

COMMERCIAL NET LEASE REALTY INC

Form DEF 14A

March 10, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
SCHEDULE 14A
(RULE 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, For Use of the Commission Only (as Permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

COMMERCIAL NET LEASE REALTY, INC.

(Name of Registrant as Specified in Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

COMMERCIAL NET LEASE REALTY, INC.

450 South Orange Avenue, Suite 900

Orlando, Florida 32801

Tel: 407-265-7348

March 10, 2006

To Our Stockholders:

You are cordially invited to attend the annual meeting of stockholders of Commercial Net Lease Realty, Inc. (the Company) on May 11, 2006 at 9:00 a.m., at 450 South Orange Avenue, Suite 900, Orlando, Florida 32801. Our directors and officers look forward to greeting you personally. Enclosed for your review are the Proxy, Proxy Statement and Notice of Meeting for the Annual Meeting of Stockholders, which describe the business to be conducted at the meeting. At the meeting, we will also report on matters of current interest to our stockholders.

At the annual meeting you will be asked to vote to elect the Company's directors.

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

Sincerely,

/s/ Clifford R. Hinkle

Clifford R. Hinkle
Chairman of the Board

Julian E. Whitehurst
*Executive Vice President, Chief Operating Officer,
and Secretary*

**COMMERCIAL NET LEASE REALTY, INC.
450 South Orange Avenue, Suite 900
Orlando, Florida 32801**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held May 11, 2006**

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of **COMMERCIAL NET LEASE REALTY, INC.** will be held at 9:00 a.m. local time, on May 11, 2006, at 450 South Orange Avenue, Suite 900, Orlando, Florida 32801, for the following purposes:

1. To elect eight directors; and

2. To transact such other business as may properly come before the meeting or any adjournment thereof.

Stockholders of record at the close of business on March 10, 2006, will be entitled to notice of and to vote at the annual meeting or at any adjournment thereof.

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

By Order of the Board of Directors,

Julian E. Whitehurst
Secretary

March 10, 2006
Orlando, Florida

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

PROXY STATEMENT

General. This Proxy Statement is furnished by the Board of Directors of Commercial Net Lease Realty, Inc. (the Company) in connection with the solicitation by the Board of Directors of proxies to be voted at the annual meeting of stockholders to be held on May 11, 2006, and at any adjournment thereof, for the purposes set forth in the accompanying notice of such meeting. All stockholders of record at the close of business on March 10, 2006 (the Record Date) will be entitled to vote.

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

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

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

Vote Required for Approval; Quorum. The eight nominees for director who receive the most votes will be elected. If you indicate withhold authority to vote for a particular nominee by entering the number of any nominee (as designated on the proxy card) below the pertinent instruction on the proxy card, your vote will not count either for or against the nominee. As of the Record Date, 55,938,318 shares of the common stock of the Company (the Common Stock) were outstanding. Each share of Common Stock entitles the holder thereof to one vote on each of the matters to be voted upon at the annual meeting. As of the Record Date, our executive officers and directors had the power to vote approximately 1.63% of the outstanding shares of Common Stock. Our executive officers and directors have advised us that they intend to vote their shares of Common Stock **FOR** each of the proposals contained herein.

Votes cast in person or by proxy at the annual meeting will be tabulated and a determination will be made as to whether or not a quorum is present. We will treat abstentions as shares that are present and entitled to vote for purposes of determining the presence or absence of a quorum, but as unvoted for purposes of determining the approval of any matter submitted to the stockholders. If a broker submits a proxy indicating that it does not have discretionary authority as to certain shares to vote on a particular matter (broker non-votes), those shares will not be considered as present and entitled to vote with respect to such matter. Broker non-votes with respect to the election of directors will have no effect on the outcome of the vote on this proposal.

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

Solicitation of Proxies. Solicitation of proxies will be primarily by mail. However, our directors and officers may also solicit proxies by telephone or telegram or in person. All of the expenses of soliciting proxies, including preparing, assembling, printing and mailing the materials used in the solicitation of proxies, will be paid by us. Arrangements may be made with brokerage houses and other custodians, nominees and fiduciaries to forward soliciting materials, at our expense, to the beneficial owners of shares held of record by such persons. It is anticipated that this Proxy Statement and the enclosed Proxy will be mailed to stockholders on or about March 24, 2006.

