

COMMERCIAL NET LEASE REALTY INC

Form S-4

August 01, 2001

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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON AUGUST 1, 2001

REGISTRATION NO.

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
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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  
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.

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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. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE PER SHARE	PROPOSED MAXI AGGREGATE OFFERING PRI
Common Stock, par value \$.01 per share.....	4,757,135 (1)	\$10.575	\$50,306,702.
9% Non-Voting Series A Preferred Stock.....	2,187,209 (2)	\$10.575	\$23,129,735.

- (1) Represents the maximum number of shares of common stock, \$.01 par value per share, of Commercial Net Lease Realty, Inc. ("CNLR") that may be issued pursuant to the transactions described herein, based on (a) 10,398,108 shares of common stock, \$.01 par value per share, of Captec Net Lease Realty, Inc. ("Captec"), which is the maximum number of shares of Captec common stock that may be outstanding immediately before the consummation of the transactions described herein, assuming the exercise of 890,000 options to purchase shares of Captec common stock, and (b) the exchange ratio of 0.4575 shares of CNLR common stock for each outstanding share of Captec common stock.
- (2) Represents the maximum number of shares of 9% Non-Voting Series A Preferred Stock of CNLR that may be issued pursuant to the transactions described herein, based on (a) 10,398,108 shares of Captec common stock, which is the maximum number of shares of Captec common stock that may be outstanding immediately before the consummation of the transactions described herein, assuming the exercise of 890,000 options to purchase shares of Captec common stock, and (b) the exchange ratio of 0.21034679 shares of 9% Non-Voting Series A Preferred Stock of CNLR for each outstanding share of Captec common stock.
- (3) Pursuant to Rule 457(f)(1), 457(f)(3) and 457(c) under the Securities Act of 1933, the registration fee has been calculated based on (a) the price of \$11.845 per share of Captec common stock, which equals the average of the high and low price per share of Captec common stock as reported on the Nasdaq National Market on July 25, 2001, and (b) less the payment by CNLR of the cash component of the consideration of \$1.27 for each outstanding share



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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 of 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.  
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

, 2001

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The information in this document is not complete and may be changed. Commercial Net Lease Realty, Inc. may not issue the securities described in this document until the registration statement filed with the Securities and Exchange Commission is effective. This document is not an offer to sell these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED , 2001

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 , 2001, a.m., local time, at , 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 be voted 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 9% CNLR Non-Voting Series A 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 .

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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 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 \_\_\_\_\_, 2001 and it is first being mailed to Captec stockholders on or about \_\_\_\_\_, 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 Offices at 13th Floor, 7 World Trade Center, New York, New York 10048, and 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

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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 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; and
3. Captec's Current Reports on Form 8-K filed with the SEC on July 6, 2001, July 17, 2001 and July 25, 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 Current Report on Form 8-K filed with the SEC on July 3, 2001;
4. 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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5. 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

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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 \_\_\_\_\_, 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 \_\_\_\_\_, 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:

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



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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. ).

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% Non-Voting Series A Preferred Stock.

See "THE MERGER AGREEMENT -- Conversion of Securities" (p. ). 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. ).

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 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. ).

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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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. ).

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. )

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

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Revenue Service or any court having jurisdiction over such matters. See "MATERIAL FEDERAL INCOME TAX CONSEQUENCES" (p. ).

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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. ).

Q. ARE THERE ANY CONDITIONS TO CLOSING THE MERGER?

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. ).

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. ).

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. ).

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. ).

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.

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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. ).

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

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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. ).

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. ).

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. ).

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. ).

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

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"ADDITIONAL INFORMATION -- Appraisal Rights" (p. ).

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 , 2001 at a.m., local time, at . 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 , 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 agreement is attached as Appendix A to this proxy statement-prospectus.

PARTIES TO THE MERGER (P. )

CAPTEC

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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 lessees. 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

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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 98.0% leased, located in 36 states. The average remaining initial lease term of CNLR's properties was approximately 13 years. Leases representing approximately 74.0% 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 83.0% 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. )

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. ).

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

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

merger. The CNLR common stock presently pays an annual dividend of \$1.26 per

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share and the CNLR preferred stock provides for an 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 "SPECIAL MEETING -- Recommendations of the Special Committee and the Board of Directors" (p. ).

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."

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. ).

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 fulfill the other requirements of Delaware law. See "ADDITIONAL INFORMATION -- Appraisal Rights" (p. ).

### SPECIAL MEETING AND VOTING (P. )

The Special Meeting. The special meeting of the stockholders will be held on , 2001 at a.m. at . 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. ).

Record Date and Voting Power. Captec's board of directors has fixed the close of business on , 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 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. ).

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. ).

Proxies, Voting and Revocation. Shares represented at the special meeting



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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. ).

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. )

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:

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- 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

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- 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. ).

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

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.

).

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 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. ).

FINANCING, ACCOUNTING AND TAX MATTERS (P. )

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.

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 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 .

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.

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.

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### 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 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. 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, or, following completion of the merger, CNLR, as the surviving corporation.

### 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

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- 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 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 THREE MONTHS ENDED MARCH 31, 2001		FOR THE YEAR DECEMBER 31,	
	BASIC	DILUTED	BASIC	DILUTED
	-----	-----	-----	-----
Net income per common share:				
Captec.....	\$0.35	\$0.35	\$1.53	
CNLR.....	\$0.38	\$0.38	\$1.27	
Captec and CNLR pro forma consolidated.....	\$0.39	\$0.39	\$1.36	
Captec pro forma equivalent (1)				

	FOR THE THREE MONTHS ENDED MARCH 31, 2001		FOR THE YEAR EN DECEMBER 31, 20	
	BASIC	DILUTED	BASIC	DILUTED
	-----	-----	-----	-----
Cash distributions declared per common share:				
Captec.....	\$0.38		\$1.52	
CNLR.....	\$0.315		\$1.245	
Captec and CNLR pro forma consolidated.....	\$0.315		\$1.245	

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Captec pro forma equivalent (1)  
 Stockholders' equity (book value) per common share (end of period):

Captec.....	\$14.17
CNLR.....	\$12.99
Captec and CNLR pro forma consolidated.....	\$14.21

Captec pro forma equivalent (1)

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(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 \_\_\_\_\_, 2001, the record date for the special meeting, there were approximately \_\_\_\_\_ record holders and \_\_\_\_\_ beneficial

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holders of Captec common stock and approximately record holders and 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.

	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*.....	12.34	11.70	0.380	14.15	12.56	0.315

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 \* Through July 31, 2001

### 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 \_\_\_\_\_, 2001, a.m., local time, at \_\_\_\_\_, 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 \_\_\_\_\_, 2001.

#### MATTERS TO BE CONSIDERED

At the special meeting, holders of record of shares of Captec common stock on \_\_\_\_\_, 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
- 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



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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. See "THE SPECIAL MEETING -- Recommendations of the Special Committee and the Board of Directors" (p. ).

### RECORD DATE; SHARES ENTITLED TO BE VOTED; QUORUM

Captec's board of directors has fixed the close of business on , 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 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.

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.

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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.       ).

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 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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### 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:

- 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;

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- 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 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

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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.

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.

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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.

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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.

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.

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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 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

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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 Non-Voting Series A 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 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



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assets. The special committee believed, based on the nature of the excluded assets and the low valuations ascribed to the them by third parties in the sale 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 sale 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 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

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- \$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.

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

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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 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.

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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.

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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

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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 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 stockholders of appraisal rights pursuant to Section 262 of the Delaware General Corporation Law;
- the nature of the joint venture interests owned by Captec, the terms and conditions of, and security for, the Financial Group note and the financial condition of Financial Group;
- that the transaction with CNLR would result in immediate value to Captec's stockholders for the excluded assets comprised of various joint venture interests and the Financial Group note whereas third parties participating in the sale process had ascribed little or no value to those assets; and
- the attempt of the special committee to obtain greater consideration for the excluded assets.

The special committee also identified and considered a number of potentially negative factors in its deliberations concerning the merger including the following:

- The value of the merger consideration to be paid to Captec stockholders in the merger could be less than the price at which the Captec common stock traded several weeks before the July 2, 2001 announcement of the execution of the merger agreement;

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- The CNLR preferred stock to be issued in the merger will be newly issued, have no established trading market and may trade at a price less than the stated value of \$25.00 per share or the \$24.00 per share value assumed by UBS Warburg; and
- The per share dividend currently paid on the CNLR common stock is less than the per share dividend historically paid on the Captec common stock.

Captec's board of directors concluded that, on balance, the potential benefits of the merger to Captec and its stockholders outweighed the negative factors associated with the merger.

The discussion of the information and factors considered by Captec's board of directors is not intended to be exhaustive. In view of the variety of factors considered in connection with its evaluation of

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the merger, Captec's board of directors did not find it practicable to, and did not, quantify or otherwise assign relative weight to the specific factors considered in reaching its determination.

### CNLR'S REASONS FOR THE MERGER

The decision of CNLR's board of directors was based on several potential benefits of the merger, including the following:

- the opportunity presented by the merger for CNLR to acquire a significant portfolio of high-quality, freestanding retail properties subject to long-term net leases. Captec currently owns or has interests in 136 properties located in 26 states. CNLR senior management believes that this portfolio likely could not be replicated through individual acquisitions;
- Captec's portfolio will provide additional concept and line of trade diversification to CNLR and is consistent with CNLR's geographic diversification strategy. The combined portfolio will include approximately 377 properties in 40 states with total gross leasable area of approximately 7.0 million square feet;
- CNLR's management anticipates that the transaction will be immediately accretive to funds from operation (FFO);
- the characteristics of Captec's assets complement those of CNLR's existing assets, including long-term leases, strong locations and flexibility of design and adaptation;
- enhancements to CNLR's liquidity and capital markets profile through the issuance of common and preferred equity and that the larger market capitalization of CNLR following the merger will, in management's estimation, likely result in higher trading volumes and enhanced liquidity;
- anticipated cost savings and reductions in expenses following the merger. The opportunities for economies of scale and operating efficiencies from the merger will result in cost savings to CNLR;
- the due diligence review of Captec and its assets conducted by CNLR management and its advisors, including, among other things, site tours of a significant number of Captec's properties, and management's assessment of the quality of Captec's assets; and

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- historical and prospective information concerning CNLR's and Captec's respective businesses, operations and financial performance, including, among other things, the earnings prospects of CNLR and its debt service and financial obligations, both before and after the merger.

CNLR's board of directors also identified and considered a number of potentially negative factors in its deliberations concerning the merger, including the following:

- the risk that the anticipated benefits of the merger to CNLR and its stockholders may not be realized as a result of possible changes in the real estate markets, any inability to operate the Captec portfolio of properties, any inability to achieve the anticipated cost savings and reduction in expenses and other potential difficulties in integrating the two companies and their respective operations;
- the significant cost involved in connection with completing the merger and the substantial management time and effort required to effect the merger and integrate the businesses of CNLR and Captec;
- the risk that the merger might not be completed based upon the failure to satisfy covenants or closing conditions; and
- other applicable risks described in this proxy statement-prospectus under "RISK FACTORS" (p.     ).

CNLR's board of directors concluded, however, that on balance, the potential benefits of the merger to CNLR and its stockholders outweighed the negative factors associated with the merger.

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The discussion of the information and factors considered by CNLR's board of directors is not intended to be exhaustive. In view of the variety of factors considered in connection with its evaluation of the merger, CNLR's board of directors did not find it practicable to, and did not quantify or otherwise assign relative weight to, the specific factors considered in reaching its determination.

### OPINION OF CAPTEC'S FINANCIAL ADVISOR

The special committee retained UBS Warburg LLC to act as its financial advisor in connection with the merger. The special committee selected UBS Warburg to act as its financial advisor based on UBS Warburg's qualifications, expertise, reputation and its knowledge of Captec's business and affairs. At the meeting of the special committee on July 1, 2001, UBS Warburg rendered its oral opinion, subsequently confirmed in writing, that, as of July 1, 2001, and subject to and based on the considerations in its opinion, the merger consideration to be received by Captec's stockholders consisting of 0.4575 of a share of CNLR common stock, 0.21034679 of a share of CNLR preferred stock, and \$1.27 in cash per share of Captec common stock, was fair from a financial point of view to the holders of shares of Captec common stock.

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 this opinion carefully and in its entirety. This summary is qualified in its entirety by reference to the full text of the opinion.



