

Cole Credit Property Trust II Inc  
Form POS AM  
October 27, 2008

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**As filed with the Securities and Exchange Commission on October 27, 2008**

**Registration No. 333-138444**

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**POST-EFFECTIVE AMENDMENT NO. 6 TO  
Form S-11**

**FOR REGISTRATION UNDER  
THE SECURITIES ACT OF 1933  
OF CERTAIN REAL ESTATE COMPANIES**

**COLE CREDIT PROPERTY TRUST II, INC.**

*(Exact Name of Registrant as Specified in Its Governing Instruments)*

**2555 East Camelback Road, Suite 400  
Phoenix, Arizona 85016  
(602) 778-8700**

*(Address, Including Zip Code and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)*

**D. Kirk McAllaster, Jr.  
Executive Vice President and Chief Financial Officer  
Cole Credit Property Trust II, Inc.  
2555 East Camelback Road, Suite 400  
Phoenix, Arizona 85016  
(602) 778-8700**

*(Name, Address, Including Zip Code and Telephone Number, Including Area Code, of Agent for Service)*

*Copies to:*

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable following effectiveness of this Registration Statement

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

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

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

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="radio"/>	Accelerated filer <input type="radio"/>	Non-accelerated filer <input checked="" type="radio"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="radio"/>
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If any of the securities registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act check the following box.

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This Post-Effective Amendment No. 6 consists of the following:

1. The Registrant's final form of Prospectus dated April 30, 2008;
  2. Supplement No. 8 dated October 27, 2008 to the Registrant's Prospectus dated April 30, 2008, included herewith, which will be delivered as an unattached document along with the Prospectus dated April 30, 2008. Supplement No. 8 supersedes and replaces all prior supplements;
  3. Part II, included herewith; and
  4. Signatures, included herewith.
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**Cole Credit Property Trust II, Inc.  
Maximum Offering of 150,000,000 Shares of Common Stock**

Cole Credit Property Trust II, Inc. is a Maryland corporation which qualifies as a real estate investment trust. We invest primarily in freestanding, single-tenant retail properties net leased to investment grade and other creditworthy tenants.

We are offering up to 125,000,000 shares of our common stock in our primary offering for \$10.00 per share, with discounts available for certain categories of purchasers. We also are offering up to 25,000,000 shares pursuant to our distribution reinvestment plan at a purchase price equal to the higher of \$9.50 per share or 95% of the estimated value of a share of our common stock. We will offer these shares until May 11, 2009, which is two years after the effective date of this offering, unless the offering is extended. We reserve the right to reallocate the shares of our common stock we are offering between the primary offering and the distribution reinvestment plan.

**See Risk Factors beginning on page 24 for a description of some of the risks you should consider before buying shares of our common stock. These risks include the following:**

You will be unable to evaluate the economic merit of our future investments before we make them and there may be a substantial delay in receiving a return, if any, on your investment.

There are substantial conflicts among us and our advisor, dealer manager and property manager, such as the fact that our chairman and chief executive officer owns 100% of our advisor, our dealer-manager and our property manager, and our advisor and other affiliated entities may compete with us and acquire properties suitable to our investment objectives.

No public market currently exists, and one may never exist, for shares of our common stock. If you are able to sell your shares, you would likely have to sell them at a substantial discount.

We may make distributions from the proceeds of this offering or from borrowings in anticipation of future cash flow. Any such distributions will constitute a return of capital and may reduce the amount of capital we ultimately invest in properties and negatively impact the value of your investment.

If we fail to maintain the requirements to be taxed as a REIT, it would reduce the amount of income available for distribution and limit our ability to make distributions to our stockholders.

You may not own more than 9.8% in value of the outstanding shares of our stock or more than 9.8% of the number or value of any class or series of our outstanding shares of stock.

We may incur substantial debt, which could hinder our ability to pay distributions to our stockholders or could decrease the value of your investment in the event that income on, or the value of, the property securing the debt falls.

We are dependent on our advisor to select investments and conduct our operations. Adverse changes in the financial condition of our advisor or our relationship with our advisor could adversely affect us.

We will pay substantial fees and expenses to our advisor, its affiliates and participating broker-dealers, which payments increase the risk that you will not earn a profit on your investment.

This is a best efforts offering and we might not sell all of the shares being offered.

**Neither the Securities and Exchange Commission, the Attorney General of the State of New York nor any other state securities regulator has approved or disapproved of our common stock, determined if this prospectus is truthful or complete or passed on or endorsed the merits of this offering. Any representation to the contrary is a criminal offense.**

**The use of projections in this offering is prohibited. Any representation to the contrary, and any predictions, written or oral, as to the amount or certainty of any future benefit or tax consequence that may flow from an investment in this program is not permitted. All proceeds from the this offering are funds held in trust until subscriptions are accepted and funds are released.**

This investment involves a high degree of risk. You should purchase these securities only if you can afford a complete loss of your investment.

	<b>Price to Public</b>	<b>Selling Commissions</b>	<b>Dealer Manager Fee</b>	<b>Net Proceeds (Before Expenses)</b>
Primary Offering				
Per Share	\$ 10.00	\$ 0.70	\$ 0.20	\$ 9.10
Total Maximum	\$ 1,250,000,000	\$ 87,500,000	\$ 25,000,000	\$ 1,137,500,000
Distribution Reinvestment Plan				
Per Share	\$ 9.50	\$	\$	\$ 9.50
Total Maximum	\$ 237,500,000	\$	\$	\$ 237,500,000

The dealer manager of this offering, Cole Capital Corporation, a member firm of the National Association of Securities Dealers, Inc., is our affiliate and will offer the shares on a best efforts basis. The minimum investment amount generally is \$2,500. See the Plan of Distribution section of this prospectus beginning on page 184 for a description of compensation that may be received by our dealer manager and other broker-dealers in this offering.

April 30, 2008

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**SUITABILITY STANDARDS**

An investment in our common stock involves significant risk and is only suitable for persons who have adequate financial means, desire a relatively long-term investment and who will not need immediate liquidity from their investment. There is no public market for our common stock and we cannot assure you that one will develop, which means that it may be difficult for you to sell your shares. This investment is not suitable for persons who require immediate liquidity or guaranteed income, or who seek a short-term investment.

In consideration of these factors, we have established suitability standards for initial stockholders and subsequent purchasers of shares from our stockholders. These suitability standards require that a purchaser of shares have, excluding the value of a purchaser's home, furnishings and automobiles, either:

a net worth of at least \$150,000; or

a gross annual income of at least \$45,000 and a net worth of at least \$45,000.

The minimum investment amount generally is \$2,500 (250 shares). You may not transfer any of your shares if such transfer would result in your owning less than the minimum investment amount, unless you transfer all of your shares. In addition, you may not transfer or subdivide your shares so as to retain less than the number of shares required for the minimum purchase. In order to satisfy the minimum purchase requirements for retirement plans, unless otherwise prohibited by state law, a husband and wife may jointly contribute funds from their separate IRAs, provided that each such contribution is made in increments of \$1,000. You should note that an investment in shares of our common stock will not, in itself, create a retirement plan and that, in order to create a retirement plan, you must comply with all applicable provisions of the Internal Revenue Code.

After you have purchased the minimum investment amount, any additional purchase must be at least \$1,000 (100 shares), or made pursuant to our distribution reinvestment plan, which may be in lesser amounts.

Several states have established suitability requirements that are more stringent than the standards that we have established and described above. Shares will be sold only to investors in these states who meet the special suitability standards set forth below:

**Kentucky** Investors must have either (a) a net worth of \$250,000 or (b) a gross annual income of at least \$70,000 and a net worth of at least \$70,000, with the amount invested in this offering not to exceed 10% of the Kentucky investor's liquid net worth.

**Arizona, California and Tennessee** Investors must have either (a) a net worth of at least \$225,000 or (b) gross annual income of at least \$60,000 and a net worth of at least \$60,000.

**Maine** Investors must have either (a) a net worth of at least \$200,000 or (b) gross annual income of at least \$50,000 and a net worth of at least \$50,000.

**Massachusetts, Michigan, Ohio and Pennsylvania** Investors must have either (a) a minimum net worth of at least \$250,000 or (b) an annual gross income of at least \$70,000 and a net worth of at least \$70,000. The investor's maximum investment in the issuer and its affiliates cannot exceed 10% of the Massachusetts, Michigan, Ohio or Pennsylvania resident's net worth.

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Iowa, Kansas, New Mexico, North Carolina, Oregon and Washington Investors must have either (a) a net worth of at least \$250,000 or (b) an annual gross income of at least \$70,000 and a net worth of at least \$70,000.

In all states listed above, net worth is to be determined excluding the value of a purchaser's home, furnishings and automobiles.

In Kansas, in addition to the suitability requirements described above, it is recommended that investors should invest no more than 10% of their liquid net worth in our shares and securities of other real estate investment trusts. Liquid net worth is defined as that portion of net worth (total assets minus total liabilities) that is comprised of cash, cash equivalents and readily marketable securities.

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Each participating broker-dealer, authorized representative or any other person selling shares on our behalf is required to:

make every reasonable effort to determine that the purchase of shares is a suitable and appropriate investment for each investor based on information provided by such investor to the broker-dealer, including such investor's age, investment objectives, income, net worth, financial situation and other investments held by such investor; and

maintain records for at least six years of the information used to determine that an investment in the shares is suitable and appropriate for each investor.

In making this determination, your participating broker-dealer, authorized representative or other person selling shares on our behalf will, based on a review of the information provided by you, consider whether you:

meet the minimum income and net worth standards established in your state;

can reasonably benefit from an investment in our common stock based on your overall investment objectives and portfolio structure;

are able to bear the economic risk of the investment based on your overall financial situation; and

have an apparent understanding of:

the fundamental risks of an investment in our common stock;

the risk that you may lose your entire investment;

the lack of liquidity of our common stock;

the restrictions on transferability of our common stock;

the background and qualifications of our advisor; and

the tax consequences of an investment in our common stock.

In the case of sales to fiduciary accounts, the suitability standards must be met by the fiduciary account, by the person who directly or indirectly supplied the funds for the purchase of the shares or by the beneficiary of the account. Given the long-term nature of an investment in our shares, our investment objectives and the relative illiquidity of our shares, our suitability standards are intended to help ensure that shares of our common stock are an appropriate investment for those of you who become investors.

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**QUESTIONS AND ANSWERS ABOUT THIS OFFERING**

Below we have provided some of the more frequently asked questions and answers relating to an offering of this type. Please see Prospectus Summary and the remainder of this prospectus for more detailed information about this offering.

**Q: What is a REIT?**

A: In general, a real estate investment trust (REIT) is a company that:

pays distributions to investors of at least 90% of its taxable income;

avoids the double taxation treatment of income that generally results from investments in a corporation because a REIT generally is not subject to federal corporate income taxes on its net income, provided certain income tax requirements are satisfied; and

combines the capital of many investors to acquire a large-scale diversified real estate portfolio under professional management.

**Q: How are you different from your competitors who offer unlisted finite-life public REIT shares or real estate limited partnership units?**

A: We focus our investments primarily on the acquisition of freestanding, single-tenant commercial properties net leased to investment grade and other creditworthy tenants. Unlike funds that invest solely in multi-tenant properties, we plan to acquire a diversified portfolio comprised primarily of a large number of single-tenant properties and a smaller number of multi-tenant properties that compliment our overall investment objectives. By acquiring a large number of single-tenant properties, we believe that lower than expected results of operations from one or a few investments will not necessarily preclude our ability to realize our investment objectives of current income to our investors and preservation of capital from our overall portfolio. In addition, we believe that freestanding retail properties, as compared to shopping centers, malls and other traditional retail complexes, offer a distinct investment advantage since these properties generally require less management and operating capital, have less recurring tenant turnover and often offer superior locations that are less dependent on the financial stability of adjoining tenants. In addition, since we intend to acquire properties that are geographically diverse, we expect to minimize the potential adverse impact of economic downturns in local markets. We seek to acquire properties with long term leases with investment grade or other creditworthy tenants.

**Q: What is the experience of your officers and directors?**

A: Christopher H. Cole has served as the chairman, chief executive officer and president of our company since our formation in September 2004. He also has served as the chief executive officer and treasurer of our advisor, Cole REIT Advisors II, LLC (Cole Advisors II), since its formation in March 2004, and also as president since October 2007. Mr. Cole is also the chairman, chief executive officer, president, secretary and treasurer of Cole Holdings Corporation and its sole shareholder. He has been engaged as a general partner in the structuring and management of real estate limited partnerships since February 1979. Since that time, in addition to our offerings, Mr. Cole has sponsored, directly or indirectly, 68 privately offered real estate investment programs, with an aggregate of over 6,300 investors.

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D. Kirk McAllaster, Jr., our executive vice president and chief financial officer. He also is executive vice president and chief financial officer of Cole Advisors II. Prior to joining Cole in May 2003, Mr. McAllaster worked for six years with Deloitte & Touche LLP, most recently as audit senior manager. He has over 16 years of accounting and finance experience in public accounting and private industry. Mr. McAllaster received a Bachelor of Science Degree from California State Polytechnic University Pomona with a major in Accounting. He is a Certified Public Accountant licensed in the state of Arizona and is a member of the American Institute of CPAs and the Arizona Society of CPAs.

John M. Pons, our secretary, also is executive vice president, chief administrative officer, general counsel and secretary of Cole Advisors II. Prior to joining the Cole entities in September 2003, Mr. Pons was an associate general counsel and assistant secretary with GE Capital Franchise Corporation since December 2001. Prior to December 2001, Mr. Pons was engaged in a private legal practice. Mr. Pons has over twelve years experience in all aspects of real estate law, including the acquisition, sale, leasing, development and financing of real property.

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Marcus E. Bromley is an independent member of our board of directors, chairman of its compensation committee and a member of its audit committee. From 1993 through 2005, Mr. Bromley served as a member of the board of trustees of Gables Residential Trust, a multi-family residential REIT that was listed on the New York Stock Exchange prior to its sale in 2005. From December 1993 until June 2000, Mr. Bromley also served as the chief executive officer of Gables Residential Trust. Prior to joining Gables Residential Trust, Mr. Bromley was a division partner of Trammell Crow Residential.

Elizabeth L. Watson is an independent member of our board of directors, chairperson of its audit committee and a member of its compensation committee. Since September 2003, Ms. Watson has been a partner in and has served as the chief operating officer for NGP Capital Partners III, LLC (NGP Capital). In addition to other positions in the real estate capital markets industry, from 1992 until 1994, Ms. Watson served as senior vice president, chief financial officer and treasurer of Prime Retail, Inc., a publicly traded REIT that developed and owned factory outlet centers, and its predecessor company, The Prime Group.

**Q: Will you acquire properties in joint ventures?**

A: Possibly. Although we have not yet done so, we may want to acquire properties through one or more joint ventures in order to diversify our portfolio of properties in terms of geographic region, property type and tenant industry group. Increased portfolio diversification reduces the risk to investors as compared to a program with less diversified investments. Our joint ventures may be with our affiliates or with third parties. Generally, we will only enter into a joint venture in which we will control the decisions of the joint venture. If we do enter into joint ventures, we may assume liabilities related to the joint venture that exceed the percentage of our investment in the joint venture.

**Q: What steps do you take to make sure you invest in environmentally compliant property?**

A: Generally, we obtain a Phase I environmental assessment of each property we purchase. These assessments, however, may not reveal all environmental hazards. In most cases we request, but do not always obtain, a representation from the seller that, to its knowledge, the property is not contaminated with hazardous materials.

**Q: Generally, what are the terms of your leases?**

A: We seek to secure leases from investment grade and other creditworthy tenants before or at the time we acquire a property. Our leases generally are net leases, which means that the tenant is responsible for the cost of repairs, maintenance, property taxes, utilities, insurance and other operating costs. In certain of these leases, we are responsible for the replacement of specific structural components of a property, such as the roof of the building or the parking lot. Our leases generally have terms of ten or more years, some of which have renewal options. We may, however, enter into leases that have a shorter term.

**Q: How do you determine whether tenants have the appropriate creditworthiness for each building lease?**

A: We determine creditworthiness pursuant to various methods, including reviewing financial data and other information about the tenant. In addition, we may use an industry credit rating service to determine the creditworthiness of potential tenants and any personal guarantor or corporate guarantor of each potential tenant. We compare the reports produced by these services to the relevant financial and other data collected from these parties before consummating a lease transaction. Such relevant data from potential tenants and guarantors include income statements and balance sheets for current and prior periods, net worth or cash flow of guarantors, and business plans and other data we deem relevant.

**Q: What is an UPREIT ?**

A: UPREIT stands for Umbrella Partnership Real Estate Investment Trust. We use an UPREIT structure because a sale of property directly to a REIT generally is a taxable transaction to the selling property owner. In an UPREIT structure, a seller of a property that desires to defer taxable gain on the sale of its property may transfer the property to the UPREIT in exchange for limited partnership units in the UPREIT and defer taxation of gain until the seller later exchanges its UPREIT units on a one-for-one basis for REIT shares. If the REIT shares are publicly traded, at the time of the exchange of units for shares, the former property owner will achieve liquidity for its investment. Using an UPREIT structure may give us an advantage in acquiring desired properties from persons who may not otherwise sell their properties because of unfavorable tax results.

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**Q: Will the distributions I receive be taxable as ordinary income?**

A: Yes and No. Generally, distributions that you receive, including distributions that are reinvested pursuant to our distribution reinvestment plan, will be taxed as ordinary income to the extent they are from current or accumulated earnings and profits. We expect that some portion of your distributions may not be subject to tax in the year received because depreciation expense reduces taxable income but does not reduce cash available for distribution. The portion of your distribution that is not subject to tax immediately is considered a return of capital for tax purposes and will reduce the tax basis of your investment. This, in effect, defers a portion of your tax until your investment is sold or we are liquidated, at which time you will be taxed at capital gains rates. However, because each investor's tax considerations are different, we recommend that you consult with your tax advisor. You also should review the section of this prospectus entitled "Federal Income Tax Considerations."

**Q: What will you do with the money raised in this offering before you invest the proceeds in real estate?**

A: Until we invest the proceeds of this offering in real estate, we may invest in short-term, highly liquid or other authorized investments. We may not be able to invest the proceeds in real estate promptly and such short-term investments will not earn as high of a return as we expect to earn on our real estate investments.

**Q: How does a best efforts offering work?**

A: When shares are offered to the public on a "best efforts" basis, the brokers participating in the offering are only required to use their best efforts to sell the shares and have no firm commitment or obligation to purchase any of the shares. Therefore, we may not sell all of the shares that we are offering.

**Q: Who can buy shares?**

A: Generally, you may buy shares pursuant to this prospectus provided that you have either (1) a net worth of at least \$45,000 and a gross annual income of at least \$45,000, or (2) a net worth of at least \$150,000. For this purpose, net worth does not include your home, home furnishings and automobiles. Residents of certain states may have a different standard. You should carefully read the more detailed description under "Suitability Standards" immediately following the cover page of this prospectus.

**Q: For whom is an investment in our shares recommended?**

A: An investment in our shares may be appropriate for you if you meet the minimum suitability standards mentioned above, seek to diversify your personal portfolio with a finite-life, real estate-based investment, seek to receive current income, seek to preserve capital, wish to obtain the benefits of potential long-term capital appreciation and are able to hold your investment for a time period consistent with our liquidity plans. On the other hand, we caution persons who require immediate liquidity or guaranteed income, or who seek a short-term investment, that an investment in our shares will not meet those needs.

**Q: May I make an investment through my IRA, SEP or other tax-deferred account?**

A: Yes. You may make an investment through your individual retirement account (IRA), a simplified employee pension (SEP) plan or other tax-deferred account. In making these investment decisions, you should consider, at a minimum, (1) whether the investment is in accordance with the documents and instruments governing your IRA, plan or other account, (2) whether the investment satisfies the fiduciary requirements associated with your IRA, plan or other account, (3) whether the investment will generate unrelated business taxable income (UBTI) to your

IRA, plan or other account, (4) whether there is sufficient liquidity for such investment under your IRA, plan or other account, (5) the need to value the assets of your IRA, plan or other account annually or more frequently, and (6) whether the investment would constitute a prohibited transaction under applicable law.

**Q: Have you arranged for a custodian for investments made through IRA, SEP or other tax-deferred accounts?**

A: Yes. Sterling Trust Company serves as custodian for investments made through IRA, SEP and certain other tax-deferred accounts. Sterling Trust Company provides this service to our stockholders with annual maintenance fees charged at a discounted rate.

**Q: Is there any minimum investment required?**

A: Yes. Generally, you must invest at least \$2,500. Investors who already own our shares can make additional purchases for less than the minimum investment. You should carefully read the more detailed description of the

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minimum investment requirements appearing under Suitability Standards immediately following the cover page of this prospectus.

**Q: How do I subscribe for shares?**

A: If you choose to purchase shares in this offering and you are not already a stockholder, you will need to complete and sign a subscription agreement, like the one contained in this prospectus as Appendix B, for a specific number of shares and pay for the shares at the time you subscribe. If you are already a stockholder, you may purchase additional shares by completing and signing an additional investment subscription agreement, like the one contained in this prospectus as Appendix C.

**Q: Who is the transfer agent?**

A: The name, address and telephone number of our transfer agent is as follows:  
Phoenix Transfer, Inc.  
2401 Kerner Boulevard  
San Rafael, California 94901  
(866) 341-2653

To ensure that any account changes are made promptly and accurately, all changes including your address, ownership type and distribution mailing address should be directed to the transfer agent.

**Q: Will I be notified of how my investment is doing?**

A: Yes. We will provide you with periodic updates on the performance of your investment with us, including:

- three quarterly financial reports;
- an annual report;
- an annual Form 1099; and
- supplements to the prospectus during the offering period.

We will provide this information to you via one or more of the following methods, in our discretion and with your consent, if necessary:

- U.S. mail or other courier;
- facsimile;
- electronic delivery; or
- posting, or providing a link, on our affiliated website, which is [www.colecapital.com](http://www.colecapital.com).

**Q: When will I get my detailed tax information?**

A: Your Form 1099 tax information will be placed in the mail by January 31 of each year.

**Q: Who can help answer my questions?**

A: If you have more questions about the offering or if you would like additional copies of this prospectus, you should contact your registered representative or contact:

Cole Capital Corporation  
2555 East Camelback Road, Suite 400  
Phoenix, Arizona 85016  
(866) 341-2653  
Attn: Investor Services  
[www.colecapital.com](http://www.colecapital.com)



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**PROSPECTUS SUMMARY**

*This prospectus summary highlights material information contained elsewhere in this prospectus. Because it is a summary, it may not contain all of the information that is important to you. To understand this offering fully, you should read the entire prospectus carefully, including the Risk Factors section and the financial statements, before making a decision to invest in our common stock.*

**Cole Credit Property Trust II, Inc.**

Cole Credit Property Trust II, Inc. is a Maryland corporation, incorporated on September 29, 2004, that elected to be taxed as a REIT beginning with the year ended December 31, 2005. We expect to use the net proceeds from this offering to acquire and operate a portfolio of commercial real estate primarily consisting of freestanding, single-tenant retail properties net leased to investment grade and other creditworthy tenants located throughout the United States. As of April 25, 2008, we owned 379 properties located in 45 states and the U.S. Virgin Islands.

On June 27, 2005, we commenced our initial public offering of shares of our common stock pursuant to a registration statement on Form S-11, which was declared effective by the Securities and Exchange Commission on that date. At the commencement of our initial public offering, we offered a maximum of 45,000,000 shares of common stock to the public on a best efforts basis at \$10.00 per share, with discounts available for certain categories of purchasers. We also offered a maximum of 5,000,000 shares of common stock pursuant to our distribution reinvestment plan at a purchase price of \$9.50 per share during that offering. On November 13, 2006, we increased the aggregate amount of the public offering to 49,390,000 shares for the primary offering and 5,952,000 shares pursuant to the distribution reinvestment plan, in a related registration statement on Form S-11. Subsequently, we reallocated the shares of common stock such that a maximum of 54,140,000 shares of common stock was available under the primary offering, for an aggregate offering price of \$541,400,000, and a maximum of 1,202,000 shares was available under the distribution reinvestment plan, for an aggregate offering price of \$11,419,000.

Following the termination of our initial public offering, we commenced this best efforts public offering of up to \$1,487,500,000 in shares of our common stock. We are offering 125,000,000 shares of our common stock in our primary offering at \$10.00 per share, with discounts available for certain categories of purchasers, and 25,000,000 additional shares at \$9.50 per share under our distribution reinvestment plan. We reserve the right to reallocate the shares of common stock we are offering between the primary offering and our distribution reinvestment plan. We are offering our shares pursuant to a registration statement on Form S-11, which was declared effective by the Securities and Exchange Commission on May 11, 2007. This public offering commenced on May 11, 2007 and will be terminated on or before May 11, 2009 unless extended with respect to shares offered under our distribution reinvestment plan or as otherwise permitted under applicable law. The proceeds raised during this offering will be used to make real estate investments, pay fees and expenses and for general corporate purposes.

As of April 25, 2008, we had accepted investors' subscriptions for, and issued, approximately 69.8 million shares of our common stock in the follow-on offering, including approximately 66.8 million shares sold in the primary offering and approximately 3.0 million shares sold pursuant to our distribution reinvestment plan, resulting in gross offering proceeds to us of approximately \$696.8 million. Combined with our initial public offering, we had received a total of approximately \$1.2 billion in gross offering proceeds as of April 25, 2008.

Our offices are located at 2555 East Camelback Road, Suite 400, Phoenix, Arizona 85016. Our telephone number is 866-341-2653. Our fax number is 602-778-8780, and the e-mail address of our investor relations department is [investorservices@colecapi.com](mailto:investorservices@colecapi.com).

Additional information about us and our affiliates may be obtained at [www.colecapital.com](http://www.colecapital.com), but the contents of that site are not incorporated by reference in or otherwise a part of this prospectus.

**Our Advisor**

Cole Advisors II, a Delaware limited liability company, is our advisor and is responsible for managing our affairs on a day-to-day basis and for identifying and making acquisitions on our behalf.

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### **Our Management**

We operate under the direction of our board of directors, the members of which are accountable to us and our stockholders as fiduciaries. Currently, we have three directors, Christopher H. Cole, Marcus E. Bromley and Elizabeth L. Watson. Mr. Bromley and Ms. Watson each is independent of Cole Advisors II. Each of our executive officers and one of our directors are affiliated with Cole Advisors II. Our charter, which requires that a majority of our directors be independent of us, our sponsor, Cole Advisors II, or any of our or their affiliates, provides that our independent directors are responsible for reviewing the performance of Cole Advisors II and must approve other matters set forth in our charter. See the **Conflicts of Interest** **Certain Conflict Resolution Procedures** section of this prospectus. Our directors are elected annually by the stockholders.

### **Our REIT Status**

We have elected to be taxed as a REIT, and therefore we generally will not be subject to federal income tax on income that we distribute to our stockholders. Under the Internal Revenue Code, a REIT is subject to numerous organizational and operational requirements, including a requirement that it distribute at least 90% of its annual taxable income to its stockholders. If we fail to qualify for taxation as a REIT in any year, our income will be taxed at regular corporate rates, and we may be precluded from qualifying for treatment as a REIT for the four-year period following our failure to qualify. Even though we are taxed as a REIT for federal income tax purposes, we may still be subject to state and local taxes on our income and property and to federal income and excise taxes on our undistributed income.

### **Summary Risk Factors**

Following are some of the risks relating to your investment:

Our advisor and its affiliates face conflicts of interest, including significant conflicts among us and our advisor, since (i) our chairman, chief executive officer and president owns 100% of our advisor, our dealer manager and our property manager, (ii) our advisor and other affiliated entities may compete with us and acquire properties suitable to our investment objectives, and (iii) our advisor's compensation arrangements with us and other Cole-sponsored programs may provide incentives that are not aligned with the interests of our stockholders.

You will be unable to evaluate the economic merit of all of our future investments prior to our making them and there may be a substantial delay in receiving a return, if any, on your investment.

You may not own more than 9.8% in value of the outstanding shares of our common stock or more than 9.8% of the number or value of any class or series of our outstanding shares of stock. Therefore, your ability to control the direction of our company will be limited.

No public market currently exists for our shares of common stock and one may never exist. If you are able to sell your shares, you would likely have to sell them at a substantial discount from their public offering price.

This is a best efforts offering and we might not sell all of the shares being offered. If we raise substantially less than the maximum offering, we may not be able to invest in a diverse portfolio of properties, and the value of your investment may vary more widely with the performance of specific properties. There is a greater risk that you will lose money in your investment if we cannot diversify our portfolio of investments by geographic location and property type.

We may incur substantial debt, which could hinder our ability to pay distributions to our stockholders or could decrease the value of your investment in the event that income on, or the value of, the property securing the debt falls.

Our investments may not generate operating cash flow sufficient to make distributions to our stockholders. If that occurs, we intend to pay all or a substantial portion of our distributions from the proceeds of this offering or from borrowings in anticipation of future cash flow. Any such distributions will constitute a return of your capital, and may reduce the amount of capital we ultimately invest in properties and negatively impact the value of your investment.

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Our failure to continue to qualify as a REIT for federal income tax purposes would adversely effect our ability to make distributions to our stockholders.

We are dependent on our advisor to select investments and conduct our operations. Adverse changes in the financial condition of our advisor or our relationship with our advisor could adversely affect us.

We will pay substantial fees and expenses to our advisor, its affiliates and participating broker-dealers, which payments increase the risk that you will not earn a profit on your investment.

Our board of directors has the authority to designate and issue one or more classes or series of preferred stock without stockholder approval, with rights and preferences senior to the rights of holders of common stock, including rights to payment of distributions. If we issue any preferred shares, the amount of funds available for the payment of distributions on the common stock could be reduced or eliminated.

Before you invest in us, you should carefully read and consider the more detailed **Risk Factors** section of this prospectus.

**Description of Real Estate Investments**

As of April 25, 2008, we owned 379 properties, comprising approximately 13.1 million rentable square feet of commercial space located in 45 states and the U.S. Virgin Islands. Our properties as of April 25, 2008, are listed below.