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**PROPOSAL I
ELECTION OF DIRECTORS**

Nominees

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

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

Name and Age	Background
G. Nicholas Beckwith III, 61	Mr. Beckwith has served as a director of the Company since February 2006. Mr. Beckwith has served as Chief Executive Officer of Arch Street Management LLC since 2005. Prior to joining Arch Street Management LLC, he served as Chief Executive Officer of Beckwith Machinery Co from 1996 to 2005. Since 1999, he has served as a director and member of the nominating committee for BlackRock Liquidity Funds.
Kevin B. Habicht, 46.	Mr. Habicht has served as a director of the Company from June 2000 to the present, as Executive Vice President and Chief Financial Officer of the Company since December 1993 and as Treasurer of the Company since January 1998. Mr. Habicht served as Secretary of the Company from January 1998 to May 2003. Since 2000, Mr. Habicht has been a director of Orange Avenue Mortgage Investments, Inc. (formerly, CNL Commercial Finance, Inc.), a commercial real estate lending company. From 1983 to 1997, Mr. Habicht served as a senior officer of various affiliates of CNL Financial Group, Inc. Prior to 1983, Mr. Habicht, a Certified Public Accountant and a Chartered Financial Analyst, was employed by Coopers & Lybrand, Certified Public Accountants.
Clifford R. Hinkle, 57.	Mr. Hinkle has served as a director of the Company since 1993. Since 1991, Mr. Hinkle has been a founder, director and executive officer of Flagler Holdings, Inc., a merchant banking company, and related companies. He was a director of Century Capital Markets, LLC, a private financial consulting company, from 1999 to 2002. Since 2000, Mr. Hinkle has been a Vice President and Director of Murphy Investment Management Company, a registered investment advisor. From 1996 to 2000, Mr. Hinkle was a director of Integrated Orthopaedics, Inc., an American Stock Exchange company, which owned orthopaedic physician practices and related facilities and was a director of Prime Succession, Inc., a private funeral services company. Additionally, Mr. Hinkle has served in the capacity as a director and Chief Executive Officer of MHI Group, Inc., a New York Stock Exchange company, until its acquisition by a subsidiary of The Loewen Group, and further as Executive Director and Chief Investment Officer of the State Board of Administration of Florida and managed over \$40 billion in various trust funds.

Name and Age

Background

Richard B. Jennings, 62

Mr. Jennings has served as a director of the Company since 2000. Mr. Jennings currently serves as President of Realty Capital International Inc., a real estate investment banking firm, which he founded in 1991, as President of Jennings Securities LLC, a National Association of Securities Dealers, Inc. (NASD) member securities firm, which he founded in 1995, and as President of Realty Capital International LLC, a real estate investment banking firm, since 1999. From 1990 to 1991, Mr. Jennings served as Senior Vice President of Landauer Real Estate Counselors, and from 1986 to 1989, Mr. Jennings served as Managing Director Real Estate Finance at Drexel Burnham Lambert Incorporated. From 1969 to 1986, Mr. Jennings oversaw the real estate investment trust investment banking business at Goldman, Sachs & Co. During his tenure at Goldman, Sachs & Co., Mr. Jennings founded and managed the Mortgage Finance Group from 1979 to 1986. Mr. Jennings also serves as a director of Alexandria Real Estate Equities, Inc. and Cogdell Spencer, Inc. He is a licensed NASD Principal and a New York Real Estate Broker.

Ted B. Lanier, 71.

Mr. Lanier has served as a director of the Company since 1988. Mr. Lanier was the Chief Executive Officer of the Triangle Bank and Trust Company, Raleigh, North Carolina (Triangle), from January 1988 until March 1991. Mr. Lanier also was the Chairman of Triangle from January 1989 until March 1991 and its President from January 1988 until January 1989. Since his retirement in 1991 as Chairman and Chief Executive Officer of Triangle, Mr. Lanier has managed his personal investments and managed investment accounts for various individuals and trusts.

Robert C. Legler, 62.