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UBS Warburg's opinion, which was directed to the special committee, addresses only the fairness from a financial point of view as of July 1, 2001 of the consideration to be received by holders of Captec common stock pursuant to the merger agreement, and does not address any other aspect of the transaction. UBS Warburg acted as financial advisor to the special committee in connection with the merger. In that capacity and at the special committee's direction, it contacted more than 50 parties to solicit indications of interest in acquiring Captec and held discussions with certain of those parties concerning a possible transaction. At the direction of the special committee, UBS Warburg did not solicit indications of interest from third parties with respect to a sale of only part of Captec (including the excluded assets described below) or of a liquidation of Captec, nor did UBS Warburg perform a liquidation analysis of all of Captec's assets.

UBS Warburg's opinion does not address Captec's underlying business decision to effect the merger or constitute a recommendation to any of Captec's stockholders as to how they should vote on the merger. UBS Warburg was neither asked by the special committee to, nor otherwise did it, offer any opinion as to the material terms of the merger agreement or the form of the merger consideration. Furthermore, UBS Warburg expressed no opinion as to the prices at which securities issued pursuant to the merger agreement will trade in the future. In rendering its opinion, UBS Warburg assumed, with the special committee's consent, that both Captec and CNLR will comply with all the material terms of the merger agreement, that all conditions to the merger will be satisfied, and that the terms of the sale of the excluded assets are the most beneficial terms from Captec's point of view that reasonably could have been negotiated under the circumstances.

In arriving at its opinion, UBS Warburg, among other things:

- reviewed certain publicly available business and historical financial information relating to each of Captec and CNLR;
- reviewed certain internal financial information and other data relating to Captec's business and financial prospects, including estimates and financial forecasts prepared by Captec's management, that were provided to UBS Warburg by Captec and not publicly available; UBS Warburg did not review CNLR internal financial information and other data relating to CNLR's business and financial prospects, other than limited data concerning its properties;
- conducted discussions with members of Captec senior management and CNLR senior management concerning the businesses and financial prospects of Captec and CNLR;

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- reviewed publicly available financial and stock market data with respect to other companies in lines of business UBS Warburg believed to be generally comparable to Captec's;
- compared the financial terms of the merger with the publicly available financial terms of certain other transactions which UBS Warburg believed to be generally relevant;
- reviewed drafts of the merger agreement; and
- conducted such other financial studies, analyses and investigations, and considered such other information, as UBS Warburg deemed necessary or appropriate.

In connection with its review, at the special committee's direction, UBS

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Warburg did not assume any responsibility for independent verification of any of the information reviewed by it for the purpose of its opinion and, with the special committee's consent, relied on such information being complete and accurate in all material respects. In addition, at the special committee's direction, UBS Warburg did not make any independent evaluation or appraisal of any of the assets or liabilities, contingent or otherwise, of Captec or CNLR. With respect to the financial forecasts and estimates referred to above, UBS Warburg assumed, at the special committee's direction, that they were reasonably prepared on a basis reflecting the best currently available estimates and judgments of Captec's management as to the future performance of Captec. In addition, with the special committee's consent, UBS Warburg assumed that the per share value of the CNLR preferred stock will be \$24.00 upon issuance. UBS Warburg's opinion was necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to it as of, the date of its opinion.

No company, transaction or business used in the analyses described below is identical to Captec, CNLR or the proposed merger. Accordingly, the analysis of the results necessarily involves complex considerations and judgments concerning differences in financial and operating characteristics and other factors.

The following is a summary of the material financial analyses performed by UBS Warburg in connection with its opinion. These summaries of financial analyses alone do not constitute a complete description of the financial analyses.

**Analysis of Consideration.** UBS Warburg reviewed the consideration to be received by Captec stockholders in the merger. Based on the closing price of CNLR common stock on the NYSE as of June 29, 2001 of \$14.25 per share and the assumption that the per share value of the CNLR preferred stock would be \$24.00 upon issuance, UBS Warburg noted that the merger consideration would be equivalent to \$12.84 per share. This merger consideration consists of (i) 4.35 million shares of CNLR common stock, equivalent to \$6.52 per share of Captec common stock, (ii) 2.0 million shares of CNLR preferred stock, equivalent to \$5.05 per share of Captec common stock; and (iii) \$12.1 million in cash, equivalent to \$1.27 per share of Captec common stock.

**Historical Stock Price Analysis.** UBS Warburg reviewed the performance of the per share market price and trading volume of Captec common stock for the period from September 1, 1999 to June 29, 2001. The analysis indicated that during the 52-week period ended June 29, 2001, the highest closing market price per share was \$13.85, the average closing market price per share was \$11.69 and the lowest closing market price per share was \$10.13. Fewer than 600,000 shares (or 5.3% of total shares outstanding) had traded at or above the implied transaction price over the preceding twelve months. The implied transaction price is 19.4% higher than the price of Captec common stock one day prior to the September 28, 2000 announcement of intent of Captec's board of directors' to sell Captec.

**Non-core Assets Analysis.** UBS Warburg performed analyses based on cash flow projections by Captec's management of Captec's interests in the excluded assets which are certain non-core assets that are to be sold to CRC Acquisition LLC, an entity controlled by Mr. Beach, and its subsidiaries and management fee income from management agreements with Family Realty, Inc. and Family Realty II, Inc. which are cancellable by Mr. Beach. The excluded assets and the Family Realty and Family Realty II management agreements and resulting income are hereinafter referred to collectively as the non-core

assets. A range of valuation for the non-core assets was calculated as follows

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and included consideration of the subordinated and contingent nature of certain of Captec's interests: a net present value was calculated for FC Venture I, LLC (in liquidation) assuming a liquidation period of eighteen months at capitalization rates of 9.75% to 11.0% and discount rates of 11.0% to 13.0%; net present values were calculated for Captec Franchise Capital Partners L.P. III and Captec Franchise Capital Partners L.P. IV, assuming liquidation at the end of year five using capitalization rates of 9.5% to 11.0% and discount rates of 11.0% to 13.0%; net present values for Captec's interest in Family Realty and Family Realty II were calculated assuming liquidation at the end of year five using capitalization rates of 9.0% to 10.5% and discount rates of 11.0% to 13.0%; and net present values were calculated for management fee income from Family Realty and Family Realty II based on management fee income for three months as the management fee stream is under Mr. Beach's control and is cancelable with 90 days notice without penalty. A valuation range for the loan to Captec Financial Group Inc. of \$0 to \$9.7 million was utilized. This analysis indicated a valuation range for the non-core assets of \$3.4 million to \$13.2 million.

**Net Asset Valuation Analysis.** Using information provided by Captec management, UBS Warburg calculated the equity net asset value per share for Captec common stock by subtracting debt and other liabilities from the value of the gross assets, but did not include transaction costs or time value considerations. UBS Warburg calculated the value of the gross assets by applying capitalization rates ranging from 9.75% to 10.25% to Captec's annualized net operating income. Captec's annualized net operating income excluding income from non-core assets was based on cash net operating income for its net lease properties as of the first quarter of 2001.

The resulting gross real estate value was added to the range of value of the non-core assets as described above, the book value of Captec's other assets, including cash and cash equivalents, accounts receivables and loans receivable, less Captec's outstanding debt, and certain other liabilities, to arrive at an equity net asset value. This analysis indicated an equity net asset value range of between \$104.7 million and \$125.0 million, or equivalent equity net asset value of \$11.01 to \$13.15 per share of Captec common stock, indicating that, based upon the closing price of the Captec common stock on June 29, 2001, the Captec common stock was trading at approximately 101.2% to 120.9% of Captec's net asset value.

Based on publicly disclosed information and information provided by CNLR, UBS Warburg also calculated the equity net asset value per share of CNLR common stock by subtracting debt and other liabilities from the value of gross assets. UBS Warburg calculated the value of gross assets by applying capitalization rates from 9.75% to 10.25% to CNLR's annualized net operating income. UBS Warburg added the book value of CNLR's other assets to the value of CNLR's gross assets. These other assets, valued at book, included cash and cash equivalents, mortgages and accrued interest receivables, mortgages and other receivables from unconsolidated subsidiaries and other receivables. This analysis indicated an equity net asset value range of between \$436.1 million and \$471.1 million, or equivalent net asset value of \$14.30 to \$15.44 per share of CNLR common stock, indicating that, based upon the closing price of the CNLR common stock on June 29, 2001, the CNLR common stock was trading at approximately 92.3% to 99.7% of CNLR's net asset value.

**Comparable Companies Analysis.** Using Captec management projections and First Call Corporation consensus estimates, UBS Warburg reviewed and compared selected publicly available financial information and multiples for Captec to corresponding publicly available financial information and multiples for the following real estate companies:

- Agree Realty Corporation

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- Capital Automotive REIT
- Commercial Net Lease Realty, Inc.
- Developers Diversified Realty Corp.
- Entertainment Properties Trust
- Lexington Corporate Properties Trust

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- Realty Income Corporation
- US Restaurant Properties, Inc.

UBS Warburg calculated the FFO multiples and other financial information for Captec at (i) the current market price, based on the closing price for shares of Captec common stock on NASDAQ on June 29, 2001; (ii) the implied transaction price, based on the closing price for shares of CNLR common stock on the NYSE on June 29, 2001 and, with the special committee's consent, the assumption that the per share value of the CNLR preferred stock would be \$24.00 upon issuance; and (iii) the implied transaction price, based on the closing price for shares of CNLR common stock on the NYSE on June 29, 2001 and, with the special committee's consent, the assumption that the per share value of the CNLR preferred stock would be \$24.00 upon issuance and adjusted to exclude a range of value related to the non-core assets and adjusted to exclude income from the non-core assets. UBS Warburg arrived at a range of comparable company FFO multiples by dividing each comparable company's share price, using closing share prices as of June 29, 2001, by consensus 2001 and 2002 FFO per share estimates from First Call Corporation. First Call Corporation is a Thompson Financial company that specializes in the compilation and statistical summarization of equity earnings estimates by institutional research houses. UBS Warburg's calculations resulted in a selected range of 2001 FFO multiples from 7.6x to 11.1x and a range of 2002 FFO multiples from 7.1x to 10.7x.

In addition, UBS Warburg derived FFO multiples based on projections of 2001 and 2002 FFO per share provided by Captec and other financial information as follows:

	COMPARABLE COMPANIES		CAPTEC		
	HIGH	LOW	JUNE 29 MARKET PRICE	IMPLIED TRANSACTION PRICE	IMPLIED TRANSACTION PRICE -- ADJUSTED 1(1,2)
Equity value (in millions).....	1,029	97	127	122	119
Enterprise value (in millions).....	2,577	200	229	225	222
Estimated FFO multiple of 2001 (x)....	11.1	7.6	8.6	8.3	10.8
Estimated FFO multiple of 2002 (x)....	10.7	7.1	8.4	8.1	10.5
Last quarter annualized					
EBITDA multiple (x).....	13.0	9.6	9.6	9.4	11.0
Implied capitalization rate (%).....	10.9	8.3	11.1	11.4	9.8

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### Notes:

- 1 Adjusted to exclude income from non-core assets
- 2 Assumes the non-core assets have value of \$3.4 million and calculates implied transaction price net of this amount for purposes of deriving the valuation metrics
- 3 Assumes the non-core assets have value of \$8.0 million and calculates implied transaction price net of this amount for purposes of deriving the valuation metrics
- 4 Assumes the non-core assets have value of \$13.2 million and calculates implied transaction price net of this amount for purposes of deriving the valuation metrics

UBS Warburg also reviewed and compared selected publicly available financial information and multiples for CNLR to corresponding publicly available financial information and multiples for the following real estate companies and projections for Captec provided by management.

- Capital Automotive REIT
- Developers Diversified Realty Corp.
- Entertainment Properties Trust
- Lexington Corporate Properties Trust
- Realty Income Corporation

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- US Restaurant Properties, Inc.

UBS Warburg calculated the FFO multiples and other financial information for CNLR, the above companies and Captec. UBS Warburg arrived at a range of comparable company FFO multiples by dividing each comparable company's share price, using closing share prices as of June 29, 2001, by consensus 2001 and 2002 FFO per share estimates from First Call Corporation for CNLR and the comparable companies, and 2001 and 2002 FFO per share estimates for Captec provided by management. UBS Warburg's calculations resulted in a selected range of 2001 FFO multiples from 7.7x to 11.1x and a range of 2002 FFO multiples from 7.1x to 10.7x compared to 2001 and 2002 FFO multiples of 9.7x and 9.4x, respectively, for CNLR.

