

COMMERCIAL NET LEASE REALTY INC

Form 424B3

December 03, 2003

Filed Pursuant to Rule 424(b)(3) & (5)

Registration No. 333-105635

PROSPECTUS SUPPLEMENT
(To Prospectus dated June 5, 2003)

3,250,000 Shares

Commercial Net Lease Realty, Inc.

Common Stock

\$17.40 per share

We are selling 3,250,000 shares of our common stock. We have granted the underwriter an option to purchase up to 487,500 additional shares of common stock to cover over-allotments.

Our common stock is listed on the New York Stock Exchange under the symbol NNN. The last reported sale price of our common stock on the New York Stock Exchange on December 2, 2003 was \$17.96 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page S-4.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	<u>Per Share</u>	<u>Total</u>
Public Offering Price	\$ 17.40	\$56,550,000
Underwriting Discount	\$ 0.15	\$ 487,500
Proceeds to us (before expenses)	\$ 17.25	\$56,062,500

In addition to the underwriting discount, the underwriter will receive a commission from investors in the amount of \$0.05 for each share of common stock sold to those investors in this offering.

The underwriter expects to deliver the shares to purchasers on or about December 8, 2003.

Citigroup

The date of this prospectus supplement is December 2, 2003.

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate as of any date other than their respective dates.

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Certain persons participating in this offering may engage in transactions that stabilize, maintain or otherwise affect the price of the securities. Such transactions may include stabilization and the purchase of securities to cover syndicate short positions. For a description of these activities, see Underwriting.

HOW TO OBTAIN MORE INFORMATION

We file reports, proxy statements and other information with the SEC. You may read any document we file at the SEC's public reference room at 450 Fifth Street, NW, Room 1024, Washington, D.C. 20549. Please call the SEC toll free at 1-800-SEC-0330 for information about its public reference rooms. You also may read our filings at the SEC's Web site at <http://www.sec.gov>.

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We have filed with the SEC a registration statement on Form S-3 under the Securities Act of 1933. This prospectus supplement and accompanying prospectus do not contain all of the information in the registration statement. We have omitted certain parts of the registration statement, as permitted by the rules and regulations of the SEC. You may inspect and copy the registration statement, including exhibits, at the SEC's public reference facilities or Web site. Our statements in this prospectus supplement and accompanying prospectus about the contents of any contract or other document are not necessarily complete. You should refer to the copy of each contract or other document we have filed as an exhibit to the registration statement for complete information.

The SEC allows us to incorporate by reference into this prospectus supplement and the accompanying prospectus the information we file with it. This means that we have disclosed important information to you by referring you to those documents. The information we incorporate by reference is considered a part of this prospectus supplement and the accompanying prospectus, and later information we file with the SEC will automatically update and supersede this information. We incorporate by reference all documents we file pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934 after the date of this prospectus supplement and prior to the completion of this offering.

Additionally, we incorporate by reference the documents listed below which we have filed with the SEC under Sections 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934, as amended (Exchange Act file number 0-12989):

Current Report on Form 8-K, filed with the SEC on July 11, 2003.

Current Reports on Form 8-K, filed with the SEC on July 25, 2003 (two filed).

Quarterly Report for the quarter ended June 30, 2003, filed with the SEC on August 12, 2003.

Current Report on Form 8-K, filed with the SEC on August 13, 2003.

Quarterly Report for the quarter ended September 30, 2003, filed with the SEC on November 6, 2003.

Current Report on Form 8-K, filed with the SEC on November 26, 2003.

All documents that we file after the date of this prospectus supplement but before we terminate the offering of our common stock shall be deemed to be incorporated by reference in this prospectus supplement and will be part of the prospectus supplement from the date we file that document. Any information in that document that is meant to supersede or modify any existing statement in this prospectus supplement will so supersede or modify the statement as appropriate.

You may obtain copies of these documents (other than exhibits) free of charge by contacting our Secretary at our principal offices, which are located at 450 South Orange Avenue, Suite 900, Orlando, Florida 32801, (407) 265-7348.

SUMMARY

The following summary is qualified in its entirety by the more detailed information and consolidated financial statements and notes thereto appearing elsewhere in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus. In this prospectus supplement, the words we, our, ours and us refer to Commercial Net Lease Realty, Inc. and its subsidiaries and joint ventures, unless the context indicates otherwise. The following summary contains basic information about the offering. Unless otherwise indicated, the information contained in this prospectus supplement assumes no exercise of the underwriter's over-allotment option.

The Company

We are 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, single-tenant buildings, which may include retail, office or industrial properties that are generally leased to creditworthy businesses under full-credit, long-term commercial net leases.

Our acquisition strategy focuses on properties that are well-located for their intended uses, taking into account market factors (including trade area demographics, employment base and transportation hubs) and property/site characteristics (including access and visibility, traffic counts, customer linkages and intermodal connectivity). These properties attract a wide array of established tenants, such as Barnes & Noble, Best Buy, Eckerd, OfficeMax, Wal-Mart and the United States of America. We believe that single-tenant net-leased properties offer attractive opportunities for stable current returns and potential capital appreciation. In addition, we believe that the location and design of single-tenant properties provide flexibility in use and an increased likelihood of advantageous re-lease terms upon expiration or early termination of the related leases.

We generally acquire properties that are newly constructed or re-developed as of the time of acquisition. In addition, we generally acquire 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. Our 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 our recourse against the tenant and any guarantor in the event of a default and for this reason are considered full-credit leases. Our 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 the date of this prospectus supplement, we own (or in certain limited cases ground lease), either directly or through investment interests, 348 properties, located in 39 states. As of September 30, 2003, approximately 97% of the gross leasable area of our property portfolio was leased.

Our address and phone number are:

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

Recent Developments

Mezzanine Loan. In October 2003, we entered into a Mezzanine Loan Agreement (the *Mezzanine Loan*) with four limited liability companies (collectively, the *Borrowers*) providing for the loan by us of up to \$45.2 million to the Borrowers. The Borrowers are not affiliated with us. We made an initial advance of \$43.4 million in October 2003. We will make the second and final advance in the maximum amount of \$1.8 million when the Borrowers have satisfied certain conditions set forth in the Mezzanine Loan. The Mezzanine Loan bears interest at a rate of 13.5% per annum, 11% payable in monthly installments, and 2.5% accruing and payable at maturity. Principal and interest are initially payable in their entirety at maturity on November 1, 2007. Subject to certain financial conditions, the Mezzanine Loan may be renewed by Borrowers for an additional four years. The Mezzanine Loan is secured by the Borrowers' pledge of membership interests in certain subsidiaries of the Borrowers that own or are in the business of acquiring real estate.