<b>Property Description</b>	<b>Tenant</b>	<b>Rentable Square Feet</b>	<b>Purchase Price</b>
Tractor Supply Parkersburg, WV	Tractor Supply Company	21,688	\$ 3,259,243
Walgreens Brainerd, MN	Walgreen Co.	15,120	4,328,500
Rite Aid Alliance, OH	Rite Aid of Ohio, Inc.	11,348	2,100,000
La-Z-Boy Glendale, AZ	EBCO, Inc.	23,000	5,691,525
Walgreens Florissant, MO	Walgreen Co.	15,120	5,187,632
Walgreens Saint Louis, MO (Gravois)	Walgreen Co.	15,120	6,152,942
Walgreens Saint Louis, MO (Telegraph)	Walgreen Co.	15,120	5,059,426
Walgreens Columbia, MO	Walgreen Co.	13,973	6,271,371
Walgreens Olivette, MO	Walgreen Co.	15,030	7,822,222
CVS Alpharetta, GA	Mayfield CVS, Inc.,	10,125	3,100,000
Lowe s Enterprise, AL	Lowe s Home Centers, Inc.	95,173	7,475,000
CVS Richland Hills, TX	CVS EGL Grapevine N Richland Hills Texas, LP	10,908	3,660,000
FedEx Rockford, IL	Fed Ex Ground Package System, Inc.	67,925	6,150,000
Plastech Auburn Hills, MI	LDM Technologies, Inc.	111,881	23,600,000
Academy Sports Macon, GA	Academy, LTD	74,532	5,600,000
David s Bridal Lenexa, KS	David s Bridal, Inc.	12,083	3,270,000
Rite Aid Enterprise, AL	Harco, Inc.	14,564	3,714,000
Rite Aid Wauseon, OH	Rite Aid of Ohio, Inc.	14,564	3,893,679
Staples Crossville, TN	Staples the Office Superstore East, Inc.	23,942	2,900,000

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Rite Aid Saco, ME	Rite Aid of Maine, Inc.	11,180	2,500,000
Wadsworth Boulevard Denver, CO	Various	198,477	18,500,000
Mountainside Fitness Chandler, AZ	Hatten Holdings, Inc.	31,063	5,863,000
Drexel Heritage Hickory, NC	Drexel Heritage Furniture Industries, Inc.	261,057	4,250,000
Rayford Square Spring, TX	Various	79,968	9,900,000
CVS Portsmouth, OH	Revco Discount Drug Centers, inc.	10,170	2,166,000
Wawa Hockessin, DE	Wawa, Inc.	5,160	4,830,000
Wawa Manahawkin, NJ	Wawa, Inc.	4,695	4,414,000
Wawa Narbeth, PA	Wawa, Inc.	4,461	4,206,000
CVS (Sublease) Lakewood, OH	Various	12,800	2,450,000
Rite Aid Cleveland, OH	Rite Aid of Ohio, Inc.	11,325	2,568,700
Rite Aid Fremont, OH	Rite Aid of Ohio, Inc.	11,325	2,524,500
Walgreens Knoxville, TN	Walgreen Co.	15,120	4,750,000
CVS Madison, MS	CVS EGL Highland Madison MS, Inc.	13,824	4,463,088

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<b>Property Description</b>	<b>Tenant</b>	<b>Rentable Square Feet</b>	<b>Purchase Price</b>
Rite Aid Defiance, OH	Rite Aid of Ohio, Inc.	14,564	\$ 4,326,165
Conns San Antonio, TX	CAI, LP	25,230	4,624,619
Dollar General Crossville, TN	Dolgenercorp, Inc.	24,341	3,000,000
Dollar General Ardmore, TN	Dolgenercorp, Inc.	24,341	2,775,000
Dollar General Livingston, TN	Dolgenercorp, Inc.	24,341	2,856,000
Wehrenberg Arnold, MO	Wehrenberg, Inc.	50,000	8,200,000
Sportmans Warehouse Wichita, KS	Sportsman s Warehouse, Inc.,	50,003	8,231,000
CVS Portsmouth, OH	Revco Discount Drug Centers, Inc.	10,650	2,101,708
Advance Auto Greenfield, IN	Advance Stores Company, Inc.	7,000	1,375,500
Advance Auto Trenton, OH	Advance Stores Company, Inc.	7,000	1,060,000
Rite Aid Lansing, MI	Rite Aid of Michigan, Inc.	11,680	1,735,000
Advance Auto Columbia Heights, MN	Advance Stores Company, Inc.	7,000	1,730,578
Advance Auto Fergus Falls, MN	Advance Stores Company, Inc.	7,000	1,203,171
CVS Okeechobee, FL	Eckerd Corporation	13,050	6,459,262
Office Depot Dayton, OH	Office Depot, Inc.	19,880	3,416,526
Advance Auto Holland, MI	Advance Stores Company, Inc.	7,000	2,071,843
Advance Auto Holland Township, MI	Advance Stores Company, Inc.	7,000	2,137,244
Advance Auto Zeeland, MI	Advance Stores Company, Inc.	7,000	1,840,715
CVS Orlando, FL	CVS EGL Lake Pickett FL, LLC	13,013	4,956,763
Office Depot Greenville, MS	Office Depot, Inc.	25,083	3,491,470
Office Depot Warrensburg, MO	Office Depot, Inc.	20,000	2,880,552
CVS Gulfport, MS	CVS EGL East Pass Gulfport MS, Inc.	11,359	4,414,117
Advance Auto Grand Forks, ND	Advance Stores Company, Inc.	7,000	1,399,657
CVS Clinton, NY	CVS BDI, Inc.,	10,055	3,050,000
Oxford Theatre Oxford, MS	Oxford Theater Company, Inc.	35,000	9,692,503
Advance Auto Duluth, MN	Advance Stores Company, Inc.	7,000	1,432,565
Walgreens Picayune, MS	Walgreen Co.	14,820	4,255,000
Kohl s Wichita, KS	Kohl s Illinois, Inc.	86,584	7,866,000
Lowe s Lubbock, TX	Lowe s Home Centers, Inc	137,480	11,508,000
Lowe s Midland, TX	Lowe s Home Centers, Inc	134,050	11,099,000
Advance Auto Grand Bay, AL	Advance Stores Company, Inc.	7,000	1,115,605
Advance Auto Hurley, MS	Advance Stores Company, Inc.	7,000	1,083,195
Advance Auto Rainsville, AL	Advance Stores Company, Inc.	7,000	1,328,000
Gold s Gym O Fallon, IL	Gold s St Louis, LLC	38,000	7,300,000
Rite Aid Glassport, PA	Rite Aid of Pennsylvania, Inc.	14,564	3,788,000
David s BridalRadio Shack Topeka, KS	Federated Dept. Stores & Radio Shack Corp.	10,150	3,021,000
Rite Aid Hanover, PA	Rite Aid	14,584	6,330,000
American TV & Appliance Peoria, IL	American TV & Appliance of Madison, Inc.	126,852	11,336,983
Tractor Supply La Grange, TX	Tractor Supply Texas	24,727	2,580,000
Staples Peru, IL	Staples the Office Superstore East, Inc.	23,925	3,215,000
Fedex Council Bluffs, IA	Fedex Freight East, Inc.	23,510	3,361,000

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Fedex Edwardsville, KS	Fedex Freight East, Inc.	155,965	19,815,000
CVS Glenville Scotia, NY	CVS Mack Drug of New York, LLC	12,900	5,250,000
Advance Auto Ashland, KY	Advance Stores Company, Inc.	7,000	1,681,000
Advance Auto Jackson, OH	Advance Stores Company, Inc.	7,000	1,352,000
Advance Auto New Boston, OH	Advance Stores Company, Inc.	7,000	1,516,000
Advance Auto Scottsburg, IN	Advance Stores Company, Inc.	7,000	1,272,000
Tractor Supply Livingston, TN	Tractor Supply Texas	24,727	3,100,000
Tractor Supply New Braunfels, TX	Tractor Supply Texas	24,727	3,150,000
Office Depot Benton, AR	Office Depot, Inc.	20,515	3,275,000
Old Time Pottery Fairview Heights, IL	Old Time Pottery, Inc.	97,849	4,280,000
Infiniti Davie, FL	Warren Henry Automobiles, Inc.	20,927	9,432,000
Office Depot Oxford, MS	Office Depot, Inc.	20,000	3,487,450

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<b>Property Description</b>	<b>Tenant</b>	<b>Rentable Square Feet</b>	<b>Purchase Price</b>
Tractor Supply Crockett, TX	Tractor Supply Texas	24,727	\$ 2,450,000
Mercedes Benz Atlanta, GA	Atlanta Eurocars	40,588	11,760,000
Dick's Sporting Goods Amherst, NY	Dick's Sporting Goods	55,745	9,725,000
Chili's Paris, TX	Brinker Texas, L.P.	6,698	2,750,000
Staples Clarksville, IN	Staples the Office Superstore East, Inc.	20,388	4,430,000
HOM Fargo, ND	HOM Furniture, Inc.	122,108	12,000,000
La-Z-Boy Newington, CT	LZB Furniture Galleries of Paramus, Inc	20,701	6,900,000
Advance Auto Maryland Heights, MO	Advance Stores Company, Inc.	7,000	1,893,000
Victoria Crossing Victoria, TX	Various	87,473	12,608,000
Academy Sports Katy, TX	Academy Ltd	1,500,596	102,000,000
Gordmans Peoria, IL	Gordmans, Inc.	60,947	9,000,000
One Pacific Place Omaha, NE	Various	91,564	36,000,000
Sack n SaveO Reilly Auto Garland, TX	Various	65,295	5,060,000
Tractor Supply Ankeny, IA	Tractor Supply Company	19,097	3,000,000
ABX Air Coventry, RI	ABX Air, Inc.	33,000	4,090,000
Office Depot Enterprise, AL	Office Depot, Inc.	20,000	2,776,357
Northern Tool Blaine, MN	Northern Tool and Equipment, Inc.	25,488	4,900,000
Office Max Orangeburg, SC	OfficeMax, Inc.	23,500	3,125,000
Walgreens Cincinnati, OH	Walgreen Co.	15,120	5,140,000
Walgreens Madeira, OH	Walgreen Co.	13,905	4,425,000
Walgreens Sharonville, OH	Walgreen Co.	13,905	4,085,000
AT&T Beaumont, TX	AT&T Services, Inc.	141,525	12,275,000
Walgreens Shreveport, LA	Walgreen Co.	13,905	4,140,000
Cost-U-Less, St. Croix, USVI	CULUSVI, Inc.	38,365	6,210,000
Gallina Centro Collierville, TN	Various	142,727	17,750,000
Apria Healthcare St. John, MO	Apria Healthcare, Inc.	52,200	6,500,000
Logan's Roadhouse Fairfax, VA	Logan's Roadhouse, Inc.	7,839	3,209,000
Logan's Roadhouse Johnson City, TN	Logan's Roadhouse, Inc.	7,839	3,866,000
Center at 7500 Cottonwood Jenison, MI	Hob-Lob Limited Partnership	84,933	5,290,000
Eckerd Lincoln, NC	ECK-001, LLC	10,908	2,262,000
Tractor Supply Greenfield, MN	Tractor Supply Company	22,675	4,050,000
Lincoln Place Fairview Heights, IL	Various	272,829	44,000,000
Ashley Furniture Amarillo, TX	Choice Furniture, Inc.	74,797	5,920,000
Pocatello Square Pocatello, ID	Various	138,925	23,000,000
Tractor Supply Paw Paw, MI	Tractor Supply Company	22,670	3,095,000
Tractor Supply Marinette, MI	Tractor Supply Company	19,097	2,950,000
Staples Greenville, SC	Staples the Office Superstore East, Inc.	20,388	4,545,000
Big 5 Center Aurora, CO	Various	15,800	4,290,000
Rite Aid Plains, PA	Rite Aid of Pennsylvania, Inc.	14,564	5,200,000
Tractor Supply Navasota, TX	Tractor Supply Company of Texas, LP	22,670	3,015,000
Sportsman's Warehouse De Pere, WI	Sportsman's Warehouse, Inc.	48,453	6,010,000

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Eckerd Easton, PA	Thrift Drug, Inc.	13,813	5,970,000
Applebee s Portfolio Various(1)	Restaurant Concepts II, LLC	120,246	65,000,000
Walgreens Bridgetown, OH	Walgreen Co.	13,905	4,475,000
Rite Aid Fredericksburg, VA	Rite Aid of Virginia, Inc.	14,564	5,415,000
Sam s Club Anderson, SC	Wal-Mart Stores, Inc.	134,664	12,000,000
Tractor Supply Fredericksburg, TX	Tractor Supply Company of Texas, LP	22,670	3,125,000
Walgreens Dallas, TX	Walgreen Co.	13,905	3,150,000
Wal-Mart New London, WI	Wal-Mart Stores, Inc.	51,985	2,614,000
Rite Aid Lima, OH	Rite Aid of Ohio, Inc.	14,564	4,745,962
Rite Aid Allentown, PA	Rite Aid of Pennsylvania, Inc.	14,564	5,561,112
CVS Florence, SC	Florence CVS, Inc.	10,125	2,625,000
Eckerd Spartanburg (Main), SC	Eckerd Corporation	10,908	3,475,000
Staples Warsaw, IN	Staples the Office Superstore East, Inc.	23,990	3,215,000
Walgreens Bryan, TX	Walgreen Co.	15,050	6,325,000

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<b>Property Description</b>	<b>Tenant</b>	<b>Rentable Square Feet</b>	<b>Purchase Price</b>
Walgreens Harris County, TX	Walgreen Co.	15,050	\$ 5,650,000
Tractor Supply Fairview, TN	Tractor Supply Company	19,067	2,970,000
Borders Rapid City, SD	Borders, Inc.	20,000	6,461,000
Borders Reading, PA	Borders, Inc.	25,023	6,261,000
Walgreens Gainesville, FL	Walgreen Co.	13,905	3,625,000
Chili s Fredericksburg, TX	Brinker Texas, L.P.	5,494	2,314,000
Tractor Supply Baytown, TX	Tractor Supply Company	22,670	3,310,000
Winco Eureka, CA	Winco Foods, LLC	82,490	16,300,000
Eckerd Vineland, NJ	Eckerd Corporation	14,910	5,000,000
Eckerd Mantua, NJ	Eckerd Corporation	8,710	2,050,000
Best Buy (Super Value) Warwick, RI	Best Buy Stores, LP	64,514	7,300,000
Best Buy Evanston, IL	Best Buy Stores, LP	45,397	8,250,000
Academy Sports Houston, TX	Academy, LTD	53,381	5,400,000
Starbucks Covington, TN	Starbucks Corporation	1,805	1,516,000
Starbucks Sedalia, MO	Starbucks Corporation	1,800	1,227,000
Kroger La Grange, GA	The Kroger Co.	61,331	7,293,750
La-Z-Boy Kentwood, MI	La-Z-Boy Showcase Shoppes of Detroit, Inc.	30,245	5,145,386
Circuit City Mesquite, TX	Circuit City Stores, Inc.	42,918	7,825,000
Tractor Supply Prior Lake, MN	Tractor Supply Company	36,183	5,050,000
Circuit City Distribution Center Groveland, FL	Circuit City Stores, Inc.	706,560	27,548,810
Walgreens Fort Worth, TX	Walgreen Co.	15,120	4,855,153
Kohl s Lake Zurich, IL	Kohl s Department Stores, Inc.	88,306	12,712,730
EDS Salt Lake City, UT	EDS Information Services, LLC	406,101	22,824,824
Lowe s Cincinnati, OH	Lowe s Home Centers, Inc.	129,044	20,558,483
Walgreens Kansas City (Linwood), MO	Walgreen Co.	13,905	3,750,000
Walgreens Kansas City (Troost), MO	Walgreen Co.	13,905	4,928,000
Walgreens Kansas City (63rd St), MO	Walgreen Co.	13,905	4,335,000
Walgreens Kansas City (Independence), MO	Walgreen Co.	13,905	4,598,000
Walgreens Topeka, KS	Walgreen Co.	13,905	3,121,950
CVS Amarillo, TX	Eckerd Corporation	9,504	2,791,067
Taco Bell Brazil, IN	Southern Bells, Inc.	1,993	1,969,655
Taco Bell Henderson, KY	Southern Bells, Inc.	2,320	1,552,607
Academy Sports Baton Rouge, LA	Academy Louisiana Co.	52,500	6,942,782
Taco Bell Washington, IN	Southern Bells, Inc.	2,093	1,255,545
Taco Bell Robinson, IL	Southern Bells, Inc.	1,944	1,550,672
Taco Bell Princeton, IN	Southern Bells, Inc.	2,436	1,424,328
Eckerd Mableton, GA	Eckerd Corporation	8,996	1,850,637
Taco Bell/KFC Spencer, IN	Southern Bells, Inc.	2,296	964,865
CVS Del City, OK	Eckerd Corporation	10,906	4,179,502
Taco Bell Anderson, IN	Southern Bells, Inc.	2,166	1,725,514
Academy Sports North Richland Hills, TX	Academy, LTD	52,500	6,292,471

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Dave and Buster s Addison, IL	Dave and Busters, Inc.	50,000	13,928,571
Academy Sports Houston (Southwest), TX	Academy, LTD	52,548	7,138,821
Academy Sports Houston (Breton), TX	Academy, LTD	53,381	4,724,567
Eckerd Chattanooga, TN	Eckerd Corporation	10,909	2,797,644
Taco Bell/KFC Vincennes, IN	Southern Bells, Inc.	2,691	1,478,690
Taco Bell Martinsville, IN	Southern Bells, Inc.	2,057	1,973,552
LJS/A&W Houston, TX	LJS Restaurants, Inc.	34,094	1,204,821
Dickinson Theatre Yukon, OK	Dickinson Theatres, Inc.	27,442	4,550,000
Circuit City Taunton, MA	Circuit City Stores, Inc.	32,748	7,860,000
Telerx Kings Mountain, NC	TelerX Marketing, Inc.	60,000	8,690,000

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<b>Property Description</b>	<b>Tenant</b>	<b>Rentable Square Feet</b>	<b>Purchase Price</b>
Staples Guntersville, AL	Staples the Office Super Store East, Inc.	23,942	\$ 3,325,000
Fed Ex Peoria, IL	Federal Express Corporation	38,200	3,200,000
Wal-Mart Spencer, IN	Wal-Mart Stores, Inc.	41,304	2,025,682
Gold s Gym St. Peter s, MO	Gold s St. Louis, LLC	39,900	7,500,000
Fed Ex Walker, MI	FedEx Ground Package System, Inc.	78,304	7,323,891
Wal-Mart Bay City, TX	Wal Mart Realty Company	90,921	3,755,000
Walgreens Richmond, VA	Walgreen Co.	13,869	4,025,000
Circuit City Aurora, CO	Circuit City Stores West Coast, Inc.	39,440	7,200,000
Home Depot Bedford Park, IL	Home Depot USA, Inc.	217,952	29,400,000
24 Hr Fitness Olathe, KS	24 Hour Fitness USA, Inc.	25,000	7,210,000
Walgreens Dallas, TX (De Soto)	Walgreen Co.	13,905	3,367,000
Gold s Gym O Fallon, MO	Gold s St. Louis, LLC	39,900	7,750,000
Wal-Mart Washington, IL	Wal-Mart Realty Company	74,136	3,578,000
Wal-Mart Borger, TX	Wal-Mart Real Estate Business Trust	65,930	3,205,000
Broadview Village Square Chicago, IL	Various	329,161	58,000,000
Chambers Corners Wayland, MI	Various	99,564	8,823,103
Ashley Furniture Anderson, SC	Hillsboro Retail Group, Inc.	23,800	4,300,000
Best Buy Fayetteville, NC	Best Buy Stores, LP	45,582	6,727,000
Massard Farms Fort Smith, AR	Various	126,584	15,750,000
Wal-Mart Whiteville, NC	Wal-Mart Realty Company	65,930	2,667,000
Staples Moraine, OH	Staples the Office Superstore East, Inc.	20,388	3,800,000
Wickes Furniture Chicago, IL	Wickes Furniture Company, Inc.	48,000	23,440,000
Walgreens Brentwood, TN	Walgreen Co.	14,820	5,640,000
Starbucks Bowling Green, KY	Starbucks Corporation	1,850	1,657,000
Walgreens Harriman, TN	Walgreen Co.	14,820	5,026,820
Starbucks Shawnee, OK	Starbucks Corporation	1,750	1,096,909
Station Casino Headquarters Las Vegas, NV	Station Casino, Inc.	138,558	70,000,000
Starbucks Oklahoma City, OK	Starbucks Corporation	1,741	1,238,671
Starbucks Chattanooga, TN	Starbucks Corporation	1,850	1,420,000
Starbucks Maryville, TN	Starbucks Corporation	1,850	1,490,000
Starbucks Powell, TN	Starbucks Corporation	1,850	1,324,000
Starbucks Seymour, TN	Starbucks Corporation	1,850	1,351,000
Walgreens Beverly Hills, TX	Walgreen Co.	13,905	3,600,000
Walgreens Waco, TX	Walgreen Co.	13,905	3,600,000
Allstate Insurance Contact Center Cross Plains, WI	Allstate Insurance Company	34,992	5,720,000
Mealey s Furniture Maple Shade, NJ	Mealey s Furniture Holdings, Inc.	66,750	5,350,000
Circle K Albuquerque, NM	Circle K/Mac s, G.P.	2,700	1,275,719
Circle K Baton Rouge (Burbank), LA	Circle K/Mac s, G.P.	2,400	951,727
Circle K Baton Rouge (Floyndell), LA	Circle K/Mac s, G.P.	2,780	1,407,341
Circle K Baton Rouge (Jefferson), LA	Circle K/Mac s, G.P.	2,780	1,083,349
Circle K Beaufort, SC	Circle K/Mac s, G.P.	2,660	1,640,210

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Circle K Bluffton, SC	Circle K/Mac s, G.P.	2,448	2,591,937
Circle K Bossier City, LA	Circle K/Mac s, G.P.	3,211	1,528,838
Circle K Charleston, SC	Circle K/Mac s, G.P.	3,000	2,602,061
Circle K Charlotte (Independence), NC	Circle K/Mac s, G.P.	2,556	1,883,204
Circle K Charlotte (Sharon), NC	Circle K/Mac s, G.P.	2,477	1,954,077
Circle K Charlotte (Sugar Creek), NC	Circle K/Mac s, G.P.	2,170	2,014,826
Circle K Columbia (Garners), SC	Circle K/Mac s, G.P.	2,600	2,116,073
Circle K Columbia (Hardscrabble), SC	Circle K/Mac s, G.P.	2,477	1,751,582
Circle K El Paso (Americas), TX	Circle K/Mac s, G.P.	3,500	2,217,318
Circle K El Paso (Mesa), TX	Circle K/Mac s, G.P.	3,150	1,144,097
Circle K El Paso (Zaragosa), TX	Circle K/Mac s, G.P.	3,800	2,065,450
Circle K Fort Mill, NC	Circle K/Mac s, G.P.	6,553	2,359,067

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<b>Property Description</b>	<b>Tenant</b>	<b>Rentable Square Feet</b>	<b>Purchase Price</b>
Circle K Goose Creek, SC	Circle K/Mac s, G.P.	2,632	\$ 1,366,842
Circle K Huntersville, NC	Circle K/Mac s, G.P.	2,770	2,014,826
Circle K Mount Pleasant, SC	Circle K/Mac s, G.P.	2,820	1,538,962
Circle K Port Wentworth, GA	Circle K/Mac s, G.P.	3,760	2,325,656
Circle K Savannah (Johnny Mercer), GA	Circle K/Mac s, G.P.	1,152	1,609,836
Circle K Savannah (King George), GA	Circle K/Mac s, G.P.	2,477	1,609,836
Circle K Shreveport, LA	Circle K/Mac s, G.P.	3,180	1,214,970
Circle K Springdale, SC	Circle K/Mac s, G.P.	1,760	1,741,457
Exxon West Monroe (503 Thomas), LA	Circle K/Mac s, G.P.	3,327	1,468,089
Holland Oil Akron (940 Arlington), OH	Circle K/Mac s, G.P.	2,800	1,133,972
Holland Oil Akron (1178 Arlington), OH	Circle K/Mac s, G.P.	2,862	1,417,465
Holland Oil Akron (1559 E. Market), OH	Circle K/Mac s, G.P.	1,624	1,457,964
Holland Oil Akron (1693 West Market), OH	Circle K/Mac s, G.P.	4,977	1,599,711
Holland Oil Akron (Albrecht), OH	Circle K/Mac s, G.P.	2,763	1,113,723
Holland Oil Akron (Brittain), OH	Circle K/Mac s, G.P.	2,857	1,245,345
Holland Oil Akron (Brown), OH	Circle K/Mac s, G.P.	2,635	1,306,093
Holland Oil Akron (Cuyahoga), OH	Circle K/Mac s, G.P.	2,800	1,630,085
Holland Oil Akron (Darrow), OH	Circle K/Mac s, G.P.	2,800	1,214,970
Holland Oil Akron (Exchange), OH	Circle K/Mac s, G.P.	3,190	1,468,089
Holland Oil Akron (Main St.), OH	Circle K/Mac s, G.P.	3,258	1,184,596
Holland Oil Akron (Manchester), OH	Circle K/Mac s, G.P.	2,800	1,640,210
Holland Oil Akron (Ridgewood), OH	Circle K/Mac s, G.P.	1,710	1,306,093
Holland Oil Akron (Waterloo), OH	Circle K/Mac s, G.P.	2,800	1,184,596
Holland Oil Barberton (5 th St.), OH	Circle K/Mac s, G.P.	2,800	1,235,220
Holland Oil Barberton (31 st St.), OH	Circle K/Mac s, G.P.	2,800	971,976
Holland Oil Barberton (Wooster), OH	Circle K/Mac s, G.P.	3,600	2,247,695
Holland Oil Bedford, OH	Circle K/Mac s, G.P.	2,450	1,275,719
Holland Oil Brookpark, OH	Circle K/Mac s, G.P.	2,740	1,356,717
Holland Oil Canton (12 th Street), OH	Circle K/Mac s, G.P.	2,800	1,164,347
Holland Oil Canton (Tuscarawas), OH	Circle K/Mac s, G.P.	4,500	2,197,071
Holland Oil Cleveland, OH	Circle K/Mac s, G.P.	4,318	1,589,586
Holland Oil Copley, OH	Circle K/Mac s, G.P.	2,439	1,154,222
Holland Oil Cuyahoga Falls (Bath), OH	Circle K/Mac s, G.P.	4,269	2,024,951
Holland Oil Cuyahoga Falls (Port), OH	Circle K/Mac s, G.P.	2,959	1,387,091
Holland Oil Cuyahoga Falls (State), OH	Circle K/Mac s, G.P.	2,100	1,032,725
Holland Oil Fairlawn, OH	Circle K/Mac s, G.P.	2,900	1,609,836
Holland Oil Kent, OH	Circle K/Mac s, G.P.	2,068	992,226
Holland Oil Maple Heights, OH	Circle K/Mac s, G.P.	2,967	1,488,339
Holland Oil Northfield, OH	Circle K/Mac s, G.P.	4,647	1,943,953
Holland Oil Norton, OH	Circle K/Mac s, G.P.	3,750	1,437,715
Holland Oil Parma, OH	Circle K/Mac s, G.P.	3,039	1,255,469
Holland Oil Seville, OH	Circle K/Mac s, G.P.	7,200	2,450,190
Holland Oil Twinsburg, OH	Circle K/Mac s, G.P.	3,298	1,356,717
Holland Oil Willoughby, OH	Circle K/Mac s, G.P.	2,938	1,194,721

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Shell Monroe, LA	Circle K/Mac s, G.P.	4,140	1,528,838
Spectrum Auburn, AL	Circle K/Mac s, G.P.	2,772	1,731,333
Spectrum Augusta, GA	Circle K/Mac s, G.P.	3,010	1,103,598
Spectrum Columbus (Airport), GA	Circle K/Mac s, G.P.	2,205	1,538,962
Spectrum Columbus (Beaver Run), GA	Circle K/Mac s, G.P.	3,760	2,510,939
Spectrum Columbus (Bradley), GA	Circle K/Mac s, G.P.	4,750	3,341,168
Spectrum Columbus (Buena Vista), GA	Circle K/Mac s, G.P.	2,205	1,609,836
Spectrum Columbus (Lumpkin), GA	Circle K/Mac s, G.P.	2,874	1,670,584
Spectrum Columbus (Warm Springs), GA	Circle K/Mac s, G.P.	4,934	1,964,202

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<b>Property Description</b>	<b>Tenant</b>	<b>Rentable Square Feet</b>	<b>Purchase Price</b>
Spectrum Lanett, AL	Circle K/Mac s, G.P.	2,631	\$ 850,479
Spectrum Macon (Arkwright), GA	Circle K/Mac s, G.P.	2,248	1,144,097
Spectrum Macon (Riverside), GA	Circle K/Mac s, G.P.	2,580	1,255,469
Spectrum Martinez, GA	Circle K/Mac s, G.P.	2,250	1,275,719
Spectrum Mobile (Airport), AL	Circle K/Mac s, G.P.	1,800	1,822,455
Spectrum Mobile (Moffett), AL	Circle K/Mac s, G.P.	678	1,559,212
Spectrum North Augusta, SC	Circle K/Mac s, G.P.	2,240	1,194,721
Spectrum Opelika (2 nd Ave), AL	Circle K/Mac s, G.P.	2,531	1,306,093
Spectrum Opelika (Columbus), AL	Circle K/Mac s, G.P.	3,796	2,348,943
Spectrum Phenix City, AL	Circle K/Mac s, G.P.	3,054	1,599,711
Spectrum Pine Mountain, GA	Circle K/Mac s, G.P.	3,285	1,144,097
Spectrum Valley, AL	Circle K/Mac s, G.P.	3,312	1,559,212
Spirit West Monroe (1602 Thomas), LA	Circle K/Mac s, G.P.	3,927	1,670,584
Hilltop Plaza Bridgeton, MO	Various	302,921	23,195,000
Academy Sports Lufkin, TX	Academy, Ltd.	60,750	5,200,000
Best Buy Wichita, KS	Best Buy Stores, LP	66,756	11,321,000
Bridgestone/Firestone Tire Atlanta, GA	BFS Retail & Commercial Operations, LLC	10,325	2,432,000
Boscov s Voorhees, NJ	Boscov s Department Store, LLC	173,767	4,090,000
CVS Indianapolis, IN	Hook-Superx, LLC	10,880	3,690,000
FedEx Ground Mishawaka, IN	FedEx Ground Package System, Inc.	54,779	3,932,000
Marsh Supermarket Indianapolis, IN	Marsh Supermarkets, LLC	63,750	14,316,000
Starbucks Stillwater, OK	Starbucks Corporation	1,850	1,303,448
Walgreens Oneida, TN	Walgreen Co.	14,820	5,022,901
Starbucks Memphis, TN	Starbucks Corporation	1,853	1,367,000
Walgreens Cincinnati (Seymour), OH	Walgreen Co.	15,120	4,890,000
Tractor Supply Rome, NY	Tractor Supply Company	19,097	3,150,000
HH Gregg Greensboro, NC	Gregg Appliances, Inc.	30,167	6,800,000
Starbucks Altus, OK	Starbucks Corporation	1,741	1,172,414
Milford Commons Milford, NH	Various	77,830	7,950,000
CarMax Greenville, SC	CarMax Auto Superstores, Inc.	46,535	22,000,000
Bank of America Delray Beach, FL	Bank of America, N.A.	54,600	15,000,000
Circuit City Kennesaw, GA	Circuit City Stores, Inc.	183,088	19,840,000
Mustang Engineering Houston, TX	Mustang Engineering, LP	136,954	19,000,000
Office Depot Alcoa, TN	Office Depot, Inc.	26,850	3,658,000
Arby s New Castle, PA	RTM Acquisition, LLC	3,263	1,520,000
CarMax Raleigh, NC	CarMax Auto Superstores, Inc.	56,439	9,145,000
CarMax Pineville, NC	CarMax Auto Superstores, Inc.	18,697	9,888,000
Starbucks Ponca City, OK	Starbucks Corporation	1,750	1,061,753
Starbucks Kingsport, TN	Starbucks Corporation	1,850	1,328,000
Pep Boys Albuquerque, NM	The Pep Boys Manny, Moe, and Jack	21,768	3,773,000
Pep Boys Arlington Heights, IL	The Pep Boys Manny, Moe, and Jack	20,464	6,139,000
Pep Boys Clarksville, IN	The Pep Boys Manny, Moe, and Jack	22,211	2,517,000
Pep Boys Colorado Springs, CO	The Pep Boys Manny, Moe, and Jack	22,211	2,665,000
Pep Boys El Centro, CA	The Pep Boys Manny, Moe, and Jack	18,196	2,426,000

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Pep Boys Fort Myers, FL	The Pep Boys Manny, Moe, and Jack	22,225	3,048,000
Pep Boys Frederick, MD	The Pep Boys Manny, Moe, and Jack	17,690	4,717,000
Pep Boys Hampton, VA	The Pep Boys Manny, Moe, and Jack	22,211	3,998,000
Pep Boys Lakeland, FL	The Pep Boys Manny, Moe, and Jack	20,747	2,717,000
Pep Boys Nashua, NH	The Pep Boys Manny, Moe, and Jack	19,300	4,375,000
Pep Boys New Hartford, NY	The Pep Boys Manny, Moe, and Jack	22,211	2,369,000
Pep Boys Orem, UT	The Pep Boys Manny, Moe, and Jack	21,770	3,048,000
Pep Boys Pasadena, TX	The Pep Boys Manny, Moe, and Jack	22,341	4,988,000
Pep Boys Redlands, CA	The Pep Boys Manny, Moe, and Jack	22,290	4,620,000
Pep Boys San Antonio, TX	The Pep Boys Manny, Moe, and Jack	23,373	2,460,000
Pep Boys Tamarac, FL	The Pep Boys Manny, Moe, and Jack	18,020	4,085,000

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<b>Property Description</b>	<b>Tenant</b>	<b>Rentable Square Feet</b>	<b>Purchase Price</b>
Pep Boys Tampa, FL	The Pep Boys Manny, Moe, and Jack	22,356	\$ 1,925,000
Pep Boys West Warwick, RI	The Pep Boys Manny, Moe, and Jack	22,211	3,702,000
Walgreens Batesville, MS	Walgreen Co.	14,250	5,321,000
Tractor Supply Clovis, NM	Tractor Supply Company	19,097	3,060,000
BJ's Wholesale Club Haverhill, MA	BJ's Wholesale Club, Inc.	119,598	19,400,000
		13,238,022	\$ 2,002,286,439

- (1) The Applebee's Portfolio consists of 22 single-tenant restaurants located in various states, which were purchased under three separate sale leaseback agreements, and the properties are subject to three master lease agreements.

For additional information regarding our prior acquisitions, see the discussion below under the caption Real Property Investments.

We expect to use substantially all of the net proceeds from this offering to acquire and operate a portfolio of commercial real estate consisting primarily of freestanding, single-tenant commercial properties net leased to investment grade tenants, which generally are companies that have a debt rating by Moody's of Baa3 or better or a credit rating by Standard & Poor's of BBB or better, or are guaranteed by a company with such rating, and other creditworthy tenants located throughout the United States. We also may invest in a smaller number of multi-tenant properties that compliment our overall investment objectives. In addition, we may invest in entities that make similar investments. If our advisor determines that, due to the state of the real estate market or in order to diversify our investment portfolio, it would be advantageous to us, we also may invest in mortgage loans secured by commercial properties similar to those in which we invest directly. We intend to hold each property for eight to ten years.

Our advisor, Cole Advisors II, makes recommendations to our board of directors for our investments. All acquisitions of commercial properties are evaluated for tenant creditworthiness and the reliability and stability of their future income and capital appreciation potential. We consider the risk profile, credit quality and reputation of potential tenants and the impact of each particular acquisition as it relates to the portfolio as a whole. Our board of directors will exercise its fiduciary duties to our stockholders in determining to approve or reject each of these investment recommendations. See the section of this prospectus captioned Investment Objectives and Policies Real Property Investments for a description of our properties as of the date of this prospectus. As we acquire properties, we will supplement this prospectus to describe material changes to our portfolio.