Comparable Transactions Analysis. UBS Warburg reviewed comparable transactions involving REITs from 1999 to the date of its opinion. Six comparable transactions with equity values in excess of \$50.0 million were selected. The comparable transactions include the following pending and completed transactions:

- Bradley Real Estate, Inc. and Heritage Properties Investment Trust, Inc.
- Western Properties Trust and Pan Pacific Retail Properties
- First Washington Realty Trust Inc. and CALPERS
- Westfield America, Inc. and Westfield America Trust
- Franchise Finance Corporation of America and GE Capital Corp.

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- United Investors Realty Trust and Equity One, Inc.

For each transaction, UBS Warburg calculated the last quarter annualized and latest twelve months funds from operations multiple of the target company at the announcement date of the respective transaction defined as the offer price of the target company divided by the most recent last quarter annualized or latest twelve months FFO at the time of the announcement. UBS Warburg observed a range of last quarter annualized or latest twelve months FFO multiples at the announcement date from 8.2x to 8.8x compared to an 8.1x last quarter annualized FFO multiple for Captec, and a range of latest twelve months FFO multiples at the announcement date from 8.4x to 8.9x compared to an implied 7.8x LTM multiple for Captec, based on the implied transaction price.

For each transaction, UBS Warburg determined last quarter annualized and LTM earnings before interest, taxes, depreciation and amortization (EBITDA) multiples of the target company at the announcement date of the respective transactions. UBS Warburg observed a range of last quarter annualized EBITDA multiples from 10.2x to 12.8x compared to a last quarter annualized EBITDA multiple of 9.4x for Captec, and a range of latest twelve months EBITDA multiples from 9.9x to 12.4x compared to a latest twelve months EBITDA multiple of 8.8x for Captec, based on the implied transaction price and on reported EBITDA for Captec for the first quarter of 2001 and the twelve months then ended.

UBS Warburg calculated the FFO multiples and other financial information for Captec at (i) the implied transaction price, based on the closing price of CNLR common stock on the NYSE on June 29, 2001 and, with the special committee's consent, the assumption that the per share value of the CNLR preferred stock will be \$24.00 upon issuance; and (ii) the implied transaction price, based on the closing price of CNLR common stock on the NYSE on June 29, 2001 and, with the special committee's consent, the assumption that the per share value of the CNLR preferred stock will be \$24.00 upon issuance and

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adjusted to exclude a range of values related to the non-core assets and adjusted to exclude income from the non-core assets.

	COMPARABLE		TRANSACTION PRICE	CAPTEC	
	TRANSACTIONS			IMPLIED	IMPLIED
	HIGH	LOW		TRANSACTION PRICE --	TRANSACTION PRICE --
	-----	-----	-----	-----	-----
LQA EBITDA multiple (x).....	12.8	10.2	9.4	11.0	10.7
LTM EBITDA multiple (x).....	12.4	9.9	8.8	10.5	10.2
LQA FFO multiple (x).....	8.8	8.2	8.1	10.5	10.1
LTM FFO multiple (x).....	8.9	8.4	7.8	10.2	9.8
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Notes:

1 Adjusted to exclude income from non-core assets

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- 2 Assumes the non-core assets have value of \$3.4 mm and calculates implied transaction price net of this amount for purposes of deriving the valuation metrics
- 3 Assumes the non-core assets have value of \$8.0 mm and calculates implied transaction price net of this amount for purposes of deriving the valuation metrics
- 4 Assumes the non-core assets have value of \$13.2 mm and calculates implied transaction price net of this amount for purposes of deriving the valuation metrics

Pro Forma Merger Analysis. UBS Warburg analyzed the financial impact of the merger on, among other things, the estimated FFO per fully diluted share of CNLR common stock for the year ending December 31, 2002. In doing so, UBS Warburg combined the projected operating results for Captec, as provided by management, and CNLR, as projected by Goldman, Sachs & Co. equity research, as well as other transaction related items. UBS Warburg observed a total projected post-merger incremental accretion of 5.2% in per share FFO for 2002 assuming no synergies other than interest savings on Captec's debt.

FFO Payout Analysis. UBS Warburg analyzed Captec's projected FFO and funds available for distribution payout ratio for 2001 based upon the projections Captec provided and the current annual dividend rate of \$1.52 per share. Captec's projected 2001 FFO payout ratio is 97.8% and the projected 2001 funds available for distribution payout ratio is 102.4%. The 2001 estimated FFO payout ratios for comparable companies ranged from a low of 61.7% to 85.7%. Captec's projected payout ratio calculation did not consider a possible change in the interest rate or amortization schedule on Captec's existing credit facility that matures in August 2001 with a one-time three-month extension option.

Dividend Reduction Analysis. Due to the high projected payout ratio and pending debt maturity, UBS Warburg analyzed the impact of dividend reductions on selected real estate companies since 1999. These companies and the dates of their respective dividend reductions include:

- Associates Estate Realty Co. (February 1999)
- Omega Healthcare Investors, Inc. (January 2000)
- US Restaurant Properties, Inc. (May 2000)
- HRPT Properties Trust (July 2000)
- Prime Retail Inc. (January 2001)
- Omega Healthcare Investors, Inc. (February 2001)
- Malan Realty Investors, Inc. (March 2001)
- Center Trust Inc. (March 2001)

UBS Warburg tracked decreases in stock prices following announcements of dividend reductions ranging from 19.4% to 100.0% of prior dividend rates. The analysis indicates a range of price decrease of 4.4% to 47.3% one week after the announcement and a range of decrease of 6.2% to 51.3% four weeks after the announcement.

Market Coupon of Perpetual Preferred Stock Analysis. UBS Warburg reviewed

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and compared information concerning perpetual preferred stock of selected real estate companies, specifically Apartment Investment and Management Company (AIMCO), Colonial Properties Trust, Health Care REIT, Highwood Properties, Inc., Realty Income Corporation and United Dominion, including the credit ratings of these stocks by Moody's and Standard & Poor's, the price of these preferred stocks and their yield, expressed as a percentage of the price, with the implied credit ratings of the CNLR preferred stock to be issued in the merger, based upon CNLR's senior unsecured debt ratings by Moody's and Standard & Poor's, and the \$25.00 stated value and 9.0% stated dividend rate of the CNLR preferred stock. UBS Warburg then compared the stated dividend rate of the CNLR preferred stock to be issued in the merger with the market dividend rate for a stock having the characteristics of the CNLR preferred stock, as estimated by UBS Warburg, of 9.375%. UBS Warburg calculated the 9.0% stated dividend rate of the CNLR preferred stock as 96.0% of the estimated market rate of 9.375%, and multiplied the \$25.00 per share stated value of the CNLR preferred stock by 96.0% (.96), equaling \$24.00.

With the consent of the Captec special committee, UBS Warburg assumed for purposes of its fairness opinion that the value of the CNLR preferred stock would be \$24.00 per share upon issuance.

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to a partial analysis or summary description. In arriving at its opinion, UBS Warburg considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor considered by it. UBS Warburg believes that the summary provided and the analyses described above must be considered as a whole and that selecting portions of these analyses, without considering all of them, would create an incomplete view of the process underlying its analyses and opinion. In addition, UBS Warburg may have given various analyses and factors more or less weight than other analyses and factors and may have deemed various assumptions more or less probable than other assumptions, therefore the range of valuations resulting from any particular analysis described above should not be taken to be UBS Warburg's view of the actual value of CNLR or Captec.

In performing its analyses, UBS Warburg made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of CNLR and Captec. Any estimates contained in UBS Warburg's analysis are not necessarily indicative of future results or actual values, which may be significantly more or less favorable than those suggested by these estimates. The analyses performed were prepared solely as a part of UBS Warburg's analysis of the fairness from a financial point of view as of the date of the merger agreement of the merger consideration to be received by holders of Captec common stock pursuant to the merger agreement and were conducted in connection with the delivery by UBS Warburg of its opinion, dated July 1, 2001, to the special committee. UBS Warburg's analyses do not purport to be appraisals or to reflect the prices at which shares of stock might actually trade. The consideration to be paid by CNLR in the merger was determined through negotiations and was approved by the special committee. UBS Warburg did not recommend any specific consideration to Captec or suggest that any given consideration constituted the only appropriate consideration for the merger.

UBS Warburg's opinion was one of the many factors taken into consideration by the special committee and Captec's board of directors in making its determination to approve the merger. UBS Warburg's analyses summarized above should not be viewed as determinative of the opinion of the special committee or Captec's board of directors with respect to the value of Captec or of whether the special committee or Captec's board of directors would have been willing to agree to a different form of consideration.

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advisory firm. UBS Warburg, as part of its investment banking and financial advisory business, is continuously engaged in the valuation

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of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. In the past, UBS Warburg and its affiliates have provided financial advisory and financing services to CNLR and its affiliates and have received customary fees for the rendering of these services. Specifically, in 1997, a UBS Warburg affiliate participated in CNLR's \$200.0 million revolving credit facility. UBS Warburg is no longer a participant in CNLR's credit facility. In the ordinary course of business, UBS Warburg may from time to time trade in the securities or indebtedness of Captec and CNLR for its own account, the accounts of investment funds and other clients under the management of UBS Warburg and for the accounts of its customers and, accordingly, may at any time hold a long or short position in these securities or indebtedness.

Captec has agreed to pay UBS Warburg a fee of \$500,000 in connection with the issuance of its opinion, which will be applied to a \$2.75 million transaction fee payable upon completion of the merger. Captec also has agreed to reimburse UBS Warburg for its expenses incurred in performing its services and to indemnify UBS Warburg and its affiliates, their respective directors, officers, agents and employees and each person, if any, controlling UBS Warburg or any of its affiliates against certain liabilities and expenses, including certain liabilities under federal securities laws, related to or arising out of UBS Warburg's engagement and any related transactions.

### INTERESTS OF CERTAIN PERSONS IN THE MERGER

Certain members of Captec's board of directors and management may be deemed to have certain interests in the merger that are in addition to the interests of Captec and its stockholders in the merger. Captec's board of directors was aware of these interests and considered them in approving the merger agreement and the transactions contemplated by the merger agreement.

Sale of Certain Assets of Captec to Mr. Beach. Contemporaneously with the execution of the merger agreement, Captec, CNLR, CRC Acquisition LLC, a Michigan limited liability company of which Mr. Beach is the sole owner, and two of CRC Acquisition's wholly-owned subsidiaries executed a July 1, 2001 asset purchase agreement. Pursuant to the asset purchase agreement, following completion of the merger, the excluded assets will be sold to CRC Acquisition and its subsidiaries for \$7.5 million. The excluded assets consist of Captec's current equity interests in certain affiliated business ventures and the Financial Group note. Pursuant to a July 1, 2001 loan agreement, CNLR has agreed to loan to CRC Acquisition and its affiliates \$6.75 million to be used by CRC Acquisition and its subsidiaries to fund a portion of the purchase price for the excluded assets. These assets have a current book value on Captec's financial statements of approximately \$21.0 million. See "THE MERGER -- Asset Purchase Agreement."

Severance Payments. Mr. Beach and Mr. Martin each have employment agreements with Captec pursuant to which they receive base annual salaries, health and life insurance and certain other benefits and are eligible for an annual bonus depending upon Captec's operating results. Each employment agreement provides for an initial three-year term that is automatically extended for an additional year at the end of each year, subject to the right of either party to terminate at the end of the then applicable term by giving written notice of termination on or before November 30 of any year. Although these employment agreements do not terminate pursuant to their respective terms until December 31, 2003, the parties have agreed to terminate these employment agreements upon completion of the merger. In consideration of the termination of

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these employment agreements, CNLR will pay \$916,875 to Mr. Beach and \$640,000 to Mr. Martin representing the amounts which CNLR and Messrs. Beach and Martin have agreed are due to Messrs. Beach and Mr. Martin upon termination of their employment agreements. Ronald Max, Captec's Vice President and Chief Investment Officer, will receive a \$25,000 discretionary bonus upon completion of the merger.

Deferred Compensation Plan Payments. Captec maintains a deferred compensation plan pursuant to which directors who are not employees of Captec can defer receipt of the fees payable to them for their services as directors. The value of the amounts credited to a director in the deferred plan increases or decreases based on the market value of the common stock. Upon completion of the merger, participating

directors will receive a cash payment based upon the value of their deferred compensation plan accounts the amount of which will depend upon the price of the Captec common stock just prior to the closing of the merger. Assuming a price for the Captec common stock of \$12.50 per share, the following payments will be made to directors of Captec with respect to their deferred compensation plan accounts:

Albert T. Adams.....	\$86,746
William J. Chadwick.....	\$79,793
Creed L. Ford III.....	\$91,204
William H. Krul II.....	\$99,239
Richard J. Peters.....	\$93,751

Lee C. Howley does not participate in the deferred compensation plan.