Permanent Debt Financing. In August 2003, CNLR DC Acquisitions I, LLC, our wholly owned subsidiary, acquired two Class A office buildings originally owned and occupied by MCI WorldCom, Inc. located in an area of Arlington, Virginia, known as Pentagon City (the Washington, D.C. metropolitan area). The purchase price for the buildings was \$142 million and was initially funded through proceeds that we received from a public offering of our common stock in July 2003 and borrowings under our \$225 million credit facility. In order to reduce the variable interest rate risk associated with borrowings under our credit facility, in November 2003 CNLR DC Acquisitions I, LLC entered into a permanent debt financing arrangement with Wachovia Bank, National Association for \$95 million, which is secured by the Pentagon City properties. The permanent debt financing bears interest at a fixed rate of 5.42% and will mature in November 2013. Interest is payable monthly and the principal balance will be due and payable in full at maturity.

Core Business Objectives

We focus on producing consistent results from long-term net-leased real estate. Protecting and growing our dividend is our main priority. We execute this mandate by adhering to the following operating disciplines.

Know Value. Shareholder value begins through excellent property acquisitions or efficient property development. Sound real estate underwriting is fundamental. We understand the basic tenets of single-tenant real estate value: (1) location; (2) replacement cost; and (3) market rent. Shareholder value is enhanced through profitable and timely disposition of selected properties.

Strong Tenants. We enhance real estate value by leasing to creditworthy tenants. We target tenants that are leaders in their respective market segments/industries and which have the financial strength to compete effectively.

Reduce Risk. We seek to mitigate risk through a long-term net-lease structure. To avoid initial lease-up risks, we generally acquire properties which are fully leased under a long-term, full-credit lease. We believe that our emphasis on full-credit, long-term (10 to 20 years), triple-net leases will produce a predictable long-term income stream.

Portfolio Diversification. We pursue portfolio diversification by (1) tenant mix; (2) line of trade/industrial classification; (3) property type; and (4) geographic location.

Conservative Capital Structure. We seek to operate with a moderate use of leverage. We believe that our portfolio of properties and the predictability and stability of the underlying cash flow will permit us to obtain attractive long-term debt financing. We intend to maintain a ratio of total indebtedness to total assets (before accumulated depreciation) of not more than 50%.

Build-to-Suit Development Capabilities. Through our ownership of Commercial Net Lease Realty Services, Inc., we provide build-to-suit development to retailers. These build-to-suit services allow us to offer retail tenants a wider range of services and we believe tenants often prefer that we develop the property because we can reduce overall construction costs. Upon completing the development and construction of a property, Commercial Net Lease Realty Services may sell the completed property to us or to an unrelated third party.

The Offering

Securities offered	3,250,000 shares of common stock ⁽¹⁾
Price per share	\$17.40
Shares of common stock to be outstanding after this offering	49,513,436 ⁽¹⁾⁽²⁾
Use of proceeds	We intend to use the net proceeds from the sale of the common stock to repay existing indebtedness.
Risk factors	See Risk Factors beginning on page S-4 of this prospectus supplement.
<u>New York Stock Exchange symbol</u>	NNN

(1) Assumes no exercise of the underwriter's overallotment option to purchase up to 487,500 additional shares of our common stock.

(2) Excludes shares of common stock issuable upon exercise of options under our 2000 Performance Incentive Plan.

RISK FACTORS

In addition to the other information contained or incorporated by reference in this prospectus, you should carefully review the following considerations in determining whether to purchase the common stock.

A substantial portion of our revenue is derived from a small number of tenants.

The United States of America (USA) accounted for approximately 16.8% of the annualized base rental income from our properties, or base rent, as of September 30, 2003. Our next five largest tenants Eckerd, Best Buy, OfficeMax, Barnes & Noble and Academy accounted for an aggregate of approximately 28.6% of our base rent at September 30, 2003. The default, financial distress or bankruptcy of one or more of these tenants could cause additional vacancies among our properties. Vacancies reduce our revenues until we are able to re-lease the affected properties and could decrease the ultimate sale value of each such vacant property. Upon the expiration of the leases that are currently in place, we may not be able to re-lease a vacant property at a comparable lease rate or without incurring additional expenditures in connection with such re-leasing.

Vacant properties or bankrupt tenants could adversely affect our business.

As of September 30, 2003, we owned 10 vacant, unleased properties, which account for 2.8% of the total gross leasable area of our portfolio. We are actively marketing these properties for sale or re-lease, but may not be able to sell or re-lease these properties on favorable terms or at all. Additionally, seven properties, representing 2.7% of the total gross leasable area of our portfolio, are leased to five tenants that have each filed a voluntary petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. As a result, each of the tenants has the right to reject or affirm its leases with us, which, if rejected, could increase our vacancy rate. The lost revenues and increased property expenses resulting from the rejection by any bankrupt tenant of any of their respective leases with us could have a material adverse affect on our liquidity and results of operations and our funds available for distribution to our shareholders if we are unable to re-lease the properties at comparable rental rates and in a timely manner.

Risks associated with our acquisition of two office buildings in Arlington, Virginia.

Risks related to the acquisition of property from a bankrupt estate.

In August 2003, we acquired two office buildings originally owned and occupied by MCI WorldCom, Inc. located in an area in Arlington, Virginia, known as Pentagon City for a purchase price of \$142.8 million. In addition to this purchase price, we are committed to fund additional amounts for building and tenant improvements, currently estimated to be \$28.9 million and other costs related to the lease. Because MCI WorldCom is in bankruptcy, the properties were sold by order of the U.S. Bankruptcy Court in the Southern District of New York for the benefit of the creditors of WorldCom, Inc.

The purchase contract for these properties from bankruptcy did not contain many of the representations and warranties regarding the properties which are customarily obtained from private sellers and we acquired the properties on an as-is, where-is basis from a bankrupt seller. As a result, we may have no recourse if there are pre-existing problems or conditions at the properties.