**Estimated Use of Proceeds of This Offering**

Depending primarily on the number of shares we sell in this offering and assuming all shares sold under our distribution reinvestment plan are sold at \$9.50 per share, we estimate for each share sold in this offering that between approximately \$8.72 (assuming no shares available under our distribution reinvestment plan are sold) and approximately \$8.86 (assuming all shares available under our distribution reinvestment plan are sold) will be available for the purchase of real estate. We will use the remainder of the offering proceeds to pay the costs of the offering, including selling commissions and the dealer manager fee, and to pay a fee to our advisor for its services in

connection with the selection and acquisition of properties. We will not pay selling commissions or a dealer

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manager fee on shares sold under our distribution reinvestment plan. The table below sets forth our estimated use of proceeds from this offering:

	<b>Maximum Offering (Including Distribution Reinvestment Plan)</b>		<b>Maximum Offering (Not Including Distribution Reinvestment Plan)</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Gross Offering Proceeds	\$ 1,487,500,000	100%	\$ 1,250,000,000	100%
Less Public Offering Expenses:				
Selling Commissions and Dealer Manager Fee	112,500,000	7.6%	112,500,000	9.0%
Organization and Offering Expenses	22,312,500	1.5%	18,750,000	1.5%
Amount Available for Investment	1,352,687,500	90.9%	1,118,750,000	89.5%
Acquisition and Development:				
Acquisition and Advisory Fees	26,368,177	1.8%	21,807,992	1.7%
Acquisition Expenses	6,592,044	0.4%	5,451,998	0.4%
Initial Working Capital Reserve	1,318,409	0.1%	1,090,400	0.1%
Amount Invested in Properties	\$ 1,318,408,870	88.6%	\$ 1,090,399,610	87.2%

**Investment Objectives**

Our primary investment objectives are:

to provide current income for you through the payment of cash distributions; and

to preserve, protect and return your invested capital.

We also seek capital gain from our investments. See the Investment Objectives and Policies section of this prospectus for a more complete description of our investment policies and investment restrictions.

**Conflicts of Interest**

Cole Advisors II, as our advisor, experiences conflicts of interest in connection with the management of our business affairs, including the following:

The management personnel of Cole Advisors II, each of whom also makes investment decisions for other Cole-sponsored programs, must determine which investment opportunities to recommend to us or another Cole-sponsored program or joint venture and must determine how to allocate resources among us and the other Cole-sponsored programs;

Cole Advisors II may structure the terms of joint ventures between us and other Cole-sponsored programs;

We have retained Cole Realty Advisors, Inc., formerly known as Fund Realty Advisors, Inc. (Cole Realty Advisors), an affiliate of Cole Advisors II, to manage and lease some or all of our properties;

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Cole Advisors II and its affiliates will have to allocate their time between us and other real estate programs and activities in which they are involved; and

Cole Advisors II and its affiliates will receive fees in connection with transactions involving the purchase, management and sale of our properties regardless of the quality of the property acquired or the services provided to us.

Our officers and one of our directors also will face these conflicts because of their affiliation with Cole Advisors II. In addition, three persons who are officers and/or a director of our company also serve as officers and/or directors of Cole Credit Property Trust, Inc. (Cole REIT I), a privately offered real estate program with similar investment objectives, and Cole REIT Advisors, LLC (Cole Advisors), the advisor to Cole REIT I. These conflicts of interest could result in decisions that are not in our best interests. See the [Conflicts of Interest](#) section of this

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prospectus for a detailed discussion of the various conflicts of interest relating to your investment, as well as the procedures that we have established to mitigate a number of these potential conflicts.

The following chart shows the ownership structure of the various Cole entities that are affiliated with Cole Advisors II.

- (1) The investors in this offering will own registered shares of common stock in Cole Credit Property Trust II, Inc. As of April 25, 2008, we had approximately 124,100,000 shares of common stock outstanding, held by approximately 26,000 stockholders.
- (2) Cole Holdings Corporation currently owns 20,000 shares of our common stock, which represents less than 0.05% of our issued and outstanding shares of common stock.

**Prior Offering Summary**

As of December 31, 2007, we had sold on aggregate approximately 93.8 million shares of common stock in our initial public offering and our follow-on offering, with gross offering proceeds of approximately \$936.5 million. From this amount, we paid approximately \$26.9 million in acquisition fees to Cole Realty Advisors, approximately \$8.0 million in finance coordination fees to Cole Advisors II, approximately \$53.3 million in selling commissions and dealer manager fees to Cole Capital Corporation and approximately \$4.6 million in organization and offering cost reimbursement to Cole Advisors II.

In addition to our initial public offering, from January 1, 1998 through December 31, 2007, our chairman, chief executive officer and president, Christopher H. Cole, through entities he directly or indirectly controls, has sponsored 68 privately offered real estate programs, including 10 limited partnerships, four debt offerings, 26 tenant-in-common programs, 27 Delaware Statutory Trust programs and Cole Credit Property Trust, Inc. (Cole REIT I), a privately offered REIT.

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As of December 31, 2007, such programs had raised an aggregate of approximately \$665.1 million from over approximately 6,300 investors, and have owned and operated a total of 281 commercial real estate properties. The Prior Performance Summary section of this prospectus contains a discussion of the programs sponsored by Mr. Cole from January 1, 1998 through December 31, 2007. Certain financial results and other information relating to such programs with investment objectives similar to ours are also provided in the Prior Performance Tables included as Appendix A to this prospectus. The prior performance of the programs previously sponsored by Mr. Cole is not necessarily indicative of the results that we will achieve. Therefore, you should not assume that you will experience returns, if any, comparable to those experienced by investors in such prior real estate programs.

**The Offering**

We are offering an aggregate of 125,000,000 shares of common stock in our primary offering on a best-efforts basis at \$10.00 per share. Discounts are available for certain categories of purchasers as described in the Plan of Distribution section of this prospectus. We also are offering 25,000,000 shares of common stock under our distribution reinvestment plan at \$9.50 per share, subject to certain limitations, as described in the Summary of Amended and Restated Distribution Reinvestment Plan section of this prospectus. We will offer shares of common stock in our primary offering until the earlier of May 11, 2009, which is two years from the effective date of this offering, unless the offering is extended, or the date we sell 125,000,000 shares. We may sell shares under the distribution reinvestment plan beyond the termination of our primary offering until we have sold 25,000,000 shares through the reinvestment of distributions, but only if there is an effective registration statement with respect to the shares. Under the Securities Act of 1933, as amended (Securities Act), and in some states, we may not be able to continue the offering for these periods without filing a new registration statement, or in the case of shares sold under the distribution reinvestment plan, renew or extend the registration statement in such state. We may terminate this offering at any time prior to the stated termination date. We reserve the right to reallocate the shares of our common stock we are offering between the primary offering and the distribution reinvestment plan.

**Compensation to Cole Advisors II and its Affiliates**

Cole Advisors II and its affiliates will receive compensation and reimbursement for services relating to this offering and the investment and management of our assets. The most significant items of compensation are included in the table below. The selling commissions and dealer manager fee may vary for different categories of purchasers. See the Plan of Distribution section of this prospectus. The table below assumes the shares are sold through distribution channels associated with the highest possible selling commissions and dealer manager fees and accounts for the fact that shares are sold through our distribution reinvestment plan at \$9.50 per share with no selling commissions and no dealer manager fee.

<b>Type of Compensation</b>	<b>Determination of Amount</b>	<b>Estimated Amount for Maximum Offering (150,000,000 Shares)</b>
Selling Commission	<i>Offering Stage</i> We will pay to Cole Capital Corporation 7% of gross proceeds of our primary offering; we will not pay any selling commissions on sales of shares under our distribution reinvestment plan; Cole Capital Corporation will reallocate all	\$87,500,000



selling commissions to participating  
broker-dealers.

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<b>Type of Compensation</b>	<b>Determination of Amount</b>	<b>Estimated Amount for Maximum Offering (150,000,000 Shares)</b>
Dealer Manager Fee	We will pay to Cole Capital Corporation 2% of gross proceeds of our primary offering; we will not pay a dealer manager fee with respect to sales under our distribution reinvestment plan; Cole Capital Corporation may reallow all or a portion of its dealer manager fees to participating broker-dealers.	\$25,000,000
Other Organization and Offering Expenses	We will reimburse Cole Advisors II up to 1.5% of gross offering proceeds for organization and offering expenses.	\$22,312,500
Acquisition and Advisory Fees	<b>Operational Stage</b> We will pay to Cole Advisors II 2% of the contract purchase price of each property acquired.	\$26,368,177
Acquisition Expenses	We will reimburse Cole Advisors II for acquisition expenses incurred in acquiring property. We expect these fees to be approximately 0.5% of the purchase price of each property. In no event will the total of all acquisition and advisory fees and acquisition expenses payable with respect to a particular investment exceed 4% of the contract purchase price.	\$6,592,044
Asset Management Fees	We will pay Cole Advisors II a monthly fee equal to 0.02083%, which is one-twelfth of 0.25%, of the aggregate assets value plus costs and expenses incurred by the advisor in providing asset management services.	Not determinable at this time. Because the fee is based on a fixed percentage of aggregate asset value there is no maximum dollar amount of this fee.

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<b>Type of Compensation</b>	<b>Determination of Amount</b>	<b>Estimated Amount for Maximum Offering (150,000,000 Shares)</b>
Property Management and Leasing Fees	<p>For the management and leasing of our properties, we will pay to Cole Realty Advisors, an affiliate of our advisor, a property management fee up to (i) 2% of gross revenues from our single tenant properties and (ii) 4% of gross revenues from our multi-tenant properties, plus, in each case, market-based leasing commissions applicable to the geographic location of the property. We also will reimburse Cole Realty Advisors' costs of managing the properties. Cole Realty Advisors or its affiliates may also receive a fee for the initial leasing of newly constructed properties, which would generally equal one month's rent. The aggregate of all property management and leasing fees paid to our affiliates plus all payments to third parties for such fees will not exceed the amount that other nonaffiliated management and leasing companies generally charge for similar services in the same geographic location as determined by a survey of brokers and agents in such area.</p>	<p>Not determinable at this time. Because the fee is based on a fixed percentage of gross revenue and/or market rates, there is no maximum dollar amount of this fee.</p>
Operating Expenses	<p>We will reimburse our advisor's costs of providing administrative services, subject to the limitation that we will not reimburse our advisor for any amount by which our operating expenses (including the asset management fee) at the end of the four preceding fiscal quarters exceeds the greater of (i) 2% of average invested assets, or (ii) 25% of net income other than any additions to reserves for depreciation, bad debt or other similar non-cash reserves and excluding any gain from the sale of</p>	<p>Not determinable at this time.</p>

assets for that period. Additionally, we will not reimburse our advisor for personnel costs in connection with services for which the advisor receives acquisition fees or real estate commissions.

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<b>Type of Compensation</b>	<b>Determination of Amount</b>	<b>Estimated Amount for Maximum Offering (150,000,000 Shares)</b>
Financing Coordination Fee	<p>If our advisor provides services in connection with the origination or refinancing of any debt that we obtain, and use to acquire properties or to make other permitted investments, or that is assumed, directly or indirectly, in connection with the acquisition of properties, we will pay the advisor a financing coordination fee equal to 1% of the amount available and/or outstanding under such financing, subject to certain limitations.</p>	<p>Not determinable at this time. Because the fee is based on a fixed percentage of any debt financing, there is no maximum dollar amount of this fee.</p>
Real Estate Commissions	<p><b><i>Liquidation/ Listing Stage</i></b> Up to one-half of the brokerage commission paid on the sale of property, not to exceed 2% of the contract price for property sold, in each case, payable to our advisor if our advisor or its affiliates, as determined by a majority of the independent directors, provided a substantial amount of services in connection with the sale.</p>	<p>Not determinable at this time. Because the commission is based on a fixed percentage of the contract price for a sold property, there is no maximum dollar amount of these commissions.</p>
Subordinated Participation in Net Sale Proceeds (payable only if we are not listed on an exchange)	<p>10% of remaining net sale proceeds after return of capital plus payment to investors of an 8% cumulative, non-compounded return on the capital contributed by investors. We cannot assure you that we will provide this 8% return, which we have disclosed solely as a measure for our advisor's incentive compensation.</p>	<p>Not determinable at this time. There is no maximum amount of these payments.</p>
Subordinated Incentive Listing Fee (payable only if we are listed on an exchange, which we have no intention to do at this time)	<p>10% of the amount by which our adjusted market value plus distributions exceeds the aggregate capital contributed by investors plus an amount equal to an 8% cumulative, non-compounded annual return to investors. We cannot assure you that we will provide this 8% return, which we have disclosed solely as a measure</p>	<p>Not determinable at this time. There is no maximum amount of this fee.</p>

for our advisor's incentive  
compensation.

**Distribution Policy and Distributions**

To maintain our qualification as a REIT, we are required to make aggregate annual distributions to our stockholders of at least 90% of our annual taxable income (which does not necessarily equal net income as calculated in accordance with generally accepted accounting principles in the United States (GAAP)). Our board of

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directors may authorize distributions in excess of those required for us to maintain REIT status depending on our financial condition and such other factors as our board of directors deems relevant. We have not established a minimum distribution level. Distributions are paid to our stockholders as of the record date or dates selected by our board of directors. We expect to declare and pay distributions at least quarterly. We currently declare distributions with a daily record date, and pay distributions monthly. In the event we do not have enough cash to make distributions, we may borrow, use proceeds from this offering, issue additional securities or sell assets in order to fund distributions. Until we are generating operating cash flow sufficient to make distributions to our stockholders, we intend to pay all or a substantial portion of our distributions from the proceeds of this offering or from borrowings, including possible borrowings from our advisor or its affiliates, in anticipation of future cash flow, which may reduce the amount of capital we ultimately invest in properties, and negatively impact the value of your investment. See the section of this prospectus captioned **Description of Shares Distribution Policy and Distributions** for a description of our distributions.

## **Charter Provisions Requiring Listing**

We will seek to list our shares of common stock for trading on a national securities exchange or any successor exchange or market when and if our independent directors believe listing would be in the best interest of our stockholders. However, at this time, we have no intention to list our shares. We do not anticipate that there will be any market for our common stock unless and until our shares are listed. If we do not list our shares of common stock on a national securities exchange by May 22, 2017 our charter requires that we either:

seek stockholder approval of an extension or amendment of this listing deadline; or

seek stockholder approval of the liquidation of our corporation.

If we seek and do not obtain stockholder approval of an extension or amendment to the listing deadline, we would then be required to seek stockholder approval of our liquidation. If we seek and fail to obtain stockholder approval of our liquidation, our charter would not require us to list or liquidate and we could continue to operate as before. In such event, there would be no public market for shares of our common stock and you could be required to hold the shares indefinitely. If we seek and obtain stockholder approval of our liquidation, we would begin an orderly sale of our properties and distribute, subject to our advisor's subordinated participation, our net proceeds to you.

## **Distribution Reinvestment Plan**

Pursuant to our distribution reinvestment plan, you may have the distributions you receive from us reinvested in additional shares of our common stock. The purchase price per share under our distribution reinvestment plan will be the higher of 95% of the fair market value per share as determined by our board of directors and \$9.50 per share. No sales commissions or dealer manager fees will be paid on shares sold under our distribution reinvestment plan. If you participate in the distribution reinvestment plan, you will not receive the cash from your distributions, other than special distributions that are designated by our board of directors. As a result, you may have a tax liability with respect to your share of our taxable income, but you will not receive cash distributions to pay such liability. We may terminate the distribution reinvestment plan at our discretion at any time upon ten days prior written notice to you. Additionally, we will be required to discontinue sales of shares under the distribution reinvestment plan on the earlier of May 11, 2009, which is two years from the effective date of this offering, unless the offering is extended, or the date we sell all of the shares registered for sale under the distribution reinvestment plan, unless we file a new registration statement with the Securities and Exchange Commission and applicable states. We reserve the right to reallocate the shares of our common stock we are offering between the primary offering and the distribution reinvestment plan.

**Share Redemption Program**

Our board of directors has adopted a share redemption program that enables our stockholders to sell their shares to us in limited circumstances. Our share redemption program permits you to sell your shares back to us after you have held them for at least one year, subject to the significant conditions and limitations described below and in the section captioned Description of Shares Share Redemption Program.



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There are several restrictions on your ability to sell your shares to us under the program. You generally have to hold your shares for one year before selling your shares to us under the plan; however, we may waive the one-year holding period in the event of the stockholder's death or bankruptcy, or other exigent circumstances. In addition, we limit the number of shares redeemed pursuant to our share redemption program as follows: (1) during any calendar year, we will not redeem in excess of 3% of the weighted average number of shares outstanding during the prior calendar year (shares requested for redemption upon the death of a stockholder will not be subject to this limitation); and (2) funding for the redemption of shares will be limited to the amount of net proceeds we receive from the sale of shares under our distribution reinvestment plan. These limits may prevent us from accommodating all requests made in any year. During the term of this offering, and subject to certain provisions described in the section of this prospectus captioned Description of Shares Share Redemption Program, the redemption price per share will depend on the length of time you have held such shares as follows: after one year from the purchase date 92.5% of the amount you paid for each share; after two years from the purchase date 95% of the amount you paid for each share; after three years from the purchase date 97.5% of the amount you paid for each share; and after four years from the purchase date 100% of the amount you paid for each share.

Upon receipt of a request for redemption, we will conduct a Uniform Commercial Code search to ensure that no liens are held against the shares. We will bear any costs in conducting the Uniform Commercial Code search. We will not redeem any shares that are subject to a lien. Repurchases will be made quarterly. If funds are not available to redeem all requested redemptions at the end of each quarter, the shares will be purchased on a pro rata basis and the unfulfilled requests will be held until the next quarter, unless withdrawn; provided, however, we may give priority to the redemption of a deceased stockholder's shares. Our board of directors may amend, suspend or terminate the share redemption program at any time upon 30 days prior written notice to our stockholders.

## **Cole Operating Partnership II, LP**

We expect to own substantially all of our real estate properties through Cole Operating Partnership II, LP (Cole OP II), our operating partnership. We may, however, own properties directly, through subsidiaries of Cole OP II or through other entities. We are the sole general partner of Cole OP II and Cole Advisors II is the initial limited partner of Cole OP II. Our ownership of properties in Cole OP II is referred to as an UPREIT. This UPREIT structure may enable sellers of properties to transfer their properties to Cole OP II in exchange for limited partnership interests of Cole OP II and defer gain recognition for tax purposes with respect to such transfers of properties. The holders of units in Cole OP II may have their units redeemed for cash or, at our option, shares of our common stock. At present, we have no plans to acquire any specific properties in exchange for units of Cole OP II.

## **ERISA Considerations**

The section of this prospectus entitled ERISA Considerations describes the effect the purchase of shares will have on individual retirement accounts and retirement plans subject to the Employee Retirement Income Security Act of 1974, as amended (ERISA), and/or the Internal Revenue Code. ERISA is a federal law that regulates the operation of certain tax-advantaged retirement plans. Any retirement plan trustee or individual considering purchasing shares for a retirement plan or an individual retirement account should read the Investment by Tax-Exempt Entities and ERISA Considerations section of this prospectus very carefully.

## **Description of Shares**

### ***Uncertificated Shares***

Our board of directors has authorized the issuance of shares of our stock without certificates. We expect that, unless and until our shares are listed on a national securities exchange, we will not issue shares in certificated form. Our

transfer agent maintains a stock ledger that contains the name and address of each stockholder and the number of shares that the stockholder holds. With respect to uncertificated stock, we will continue to treat the stockholder registered on our stock ledger as the owner of the shares until the record owner and the new owner delivers a properly executed stock transfer form to us, along with a fee to cover reasonable transfer costs, in an amount determined by our board of directors. We will provide the required form to you upon request.

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***Stockholder Voting Rights and Limitations***

We hold annual meetings of our stockholders for the purpose of electing our directors and/or conducting other business matters that may be presented at such meetings. We may also call special meetings of stockholders from time to time. You are entitled to one vote for each share of common stock you own at any of these meetings.

***Restriction on Share Ownership***

Our charter contains restrictions on ownership of the shares that prevent any one person from owning more than 9.8% in value of our outstanding shares and more than 9.8% in value or number, whichever is more restrictive, of any class or series of our outstanding shares of stock unless exempted by our board of directors. These restrictions are designed to enable us to comply with ownership restrictions imposed on REITs by the Internal Revenue Code. For a more complete description of the shares, including restrictions on the ownership of shares, please see the *Description of Shares* section of this prospectus. Our charter also limits your ability to transfer your shares to prospective stockholders unless (i) they meet the minimum suitability standards regarding income or net worth, which are described in the *Suitability Standards* section immediately following the cover page of this prospectus, and (ii) the transfer complies with minimum purchase requirements, which are described above in the section entitled *Suitability Standards*.

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**RISK FACTORS**

*An investment in our common stock involves various risks and uncertainties. You should carefully consider the following risk factors in conjunction with the other information contained in this prospectus before purchasing our common stock. The risks discussed in this prospectus can adversely affect our business, operating results, prospects and financial condition. These risks could cause the value of our common stock to decline and could cause you to lose all or part of your investment. The risks and uncertainties described below are not the only ones we face but do represent those risks and uncertainties that we believe are material to our business, operating results, prospects and financial condition. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also harm our business.*

**Risks Related to an Investment in Cole Credit Property Trust II, Inc.**

*You will not have the opportunity to evaluate our future investments before we make them, which makes an investment in us more speculative.*

We will not provide you with information to evaluate our future investments prior to our acquisition of properties. We will seek to use the net proceeds from this offering, after the payment of fees and expenses, to acquire a portfolio of commercial real estate comprised primarily of a large number of freestanding, single-tenant commercial properties net leased to investment grade or other creditworthy tenants and a smaller number of multi-tenant properties that compliment our overall investment objectives. We may also, in the discretion of our advisor, invest in other types of real estate or in entities that invest in real estate. In addition, our advisor may make or invest in mortgage loans or participations therein on our behalf if our board of directors determines, due to the state of the real estate market or in order to diversify our investment portfolio or otherwise, that such investments are advantageous to us. We have established policies relating to the creditworthiness of tenants of our properties, but our board of directors will have wide discretion in implementing these policies, and you will not have the opportunity to evaluate potential tenants. For a more detailed discussion of our investment policies, see the **Investment Objectives and Policies** **Acquisition and Investment Policies** section of this prospectus.

*There is no public trading market for our shares and there may never be one; therefore, it will be difficult for you to sell your shares.*

There currently is no public market for our shares and there may never be one. If you are able to find a buyer for your shares, you may not sell your shares unless the buyer meets applicable suitability and minimum purchase standards. Our charter also prohibits the ownership of more than 9.8% of our stock by a single investor, unless exempted by our board of directors, which may inhibit large investors from desiring to purchase your shares. Moreover, our share redemption program includes numerous restrictions that would limit your ability to sell your shares to us. Our board of directors may reject any request for redemption of shares, or amend, suspend or terminate our share redemption program upon 30 days' notice. Therefore, it will be difficult for you to sell your shares promptly or at all. If you are able to sell your shares, you will likely have to sell them at a substantial discount to the price you paid for the shares. It also is likely that your shares would not be accepted as the primary collateral for a loan. You should purchase the shares only as a long-term investment because of the illiquid nature of the shares. See **Suitability Standards,**

**Description of Shares** **Restrictions on Ownership and Transfer** and **Share Redemption Program** elsewhere for a more complete discussion on the restrictions on your ability to transfer your shares.

*We may suffer from delays in locating suitable additional investments, which could adversely affect our ability to make distributions and the value of your investment.*

Our ability to achieve our investment objectives and to pay distributions is dependent upon the performance of Cole Advisors II, our advisor, in the acquisition of our investments, the selection of our tenants and the determination of any financing arrangements. Except for the investments described in this prospectus, you will have no opportunity to evaluate the terms of transactions or other economic or financial data concerning our investments. You must rely entirely on the management ability of Cole Advisors II and the oversight of our board of directors. We could suffer from delays in locating suitable additional investments, particularly as a result of our reliance on our advisor at times when management of our advisor is simultaneously seeking to locate suitable

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investments for other affiliated programs. Delays we encounter in the selection, acquisition and, in the event we develop properties, development of income-producing properties, likely would adversely affect our ability to make distributions and the value of your overall returns. In such event, we may pay all or a substantial portion of our distributions from the proceeds of this offering or from borrowings in anticipation of future cash flow, which may constitute a return of your capital. Distributions from the proceeds of this offering or from borrowings also could reduce the amount of capital we ultimately invest in properties. This, in turn, would reduce the value of your investment. In particular, where we acquire properties prior to the start of construction or during the early stages of construction, it will typically take several months to complete construction and rent available space. Therefore, you could suffer delays in the receipt of cash distributions attributable to those particular properties. If Cole Advisors II is unable to obtain suitable investments, we will hold the proceeds of this offering in an interest-bearing account or invest the proceeds in short-term, investment-grade investments. If we cannot invest proceeds from this offering within a reasonable amount of time, or if our board of directors determines it is in the best interests of our stockholders, we will return the uninvested proceeds to investors.

***If our advisor loses or is unable to obtain key personnel, including in the event another Cole-sponsored program internalizes its advisor, our ability to implement our investment strategies could be delayed or hindered, which could adversely affect our ability to make distributions and the value of your investment.***

Our success depends to a significant degree upon the contributions of certain of our executive officers and other key personnel of our advisor, including Christopher H. Cole, D. Kirk McAllaster, Jr., Blair D. Koblenz, Marc T. Nemer, John M. Pons, Christopher P. Robertson, and Daniel E. Weber, each of whom would be difficult to replace. Our advisor does not have an employment agreement with any of these key personnel and we cannot guarantee that all, or any particular one, will remain affiliated with us and/or advisor. If any of our key personnel were to cease their affiliation with our advisor, our operating results could suffer. This could occur, among other ways, if another Cole-sponsored program internalizes its advisor. If that occurs, key personnel of our advisor, who also are key personnel of the internalized advisor, would become employees of the other program and would no longer be available to our advisor. Further, we do not intend to separately maintain key person life insurance on Mr. Cole or any other person. We believe that our future success depends, in large part, upon our advisor's ability to hire and retain highly skilled managerial, operational and marketing personnel. Competition for such personnel is intense, and we cannot assure you that our advisor will be successful in attracting and retaining such skilled personnel. If our advisor loses or is unable to obtain the services of key personnel, our ability to implement our investment strategies could be delayed or hindered, and the value of your investment may decline.

***Our rights and the rights of our stockholders to recover claims against our officers, directors and our advisor are limited, which could reduce your and our recovery against them if they cause us to incur losses.***

Maryland law provides that a director has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in the corporation's best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Our charter, in the case of our directors, officers, employees and agents, and the advisory agreement, in the case of our advisor, require us to indemnify our directors, officers, employees and agents and our advisor and its affiliates for actions taken by them in good faith and without negligence or misconduct. Additionally, our charter limits the liability of our directors and officers for monetary damages to the fullest extent permitted under Maryland law, subject to the limitations required by the Statement of Policy Regarding Real Estate Investment Trusts published by the North American Securities Administrators Associations, also known as the NASAA REIT Guidelines. Although our charter does not allow us to exonerate and indemnify our directors and officers to a greater extent than permitted under Maryland law and the NASAA REIT Guidelines, we and our stockholders may have more limited rights against our directors, officers, employees and agents, and our advisor and its affiliates, than might otherwise exist under common law, which could reduce your and our recovery against them. In addition, we may be obligated to fund the defense costs incurred by our

directors, officers, employees and agents or our advisor in some cases which would decrease the cash otherwise available for distribution to you. See the section captioned Management Limited Liability and Indemnification of Directors, Officers, Employees and Other Agents elsewhere herein.

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**Risks Related to Conflicts of Interest**

We will be subject to conflicts of interest arising out of our relationships with our advisor and its affiliates, including the material conflicts discussed below. The Conflicts of Interest section of this prospectus provides a more detailed discussion of the conflicts of interest between us and our advisor and its affiliates, and our policies to reduce or eliminate certain potential conflicts.

***Cole Advisors II will face conflicts of interest relating to the purchase and leasing of properties, and such conflicts may not be resolved in our favor, which could adversely affect our investment opportunities.***

During the period from January 1, 1998 to December 31, 2007, affiliates of our advisor have sponsored 68 privately offered real estate investment programs, including 10 limited partnerships, a REIT, four debt offerings and 53 tenant-in-common programs. As of December 31, 2007, such prior programs had raised an aggregate of approximately \$665.1 million from approximately 6,300 investors. Affiliates of our advisor may sponsor other real estate investment programs in the future. We may buy properties at the same time as one or more of the other Cole-sponsored programs managed by officers and key personnel of Cole Advisors II. There is a risk that Cole Advisors II will choose a property that provides lower returns to us than a property purchased by another Cole-sponsored program. We cannot be sure that officers and key personnel acting on behalf of Cole Advisors II and on behalf of managers of other Cole-sponsored programs will act in our best interests when deciding whether to allocate any particular property to us. In addition, we may acquire properties in geographic areas where other Cole-sponsored programs own properties. Also, we may acquire properties from, or sell properties to, other Cole-sponsored programs. If one of the other Cole-sponsored programs attracts a tenant that we are competing for, we could suffer a loss of revenue due to delays in locating another suitable tenant. You will not have the opportunity to evaluate the manner in which these conflicts of interest are resolved before or after making your investment. Similar conflicts of interest may apply if our advisor determines to make or purchase mortgage loans or participations in mortgage loans on our behalf, since other Cole-sponsored programs may be competing with us for these investments.

***Cole Advisors II faces conflicts of interest relating to joint ventures, which could result in a disproportionate benefit to the other venture partners at our expense.***

We may enter into joint ventures with other Cole-sponsored programs for the acquisition, development or improvement of properties. Cole Advisors II may have conflicts of interest in determining which Cole-sponsored program should enter into any particular joint venture agreement. The co-venturer may have economic or business interests or goals that are or may become inconsistent with our business interests or goals. In addition, Cole Advisors II may face a conflict in structuring the terms of the relationship between our interests and the interest of the affiliated co-venturer and in managing the joint venture. Since Cole Advisors II and its affiliates will control both the affiliated co-venturer and, to a certain extent, us, agreements and transactions between the co-venturers with respect to any such joint venture will not have the benefit of arm's-length negotiation of the type normally conducted between unrelated co-venturers, which may result in the co-venturer receiving benefits greater than the benefits that we receive. In addition, we may assume liabilities related to the joint venture that exceed the percentage of our investment in the joint venture.

***We may participate in 1031 exchange programs with affiliates of our advisor that will not be the result of arm's-length negotiations and will result in conflicts of interest.***

Cole Capital Partners, LLC (Cole Capital Partners), an affiliate of our advisor, has developed programs to facilitate the acquisition of real estate properties in co-ownership arrangements with persons who are looking to invest proceeds



from a sale of real estate in order to qualify for like-kind exchange treatment under Section 1031 of the Internal Revenue Code (a Section 1031 Program). Section 1031 Programs are structured as co-ownership arrangements with other investors in the property (Section 1031 Participants) who are seeking to defer taxes under Section 1031 of the Internal Revenue Code. These programs are structured either as a tenant-in-common program or by use of a Delaware Statutory Trust. When Cole Capital Partners develops such a program, it generally organizes a new entity (a Cole Exchange Entity) to acquire all or part of a property. We may participate in the program by either co-investing in the property with the Cole Exchange Entity or purchasing a co-ownership interest from the Cole Exchange Entity, generally at the Cole Exchange Entity's cost. In that event, as a co-owner of properties, we will be

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subject to the risks inherent in the co-ownership arrangements with unrelated third parties. Our purchase of co-ownership interests will present conflicts of interest between us and affiliates of our advisor. The business interests of Cole Capital Partners and the Cole Exchange Entity may be adverse to, or to the detriment of, our interests. Further, any agreement that we enter into with a Cole Exchange Entity will not be negotiated in an arm's-length transaction and, as a result of the affiliation between our advisor, Cole Capital Partners and the Cole Exchange Entity, our advisor may be reluctant to enforce the agreements against such entities.

***Cole Advisors II and its officers and employees and certain of our key personnel face competing demands relating to their time, and this may cause our operating results to suffer.***

Cole Advisors II and its officers and employees and certain of our key personnel and their respective affiliates are key personnel, general partners and sponsors of other real estate programs having investment objectives and legal and financial obligations similar to ours and may have other business interests as well. Because these persons have competing demands on their time and resources, they may have conflicts of interest in allocating their time between our business and these other activities. During times of intense activity in other programs and ventures, they may devote less time and fewer resources to our business than is necessary or appropriate. If this occurs, the returns on our investments may suffer.