Indemnification of Officers and Directors. Pursuant to the merger agreement, CNLR has agreed to provide certain indemnification to the present and former officers and directors of Captec and to maintain directors' and officers' liability insurance for the officers and directors covered by Captec's directors' and officers' liability insurance as of , 2001. See "THE MERGER AGREEMENT -- Covenants -- Indemnification of Directors and Officers."

REGULATORY APPROVAL

Neither Captec nor CNLR is aware of any material approval or other action by any state, federal or foreign governmental agency that is required prior to the completion of the merger in order to effect the merger or of any license or regulatory permit that is material to the businesses of Captec or CNLR and that is likely to be adversely affected by the completion of the merger.

STOCKHOLDERS AGREEMENT

The following description of the stockholders agreement does not purport to be complete and is qualified in its entirety by, and is subject to, the more complete and detailed information set forth in the stockholders agreement, which is filed as an exhibit to the registration statement of which this proxy-statement prospectus is a part.

Simultaneously with the execution of the merger agreement, Messrs. Beach and Martin executed and delivered to CNLR a stockholders agreement which, among other things, obligates them to vote all of the shares of Captec common stock beneficially owned by them:

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- in favor of the merger agreement, the execution and delivery by Captec of the merger agreement and the approval of the terms thereof and any actions required in furtherance thereof;
- against any proposal made by a third party to acquire Captec, directly or indirectly, pursuant to a tender or exchange offer, merger, share exchange, consolidation or sale of all or substantially all of Captec's assets, even if such proposal is more favorable generally to Captec's stockholders than the merger proposal; and
- against any proposal, action or agreement that would impede, frustrate, prevent or nullify the merger agreement, or result in a breach of the merger agreement or result in any of the conditions to the merger not being fulfilled.

Neither Mr. Beach nor Mr. Martin shall be required to vote for, or provide a consent with respect to, any action that would reduce the number of the shares of CNLR common stock or CNLR preferred stock or the cash to be received by Mr. Beach or Mr. Martin in respect of their respective shares of Captec common stock in the merger or take any action that is otherwise prohibited by Delaware law.

As of July 2, 2001, Messrs. Beach and Martin in the aggregate exercise voting control over 727,552 shares of Captec common stock, representing 7.65% of the issued and outstanding shares of Captec common stock on such date.

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### ASSET PURCHASE AGREEMENT

The following description of the asset purchase agreement does not purport to be complete and is qualified in its entirety by, and is subject to, the more complete and detailed information set forth in the asset purchase agreement, which is filed as an exhibit to the registration statement of which this proxy statement-prospectus is a part.

Contemporaneously with the execution of the merger agreement, Captec, CNLR, Mr. Beach and CRC Acquisition and certain wholly-owned subsidiaries of CRC Acquisition, executed a July 1, 2001 asset purchase agreement pursuant to which, following completion of the merger, the excluded assets will be sold to CRC Acquisition and its subsidiaries. The excluded assets consist of all of Captec's rights and interests:

- in and to its general partner interest in Captec Franchise Capital Partners, L.P. III, a Delaware limited partnership;
- under the agreement of limited partnership of Captec Franchise Capital Partners, L.P. III;
- in and to its general partner interest in Captec Franchise Capital Partners, L.P. IV, a Delaware limited partnership;
- under the agreement of limited partnership of Captec Franchise Capital Partners, L.P. IV;
- in Family Realty, Inc. and Family Realty II, Inc. (exclusive of Captec's interest in certain management contracts which will be terminated);
- in FCV No. 1 a Delaware corporation that owns Captec's interests in FC Ventures, LLC;

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- in and to Captec's voting interests in CNLR Development, Inc.; and
- under a promissory note dated July 1, 1995 made in favor of Captec by Financial Group.

In consideration of the sale of the foregoing assets, CRC Acquisition has agreed to pay to CNLR in cash at the closing the sum of \$750,000 and to execute and deliver a promissory note in favor of CNLR in the principal amount of \$6.75 million pursuant to the terms of a loan agreement between CNLR and CRC Acquisition.

Prior to completion of the asset purchase and pursuant to Captec's obligations under the agreements of limited partnership of Captec Franchise Capital Limited Partners, L.P. III and Captec Franchise Capital Limited Partners, L.P. IV, respectively, Captec must obtain the consent of a majority of the limited partnership interests of each respective limited partnership to the transfer of the applicable general partnership interest. Failure of Captec to obtain such consent will not be deemed to be a breach by Captec of the asset purchase agreement, provided CRC Acquisition and Captec each use commercially reasonable efforts to take, or cause to be taken, all appropriate actions or do, or cause to be done, all things necessary and proper to obtain such consents. In the event the appropriate consents are not obtained prior to the completion of the merger, upon closing of the sale of the other excluded assets in accordance with the asset purchase agreement, Captec's economic interest in these partnerships will be transferred to CRC Acquisition. In addition, if the consents are not obtained prior to completion of the merger, Mr. Beach has agreed to pledge 10,000 shares of CNLR preferred stock which he will receive in the merger (which, based upon the stated value of \$25.00 per share, represents an additional \$250,000) to secure CRC Acquisition's obligation to continue to seek approval of the limited partners. These shares will be released to Mr. Beach at such time as limited partner approval is obtained, the partnerships are dissolved or CNLR elects to take control of the partnership interests, which, as successor in interest to Captec under the partnership agreements, it shall have the right to do after two years if such consents have not been received at that time. If CNLR does not elect to take control of the partnership interests, Mr. Beach will forfeit the pledged shares.

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### LOAN AGREEMENT

The following description of the loan agreement does not purport to be complete and is qualified in its entirety by, and is subject to, the more complete and detailed information set forth in the loan agreement, which is filed as an exhibit to the registration statement of which this proxy-statement prospectus is a part.

CNLR, as lender, has executed the July 1, 2001 loan agreement with CRC Acquisition and certain of its wholly-subsiidiaries, as borrowers. Pursuant to the loan agreement, CNLR will make a \$6.75 million loan to the borrowers which shall be used by the borrowers solely to purchase the excluded assets pursuant to the asset purchase agreement. The loan will be evidenced by a secured promissory note and require the payment of principal and interest at the annual rate of 9.0% in 59 consecutive equal monthly installments of \$85,506.15 with a final payment of unpaid principal and accrued interest on the loan due 60 months after the loan closing. The loan is subject to mandatory prepayment based upon (i) the cash flow from certain of the business ventures included in the excluded assets and from the sale, liquidation or disposition of any assets or property of such business ventures, and (ii) the repayment of principal on the Financial Group note. The loan will be secured by a first priority lien against all tangible and intangible personal property and assets of each of the borrowers

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and \$1.0 million of the CNLR common stock and/or preferred stock received by Mr. Beach in the merger (with a portion of such pledged stock to be released if more than \$2.225 million of loan principal is repaid). The making of the loan is subject to certain conditions of closing set forth in the loan agreement. The borrowers also make certain representations and warranties to CNLR and are subject to certain affirmative and negative covenants set forth in the loan agreement.

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### THE MERGER AGREEMENT

The following description summarizes the material provisions of the merger agreement. This description does not purport to be complete, is qualified in its entirety by, and is subject to, the more complete and detailed information set forth in the merger agreement which is attached as Appendix A to this proxy statement-prospectus.

#### TERMS OF THE MERGER

Subject to the terms and conditions of the merger agreement, Captec will merge with and into CNLR with CNLR being the surviving corporation and the separate corporate existence of Captec will terminate. CNLR will continue to exist following the merger and its internal corporate affairs will be governed by Maryland law. As a result of the merger, the stockholders of Captec will become stockholders of CNLR.

The merger will be completed and become effective on the date and at the time certificates of merger are filed with the Secretary of State of Delaware and the Maryland Department of Assessments and Taxation, or at such later time as may be specified in the certificates of merger.

The articles of incorporation and bylaws of CNLR in effect immediately prior to the effective time of the merger will continue to be the articles of incorporation and bylaws of CNLR following completion of the merger.

The directors and officers of CNLR immediately prior to the effective time of the merger will be the directors and officers of CNLR following the merger.

#### CONVERSION OF SECURITIES

At the effective time of the merger, all shares of Captec common stock owned by Captec or its subsidiaries as treasury stock and all shares of Captec common stock owned by CNLR or its subsidiaries will automatically be cancelled and cease to exist. No CNLR capital stock or other consideration will be delivered in exchange for any Captec common stock owned by Captec and/or its subsidiaries or CNLR and/or its subsidiaries.

Each share of Captec common stock issued and outstanding immediately prior to the effective time, with the exception of Captec treasury stock, CNLR-owned stock and shares with respect to which appraisal rights have been perfected, will be automatically converted into the right to receive:

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

Cash will be paid in lieu of the issuance of fractional shares of CNLR common stock and preferred stock.

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The exchange ratio with respect to CNLR common stock and preferred stock used in the above calculation will be adjusted to reflect the effect of any reclassification, combination, subdivision, stock split, reverse split, stock dividend, reorganization, recapitalization or other like change with respect to Captec common stock or CNLR common stock occurring prior to the effective time.

Following the effective time, each holder of an outstanding option to purchase shares of Captec common stock will be entitled to receive a cash payment from CNLR in cancellation of such stock option. This cash payment will equal the amount, if any, by which the value of the merger consideration paid by CNLR at the effective time exceeds the per-share exercise price of such stock option, multiplied by the number of shares of Captec common stock subject to such stock option. For purposes of this calculation, the value of CNLR preferred stock will be \$25.00 per share and the value of CNLR common stock will be the closing price of such common stock reported on the NYSE on the day immediately preceding the effective time. Each option to purchase shares of Captec common stock will be cancelled upon payment.

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### EXCHANGE OF STOCK CERTIFICATES

When the merger is completed, CNLR's exchange agent will mail to Captec stockholders a letter of transmittal and instructions for exchanging Captec share certificates for CNLR common stock and preferred stock certificates. When a Captec stockholder delivers the Captec share certificates to the exchange agent, along with an executed letter of transmittal and any other required documents, the exchange agent will send to such Captec stockholder the cash and certificates to which that stockholder is entitled pursuant to the merger agreement. Cash also will be paid to Captec stockholders in lieu of issuing any fractional shares of either CNLR common stock or preferred stock.

### REPRESENTATIONS AND WARRANTIES

The merger agreement includes various representations and warranties qualified by specified exceptions and materiality standards, of both Captec and CNLR related to, among other things:

- corporate organization, valid existence, good standing and requisite authority to conduct business;
- the absence of any undisclosed ownership of equity, membership, partnership or similar interest in any other business entity;
- capitalization, validity of capital stock, and the absence of any undisclosed options, warrants or other similar rights to acquire capital stock; and
- corporate power and authority to enter into the merger agreement and the transactions contemplated thereby, and the enforceability of the merger agreement.

The merger agreement also includes various representations and warranties of Captec related to, among other things:

- due authorization of the merger agreement and the transactions contemplated thereby by Captec stockholders and the enforceability of the merger agreement;
- timely filing of all SEC forms, reports or other documents required to be

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filed by Captec with the SEC since January 1, 1999, and the material conformity of all such documents to the requirements of the Exchange Act and the rules and regulations promulgated thereunder;

- the fair presentation, in all material respects, of Captec's financial position and results of operations, and the compliance with generally accepted accounting principles (GAAP) in the financial statements of Captec, and the completeness and accuracy, in all material respects, of the books and records of Captec;
- the absence of any material undisclosed liabilities or indebtedness;
- the completeness and accuracy of the disclosure concerning properties owned by Captec and all material contracts, leases, agreements or understandings of Captec, and the absence of any material breach or default with respect to any material agreement to which Captec is a party;
- the payment or the creation of reserves for all material taxes, the filing of all required tax returns and the absence of any ongoing tax audits or investigation;
- the absence of any undisclosed pending or threatened material litigation against Captec or any unsatisfied judgments against Captec;
- Captec's liabilities under, and compliance with, applicable laws and regulations;
- the absence of any undisclosed transactions with affiliates of Captec;
- the completeness and accuracy of the disclosure concerning the compensation of officers, directors and employees of Captec; and
- the accuracy of information concerning Captec supplied by Captec for use in this proxy statement.