Risks related to a U.S. Government lease.

The Pentagon City buildings are leased in their entirety to the USA, initially to be used by the Transportation Security Administration (TSA), a recently created federal agency. U.S. Government leases differ in many respects from leases with other commercial tenants and differ from the leases we have with other tenants, particularly tenants in our retail properties. For example, among other things, the lease with the USA for the Pentagon City properties provides that:

We cannot provide for acceleration of the government's payment obligations under the lease even if the government does not make a payment when due or otherwise defaults under the lease;

We are required to maintain and repair the buildings in accordance with specific standards and criteria set forth in the lease;

In performing our maintenance and other obligations under the lease, we must comply with various federal statutes pertaining to government contracts;

The lease requires us to comply with certain statutes relating to, among other things, gratuities to government officials and contingent fees and kickbacks, equal opportunity, use of small businesses, a drug-free workplace, small disadvantaged business concerns and women-owned small businesses, and affirmative action for special disabled and Vietnam-era veterans and handicapped workers. If we fail to comply with such standards, the government may be entitled to terminate the lease or to seek offset against the lease payments;

In the event we fail to perform our obligations under the lease, the government may be entitled to offset from the lease payments the costs incurred by the government in performing such obligations or deduct from lease payments the value of the services not being performed; and

The government may substitute as a tenant any federal government agency or agencies at any time.

We are required to pay a base amount of real estate taxes on the property each year. In addition, under the lease, we are required to perform certain building and tenant improvements, the cost of which may exceed our estimates. Also, we are required to pay for insurance. The presence of a U.S. Government tenant may increase insurance premiums in the future or may result in increased security costs.

Unlike tenants under some of our other leases, the government is only required to pay increases in operating expenses in excess of a base year amount up to the amount of the annual increases in the consumer price index (CPI) cap and we will be responsible for increases in operating expenses above the amount of the CPI increase.

The lease contemplates that TSA will take occupancy of the buildings in multiple phases. Rent due under the lease is based upon the occupancy of the tenant and the completion of building and tenant improvements. To the extent TSA does not occupy the space on the timetable we anticipate, the revenues generated by the buildings may be less than anticipated.

The lease for the entire property expires in ten years, which will increase the risk of re-leasing and could result in substantial costs to re-configure the buildings for a new tenant or tenants.

The loss of certain members of our management team could adversely affect our business.

We depend upon the services of James M. Seneff, Jr., as chairman of the board of directors and chief executive officer, and of Gary M. Ralston, as president. Loss of the services of either of Mr. Seneff or Mr. Ralston could have a material adverse effect on our business and financial condition. We have entered into employment agreements with both Mr. Seneff and Mr. Ralston. Our agreement with Mr. Seneff does not require that he devote all of his efforts to the Company, nor is it expected that he will devote all of his efforts to the Company.

Mr. Seneff's ability to devote his full attention to us is limited.

Mr. Seneff manages numerous business ventures, and his responsibilities to these other ventures will reduce the amount of time that he may devote to us.

We may incur additional debt and we may not be able to repay our debt financing obligations.

While our organizational documents do not limit the level or amount of debt that we may incur, it is our current policy to maintain a ratio of total indebtedness to total assets (before accumulated depreciation) of not more than 50%. However, this policy is subject to reevaluation and modification by the board of directors without shareholder approval. If the board of directors modifies this policy to permit a higher degree of

leverage and we incur additional indebtedness, debt service requirements would increase accordingly. Such an increase could adversely affect our financial condition and results of operations. In addition, increased leverage could increase the risk that we may default on our debt obligations, with resulting losses to our cash flow and asset value.

We are subject to the risks associated with debt financing. These risks include our possible inability to generate cash through our operating activities sufficient to meet our required payments of principal and interest and that rising interest rates may cause the rate on our variable rate credit facility to rise. In addition, we may not be able to repay or refinance existing indebtedness, which generally will not have been fully amortized at maturity, on favorable terms. In the event that we are unable to refinance our indebtedness on acceptable terms, we may be forced to resort to alternatives that may adversely affect our ability to generate cash to pay our debt service obligations, such as disposing of properties on disadvantageous terms (which may also result in losses) and accepting financing on unfavorable terms.

There are a number of risks inherent in owning real estate.

Factors beyond our control affect our performance and value. Changes in national, regional and local economic and market conditions may affect our economic performance and the value of our real estate assets. Local real estate market conditions may include excess supply and intense competition for tenants, including competition based on:

rental rates,

attractiveness and location of the property, and

quality of maintenance, insurance and management services.

In addition, other factors may adversely affect the performance and value of our properties, including changes in laws and governmental regulations, including those governing:

usage,

zoning and taxes,

changes in interest rates, and

the availability of financing.

Illiquidity of real estate investments. Because real estate investments are relatively illiquid, our ability to adjust our portfolio promptly in response to economic or other conditions is limited. Certain significant expenditures generally do not change in response to economic or other conditions, including:

debt service (if any),

real estate taxes, and

operating and maintenance costs.

This combination of variable revenue and relatively fixed expenditures may result, under certain market conditions, in reduced income from investment. Such reduction in investment income could have an adverse effect on our financial condition and results of operations.

Environmental matters. Investments in real property create a potential for environmental liability on the part of the owner of such property from the presence or discharge of hazardous substances on the property. It is our policy, as a part of our acquisition due diligence process, to obtain a Phase I environmental site assessment for each property and where warranted, a Phase II environmental site assessment; however, not all properties have been subjected to these site assessments. Phase I assessments involve site reconnaissance and review of regulatory files identifying potential areas of concern, whereas Phase II assessments involve some degree of soil and/or groundwater testing. We may acquire a property whose environmental site assessment indicates that a problem or potential problem exists, subject to a determination of the level of risk and potential cost of remediation. In such cases, we require the seller and/or tenant to (i) remediate the problem

prior to our acquiring the property, (ii) indemnify us for environmental liabilities or (iii) agree to other arrangements deemed appropriate by us to address environmental conditions at the property. We have 14 properties currently under some level of environmental remediation. The seller or the tenant is contractually responsible for the cost of the environmental remediation for some of these properties. However, we cannot be certain that we will not be required to undertake or pay for removal or remediation of any contamination of properties currently or previously owned by us or that the costs of such removal or remediation would not be material.