***Our officers face conflicts of interest related to the positions they hold with affiliated entities, which could hinder our ability to successfully implement our business strategy and to generate returns to you.***

Each of our executive officers, including Christopher H. Cole, who also serves as the chairman of our board of directors, also are officers of our advisor, our property manager, our dealer manager and other affiliated entities. As a result, these individuals owe fiduciary duties to these other entities and their stockholders and limited partners, which fiduciary duties may conflict with the duties that they owe to us and our stockholders. Their loyalties to these other entities could result in actions or inactions that are detrimental to our business, which could harm the implementation of our business strategy and our investment and leasing opportunities. Conflicts with our business and interests are most likely to arise from involvement in activities related to (i) allocation of new investments and management time and services between us and the other entities, (ii) our purchase of properties from, or sale of properties, to affiliated entities, (iii) the timing and terms of the investment in or sale of an asset, (iv) development of our properties by affiliates, (v) investments with affiliates of our advisor, (vi) compensation to our advisor, and (vii) our relationship with our dealer manager and property manager. If we do not successfully implement our business strategy, we may be unable to generate cash needed to make distributions to you and to maintain or increase the value of our assets.

***Cole Advisors II faces conflicts of interest relating to the incentive fee structure under our advisory agreement, which could result in actions that are not necessarily in the long-term best interests of our stockholders.***

Under our advisory agreement, Cole Advisors II is entitled to fees that are structured in a manner intended to provide incentives to our advisor to perform in our best interests and in the best interests of our stockholders. However, because our advisor does not maintain a significant equity interest in us and is entitled to receive substantial minimum compensation regardless of performance, our advisor's interests are not wholly aligned with those of our stockholders. In that regard, our advisor could be motivated to recommend riskier or more speculative investments in order for us to generate the specified levels of performance or sales proceeds that would entitle our advisor to fees. In addition, our advisor's entitlement to fees upon the sale of our assets and to participate in sale proceeds could result in our advisor recommending sales of our investments at the earliest possible time at which sales of investments would produce the level of return that would entitle the advisor to compensation relating to such sales, even if continued ownership of those investments might be in our best long-term interest. Our advisory agreement requires us to pay a performance-based termination fee to our advisor in the event that we terminate the advisor prior to the listing of our shares for trading on an exchange or, absent such listing, in respect of its participation in net sales proceeds. To avoid

paying this fee, our independent directors may decide against terminating the advisory agreement prior to our listing of our shares or disposition of our investments even if, but for the termination fee, termination of the advisory agreement would be in our best interest. In addition, the requirement

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to pay the fee to the advisor at termination could cause us to make different investment or disposition decisions than we would otherwise make, in order to satisfy our obligation to pay the fee to the terminated advisor. Moreover, our advisor has the right to terminate the advisory agreement upon a change of control of our company and thereby trigger the payment of the performance fee, which could have the effect of delaying, deferring or preventing the change of control.

***There is no separate counsel for us and our affiliates, which could result in conflicts of interest.***

Morris, Manning & Martin, LLP acts as legal counsel to us and also represents our advisor and some of its affiliates. There is a possibility in the future that the interests of the various parties may become adverse and, under the Code of Professional Responsibility of the legal profession, Morris, Manning & Martin, LLP may be precluded from representing any one or all of such parties. If any situation arises in which our interests appear to be in conflict with those of our advisor or its affiliates, additional counsel may be retained by one or more of the parties to assure that their interests are adequately protected. Moreover, should a conflict of interest not be readily apparent, Morris, Manning & Martin, LLP may inadvertently act in derogation of the interest of the parties which could affect our ability to meet our investment objectives.

## **Risks Related to This Offering and Our Corporate Structure**

***The limit on the number of shares a person may own may discourage a takeover that could otherwise result in a premium price to our stockholders.***

Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of directors, no person may own more than 9.8% in value of our outstanding stock and more than 9.8% in value or number, whichever is more restrictive, of any class of our outstanding stock. This restriction may have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price for holders of our common stock. See the Description of Shares Restriction on Ownership and Transfer section of this prospectus.

***Our charter permits our board of directors to issue stock with terms that may subordinate the rights of common stockholders or discourage a third party from acquiring us in a manner that might result in a premium price to our stockholders.***

Our charter permits our board of directors to issue up to 250,000,000 shares of stock. In addition, our board of directors, without any action by our stockholders, may amend our charter from time to time to increase or decrease the aggregate number of shares or the number of shares of any class or series of stock that we have authority to issue. Our board of directors may classify or reclassify any unissued common stock or preferred stock and establish the preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications and terms or conditions of redemption of any such stock. Thus, our board of directors could authorize the issuance of preferred stock with terms and conditions that could have a priority as to distributions and amounts payable upon liquidation over the rights of the holders of our common stock. Preferred stock could also have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price for holders of our common stock. See the Description of Shares Preferred Stock section of this prospectus.

***Maryland law prohibits certain business combinations, which may make it more difficult for us to be acquired and may limit your ability to exit the investment.***

Under Maryland law, business combinations between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

any person who beneficially owns 10% or more of the voting power of the corporation's shares;

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an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under the statute if the board of directors approved in advance the transaction by which he or she otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the five-year prohibition, any business combination between the Maryland corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and

two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation's stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares. The business combination statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors prior to the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, our board of directors has exempted any business combination involving Cole Advisors II or any affiliate of Cole Advisors II. Consequently, the five-year prohibition and the super-majority vote requirements will not apply to business combinations between us and Cole Advisors II or any affiliate of Cole Advisors II. As a result, Cole Advisors II and any affiliate of Cole Advisors II may be able to enter into business combinations with us that may not be in the best interest of our stockholders, without compliance with the super-majority vote requirements and the other provisions of the statute. The business combination statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer. For a more detailed discussion of the Maryland laws governing us and the ownership of our shares of common stock, see the section of this prospectus captioned "Description of Shares - Business Combinations."

***Maryland law also limits the ability of a third-party to buy a large stake in us and exercise voting power in electing directors.***

Maryland law provides a second anti-takeover statute, its Control Share Acquisition Act, which provides that "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting rights except to the extent approved by the corporation's disinterested stockholders by a vote of two-thirds of the votes entitled to be cast on the matter. Shares of stock owned by interested stockholders, that is, by the acquirer, by officers or by directors who are employees of the corporation, are excluded from shares entitled to vote on the matter. "Control shares" are voting shares of stock that would entitle the acquirer to exercise voting power in electing directors within specified ranges of voting power. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A "control share acquisition" means the acquisition of control shares. The control share acquisition statute does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the articles of incorporation or bylaws of the corporation. Our bylaws contain a provision exempting from the Control Share Acquisition act any and all acquisitions of our common stock by Cole Advisors II or any affiliate of Cole Advisors II. This statute could

have the effect of discouraging offers from third parties to acquire us and increasing the difficulty of successfully completing this type of offer by anyone other than our affiliates or any of their affiliates. For a more detailed discussion on the Maryland laws governing control share acquisitions, see the section of this prospectus captioned Description of Shares Control Share Acquisitions.

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***If we are required to register as an investment company under the Investment Company Act, we could not continue our business, which may significantly reduce the value of your investment.***

We are not registered as an investment company under the Investment Company Act of 1940, as amended (Investment Company Act), pursuant to an exemption in Section 3(c)(5)(C) of the Investment Company Act and certain No-Action Letters from the Securities and Exchange Commission. Pursuant to this exemption, (1) at least 55% of our assets must consist of real estate fee interests or loans secured exclusively by real estate or both, (2) no more than 25% of our assets may consist of loans secured primarily by real estate (this percentage will be reduced by the amount by which the percentage in (1) above is increased); and (3) up to 20% of our assets may consist of miscellaneous investments. We intend to monitor compliance with these requirements on an ongoing basis. If we were obligated to register as an investment company, we would have to comply with a variety of substantive requirements under the Investment Company Act imposing, among other things:

limitations on capital structure;

restrictions on specified investments;

prohibitions on transactions with affiliates; and

compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly change our operations.

In order to maintain our exemption from regulation under the Investment Company Act, we must engage primarily in the business of buying real estate, and these investments must be made within a year after the offering ends. If we are unable to invest a significant portion of the proceeds of this offering in properties within one year of the termination of the offering, we may avoid being required to register as an investment company by temporarily investing any unused proceeds in government securities with low returns. This would reduce the cash available for distribution to investors and possibly lower your returns.

To maintain compliance with the Investment Company Act exemption, we may be unable to sell assets we would otherwise want to sell and may need to sell assets we would otherwise wish to retain. In addition, we may have to acquire additional income or loss generating assets that we might not otherwise have acquired or may have to forgo opportunities to acquire interests in companies that we would otherwise want to acquire and would be important to our investment strategy. If we were required to register as an investment company but failed to do so, we would be prohibited from engaging in our business, and criminal and civil actions could be brought against us. In addition, our contracts would be unenforceable unless a court were to require enforcement, and a court could appoint a receiver to take control of us and liquidate our business.

***If you do not agree with the decisions of our board of directors, you only have limited control over changes in our policies and operations and may not be able to change such policies and operations.***

Our board of directors determines our major policies, including our policies regarding investments, financing, growth, debt capitalization, REIT qualification and distributions. Our board of directors may amend or revise these and other policies without a vote of the stockholders. Under the Maryland General Corporation Law and our charter, our stockholders have a right to vote only on the following:

the election or removal of directors;



any amendment of our charter (including a change in our investment objectives), except that our board of directors may amend our charter without stockholder approval, to increase or decrease the aggregate number of our shares, to increase or decrease the number of our shares of any class or series that we have the authority to issue, or to classify or reclassify any unissued shares by setting or changing the preferences, conversion or other rights, restrictions, limitations as to distributions, qualifications or terms and conditions of redemption of such shares, provided however, that any such amendment does not adversely affect the rights, preferences and privileges of the stockholders;

our liquidation or dissolution;

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a reorganization of our company, as provided in our charter; and

any merger, consolidation or sale or other disposition of substantially all of our assets.

All other matters are subject to the discretion of our board of directors.

***Our board of directors may change our investment policies without stockholder approval, which could alter the nature of your investments.***

Our charter requires that our independent directors review our investment policies at least annually to determine that the policies we are following are in the best interest of the stockholders. These policies may change over time. The methods of implementing our investment policies may also vary, as new real estate development trends emerge and new investment techniques are developed. Our investment policies, the methods for their implementation, and our other objectives, policies and procedures may be altered by our board of directors without the approval of our stockholders. As a result, the nature of your investment could change without your consent.

***You are limited in your ability to sell your shares pursuant to our share redemption program and may have to hold your shares for an indefinite period of time.***

Our board of directors may amend the terms of our share redemption program without stockholder approval. Our board of directors also is free to suspend or terminate the program upon 30 days notice or to reject any request for redemption. In addition, the share redemption program includes numerous restrictions that would limit your ability to sell your shares. Generally, you must have held your shares for at least one year in order to participate in our share redemption program. Subject to funds being available, we will limit the number of shares redeemed pursuant to our share redemption program as follows: (1) during any calendar year, we will not redeem in excess of 3% of the weighted average number of shares outstanding during the prior calendar year (shares requested for redemption upon the death of a stockholder will not be subject to this limitation); and (2) funding for the redemption of shares will be limited to the net proceeds we receive from the sale of shares under our distribution reinvestment plan. These limits might prevent us from accommodating all redemption requests made in any year. See the Description of Shares Share Redemption Program section of this prospectus for more information about the share redemption program. These restrictions severely limit your ability to sell your shares should you require liquidity, and limit your ability to recover the value you invested or the fair market value of your shares.

***We established the offering price on an arbitrary basis; as a result, the actual value of your investment may be substantially less than what you pay.***

Our board of directors has arbitrarily determined the selling price of the shares, which is the same offering price as in our initial public offering, and such price bears no relationship to our book or asset values, or to any other established criteria for valuing issued or outstanding shares. Because the offering price is not based upon any independent valuation, the offering price is not indicative of the proceeds that you would receive upon liquidation.

***Because the dealer manager is one of our affiliates, you will not have the benefit of an independent review of the prospectus or us customarily performed in underwritten offerings.***

The dealer manager, Cole Capital Corporation, is one of our affiliates and will not make an independent review of us or the offering. Accordingly, you will have to rely on your own broker-dealer to make an independent review of the terms of this offering. If your broker-dealer does not conduct such a review, you will not have the benefit of an independent review of the terms of this offering. Further, the due diligence investigation of us by the dealer manager

cannot be considered to be an independent review and, therefore, may not be as meaningful as a review conducted by an unaffiliated broker-dealer or investment banker.

*Your interest in us will be diluted if we issue additional shares.*

Existing stockholders and potential investors in this offering do not have preemptive rights to any shares issued by us in the future. Our charter currently has authorized 250,000,000 shares of stock, of which 240,000,000 shares are designated as common stock and 10,000,000 are designated as preferred stock. Subject to any limitations set

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forth under Maryland law, our board of directors may increase the number of authorized shares of stock, increase or decrease the number of shares of any class or series of stock designated, or reclassify any unissued shares without the necessity of obtaining stockholder approval. All of such shares may be issued in the discretion of our board of directors. Existing stockholders and investors purchasing shares in this offering likely will suffer dilution of their equity investment in us, in the event that we (1) sell shares in this offering or sell additional shares in the future, including those issued pursuant to our distribution reinvestment plan, (2) sell securities that are convertible into shares of our common stock, (3) issue shares of our common stock in a private offering of securities to institutional investors, (4) issue shares of our common stock upon the exercise of the options granted to our independent directors, (5) issue shares to our advisor, its successors or assigns, in payment of an outstanding fee obligation as set forth under our advisory agreement, or (6) issue shares of our common stock to sellers of properties acquired by us in connection with an exchange of limited partnership interests of Cole OP II, existing stockholders and investors purchasing shares in this offering will likely experience dilution of their equity investment in us. In addition, the partnership agreement for Cole OP II contains provisions that would allow, under certain circumstances, other entities, including other Cole-sponsored programs, to merge into or cause the exchange or conversion of their interest for interests of Cole OP II. Because the limited partnership interests of Cole OP II may, in the discretion of our board of directors, be exchanged for shares of our common stock, any merger, exchange or conversion between Cole OP II and another entity ultimately could result in the issuance of a substantial number of shares of our common stock, thereby diluting the percentage ownership interest of other stockholders. Because of these and other reasons described in this Risk Factors section, you should not expect to be able to own a significant percentage of our shares.

### ***Payment of fees to Cole Advisors II and its affiliates reduces cash available for investment and distribution.***

Cole Advisors II and its affiliates perform services for us in connection with the offer and sale of the shares, the selection and acquisition of our investments, and the management and leasing of our properties, the servicing of our mortgage loans, if any, and the administration of our other investments. They are paid substantial fees for these services, which reduces the amount of cash available for investment in properties or distribution to stockholders. As of December 31, 2007, we had sold approximately 94,000,000 shares of common stock in our initial public offering, with gross offering proceeds of approximately \$936.5 million. From this amount, we paid approximately \$26.9 million in acquisition fees to Cole Realty Advisors, approximately \$8.0 million in finance coordination fees to Cole Advisors II, approximately \$53.3 million in selling commissions and dealer manager fees to Cole Capital Corporation and approximately \$4.6 million in organization and offering cost reimbursement to Cole Advisors II. For a more detailed discussion of the fees payable to such entities in respect of this offering, see the Management Compensation section of this prospectus.

### ***We may be unable to pay or maintain cash distributions or increase distributions over time.***

There are many factors that can affect the availability and timing of cash distributions to stockholders. Distributions will be based principally on cash available from our operations. The amount of cash available for distributions is affected by many factors, such as our ability to buy properties as offering proceeds become available, rental income from such properties, and our operating expense levels, as well as many other variables. Actual cash available for distributions may vary substantially from estimates. We cannot assure you that we will be able to pay or maintain our current level of distributions or that distributions will increase over time. We cannot give any assurance that rents from the properties will increase, that the securities we buy will increase in value or provide constant or increased distributions over time, or that future acquisitions of real properties, mortgage loans or any investments in securities will increase our cash available for distributions to stockholders. Our actual results may differ significantly from the assumptions used by our board of directors in establishing the distribution rate to stockholders. We may not have sufficient cash from operations to make a distribution required to maintain our REIT status. We may increase borrowing or use proceeds from this offering to make distributions, each of which could be deemed to be a return of your capital. We may make distributions from the proceeds of this offering or from borrowings in anticipation of

future cash flow. Any such distributions will constitute a return of capital and may reduce the amount of capital we ultimately invest in properties and negatively impact the value of your investment. For a description of

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the factors that can affect the availability and timing of cash distributions to stockholders, see the section of this prospectus captioned Description of Shares Distributions Policy.

### **General Risks Related to Investments in Real Estate**

***Our operating results will be affected by economic and regulatory changes that have an adverse impact on the real estate market in general, and we cannot assure you that we will be profitable or that we will realize growth in the value of our real estate properties.***

Our operating results are subject to risks generally incident to the ownership of real estate, including:

changes in general economic or local conditions;

changes in supply of or demand for similar or competing properties in an area;

changes in interest rates and availability of permanent mortgage funds that may render the sale of a property difficult or unattractive;

changes in tax, real estate, environmental and zoning laws; and

periods of high interest rates and tight money supply.

These and other reasons may prevent us from being profitable or from realizing growth or maintaining the value of our real estate properties.

***Many of our retail properties will depend upon a single tenant for all or a majority of their rental income, and our financial condition and ability to make distributions may be adversely affected by the bankruptcy or insolvency, a downturn in the business, or a lease termination of a single tenant.***

We expect that many of our properties will be occupied by only one tenant or will derive a majority of their rental income from one tenant and, therefore, the success of those properties will be materially dependent on the financial stability of such tenants. Lease payment defaults by tenants could cause us to reduce the amount of distributions we pay. A default of a tenant on its lease payments to us would cause us to lose the revenue from the property and force us to find an alternative source of revenue to meet any mortgage payment and prevent a foreclosure if the property is subject to a mortgage. In the event of a default, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and re-letting the property. If a lease is terminated, there is no assurance that we will be able to lease the property for the rent previously received or sell the property without incurring a loss. A default by a tenant, the failure of a guarantor to fulfill its obligations or other premature termination of a lease, or a tenant's election not to extend a lease upon its expiration, could have an adverse effect on our financial condition and our ability to pay distributions.

***If a tenant declares bankruptcy, we may be unable to collect balances due under relevant leases.***

Any of our tenants, or any guarantor of a tenant's lease obligations, could be subject to a bankruptcy proceeding pursuant to Title 11 of the bankruptcy laws of the United States. Such a bankruptcy filing would bar all efforts by us to collect pre-bankruptcy debts from these entities or their properties, unless we receive an enabling order from the bankruptcy court. Post-bankruptcy debts would be paid currently. If a lease is assumed, all pre-bankruptcy balances owing under it must be paid in full. If a lease is rejected by a tenant in bankruptcy, we would have a general unsecured claim for damages. If a lease is rejected, it is unlikely we would receive any payments from the tenant because our

claim is capped at the rent reserved under the lease, without acceleration, for the greater of one year or 15% of the remaining term of the lease, but not greater than three years, plus rent already due but unpaid. This claim could be paid only in the event funds were available, and then only in the same percentage as that realized on other unsecured claims.

A tenant or lease guarantor bankruptcy could delay efforts to collect past due balances under the relevant leases, and could ultimately preclude full collection of these sums. Such an event could cause a decrease or cessation of rental payments that would mean a reduction in our cash flow and the amount available for distributions to you. In the event of a bankruptcy, we cannot assure you that the tenant or its trustee will assume our lease. If a

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given lease, or guaranty of a lease, is not assumed, our cash flow and the amounts available for distributions to you may be adversely affected.

***A high concentration of our properties in a particular geographic area, or that have tenants in a similar industry, would magnify the effects of downturns in that geographic area or industry.***

We expect that our properties will be diverse according to geographic area and industry of our tenants. However, in the event that we have a concentration of properties in any particular geographic area, any adverse situation that disproportionately effects that geographic area would have a magnified adverse effect on our portfolio. Similarly, if our tenants are concentrated in a certain industry or industries, any adverse effect to that industry generally would have a disproportionately adverse effect on our portfolio.

***If a sale-leaseback transaction is re-characterized in a tenant's bankruptcy proceeding, our financial condition could be adversely affected.***

We may enter into sale-leaseback transactions, whereby we would purchase a property and then lease the same property back to the person from whom we purchased it. In the event of the bankruptcy of a tenant, a transaction structured as a sale-leaseback may be re-characterized as either a financing or a joint venture, either of which outcomes could adversely affect our business. If the sale-leaseback were re-characterized as a financing, we might not be considered the owner of the property, and as a result would have the status of a creditor in relation to the tenant. In that event, we would no longer have the right to sell or encumber our ownership interest in the property. Instead, we would have a claim against the tenant for the amounts owed under the lease, with the claim arguably secured by the property. The tenant/debtor might have the ability to propose a plan restructuring the term, interest rate and amortization schedule of its outstanding balance. If confirmed by the bankruptcy court, we could be bound by the new terms, and prevented from foreclosing our lien on the property. If the sale-leaseback were re-characterized as a joint venture, our lessee and we could be treated as co-venturers with regard to the property. As a result, we could be held liable, under some circumstances, for debts incurred by the lessee relating to the property. Either of these outcomes could adversely affect our cash flow and the amount available for distributions to you.

***Properties that have vacancies for a significant period of time could be difficult to sell, which could diminish the return on your investment.***

A property may incur vacancies either by the continued default of tenants under their leases or the expiration of tenant leases. If vacancies continue for a long period of time, we may suffer reduced revenues resulting in less cash to be distributed to stockholders. In addition, because properties' market values depend principally upon the value of the properties' leases, the resale value of properties with prolonged vacancies could suffer, which could further reduce your return.

***We may obtain only limited warranties when we purchase a property and would have only limited recourse in the event our due diligence did not identify any issues that lower the value of our property.***

The seller of a property often sells such property in its as is condition on a where is basis and with all faults, without any warranties of merchantability or fitness for a particular use or purpose. In addition, purchase agreements may contain only limited warranties, representations and indemnifications that will only survive for a limited period after the closing. The purchase of properties with limited warranties increases the risk that we may lose some or all of our invested capital in the property as well as the loss of rental income from that property.

***We may be unable to secure funds for future tenant improvements or capital needs, which could adversely impact our ability to pay cash distributions to our stockholders.***



When tenants do not renew their leases or otherwise vacate their space, it is usual that, in order to attract replacement tenants, we will be required to expend substantial funds for tenant improvements and tenant refurbishments to the vacated space. In addition, although we expect that our leases with tenants will require tenants to pay routine property maintenance costs, we will likely be responsible for any major structural repairs,

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such as repairs to the foundation, exterior walls and rooftops. We will use substantially all of this offering's gross proceeds to buy real estate and pay various fees and expenses. We intend to reserve only 0.1% of the gross proceeds from this offering for future capital needs. Accordingly, if we need additional capital in the future to improve or maintain our properties or for any other reason, we will have to obtain financing from other sources, such as cash flow from operations, borrowings, property sales or future equity offerings. These sources of funding may not be available on attractive terms or at all. If we cannot procure additional funding for capital improvements, our investments may generate lower cash flows or decline in value, or both.

***Our inability to sell a property when we desire to do so could adversely impact our ability to pay cash distributions to you.***

The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our control. We cannot predict whether we will be able to sell any property for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We cannot predict the length of time needed to find a willing purchaser and to close the sale of a property.

We may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot assure you that we will have funds available to correct such defects or to make such improvements. Moreover, in acquiring a property, we may agree to restrictions that prohibit the sale of that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These provisions would restrict our ability to sell a property.

***We may not be able to sell our properties at a price equal to, or greater than, the price for which we purchased such property, which may lead to a decrease in the value of our assets.***

Many of our leases do not, and will not, contain rental increases over time. Therefore, the value of the property to a potential purchaser may not increase over time, which may restrict our ability to sell a property, or in the event we are able to sell such property, may lead to a sale price less than the price that we paid to purchase the property.

***Certain of our properties are subject to lock-out provisions, and in the future we may acquire or finance additional properties with lock-out provisions, which may prohibit us from selling a property, or may require us to maintain specified debt levels for a period of years on some properties.***

A significant portion of our properties are subject to lock-out provisions. Lock-out provisions could materially restrict us from selling or otherwise disposing of or refinancing properties. These provisions affect our ability to turn our investments into cash and thus affect cash available for distributions to you. Lock out provisions may prohibit us from reducing the outstanding indebtedness with respect to any properties, refinancing such indebtedness on a non-recourse basis at maturity, or increasing the amount of indebtedness with respect to such properties. Lock-out provisions could impair our ability to take other actions during the lock-out period that could be in the best interests of our stockholders and, therefore, may have an adverse impact on the value of the shares, relative to the value that would result if the lock-out provisions did not exist. In particular, lock-out provisions could preclude us from participating in major transactions that could result in a disposition of our assets or a change in control even though that disposition or change in control might be in the best interests of our stockholders.

***Rising expenses could reduce cash flow and funds available for future acquisitions.***

Our current properties are, and any properties that we buy in the future will be, subject to operating risks common to real estate in general, any or all of which may negatively affect us. If any property is not fully occupied or if rents are

being paid in an amount that is insufficient to cover operating expenses, we could be required to expend funds with respect to that property for operating expenses. The properties will be subject to increases in tax rates, utility costs, operating expenses, insurance costs, repairs and maintenance and administrative expenses. While we expect that many of our properties will be leased on a triple-net-lease basis or will require the tenants to pay a portion of such expenses, renewals of leases or future leases may not be negotiated on that basis, in which event we may have to pay those costs. If we are unable to lease properties on a triple-net-lease basis or on a basis

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requiring the tenants to pay all or some of such expenses, or if tenants fail to pay required tax, utility and other impositions, we could be required to pay those costs which could adversely affect funds available for future acquisitions or cash available for distributions.

***Adverse economic conditions will negatively affect our returns and profitability.***

Our operating results may be affected by the following market and economic challenges, which may result from a continued or exacerbated general economic slow down experienced by the nation as a whole or by the local economics where our properties may be located:

poor economic conditions may result in tenant defaults under leases;

re-leasing may require concessions or reduced rental rates under the new leases; and

increased insurance premiums may reduce funds available for distribution or, to the extent such increases are passed through to tenants, may lead to tenant defaults. Increased insurance premiums may make it difficult to increase rents to tenants on turnover, which may adversely affect our ability to increase our returns.

The length and severity of any economic downturn cannot be predicted. Our operations could be negatively affected to the extent that an economic downturn is prolonged or becomes more severe.

***If we suffer losses that are not covered by insurance or that are in excess of insurance coverage, we could lose invested capital and anticipated profits.***

Generally, each of our tenants is responsible for insuring its goods and premises and, in some circumstances, may be required to reimburse us for a share of the cost of acquiring comprehensive insurance for the property, including casualty, liability, fire and extended coverage customarily obtained for similar properties in amounts that our advisor determines are sufficient to cover reasonably foreseeable losses. Tenants of single-user properties leased on a triple-net-lease basis typically are required to pay all insurance costs associated with those properties. Material losses may occur in excess of insurance proceeds with respect to any property, as insurance may not be sufficient to fund the losses. However, there are types of losses, generally of a catastrophic nature, such as losses due to wars, acts of terrorism, earthquakes, floods, hurricanes, pollution or environmental matters, which are either uninsurable or not economically insurable, or may be insured subject to limitations, such as large deductibles or co-payments. Insurance risks associated with potential terrorism acts could sharply increase the premiums we pay for coverage against property and casualty claims. Additionally, mortgage lenders in some cases have begun to insist that commercial property owners purchase specific coverage against terrorism as a condition for providing mortgage loans. It is uncertain whether such insurance policies will be available, or available at reasonable cost, which could inhibit our ability to finance or refinance our potential properties. In these instances, we may be required to provide other financial support, either through financial assurances or self-insurance, to cover potential losses. We may not have adequate, or any, coverage for such losses. The Terrorism Risk Insurance Act of 2002 is designed for a sharing of terrorism losses between insurance companies and the federal government. We cannot be certain how this act will impact us or what additional cost to us, if any, could result. If such an event damaged or destroyed one or more of our properties, we could lose both our invested capital and anticipated profits from such property.

***Real estate related taxes may increase and if these increases are not passed on to tenants, our income will be reduced.***

Some local real property tax assessors may seek to reassess some of our properties as a result of our acquisition of the property. Generally, from time to time our property taxes increase as property values or assessment rates change or for

other reasons deemed relevant by the assessors. An increase in the assessed valuation of a property for real estate tax purposes will result in an increase in the related real estate taxes on that property. Although some tenant leases may permit us to pass through such tax increases to the tenants for payment, there is no assurance that renewal leases or future leases will be negotiated on the same basis. Increases not passed through to tenants will adversely affect our income, cash available for distributions, and the amount of distributions to you.

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***CC&Rs may restrict our ability to operate a property.***

Some of our properties are contiguous to other parcels of real property, comprising part of the same retail center. In connection with such properties, there are significant covenants, conditions and restrictions, known as CC&Rs, restricting the operation of such properties and any improvements on such properties, and related to granting easements on such properties. Moreover, the operation and management of the contiguous properties may impact such properties. Compliance with CC&Rs may adversely affect our operating costs and reduce the amount of funds that we have available to pay distributions.

***Our operating results may be negatively affected by potential development and construction delays and resultant increased costs and risks.***

While we do not currently intend to do so, we may use proceeds from this offering to acquire and develop properties upon which we will construct improvements. We will be subject to uncertainties associated with re-zoning for development, environmental concerns of governmental entities and/or community groups, and our builder's ability to build in conformity with plans, specifications, budgeted costs, and timetables. If a builder fails to perform, we may resort to legal action to rescind the purchase or the construction contract or to compel performance. A builder's performance may also be affected or delayed by conditions beyond the builder's control. Delays in completion of construction could also give tenants the right to terminate preconstruction leases. We may incur additional risks when we make periodic progress payments or other advances to builders before they complete construction. These and other such factors can result in increased costs of a project or loss of our investment. In addition, we will be subject to normal lease-up risks relating to newly constructed projects. We also must rely on rental income and expense projections and estimates of the fair market value of property upon completion of construction when agreeing upon a price at the time we acquire the property. If our projections are inaccurate, we may pay too much for a property, and our return on our investment could suffer.

While we do not currently intend to do so, we may invest in unimproved real property. Returns from development of unimproved properties are also subject to risks associated with re-zoning the land for development and environmental concerns of governmental entities and/or community groups. Although we intend to limit any investment in unimproved property to property we intend to develop, your investment nevertheless is subject to the risks associated with investments in unimproved real property.

***If we contract with an affiliated development company for newly developed property, we cannot guarantee that our earnest money deposit made to the development company will be fully refunded.***

While we currently do not have an affiliated development company, our sponsor and/or its affiliates may form a development company. In such an event, we may enter into one or more contracts, either directly or indirectly through joint ventures with affiliates or others, to acquire real property from an affiliate of Cole Advisors II that is engaged in construction and development of commercial real properties. Properties acquired from an affiliated development company may be either existing income-producing properties, properties to be developed or properties under development. We anticipate that we will be obligated to pay a substantial earnest money deposit at the time of contracting to acquire such properties. In the case of properties to be developed by an affiliated development company, we anticipate that we will be required to close the purchase of the property upon completion of the development of the property by our affiliate. At the time of contracting and the payment of the earnest money deposit by us, our development company affiliate typically will not have acquired title to any real property. Typically, our development company affiliate will only have a contract to acquire land, a development agreement to develop a building on the land and an agreement with one or more tenants to lease all or part of the property upon its completion. We may enter into such a contract with our development company affiliate even if at the time of contracting we have not yet raised sufficient proceeds in our offering to enable us to close the purchase of such

property. However, we will not be required to close a purchase from our development company affiliate, and will be entitled to a refund of our earnest money, in the following circumstances:

our development company affiliate fails to develop the property;

all or a specified portion of the pre-leased tenants fail to take possession under their leases for any reason; or

we are unable to raise sufficient proceeds from our offering to pay the purchase price at closing.

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The obligation of our development company affiliate to refund our earnest money will be unsecured, and no assurance can be made that we would be able to obtain a refund of such earnest money deposit from it under these circumstances since our development company affiliate may be an entity without substantial assets or operations. However, our development company affiliate's obligation to refund our earnest money deposit may be guaranteed by Cole Realty Advisors, our property manager, which will enter into contracts to provide property management and leasing services to various Cole-sponsored programs, including us, for substantial monthly fees. As of the time Cole Realty Advisors may be required to perform under any guaranty, we cannot assure that Cole Realty Advisors will have sufficient assets to refund all of our earnest money deposit in a lump sum payment. If we were forced to collect our earnest money deposit by enforcing the guaranty of Cole Realty Advisors, we will likely be required to accept installment payments over time payable out of the revenues of Cole Realty Advisors' operations. We cannot assure you that we would be able to collect the entire amount of our earnest money deposit under such circumstances. See Investment Objectives and Policies Acquisition and Investment Policies.

