin and Arizona.

Mary E. Wilkes, age 48, has served as Vice President/ In-House Counsel for Services since December 2002 and In-House Counsel for Services since May 1999 and held the same position at the Company from November 1997 until that time. From 1994 to November 1997, Ms. Wilkes was an attorney with James A. Hartman, P.A., a law firm that represented the Company in its Build-to-Suit development program. Prior to 1994 she was an associate with the Winderweedle, Haines, Ward & Woodman, P.A. Law Firm in Winter Park, Florida for six years specializing in commercial real estate transactions and a claims attorney for Commonwealth Land Title Insurance Company for two years. Ms. Wilkes received a Bachelor of Science in Finance, a Masters in Business Administration, and a Juris Doctorate in Law from the University of Florida and is a member of the Florida Bar.

Thomas L. Yeager, age 62, has served as Vice President of BTS Program Business of Services since May 1999 and held the same position at the Company from May 1998 until May 1999. In January 2004, Mr. Yeager was promoted to Senior Vice President of Services. Mr. Yeager is responsible for managing BTS program business in the Midwest region. Prior to joining the Company in 1998, he served as real estate director of Extended Stay of America Inc., a hotel development company, from 1996 until 1997, as a divisional real estate manager with Long John Silver's Inc., from 1980 until 1996, as a real estate manager at Tenneco Automotive, a retail auto parts company, from 1979 until 1980, as a real estate development manager with Dunkin' Donuts of America, Inc. from 1973 until 1979, and as a real estate representative of Shell Oil Corporation from 1967 until 1972. He is currently a member of the International Council of Shopping Centers.

AUDIT COMMITTEE REPORT

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

Duties, Powers and Responsibilities. Management is responsible for the Company's financial statements, internal controls and financial reporting process. The independent accountants are responsible for performing an independent

audit of the Company's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The Committee's responsibility is to monitor and oversee these processes. The Audit Committee is governed by a

charter, a copy of which is attached hereto as Annex A and which is also available on the Company's website at www.nnnreit.com. The Audit Committee charter is designed to assist the Audit Committee in complying with applicable provisions of the Exchange Act and the NYSE listing standards, all of which relate to corporate governance and many of which directly or indirectly affect the duties, powers and responsibilities of the Audit Committee. Among the duties, powers and responsibilities of the Audit Committee as provided in the Audit Committee charter, the Audit Committee:

- has sole power and authority concerning the engagement and fees of independent public accountants,
- reviews with the independent accountants the scope of the annual audit and the audit procedures to be utilized,
- pre-approves audit and permitted non-audit services provided by the independent public accountants,
- reviews the independence of the independent public accountants,
- reviews the adequacy of the Company's internal accounting controls, and
- reviews accounting, auditing and financial reporting matters with the Company's independent accountants and management.

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

The Company's independent accountants also provided to the Committee the written disclosures required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Committee discussed with the independent accountants that firm's independence. The Committee has reviewed the original proposed scope of the annual audit of the Company's financial statements and the associated fees and any significant variations in the actual scope of the audit and fees.

Fiscal 2003 and 2002 Audit Firm Summary. During the fiscal years ended December 31, 2003 and 2002, we retained KPMG LLP to provide services in the following categories and amounts:

	Fiscal Year 2003	Fiscal Year 2002
Audit Fees(1)	\$ 151,800	\$ 132,200
Audit Related Fees(2)		
26,000 0		
<hr/>		
<hr/>		
Audit and Audit Related Fees		
177,800 132,200		
<hr/>		

Tax Fees(3)
92,800 143,949

Total Fees
\$270,600 \$250,149

-
- (1) Audit fees include the audit fee and fees for comfort letters, attest services, consents and assistance with and review of documents filed with the SEC.
- (2) Audit related fees consist of fees incurred for consultation concerning financial accounting and reporting standards, performance of agreed-upon procedures, and other audit or attest services not required by statute or regulation.
- (3) Tax fees consist of fees for tax compliance services.

The Audit Committee has determined that the provision of audit related and tax services by KPMG LLP during 2003 is compatible with maintaining KPMG LLP's independence.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditor.

Consistent with SEC policies regarding auditor independence, the Audit Committee has responsibility for appointing, setting compensation and overseeing the work of the independent auditor. In recognition of this responsibility, the Audit Committee has established a policy to pre-approve all audit and permissible non-audit services provided by the independent auditor.

Prior to engagement of the independent auditor for the next year's audit, management will submit to the Audit Committee for approval an aggregate of services expected to be rendered during that year for each of the three categories of services listed in the table above.

Prior to engagement, the Audit Committee pre-approves these services by category of service. The fees are budgeted and the Audit Committee requires the independent auditor and management to report actual fees versus the budget periodically throughout the year by category of service. During the year, circumstances may arise when it may become necessary to engage the independent auditor for additional services not contemplated in the original pre-approval. In those instances, the Audit Committee requires specific pre-approval before engaging the independent auditor.

For the fiscal years ended December 31, 2003 and 2002, the audit committee pre-approved 100% of services described above in the captions Audit Related Fees and Tax Fees. For the fiscal year ended December 31, 2003, no hours expended on KPMG LLP's engagement to audit our financial statements were attributed to work performed by persons other than full-time, permanent employees of KPMG LLP.

Pursuant to our Audit Committee charter, the Audit Committee may delegate pre-approval authority to the chairman of the Audit Committee, who shall promptly advise the remaining members of the Audit Committee of such approval at the next regularly scheduled meeting.

Conclusion. Based on the review and discussions referred to above, the Committee recommended that the Board of Directors include the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2003 filed with the SEC.

AUDIT COMMITTEE

Ted B. Lanier, Chairman

Clifford R. Hinkle

Robert Martinez

EXECUTIVE COMPENSATION**Executive Compensation Tables**

The following table shows the annual and long-term compensation paid by the Company to the Chief Executive Officer and the four other most highly compensated executive officers of the Company or Services for services rendered in all capacities during the fiscal years ended December 31, 2003, 2002 and 2001.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation		
		Salary	Bonus	Other Annual Compensation(1)	Restricted Stock Awards	Stock Option Awards (Shares)	All Other Compensation
James M. Seneff, Jr. Chief Executive Officer	2003	\$ 150,000	\$ 123,750	\$ 26,681	\$ 200,000(2)	0	\$ 0
&	2002	\$ 144,200	\$ 75,705	\$ 22,545	\$ 72,100(3)	0	\$ 0
Chairman of the Board	2001	\$ 140,000	\$ 0	\$ 0	\$ 534,000(4)	0	\$ 0
Gary M. Ralston(10) President and Chief	2003	\$318,000	\$262,350	\$73,516	\$0	0	\$6,000(5)
	2002	\$305,910					