We may not be able to successfully implement our selective acquisition strategy or fully realize the anticipated benefits of our renovations and development projects.

We cannot assure that we will be able to implement our investment strategies successfully. Additionally, we cannot assure that our property portfolio will expand at all, or if it will expand at any specified rate or to any specified size. In addition, investment in additional real estate assets is subject to a number of risks. Because we expect to invest in markets other than the ones in which our current properties are located, we will also be subject to the risks associated with investment in new markets that may be relatively unfamiliar to our management.

To the extent that we engage in development activities, we will be subject to the risks normally associated with such activities. Such risks include, without limitation, risks relating to the availability and timely receipt of zoning and other regulatory approvals, the cost and timely completion of construction (including risks from factors beyond our control, such as weather or labor conditions or material shortages) and the ability to obtain both construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken or provide a tenant the opportunity to terminate a lease. Any of these situations could have an adverse effect on our financial condition and results of operations and on the amount of funds available for distribution to shareholders.

The ownership and management of office and industrial properties may involve unanticipated difficulties that differ from those in the retail real estate market.

Our property portfolio consists primarily of retail properties, which are leased under full-credit, long-term commercial net leases. As a result of our acquisition of the two Class A office properties in August 2003, we are subject to the risks associated with investment in new property types, which may be relatively unfamiliar to our management. These risks could result in substantial unanticipated difficulties, delays or expenses involved in owning and managing office or industrial properties, which could have an adverse effect on our financial condition and results of operations and on the amount of funds available for distribution to stockholders.

In addition, the price of our capital stock may suffer from any perceived adverse changes in business focus as a result of purchasing and operating office and industrial properties.

We recently entered into the Mezzanine Loan, which poses different investment risks than our investments in single-tenant net leased real property.

We recently entered into the Mezzanine Loan with certain third party borrowers, which is a different type of investment than our investments in single-tenant net leased real property. Our Mezzanine Loan is subordinated to senior loans secured by first mortgages and therefore has an increased risk of loss. Subordinated positions are subject to special risk, including a greater risk of loss of principal and non-payment of interest, than more senior loans and tend to be more sensitive to changes in economic conditions than more senior loans. As a result of these and other factors, our investment in the Mezzanine Loan may not provide us with the same liquidity of investment that our net-leased portfolio has. Our Mezzanine Loan is not secured by a first mortgage on real estate, but rather by the borrowers' pledge of membership interests in certain subsidiaries of the borrowers that own the underlying real estate. In the event of a default on a senior loan, we may elect to make payments if we have the right and the additional funds to do so to prevent foreclosure on a

senior loan. In the event of foreclosure, we will be entitled to share in foreclosure proceeds only after satisfaction of the amounts due to the senior lenders, which may result in our being unable to recover any amount of our investment, including any additional funds advanced prior to foreclosure.

Our failure to qualify as a real estate investment trust for federal income tax purposes would affect our ability to maintain our current level of dividends and could result in significant tax liability.

We intend to operate in a manner that will allow us to continue to qualify as a real estate investment trust. We believe that we have been organized as, and our past and present operations qualify us as, a real estate investment trust. However, the IRS could successfully assert that we are not qualified as such. In addition, we may not remain qualified as a real estate investment trust in the future. This is because qualification as a real estate investment trust involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial or administrative interpretations and involves the determination of various factual matters and circumstances not entirely within our control.

If we fail to qualify as a real estate investment trust, we will not be allowed a deduction for dividends to shareholders in computing taxable income and would become subject to federal income tax at regular corporate rates. In this event, we could be subject to potentially significant tax liabilities, and the amount of cash available for distribution to shareholders would be reduced and possibly eliminated. Unless entitled to relief under certain statutory provisions, we would also be disqualified from treatment as a real estate investment trust for the four taxable years following the year during which we lost our qualification.

Recent tax legislation provides favorable treatment for dividends of regular corporations, but not generally dividends from REITs.

On May 28, 2003, the President signed into law the Jobs and Growth Tax Relief Reconciliation Act of 2003 (which we will refer to as the Act). Under the Act, the maximum tax rate on the long-term capital gains of non-corporate taxpayers is 15% (applicable to sales occurring from May 7, 2003 through December 31, 2008). The Act also reduced the tax rate on qualified dividend income to 15%. Because, as a REIT, we are not generally subject to tax on the portion of our REIT taxable income or capital gains distributed to our shareholders, our distributions are not generally eligible for this new tax rate on dividends. As a result, our ordinary REIT distributions continue to be taxed at the higher tax rates applicable to ordinary income. Without further legislation, the maximum tax rate on long-term capital gains will revert to 20% in 2009, and dividends will again be subject to tax at ordinary rates.

We make certain forward-looking statements in this prospectus that may or may not occur.

Certain statements incorporated by reference or made in this prospectus supplement under the captions Risk Factors and The Company, and elsewhere in this prospectus supplement and the accompanying prospectus are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. When we use the words anticipate, assume, believe, estimate, expect, intend, and other similar expressions in this prospectus supplement and the accompanying prospectus, they are generally intended to identify forward-looking statements. You should not rely on forward-looking statements since they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond our control and which could materially affect our actual results, performance or achievements.

USE OF PROCEEDS

We estimate that the net proceeds from this offering will be approximately \$56.0 million, after estimated expenses and underwriting discounts. We intend to use the net proceeds to reduce the amount outstanding under our credit facility. After this repayment, we will have approximately \$52.9 million outstanding and approximately \$172.1 million available for future borrowings under the credit facility as of December 2, 2003. Borrowings outstanding under our credit facility, which expires in May 2006, currently bear interest at a rate of LIBOR plus 100 basis points. We used a portion of the borrowings under our credit facility to fund the Mezzanine Loan that we entered into with four limited liability companies in October 2003. For more information regarding the Mezzanine Loan, please refer to Summary Recent Developments.

CERTAIN ADDITIONAL INCOME TAX CONSIDERATIONS

The following is a summary of some additional tax considerations with respect to the ownership of our common stock.