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The merger agreement also includes various representations and warranties of CNLR related to, among other things:

- the validity of the CNLR common stock and preferred stock to be issued as merger consideration;
- timely filing of all SEC forms, reports, or other documents required to be filed by CNLR with the SEC since January 1, 1999, and the material conformity of all such documents to the requirements of the Exchange Act and the rules and regulations promulgated thereunder;
- the fair presentation, in all material respects, of CNLR's financial condition and results of operations, and the compliance with GAAP in the financial statements of CNLR, and the completeness and accuracy, in all material respects, of the books and records of CNLR;
- the absence of any material undisclosed liabilities or indebtedness;
- the completeness and accuracy of the disclosure concerning properties owned by CNLR and the absence of any material breach or default with respect to any material agreement to which CNLR is a party;
- the payment or the creation of reserves for all material taxes, the

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filing of all required tax returns and the absence of any ongoing tax audits or investigation;

- the absence of any undisclosed pending or threatened material litigation against CNLR or unsatisfied judgments against, and of material defaults by, CNLR; and
- the accuracy in all material respects of this proxy statement-prospectus and the conformity of the proxy statement to the requirements of the Securities Exchange Act and the rules promulgated thereunder.

None of these representations and warranties survive completion of the merger.

### COVENANTS

Conduct of Business. The merger agreement requires each of Captec and CNLR and their respective subsidiaries to carry on its business in the ordinary course as currently conducted and, to the extent consistent therewith, to use commercially reasonable best efforts to preserve in tact its current business organization, keep available the services of its current officers and employees and preserve its business relationships such that its good will and ongoing business will be unimpaired at the effective time of the merger.

In addition, Captec and CNLR each have agreed, subject to certain exceptions, not to:

- issue, sell, pledge or otherwise dispose of any shares of its capital stock or any securities convertible into or exchangeable for such capital stock except pursuant to existing stock option plans;
- amend its certificate of incorporation or bylaws;
- make any changes in accounting methods, principles or practices;
- increase its indebtedness in excess of certain amounts;
- sell or dispose of material assets; or
- enter into any agreement with respect to a sale or all or substantially all of its stock or assets.

Captec also has agreed that, subject to certain exceptions, it will not, and it will not permit any of its subsidiaries to, do any of the following without the prior written consent of CNLR:

- declare, set aside or pay any dividends on, or make any other distributions in respect of its capital stock except distributions consistent with past practice or the payment, at Captec's option, if applicable, of a special prorated dividend for the partial quarter ending on the day immediately prior to the effective time of the merger;
- acquire by merger or consolidation any business or other entity;

- make any capital expenditures or other expenditures in excess of \$100,000 in the aggregate;
- pay, discharge or satisfy any claims, liabilities or obligations outside of the ordinary course of business in excess of \$500,000 in the



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aggregate;

- make or rescind any material tax election, settle or compromise any material tax liability or amend in any material respect any tax return;
- fail to report to CNLR on material operational matters and any proposals to engage in material transactions;
- fail to maintain in full force and effect insurance coverage;
- adopt any new employee benefit plan or amend any existing employee benefit plan;
- settle any stockholder derivative or class action claims arising out of or in connection with the merger; or
- increase in any material respect the compensation or fringe benefits of any directors, officers or key employees;

CNLR also has agreed that, subject to certain exceptions, it will not, and it will not permit any of its subsidiaries to, do any of the following without the prior written consent of Captec:

- declare, set aside or pay any dividends on or make any other distributions in respect of its capital stock, except distributions consistent with past practice;
- accelerate the payment, right to payment or vesting of any compensation or benefits, including any outstanding options to purchase capital stock of CNLR;
- make or rescind any tax election with respect to CNLR's election as a REIT; or
- acquire by merger, consolidation of asset or stock purchase any business or entity in one transaction or a series of related transactions with an aggregate value in excess of \$50.0 million.

No Solicitation. Captec has agreed not to solicit or encourage any inquiries or proposals or, except as described below, engage in discussions with any person related to any acquisition proposal. An acquisition proposal for purposes of the merger agreement is:

- any merger, consolidation, business combination, reorganization, recapitalization, liquidation, dissolution or similar transaction;
- any direct or indirect acquisition of 50.0% or more of the outstanding voting equity securities of Captec; or
- any transfer of any of Captec's assets resulting in the transfer of more than 20.0% of its assets.

Captec also agreed not to engage in any discussions or negotiations with, or provide materials to, any person relating, or that could reasonably be expected to lead, to an acquisition proposal. Captec agreed to promptly notify CNLR of any acquisition proposals or any changes to an existing acquisition proposal.

Captec may provide information to, or enter into negotiations with, a person presenting an acquisition proposal, provided such acquisition proposal was not solicited or encouraged by Captec, if Captec's board of directors determines in good faith, after consultation with its financial advisors and

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outside legal counsel, that:

- such acquisition proposal is likely to result in an offer superior to that proposed by CNLR;
- Captec shall have provided written notice to CNLR that it has received a superior proposal and describing the terms of such proposal; and
- Captec enters into a confidentiality agreement with the party submitting the superior proposal.

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Captec's board of directors is permitted to withhold, withdraw, amend or modify its recommendation in favor of the merger if a superior proposal is made and not withdrawn, and CNLR has not, within three business days of receiving notice of such superior proposal, made an offer that Captec's board of directors by a majority vote determines in good faith based on advice of a financial advisor, to be at least as favorable to Captec's stockholders as such superior proposal. Captec's board of directors may also change its recommendation of the merger proposal if it determines, after consultation with its outside counsel, that, in light of such superior proposal, the modification of its recommendation is required to comply with its fiduciary duties under applicable law.

Indemnification of Directors and Officers. CNLR has agreed that its amended and restated articles of incorporation and bylaws will contain provisions with respect to indemnification and exculpation of directors and officers and these documents will not be amended, repealed or otherwise modified for a period of six years after the effective time of the merger in any manner that would adversely affect the rights of any person that was a director or officer of Captec at or prior to the effective time of the merger, unless such modification is required by law.

CNLR also has agreed to indemnify the present and former directors and officers of Captec in connection with any claim, action, suit, proceeding or investigation, based in whole or in part on the fact that such person is or was a director or officer of Captec and arising out of actions or omissions occurring at or prior to the effective time of the merger. CNLR is not obligated to indemnify any director or officer of Captec for acts or omissions by such director or officer involving willful or intentional misconduct or recklessness.

For a period of six years after the effective time of the merger, CNLR will maintain in effect a directors' and officers' liability insurance policy covering those persons who currently are covered by Captec's directors' and officers' liability insurance policy with coverage in amount and scope at least as favorable to such persons as Captec's existing coverage. CNLR will not be required, in order to maintain such directors' and officers' liability insurance policy, to pay an annual premium in excess of 140.0% of the aggregate annual amounts currently paid by Captec to maintain the existing policies and, if equivalent coverage cannot be obtained, or can be obtained only by paying an annual premium in excess of 140.0% of such amount, CNLR will be required only to obtain as much coverage as can be obtained by paying an annual premium equal to 140.0% of such amount.

Listing of CNLR Common Stock and Preferred Stock. CNLR has agreed to cause the shares of CNLR common stock to be issued in the merger and to use its reasonable best efforts to cause the shares of CNLR preferred stock to be issued in the merger, in each case, to be listed on the NYSE on or prior to the closing date of the merger. CNLR also agreed to use its reasonable best efforts to maintain the listing of the CNLR preferred stock on the NYSE for so long as such shares remain outstanding.

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Consent Solicitation. In connection with the sale of the excluded assets following the merger by CNLR to CRC Acquisition, Captec, in its capacity as general partner of Captec Franchise Capital Partners L.P. III and Captec Franchise Capital Partners L.P. IV has agreed to prepare and file with the SEC a consent solicitation for the purpose of transferring the general partnership interests held by Captec in each of these partnerships to CRC Acquisition. In connection with this consent solicitation, Captec has agreed to recommend that the limited partners consent to and approve the transfer of each of the general partnership interests to CRC Acquisition to the fullest extent permitted by its fiduciary duties as the general partner of each of the partnerships. Captec also has agreed to pay CNLR a fee of \$250,000 if Captec does not so recommend or if the consent solicitations do not include the recommendation or if Captec withdraws, amends or modifies, or proposes or resolves to withdraw, amend or modify its recommendation, in each case, as a result of Captec's determination that taking any of such actions is not permitted by Captec's fiduciary duties as the general partner of the relevant partnership.

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Certain Other Covenants. The merger agreement also contains certain other agreements of Captec and CNLR, including those requiring the parties to:

- take, or cause to be taken, all actions, and do, or cause to be done, and to assist and cooperate with the other parties in doing, all things necessary, proper or advisable to complete and make effective the merger;
- obtain any consents, licenses, permits, waivers, approvals, authorizations or orders required to be obtained or made in connection with the authorization, execution and delivery of the merger agreement and the completion of the merger;
- make all necessary filings, and thereafter make any other required submissions required under state and federal securities laws, state and federal antitrust laws and any other applicable law; and
- execute or deliver any additional instruments necessary to complete the merger and cooperate with each other in the making of all such filings.

### CONDITIONS TO THE MERGER

There are a number of conditions that must be met (or waived by the party for whose benefit the condition exists) for the merger to be completed.

Conditions to the Obligations of Captec and CNLR. The conditions to the parties' obligation to complete the merger are that:

- approval of the merger by Captec's stockholders;
- expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976;
- a registration statement for the shares of CNLR common stock and preferred stock to be issued in the merger, has become effective and those shares have been approved for listing on the NYSE;
- no governmental entity has enacted, issued, promulgated, enforced or entered any order, executive order, stay, decree, judgment or injunction, or statute, rule or regulation which has the effect of making the merger illegal or otherwise prohibiting completion of the merger; and

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- all necessary conditions set forth in the asset purchase agreement have been satisfied or waived and delivery into escrow of all documents necessary to complete the transactions provided for in the asset purchase agreement has occurred.
- the shares of CNLR common stock and preferred stock included in the merger consideration shall have been approved for listing on the NYSE.

Conditions to CNLR's Obligations. The further conditions to CNLR's obligation to complete the merger are:

- certain representations and warranties of Captec set forth in the merger agreement are true and correct as of the closing date of the merger;
- Captec has performed in all material respects all obligations required to be performed by it under the merger agreement;
- CNLR has received a written opinion from its counsel to the effect that the merger will be treated as a tax free reorganization;
- Captec has obtained all required consents and approvals of third parties;
- CNLR has received the resignations, effective as of the effective time of the merger, of each officer and director of Captec and its subsidiaries;
- CNLR has received a written opinion from Captec's counsel concerning its status as a REIT;

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- Captec has caused CNLR Development, Inc. to transfer its general partnership interests in Captec Ster Texas LP and Captec Texas Opportunity LP to CNLR;
- certain agreements have been terminated on terms mutually agreeable to the parties thereto and CNLR;
- the asset purchase agreement and loan agreement are in full force and effect;
- CNLR has received a letter from Captec's independent auditors confirming that Captec has distributed all of its earnings and profits for all taxable years, including the taxable year beginning January 1, 2001;
- Captec has terminated certain benefit plans;
- the promissory note dated as of April, 17, 2001 made by Captec Franchise Capital Partners, L.P. IV to the order of Captec has been paid in full; and
- Captec's federal tax return for the year ended December 31, 2000 has been filed with the IRS and a copy has been provided to CNLR.

Conditions to Captec's Obligations. The further conditions to Captec's obligations to complete the merger are:

- certain representations and warranties of CNLR set forth in the merger agreement are true and correct as of the closing date of the merger;
- CNLR has performed in all material respects all obligations required to be performed by it under the merger agreement;

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- Captec has received a written opinion from its counsel that the merger will be treated as a tax-free reorganization;
- UBS Warburg has not withdrawn, modified or revoked its fairness opinion; and
- CNLR has paid, or has made arrangements reasonably satisfactory to Captec to pay, the outstanding amounts due under certain credit agreements.

### TERMINATION AND TERMINATION FEE

Termination of the Merger Agreement. Captec and CNLR may, by mutual written consent, agree to 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; or
- if any of the conditions to a party's obligation to complete the merger become impossible to fulfill and is not waived by the other party.

By Captec:

- if it is not in material breach of its obligations under the merger agreement and if any of the representations and warranties of CNLR are materially untrue or inaccurate or CNLR has breached any of its covenants or agreements in the merger agreement so that CNLR's conditions to complete the merger would not be satisfied.

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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; fails to issue a press release reaffirming the Captec board of directors recommendation of the merger after commencement of a tender offer or exchange offer for more than 50.0% of the Captec common stock within two business days of CNLR's written request, or causes Captec to enter into any letter of intent or agreement for a competing acquisition proposal;
- 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; or
- if it is not in material breach of its obligations under the merger agreement and if any of the representations and warranties of Captec are materially untrue or inaccurate or Captec has breached any of its covenants or agreements in the merger agreement so that its condition to complete the merger would not be satisfied.