Mr. Legler has served as a director of the Company since 2002. Mr. Legler has served as a director of Ligonier Ministries of Lake Mary, Florida for more than 20 years. From October 1999 through October 2001, he served as director of the Indian River Hospital Foundation of Vero Beach, Florida. From 1973 until 1990, Mr. Legler was the founder and chairman of privately-held First Marketing Corporation, America's largest publisher of newsletters serving nearly 500 clients in the commercial banking, brokerage, health care, cable television, travel and retail industries. Upon the sale of the company to Reed (now Reed Elsevier) in 1990, Mr. Legler served as non-executive Chairman of the Board of First Marketing until his retirement in September 2000.

Craig Macnab, 50

Mr. Macnab has served as Chief Executive Officer of the Company since February 2004. Prior to joining the Company, Mr. Macnab was the Chief Executive Officer of JDN Realty Corporation (JDN), a publicly traded real estate investment trust, from April 2000 through March 2003, and was the President of JDN from September 2000 until March 2003. Mr. Macnab also served as a director of JDN from December 1993 until March 2003. Mr. Macnab served as the President of Tandem Capital, a structured finance company, from 1997 through 1999. Mr. Macnab is currently a director of Developers Diversified Realty Corp. and Per-Se Technologies, Inc.

Name and Age

Background

Robert Martinez, 71

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

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

Corporate Governance

General. We are currently managed by an eight-member Board of Directors that consists of Messrs. Beckwith, Habicht, Jennings, Lanier, Legler, Macnab, Martinez and Hinkle. Mr. Hinkle serves as Chairman. The Board has adopted a set of corporate governance guidelines, which, along with the written charters for our Board committees described below, provide the framework for the Board's governance of the Company. Our corporate governance guidelines are available both on our website at <http://www.nnnreit.com> and in print to any stockholder who requests it.

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

The Board of Directors, upon the unanimous recommendation of the Governance and Nominating Committee, has determined that Messrs. Beckwith, Hinkle, Jennings, Lanier, Legler and Martinez, representing a majority of our Board of Directors, qualify as independent directors (the Independent Directors) as that term is defined in the NYSE listing standards. The Board made its determination based on information furnished by all directors regarding their relationships with us and our affiliates and research conducted by management. In addition, the Board consulted with our outside counsel to ensure that the Board's determination would be consistent with all relevant securities laws and regulations as well as the NYSE listing standards.

Meetings and Attendance. The Board of Directors met seven times in the fiscal year ended December 31, 2005. Each of the nominees currently serving on the Board of Directors, other than Mr. Beckwith who did not serve on the Board of Directors in 2005, attended 100% of the meetings of (i) the Board of Directors and (ii) the committees of the Board of Directors that he was eligible to attend. Our corporate governance guidelines provide that it is the responsibility of individual directors to make themselves available to attend scheduled and special Board meetings on a consistent basis. All of our directors as of the date of the 2005 annual meeting of the Company's stockholders were in

attendance for the 2005 annual meeting. In addition, non-management members of the Board of Directors met in executive session four times in the fiscal year

ended December 31, 2005. Pursuant to our corporate governance guidelines, the Chairman of the Board presides at all executive sessions of the Board of Directors, except for executive sessions to discuss the compensation of the Company's chief executive officer, which are chaired by the chairman of the Compensation Committee.

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

Audit Committee

General. The Board of Directors has established an Audit Committee, which is governed by a written charter, which is available both on our website at <http://www.nnnreit.com> and in print to any stockholder who requests it. Among the duties, powers and responsibilities of the Audit Committee as provided in its charter, the Audit Committee:

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

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

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

Meetings. The Audit Committee met seven times in the fiscal year ended December 31, 2005. In fiscal year 2005, Messrs. Lanier, Hinkle and Martinez were the members of the Audit Committee, with Mr. Lanier serving as Chairman. As of February 8, 2006, the Audit Committee consists of Messrs. Lanier, Jennings and Martinez, with Mr. Lanier serving as Chairman.