Tax Penalty for Failure to Satisfy Income Tests. The Tax Relief Extension Act of 1999 made certain changes to the Internal Revenue Code of 1986, as amended, which we refer to as the Code. As a result, if we fail to satisfy the 75% gross income test or the 95% gross income test (as described in the accompanying base prospectus under Federal Income Tax Considerations Taxation of Commercial Net Lease Realty, Inc. Income Tests), and nonetheless continue to qualify as a REIT because we meet certain other requirements, we will pay a 100% tax on the greater of (i) the amount by which 90% of our gross income (excluding gross income from prohibited transactions) exceeds our qualifying income under the 95% gross income test, or (ii) the amount by which 75% of our gross income (excluding gross income from prohibited transactions) exceeds our qualifying income under the 75% gross income test, multiplied by a fraction intended to reflect our profitability.

Treatment of Mezzanine Loans. Mezzanine loans that we originate generally will not be secured by a direct interest in real property, but by ownership interests in an entity owning real property. In Revenue Procedure 2003-65, the IRS established a safe harbor under which interest from loans secured by a first priority security interest in ownership interests in a partnership or limited liability company owning real property will be treated as qualifying income for both the 75% and 95% gross income tests, and such loans will be treated as real estate assets qualifying for purposes of the asset tests, provided several requirements are satisfied. If a mezzanine loan does not qualify for the Revenue Procedure 2003-65 safe harbor, the interest income from the loan will be qualifying income for purposes of the 95% gross income test, but potentially will not be qualifying income for purposes of the 75% gross income test. In addition, if the mezzanine loan is not a real estate asset and does not qualify as straight debt, we will be subject to the 10% value test with respect to such loan. We believe that all of our mezzanine loans will either qualify for the Revenue Procedure 2003-65 safe harbor or will nevertheless be treated as real estate assets that generate qualifying income under both the 75% and 95% gross income tests and are qualifying assets for purposes of the asset tests.

Jobs and Growth Tax Relief Reconciliation Act of 2003. On May 28, 2003, the President signed into law the Jobs and Growth Tax Relief Reconciliation Act of 2003 (which we will refer to as the Act). Under the Act, the maximum tax rate on the long-term capital gains of non-corporate taxpayers is 15% (applicable to sales occurring from May 7, 2003 through December 31, 2008). The Act also reduced the tax rate on qualified dividend income to 15%. Because, as a REIT, we are not generally subject to tax on the portion of our REIT taxable income or capital gains distributed to our shareholders, our distributions are not generally eligible for this new tax rate on dividends. As a result, our ordinary REIT distributions continue to be taxed at the higher tax rates applicable to ordinary income. However, the new 15% rate does generally apply to:

a shareholder's long-term capital gain, if any, recognized on the disposition of our shares;

distributions we designate as long-term capital gain dividends (except to the extent attributable to real estate depreciation, in which case the 25% tax rate applies);

distributions attributable to dividends we receive from non-REIT corporations; and

distributions to the extent attributable to income upon which we have paid corporate tax (for example, the tax we would pay if we distributed less than all of our taxable REIT income).

Without further legislation, the maximum tax rate on long-term capital gains will revert to 20% in 2009. The backup withholding rate also has been reduced from 30% to 28%. For further details regarding income tax considerations, see [Federal Income Tax Considerations](#) in the accompanying base prospectus.

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UNDERWRITING

Citigroup Global Markets Inc. is acting as sole underwriter of the offering. Subject to the terms and conditions stated in the underwriting agreement, dated the date of this prospectus supplement, the underwriter has agreed to purchase and we have agreed to sell to the underwriter 3,250,000 shares of our common stock.

The underwriting agreement provides that the obligation of the underwriter to purchase the shares included in this offering is subject to approval of legal matters by counsel and to other conditions. The underwriter is obligated to purchase all the shares (other than those covered by the over-allotment option described below) if it purchases any of the shares.

The underwriter proposes to offer some of the shares directly to the public at the public offering price set forth on the cover page of this prospectus supplement. If all of the shares are not sold at the initial offering price, the underwriter may change the public offering price and the other selling terms.

We have granted to the underwriter an option, exercisable for 30 days from the date of this prospectus, to purchase up to 487,500 additional shares of common stock at the public offering price less the underwriting discount. The underwriter may exercise the option solely for the purpose of covering over-allotments, if any, in connection with this offering.

We and our executive officers have agreed for a period of 90 days from the date of this prospectus supplement, not to dispose of or hedge any shares of common stock or any securities convertible into or exchangeable for our common stock, except in certain limited circumstances, without the prior written consent of Citigroup Global Markets Inc. However, we may issue shares of common stock to the Northern Trust Company as Trustee of the Retirement Plan for Chicago Transit Authority Employees (CTA) and register such shares for resale, pursuant to CTA s right to receive such registered shares under a limited partnership agreement between CTA and Net Lease Realty III, Inc., our wholly owned subsidiary. Citigroup Global Markets Inc. in its sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

Our common stock is listed on the New York Stock Exchange under the symbol NNN.

The following table shows the underwriting discount and commissions that we are to pay to the underwriter in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriter s option to purchase additional common shares.

	Paid by the Company	
	No Exercise	Full Exercise
Per share	\$ 0.15	\$ 0.15
Total	\$487,500	\$560,625

In addition to the underwriting discount, the underwriter will receive a commission from investors in the amount of \$0.05 for each share of common stock sold to those investors in this offering.

In connection with the offering, Citigroup Global Markets Inc. may purchase and sell shares of our common stock in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of shares in excess of the number of shares to be purchased by the underwriter in the offering, which creates a syndicate short position. Covered short sales are sales of shares made in an amount up to the number of shares represented by the underwriter s over-allotment option. In determining the source of shares to close out the covered syndicate short position, the underwriter will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which it may purchase shares through the over-allotment option. Transactions to close out the covered syndicate short sales involve either purchases of the common stock in the open market after the distribution has been completed or the exercise of the over-allotment option. The underwriter may also make naked short sales of shares in excess of the over-allotment option. The underwriter must close out any naked short position by purchasing common stock in the open market. A naked short position is more likely to be created if the underwriter is concerned that there may be downward pressure on the price of the

shares in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of bids for or purchase of shares in the open market while the offering is in progress.

Any of these activities may have the effect of preventing or retarding a decline in the market price of our common stock. They may also cause the price of our common stock to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriter may conduct these transactions on the New York Stock Exchange or in the over-the-counter market, or otherwise. If the underwriter commences any of these transactions, it may discontinue them at any time.