***Competition with third parties in acquiring properties and other investments may reduce our profitability and the return on your investment.***

We compete with many other entities engaged in real estate investment activities, including individuals, corporations, bank and insurance company investment accounts, other REITs, real estate limited partnerships, and other entities engaged in real estate investment activities, many of which have greater resources than we do. Larger REITs may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. In addition, the number of entities and the amount of funds competing for suitable investments may increase. Any such increase would result in increased demand for these assets and therefore increased prices paid for them. If we pay higher prices for properties and other investments, our profitability will be reduced and you may experience a lower return on your investment.

***Our properties face competition that may affect tenants' ability to pay rent and the amount of rent paid to us may affect the cash available for distributions and the amount of distributions.***

Our properties typically are, and we expect will be, located in developed areas. Therefore, there are and will be numerous other retail properties within the market area of each of our properties that will compete with us for tenants. The number of competitive properties could have a material effect on our ability to rent space at our properties and the amount of rents charged. We could be adversely affected if additional competitive properties are built in locations competitive with our properties, causing increased competition for customer traffic and creditworthy tenants. This could result in decreased cash flow from tenants and may require us to make capital improvements to properties that we would not have otherwise made, thus affecting cash available for distributions, and the amount available for distributions to you.

***Costs of complying with governmental laws and regulations, including those relating to environmental matters, may adversely affect our income and the cash available for any distributions.***

Environmental laws and regulations may impose joint and several liability on tenants, owners or operators for the costs to investigate or remediate contaminated properties, regardless of fault or whether the acts causing the contamination were legal. This liability could be substantial. In addition, the presence of hazardous substances, or the failure to properly remediate these substances, may adversely affect our ability to sell, rent or pledge such property as collateral for future borrowings.

Some of these laws and regulations have been amended so as to require compliance with new or more stringent standards as of future dates. Compliance with new or more stringent laws or regulations or stricter interpretation of



existing laws may require material expenditures by us. Future laws, ordinances or regulations may impose material environmental liability. Additionally, our tenants' operations, the existing condition of land when we buy it, operations in the vicinity of our properties, such as the presence of underground storage tanks, or activities of unrelated third parties may affect our properties. In addition, there are various local, state and federal fire, health, life-safety and similar regulations with which we may be required to comply, and that may subject us to liability in the form of fines or damages for noncompliance. Any material expenditures, fines, or damages we must pay will reduce our ability to make distributions and may reduce the value of your investment.

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We will not obtain an independent third-party environmental assessment for every property we acquire. In addition, any such assessment that we do obtain may not reveal all environmental liabilities or that a prior owner of a property did not create a material environmental condition not known to us. The cost of defending against claims of liability, of compliance with environmental regulatory requirements, of remediating any contaminated property, or of paying personal injury claims would materially adversely affect our business, assets or results of operations and, consequently, amounts available for distribution to you. See Investment Objectives and Policies Environmental Matters.

***If we sell properties by providing financing to purchasers, defaults by the purchasers would adversely affect our cash flows.***

If we decide to sell any of our properties, we intend to use our best efforts to sell them for cash. However, in some instances we may sell our properties by providing financing to purchasers. When we provide financing to purchasers, we will bear the risk that the purchaser may default, which could negatively impact our cash distributions to stockholders. Even in the absence of a purchaser default, the distribution of the proceeds of sales to our stockholders, or their reinvestment in other assets, will be delayed until the promissory notes or other property we may accept upon the sale are actually paid, sold, refinanced or otherwise disposed of. In some cases, we may receive initial down payments in cash and other property in the year of sale in an amount less than the selling price and subsequent payments will be spread over a number of years. If any purchaser defaults under a financing arrangement with us, it could negatively impact our ability to pay cash distributions to our stockholders.

***Our recovery of an investment in a mortgage that has defaulted may be limited.***

There is no guarantee that the mortgage, loan or deed of trust securing an investment will, following a default, permit us to recover the original investment and interest that would have been received absent a default. The security provided by a mortgage, deed of trust or loan is directly related to the difference between the amount owed and the appraised market value of the property. Although we intend to rely on a current real estate appraisal when we make the investment, the value of the property is affected by factors outside our control, including general fluctuations in the real estate market, rezoning, neighborhood changes, highway relocations and failure by the borrower to maintain the property. In addition, we may incur the costs of litigation in our efforts to enforce our rights under defaulted loans.

***Our costs associated with complying with the Americans with Disabilities Act may affect cash available for distributions.***

Our properties will be subject to the Americans with Disabilities Act of 1990 (Disabilities Act). Under the Disabilities Act, all places of public accommodation are required to comply with federal requirements related to access and use by disabled persons. The Disabilities Act has separate compliance requirements for public accommodations and commercial facilities that generally requires that buildings and services, including restaurants and retail stores, be made accessible and available to people with disabilities. The Disabilities Act's requirements could require removal of access barriers and could result in the imposition of injunctive relief, monetary penalties, or, in some cases, an award of damages. We will attempt to acquire properties that comply with the Disabilities Act or place the burden on the seller or other third party, such as a tenant, to ensure compliance with the Disabilities Act. However, we cannot assure you that we will be able to acquire properties or allocate responsibilities in this manner. If we cannot, our funds used for Disabilities Act compliance may affect cash available for distributions and the amount of distributions to you.

## **Risks Associated with Debt Financing**

***We have incurred, and expect to continue to incur, mortgage indebtedness and other borrowings, which may increase our business risks.***

As of December 31, 2007, we had total outstanding indebtedness of approximately \$1.1 billion. We expect to incur additional indebtedness even if we raise significant proceeds in this offering. We expect that in most instances, we will acquire real properties by using either existing financing or borrowing new funds. In addition, we may incur

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mortgage debt and pledge all or some of our real properties as security for that debt to obtain funds to acquire additional real properties. We may borrow if we need funds to satisfy the REIT tax qualification requirement that we distribute at least 90% of our annual REIT taxable income to our stockholders. We may also borrow if we otherwise deem it necessary or advisable to assure that we maintain our qualification as a REIT for federal income tax purposes.

Our advisor believes that utilizing borrowing is consistent with our investment objective of maximizing the return to investors. There is no limitation on the amount we may borrow against any single improved property. However, under our charter, we are required to limit our borrowings to 60% of the greater of cost (before deducting depreciation or other non-cash reserves) or fair market value of our gross assets, unless excess borrowing is approved by a majority of the independent directors. Our borrowings will not exceed 300% of our net assets, which is the maximum level of indebtedness permitted under the NASAA REIT Guidelines. We expect that during the period of this offering we will request that our independent directors approve borrowings in excess of this limitation since we will then be in the process of raising our equity capital to acquire our portfolio. As a result, we expect that our debt levels will be higher until we have invested most of our capital.

If there is a shortfall between the cash flow from a property and the cash flow needed to service mortgage debt on a property, then the amount available for distributions to stockholders may be reduced. In addition, incurring mortgage debt increases the risk of loss since defaults on indebtedness secured by a property may result in lenders initiating foreclosure actions. In that case, we could lose the property securing the loan that is in default, thus reducing the value of your investment. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds. In such event, we may be unable to pay the amount of distributions required in order to maintain our REIT status. We may give full or partial guarantees to lenders of mortgage debt to the entities that own our properties. When we provide a guaranty on behalf of an entity that owns one of our properties, we will be responsible to the lender for satisfaction of the debt if it is not paid by such entity. If any mortgages contain cross-collateralization or cross-default provisions, a default on a single property could affect multiple properties. If any of our properties are foreclosed upon due to a default, our ability to pay cash distributions to our stockholders will be adversely affected, which could result in our losing our REIT status and would result in a decrease in the value of your investment.

### ***The current state of debt markets could have a material adverse impact on our earnings and financial condition.***

The commercial real estate debt markets are currently experiencing volatility as a result of certain market factors, including the tightening of underwriting standards by lenders and credit rating agencies and the significant inventory of unsold collateralized mortgage backed securities (CMBS) in the market. This is resulting in lenders increasing the cost and underwriting requirements for debt financing. Should the overall cost of borrowings increase we may determine to use less leverage in our acquisitions than we currently anticipate. Higher costs of debt financing or lower levels of borrowing may result in lower yields from our acquisitions which may reduce future cash flow available for distribution.

In addition, the recent dislocations in the debt markets has reduced the amount of capital that is available to finance real estate. The reduced amount of available capital has slowed real estate transaction activity. The lack of available debt capital may result in us being unable to acquire properties that we desire to acquire or, to the extent we obtain debt capital, may result in onerous or restrictive terms that have an unfavorable result on our revenues or income or on our operating flexibility.

### ***High mortgage rates may make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire and the amount of cash distributions we can make.***

If we place mortgage debt on properties, we run the risk of being unable to refinance the properties when the loans come due, or of being unable to refinance on favorable terms. If interest rates are higher when the properties are refinanced, we may not be able to finance the properties and our income could be reduced. If any of these events

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occur, our cash flow would be reduced. This, in turn, would reduce cash available for distribution to you and may hinder our ability to raise more capital by issuing more stock or by borrowing more money.

***Lenders may require us to enter into restrictive covenants relating to our operations, which could limit our ability to make distributions to our stockholders.***

In connection with providing us financing, a lender could impose restrictions on us that affect our distribution and operating policies and our ability to incur additional debt. Loan documents we enter into may contain covenants that limit our ability to further mortgage the property, discontinue insurance coverage or replace Cole Advisors II as our advisor. These or other limitations may adversely affect our flexibility and our ability to achieve our investment and operating objectives.

***Increases in interest rates could increase the amount of our debt payments and adversely affect our ability to pay distributions to our stockholders.***

As of December 31, 2007, we had approximately \$1.1 billion of indebtedness, approximately \$114.8 million of which was variable rate debt. We incurred variable rate indebtedness in the past and expect that we will incur variable rate indebtedness in the future. To the extent that we incur variable rate debt, increases in interest rates would increase our interest costs, which could reduce our cash flows and our ability to pay distributions to you. In addition, if we need to repay existing debt during periods of rising interest rates, we could be required to liquidate one or more of our investments in properties at times that may not permit realization of the maximum return on such investments.

***We have broad authority to incur debt, and high debt levels could hinder our ability to make distributions and could decrease the value of your investment.***

Our charter generally limits us to incurring debt no greater than 60% of the greater of cost (before deducting depreciation or other non-cash reserves) or fair market value of all of our assets, unless any excess borrowing is approved by a majority of our independent directors and disclosed to our stockholders in our next quarterly report, along with a justification for such excess borrowing. We expect that during the period of this offering we will request that our independent directors approve borrowings in excess of this limitation since we will then be in the process of raising our equity capital to acquire our portfolio. As a result, we expect that our debt levels will be higher until we have invested most of our capital. High debt levels would cause us to incur higher interest charges, would result in higher debt service payments, and could be accompanied by restrictive covenants. These factors could limit the amount of cash we have available to distribute and could result in a decline in the value of your investment.

## **Risks Associated with Co-Ownership Transactions**

***Our participation in a co-ownership arrangement would subject us to risk that otherwise may not be present in other real estate investments.***

We may enter in co-ownership arrangements with respect to a portion of the properties we acquire. Co-ownership arrangements involve risks generally not otherwise present with an investment in real estate such as the following:

the risk that a co-owner may at any time have economic or business interests or goals that are or become inconsistent with our business interests or goals;

the risk that a co-owner may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives;

the possibility that an individual co-owner might become insolvent or bankrupt, or otherwise default under the applicable mortgage loan financing documents, which may constitute an event of default under all of the applicable mortgage loan financing documents or allow the bankruptcy court to reject the agreements entered into by the co-owners owning interests in the property;

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the possibility that a co-owner might not have adequate liquid assets to make cash advances that may be required in order to fund operations, maintenance and other expenses related to the property, which could result in the loss of current or prospective tenants and may otherwise adversely affect the operation and maintenance of the property, and could cause a default under the mortgage loan financing documents applicable to the property and may result in late charges, penalties and interest, and may lead to the exercise of foreclosure and other remedies by the lender;

the risk that a co-owner could breach agreements related to the property, which may cause a default, or result in personal liability for, the applicable mortgage loan financing documents, violate applicable securities law, result in a foreclosure or otherwise adversely affect the property and the co-ownership arrangement;

we could have limited control and rights, with management decisions made entirely by a third-party; or

the possibility that we will not have the right to sell the property at a time that otherwise could result in the property being sold for its maximum value.

Any of the above might subject a property to liabilities in excess of those contemplated and thus reduce the amount available for distribution to our stockholders.

In the event that our interests become adverse to those of the other co-owners, we will not have the contractual right to purchase the co-ownership interests from the other co-owners. Even if we are given the opportunity to purchase such co-ownership interests in the future, we cannot guarantee that we will have sufficient funds available at the time to purchase co-ownership interests from the co-owners.

We might want to sell our co-ownership interests in a given property at a time when the other co-owners in such property do not desire to sell their interests. Therefore, because we anticipate that it will be much more difficult to find a willing buyer for our co-ownership interests in a property than it would be to find a buyer for a property we owned outright, we may not be able to sell our interest in a property at the time we would like to sell.

## **Federal Income Tax Risks**

### ***Failure to qualify as a REIT would adversely affect our operations and our ability to make distributions.***

We elected to be taxed as a REIT beginning with the tax year ended December 31, 2005. In order for us to continue to qualify as a REIT, we must satisfy certain requirements set forth in the Internal Revenue Code and Treasury Regulations and various factual matters and circumstances that are not entirely within our control. We intend to structure our activities in a manner designed to satisfy all of these requirements. However, if certain of our operations were to be recharacterized by the Internal Revenue Service, such recharacterization could jeopardize our ability to satisfy all of the requirements for qualification as a REIT. Morris, Manning & Martin, LLP, our legal counsel, has rendered its opinion that we will qualify as a REIT, based upon our representations as to the manner in which we are and will be owned, invest in assets and operate, among other things. However, our qualification as a REIT will depend upon our ability to meet, through investments, actual operating results, distributions and satisfaction of specific rules, the various tests imposed by the Internal Revenue Code. Morris, Manning & Martin, LLP will not review these operating results or compliance with the qualification standards on an ongoing basis. This means that we may fail to satisfy the REIT requirements in the future. Also, this opinion represents Morris, Manning & Martin, LLP's legal judgment based on the law in effect as of the date of this prospectus. Morris, Manning & Martin, LLP's opinion is not binding on the Internal Revenue Service or the courts and we will not apply for a ruling from the Internal Revenue Service regarding our status as a REIT. Future legislative, judicial or administrative changes to the federal income tax



laws could be applied retroactively, which could result in our disqualification as a REIT.

If we fail to qualify as a REIT for any taxable year, we will be subject to federal income tax on our taxable income at corporate rates. In addition, we would generally be disqualified from treatment as a REIT for the four taxable years following the year of losing our REIT status. Losing our REIT status would reduce our net earnings available for investment or distribution to stockholders because of the additional tax liability. In addition, distributions to stockholders would no longer qualify for the dividends paid deduction, and we would no longer

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be required to make distributions. If this occurs, we might be required to borrow funds or liquidate some investments in order to pay the applicable tax.

***Re-characterization of the Section 1031 programs may result in a 100% tax on income from a prohibited transaction, which would diminish our cash distributions to you.***

The Internal Revenue Service could re-characterize transactions under the Section 1031 program such that Cole OP II, rather than the co-owner in the program (Section 1031 Participant), is treated as the bona fide owner, for tax purposes, of properties acquired and resold by a Section 1031 Participant in connection with the Section 1031 program. Such characterization could result in the fees paid to Cole OP II by a Section 1031 Participant as being deemed income from a prohibited transaction, in which event the fee income paid to us in connection with the Section 1031 programs would be subject to a 100% penalty tax. If this occurs, our ability to pay cash distributions to you will be adversely affected. We to obtain a legal opinion in connection with each co-ownership program to the effect that the program will qualify as a like-kind exchange under Section 1031 of the Internal Revenue Code. However, the Internal Revenue Service may take a position contrary to such an opinion.

***Re-characterization of sale-leaseback transactions may cause us to lose our REIT status.***

We may purchase properties and lease them back to the sellers of such properties. While we will use our best efforts to structure any such sale-leaseback transaction so that the lease will be characterized as a true lease, thereby allowing us to be treated as the owner of the property for federal income tax purposes, the IRS could challenge such characterization. In the event that any sale-leaseback transaction is challenged and re-characterized as a financing transaction or loan for federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed. If a sale-leaseback transaction were so recharacterized, we might fail to satisfy the REIT qualification asset tests or the income tests and, consequently, lose our REIT status effective with the year of recharacterization. Alternatively, the amount of our REIT taxable income could be recalculated which might also cause us to fail to meet the distribution requirement for a taxable year.

***You may have tax liability on distributions you elect to reinvest in our common stock.***

If you participate in our distribution reinvestment plan, you will be deemed to have received, and for income tax purposes will be taxed on, the amount reinvested in common stock to the extent the amount reinvested was not a tax-free return of capital. As a result, unless you are a tax-exempt entity, you may have to use funds from other sources to pay your tax liability on the value of the common stock received.

***In certain circumstances, we may be subject to federal and state income taxes as a REIT, which would reduce our cash available for distribution to you.***

Even if we qualify and maintain our status as a REIT, we may be subject to federal income taxes or state taxes. For example, net income from the sale of properties that are dealer properties sold by a REIT (a prohibited transaction under the Internal Revenue Code) will be subject to a 100% tax. We may not be able to make sufficient distributions to avoid excise taxes applicable to REITs. We may also decide to retain income we earn from the sale or other disposition of our property and pay income tax directly on such income. In that event, our stockholders would be treated as if they earned that income and paid the tax on it directly. However, stockholders that are tax-exempt, such as charities or qualified pension plans, would have no benefit from their deemed payment of such tax liability. We may also be subject to state and local taxes on our income or property, either directly or at the level of Cole OP II or at the level of the other companies through which we indirectly own our assets. Any federal or state taxes we pay will reduce our cash available for distribution to you.

***Legislative or regulatory action could adversely affect investors.***

Because our operations are governed to a significant extent by the federal tax laws, new legislative or regulatory action could adversely affect investors.

You are urged to consult with your own tax advisor with respect to the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our common stock. You

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should also note that our counsel's tax opinion assumes that no legislation will be enacted after the date of this prospectus that will be applicable to an investment in our shares.

***Foreign purchasers of our common stock may be subject to FIRPTA tax upon the sale of their shares.***

A foreign person disposing of a U.S. real property interest, including shares of a U.S. corporation whose assets consist principally of U.S. real property interests, is generally subject to the Foreign Investment in Real Property Tax of 1980, as amended, known as FIRPTA, on the gain recognized on the disposition. Such FIRPTA tax does not apply, however, to the disposition of stock in a REIT if the REIT is domestically controlled. A REIT is domestically controlled if less than 50% of the REIT's stock, by value, has been owned directly or indirectly by persons who are not qualifying U.S. persons during a continuous five-year period ending on the date of disposition or, if shorter, during the entire period of the REIT's existence. We cannot assure you that we will qualify as a domestically controlled REIT. If we were to fail to so qualify, gain realized by foreign investors on a sale of our shares would be subject to FIRPTA tax, unless our shares were traded on an established securities market and the foreign investor did not at any time during a specified testing period directly or indirectly own more than 5% of the value of our outstanding common stock. See Federal Income Tax Considerations Special Tax Considerations for Non-U.S. Stockholders Sale of our Shares by a Non-U.S. Stockholder.

***In order to avoid triggering additional taxes and/or penalties, if you intend to invest in our shares through pension or profit-sharing trusts or IRAs, you should consider additional factors.***

If you are investing the assets of a pension, profit-sharing, 401(k), Keogh or other qualified retirement plan or the assets of an IRA in our common stock, you should satisfy yourself that, among other things:

your investment is consistent with your fiduciary obligations under ERISA and the Internal Revenue Code;

your investment is made in accordance with the documents and instruments governing your plan or IRA, including your plan's investment policy;

your investment satisfies the prudence and diversification requirements of ERISA;

your investment will not impair the liquidity of the plan or IRA;

your investment will not produce UBTI for the plan or IRA;

you will be able to value the assets of the plan annually in accordance with ERISA requirements; and

your investment will not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the Internal Revenue Code.

For a more complete discussion of the foregoing risks and other issues associated with an investment in shares by retirement plans, please see the Investment by Tax-Exempt Entities and ERISA Considerations section of this prospectus.

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements contained in this registration statement, other than historical facts, may be considered forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Exchange Act. We intend for all such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act and Section 21E of the Exchange Act, as applicable by law. Such statements include, in particular, statements about our plans, strategies, and prospects and are subject to certain risks and uncertainties, as well as known and unknown risks, which could cause actual results to differ materially from those projected or anticipated. Therefore, such statements are not intended to be a guarantee of our performance in future periods. Such forward-looking statements can generally be identified by our use of forward-looking terminology such as may, will, would, could, should, expect, intend, anticipate, estimate, continue, or other similar words. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date this report is filed with the Securities and Exchange Commission. We make no representation or warranty (express or implied) about the accuracy of any such forward-looking statements contained in this registration statement, and we do not undertake to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Any forward-looking statements are subject to unknown risks and uncertainties, including those discussed in the Risk Factors section of this registration statement.

Table of Contents**ESTIMATED USE OF PROCEEDS**

The following table sets forth information about how we intend to use the proceeds raised in this offering, assuming that we sell the maximum offering of 150,000,000 shares of common stock pursuant to this offering. Many of the figures set forth below represent management's best estimate since they cannot be precisely calculated at this time. Assuming a maximum offering, we expect that approximately 88.6% of the money that stockholders invest will be used to buy real estate or make other investments, while the remaining approximately 11.4% will be used for working capital, and to pay expenses and fees including the payment of fees to Cole Advisors II, our advisor, and Cole Capital Corporation, our dealer manager.

	<b>Offering Amount(1)</b>	<b>Percent</b>
Gross Offering Proceeds	\$ 1,487,500,000	100%
Less Public Offering Expenses:		
Selling Commissions and Dealer Manager Fee(2)	112,500,000	7.6%
Organization and Offering Expenses(3)	22,312,500	1.5%
Amount Available for Investment(4)	\$ 1,352,687,500	90.9%
Acquisition and Development		
Acquisition and Advisory Fees(5)	26,368,177	1.8%
Acquisition Expenses(6)	6,592,044	0.4%
Initial Working Capital Reserve(7)	1,318,409	0.1%
Amount Invested in Properties(8)	\$ 1,318,408,870	88.6%

- (1) Assumes the maximum offering is sold, which includes 125,000,000 shares offered to the public at \$10.00 per share and 25,000,000 shares offered pursuant to our distribution reinvestment plan at \$9.50 per share.
- (2) Includes selling commissions equal to 7% of aggregate gross offering proceeds, which commissions may be reduced under certain circumstances, and a dealer manager fee equal to 2% of aggregate gross offering proceeds, both of which are payable to the dealer manager, an affiliate of our advisor. The dealer manager, in its sole discretion, may reallocate selling commissions of up to 7% of gross offering proceeds to other broker-dealers participating in this offering attributable to the shares sold by them and may reallocate its dealer manager fee up to 2% of gross offering proceeds in marketing fees and due diligence expenses to broker-dealers participating in this offering based on such factors including the participating broker-dealer's level of marketing support, level of due diligence review and success of its sales efforts, each as compared to those of the other participating broker-dealers. Additionally, we will not pay a selling commission or a dealer manager fee on shares purchased pursuant to our distribution reinvestment plan. The amount of selling commissions may be reduced under certain circumstances for volume discounts. See the Plan of Distribution section of this prospectus for a description of such provisions.
- (3) Organization and offering expenses consist of reimbursement of actual legal, accounting, printing and other accountable offering expenses, including amounts to reimburse Cole Advisors II, our advisor, for marketing,

salaries and direct expenses of its employees while engaged in registering and marketing the shares and other marketing and organization costs, other than selling commissions and the dealer manager fee. Cole Advisors II and its affiliates are responsible for the payment of organization and offering expenses, other than selling commissions and the dealer manager fee, to the extent they exceed 1.5% of gross offering proceeds, without recourse against or reimbursement by us; provided, however, that in no event will we pay or reimburse organization and offering expenses in excess of 10% of the gross offering proceeds. We currently estimate that approximately \$22,312,500 of organization and offering costs will be incurred if the maximum offering of 150,000,000 (approximately \$1,487,500,000) shares is sold.

- (4) Until required in connection with the acquisition and/or development of properties, substantially all of the net proceeds of the offering and, thereafter, any working capital reserves we may have, may be invested in short-term, highly-liquid investments including government obligations, bank certificates of deposit, short-term debt obligations and interest-bearing accounts.

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- (5) Acquisition and advisory fees are defined generally as fees and commissions paid by any party to any person in connection with identifying, reviewing, evaluating, investing in and the purchase, development or construction of properties. We pay to our advisor, acquisition and advisory fees up to a maximum amount of 2% of the contract purchase price of each property acquired, which for purposes of this table we have assumed is an aggregate amount equal to our estimated amount invested in properties. Acquisition and advisory fees do not include acquisition expenses. For purposes of this table, we have assumed that no financing is used to acquire properties or other real estate assets.
- (6) Acquisition expenses include legal fees and expenses, travel expenses, costs of appraisals, nonrefundable option payments on property not acquired, accounting fees and expenses, title insurance premiums and other closing costs and miscellaneous expenses relating to the selection, acquisition and development of real estate properties. For purposes of this table, we have assumed expenses of 0.5% of average invested assets, which for purposes of this table we have assumed is our estimated amount invested in properties; however, expenses on a particular acquisition may be higher. Notwithstanding the foregoing, the total of all acquisition expenses and acquisition fees payable with respect to a particular property or investment shall be reasonable, and shall not exceed an amount equal to 4% of the contract purchase price of the property, or in the case of a mortgage loan 4% of the funds advanced, unless a majority of our directors (including a majority of our independent directors) not otherwise interested in the transaction approve fees and expenses in excess of this limit and determine the transaction to be commercially competitive, fair and reasonable to us.
- (7) Working capital reserves typically are utilized for extraordinary expenses that are not covered by revenue generation of the property, such as tenant improvements, leasing commissions and major capital expenditures. Alternatively, a lender may require its own formula for escrow of working capital reserves. Because we expect most of our leases will be net leases, as described elsewhere herein, we do not expect to maintain significant working capital reserves.
- (8) Includes amounts anticipated to be invested in properties net of fees, expenses and initial working capital reserves.



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**MANAGEMENT**

**General**

We operate under the direction of our board of directors, the members of which are accountable to us and our stockholders as fiduciaries. The board is responsible for the management and control of our affairs. The board has retained Cole Advisors II to manage our day-to-day affairs and the acquisition and disposition of our investments, subject to the board's supervision. Our charter has been reviewed and ratified by at least a majority of our board of directors, including the independent directors. This ratification by our board of directors is required by the Statement of Policy Regarding Real Estate Investment Trusts published by the North American Securities Administrators Association, also known as the NASAA REIT Guidelines.

Our charter and bylaws provide that the number of our directors may be established by a majority of the entire board of directors but may not be fewer than three nor more than 15, provided, however, that there may be fewer than three directors at any time that we have only one stockholder of record. We have a total of three directors, including two independent directors. Our charter provides that a majority of the directors must be independent directors. An independent director is a person who is not one of our officers or employees or an officer or employee of Cole Advisors II or its affiliates or any other real estate investment trust organized by our sponsor or advised by Cole Advisors II, has not otherwise been affiliated with such entities for the previous two years and does not serve as a director of more than three REITs organized by Christopher H. Cole or advised by Cole Advisors II. Of our three directors, two are considered independent directors. There are no family relationships among any of our directors or officers, or officers of our advisor. Each director who is not an independent director must have at least three years of relevant experience demonstrating the knowledge and experience required to successfully acquire and manage the type of assets being acquired by us. At least one of the independent directors must have at least three years of relevant real estate experience. Currently, each of our directors has substantially in excess of three years of relevant real estate experience.

During the discussion of a proposed transaction, independent directors may offer ideas for ways in which transactions may be structured to offer the greatest value to us, and our management will take these suggestions into consideration when structuring transactions. Each director will serve until the next annual meeting of stockholders or until his or her successor is duly elected and qualified. Although the number of directors may be increased or decreased, a decrease will not have the effect of shortening the term of any incumbent director.

Any director may resign at any time and may be removed with or without cause by the stockholders upon the affirmative vote of at least a majority of all the votes entitled to be cast at a meeting properly called for the purpose of the proposed removal. The notice of the meeting will indicate that the purpose, or one of the purposes, of the meeting is to determine if the director shall be removed. Neither our advisor, any member of our board of directors nor any of their affiliates may vote or consent on matters submitted to the stockholders regarding the removal of our advisor or any director after we accept any subscriptions for the purchase of shares in this offering. In determining the requisite percentage in interest required to approve such a matter after we accept any subscriptions for the purchase of shares in this offering, any shares owned by such persons will not be included.

Any vacancy created by an increase in the number of directors or the death, resignation, removal, adjudicated incompetence or other incapacity of a director may be filled only by a vote of a majority of the remaining directors. Independent directors shall nominate replacements for vacancies in the independent director positions. If at any time there are no directors in office, successor directors shall be elected by the stockholders. Each director will be bound by the charter and the bylaws.

The directors are not required to devote all of their time to our business and are only required to devote the time to our affairs as their duties require. The directors meet quarterly or more frequently if necessary. Our directors are not required to devote a substantial portion of their time to discharge their duties as our directors. Consequently, in the exercise of their responsibilities, the directors heavily rely on our advisor. Our directors have a fiduciary duty to our stockholders to supervise the relationship between us and our advisor. The board is empowered to fix the compensation of all officers that it selects and approve the payment of compensation to directors for services rendered to us in any other capacity.

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Our board of directors has written policies on investments and borrowing, the general terms of which are set forth in this prospectus. The directors may establish further written policies on investments and borrowings and monitor our administrative procedures, investment operations and performance to ensure that the policies are fulfilled and are in the best interest of our stockholders.

The board also is responsible for reviewing our fees and expenses on at least an annual basis and with sufficient frequency to determine that the expenses incurred are in the best interest of the stockholders. In addition, a majority of the directors, including a majority of the independent directors who are not otherwise interested in the transaction, must approve all transactions with Cole Advisors II or its affiliates. The independent directors also are responsible for reviewing the performance of Cole Advisors II and determining that the compensation to be paid to Cole Advisors II is reasonable in relation to the nature and quality of services to be performed and that the provisions of the advisory agreement are being carried out. Specifically, the independent directors consider factors such as:

the amount of the fees paid to Cole Advisors II in relation to the size, composition and performance of our investments;

the success of Cole Advisors II in generating appropriate investment opportunities;

rates charged to other REITs, especially REITs of similar structure, and other investors by advisors performing similar services;

additional revenues realized by Cole Advisors II and its affiliates through their relationship with us, whether we pay them or they are paid by others with whom we do business;

the quality and extent of service and advice furnished by Cole Advisors II and the performance of our investment portfolio; and

the quality of our portfolio relative to the investments generated by Cole Advisors II or its affiliates for its other clients.

Neither our advisor nor any of its affiliates will vote or consent to the voting of shares of our common stock they now own or hereafter acquire on matters submitted to the stockholders regarding either (1) the removal of Cole Advisors II, any non-independent director or any of their respective affiliates, or (2) any transaction between us and Cole Advisors II, any non-independent director or any of their respective affiliates.

## **Committees of the Board of Directors**

Our entire board of directors considers all major decisions concerning our business, including property acquisitions. However, our bylaws provide that our board may establish such committees as the board believes appropriate. The board will appoint the members of the committee in the board's discretion. Our bylaws require that a majority of the members of each committee of our board is to be comprised of independent directors.

## **Audit Committee**

Our board of directors has established an audit committee, which consists of our two independent directors. The audit committee, by approval of at least a majority of the members, selects the independent registered public accounting firm to audit our annual financial statements, reviews with the independent registered public accounting firm the plans and results of the audit engagement, approves the audit and non-audit services provided by the independent registered public accounting firm, reviews the independence of the independent registered public accounting firm, considers the

range of audit and non-audit fees and reviews the adequacy of our internal accounting controls. Our board of directors has adopted a charter for the audit committee that sets forth its specific functions and responsibilities.

**Compensation Committee**

Our board of directors has established a compensation committee, which consists of our two independent directors. The primary purpose of the compensation committee will be to oversee our compensation programs. Our

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board of directors has adopted a charter for the compensation committee that sets forth its specific functions and responsibilities.