Governance and Nominating Committee

General. The Board of Directors has established a Governance and Nominating Committee, which is governed by a written charter, a copy of which is available both on our website at <http://www.nnnreit.com> and in print to any stockholder who requests it. As provided in the Governance and Nominating Committee charter, the Governance and Nominating Committee:

- identifies and recommends to the Board of Directors individuals to stand for election and reelection to the Board at our annual meeting of stockholders and to fill vacancies that may arise from time to time;
- develops and makes recommendations to the Board for the creation, and ongoing review and revision of, a set of effective corporate governance principles that promote our competent and ethical operation and a policy governing ethical business conduct of our employees and Directors; and,

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

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

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

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

Meetings. The Governance and Nominating Committee met five times in the fiscal year ended December 31, 2005. In fiscal year 2005, Messrs. Hinkle, Jennings and Legler were the members of the Governance and Nominating Committee, with Mr. Legler serving as Chairman. As of February 8, 2006, the Governance and Nominating Committee consists of Messrs. Hinkle, Jennings and Beckwith, with Mr. Hinkle serving as Chairman.

Compensation Committee

General. The Board of Directors has established a Compensation Committee, which is governed by a written charter, a copy of which is available both on our website at <http://www.nnnreit.com> and in print to any stockholder who requests it. The Compensation Committee is responsible for:

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

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

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

Meetings. The Compensation Committee met six times in the fiscal year ended December 31, 2005. In fiscal year 2005, Messrs. Jennings, Legler and Martinez were the members of the Compensation Committee, with Mr. Jennings serving as Chairman. As of February 8, 2006, the Compensation Committee consists of Messrs. Legler, Beckwith and Martinez, with Mr. Legler serving as Chairman.

Code of Business Conduct

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

Compensation of Directors

The Company only compensates non-employee directors for services provided as directors of the Company. During the year ended December 31, 2005, the Company paid each director who was a director for the entire year \$20,000 for serving on the Board of Directors. Each non-employee director received \$1,000 per Board of Directors meeting attended, \$1,000 per committee meeting attended and \$500 per telephonic board or committee meeting attended. Additionally, the Company awarded each Independent Director 2,000 shares of restricted stock, which vests over two years. In 2005, each of the non-employee directors was awarded \$1,000 which was used to acquire one share of preferred stock of Orange Avenue Mortgage Investments, Inc. (OAMI).

In November 2005 and February 2006, the Compensation Committee recommended, and the Board of Directors unanimously approved, non-employee director compensation for the year ended December 31, 2006 as follows:

annual stock grant of 3,750 shares of common stock each year for each director;

chairmanship fees of \$18,000 per year for Chairman of the Board of Directors, \$10,000 per year for Chairman of the Audit Committee, and \$6,000 per year for Chairmen of the Compensation Committee, the Governance and Nominating Committee and other committees; and

meeting fees of \$1,000 per Board of Directors meeting attended, \$1,000 per committee meeting attended and \$500 per telephonic board or committee meeting attended.

We have also established a Deferred Fee Plan for Directors, which permits non-employee directors to elect to defer receipt of their annual retainer, meeting fees and committee chairman fees. The deferred fees are credited to either a cash or phantom share account, at the option of the director. At the earlier to occur of either the time specified in each director's deferred fee agreement or a change of control of the Company, amounts credited to a cash account shall be paid in cash in a lump sum and phantom shares credited to a director's phantom share account shall be paid in either cash, Common Stock or a combination of both. In 2005, we did not distribute any amounts under this plan.

The following table sets forth the number of shares of Common Stock credited to each non-employee director nominee's phantom share account under the Deferred Fee Plan for Directors in 2005:

Name	Number of Shares of Common Stock Credited to Phantom Share Account
Clifford R. Hinkle	
Richard B. Jennings	4,209
Ted B. Lanier	
Robert C. Legler	4,103
Robert Martinez	4,057
Total	12,369

Executive Officers

The executive officers of the Company are listed below. Mr. Tracy is an executive officer of CNLRS Development, Inc., a wholly owned, taxable subsidiary of the Company (Development), that provides development and other services to the Company.

Name	Position
Craig Macnab	Chief Executive Officer and President
Kevin B. Habicht	Executive Vice President, Chief Financial Officer, Assistant Secretary and Treasurer
Julian E. Whitehurst	Executive Vice President, Chief Operating Officer and Secretary
Dennis E. Tracy	Executive Vice President and Chief Development Officer of Development

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

Julian E. Whitehurst, age 48, has served as Executive Vice President of the Company since February 2003, and as Chief Operating Officer of the Company since June 2004. He has also served as Secretary of the Company since May 2003 and previously served as General Counsel from 2003 to 2005. Prior to February 2003, Mr. Whitehurst was on retainer to the Company as its General Counsel from the law firm of Lowndes, Drosdick, Doster, Kantor & Reed, P.A., in which he had been a shareholder since 1987. Mr. Whitehurst has served on the board of directors of Services since 2001. Mr. Whitehurst is a graduate of The Ohio University (B.A., summa cum laude, 1979, Phi Beta Kappa) and Duke University School of Law (J.D., 1982). He is a member of the International Council of Shopping Centers and the National Association of Real Estate Investment Trusts and the Association of Corporate Counsel.