We estimate that our portion of the total expenses of this offering will be \$110,000.

The underwriter has performed investment banking and advisory services for us from time to time for which it has received customary fees and expenses. The underwriter may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business. In addition, affiliates of Citigroup Global Markets Inc. are lenders under our credit facility.

We have agreed to indemnify the underwriter against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriter may be required to make because of any of those liabilities.

LEGAL MATTERS

Certain legal matters, including the validity of the common stock offered hereby, will be passed upon for us by Shaw Pittman LLP, Washington, D.C. Certain legal matters will be passed upon for the underwriter by Hunton & Williams LLP.

Commercial Net Lease Realty, Inc.
A Real Estate Investment Trust

\$600,000,000

Commercial Net Lease Realty, Inc.
Debt Securities, Preferred Stock, Depositary Shares,
Common Stock and Common Stock Warrants

We, Commercial Net Lease Realty, Inc., may from time to time offer, in one or more series, separately or together, the following:

our debt securities which may be either senior debt securities or subordinated debt securities;

shares of our preferred stock;

shares of our preferred stock represented by depositary shares;

shares of our common stock; and/or

warrants to purchase shares of our common stock.

We will offer such securities at an aggregate initial public offering price of up to \$600,000,000. Our common stock is listed on the New York Stock Exchange under the trading symbol NNN.

We will offer our securities in amounts, at prices and on terms to be determined at the time we offer such securities.

When we sell a particular series of securities, we will prepare a prospectus supplement describing the offering and the terms of that series of securities. Such terms may include limitations on direct or beneficial ownership and restrictions on transfer of our securities being offered that we believe are appropriate to preserve our status as a real estate investment trust for federal income tax purposes.

We may offer our securities directly, through agents we may designate from time to time, or to or through underwriters or dealers. If any agents or underwriters are involved in the sale of any of our securities, their names and any applicable purchase price, fee, commission or discount arrangement between or among them will be set forth or will be calculable from the information set forth in the applicable prospectus supplement. See Plan of Distribution. None of our securities may be sold without delivery of the applicable prospectus supplement describing the method and terms of the offering of such class or series of the securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined that this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

THE DATE OF THIS PROSPECTUS IS JUNE 5, 2003.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission using a shelf registration process. Under this shelf process, we may sell:

debt securities,

preferred stock,

preferred stock represented by depositary shares,

common stock, and

warrants to purchase shares of common stock

either separately or in units, in one or more offerings. This prospectus provides you with a general description of those securities. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read this prospectus and the applicable prospectus supplement together with the additional information described under the heading **Where You Can Find More Information**.

The registration statement that contains this prospectus (including the exhibits to the registration statement) contains additional information about Commercial Net Lease Realty, Inc. and the securities offered under this prospectus. That registration statement can be read at the SEC's web site or at the SEC offices mentioned under the heading **Where You Can Find More Information**.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission, or SEC. You may read and copy any document that we have filed at the SEC's public reference rooms at 450 Fifth Street, N.W., Washington, D.C. 20549; Seven World Trade Center, 13th Floor, New York, New York 10048; and Suite 1400, Northwestern Atrium Center, 500 West Madison Street, Chicago, Illinois 60661. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our filings are available to the public at the Web site at <http://www.sec.gov>. Our common stock is listed on the New York Stock Exchange under the ticker symbol NNN. You may inspect our reports, proxy statements and other information at the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

We have filed with the SEC a registration statement (of which this prospectus is a part) on Form S-3 under the Securities Act of 1933, as amended, with respect to our securities. This prospectus does not contain all of the information set forth in the registration statement, including the exhibits and schedules thereto, certain parts of which are omitted as permitted by the rules and regulations of the SEC.

We are incorporating by reference the information we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information we incorporate by reference is considered to be part of this prospectus, except for any information superseded by information in this prospectus. We incorporate by reference the documents listed below which we have filed with the SEC under Sections 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934, as amended (Exchange Act file number 0-12989).

Annual Report on Form 10-K for the fiscal year ended December 31, 2002, filed with the SEC on March 28, 2003.

Proxy Statement on Schedule 14A for the 2003 Annual Meeting of Shareholders, filed with the SEC on April 18, 2003.

Quarterly Report for the quarter ended March 31, 2003, filed with the SEC on May 7, 2003.

The description of our common stock contained in the Registration Statement on Form 8-A, filed with the SEC.

All documents that we file after the date of this prospectus but before we terminate the offering of our securities shall be deemed to be incorporated by reference in this prospectus and will be part of the prospectus from the date we file that document. Any information in that document that is meant to supersede or modify any existing statement in this prospectus will so supersede or modify the statement as appropriate.

You may request a copy of any or all of the documents incorporated by reference in this prospectus, except the exhibits to such documents (unless such exhibits are specifically incorporated by reference in such documents), at no cost, by writing or telephoning our offices at the following address:

Commercial Net Lease Realty, Inc.

450 South Orange Avenue, Suite 900
Orlando, Florida 32801
Attention: Kevin B. Habicht
(telephone number (407) 265-7348)

COMMERCIAL NET LEASE REALTY, INC.

We are a fully integrated self-administered real estate investment trust (REIT), incorporated in Maryland, formed in 1984. We acquire, own, develop and manage a diversified portfolio of high-quality properties that are generally leased to major retail businesses under full-credit, long-term commercial net leases. As of March 31, 2003, we owned 335 properties and had a 20% ownership interest in nine additional properties held in an unconsolidated partnership. Our properties were acquired for an aggregate purchase price of approximately \$890.8 million.

Our strategy is to invest in properties with purchase prices generally up to \$10 million, which typically are located along intensive commercial corridors near traffic generators, such as regional malls, business developments and major thoroughfares. Management believes that these types of properties when leased to high-quality tenants with significant market presence provide attractive opportunities for a stable current return and the potential for capital appreciation. In management's view, these types of properties also provide us with flexibility in use and tenant selection when the properties are re-let.

We generally acquire 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. Our 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. Our leases typically do not limit our recourse against the tenant and any guarantor in the event of a default and for this reason are considered full-credit leases. Our 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 March 31, 2003, the average remaining initial lease term of our properties was approximately 12 years. Leases representing approximately 71.2% of annualized base rental income from our properties, as of March 31, 2003, have initial terms extending until at least December 31, 2012.