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:

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- 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, fails to issue a press release reaffirming the Captec board of directors recommendation of the merger after commencement of a tender offer or exchange offer for more than 50.0% of the Captec common stock within two business days of CNLR's written request, 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 ten 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 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.

Alternatively, 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.

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### DESCRIPTION OF CNLR STOCK

The following summary of the terms of CNLR common stock and preferred stock is not complete and is qualified by reference to the articles of incorporation and bylaws of CNLR and applicable Maryland law and, in the case of the CNLR preferred stock, the form of articles supplementary for such series. The CNLR articles of incorporation and bylaws are incorporated by reference in this proxy statement-prospectus. See "WHERE YOU CAN FIND MORE INFORMATION" on page . The form of articles supplementary for establishing the CNLR preferred stock to be issued in connection with the merger is included as an exhibit to the registration statement of which this proxy-statement prospectus is a part.

#### GENERAL

CNLR's authorized capital stock consists of 90,000,000 shares of common stock, par value \$.01 per share, and 15,000,000 shares of preferred stock, par value \$.01 per share, of which up to 2,187,209 shares will be designated as 9% Non-Voting Series A Preferred Stock. There also is authorized 105,000,000 shares of excess stock, issuable in exchange for capital stock, as described below under "--- Restrictions on Ownership and Transfer" (p. ).

#### COMMON STOCK

As of July 1, 2001, there were 30,548,174.807 shares of CNLR common stock outstanding held of record by approximately stockholders.

All issued and outstanding shares of CNLR common stock are duly authorized, validly issued, fully paid and nonassessable. The holders of CNLR common stock elect all directors and are entitled to one vote per share on all matters submitted to a vote of the stockholders. Stockholders are entitled to receive dividends when, as and if declared by CNLR's board of directors out of funds

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legally available for that purpose. Upon CNLR's liquidation, dissolution or winding up, holders of CNLR common stock are entitled to share pro rata in any distribution to stockholders subject to such rights and preferences as may be created by the CNLR's board of directors with respect to any authorized class or series of preferred stock. Holders of CNLR common stock have no preemptive, subscription or conversion rights.

The shares of CNLR common stock to be issued in connection with the merger will be fully paid and nonassessable and will not be subject to preemptive or other similar rights.

### PREFERRED STOCK

Generally. Under the terms of CNLR's articles of incorporation, CNLR's board of directors may from time to time establish and issue one or more series of preferred stock without stockholder approval. CNLR board of directors may also, subject to the express provisions of any other series of preferred stock then outstanding, alter the designation or classify or reclassify any unissued CNLR preferred stock by setting or changing the number, designation, preference, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms or conditions of redemption of such series. The issuance of CNLR preferred stock could adversely affect the voting power, dividend rights and other rights of holders of CNLR common stock.

The CNLR preferred stock, when issued, will be duly authorized, fully paid and nonassessable. As of July 1, 2001, no shares of CNLR preferred stock were issued and outstanding.

#### The 9% Non-Voting Series A Preferred Stock.

The CNLR preferred stock ranks senior, with respect to distribution and liquidation rights, to all classes or series of shares of CNLR common stock, and all equity securities, the terms of which provide that they shall rank junior to the CNLR preferred stock.

Distributions. Holders of CNLR preferred stock will be entitled to receive, when and as authorized by CNLR's board of directors, out of funds legally available for the payment of distributions, cumulative

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preferential cash distributions at the rate of 9.0% of the \$25.00 liquidation preference per year (equivalent to a fixed annual amount of \$2.25 per share). Such distributions accumulate on a daily basis, shall be cumulative from the effective time of the merger, and shall be payable quarterly in arrears on or before March 15, June 15, September 15 and December 15 of each year (or, if not a business day, the next succeeding business day). Distributions will be computed on the basis of a 360-day year consisting of twelve 30-day months.

No distributions on CNLR preferred stock will be authorized by CNLR's board of directors, or paid or set apart for payment, if such authorization, payment or setting apart for payment would violate or breach any agreement of CNLR or is restricted or prohibited by law. Distributions on CNLR preferred stock will accrue regardless of whether any of the foregoing restrictions exist, CNLR has earnings, there are funds legally available for payment thereof and whether or not authorized.

If any CNLR preferred stock is outstanding, no full distributions will be authorized and paid (or set apart for payment) on any equity securities of any other class or series ranking, as to distributions, on a parity with or junior to CNLR preferred stock, unless full cumulative distributions have been, or

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contemporaneously are, authorized and paid, or authorized and a sum sufficient for the payment thereof set apart for such payment, on CNLR preferred stock for all past distribution periods and the then current distribution period. When distributions are not paid in full, or a sum sufficient for such full payment is not so set apart, upon CNLR preferred stock and any equal ranking securities, all distributions authorized upon such securities will be authorized pro rata so that the amount of distributions authorized for CNLR preferred stock and each such other equal ranking securities will in all cases bear to each other the same ratio that accumulated distributions for CNLR preferred stock and other equal ranking securities (which shall not include any accumulation in respect of unpaid distributions for prior distribution periods if such equal ranking securities do not have a cumulative distribution) bear to each other.

Further, except as provided above, unless full cumulative distributions on CNLR preferred stock have been, or contemporaneously are authorized and paid, or authorized and a sum sufficient for the payment thereof is set apart for payment, for all past distribution periods and the then current distribution period, no distributions (other than in CNLR common stock or other equity securities of CNLR ranking junior to the CNLR preferred stock as to distributions and upon liquidation) shall be authorized or paid or set aside for payment, nor shall any other distribution be authorized or made upon CNLR common stock or junior ranking securities of CNLR, nor shall any CNLR common stock or any other junior ranking securities be redeemed, purchased or otherwise acquired for any consideration by CNLR (except by conversion into or exchange for junior securities).

Voting. Holders of CNLR preferred stock have no voting rights except as provided by law and described below.

Whenever distributions on any CNLR preferred stock shall be in arrears for six or more quarterly periods (whether or not consecutive), the holders of CNLR preferred stock (voting as a single class with all other equity securities upon which parity voting rights have been conferred and are exercisable) will be entitled to vote for the election of a total of two (2) additional directors of CNLR at a special meeting called by CNLR's Secretary upon the written request of the holders of at least 10.0% of the outstanding CNLR preferred stock or the holders of at least 10.0% of any other voting parity securities so in arrears (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of shareholders) or, if the request for a special meeting is received by CNLR less than 90 days before the date fixed for the next annual or special meeting of stockholders, at the next annual meeting of stockholders, and at each subsequent annual meeting until all distributions accumulated on CNLR preferred stock for the past distribution periods and the then current distribution period shall have been authorized and fully paid, or authorized and a sum sufficient for the payment thereof set aside for payment in full.

Any director elected by the preferred stockholders in accordance with the above may be removed at any time with or without cause by the vote of, and shall not be removed otherwise than by the vote of, the holders of a majority of the outstanding CNLR preferred stock and all other series of voting parity

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securities voting as a single class. Any vacancy may be filled by written consent of the directors elected by the preferred stockholders remaining in office, or if none remains in office, by a vote of the holders of a majority of the outstanding CNLR preferred stock and all other series of parity voting securities voting as a single class. The directors elected by the preferred stockholders shall each be entitled to one vote per director on any matter.

So long as any CNLR preferred stock remains outstanding, CNLR may not,



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without the affirmative vote of the holders of at least two-thirds of CNLR preferred stock outstanding at the time, given in person or by proxy, either in writing or at a meeting and voting separately as a class:

- authorize or create, or increase the authorized or issued amount of, any class or series of equity securities ranking senior to CNLR preferred stock with respect to payment of distributions or the distribution of assets upon liquidation, or reclassify any authorized equity securities of CNLR into any such equity securities, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such equity securities; or
- amend, alter or repeal the provisions of the articles of incorporation (including any articles supplementary), whether by merger or consolidation, so as to materially and adversely affect any right, preference, privilege or voting power of CNLR preferred stock or the holders thereof.

**Ownership Limit.** The restrictions on transferability and ownership described below in "-- Restrictions on Ownership and Transfer" apply to CNLR preferred stock at the option of the holders thereof.

**Preemptive Rights, Conversion, Redemption.** Holders of CNLR preferred stock do not have any preemptive rights.

CNLR preferred stock is not convertible or redeemable, except that it may be purchased by CNLR under certain circumstances so as to enable CNLR to preserve its status as a REIT at the option of the holders thereof under the Internal Revenue Code, and may be redeemed by CNLR as described below.

On and after December 31, 2006, CNLR, at its option and upon not less than 30 nor more than 60 days written notice, may redeem the CNLR preferred stock, in whole or part, at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus all accumulated and unpaid distributions thereon to the date fixed for redemption, subject to the following limitations and subject to compliance by CNLR with the procedural requirements applicable to the redemption of CNLR preferred stock:

- if fewer than all of the outstanding CNLR preferred stock is to be redeemed, the shares to be redeemed will be selected pro rata (as nearly as may be practicable without creating fractional shares), by lot or by any other equitable method determined by the CNLR's board of directors;
- the redemption price of CNLR preferred stock (other than the portion thereof consisting of accumulated and unpaid distributions) is payable solely out of the sale proceeds of other equity securities of CNLR, which include any depository shares, interests, participations or other ownership interests and any rights (other than debt securities convertible into or exchangeable for such equity securities) or options to purchase any of the foregoing; and
- unless full cumulative distributions on all CNLR preferred stock have been or contemporaneously are authorized and paid, or authorized and a sum sufficient for the payment thereof set apart, for all past distribution periods and the then current distribution period, no CNLR preferred stock will be redeemed unless all outstanding CNLR preferred stock is simultaneously redeemed, and CNLR shall not purchase or otherwise acquire directly or indirectly any CNLR preferred stock (except by exchange for junior securities).

The foregoing shall not, however, prevent the purchase or acquisition of CNLR preferred stock pursuant to a purchase or exchange offer made on the same

terms to all holders of outstanding CNLR preferred stock.

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Any CNLR preferred stock that has been redeemed will, after such redemption, have the status of authorized but unissued preferred shares, without designation as to series until such shares are once more designated as part of a particular series by CNLR's board of directors.

Liquidation Preference. In the event of any voluntary or involuntary liquidation, dissolution or winding up of CNLR, the holders of any outstanding CNLR preferred stock will be entitled to receive out of the assets of CNLR available for distribution to stockholders, after payment or provision for payment of all debts and other liabilities of CNLR, a liquidation preference in cash of \$25.00 per share, plus an amount equal to any accumulated and unpaid distributions to the date of payment. If upon any voluntary or involuntary liquidation, dissolution or winding up of CNLR, the assets of CNLR are insufficient to make such full payment to the holders of CNLR preferred stock and the corresponding amounts payable on all shares of other classes or series of securities CNLR ranking equally with respect to liquidation rights, then the holders of CNLR preferred stock and all other such classes or series of equity securities shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

After payment of the full amount of the liquidating distribution to which they are entitled, the holders of CNLR preferred stock will not be entitled to any further participation in any distribution of assets by CNLR. Neither a consolidation or merger of CNLR with or into another entity, nor a merger of another entity with or into CNLR, nor a statutory share exchange by CNLR, nor a sale, lease, transfer or conveyance of all or substantially all of CNLR's property or business shall be considered a liquidation, dissolution or winding up of CNLR.

#### RESTRICTIONS ON OWNERSHIP AND TRANSFER

For CNLR to qualify as a REIT, not more than 50.0% in value of its outstanding capital stock may be owned, directly or indirectly, by any five or fewer persons (as defined in the Internal Revenue Code to include certain entities) during the last half of a taxable year. The shares of CNLR capital stock must be beneficially owned (without reference to any rules of attribution) by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. Certain other requirements also must be satisfied.

To ensure that any five or fewer persons do not own more than 50.0% in value of CNLR's outstanding capital stock, CNLR's articles of incorporation provide that, subject to certain exceptions, no holder may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code, more than 9.8% in value of the outstanding capital stock. CNLR's board of directors may waive this ownership limit if evidence satisfactory to CNLR and its tax counsel is presented that such ownership will not then or in the future jeopardize CNLR's REIT status. As a condition of such waiver, CNLR's board of directors may require opinions of counsel satisfactory to it and/or an undertaking from the proposed transferor with respect to preserving CNLR's REIT status.

This ownership limit will not be automatically removed even if the REIT provisions of the Internal Revenue Code are changed so as to no longer contain any ownership concentration limitation or if the ownership concentration limitation of the Internal Revenue Code is increased. In addition to preserving

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CNLR's REIT status, this ownership limit may impede or prevent any person or group from acquiring control of CNLR.