**Executive Officers and Directors**

We have provided below certain information about our executive officers and directors.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Christopher H. Cole	55	Chairman, Chief Executive Officer and President
D. Kirk McAllaster, Jr.	41	Executive Vice President and Chief Financial Officer
John M. Pons	44	Secretary
Marcus E. Bromley	58	Independent Director
Elizabeth L. Watson	48	Independent Director

**Christopher H. Cole** has served as the chairman, chief executive officer and president of the Company since its formation in September 2004 and also serves as the chief executive officer, president and treasurer of Cole Advisors II, our advisor, since its formation in September 2004. Mr. Cole has served as the chairman, chief executive officer and president of Cole Retail Income Trust, Inc. (CRIT), Cole Retail Income Advisors, LLC (CRIT Advisor) since their formations in January 2008. Mr. Cole is the chairman, chief executive officer, president, secretary, and treasurer of Cole Holdings Corporation and its sole shareholder since August 2004. Mr. Cole has been engaged as a general partner in the structuring and management of real estate limited partnerships since February 1979. Mr. Cole has served as the chief executive officer, president and treasurer of Cole Capital Advisors since October 2007 and previously served as its chief executive officer and treasurer from March 2007 through October 2007 and as chief executive officer, president and treasurer from formation in November 2002 through March 2007. Mr. Cole has served as the chief executive officer, president and treasurer of Cole Capital Partners (CCP) since October 2007 and previously served as its chief executive officer and treasurer from March 2007 through October 2007 and as chief executive officer, president and treasurer from formation in November 2002 through March 2007. Mr. Cole has served as the chief executive officer of Cole REIT Advisors I (Cole Advisors) since April 2004 and as chief executive officer, president and treasurer since October 2007. Mr. Cole has served as the chairman, chief executive officer, and president of Cole Credit Property Trust, Inc. (Cole REIT I) since its formation in March 2004. Mr. Cole has also served as chief executive officer, president and treasurer of Cole Realty Advisors, Inc. (Cole Realty Advisors) since October 2007 and previously served as its chief executive officer and treasurer from March 2007 through October 2007, its chief executive officer, president and treasurer from November 2002 to March 2007 and its president, secretary and treasurer from its formation in November 2002 through November 2002. Mr. Cole has served as the chief executive officer of the Cole Growth Opportunity Fund I GP, LLC (Cole Opportunity Fund) since its formation in March 2007. Mr. Cole also served as the Chief Executive Officer of Cole Partnerships, Inc. (Cole Partnerships) from August 1995 through December 2003. Mr. Cole also served as executive vice president and treasurer of Cole Capital Corporation (CCC) from December 2002 through January 2008.

**D. Kirk McAllaster, Jr.** has served as executive vice president and chief financial officer of the Company since October 2007. He has served as executive vice president and chief financial officer of our advisor since March 2007 and prior to that time served as vice president, finance and accounting since its formation in September 2004. He has also served as the executive vice president and chief financial officer of CCP and Cole Capital Advisors and has served in such capacity since March 2007. From December 2005 to March 2007, Mr. McAllaster served as vice president, finance and accounting of CCP and Cole Capital Advisors. Mr. McAllaster also serves as executive vice president and chief financial officer of Cole Advisors and previously served as vice president from December 2005 to March 2007. He has also served as executive vice president and chief financial officer of Cole REIT I since October

2007 and as executive vice president and chief financial officer of Cole Realty Advisors and Cole Advisors since March 2007. Mr. McAllaster has served as executive vice president and chief financial officer of CRIT and CRIT Advisor since their formation in January 2008. Prior to joining Cole in May 2003, Mr. McAllaster worked for six years with Deloitte & Touche LLP, most recently as audit Senior Manager. He has over 16 years of accounting and finance experience in public accounting and private industry. Mr. McAllaster received a Bachelor of Science Degree from California State Polytechnic University Pomona with a major in Accounting. He is a Certified

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Public Accountant licensed in the state of Arizona and is a member of the American Institute of CPAs and the Arizona Society of CPAs.

**John M. Pons** has served as the secretary of our Company and our advisor since their formation in September 2004 and executive vice president, chief administrative officer, general counsel and secretary since October 2007. He served our advisor as executive vice president, chief operating officer and general counsel from March 2007 through October 2007, as senior vice president and general counsel from December 2005 through March 2007, as senior vice president and counsel from August 2005 through December 2005 and as vice president, secretary and counsel from April 2004 through August 2005. He also serves as executive vice president, chief administrative officer, general counsel and secretary of Cole Capital Advisors since October 2007 and served as the executive vice president, chief operating officer, and general counsel from March 2007 through October 2007, as senior vice president and counsel from August 2005 through March 2007 and as vice president and counsel from September 2003 through August 2005. He has also served as executive vice president, chief administrative officer, general counsel and secretary of CCP since October 2007, as executive vice president, chief operating officer and general counsel from March 2007 through October 2007, as senior vice president and general counsel from December 2005 through March 2007, as senior vice president and counsel from August 2005 through December 2005 and as vice president and counsel from September 2003 through August 2005. He has also served as executive vice president, chief administrative officer, secretary, and general counsel of Cole Advisors since October 2007. He served as executive vice president, chief operating officer, general counsel and secretary of Cole Advisors from March 2007 through October 2007, as senior vice president and general counsel from December 2005 through March 2007, as senior vice president and counsel from August 2005 through December 2005 and as vice president, secretary and counsel from April 2004 through August 2005. Mr. Pons has also served as a director and secretary for Cole REIT I since its formation in March 2004. Mr. Pons has also served as executive vice president, chief administrative officer and general counsel of Cole Realty Advisors since October 2007 and served as executive vice president, chief operating officer and general counsel from March 2007 through October 2007. From December 2001 until joining Cole in September 2003, Mr. Pons was associate general counsel and assistant secretary of GE Capital Franchise Finance Corporation. Prior to December 2001, Mr. Pons was engaged in a private legal practice. Mr. Pons has over 13 years experience in all aspects of real estate law, including the acquisition, sale, leasing, development, and financing of real property. Before attending law school, Mr. Pons was a Captain in the United States Air Force where he served from 1988 until 1992. Mr. Pons received a Bachelor of Science Degree in Mathematics from Colorado State University and a Master of Science Degree in Administration from Central Michigan University before attending the University of Denver where he earned his Juris Doctor (Order of St. Ives) in 1995.

**Marcus E. Bromley** has been a member of our board of directors, chairman of our board's compensation committee and a member of our board's audit committee since May 2005. From 1993 through 2005, Mr. Bromley served as a member of the board of trustees of Gables Residential Trust (GBP), a \$2 billion multi-family residential REIT with operations in Texas, Georgia, South Florida, Washington, D.C. and Southern California that was listed on the New York Stock Exchange, prior to its sale in 2005. From December 1993 until June 2000, Mr. Bromley also served as the chief executive officer of Gables Residential Trust. Prior to joining Gables Residential Trust, Mr. Bromley was a division partner of Trammell Crow Residential from 1982 until 1993. Mr. Bromley also serves on the board of directors of Private Bank of Buckhead (Atlanta), a community bank, and on the board of directors of Nancy Creek Capital (Atlanta), a private equity firm. Mr. Bromley holds a B.S. in Economics from Washington & Lee University and a M.B.A. from the University of North Carolina.

**Elizabeth L. Watson** has been a member of our board of directors, the chairperson of our board's audit committee and a member of our board's compensation committee since May 2005. Since September 2003, Ms. Watson has been a partner in, and has served as the chief operating officer for, NGP Capital Partners III, LLC (NGP Capital). Prior to joining NGP Capital, she was a retail research analyst for Legg Mason Wood Walker from June 2002 until September 2003. From November 1997 until June 2002, Ms. Watson was a partner in and served as executive vice president and

chief financial officer of National Government Properties (NGP). Before joining NGP, Ms. Watson served as the senior vice president, chief financial officer and treasurer of Government Properties Investors, Inc. (GPI) from June 1994 until March 1997. From 1992 until 1994, Ms. Watson served as senior vice president, chief financial officer and treasurer of Prime Retail, Inc., a publicly traded REIT that developed and owned factory outlet centers, and its predecessor company, The Prime Group. Ms. Watson received her B.S.



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Accounting and M.B.A. from the University of Maryland. She holds a Masters of Real Estate from Johns Hopkins University and an International Executive M.B.A. from Georgetown University. For the past ten years, she has been a lecturer for Johns Hopkins University's Real Estate Masters Program and has taught real estate accounting and taxation, real estate finance and real estate investments. She is a licensed certified public accountant and is a member of the Maryland Association of CPAs, NAREIT and the National Association of Real Estate Companies.

**Compensation of Directors**

We pay to each of our independent directors a retainer of \$25,000 per year, plus \$2,000 for each board or board committee meeting the director attends in person (\$2,500 for attendance by the chairperson of the audit committee at each meeting of the audit committee) and \$250 for each meeting the director attends by telephone. In the event there is a meeting of the board and one or more committees in a single day, the fees will be limited to \$2,500 per day (\$3,000 for the chairperson of the audit committee if there is a meeting of such committee). In addition, we have reserved 1,000,000 shares of common stock for future issuance upon the exercise of stock options that may be granted to our independent directors pursuant to our stock option plan (described below). We have granted each of our independent directors two options to purchase 5,000 shares of common stock. The first options were granted to them on the date such independent director was elected as a director and the second options were granted on the date of our annual meeting of stockholders. Such options have an exercise price equal to \$9.15 per share and vest after one year from the date of grant. We expect that the independent directors will continue to receive additional 5,000-share option grants on the date of each annual meeting of stockholders, each with an exercise price equal to \$9.15 per share during such time as we are offering shares to the public at \$10.00 per share and thereafter at 100% of the then-current fair market value per share. All directors receive reimbursement of reasonable out-of-pocket expenses incurred in connection with attendance at meetings of our board of directors. If a director is also an employee of Cole REIT II or Cole Advisors II or their affiliates, we do not pay compensation for services rendered as a director. We do not compensate Mr. Cole for his service to us on the board of directors.

**Director Compensation Table**

The following table sets forth certain information with respect to our director compensation during the fiscal year ended December 31, 2007:

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards(1) (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation (\$)	All Other Compensation(2) (\$)	Total (\$)	Change in Pension Value and
Christopher H. Cole	\$	\$	\$	\$	\$	\$	\$	
Marcus E. Bromley	43,000		12,747			1,234	56,981	
Elizabeth L. Watson	43,500		12,747				56,247	

(1) The value of option awards represents the amount of compensation cost recognized by the Company for financial statement purposes under SFAS 123R.

(2) Amount represents travel expense incurred by Mr. Bromley to attend various director meetings.

**2004 Independent Directors Stock Option Plan**

We have adopted an independent directors stock option plan that is designed to attract and retain independent directors by providing them with the opportunity to purchase our shares. Options granted to our independent directors under the plan provide these directors an incentive to increase the value of our shares, and a stake in our future that corresponds to the stake of each of our stockholders. A total of 1,000,000 shares have been authorized and reserved for issuance under the plan. As of the date of this prospectus, we have issued options to purchase a total of 20,000 shares of common stock to our independent directors pursuant to this plan.

The plan is administered by our board of directors. All of our independent directors will be eligible to participate in the plan. The plan authorizes the grant of non-qualified stock options to our independent directors,

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subject to the absolute discretion of the board and the applicable limitations of the plan. We intend to grant options under our stock option plan to each qualifying director annually. The initial option grant generally will be made on the date the qualifying director first becomes a director. Annual grants are expected to be made on the date of each annual stockholder meeting in which the respective independent director is re-elected. The exercise price for the options granted under our independent director stock option plan initially will be \$9.15 per share. It is intended that the exercise price for future options granted under our independent director stock option plan will be at least 100% of the fair market value of our common stock as of the date that the option is granted.

Options granted to independent directors under the plan will become exercisable on the first anniversary of the date of grant. Options granted under our stock option plan will lapse and no longer be exercisable on the first to occur of (1) the tenth anniversary of the date they are granted or (2) immediately following the date the director ceases to be a director for cause. Options granted under the plan may be exercised by payment of cash or through the delivery of shares of our common stock with a fair market value equal to the exercise price to be paid. No options issued under our stock option plan may be exercised if such exercise would jeopardize our status as a REIT under the Internal Revenue Code.

The term of the plan is ten years. Upon the earlier of our dissolution or liquidation, upon our reorganization, merger or consolidation with one or more corporations as a result of which we are not the surviving corporation, or upon the sale of all or substantially all of our properties, the plan will terminate, and any outstanding options will be forfeited. Alternatively, the board of directors may provide in writing in connection with any such transaction for any or all of the following alternatives:

the assumption by the successor corporation of the options granted or the replacement of the options with options exercisable into the stock of the successor corporation, or a parent or subsidiary of such corporation, with appropriate adjustments as to the number and kind of shares and exercise prices;

the continuance of the plan and the options by such successor corporation under the original terms; and/or

the payment in cash or shares of our common stock in lieu of and in complete satisfaction of such options.

**Provisions Applicable to Our Stock Option Plan**

In no event shall an option be granted under our stock option plan to an independent director if the shares available for purchase subject to such grant, when added to all other shares available for purchase and all other shares purchased pursuant to other issued and outstanding options, would exceed 9.8% of the issued and outstanding shares of common stock determined as of the date of grant of such option. Except as otherwise provided in an option agreement, if a change of control occurs and the agreements effectuating the change of control do not provide for the assumption or substitution of all options granted under the plan, the board in its sole and absolute discretion, may, with respect to any or all of such options, take any or all of the following actions to be effective as of the date of the change of control (or as of any other date fixed by the board occurring within the 30-day period immediately preceding the date of the change of control, but only if such action remains contingent upon the change of control):

accelerate the vesting and/or exercisability of the non-assumed option;

unilaterally cancel any such non-assumed option that has not vested and/or that has not become exercisable;

unilaterally cancel such non-assumed option in exchange for:

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whole and/or fractional shares (or for whole shares and cash in lieu of any fractional share) that, in the aggregate, are equal in value to the gain that could be realized by the award recipient upon the exercise of such option (taking into account vesting and/or exercisability of such option); or

cash or other property equal in value to the gain that could be realized upon the exercise of such option (taking into account vesting and/or exercisability of such option);

unilaterally cancel such non-assumed option after providing the holder of such option with (1) an opportunity to exercise such non-assumed option to the extent vested within a specified period prior to the date of

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the change of control, and (2) notice of such opportunity to exercise prior to the commencement of such specified period; and/or

unilaterally cancel such non-assumed option if there would be no gain realized upon the immediate exercise price of such option (taking into account vesting).

If the number of our outstanding shares is changed into a different number or kind of shares or securities through a reorganization or merger in which we are the surviving entity, or through a combination, recapitalization or otherwise, an appropriate adjustment will be made in the number and kind of shares that may be issued pursuant to the exercise of options granted under the plan. A corresponding adjustment to the exercise price of such options granted prior to any change will also be made. Any such adjustment, however, will not change the total payment, if any, applicable to the portion of the options not exercised, but will change only the exercise price for each share.

**Compliance with the American Jobs Creation Act**

As part of our strategy for compensating our independent directors, we have issued, and we intend to issue, options to purchase our common stock under our independent directors' stock option plan, which is described above. This method of compensating individuals may possibly be considered to be a nonqualified deferred compensation plan under Section 409A of the Internal Revenue Code (including amendment by the American Jobs Creation Act of 2004).

Under Section 409A, nonqualified deferred compensation plans must meet certain requirements regarding the timing of distributions or payments and the timing of agreements or elections to defer payments, and must also prohibit any possibility of acceleration of distributions or payments, as well as certain other requirements. Stock options with an exercise price that is ever less than the fair market value of the underlying stock as of the date of grant would be considered as nonqualified deferred compensation plans.

If Section 409A applies to any of the awards issued under the plan, or if Section 409A applies to any other arrangement or agreement that we may make, and if such award, arrangement or agreement does not meet the timing and prohibition requirements of Section 409A, then (i) all amounts deferred for all taxable years under the award, arrangement or agreement would be currently includible in the gross income of the recipient of such award or of such deferred amount to the extent not subject to a substantial risk of forfeiture and not previously included in the gross income of the recipient, (ii) interest at the underpayment rate plus 1% would be imposed on the underpayments that would have occurred had the compensation been includible in income when first deferred (or, if later, when not subject to a substantial risk of forfeiture) would be imposed upon the recipient and (iii) a 20% additional tax would be imposed on the recipient with respect to the amounts required to be included in the recipient's income. Furthermore, if the affected individual is our employee, we would be required to withhold federal income taxes on the amount deferred but includible in income due to Section 409A, although there may be no funds currently being paid to the individual from which we could withhold such taxes. We would also be required to report on an appropriate form (W-2 or 1099) amounts which are deferred, whether or not they meet the requirements of Section 409A, and if we fail to do so, penalties could apply.

We do not intend to issue any award, or enter into any agreement or arrangement that would be considered a nonqualified deferred compensation plan under Section 409A, unless such award, agreement or arrangement complies with the timing and prohibition requirements of Section 409A. It is our current belief, based upon the statute, the proposed regulations issued under Section 409A and legislative history, the options we have granted, and that the awards, agreements and arrangements that we currently intend to implement will not be subject to taxation under Section 409A because the options, award, agreement or arrangement will not be considered a nonqualified deferred compensation plan. Furthermore, if this belief is not correct, we intend to either terminate or modify such option, award, agreement or arrangement (during a transitional period provided by the Internal Revenue Service in Notice

2006-79 extending through December 31, 2007 so that Section 409A would not apply to such option, award, agreement or arrangement, or so that such option, award, agreement or arrangement complies with Section 409A's timing and prohibition requirements. Nonetheless, there can be no assurances that any options award, agreement or arrangement which we have entered into will not be affected by Section 409A, or that any such award, agreement or arrangement will not be subject to income taxation under Section 409A.

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**Limited Liability and Indemnification of Directors, Officers, Employees and Other Agents**

We are permitted to limit the liability of our directors, officers and other agents, and to indemnify them, only to the extent permitted by Maryland law and the NASAA REIT Guidelines.

Our charter contains a provision that eliminates directors' and officers' liability subject to the limitations of Maryland law and the NASAA REIT Guidelines. However, both Maryland law and the NASAA REIT Guidelines limit our ability to exonerate and indemnify our directors and officers, as set forth in our charter. Maryland law permits us to include in our charter a provision limiting the liability of our directors and officers to our stockholders and us for money damages, except for liability resulting from (i) actual receipt of an improper benefit or profit in money, property or services or (ii) active and deliberate dishonesty established by a final judgment and that is material to the cause of action.

The Maryland General Corporation Law requires us (unless our charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful in the defense of any proceeding to which he is made a party by reason of his service in that capacity. The Maryland General Corporation Law allows directors and officers to be indemnified against judgments, penalties, fines, settlements and expenses actually incurred in a proceeding unless the following can be established:

an act or omission of the director or officer was material to the cause of action adjudicated in the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty;

the director or officer actually received an improper personal benefit in money, property or services;

with respect to any criminal proceeding, the director or officer had reasonable cause to believe his act or omission was unlawful; or

in a proceeding by us or on our behalf, the director or officer was adjudged to be liable to us (although a court may order indemnification for expenses relating to an adverse judgment in a suit by or in the right of the corporation or a judgment of liability on the basis that personal benefit was improperly received).

Our charter provides that we will indemnify and hold harmless a director, an officer, an employee, an agent, Cole Advisors II or an affiliate against any and all losses or liabilities reasonably incurred by such party in connection with or by reason of any act or omission performed or omitted to be performed on our behalf in such capacity. This provision does not reduce the exposure of directors and officers to liability under federal or state securities laws, nor does it limit the stockholders' ability to obtain injunctive relief or other equitable remedies for a violation of a director's or an officer's duties to us, although the equitable remedies may not be an effective remedy in some circumstances.

In addition to the above provisions of the Maryland General Corporation Law, and as set forth in the NASAA REIT Guidelines, our charter further limits our ability to indemnify and hold harmless our directors, our officers, our employees, our agents, Cole Advisors II and our affiliates for losses arising from our operation by requiring that the following additional conditions are met:

the directors, the officers, the employees, the agents, Cole Advisors II or our affiliates have determined, in good faith, that the course of conduct that caused the loss or liability was in our best interests;

the directors, the officers, the employees, the agents, Cole Advisors II or our affiliates were acting on our behalf or performing services for us;

in the case of non-independent directors, Cole Advisors II or our affiliates, the liability or loss was not the result of negligence or misconduct by the party seeking indemnification;

in the case of independent directors, the liability or loss was not the result of gross negligence or willful misconduct by the party seeking indemnification; and

the indemnification or agreement to hold harmless is recoverable only out of our net assets and not from the stockholders.



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We have agreed to indemnify and hold harmless Cole Advisors II and its affiliates performing services for us from specific claims and liabilities arising out of the performance of their obligations under the advisory agreement. As a result, our stockholders and we may be entitled to a more limited right of action than they and we would otherwise have if these indemnification rights were not included in the advisory agreement.

The general effect to investors of any arrangement under which we agree to insure or indemnify any persons against liability is a potential reduction in distributions resulting from our payment of premiums associated with insurance or indemnification payments in excess of amounts covered by insurance. In addition, indemnification could reduce the legal remedies available to our stockholders and us against the officers and directors.

The Securities and Exchange Commission takes the position that indemnification against liabilities arising under the Securities Act is against public policy and unenforceable. Indemnification of our directors, our officers, our employees, our agents, Cole Advisors II or our affiliates and any persons acting as a broker-dealer will not be allowed for liabilities arising from or out of a violation of state or federal securities laws, unless one or more of the following conditions are met:

there has been a successful adjudication on the merits of each count involving alleged securities law violations;

such claims have been dismissed with prejudice on the merits by a court of competent jurisdiction; or

a court of competent jurisdiction approves a settlement of the claims against the indemnitee and finds that indemnification of the settlement and the related costs should be made, and the court considering the request for indemnification has been advised of the position of the Securities and Exchange Commission and of the published position of any state securities regulatory authority in which our securities were offered as to indemnification for violations of securities laws.

Our charter provides that the advancement of our funds to our directors, officers, employees, agents, advisor or affiliates for legal expenses and other costs incurred as a result of any legal action for which indemnification is being sought is permissible only if all of the following conditions are satisfied: (i) the legal action relates to acts or omissions with respect to the performance of duties or services on behalf of us; (ii) our directors, officers, employees, agents, advisor or affiliates provide us with written affirmation of their good faith belief that they have met the standard of conduct necessary for indemnification; (iii) the legal action is initiated by a third party who is not a stockholder or, if the legal action is initiated by a stockholder acting in his or her capacity as such, a court of competent jurisdiction specifically approves such advancement; and (iv) our directors, officers, employees, agents, advisor or affiliates agree in writing to repay the advanced funds to us together with the applicable legal rate of interest thereon, in cases in which such persons are found not to be entitled to indemnification.

Indemnification will be allowed for settlements and related expenses of lawsuits alleging securities laws violations and for expenses incurred in successfully defending any lawsuits, provided that a court either:

approves the settlement and finds that indemnification of the settlement and related costs should be made; or

dismisses the lawsuit with prejudice or there is a successful adjudication on the merits of each count involving alleged securities law violations as to the particular indemnitee and a court approves the indemnification.

## **The Advisor**

Our advisor is Cole Advisors II. Our officers and one of our directors also are officers, key personnel and/or members of Cole Advisors II. Cole Advisors II has contractual responsibility to us and our stockholders pursuant to the advisory agreement. Cole Advisors II is wholly-owned by Christopher H. Cole.

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The officers and key personnel of our advisor are as follows:

<b>Name</b>	<b>Age</b>	<b>Position(s)</b>
Christopher H. Cole	55	Chief Executive Officer, President and Treasurer
D. Kirk McAllaster, Jr.	41	Executive Vice President and Chief Financial Officer
Blair D. Koblenz	50	Vice Chairman
Marc T. Nemer	35	Executive Vice President and Managing Director of Capital Markets
John M. Pons	44	Executive Vice President, Chief Administrative Officer, General Counsel and Secretary
Christopher P. Robertson	42	Chief Acquisitions Officer
Daniel E. Weber	40	Chief Investment Officer

The backgrounds of Messrs. Cole, McAllaster and Pons are described in the Management Executive Officers and Directors section of this prospectus. Below is a brief description of the other officers and key employees of Cole Advisors II.

*Blair D. Koblenz* has served as vice chairman of the Company since October 2007 and previously served as executive vice president and chief financial officer of the Company from its formation in September 2004 until March 2007 and as its president from March 2007 through October 2007. He served as executive vice president and chief financial officer of our advisor from its formation in September 2004 through March 2007 and as president from March 2007 through October 2007. He currently serves as the vice chairman of our advisor. He serves as vice chairman of Cole Holdings Corporation and has served in such capacity since October 2007 and previously served as its executive vice president, chief financial officer and secretary from its formation in August 2004 through October 2007. He served as president and secretary of Cole Capital Advisors from March 2007 until October 2007 and executive vice president, chief financial officer and secretary from December 2002 through March 2007 of Cole Capital Advisors. He served as executive vice president, chief financial officer and secretary of CCP from its formation in November 2002 through March 2007 and as president and secretary from March 2007 through October 2007. Mr. Koblenz was the executive vice president and chief financial officer of Cole Advisors from its formation in April 2004 through March 2007 and previously served as its president from March 2007 through October 2007. Mr. Koblenz also served as executive vice president, chief financial officer and treasurer of Cole REIT I from its formation in March 2004 through October 2007. Mr. Koblenz has also served as a director of Cole REIT I since its formation. He served as president and secretary of CCC from December 2002 until September 2005 and from October 2005 until January 2008. He also served as executive vice president, chief financial officer and secretary of CCP from its formation in November 2002 until March 2007 and president and secretary from March 2007 until October 2007. Mr. Koblenz served as executive vice president, chief financial officer and secretary of Cole Realty Advisors from November 2002 through March 2007 and as president and secretary from March 2007 through October 2007. Mr. Koblenz served as the president and secretary of Cole Opportunity Fund from its formation in March 2007 through October 2007. Mr. Koblenz has also served as the Vice Chairman of CRIT and CRIT Advisors since their formation in January 2008. Prior to joining Cole in 1994, he practiced in public accounting at Toback & Company, CPA from 1979 to 1982 with an emphasis in taxation and business planning. He then served in a financial officer capacity for real estate investment companies and operators in Arizona from 1982 to 1994. Mr. Koblenz received his Bachelor of Science Degree in Accounting from Arizona State University and is a Certified Public Accountant, licensed in the State of Arizona. He holds the designation of Certified Financial Planner as authorized by the CFP Board of Standards and holds securities licenses. He is a member of the American Institute of CPAs, the Arizona Society of CPAs, the Financial Planning Association, and the National Association of Real Estate Investment Trusts.

*Marc T. Nemer* has served as executive vice president and managing director of capital markets of our advisor since March 2008 and served from October 2007 through March 2008, as executive vice president, securities and regulatory affairs. Mr. Nemer has also served as executive vice president and managing director of capital markets of Cole Capital Advisors since March 2008 and as executive vice president, securities and regulatory affairs from October 2007 to March 2008 and as vice president, legal services and compliance from March 2007 through

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October 2007. Mr. Nemer has also served as executive vice president and managing director of capital markets of CCP since March 2008. He served as executive vice president securities and regulatory affairs from October 2007 through March 2008 and as vice president, legal services and compliance from March 2007 through October 2007. Mr. Nemer also serves as president, secretary and treasurer of CCC and has served in such capacity since January 2008. Mr. Nemer has also served as executive vice president and managing director of capital markets for Cole Advisors I since March 2008. From October 2007 through March 2008, Mr. Nemer served as executive vice president, securities and regulatory affairs for Cole Advisors I. Mr. Nemer has also served as executive vice president and managing director of capital markets for Cole Realty Advisors since March 2008. From October 2007 through March 2008, Mr. Nemer served as executive vice president, securities and regulatory affairs for Cole Realty Advisors. Mr. Nemer served as vice president, legal services and compliance of Cole Realty Advisors from March 2007 through October 2007. Mr. Nemer also has served as executive vice president and managing director of capital markets for CRIT Advisors since March 2008 and served as executive vice president, securities and regulatory affairs from their formation in January 2008 through March 2008. Prior to joining Cole, Mr. Nemer was an attorney with the international law firm Latham & Watkins LLP, where he specialized in securities offerings (public and private), corporate governance, and mergers and acquisitions from July 2000 to February 2006. Prior to that, Mr. Nemer worked at the international law firm Skadden, Arps, Slate, Meagher & Flom LLP, where he worked as an attorney in a similar capacity from August 1998 to July 2000. Mr. Nemer earned a J.D. from Harvard Law School in 1998 and a B.A. from the University of Michigan in 1995.

*Christopher P. Robertson* has served as chief acquisitions officer of our advisor since October 2007. He previously served our advisor as senior vice president, acquisitions from June 2005 through October 2007 and vice president, acquisitions from March 2005 through June 2005. Mr. Robertson has also served as executive vice president and chief acquisitions officer of Cole Capital advisors and CCP since October 2007. Mr. Robertson served as senior vice president, acquisitions for CCP and Cole Capital Advisors from June 2005 through October 2007 and as vice president, acquisitions from March 2005 through June 2005. Mr. Robertson has also served as executive vice president and chief acquisitions officer of Cole Advisors I since October 2007. He served as senior vice president, acquisitions from June 2005 through October 2007 and vice president, acquisitions from March 2005 through June 2005 for Cole Advisors. Mr. Robertson has served as executive vice president and chief acquisitions officer of Cole Realty Advisors since October 2007 and as senior vice president acquisitions from March 2007 through October 2007. Mr. Robertson has served as chief acquisitions officer of CRIT Advisors since its formation in January 2008. Prior to joining Cole in October 2003, Mr. Robertson worked as vice president of business development for Shell Capital, Inc., an investment banking division of Shell Oil Company. Prior to that, Mr. Robinson was employed at Franchise Finance Corporation of America as its vice president of corporate finance. While there Mr. Robertson structured numerous sale-leaseback and senior debt transactions in the restaurant, convenience store/gas, and automotive aftermarket industries. Mr. Robertson received a Bachelor of Business Administration Degree from Baylor University with majors in both Finance and Real Estate in 1988. In 1993 Mr. Robertson received a Master of Business Administration Degree in Finance from Pepperdine University.

*Daniel E. Weber* has served as chief investment officer of our advisor since October 2007 and served as senior vice president, acquisitions from June 2005 through October 2007. Mr. Weber has also served as executive vice president and chief investment officer of Cole Capital Advisors, CCP, and Cole Advisors since October 2007. Mr. Weber served as senior vice president, acquisitions of each from June 2005 through October 2007. Mr. Weber has also served as executive vice president and chief investment officer of Cole Realty Advisors since October 2007 and as senior vice president, acquisitions from March 2007 through October 2007. Mr. Weber has served as chief investment officer of CRIT Advisors since its formation in January 2008. Prior to joining Cole in June 2005, Mr. Weber worked as managing director for DJM Asset Management, LLC, a Gordon Brothers Group company. Prior to that, Mr. Weber was employed as vice president of business development at Shell Capital, Inc., an investment banking division of Shell Oil Company. Mr. Weber received a Bachelor of Science degree in Business Administration from the University of Northern Colorado. In 1995, Mr. Weber received a Master of Business Administration Degree in Finance from the

University of Houston.

In addition to the directors and key personnel listed above, Cole Advisors II employs personnel who have extensive experience in selecting and managing commercial properties similar to the properties sought to be acquired by us. As of the date of this prospectus our advisor is the sole limited partner of Cole OP II.

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**The Advisory Agreement**

Many of the services to be performed by Cole Advisors II in managing our day-to-day activities are summarized below. This summary is provided to illustrate the material functions that we expect Cole Advisors II will perform for us as our advisor, and it is not intended to include all of the services that may be provided to us by third parties. Under the terms of the advisory agreement, Cole Advisors II will undertake to use its commercially reasonable best efforts to present to us investment opportunities consistent with our investment policies and objectives as adopted by our board of directors. In its performance of this undertaking, Cole Advisors II, either directly or indirectly by engaging an affiliate, shall, among other duties and subject to the authority of our board of directors:

find, evaluate, present and recommend to us investment opportunities consistent with our investment policies and objectives;

serve as our investment and financial advisor and provide research and economic and statistical data in connection with our assets and our investment policies;

provide the daily management and perform and supervise the various administrative functions reasonably necessary for our management and operations;

investigate, select, and, on our behalf, engage and conduct business with such third parties as the advisor deems necessary to the proper performance of its obligations under the advisory agreement;

consult with our officers and board of directors and assist the board of directors in the formulating and implementing of our financial policies;

structure and negotiate the terms and conditions of our real estate acquisitions, sales or joint ventures;

review and analyze each property's operating and capital budget;

acquire properties and make investments on our behalf in compliance with our investment objectives and policies;

arrange, structure and negotiate financing and refinancing of properties;

enter into leases of property and service contracts for assets and, to the extent necessary, perform all other operational functions for the maintenance and administration of such assets, including the servicing of mortgages; and

prepare and review on our behalf, with the participation of one designated principal executive officer and principal financial officer, all reports and returns required by the Securities and Exchange Commission, Internal Revenue Service and other state or federal governmental agencies.

The advisory agreement has a one-year term ending May 23, 2008, and may be renewed for an unlimited number of successive one-year periods. Additionally, either party may terminate the advisory agreement without penalty immediately upon a change of control of us, or upon 60 days' written notice without penalty. If we elect to terminate the agreement, we must obtain the approval of a majority of our independent directors. In the event of the termination of our advisory agreement, our advisor is required to cooperate with us and take all reasonable steps requested by us to

assist our board of directors in making an orderly transition of the advisory function.