Our principal office is located at 450 South Orange Avenue, Suite 900, Orlando, Florida 32801 and our telephone number is (407)265-7348.

USE OF PROCEEDS

Unless otherwise described in the applicable prospectus supplement, we intend to use the net proceeds from the sale of our securities for general corporate purposes, which may include the repayment of certain indebtedness outstanding at such time, the acquisition of properties as suitable opportunities arise and the expansion and improvement of certain properties in our portfolio.

RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

Our consolidated ratio of earnings to fixed charges for the three months ended March 31, 2003 was 2.50 and for the years ended December 31, 2002, 2001, 2000, 1999 and 1998 was 2.80, 2.09, 2.34, 2.44 and 3.05, respectively. Our consolidated ratio of earnings to fixed charges and preferred distributions was 2.18 for the three months ended March 31, 2003 and 2.44 for the year ended December 31, 2002. Prior to 2002, we did not have preferred distributions.

For the purposes of computing these ratios, earnings have been calculated by adding fixed charges (excluding capitalized interest) to income before taxes and extraordinary items. Fixed charges consist of interest costs, whether expensed or capitalized, and amortization of debt expense and discount or premium relating to any indebtedness, whether expensed or capitalized. The ratios of earnings to fixed charges and preferred distributions were computed by dividing our earnings by fixed charges and preferred distributions.

DESCRIPTION OF DEBT SECURITIES

The following is a general description of the debt securities that we may offer from time to time. The particular terms of the debt securities being offered and the extent to which such general provisions may apply will be set forth in the applicable indenture or in one or more indenture supplements and described in the applicable prospectus supplement. Therefore, you should read both the applicable prospectus supplement and the description of the debt securities set forth in this prospectus for a description of the terms of any series of our debt securities.

General

Our debt securities will be secured or unsecured direct obligations and may be senior or subordinated to our other indebtedness. Our debt securities may be issued under one or more indentures that will be put into place prior to the date on which debt securities to which it relates are issued. The indenture will be filed as an exhibit to the registration statement of which this prospectus is a part. Each indenture will be entered into between us and a trustee. A trustee may serve as trustee under more than one indenture. Each indenture will be subject to, and governed by, the Trust Indenture Act of 1939, as amended. Any statements made in this prospectus, which relate to the indenture and our debt securities are only summaries of those provisions and are not meant to replace or modify those provisions. Capitalized terms used but not defined in this prospectus shall have the respective meanings set forth in the indenture.

Except as set forth in any prospectus supplement, the indenture will permit that:

the debt securities may be issued without limits as to aggregate principal amount,

the debt securities may be issued in one or more series, in each case as established from time to time by our Board of Directors or as set forth in the applicable indenture or one or more indentures supplemental to the indenture,

all debt securities of one series need not be issued at the same time, and

a series may be reopened, without the consent of the holders of the debt securities of such series, for issuance of additional debt securities of such series.

We may, but need not, designate more than one trustee in connection with an indenture, each with respect to one or more series of debt securities. Any trustee under an indenture may resign or be removed with respect to one or more series of debt securities, and a successor trustee may be appointed to act with respect to such series. If two or more persons are acting as trustee with respect to different series of debt securities, each of those trustees will be considered a trustee of a trust under the applicable indenture separate and apart from the trust administered by any other trustee. Unless this prospectus states otherwise, a trustee will only be permitted to take action with respect to the one or more series of debt securities for which it is trustee under the applicable indenture.

The following summaries set forth certain general terms and provisions of the indenture and our debt securities. The prospectus supplement relating to the series of debt securities being offered will contain further terms of the debt securities of that series, including the following specific terms:

(1) the title of the debt securities;

(2) the aggregate principal amount of the debt securities and any limit on the aggregate principal amount;

(3) the percentage of the principal amount at which the debt securities will be issued and, if applicable, the portion of the principal amount that is payable upon declaration of acceleration of the maturity of the debt securities, the portion of the principal amount of the debt securities which is convertible into shares of our common stock or other equity securities, or the method by which any such portion shall be determined;

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(4) if such debt securities are convertible into equity, any limitation to the ownership or transferability of shares of our common stock or other equity securities into which such debt securities are convertible in connection with the preservation of our status as a REIT;

(5) the date or dates, or the method for determining the date or dates, on which the principal of such debt securities will be payable;

(6) the rate or rates (which may be fixed or variable), or the method by which such rate or rates shall be determined, at which such debt securities will bear interest, if any;

(7) the date or dates, or the method for determining the date or dates, from which any interest will accrue, the interest payment dates, the record dates for interest payment, the persons to whom interest shall be payable, and how interest will be calculated if other than that of a 360-day year of twelve 30-day months;

(8) the place or places where the principal of (and premium, if any) or interest, if any, on the debt securities will be payable, where the debt securities may be surrendered for conversion or registration of transfer or exchange, and where notices or demands to or upon us in respect to the debt securities and the applicable indenture may be served;

(9) the period or periods within which, the price or prices at which, and the terms and conditions upon which the debt securities may be redeemed, as a whole or in part, at our option, if we have such an option;

(10) our obligation, if any, to redeem, repay or purchase the debt securities, in whole or in part, pursuant to any sinking fund or analogous provision or at the option of a holder of the debt securities, and the periods, the prices, and other terms and conditions of such redemption, repayment or purchase;

(11) if other than U.S. dollars, the currency or currencies, including terms and conditions, in which the debt securities are denominated and payable, which may be a foreign currency or units of two or more foreign currencies or a composite currency or currencies;

(12) whether the amount of payments of principal (and premium, if any) or interest, if any, on the debt securities may be determined with reference to an index, formula or other method (which index, formula or method may, but need not be, based on a currency, currencies, currency unit or units or composite currency or currencies) and the manner in which any amounts shall be determined;

(13) any additions to, modifications of or deletions from the terms of the debt securities with respect to the events of default or covenants set forth in the applicable indenture;

(14) whether the debt securities will be issued in certificated or book-entry form;

(15) whether the debt securities will be in registered or bearer form or both and, if and to the extent in registered form, the denominations of the debt securities if other than \$1,000 or any integral multiple of \$1,000 and, if and to the extent in bearer form, the denominations and their terms and conditions;

(16) the applicability (or modification), if any, of the defeasance and covenant defeasance provisions described in this prospectus or in the applicable indenture;

(17) the terms (and the class), if any, upon which such debt securities may be convertible into shares of our common stock or other equity securities and the terms and conditions upon which such conversion will be effected, including, without limitation, the initial conversion price or rate and the conversion period;

(18) whether and under what circumstances we will pay additional amounts on the debt securities in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem the debt securities in lieu of making a payment;

(19) the provisions, if any, relating to the security provided for the debt securities; and

(20) any other terms of the debt securities not inconsistent with the provisions of the applicable indenture.