If the ownership, transfer or acquisition of shares of CNLR common stock, or change in CNLR's capital structure or other event or transaction would result in:

- any person owning (applying certain attribution rules) capital stock in excess of the ownership limit,
- fewer than 100 persons owning CNLR's capital stock;
- CNLR being "closely held" within the meaning of Section 856(h) of the Internal Revenue Code; or
- CNLR otherwise failing to qualify as a REIT;

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Then the ownership, transfer or acquisition, or change in capital structure (or other event or transaction that would have such effect) will be void as to the purported transferee or owner, and the purported transferee or owner will not have or acquire any rights to the capital stock to the extent required to avoid such a result. Capital stock owned, transferred or proposed to be transferred in excess of the ownership limit or which would otherwise jeopardize CNLR's REIT status will automatically be converted to excess stock. A holder of excess stock is not entitled to distributions, voting rights or other benefits with respect to such shares except for the right to payment of the purchase price for the shares (or, in the case of a devise or gift or similar event which results in the issuance of excess stock, the fair market value at the time of such devise or gift or event) and the right to certain distributions upon liquidation. Any dividend or distribution paid to a proposed transferee or holder of excess stock shall be repaid to CNLR upon demand. Excess stock shall be subject to repurchase at CNLR's election. The purchase price of any excess stock shall be equal to the lesser of:

- the price paid in such purported transaction (or, in the case of a devise or gift or similar event resulting in the issuance of excess stock, the fair market value of such CNLR common stock at the time of such devise or gift or event); or
- the fair market value of CNLR common stock on the date on which CNLR or its designee determines to exercise its repurchase right.

If the foregoing transfer restrictions are determined to be void or invalid by virtue of any legal decision, statute, rule or regulation, then the purported transferee of any excess stock may be deemed, at CNLR's option, to have acted as an agent on CNLR's behalf in acquiring such excess stock and to hold such excess stock on the company's behalf.

All certificates representing capital stock will bear a legend referring to the restrictions described above.

CNLR's articles of incorporation provide that all persons who own, directly or by virtue of the attribution provisions of the Internal Revenue Code, more than 5.0% of the outstanding capital stock, or such lower percentage as may be required pursuant to regulations under the Internal Revenue Code or as may be requested by CNLR's board of directors, must file a written notice with CNLR no later than January 31 of each year with respect to the prior year containing:

- the name and address of such owner;

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- the number of shares of CNLR capital stock owned by such holder; and
- a description of how such shares are held.

In addition, each stockholder is required to disclose CNLR, upon demand, in writing such information that CNLR may request in good faith in order to determine its REIT status or to comply with the requirements of any taxing authority or governmental agency. The ownership limitations may impede or prevent any person or group from acquiring control of CNLR.

### TRANSFER AGENT

The transfer agent and registrar for CNLR common stock is, and for CNLR preferred stock will be, First Union National Bank.

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### MATERIAL FEDERAL INCOME TAX CONSEQUENCES

The following are the material United States federal income tax consequences of the merger. This discussion is based on the Internal Revenue Code of 1986, as amended, applicable Treasury Department regulations, administrative interpretations and court decisions as in effect as of the date of this proxy statement-prospectus, all of which may change, possibly retroactively.

This discussion addresses only shares of Captec common stock held as capital assets. It does not address all aspects of federal income taxation that may be relevant to a Captec stockholder based upon that stockholder's particular circumstances or to a Captec stockholder subject to special rules, such as:

- a stockholder who is not a citizen or resident of the United States;
- a foreign corporation, foreign estate or foreign trust;
- a financial institution or insurance company;
- a tax-exempt organization;
- a dealer or broker in securities;
- a stockholder that holds its Captec common stock as part of a hedge, appreciated financial position, straddle or conversion transaction; or
- a stockholder who acquired Captec common stock pursuant to the exercise of options or otherwise as compensation.

Tax Opinion. In satisfaction of a condition of its obligation to complete the merger Captec will receive an opinion of Baker & Hostetler LLP that the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code and that Captec and CNLR will each be a party to that reorganization within the meaning of Section 368(b) of the Internal Revenue Code.

The opinion of tax counsel regarding the merger will rely, on (1) representations, warranties and covenants of Captec and CNLR, including those contained in certificates of officers of Captec and CNLR, and (2) specified assumptions, including an assumption regarding the completion of the merger in the manner contemplated by the merger agreement. The opinion of tax counsel will assume, the absence of changes in existing facts or in law between the date of this proxy statement-prospectus and the closing date. If any of those

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representations, covenants or assumptions are inaccurate, tax counsel may not be able to provide the required closing date opinion or the tax consequences of the merger could differ from those described in the opinion that tax counsel has delivered. Tax counsel's opinion neither binds the IRS nor precludes the IRS or the courts from adopting a contrary position. Neither Captec nor CNLR intends to obtain a ruling from the IRS on the tax consequences of the merger.

**Federal Income Tax Treatment of the Merger.** The merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, and Captec and CNLR will each be party to that reorganization within the meaning of Section 368(b) of the Internal Revenue Code. Neither Captec nor CNLR will recognize any gain or loss for federal income tax purposes as a result of the merger.

**Federal Income Tax Consequences to Captec Stockholders Who Participate in the Merger.** Based on the assumption that the CNLR preferred stock is not classified as "nonqualified preferred stock" within the meaning of section 351(g)(2) of the Internal Revenue Code, as described below, for federal income tax purposes:

- a holder of Captec common stock will not recognize any loss upon the stockholder's exchange of its shares of Captec common stock for shares of CNLR common stock, CNLR preferred stock, and cash. A holder of Captec common stock will recognize some capital gain, if any gain is realized, in an amount equal to the lesser of (i) the amount of gain realized (i.e., the excess of (a) the amount

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of cash and the fair market value of CNLR common and preferred stock received over (b) the tax basis of the Captec common stock), and (ii) the amount of cash received;

- a holder of Captec common stock will have an aggregate tax basis in the CNLR common stock and CNLR preferred stock received in the merger equal to the aggregate tax basis of the Captec common stock surrendered by that stockholder in the merger, decreased by the cash received by the stockholder and increased by the amount of gain recognized by the stockholder. The stockholder's basis will be allocated to the shares of each class of stock received in proportion to the fair market value of each class; and
- the holding period for shares of CNLR common stock and preferred stock received in exchange for shares of Captec common stock in the merger will include the holding period for the shares of Captec common stock surrendered in the merger.

**Classification of CNLR Preferred Stock.** The nonrecognition rule described above will not apply, and additional gain will be recognized upon the exchange if the CNLR preferred stock is classified as "nonqualified preferred stock" within the meaning of Section 351(g)(2) of the Internal Revenue Code. In this case, the gain would be recognized (if any gain is realized) in an amount equal to the lesser of (i) the amount of gain realized (i.e., the excess of (a) the amount of cash and the fair market value of CNLR common stock and preferred stock received over (b) the tax basis of the Captec common stock), and (ii) the sum of the amount of cash received and the fair market value of CNLR preferred stock received.

For these purposes, the term "nonqualified preferred stock" means preferred stock if (1) the holder of the stock has the right to require the issuer or a related person to redeem or purchase the stock within 20 years of the issuance

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of the stock, (2) the issuer or a related person is required to redeem or purchase the stock within 20 years of the issuance of the stock, (3) the issuer or a related person has the right to redeem or purchase the stock and, as of the issue date, it is more likely than not that the right will be exercised within 20 years of the issuance of the stock, or (4) the dividend rate on the stock varies in whole or in part (directly or indirectly) with reference to interest rates, commodity prices, or other similar indices. "Preferred stock" is defined as stock which is limited and preferred as to dividends and does not participate in corporate growth to any significant extent.

The CNLR preferred stock is not mandatorily redeemable by CNLR or puttable to CNLR by a stockholder. In addition, the dividend rate on the CNLR preferred stock does not vary in whole or in part (directly or indirectly) with reference to interest rates, commodity prices or other similar indices. CNLR has the right to redeem the CNLR preferred stock after 5 years. The CNLR preferred stock will constitute "nonqualified preferred stock" if it is more likely than not that CNLR will exercise the redemption right.

Section 351(g)(2) was added to the Internal Revenue Code in 1997. To date, there is little guidance concerning the scope of this provision. Neither the legislative history nor any other direct authority establishes the parameters for determining whether it is more likely than not that preferred stock like the CNLR preferred stock will be redeemed.

CNLR has represented that it has no plan or intention to redeem the CNLR preferred stock. In addition, the CNLR preferred stock has no features that effectively would require or are intended to compel its redemption. CNLR will take the position that the CNLR preferred stock is not more likely than not to be redeemed. There can be no assurance that the IRS will not take a contrary position.

There is analogous authority in the Section 305 regulations that gives some indication of the standards that could be adopted by the IRS. The Section 305 regulations set forth a safe harbor under which an issuer's right to redeem preferred stock is not treated as "more likely than not" to be exercised if (1) the issuer and the holder are not related, (2) there are no plans, arrangements or agreements that effectively require or are intended to compel the issuer to redeem the stock, and (3) exercise of the redemption right would not reduce the yield of the stock, as determined under principles similar to the original issue discount rules. If the same safe harbor is adopted for purposes of applying Section 351(g)(2) of the Internal Revenue Code, the CNLR preferred stock should not be treated as nonqualified preferred stock.

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The CNLR preferred stock provides for the payment of dividends at a rate intended to provide a 9.0% cumulative return, compounded on a quarterly basis as long as the preferred stock is outstanding. The CNLR preferred stock may be redeemed by CNLR after five years for a fixed amount based on the liquidation value of the stock. Neither the dividend rate nor the liquidation value increases over time. Therefore, a redemption of the CNLR preferred stock would not decrease the yield. However, there can be no assurance that the IRS will adopt this approach for defining nonqualified preferred stock.

This discussion is intended to provide only a general summary of the material federal income tax consequences of the merger, and is not a complete analysis or description of all potential federal income tax consequences of the merger. This discussion does not address tax consequences that may vary with, or are contingent on, individual circumstances or any non-income tax or any foreign, state or local tax consequences of the merger. Captec strongly urges each stockholder to consult his or her own tax advisor to determine the particular tax consequences of the merger.

## THE COMPANIES

## CAPTEC'S BUSINESS

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 lessees. 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 executive offices are located at 24 Frank Lloyd Wright Drive, Lobby L, 4th Floor, Ann Arbor, Michigan 48106. Its telephone number is (734) 994-5505. Additional information concerning Captec is included in the Captec documents filed with the SEC which are incorporated herein. See "WHERE YOU CAN FIND MORE INFORMATION" (p. ).

## CNLR'S BUSINESS

CNLR is a fully integrated self-administered equity real estate investment trust, incorporated in Maryland in 1984. CNLR acquires, owns, manages and indirectly develops a diversified portfolio of high-quality, freestanding properties leased to major retail businesses generally 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

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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.

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As of June 30, 2001, CNLR owned, either directly or through investment interests, 241 properties, which were 98.0% leased, located in 36 states. The average remaining initial lease term of CNLR's properties was approximately 13 years. Leases representing approximately 74.0% 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. These leases generally have increases that range from 6.0% to 12.0% after every five years of the lease term.

CNLR's principal office is located at 450 S. Orange Avenue, Suite 900, Orlando, Florida 32801 and the telephone number is (407) 265-7348. Additional information concerning CNLR is included in the CNLR documents filed with the SEC which are incorporated herein. See "WHERE YOU CAN FIND MORE INFORMATION" (p. ).

### CNLR'S MANAGEMENT AND ADDITIONAL INFORMATION

CNLR's board of directors and officers immediately prior to the completion of the merger will serve as CNLR's board of directors and officers after the merger.

Certain information regarding the executive compensation, various benefit plans (including stock option plans), voting securities and the principal holders thereof, certain relationships and related transactions and other matters related to CNLR is incorporated by reference or set forth in CNLR's Annual Report on Form 10-K for the year ended December 31, 2000. Stockholders desiring copies of these documents may contact CNLR at its address or telephone number indicated under the section entitled "WHERE YOU CAN FIND MORE INFORMATION" (p. ).