We pay Cole Advisors II a monthly asset management fee equal to 0.02083% of the aggregate asset value of our assets. We also pay Cole Advisors II acquisition and advisory fees equal to 2% of the contract purchase price of each property or asset that we acquire, along with reimbursement of acquisition expenses. We also pay to Cole Advisors II a finance coordination fee equal to 1% of the amount available and/or outstanding under any debt financing that we obtain and use for the acquisition of properties and other investments or that is assumed, directly or indirectly, in connection with the acquisition of properties. Additionally, we are required to pay to Cole Advisors II fees based on a percentage of proceeds or stock value upon our sale of assets or the listing of our common stock on a national securities exchange, but only if, in the case of our sale of assets, our investors have received a return of their net capital invested and an 8% annual cumulative, non-compounded return or, in the case of the listing of our common stock, the market value of our common stock plus the distributions paid to our investors



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exceeds the sum of the total amount of capital raised from investors plus the amount of cash flow necessary to generate an 8% annual cumulative, non-compounded return to investors. Upon termination of the Advisory Agreement, we may be required to pay to Cole Advisors II a similar performance fee if Cole Advisors II would have been entitled to a subordinated participation in net sale proceeds had the portfolio been liquidated (based on an independent appraised value of the portfolio) on the date of termination.

Cole Advisors II and its officers, employees and affiliates engage in other business ventures and, as a result, their resources are not dedicated exclusively to our business. However, pursuant to the advisory agreement, Cole Advisors II is required to devote sufficient resources to our administration to discharge its obligations. Cole Advisors II currently has no paid employees; however, as of April 25, 2008, its affiliates had approximately 160 full-time employees, each of whom may dedicate a portion of his or her time providing services to our advisor. Our advisor is responsible for a pro rata portion of each employee's compensation based upon the approximate percentage of time the employee dedicates to our advisor. Cole Advisors II may assign the advisory agreement to an affiliate upon approval of a majority of our independent directors. We may assign or transfer the advisory agreement to a successor entity; provided that at least a majority of our independent directors determines that any such successor advisor possesses sufficient qualifications to perform the advisory function and to justify the compensation payable to the advisor. Our independent directors will base their determination on the general facts and circumstances that they deem applicable, including the overall experience and specific industry experience of the successor advisor and its management. Other factors that will be considered are the compensation to be paid to the successor advisor and any potential conflicts of interest that may occur.

The fees payable to Cole Advisors II under the advisory agreement are described in further detail in the section captioned *Management Compensation* below. We also describe in that section our obligation to reimburse Cole Advisors II for organization and offering expenses, administrative and management services, and payments made by Cole Advisors II to third parties in connection with potential acquisitions.

## **Affiliated Companies**

### ***Property Manager***

Our properties are managed and leased initially by Cole Realty Advisors, our property manager. Cole Capital Advisors is the sole shareholder of Cole Realty Advisors, and Cole Holdings Corporation is the sole owner of Cole Capital Advisors. Christopher H. Cole is the sole owner of Cole Holdings Corporation. Mr. Cole serves as chief executive officer and treasurer of Cole Realty Advisors, and Blair D. Koblenz serves as its president and secretary. See the *Conflicts of Interest* section of this prospectus.

Cole Realty Advisors was organized in 2002 to lease and manage properties that we or our affiliated entities acquire. In accordance with the property management and leasing agreement, we pay to Cole Realty Advisors a property management fee up to (i) 2% of gross revenues from our single tenant properties and (ii) 4% of gross revenues from our multi-tenant properties. In addition, we pay leasing commissions to Cole Realty Advisors based upon the customary leasing commission applicable to the geographic location of the property; provided however, that the aggregate of all property management and leasing fees paid to the property manager plus all payments to third parties may not exceed the amount that other nonaffiliated management and leasing companies generally charge for similar services in the same geographic location. Cole Realty Advisors derives substantially all of its income from the property management and leasing services it performs for us and other Cole-sponsored programs.

In the event that Cole Realty Advisors assists a tenant with tenant improvements, a separate fee may be charged to, and payable by, us. This fee will not exceed 5% of the cost of the tenant improvements. The property manager will only provide these services if it does not cause any of our income from the applicable property to be treated as other

than rents from real property for purposes of the applicable REIT requirements described under Federal Income Tax Considerations below.

Our property management agreement with Cole Realty Advisors has a one-year term ending May 23, 2008, and is subject to successive one-year renewals unless Cole Realty Advisors provides written notice of its intent to terminate 30 days prior to the expiration of the initial or renewal term. We may also terminate the agreement upon 30 days prior written notice in the event of gross negligence or willful misconduct by the property manager.

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Cole Realty Advisors hires, directs and establishes policies for employees who have direct responsibility for the operations of each property we acquire, which may include, but is not be limited to, on-site managers and building and maintenance personnel. Certain employees of the property manager may be employed on a part-time basis and also may be employed by our advisor or certain companies affiliated with it.

The property manager also directs the purchase of equipment and supplies, and supervises all maintenance activity, for our properties. The management fees paid to the property manager cover, without additional expense to us, all of the property manager's general overhead costs. The principal office of the property manager is located at 2555 East Camelback Road, Suite 400, Phoenix, Arizona 85016.

### ***Dealer Manager***

Cole Capital Corporation, our dealer manager, is a member firm of the Financial Industry Regulatory Authority, Inc. (FINRA). Cole Capital Corporation was organized in December 1992 for the purpose of participating in and facilitating the distribution of securities of real estate programs sponsored by Cole Capital Partners, its affiliates and its predecessors.

Cole Capital Corporation provides certain wholesaling, sales, promotional and marketing assistance services to us in connection with the distribution of the shares offered pursuant to this prospectus. It may also sell a limited number of shares at the retail level. The compensation we will pay to Cole Capital Corporation in connection with this offering is described in the section of this prospectus captioned Management Compensation. See also Plan of Distribution Compensation We Will Pay for the Sale of Our Shares.

Cole Capital Corporation is wholly-owned by Cole Capital Advisors which, in turn, is wholly-owned by Cole Holdings Corporation, which is wholly-owned by Christopher H. Cole. The backgrounds of the officers of Cole Capital Corporation are described in the Management Executive Officers and Directors and The Advisor sections of this prospectus advisor and the property manager. See Conflicts of Interest.

### **Investment Decisions**

The primary responsibility for the investment decisions of Cole Advisors II and its affiliates, the negotiation for these investments, and the property management and leasing of these investment properties resides with Christopher H. Cole and the other executive officers and key personnel of our advisor. Cole Advisors II seeks to invest in commercial properties on our behalf that satisfy our investment objectives. Our board of directors, including a majority of our independent directors, must approve all acquisitions of real estate properties.

Table of Contents**MANAGEMENT COMPENSATION**

We have no paid employees. Cole Advisors II, our advisor, and its affiliates manages our day-to-day affairs. The following table summarizes all of the compensation and fees we pay to Cole Advisors II and its affiliates, including amounts to reimburse their costs in providing services. The selling commissions may vary for different categories of purchasers. See Plan of Distribution. This table assumes the shares are sold through distribution channels associated with the highest possible selling commissions and dealer manager fee.

Type of Compensation(1)	Determination of Amount	Estimated Amount for Maximum Offering(2)
<i>Offering Stage</i>		
Selling Commissions Cole Capital Corporation(3)	We will pay to Cole Capital Corporation 7% of the gross offering proceeds before reallocation of commissions earned by participating broker-dealers, except that no selling commission is payable on shares sold under our distribution reinvestment plan. Cole Capital Corporation, our dealer manager, will reallocate 100% of commissions earned to participating broker-dealers.	\$ 87,500,000
Dealer Manager Fee Cole Capital Corporation(3)	We will pay to Cole Capital Corporation 2% of the gross offering proceeds before reallocation to participating broker-dealers, except that no dealer manager fee is payable on shares sold under our distribution reinvestment plan. Cole Capital Corporation may reallocate all or a portion of its dealer manager fee to participating broker-dealers. See Plan of Distribution.	\$ 25,000,000
Reimbursement of Other Organization and Offering Expenses Cole Advisors II(4)	We will reimburse Cole Advisors II up to 1.5% of our gross offering proceeds. Cole Advisors II will incur or pay our organization and offering expenses (excluding selling commissions and the dealer manager fee). We will then reimburse Cole Advisors II for these amounts up to 1.5% of aggregate gross offering proceeds.	\$ 22,312,500
<i>Acquisition and Operations Stage</i>		\$ 26,368,177

Acquisition and Advisory Fees Cole  
Advisors II(5)(6)

We will pay to Cole Advisors II a 2% of  
the contract purchase price of each  
property or asset.

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<b>Type of Compensation(1)</b>		<b>Determination of Amount</b>	<b>Estimated Amount for Maximum Offering(2)</b>
Acquisition Expenses II	Cole Advisors	We will reimburse our advisor for acquisition expenses incurred in the process of acquiring property. We expect these expenses to be approximately 0.5% of the purchase price of each property. In no event will the total of all fees and acquisition expenses payable with respect to a particular property or investment exceed 4% of the contract purchase price.	\$6,592,044
Asset Management Fee II(7)	Cole Advisors	We will pay to Cole Advisors II a monthly fee equal to 0.02083%, which is one-twelfth of 0.25%, of the aggregate asset value.	Actual amounts are dependent upon the aggregate asset value of our properties and, therefore, cannot be determined at the present time. Because the fee is based on a fixed percentage of aggregate asset value there is no limit on the aggregate amount of these fees.
Property Management Fees Realty Advisors(8)	Cole Realty Advisors	We will pay to Cole Realty Advisors up to (i) 2% of the gross revenues from our single tenant properties and (ii) 4% of the gross revenues from our multi-tenant properties, plus reimbursement of Cole Realty Advisors' costs of managing the properties.	Actual amounts are dependent upon the gross revenues from properties and, therefore, cannot be determined at the present time. Because the fee is based on a fixed percentage of the gross revenue and/or market rates, there is no limit on the aggregate amount of these fees.
Leasing Commissions Advisors(8)	Cole Realty Advisors	We will pay to Cole Realty Advisors prevailing market rates. Cole Realty Advisors may also receive a fee for the initial listing of newly constructed properties, which generally would equal one month's rent.	Actual amounts are dependent upon prevailing market rates in the geographic regions in which we acquire property and, therefore, cannot be determined at the present time. There is no limit on the aggregate amount of these commissions.

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<b>Type of Compensation(1)</b>	<b>Determination of Amount</b>	<b>Estimated Amount for Maximum Offering(2)</b>
Financing Coordination Fee Cole Advisors II(6)	For services in connection with the origination or refinancing of any debt financing we obtain and use to acquire properties or to make other permitted investments, or that is assumed, directly or indirectly, in connection with the acquisition of properties, we will pay our advisor a financing coordination fee equal to 1% of the amount available and/or outstanding under such financing; provided, however, that our advisor will not be entitled to a financing coordination fee in connection with the refinancing of any loan secured by any particular property that was previously subject to a refinancing in which our advisor received such a fee. Financing coordination fees payable from loan proceeds from permanent financing will be paid to our advisor as we acquire and/or assume such permanent financing. However, no acquisition fees will be paid on the investments of loan proceeds from any line of credit until such time as we have invested all net offering proceeds.	Actual amounts are dependent on the amount of any debt financing or refinancing and, therefore, cannot be determined at the present time. Because the fee is based on a fixed percentage of any debt financing, there is no limit on the aggregate amount of these fees.
Operating Expenses Cole Advisors II(9)	We will reimburse the expenses incurred by Cole Advisors II in connection with its provision of administrative services, including related personnel costs, subject to the limitation that we will not reimburse our advisor for any amount by which the operating expenses (including the asset management fee) at the end of the four preceding fiscal quarters exceeds the greater of (i) 2% of average invested assets, or (ii) 25% of net income other than any additions to reserves for depreciation, bad debt or other similar non-cash reserves and	Actual amounts are dependent upon the expenses incurred and, therefore, cannot be determined at the present time.

excluding any gain from the sale of  
assets for that period.



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<b>Type of Compensation(1)</b>	<b>Determination of Amount Liquidation/Listing Stage</b>	<b>Estimated Amount for Maximum Offering(2)</b>
Real Estate Commissions Cole Advisors II or its Affiliates(10)	For substantial assistance in connection with the sale of properties, we will pay our advisor or its affiliates an amount equal to up to one-half of the brokerage commission paid on the sale of property, not to exceed 2% of the contract price of each property sold; provided, however, in no event may the real estate commissions paid to our advisor, its affiliates and unaffiliated third parties exceed 6% of the contract sales price.	Actual amounts are dependent upon the contract price of properties sold and, therefore, cannot be determined at the present time. Because the commission is based on a fixed percentage of the contract price for a sold property, there is no limit on the aggregate amount of these commissions.
Subordinated Participation in Net Sale Proceeds Cole Advisors II(11)	After investors have received a return of their net capital invested and an 8% annual cumulative, non-compounded return, then Cole Advisors II is entitled to receive 10% of remaining net sale proceeds. We cannot assure you that we will provide this 8% return, which we have disclosed solely as a measure for our advisor's incentive compensation.	Actual amounts are dependent upon results of operations and, therefore, cannot be determined at the present time. There is no limit on the aggregate amount of these payments.
Subordinated Incentive Listing Fee Cole Advisors II (11)(12)	Upon listing our common stock on a national securities exchange, our advisor is entitled to a fee equal to 10% of the amount, if any, by which (1) the market value of our outstanding stock plus distributions paid by us prior to listing, exceeds (2) the sum of the total amount of capital raised from investors and the amount of cash flow necessary to generate an 8% annual cumulative, non-compounded return to investors. We have no intent to list our shares at this time. We cannot assure you that we will provide this 8% return, which we have disclosed solely as a measure for our advisor's incentive compensation.	Actual amounts are dependent upon total equity and debt capital we raise and results of operations and, therefore, cannot be determined at the present time. There is no limit on the aggregate amount of this fee.

(1)

We will pay all fees, commissions and expenses in cash, other than the subordinated participation in net sales proceeds and incentive listing fees with respect to which we may pay to Cole Advisors II in cash, common stock, a promissory note or any combination of the foregoing, as we may determine in our discretion.

- (2) The estimated maximum dollar amounts are based on the sale of a maximum of 125,000,000 shares to the public at \$10.00 per share and the sale of 25,000,000 shares at \$9.50 per share pursuant to our distribution reinvestment plan.

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- (3) Selling commissions and, in some cases, the dealer manager fee, will not be charged with regard to shares sold to or for the account of certain categories of purchasers. See Plan of Distribution. Selling commissions and the dealer manager fee will not be charged with regard to shares purchased pursuant to our distribution reinvestment plan.
- (4) These organization and offering expenses include all expenses (other than selling commissions and the dealer manager fee) to be paid by us in connection with the offering, including our legal, accounting, printing, mailing and filing fees, charges of our escrow holder, due diligence expense reimbursements to participating broker-dealers and amounts to reimburse Cole Advisors II for its portion of the salaries of the employees of its affiliates who provide services to our advisor and other costs in connection with preparing supplemental sales materials, holding educational conferences and attending retail seminars conducted by broker-dealers. Our advisor will be responsible for the payment of all such organization and offering expenses to the extent such expenses exceed 1.5% of the aggregate gross proceeds of this offering.
- (5) This estimate assumes the amount of proceeds available for investment is equal to the gross offering proceeds less the public offering expenses, and we have assumed that no financing is used to acquire properties or other real estate assets. Our board's investment policies limit our ability to purchase property if the total of all acquisition fees and expenses relating to the purchase exceeds 4% of the contract purchase price unless a majority of our directors (including a majority of our independent directors) not otherwise interested in the transaction approve fees and expenses in excess of this limit and determine the transaction to be commercially competitive, fair and reasonable to us.
- (6) Included in the computation of such fees will be any real estate commission, acquisition and advisory fee, development fee, construction fee, non-recurring management fee, loan fees, financing coordination fees or points or any fee of a similar nature.
- (7) Aggregate asset value will be equal to the aggregate value of our assets (other than investments in bank accounts, money markets funds or other current assets) at cost before deducting depreciation, bad debts or other similar non-cash reserves and without reduction for any debt relating to such assets at the date of measurement, except that during such periods in which our board of directors is determining on a regular basis the current value of our net assets for purposes of enabling fiduciaries of employee benefit plans stockholders to comply with applicable Department of Labor reporting requirements, aggregate asset value is the greater of (i) the amount determined pursuant to the foregoing or (ii) our assets' aggregate valuation most recently established by our board without reduction for depreciation, bad debts or other similar non-cash reserves and without reduction for any debt secured by or relating to such assets.
- (8) The property management and leasing fees payable to Cole Realty Advisors are subject to the limitation that the aggregate of all property management and leasing fees paid to Cole Realty Advisors and its affiliates plus all payments to third parties for property management and leasing services may not exceed the amount that other non-affiliated property management and leasing companies generally charge for similar services in the same geographic location. Additionally, all property management and leasing fees, including both those paid to Cole Realty Advisors and third parties, are subject to the limit on total operating expenses as described in footnote (4). Cole Realty Advisors may subcontract its duties for a fee that may be less than the fee provided for in our property management agreement with Cole Realty Advisors.
- (9) We may reimburse our advisor in excess of that limit in the event that a majority of our independent directors determine, based on unusual and non-recurring factors, that a higher level of expense is justified. In such an event, we will send notice to each of our stockholders within 60 days after the end of the fiscal quarter for which

such determination was made, along with an explanation of the factors our independent directors considered in making such determination. We will not reimburse our advisor for personnel costs in connection with services for which the advisor receives acquisition fees or real estate commissions.

We lease our office space from an affiliate of our advisor and share the space with other Cole-related entities. The amount we will pay under the lease will be determined on a monthly basis based upon on the allocation of the overall lease cost to the approximate percentage of time, size of the area that we utilize and other resources allocated to us.

- (10) Although we are most likely to pay real estate commissions to Cole Advisors II or an affiliate in the event of our liquidation, these fees may also be earned during our operational stage.

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- (11) Upon termination of the advisory agreement, Cole Advisors II may be entitled to a similar performance fee if Cole Advisors II would have been entitled to a subordinated participation in net sale proceeds had the portfolio been liquidated (based on an independent appraised value of the portfolio) on the date of termination. Under our charter, we could not increase these success-based fees without the approval of a majority of our independent directors, and any increase in the subordinated participation in net sale proceeds would have to be reasonable. Our charter provides that such incentive fee is presumptively reasonable if it does not exceed 10% of the balance of such net proceeds remaining after investors have received a return of their net capital contributions and an 8% per year cumulative, non-compounded return.

Cole Advisors II cannot earn both the subordinated participation in net sale proceeds and the subordinated incentive listing fee. The subordinated participation in net sale proceeds or the subordinated listing fee, as the case may be, will be paid in the form of an interest bearing promissory note that will be repaid from the net sale proceeds of each sale after the date of the termination or listing. At the time of such sale, we may, however, at our discretion, pay all or a portion of such promissory note with shares of our common stock. If shares are used for payment, we do not anticipate that they will be registered under the Securities Act and, therefore, will be subject to restrictions on transferability. Any portion of the subordinated participation in net sale proceeds that Cole Advisors II receives prior to our listing will offset the amount otherwise due pursuant to the subordinated incentive listing fee. In no event will the amount paid to Cole Advisors II under the promissory note, if any, including interest thereon, exceed the amount considered presumptively reasonable by the NASAA REIT Guidelines.

- (12) If at any time the shares become listed on a national securities exchange, we will negotiate in good faith with Cole Advisors II a fee structure appropriate for an entity with a perpetual life. Our independent directors must approve the new fee structure negotiated with Cole Advisors II. The market value of our outstanding stock will be calculated based on the average market value of the shares issued and outstanding at listing over the 30 trading days beginning 180 days after the shares are first listed or included for quotation. We have the option to pay the subordinated incentive listing fee in the form of stock, cash, a promissory note or any combination thereof. In the event the subordinated incentive listing fee is earned by Cole Advisors II as a result of the listing of the shares, any previous payments of the subordinated participation in net sale proceeds will offset the amounts due pursuant to the subordinated incentive listing fee, and we will not be required to pay Cole Advisors II any further subordinated participation in net sale proceeds.

At least a majority of our independent directors must determine, from time to time but at least annually, that our total fees and expenses are reasonable in light of our investment performance, net assets, net income and the fees and expenses of other comparable unaffiliated REITs. Each such determination will be reflected in the minutes of our board of directors. The total operating expenses (as defined in the NASAA REIT Guidelines) of the company will not exceed, in any fiscal year, the greater of 2% of the Average Invested Assets (as defined in the NASAA REIT Guidelines) or 25% of Net Income (as defined in the NASAA REIT Guidelines), unless our independent directors find that, based on unusual and non-recurring factors, a higher level of expense is justified for that year. Our independent directors shall also supervise the performance of our advisor and the compensation that we pay to it to determine that the provisions of our advisory agreement are being carried out.

Each such determination will be recorded in the minutes of our board of directors and based on the factors set forth below and other factors that the independent directors deem relevant:

the size of the advisory fee in relation to the size, composition and profitability of our portfolio;

the success of Cole Advisors II in generating opportunities that meet our investment objectives;

the rates charged to other REITs, especially similarly structured REITs, and to investors other than REITs by advisors performing similar services;

additional revenues realized by Cole Advisors II through its relationship with us;

the quality and extent of service and advice furnished by Cole Advisors II;

the performance of our investment portfolio, including income, conservation or appreciation of capital, frequency of problem investments and competence in dealing with distress situations; and

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the quality of our portfolio in relationship to the investments generated by Cole Advisors II for the account of other clients.

Since Cole Advisors II and its affiliates are entitled to differing levels of compensation for undertaking different transactions on our behalf, such as the property management fees for operating our properties and the subordinated participation in net sale proceeds, our advisor has the ability to affect the nature of the compensation it receives by undertaking different transactions. However, Cole Advisors II is obligated to exercise good faith and integrity in all its dealings with respect to our affairs pursuant to the advisory agreement. See Management The Advisory Agreement.

**Table of Contents****STOCK OWNERSHIP**

The following table shows, as of the date of this prospectus, the amount of our common stock beneficially owned by (1) any person who is known by us to be the beneficial owner of more than 5% of our outstanding shares, (2) members of our board of directors and proposed directors, (3) our executive officers, and (4) all of our directors and executive officers as a group.

Name and Address of Beneficial Owner	Amount and Nature of Shares Beneficially Owned(1)	
	Number	Percentage
Christopher H. Cole(2)	31,800	*
Marcus E. Bromley(3)	15,000	*
Elizabeth L. Watson(3)	15,000	*
Blair D. Koblenz(4)		
D. Kirk McAllaster, Jr.		
John M. Pons		
All officers and directors as a group (6 persons)(5)	61,800	*

\* Represents less than 1% of the outstanding common stock.

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities and shares issuable pursuant to options, warrants and similar rights held by the respective person or group which may be exercised within 60 days following March 31, 2008. Except as otherwise indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.
- (2) Includes 20,000 shares owned by Cole Holdings Corporation and 11,800 shares owned by the Christopher H. Cole Generation Skipping Trust, for which Mr. Cole is the Trustee, for which Mr. Cole disclaims beneficial ownership. Mr. Cole is the sole stockholder of Cole Holdings Corporation and controls the voting and disposition decisions of Cole Holdings Corporation.
- (3) Includes shares issuable upon exercise of options to purchase up to 15,000 shares of common stock, which are exercisable within 60 days of March 31, 2008.
- (4) Mr. Koblenz served as our executive vice president and chief financial officer until October 2007.
- (5) Includes shares issuable upon exercise of options to purchase an aggregate of up to an aggregate of 30,000 shares of common stock, which are exercisable within 60 days of March 31, 2008.



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**CONFLICTS OF INTEREST**

We are subject to various conflicts of interest arising out of our relationship with Cole Advisors II, our advisor, and its affiliates, including conflicts related to the arrangements pursuant to which Cole Advisors II and its affiliates will be compensated by us. Our agreements and compensation arrangements with our advisor and its affiliates were not determined by arm's-length negotiations. See the Management Compensation section of this prospectus. Some of the conflicts of interest in our transactions with our advisor and its affiliates, and the limitations on our advisor adopted to address these conflicts, are described below.

Our advisor and its affiliates will try to balance our interests with their duties to other Cole-sponsored programs. However, to the extent that our advisor or its affiliates take actions that are more favorable to other entities than to us, these actions could have a negative impact on our financial performance and, consequently, on distributions to you and the value of our stock. In addition, our directors, officers and certain of our stockholders may engage for their own account in business activities of the types conducted or to be conducted by our subsidiaries and us. For a description of some of the risks related to these conflicts of interest, see the section of this prospectus captioned Risk Factors Risks Related to Conflicts of Interest.

Our independent directors have an obligation to function on our behalf in all situations in which a conflict of interest may arise, and all of our directors have a fiduciary obligation to act on behalf of our stockholders.

**Interests in Other Real Estate Programs**

An affiliate of our advisor acts as an advisor to, and our officers and certain of our directors act as officers and directors of, Cole REIT I, a real estate investment trust that has investment objectives similar to ours. In addition, as of December 31, 2007, an affiliate of our advisor has issued approximately \$114.1 million of debt pursuant to four private offerings, the proceeds of which were used to acquire single-tenant properties in various states. Cole Capital Partners, an affiliate of our advisor, has sponsored 53 currently operating tenant-in-common and Delaware Statutory Trust real estate programs. Affiliates of our advisor and of our officers also act as officers and directors of general partners of seven other currently operating limited partnerships that have invested in unimproved and improved real properties located in various states, including Cole Credit Property Fund Limited Partnership (Cole Credit LP I) and Cole Credit Property Fund II Limited Partnership (Cole Credit LP II). See Prior Performance Summary. Affiliates of our officers and entities owned or managed by such affiliates also may acquire or develop real estate for their own accounts, and have done so in the past. Furthermore, affiliates of our officers and entities owned or managed by such affiliates intend to form additional real estate investment entities in the future, whether public or private, which can be expected to have the same investment objectives and policies as we do and which may be involved in the same geographic area, and such persons may be engaged in sponsoring one or more of such entities at approximately the same time as our shares of common stock are being offered. Our advisor, its affiliates and affiliates of our officers are not obligated to present to us any particular investment opportunity that comes to their attention, even if such opportunity is of a character that might be suitable for investment by us. Our advisor and its affiliates likely will experience conflicts of interest as they simultaneously perform services for us and other affiliated real estate programs.

Any affiliated entity, whether or not currently existing, could compete with us in the sale or operation of the properties. We will seek to achieve any operating efficiency or similar savings that may result from affiliated management of competitive properties. However, to the extent that affiliates own or acquire property that is adjacent, or in close proximity, to a property we own, our property may compete with the affiliate's property for tenants or purchasers.

Every transaction that we enter into with our advisor or its affiliates is subject to an inherent conflict of interest. Our board of directors may encounter conflicts of interest in enforcing our rights against any affiliate in the event of a default by or disagreement with an affiliate or in invoking powers, rights or options pursuant to any agreement between us and our advisor or any of its affiliates.

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**Other Activities of Cole Advisors II and its Affiliates**

We rely on Cole Advisors II for the day-to-day operation of our business. As a result of the interests of members of its management in other Cole-sponsored programs and the fact that they also are engaged, and will continue to engage, in other business activities, Cole Advisors II and its affiliates have conflicts of interest in allocating their time between us and other Cole-sponsored programs and other activities in which they are involved. However, Cole Advisors II believes that it and its affiliates have sufficient personnel to discharge fully their responsibilities to all of the Cole-sponsored programs and other ventures in which they are involved.

In addition, each of our executive officers, including Christopher H. Cole, who also serves as the chairman of our board of directors, also serves as an officer of our advisor, our property manager, our dealer manager and/or other affiliated entities. As a result, these individuals owe fiduciary duties to these other entities, which may conflict with the fiduciary duties that they owe to us and our stockholders.

We may purchase properties or interests in properties from affiliates of Cole Advisors II. The prices we pay to affiliates of our advisor for these properties will not be the subject of arm's-length negotiations, which could mean that the acquisitions may be on terms less favorable to us than those negotiated with unaffiliated parties. However, our charter provides that the purchase price of any property acquired from an affiliate may not exceed its fair market value as determined by a competent independent appraiser. In addition, the price must be approved by a majority of our directors who have no financial interest in the transaction, including a majority of our independent directors. If the price to us exceeds the cost paid by our affiliate, our board of directors must determine that there is substantial justification for the excess cost.

**Competition in Acquiring, Leasing and Operating of Properties**

Conflicts of interest will exist to the extent that we may acquire, or seek to acquire, properties in the same geographic areas where properties owned by other Cole-sponsored programs are located. In such a case, a conflict could arise in the acquisition or leasing of properties in the event that we and another Cole-sponsored program were to compete for the same properties or tenants in negotiating leases, or a conflict could arise in connection with the resale of properties in the event that we and another Cole-sponsored program were to attempt to sell similar properties at the same time. Conflicts of interest may also exist at such time as we or our affiliates managing property on our behalf seek to employ developers, contractors or building managers, as well as under other circumstances. Cole Advisors II will seek to reduce conflicts relating to the employment of developers, contractors or building managers by making prospective employees aware of all such properties seeking to employ such persons. In addition, Cole Advisors II will seek to reduce conflicts that may arise with respect to properties available for sale or rent by making prospective purchasers or tenants aware of all such properties. However, these conflicts cannot be fully avoided in that there may be established differing compensation arrangements for employees at different properties or differing terms for resales or leasing of the various properties.

**Affiliated Dealer Manager**

Since Cole Capital Corporation, our dealer manager, is an affiliate of Cole Advisors II, we will not have the benefit of an independent due diligence review and investigation of the type normally performed by an unaffiliated, independent underwriter in connection with the offering of securities. See the "Plan of Distribution" section of this prospectus.

**Affiliated Property Manager**

We expect that all of our properties will be managed and leased by our affiliated property manager, Cole Realty Advisors, pursuant to a property management and leasing agreement. Our agreement with Cole Realty Advisors has a one-year term, which may be renewed for an unlimited number of successive one-year terms upon the mutual consent of the parties. Each such renewal shall be for a term of no more than one year. It is the duty of our board of directors to evaluate the performance of the property manager annually before renewing the agreement. We may terminate the agreement in the event of gross negligence or willful misconduct on the part of Cole Realty Advisors. Cole Realty Advisors also serves as property manager for properties owned by affiliated real estate programs, some of which may be in competition with our properties. Management fees to be paid to our property manager are based

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on a percentage of the rental income received by the managed properties. For a more detailed discussion of the anticipated fees to be paid for property management services, see the Management Compensation section of this prospectus.

### **Lack of Separate Representation**

Morris, Manning & Martin, LLP acts, and may in the future act, as counsel to us, Cole Advisors II, Cole Capital Corporation and their affiliates in connection with this offering or otherwise. There is a possibility that in the future the interests of the various parties may become adverse, and under the Code of Professional Responsibility of the legal profession, Morris, Manning & Martin, LLP may be precluded from representing any one or all of such parties. In the event that a dispute were to arise between us, Cole Advisors II, Cole Capital Corporation or any of their affiliates, separate counsel for such matters will be retained as and when appropriate.

### **Joint Ventures with Affiliates of Cole Advisors II**

We may enter into joint ventures with other Cole-sponsored programs (as well as other parties) for the acquisition, development or improvement of properties. See Investment Objectives and Policies Acquisition and Investment Policies Joint Venture Investments. Cole Advisors II and its affiliates may have conflicts of interest in determining that Cole-sponsored program should enter into any particular joint venture agreement. The co-venturer may have economic or business interests or goals which are or which may become inconsistent with our business interests or goals. In addition, should any such joint venture be consummated, Cole Advisors II may face a conflict in structuring the terms of the relationship between our interests and the interest of the co-venturer and in managing the joint venture. Since Cole Advisors II and its affiliates will control both us and any affiliated co-venturer, agreements and transactions between the co-venturers with respect to any such joint venture will not have the benefit of arm's-length negotiation of the type normally conducted between unrelated co-venturers.

### **Receipt of Fees and Other Compensation by Cole Advisors II and Its Affiliates**

A transaction involving the purchase and sale of properties may result in the receipt of commissions, fees and other compensation by Cole Advisors II and its affiliates, including acquisition and advisory fees, the dealer manager fee, property management and leasing fees, real estate brokerage commissions and participation in nonliquidating net sale proceeds. However, the fees and compensation payable to Cole Advisors II and its affiliates relating to the sale of properties will only payable after the return to the stockholders of their capital contributions plus cumulative returns on such capital. Subject to oversight by our board of directors, Cole Advisors II will have considerable discretion with respect to all decisions relating to the terms and timing of all transactions. Therefore, Cole Advisors II may have conflicts of interest concerning certain actions taken on our behalf, particularly due to the fact that such fees will generally be payable to Cole Advisors II and its affiliates regardless of the quality of the properties acquired or the services provided to us. See the Management Compensation section of this prospectus.

### **Certain Conflict Resolution Procedures**

Every transaction that we enter into with Cole Advisors II or its affiliates will be subject to an inherent conflict of interest. Our board of directors may encounter conflicts of interest in enforcing our rights against any affiliate in the event of a default by or disagreement with an affiliate or in invoking powers, rights or options pursuant to any agreement between us and Cole Advisors II or any of its affiliates.