Certain of our debt securities may provide that if the maturity date is accelerated, we will be required to pay less than the entire principal amount. These securities are referred to as original issue discount securities. The prospectus supplement relating to these securities will describe any material U.S. federal income tax, accounting and other considerations that apply.

Except as may be set forth in the applicable prospectus supplement, our debt securities will not contain any provisions that would limit our ability to incur indebtedness or that would afford holders of our debt securities protection in the event of:

(1) a highly leveraged or similar action involving us;

(2) a change of control of us.

However, the requirements for an entity to qualify as a REIT include certain restrictions on ownership and transfers of our shares of common stock and other equity securities. These restrictions may act to prevent or hinder a change of control. See Description of Common Stock Restrictions on Ownership. Provided below is a general description of the events of default and covenants contained in our indentures. You should refer to the applicable prospectus supplement for information on any variances from this general description.

Denominations, Interest, Registration and Transfer

Unless otherwise described in the applicable prospectus supplement, our debt securities of any series will be issuable in denominations of \$1,000 and integral multiples of \$1,000.

Unless otherwise specified in the applicable prospectus supplement, the principal of (and premium, if any) and interest on any series of debt securities will be payable at the applicable trustee's corporate trust office, the address of which will be set forth in the applicable prospectus supplement. We will retain the option to make interest payments by check, mailed to the address of the person entitled to the interest as it appears in the applicable register for such debt securities. We can also pay by wire transfer of funds to that person at an account maintained within the United States.

Any interest not paid or otherwise provided for when due with respect to a debt security will not be payable to the holder in whose name the debt security is registered on the date we have specified as the date a registered holder of the debt security as of that date would be entitled to receive the interest payment due (the record date). Instead, the interest may be paid to the person in whose name such debt security is registered at the close of business on the date the trustee has set as the date on which a registered holder as of that date would be entitled to receive the defaulted interest payment (the special record date). Notice of the payment will be given to the holder of that debt security not less than 10 days before the special record date. It may also be paid at any time in any other lawful manner, all as more completely described in the applicable indenture. If interest is not paid within 30 days of the due date, the trustee or holders of not less than 25% of the principal amount of the outstanding debt securities of that series may accelerate the securities. See Events of Default, Notice and Waiver.

Subject to certain limitations applicable to debt securities issued in book-entry form, our debt securities of any series:

will be exchangeable for other debt securities of the same series and of a like aggregate principal amount and tenor of different authorized denominations upon surrender of such debt securities at the corporate trust office of the applicable trustee; and

may be surrendered for conversion or registration of transfer at the corporate trust office of the applicable trustee.

Every debt security surrendered for conversion, registration of transfer or exchange must be duly endorsed or accompanied by a written instrument of transfer. No service charge will be made for any registration of transfer or exchange of any debt securities, but we may require payment of a sum sufficient to cover any tax

or other governmental charge payable in connection with the registration or exchange. We may at any time change transfer agents or approve a change in the location through which any transfer agent acts. However, we will be required to maintain a transfer agent in each place of payment for such series. We may at any time designate additional transfer agents with respect to any series of debt securities.

Neither we nor any trustee will be required:

to issue, exchange or register the transfer of any debt securities of any series during a period beginning at the opening of business 15 days before any selection of debt securities of that series to be redeemed and ending at the close of business on the day of mailing of the relevant notice of redemption;

to exchange or register the transfer of any debt security, or portion of the security, called for redemption, except the unredeemed portion of any debt security being redeemed in part; or

to issue, exchange or register the transfer of any debt security which has been surrendered for repayment at the option of the holder, except the portion, if any, of such debt security not to be so repaid.

Merger, Consolidation or Sale

Each indenture will provide that we may consolidate with, or sell, lease or convey all or substantially all of our assets to, or merge with or into, any other corporation. Those transactions are permitted if:

we are the continuing corporation, or, if not, the resulting or acquiring entity assumes all of our responsibilities and liabilities under the indenture, including the payment of all amounts due on the debt securities and performance of the covenants and conditions contained in the applicable indenture;

immediately after giving effect to such transaction and treating any indebtedness which becomes our obligation or an obligation of any of our subsidiaries as a result thereof as having been incurred by us or such subsidiary at the time of such transaction, no event of default under the applicable indenture, and no event which, after notice or the lapse of time, or both, would become such an event of default, shall have occurred and be continuing; and

an officer's certificate and legal opinion covering these conditions are delivered to the trustee.

Certain Covenants

Existence. Except as permitted under Merger, Consolidation or Sale, the indenture will require that we do or cause to be done all things necessary to preserve and keep in full force and effect our corporate existence, rights (by articles of incorporation, bylaws or statute) and franchises. We may, however, dispose of any right or franchise if we determine that the right or franchise is no longer desirable in the conduct of our business.

Maintenance of Properties. As required in the indenture, we will maintain, keep in good condition and make all necessary repairs, renewals, replacements, betterments and improvements of our, or our subsidiaries' properties that we deem necessary so that the business carried on in connection with those properties may be properly and advantageously conducted at all times. We, or our subsidiaries may, however, sell or otherwise dispose for value our properties in the ordinary course of business.

Insurance. We, and our subsidiaries, will maintain the customary policies of insurance with responsible companies, taking into consideration prevailing market conditions and availability, for all of our properties and operations.

Payment of Taxes and Other Claims. We will pay or discharge or cause to be paid or discharged (or, if applicable, cause to be transferred to bond or other security), before the same shall become delinquent,

all taxes, assessments and governmental charges levied or imposed upon us or any of our subsidia