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### COMPARISON OF STOCKHOLDER RIGHTS

The following is a summary of the material differences between the rights of Captec stockholders and CNLR stockholders. These differences arise from the differences between the Delaware General Corporation Law and the Maryland General Corporation Law, Captec's certificate of incorporation and CNLR's articles of incorporation and Captec's and CNLR's respective bylaws. After completion of the merger, the rights of Captec stockholders who become CNLR stockholders will be governed by CNLR's articles of incorporation, CNLR's bylaws and Maryland law. Captec stockholders are urged to read the full text of CNLR's articles of incorporation and bylaws, which are set forth as exhibits to the registration statement filed by CNLR. The following description of the material provisions of CNLR's articles of incorporation and bylaws is qualified in its



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entirety by reference to those documents. See "WHERE YOU CAN FIND MORE INFORMATION" (p. ).

### BOARD OF DIRECTORS

The Captec board of directors consists of 9 directors, each of whom is elected annually.

The CNLR board of directors consists of 8 directors, each of whom is elected annually.

### REMOVAL OF DIRECTORS

Delaware law provides that any director or the entire board of directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors unless the certificate of incorporation otherwise provides. Captec's certificate of incorporation does not modify its stockholders' statutory rights with respect to the removal of directors.

Maryland law provides that any director or the entire board of directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors unless the articles of incorporation otherwise provide. CNLR's articles of incorporation do not modify its stockholders' statutory rights with respect to the removal of directors.

### VACANCIES ON THE BOARD

Delaware law provides that vacancies and newly created directorships may be filled by a majority of the directors then in office or a sole remaining director (even though less than a quorum) unless otherwise provided in the certificate of incorporation or bylaws.

Under Maryland law, stockholders may elect a successor to fill a vacancy on the board of directors which results from the removal of a director unless the articles of incorporation or bylaws provide otherwise. Otherwise, a majority of the remaining directors, whether or not sufficient to constitute a quorum, may fill a vacancy on the board of directors which results from any removal for cause except an increase in the number of directors, which requires the vote of a majority of the remaining directors. CNLR's bylaws provide that any vacancy created as a result of the removal of a director must be filled by the stockholders at an annual or special meeting.

### STOCKHOLDER MEETINGS GENERALLY AND PROVISIONS FOR NOTICES; PROXIES

Under Delaware law, stockholder meetings may be held at any place, as provided in the certificate of incorporation or bylaws. Written notice of a stockholders meeting must state the place, date, and time of the meeting and, if a special meeting, the purpose or purposes for which the meeting is to be held. Under Captec's bylaws, not less than 10 days nor more than 60 days before the date of every stockholders meeting, Captec must give to each stockholder entitled to vote at the meeting, written notice stating the date, time and place of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, by mail, addressed to the stockholder at his address as it appears in the

records of the corporation. Notice is deemed to have been given at the time when it is deposited in the mail.

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Under Maryland law, stockholder meetings may be held at any place, as provided in the bylaws. All meetings must be held in the United States. Written notice of a stockholders meeting must state the place, date, and time of the meeting and, if a special meeting, the purpose or purposes for which the meeting is to be held. Under the CNLR bylaws, not less than 10 days nor more than 90 days before the date of every stockholders' meeting, CNLR must give to each stockholder entitled to vote at the meeting, written notice stating the date, time and place of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, either personally or by mail, addressed to the stockholder at his address as it appears in the records of the corporation. In the case of notice delivered by mail, notice is deemed to have been given at the time when it is deposited in the mail.

Under Delaware law, stockholder proxies are valid for three years from their date unless the proxy provides for a longer period.

Under Maryland law, proxies are valid for 11 months from their date, unless the proxy otherwise provides.

### VOTE REQUIRED FOR CERTAIN STOCKHOLDER ACTIONS

Delaware law provides that in all matters other than the election of directors, the affirmative vote of the majority of the shares present or represented by proxy at a meeting where a quorum is present and entitled to vote on the subject matter shall be the act of the stockholders, unless the vote of a greater number is required by law, or the certificate of incorporation or bylaws. Captec's certificate of incorporation does not provide for a vote greater than a majority of the outstanding shares entitled to vote on any matter.

Maryland law provides that on matters other than the election of directors and certain extraordinary corporate actions, the affirmative vote of a majority of all votes cast at a stockholders' meeting at which a quorum is present shall be the act of the stockholders, unless the vote of a greater number is required by law or the articles of incorporation. CNLR's articles of incorporation do not require a vote greater than the number prescribed by statute. An abstention is not considered a "vote cast" for purposes of the voting requirement, but a stockholder who abstains in person or by proxy is considered present for purposes of the quorum requirement.

Under Maryland law, a consolidation, merger, share exchange or transfer must be approved by the stockholders of the corporation by the affirmative vote of two-thirds of all the votes entitled to be cast on the matter. CNLR's articles of incorporation do not modify this requirement.

### AMENDMENT OF CHARTER AND BYLAWS

Under Delaware law, the certificate of incorporation may be amended by the affirmative vote of the majority of the outstanding stock entitled to vote on the amendment as a class, unless the vote of a greater number is required by the certificate of incorporation. Captec's certificate of incorporation does not modify the statutory vote requirement.

Delaware law also provides that the power to amend the bylaws resides in the stockholders entitled to vote, provided that the corporation may, in its certificate of incorporation, confer the power to amend the bylaws upon the directors. The fact that such power has been conferred on the directors does not divest or limit the power of the stockholders to amend the bylaws. Captec's certificate of incorporation provides that the board of directors is authorized to amend the bylaws.

Under Maryland law, CNLR's articles of incorporation may be amended by the

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affirmative vote of two-thirds of all the votes of stockholders entitled to be cast on the matter, unless a different number, not less than a majority, is specified in the articles of incorporation. The power to amend the bylaws is vested

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with the stockholders except to the extent the articles of incorporation or the bylaws vest such power with the corporation's board of directors.

CNLR's articles of incorporation provide that the board of directors is expressly authorized to make, alter, amend or repeal the bylaws. The CNLR articles of incorporation do not modify the statutory vote requirement relating to amendments to the articles of incorporation or bylaws.

### STOCKHOLDER ACTIONS WITHOUT A MEETING

Under Delaware law, unless otherwise provided in a corporation's certificate of incorporation, stockholders may act by written consent signed by the holders of outstanding shares not having less than the minimum number of votes necessary to take such action at a meeting. Captec's certificate of incorporation does not limit its stockholders' right to act by written consent.

Under Maryland law, common stockholders may act without a meeting if a written consent which describes the action is signed by all the stockholders entitled to vote on the matter and is filed with the records of the stockholders meeting. Unless the articles of incorporation provide otherwise, the holders of any other class of stock that is entitled to vote in the election of directors may act by the written consent of the holders of the shares necessary to approve the action if the corporation gives notice of the action to all stockholders within 10 days after the effective date of the action. CNLR's articles of incorporation do not modify these provisions.

### RIGHT TO CALL SPECIAL MEETINGS OF STOCKHOLDERS

Under Delaware law, the stockholders may not call a special meeting of stockholders unless such a right is provided for in the corporation's certificate of incorporation or bylaws. Captec's certificate of incorporation does not grant stockholders the right to call special meetings.

Under Maryland law, a special meeting may be called by the president, the board of directors, or any person designated in the articles of incorporation or bylaws. Special meetings of the stockholders may also be called by the secretary of the corporation upon the written request of stockholders entitled to cast at least 25.0% of all the votes entitled to be cast at the meeting. However, the secretary is not required to call a special meeting notwithstanding a proper stockholder request if the matter to be considered at the meeting is substantially the same as a matter considered at a special meeting during the preceding 12 months. The articles of incorporation or bylaws may increase or decrease the percentage of votes stockholders must possess to request a special meeting. Corporations that have elected to be governed by the unsolicited takeover statute are subject to special rules regarding special meetings of the stockholders. Neither CNLR's articles of incorporation nor its bylaws modify the percentage of votes needed for stockholders to require the secretary to call a special meeting. CNLR has not elected to be governed by the unsolicited takeover statute.

### MERGER

Under Delaware law, a merger may become effective without approval of the surviving corporation's stockholders under certain circumstances. Where

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stockholder approval is required, the merger must be approved by the holders of a majority of the outstanding shares entitled to vote unless the certificate of incorporation provides for a higher number. Captec's certificate of incorporation does not provide for approval of a merger by a vote greater than a majority of the outstanding shares entitled to vote.

Under Maryland law, a merger may become effective without the approval of the surviving corporation's stockholders in certain circumstances. Where stockholder approval is required, the merger must be approved by the stockholders of the corporation by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter unless a different number, not less than a majority, is specified in the articles of incorporation. CNLR's articles of incorporation do not provide for approval of a merger by a vote less than two-thirds of the outstanding shares entitled to vote.

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### RESTRICTIONS ON BUSINESS COMBINATIONS

Delaware Law prohibits transactions between a corporation and an interested stockholder for three years following the time such stockholder became an interested stockholder, unless certain conditions are met. Generally, an interested stockholder is any person (including such person's affiliates and associates) who owns 15.0% or more of the outstanding voting stock of a corporation. If the interested stockholder does not get prior approval of the business combination from the board of directors or the holders of 85.0% of the voting stock of the corporation, the stockholder cannot engage in a business combination for three years, unless the business combination is approved by the directors and the holders of two-thirds of the voting stock of the corporation not owned by the interested stockholder.

Maryland law prohibits a business combination between a corporation and any interested stockholder for five years following the most recent date upon which the stockholder became an interested stockholder, unless the transaction is approved in advance by the board of directors or otherwise exempted by the statute. Generally, an interested stockholder is anyone who owns 10.0% or more of the voting power of the corporation and the affiliates of such person. A merger of a corporation with an interested stockholder or any other corporation (whether or not such corporation is an interested stockholder) which is, or after the merger would be, an affiliate of the interested stockholder that was an interested stockholder prior to the transaction is considered a "business combination" unless it does not alter the contract rights of the stock as expressly set forth in the articles of incorporation, or change or convert in whole or in part the outstanding shares of stock of the corporation.

### CONTROL SHARE ACQUISITION STATUTE

Delaware has no control share acquisition statute comparable to that in effect in Maryland.

The Maryland General Corporation Law provides that "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast by stockholders in the election of directors, excluding shares of stock as to which the acquiring person, officers of the corporation, and directors of the corporation who are employees of the corporation are entitled to exercise or direct the exercise of the voting power of the shares in the election of directors. "Control shares" are voting shares of stock which, if aggregated with all other shares of stock previously acquired by such person, would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power: (i) one-tenth or more or less than one-third, (ii) one-third or more but less than a majority, or (iii) a majority

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of all voting power. Control shares do not include shares that the acquiring person is entitled to vote as a result of having previously obtained stockholder approval. A "control share acquisition" means the acquisition, directly or indirectly, of control shares, subject to certain exceptions.

A person who has made or proposes to make a "control share acquisition," upon satisfaction of certain conditions (including an undertaking to pay expenses), may compel the board of directors to call a special meeting of stockholders to be held within 50 days of such demand to consider the voting rights of the shares.

If voting rights are not approved at the meeting or if the acquirer does not deliver an acquiring person statement as required by the statute, then, subject to certain conditions and limitations, the corporation may redeem any or all of the control shares, except those for which voting rights have previously been approved, for fair value determined, without regard to voting rights, as of the date of the last control share acquisition or of any meeting of stockholders at which the voting rights of such shares are considered and not approved. If voting rights for control shares are approved at a stockholders' meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of such appraisal rights may not be less than the highest price per share paid in the control share acquisition, and certain limitations and restrictions generally applicable to the exercise of appraisal rights do not apply in the context of a control share acquisition.

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The "control share acquisition" statute does not apply to shares acquired in a merger, consolidation, or share exchange if the corporation is a party to the transaction or to acquisitions approved or excepted by the charter or the bylaws of the corporation.

### DIVIDENDS

A Delaware corporation may pay dividends out of surplus. If there is no surplus, dividends may be declared out of net profits for the current or preceding fiscal year unless the capital of the corporation has been decreased to an amount less than the aggregate amount of the capital represented by the issued and outstanding stock having a preference on the distribution of assets.

A Maryland corporation generally may make distributions to its stockholders unless, after giving effect to the distribution, the corporation would not be able to pay its debts as they come due in the ordinary course of business or the corporation's total assets would be less than its total liabilities.

### APPRAISAL RIGHTS

Under Delaware law, stockholders of a corporation who do not consent to certain major corporate transactions may, under varying circumstances, be entitled to dissenters' or appraisal rights pursuant to which such stockholders may receive cash in the amount of the fair market value of their shares in lieu of the consideration which otherwise would have been received in the transaction. Unless the corporation's certificate of incorporation provides otherwise, such appraisal rights are not available in certain circumstances, including without limitation, (a) with respect to the sale, lease, or exchange of all or substantially all of the assets of a corporation,