Dennis E. Tracy, age 56, has served as Executive Vice President and Chief Development Officer of Development since 2005. From 2002 through 2005, he served as Executive Vice President and Chief Development Officer of Commercial Net Lease Realty Services (Services). From August 2000 to December 2001, he served as Senior Vice President and Chief Development Officer of Services, and from May 1999 to July 2000 as Senior Vice President of Development for Services. He served in that same capacity for the Company from January 1998 to April 1999 and for CNL Realty Advisors, Inc. (the Advisor) from January 1996 to December 1997. From January 1994 to December 1995, Mr. Tracy served as Vice President of Development for the Advisor and from June 1992 to December 1993, Project Manager for the Advisor. From November 1990 to June 1992, he served as Project Manager for CNL Group. Prior to joining CNL Group, Mr. Tracy founded Tracy Homes, Inc., a luxury custom home building company and served as its president and owner. Mr. Tracy holds the Certified Commercial Investment Member professional designation and is a past member of the Advisory Board of the Retail Contractors Association. Mr. Tracy received his MBA at Gonzaga University in Spokane, Washington.

AUDIT COMMITTEE REPORT

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

Duties, Powers and Responsibilities. Management is responsible for the Company's financial statements, internal controls and financial reporting process. The independent accountants are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The Committee's responsibility is to monitor and oversee these processes. The Audit Committee is governed by a charter, which is available both on our website at <http://www.nnnreit.com> and in print to any stockholder who

requests it. The Audit Committee charter is designed to assist the Audit Committee in complying with applicable provisions of the Exchange Act and the NYSE listing standards, all of which relate to corporate governance and many of which directly or indirectly affect the duties, powers and responsibilities of the Audit Committee. Among the duties, powers and responsibilities of the Audit Committee as provided in the Audit Committee charter, the Audit Committee:

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

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

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

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

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

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

For the fiscal years ended December 31, 2005 and 2004, the Audit Committee pre-approved 100% of services described below in the captions Audit Related Fees and Tax Fees. For the fiscal year ended December 31, 2005, no hours expended on KPMG LLP's engagement to audit our financial statements were attributed to work performed by persons other than full-time, permanent employees of KPMG LLP.

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

Fiscal 2005 and 2004 Audit Firm Summary. During the fiscal years ended December 31, 2005 and 2004, we retained KPMG LLP to provide services in the following categories and amounts:

	Fiscal Year 2005	Fiscal Year 2004
Audit Fees (1)	\$ 523,593	\$ 387,970
Audit Related Fees (2)	7,500	26,200
Audit and Audit Related Fees	531,093	414,170
Total		
Tax Fees (3)	27,500	71,000
Total Fees	\$ 558,593	\$ 485,170

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

The Audit Committee has determined that the provision of audit related and tax services by KPMG LLP during 2005 is compatible with maintaining KPMG LLP's independence.

Conclusion. Based on the review and discussions referred to above, the Committee recommended that the Board of Directors include the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2005 filed with the SEC.

AUDIT COMMITTEE

Ted B. Lanier, Chairman

Clifford R. Hinkle

Robert Martinez

EXECUTIVE COMPENSATION**Executive Compensation Tables**

The following table shows the annual and long-term compensation paid by the Company to the Chief Executive Officer and the four other most highly compensated executive officers of the Company or Services for services rendered in all capacities during the fiscal years ended December 31, 2005, 2004 and 2003.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation		
		Salary	Bonus	Other Annual Compensation	Restricted Stock Awards	Stock Option Awards (Shares)	All Other Compensation
Craig Macnab(1) Chief Executive Officer and President	2005	\$ 468,000	\$ 585,000	\$ 171,300(2)	\$ 851,696(4)	0	\$ 6,300(5)
	2004	\$ 398,077	\$ 292,500	\$ 84,450(3)	\$ 2,342,300(5)(8)	0	\$ 4,255(5)
Kevin B. Habicht Executive Vice President, Chief Financial Officer, Assistant Secretary & Treasurer	2005	\$ 270,000	\$ 270,000	\$ 93,982(3)	\$ 382,985(4)	0	\$ 6,300(5)
	2004	\$ 268,585	\$ 169,000	\$ 56,692(3)	\$ 260,300(4)(6)	0	\$ 6,150(5)
	2003	\$ 214,000	\$ 176,550	\$ 41,837(3)	\$ 250,000(7)	0	\$ 6,000(5)
Julian E. Whitehurst Executive Vice President, Chief Operating Officer and Secretary	2005	\$ 275,500	\$ 275,500	\$ 29,983(3)	\$ 382,985(4)	0	\$ 6,300(5)
	2004	\$ 250,065	\$ 172,250	\$ 25,587(3)	\$ 533,750(6)(9)	0	\$ 6,150(5)
	2003	\$ 183,175	\$ 165,700	\$ 0	\$ 618,100(7)(10)	0	\$ 1,436(5)
Dennis E. Tracy Executive Vice President and Chief Development Officer of Development	2005	\$ 208,000	\$ 208,000	\$ 57,335(3)	\$ 254,971(4)	0	\$ 6,300(5)
	2004	\$ 207,238	\$ 200,000	\$ 31,457(3)	\$ 199,500(6)	0	\$ 6,150(5)
	2003	\$ 187,500	\$ 147,238	\$ 22,995(3)	\$ 150,000(7)	0	\$ 6,000(5)

(1) Mr. Macnab assumed the title of Chief Executive Officer as of February 16, 2004 and President as of May 1, 2004.

(2) Represents tax reimbursement payment for taxes incurred in connection with the vesting of restricted stock awards totaling \$103,000 and payment of club membership fees totaling \$68,300.

- (3) Represents tax reimbursement payments to the executives for taxes incurred in connection with the vesting of restricted stock awards.
- (4) Messrs. Macnab, Habicht, Whitehurst and Tracy were awarded 30,230, 13,591, 13,591 and 9,050 shares, respectively, of restricted common stock for services rendered in 2005, which had a value of \$615,785, \$276,848, \$276,848 and \$184,348, respectively, based on the closing share price of \$20.37 on the New York Stock Exchange on December 31, 2005. The restricted shares awarded are subject to forfeiture. The share awards vest 20% annually from 2006 through 2010 and the recipients are eligible to receive dividends paid on unvested shares. In addition, Messrs. Macnab, Habicht, Whitehurst and Tracy were awarded 20,153, 9,060, 9,060 and 6,033 shares, respectively, of restricted common stock, which had a value of \$410,516, \$184,552, \$184,552, and \$122,892, respectively, based on the closing share price of \$20.37 on the New York Stock Exchange on December 31, 2005. The share awards vest 20% annually from 2006 through 2010 provided that the Company meets certain total shareholder return thresholds. The recipients are not eligible to receive dividends paid on unvested shares. The restricted shares under both grants are subject to forfeiture.
- (5) Represents Company contributions to the Company's 401(k) Plan.
- (6) Messrs. Macnab, Habicht, Whitehurst and Tracy were awarded 23,700, 13,700, 14,000 and 10,500 shares, respectively, of restricted common stock in 2005 for services rendered in 2004, which had a value of \$482,769, \$279,069, \$285,180 and \$213,885, respectively, based on the closing share price of \$20.37 on the New York Stock Exchange on December 31, 2005. The restricted shares awarded are subject to forfeiture. The share awards vest 20% annually from 2006 through 2010 and the recipients are eligible to receive dividends paid on unvested shares.

- (7) Messrs. Habicht, Tracy and Whitehurst were awarded 13,214, 7,928 shares and 9,249 shares, respectively, of restricted common stock in 2004 for services rendered in 2003, which had a value of \$269,169, \$161,493, and \$188,402, respectively, based on the closing share price of \$20.37 on the New York Stock Exchange on December 31, 2005. The restricted shares awarded are subject to forfeiture. The share awards vest 14.3% annually from 2004 through 2010 and the recipients are eligible to receive dividends paid on unvested shares.