In order to reduce or eliminate certain potential conflicts of interest, our charter contains a number of restrictions relating to (1) transactions we enter into with Cole Advisors II and its affiliates, (2) certain future offerings, and (3) allocation of investment opportunities among affiliated entities. These restrictions include, among others, the

following:

We will not purchase or lease properties in which Cole Advisors II, any of our directors or any of their respective affiliates has an interest without a determination by a majority of the directors, including a majority of the independent directors, not otherwise interested in such transaction that such transaction is fair and reasonable to us and at a price to us no greater than the cost of the property to the seller or lessor unless there is substantial justification for any amount that exceeds such cost and such excess amount is

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determined to be reasonable. In no event will we acquire any such property at an amount in excess of its appraised value. We will not sell or lease properties to Cole Advisors II, any of our directors or any of their respective affiliates unless a majority of the directors, including a majority of the independent directors not otherwise interested in the transaction, determines that the transaction is fair and reasonable to us.

We will not make any loans to Cole Advisors II, any of our directors or any of their respective affiliates, except that we may make or invest in mortgage loans involving Cole Advisors II, our directors or their respective affiliates, provided that an appraisal of the underlying property is obtained from an independent appraiser and the transaction is approved as fair and reasonable to us and on terms no less favorable to us than those available from third parties. In addition, Cole Advisors II, any of our directors and any of their respective affiliates will not make loans to us or to joint ventures in which we are a joint venture partner unless approved by a majority of the directors, including a majority of the independent directors not otherwise interested in the transaction as fair, competitive and commercially reasonable, and no less favorable to us than comparable loans between unaffiliated parties.

Cole Advisors II and its affiliates will be entitled to reimbursement, at cost, for actual expenses incurred by them on behalf of us or joint ventures in which we are a joint venture partner; provided, however, Cole Advisors II must reimburse us for the amount, if any, by which our total operating expenses, including the advisor asset management fee, paid during the previous fiscal year exceeded the greater of: (i) 2% of our average invested assets for that fiscal year, or (ii) 25% of our net income, before any additions to reserves for depreciation, bad debts or other similar non-cash reserves and before any gain from the sale of our assets, for that fiscal year.

In the event that an investment opportunity becomes available that is suitable, under all of the factors considered by Cole Advisors II, for both us and one or more other entities affiliated with Cole Advisors II, and for which more than one of such entities has sufficient uninvested funds, then the entity that has had the longest period of time elapse since it was offered an investment opportunity will first be offered such investment opportunity. It will be the duty of our board of directors, including the independent directors, to insure that this method is applied fairly to us. In determining whether or not an investment opportunity is suitable for more than one program, Cole Advisors II, subject to approval by our board of directors, shall examine, among others, the following factors:

the anticipated cash flow of the property to be acquired and the cash requirements of each program;

the effect of the acquisition both on diversification of each program's investments by type of property, geographic area and tenant concentration;

the policy of each program relating to leverage of properties;

the income tax effects of the purchase to each program;

the size of the investment; and

the amount of funds available to each program and the length of time such funds have been available for investment.

If a subsequent development, such as a delay in the closing of a property or a delay in the construction of a property, causes any such investment, in the opinion of Cole Advisors II, to be more appropriate for a program other than the program that committed to make the investment, Cole Advisors II may determine that another

program affiliated with Cole Advisors II or its affiliates will make the investment. Our board of directors has a duty to ensure that the method used by Cole Advisors II for the allocation of the acquisition of properties by two or more affiliated programs seeking to acquire similar types of properties is applied fairly to us.



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We will not accept goods or services from Cole Advisors II or its affiliates or enter into any other transaction with Cole Advisors II or its affiliates unless a majority of our directors, including a majority of the independent directors, not otherwise interested in the transaction approve such transaction as fair and reasonable to us and on terms and conditions not less favorable to us than those available from unaffiliated third parties.

The following chart shows the ownership structure of the various Cole entities that are affiliated with Cole Advisors II.

- (1) The investors will own registered shares of common stock in Cole Credit Property Trust II, Inc.
- (2) Cole Holdings Corporation currently owns 20,000 shares of our common stock, which represents less than 0.05% of our outstanding common stock as of April 25, 2008.

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**INVESTMENT OBJECTIVES AND POLICIES**

**General**

We invest in commercial real estate properties. Our primary investment objectives are:

to provide current income for you through the payment of cash distributions; and

to preserve and return your capital contributions.

We also seek capital gain from our investments. You may be able to obtain a return on all or a portion of your capital contribution in connection with the sale of your shares if we list our shares on an exchange. We cannot assure you that we will attain any of these objectives. See Risk Factors.

We will seek to list our shares of common stock for trading on a national securities exchange only if a majority of our independent directors believe listing would be in the best interest of our stockholders. We do not intend to list our shares at this time. We do not anticipate that there will be any market for our common stock until our shares are listed or quoted. In making the decision to apply for listing of our shares or provide other forms of liquidity, such as selling our properties and other assets either on a portfolio basis or individually or engaging in a business combination transaction, our board of directors will evaluate whether listing the shares, liquidating or another transaction would result in greater value for our stockholders. It cannot be determined at this time the circumstances, if any, under which the board of directors would determine to list the shares. If we do not list our shares of common stock on a national securities exchange by the tenth anniversary of the termination or completion of our initial offering, our charter requires that we either:

seek stockholder approval of an extension or amendment of this listing deadline; or

seek stockholder approval to adopt a plan of liquidation of the corporation.

If we sought and did not obtain stockholder approval of an extension or amendment to the listing deadline, we would then be required to seek stockholder approval of our plan of liquidation. If we sought and failed to obtain stockholder approval of our plan of liquidation, our charter would not require us to list or liquidate, and we would continue to operate as before. In such event, there will be no public market for shares of our common stock and you may be required to hold the shares indefinitely. If we sought and obtained stockholder approval of our plan of liquidation, we would begin an orderly sale of our properties and distribute our net proceeds to our investors.

Our board of directors may revise our investment policies, which we describe in more detail below, without the concurrence of our stockholders. Our independent directors will review our investment policies, which we discuss in detail below, at least annually to determine that our policies are in the best interest of our stockholders.

**Acquisition and Investment Policies**

***Types of Investments***

We invest primarily in income-generating retail properties, net leased to investment grade and other creditworthy tenants. Our investments may be direct investments in such properties or in other entities that own or invest in, directly or indirectly, interests in such properties. We seek to acquire a portfolio of real estate that is diversified by

geographical location and by type and size of property. Currently, our portfolio consists primarily of freestanding, single-tenant properties net leased for use as retail establishments. A portion of our portfolio also includes multi-tenant retail properties and single-tenant properties leased to office and industrial tenants. Although we expect our portfolio will continue to consist primarily of freestanding, single-tenant properties, we expect to continue to invest in other property types, including office and industrial properties, leased to one or more tenants. In addition, we expect to further diversify our portfolio by investing in multi-tenant properties that compliment our overall investment objectives and mortgage loans See Making Loans and Investments in Mortgages.

Many of our properties will be leased to tenants in the chain or franchise retail industry, including but not limited to convenience stores, drug stores and restaurant properties. Other properties may be leased to large, national big box retailers, so-called power centers, which are comprised of big box retailers and smaller retail establishments, and other multi-tenant properties that compliment our overall investment objectives. Our advisor

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monitors industry trends and invests in properties on our behalf that serve to provide a favorable return balanced with risk. Our management primarily targets retail businesses with established track records. This industry is highly property dependent, therefore our advisor believes it offers highly competitive sale-leaseback investment opportunities.

We believe that our general focus on the acquisition of freestanding, retail properties net leased to investment grade and other creditworthy tenants presents lower investment risks and greater stability than other sectors of today's commercial real estate market. Unlike funds that invest solely in multi-tenant properties, we plan to acquire a diversified portfolio comprised primarily of single-tenant properties and a smaller number of multi-tenant properties that compliment our overall investment objectives. By primarily acquiring single-tenant properties, we believe that lower than expected results of operations from one or a few investments will not necessarily preclude our ability to realize our investment objectives of cash flow and preservation of capital from our overall portfolio. In addition, we believe that freestanding retail properties, as compared to shopping centers, malls and other traditional retail complexes, offer a distinct investment advantage since these properties generally require less management and operating capital, have less recurring tenant turnover and generally offer superior locations that are less dependent on the financial stability of adjoining tenants. In addition, since we intend to acquire properties that are geographically diverse, we expect to minimize the potential adverse impact of economic downturns in local markets. Our management believes that a portfolio consisting primarily of freestanding, single-tenant retail properties, net leased to creditworthy tenants diversified geographically and by brand and number of tenants will enhance our liquidity opportunities for investors by making the sale of individual properties, multiple properties or our investment portfolio as a whole attractive to institutional investors and by making a possible listing of our shares attractive to the public investment community.

To the extent feasible, we will seek to achieve a well-balanced portfolio diversified by geographic location, age of the property and lease maturity. We will pursue properties whose tenants represent a variety of industries so as to avoid concentration in any one industry. We expect these industries to include all types of retail establishments, such as big box retailers, convenience stores, drug stores and restaurant properties. We expect that tenants of our properties will also be diversified between national, regional and local brands. We will generally target properties with lease terms in excess of ten years. We may acquire properties with shorter terms if the property is in an attractive location, if the property is difficult to replace, or if the property has other significant favorable attributes. We expect that these investments will provide long-term value by virtue of their size, location, quality and condition and lease characteristics. We currently expect all of our acquisitions will be in the United States, including U.S. protectorates.

Many retail companies today are entering into sale-leaseback arrangements as a strategy for applying more capital that would otherwise be applied to their real estate holdings to their core operating businesses. We believe that our investment strategy will enable us to take advantage of the increased emphasis on retailers' core business operations in today's competitive corporate environment as retailers attempt to divest from real estate assets.

There is no limitation on the number, size or type of properties that we may acquire or on the percentage of net proceeds of this offering that may be invested in a single property. The number and mix of properties will depend upon real estate market conditions and other circumstances existing at the time of acquisition of properties and the amount of proceeds raised in this offering. For a further description, see the section titled "Other Possible Investments" below.

We intend to incur debt to acquire properties where our board determines that incurring such debt is in our best interest. In addition, from time to time, we may acquire some properties without financing and later incur mortgage debt secured by one or more of such properties if favorable financing terms are available. We will use the proceeds from such loans to acquire additional properties. See "Borrowing Policies" under this section for a more detailed explanation of our borrowing intentions and limitations.

***Investment Grade and Other Creditworthy Tenants***

In evaluating potential property acquisitions consistent with our investment objectives, we apply credit underwriting criteria to the tenants of existing properties. Similarly, we will apply credit underwriting criteria to possible new tenants when we are re-leasing properties in our portfolio. Tenants of our properties frequently are

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national or super-regional retail chains that are investment grade or otherwise creditworthy entities having high net worth and operating income. Generally, these tenants must be experienced multi-unit operators with a proven track record in order to meet the credit tests applied by our advisor.

A tenant will be considered investment grade when the tenant has a debt rating by Moody's of Baa3 or better or a credit rating by Standard & Poor's of BBB- or better, or its payments are guaranteed by a company with such rating. Changes in tenant credit ratings, coupled with future acquisition and disposition activity, may increase or decrease our concentration of investment grade tenants in the future.

Moody's ratings are opinions of future relative creditworthiness based on an evaluation of franchise value, financial statement analysis and management quality. The rating given to a debt obligation describes the level of risk associated with receiving full and timely payment of principal and interest on that specific debt obligation and how that risk compares with that of all other debt obligations. The rating, therefore, measures the ability of a company to generate cash in the future.

A Moody's debt rating of Baa3, which is the lowest investment grade rating given by Moody's, is assigned to companies with adequate financial security. However, certain protective elements may be lacking or may be unreliable over any given period of time. A Moody's debt rating of Aaa, which is the highest investment grade rating given by Moody's, is assigned to companies with exceptional financial security. Thus, investment grade tenants will be judged by Moody's to have at least adequate financial security, and will in some cases have exceptional financial security.

Standard & Poor's assigns a credit rating to both companies as a whole and to each issuance or class of a company's debt. A Standard & Poor's credit rating of BBB-, which is the lowest investment grade rating given by Standard & Poor's, is assigned to companies that exhibit adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the company to meet its financial commitments. A Standard & Poor's credit rating of AAA+, which is the highest investment grade rating given by Standard & Poor's, is assigned to companies or issuances with extremely strong capacities to meet their financial commitments. Thus, investment grade tenants will be judged by Standard & Poor's to have at least adequate protection parameters, and will in some cases have extremely strong financial positions.

Other creditworthy tenants are tenants with financial profiles that our advisor believes meet our investment objectives. In evaluating the credit worthiness of a tenant or prospective tenant, our advisor does not use specific quantifiable standards, but does consider many factors, including the proposed terms of the acquisition. The factors our advisor considers include the financial condition of the tenant and/or guarantor, the operating history of the property with such tenant or tenants, the tenant's or tenants' market share and track record within its industry segment, the general health and outlook of the tenant's or tenants' industry segment, and the lease length and terms at the time of the acquisition.

## ***Description of Leases***

We typically purchase single-tenant properties with existing leases, and when spaces become vacant or existing leases expire we anticipate entering into net leases. Net leases means leases that typically require that tenants pay all or a majority of the operating expenses, including real estate taxes, special assessments and sales and use taxes, utilities, insurance and building repairs related to the property, in addition to the lease payments. There are various forms of net leases, typically classified as triple net or double net. Triple net leases typically require the tenant to pay all costs associated with a property in addition to the base rent and percentage rent, if any. Double net leases typically have the landlord responsible for the roof and structure, or other aspects of the property, while the tenant is responsible for all remaining expenses associated with the property. In the event that we acquire multi-tenant properties, we expect to have a variety of lease arrangements with the tenants of such properties. Since each lease is an individually negotiated

contract between two or more parties, each contract will have different obligations of both the landlord and tenant. Many large national tenants have standard lease forms that generally do not vary from property to property, and we will have limited ability to revise the terms of leases to those tenants.

We anticipate that a majority of our acquisitions will have lease terms of ten years or more at the time of the acquisition. We may acquire properties under which the lease term has partially expired. We also may acquire

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properties with shorter lease terms if the property is in an attractive location, if the property is difficult to replace, or if the property has other significant favorable real estate attributes. Under most commercial leases, tenants are obligated to pay a predetermined annual base rent. Some of the leases also will contain provisions that increase the amount of base rent payable at points during the lease term and/or percentage rent that can be calculated by a number of factors. Under triple and double net leases, the tenants are generally required to pay the real estate taxes, insurance, utilities and common area maintenance charges associated with the properties. Generally, the leases require each tenant to procure, at its own expense, commercial general liability insurance, as well as property insurance covering the building for the full replacement value and naming the ownership entity and the lender, if applicable, as the additional insured on the policy. As a precautionary measure, our advisor may obtain, to the extent available, secondary liability insurance, as well as loss of rents insurance that covers one year of annual rent in the event of a rental loss. The secondary insurance coverage names the ownership entity as the named insured on the policy. The insurance coverage insures Cole Holdings and any entity formed under Cole Holdings.

Some leases do require that we procure the insurance for both commercial general liability and property damage insurance; however, the premiums are fully reimbursable from the tenant. In the event the we procure such insurance, the policy lists us as the named insured on the policy and the tenant as the additional insured.

Tenants are required to provide proof of insurance by furnishing a certificate of insurance to our advisor on an annual basis. The insurance certificates are carefully tracked and reviewed for compliance by our advisor's property management department.

In general, leases may not be assigned or subleased without our prior written consent. If we do consent to an assignment or sublease, the original tenant generally will remain fully liable under the lease unless we release that tenant from its obligations under the lease.

## ***Environmental Matters***

All real property and the operations conducted on real property are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. These laws and regulations generally govern wastewater discharges, air emissions, the operation and removal of underground and above-ground storage tanks, the use, storage, treatment, transportation and disposal of solid and hazardous materials, and the remediation of contamination associated with disposals. State and federal laws in this area are constantly evolving, and we intend to monitor these laws and take commercially reasonable steps to protect ourselves from the impact of these laws, including obtaining environmental assessments of most properties that we acquire.

## ***Other Possible Investments***

Although we expect that most of our property acquisitions will be of the type described above, we may make other investments. For example, we are not limited to investments in single-tenant retail properties or properties leased to investment grade and other creditworthy tenants and complimentary multi-tenant properties. We may invest in other commercial properties such as business and industrial parks, manufacturing facilities, office buildings and warehouse and distribution facilities, or in other entities that make such investments or own such properties, in order to reduce overall portfolio risks or enhance overall portfolio returns if our advisor and board of directors determine that it would be advantageous to do so. Further, to the extent that our advisor and board of directors determine it is in our best interest, due to the state of the real estate market, in order to diversify our investment portfolio or otherwise, we will make or invest in mortgage loans secured by the same types of commercial properties that we intend to acquire.

Our criteria for investing in mortgage loans will be substantially the same as those involved in our investment in properties. We do not intend to make loans to other persons (other than mortgage loans), to underwrite securities of



other issuers or to engage in the purchase and sale of any types of investments other than interests in real estate.

***Investment Decisions***

Cole Advisors II has substantial discretion with respect to the selection of specific investments and the purchase and sale of our properties, subject to the approval of our board of directors. In pursuing our investment

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objectives and making investment decisions for us, Cole Advisors II evaluates the proposed terms of the purchase against all aspects of the transaction, including the condition and financial performance of the property, the terms of existing leases and the creditworthiness of the tenant, terms of the lease and property and location characteristics. Because the factors considered, including the specific weight we place on each factor, will vary for each potential investment, we do not, and are not able to, assign a specific weight or level of importance to any particular factor.

In addition to procuring and reviewing an independent valuation estimate our advisor also will, to the extent such information is available, consider the following:

a property condition report;

unit level store performance;

property location, visibility and access;

age of the property, physical condition and curb appeal;

neighboring property uses;

local market conditions including vacancy rates;

area demographics, including trade area population and average household income;

neighborhood growth patterns and economic conditions;

presence of nearby properties that may positively impact store sales at the subject property; and

lease terms, including length of lease term, scope of landlord responsibilities, presence and frequency of contractual rental increases, renewal option provisions, exclusive and permitted use provisions, co-tenancy requirements and termination options.

Our advisors consider whether properties are leased by, or have leases guaranteed by, companies that maintain an investment grade rating by either Standard & Poor's or Moody's Investor Services. Our advisor also will consider non-rated and non-investment grade rated tenants that we consider creditworthy, as described in Investment Grade and Other Creditworthy Tenants above.

Our advisor reviews the terms of each existing lease by considering various factors, including:

rent escalations

remaining lease term

renewal option terms

tenant purchase options

termination options

scope of the landlord's maintenance, repair and replacement requirements

projected net cash flow yield

projected internal rates of return.

***Conditions to Closing Our Acquisitions***

Generally, we condition our obligation to close the purchase of any investment on the delivery and verification of certain documents from the seller or developer, including, where appropriate:

plans and specifications

surveys

evidence of marketable title, subject to such liens and encumbrances as are acceptable to Cole Advisors II

financial statements covering recent operations of properties having operating histories

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title and liability insurance policies

tenant estoppel certificates.

We generally do not purchase any property unless and until we also obtain what is generally referred to as a Phase I environmental site assessment and are generally satisfied with the environmental status of the property. However, we may purchase a property without obtaining such assessment if our advisor determines it is not warranted. A Phase I environmental site assessment basically consists of a visual survey of the building and the property in an attempt to identify areas of potential environmental concerns, visually observing neighboring properties to assess surface conditions or activities that may have an adverse environmental impact on the property, and contacting local governmental agency personnel who perform a regulatory agency file search in an attempt to determine any known environmental concerns in the immediate vicinity of the property. A Phase I environmental site assessment does not generally include any sampling or testing of soil, ground water or building materials from the property and may not reveal all environmental hazards on a property.

We may enter into purchase and sale arrangements with a seller or developer of a suitable property under development or construction. In such cases, we will be obligated to purchase the property at the completion of construction, provided that the construction conforms to definitive plans, specifications, and costs approved by us in advance. In such cases, prior to our acquiring the property, we generally would receive a certificate of an architect, engineer or other appropriate party, stating that the property complies with all plans and specifications. If renovation or remodeling is required prior to the purchase of a property, we expect to pay a negotiated maximum amount to the seller upon completion. We do not currently intend to construct or develop properties or to render any services in connection with such development or construction.

In determining whether to purchase a particular property, we may, in accordance with customary practices, obtain an option on such property. The amount paid for an option, if any, normally is surrendered if the property is not purchased and normally is credited against the purchase price if the property is purchased.

In purchasing, leasing and developing properties, we will be subject to risks generally incident to the ownership of real estate. See **Risk Factors** **General Risks Related to Investments in Real Estate**.

***Ownership Structure***

Our investment in real estate generally takes the form of holding fee title or a long-term leasehold estate. We acquire such interests either directly through our operating partnership, or indirectly through limited liability companies, limited partnerships, or through investments in joint ventures, partnerships, co-tenancies or other co-ownership arrangements with the developers of the properties, affiliates of Cole Advisors II or other persons. See the section captioned **Our Operating Partnership Agreement** elsewhere in this prospectus and the **Joint Venture Investments** section below. In addition, we may purchase properties and lease them back to the sellers of such properties. While we will use our best efforts to structure any such sale-leaseback transaction so that the lease will be characterized as a true lease and so that we will be treated as the owner of the property for federal income tax purposes, the Internal Revenue Service could challenge this characterization. In the event that any sale-leaseback transaction is re-characterized as a financing transaction for federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed. See **Federal Income Tax Considerations** **Sale-Leaseback Transactions**.

***Joint Venture Investments***

We may enter into joint ventures, partnerships, co-tenancies and other co-ownership arrangements with third parties as well as affiliated entities, including other real estate programs sponsored by affiliates of our advisor for the acquisition, development or improvement of properties with affiliates of our advisor, including other real estate programs sponsored by affiliates of our advisor. We may also enter into such arrangements with real estate developers, owners and other unaffiliated third parties for the purpose of developing, owning and operating real properties. In determining whether to invest in a particular joint venture, Cole Advisors II will evaluate the real property that such joint venture owns or is being formed to own under the same criteria described above in Investment Decisions for the selection of our real estate property investments.

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Our general policy is to invest in joint ventures only when we will have a right of first refusal to purchase the co-venturer's interest in the joint venture if the co-venturer elects to sell such interest. In the event that the co-venturer elects to sell property held in any such joint venture, however, we may not have sufficient funds to exercise our right of first refusal to buy the other co-venturer's interest in the property held by the joint venture. In the event that any joint venture with an affiliated entity holds interests in more than one property, the interest in each such property may be specially allocated based upon the respective proportion of funds invested by each co-venturer in each such property.

Cole Advisors II may have conflicts of interest in determining which Cole-sponsored program should enter into any particular joint venture agreement. The co-venturer may have economic or business interests or goals that are or may become inconsistent with our business interests or goals. In addition, Cole Advisors II may face a conflict in structuring the terms of the relationship between our interests and the interest of the affiliated co-venturer and in managing the joint venture. Since Cole Advisors II and its affiliates will control both the affiliated co-venturer and, to a certain extent, us, agreements and transactions between the co-venturers with respect to any such joint venture will not have the benefit of arm's-length negotiation of the type normally conducted between unrelated co-venturers, which may result in the co-venturer receiving benefits greater than the benefits that we receive. In addition, we may have liabilities that exceed the percentage of our investment in the joint venture.

We may enter into joint ventures with other Cole real estate programs only if a majority of our directors not otherwise interested in the transaction and a majority of our independent directors approve the transaction as being fair and reasonable to us and on substantially the same terms and conditions as those received by other joint venturers.

## ***Borrowing Policies***

Our advisor believes that utilizing borrowing is consistent with our investment objective of maximizing the return to investors. By operating on a leveraged basis, we will have more funds available for investment in properties. This will allow us to make more investments than would otherwise be possible, resulting in a more diversified portfolio. There is no limitation on the amount we may borrow against any single improved property. However, under our charter, we are required to limit our borrowings to 60% of the greater of cost (before deducting depreciation or other non-cash reserves) or fair market value of our gross assets, unless excess borrowing is approved by a majority of the independent directors and disclosed to our stockholders in the next quarterly report along with the justification for such excess borrowing. In the event that we issue preferred stock that is entitled to a preference over the common stock in respect of distributions or liquidation or is treated as debt under GAAP, we will include it in the leverage restriction calculations, unless the issuance of the preferred stock is approved or ratified by our stockholders. We expect that during the period of this offering we will request that our independent directors approve borrowings in excess of this limitation since we will then be in the process of raising our equity capital to acquire our portfolio. However, we anticipate that our overall leverage following our offering stage will be within our charter limit. As of December 31, 2007, we had an aggregate debt leverage ratio of 52% of the aggregate original purchase price of our properties.

Our advisor will use its best efforts to obtain financing on the most favorable terms available to us. All of our financing arrangements must be approved by a majority of our board members including a majority of our independent directors. Lenders may have recourse to assets not securing the repayment of the indebtedness. Our advisor may refinance properties during the term of a loan only in limited circumstances, such as when a decline in interest rates makes it beneficial to prepay an existing mortgage, when an existing mortgage matures or if an attractive investment becomes available and the proceeds from the refinancing can be used to purchase such investment. The benefits of the refinancing may include increased cash flow resulting from reduced debt service requirements, an increase in dividend distributions from proceeds of the refinancing, if any, and an increase in property ownership if some refinancing proceeds are reinvested in real estate.

Our ability to increase our diversification through borrowing may be adversely impacted if banks and other lending institutions reduce the amount of funds available for loans secured by real estate. When interest rates on mortgage loans are high or financing is otherwise unavailable on a timely basis, we may purchase properties for cash with the intention of obtaining a mortgage loan for a portion of the purchase price at a later time. To the extent

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that we do not obtain mortgage loans on our properties, our ability to acquire additional properties will be restricted and we may not be able to adequately diversify our portfolio.

We may not borrow money from any of our directors or from our advisor or its affiliates unless such loan is approved by a majority of the directors not otherwise interested in the transaction (including a majority of the independent directors) as fair, competitive and commercially reasonable and no less favorable to us than a comparable loan between unaffiliated parties.

## **Making Loans and Investments in Mortgages**

Our criteria for investing in mortgage loans will be similar to those involved in our investment in properties. However, unlike our property investments, we expect that the average duration of loans will typically be one to five years. We currently have not made any loans, although we may do so and are not limited as to the amount of gross offering proceeds that we may apply to mortgage loan investments.

We will not make loans to other entities or other persons unless secured by mortgages. We will not make or invest in mortgage loans on any one property if the aggregate amount of all mortgage loans outstanding on the property, including our loan, would exceed an amount equal to 85% of the appraised value of the property as determined by an independent third party appraiser, unless we find substantial justification due to the presence of other underwriting criteria. We may find such justification in connection with the purchase of mortgage loans in cases in which we believe there is a high probability of our foreclosure upon the property in order to acquire the underlying assets and in which the cost of the mortgage loan investment does not exceed the fair market value of the underlying property. We will not invest in or make mortgage loans unless an appraisal has been obtained concerning the underlying property, except for those loans insured or guaranteed by a government or government agency. In cases in which a majority of our independent directors so determine and in the event the transaction is with our advisor, any of our directors or their respective affiliates, the appraisal will be obtained from a certified independent appraiser to support its determination of fair market value.

We may invest in first, second and third mortgage loans, wraparound mortgage loans, construction mortgage loans on real property, and loans on leasehold interest mortgages. However, we will not make or invest in any mortgage loans that are subordinate to any mortgage or equity interest of our advisor or any of its or our affiliates. We also may invest in participations in mortgage loans. Second and wraparound mortgage loans are secured by second or wraparound deeds of trust on real property that is already subject to prior mortgage indebtedness. A wraparound loan is one or more junior mortgage loans having a principal amount equal to the outstanding balance under the existing mortgage loan, plus the amount actually to be advanced under the wraparound mortgage loan. Under a wraparound loan, we would generally make principal and interest payments on behalf of the borrower to the holders of the prior mortgage loans. Third mortgage loans are secured by third deeds of trust on real property that is already subject to prior first and second mortgage indebtedness. Construction loans are loans made for either original development or renovation of property. Construction loans in which we would generally consider an investment would be secured by first deeds of trust on real property for terms of six months to two years. Loans on leasehold interests are secured by an assignment of the borrower's leasehold interest in the particular real property. These loans are generally for terms of from six months to 15 years. The leasehold interest loans are either amortized over a period that is shorter than the lease term or have a maturity date prior to the date the lease terminates. These loans would generally permit us to cure any default under the lease. Mortgage participation investments are investments in partial interests of mortgages of the type described above that are made and administered by third-party mortgage lenders.

In evaluating prospective mortgage loan investments, our advisor will consider factors such as the following:

the ratio of the investment amount to the underlying property's value



the property's potential for capital appreciation

expected levels of rental and occupancy rates

current and projected cash flow of the property

potential for rent increases

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- the degree of liquidity of the investment
- the property's income-producing capacity
- the quality, experience and creditworthiness of the borrower
- general economic conditions in the area where the property is located.

In addition, we will seek to obtain a customary lender's title insurance policy or commitment as to the priority of the mortgage or condition of the title. Because the factors considered, including the specific weight we place on each factor, will vary for each prospective mortgage loan investment, we do not, and are not able to, assign a specific weight or level of importance to any particular factor.

We may originate loans from mortgage brokers or personal solicitations of suitable borrowers, or may purchase existing loans that were originated by other lenders. We may purchase existing mortgage loans from affiliates, and we may make or invest in mortgage loans in which the borrower is an affiliate. Our advisor will evaluate all potential mortgage loan investments to determine if the security for the loan and the loan-to-value ratio meets our investment criteria and objectives. An officer, director, agent or employee of our advisor will inspect the property during the loan approval process. We do not expect to make or invest in mortgage loans with a maturity of more than ten years from the date of our investment, and we anticipate that most loans will have a term of five years. Most loans that we will consider for investment would provide for monthly payments of interest and some may also provide for principal amortization, although many loans of the nature that we will consider provide for payments of interest only and a payment of principal in full at the end of the loan term. We will not originate loans with negative amortization provisions.

We do not have any policies directing the portion of our assets that may be invested in construction loans, loans secured by leasehold interests and second, third and wraparound mortgage loans. However, we recognize that these types of loans are riskier than first deeds of trust or first priority mortgages on income-producing, fee-simple properties, and we expect to minimize the amount of these types of loans in our portfolio, to the extent that that we make or invest in mortgage loans at all. Our advisor will evaluate the fact that these types of loans are riskier in determining the rate of interest on the loans. We do not have any policy that limits the amount that we may invest in any single mortgage loan or the amount we may invest in mortgage loans to any one borrower.

Our mortgage loan investments may be subject to regulation by federal, state and local authorities and subject to various laws and judicial and administrative decisions imposing various requirements and restrictions, including among other things, regulating credit granting activities, establishing maximum interest rates and finance charges, requiring disclosures to customers, governing secured transactions and setting collection, repossession and claims handling procedures and other trade practices. In addition, certain states have enacted legislation requiring the licensing of mortgage bankers or other lenders and these requirements may affect our ability to effectuate our proposed investments in mortgage loans. Commencement of operations in these or other jurisdictions may be dependent upon a finding of our financial responsibility, character and fitness. We may determine not to make mortgage loans in any jurisdiction in which the regulatory authority determines that we have not complied in all material respects with applicable requirements.

**Acquisition of Properties from Affiliates**

We may acquire properties or interests in properties from or in co-ownership arrangements with affiliated entities, including properties acquired from affiliates engaged in construction and development of commercial real properties.

We will not acquire any property from an affiliate unless a majority of our directors not otherwise interested in the transaction and a majority of our independent directors determine that the transaction is fair and reasonable to us. The purchase price that we will pay for any property we acquire from our affiliates, including property developed by an affiliate as well as property held by an affiliate that has already been developed, will not exceed the current appraised value of the property. In addition, the price of the property we acquire from an affiliate may not exceed the cost of the property to our affiliate, unless a majority of our directors and a majority of our independent directors determine that substantial justification for the excess exists and the excess is reasonable.

In the case of properties we acquire from an affiliate that have not been constructed at the time of contracting, our affiliate will generally be required to obtain an independent as built appraisal for the property prior to our

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contracting for the property, in which case the purchase price we will pay under the purchase contract will not exceed the anticipated fair market value of the developed property as determined by the appraisal. Our contract with any affiliate engaged in development of properties for sale to us will require it to deliver to us at closing title to the property, as well as an assignment of leases.

In the case of properties to be developed by any of our affiliates and sold to us, if any of our affiliates develop properties, we anticipate that our development company affiliate will:

- acquire a parcel of land;
- enter into contracts for the construction and development of a commercial building thereon;
- enter into an agreement with one or more tenants to lease all or a majority of the property upon its completion;
- secure an earnest money deposit from us, which may be used for acquisition and development expenses;
- secure a financing commitment from a commercial bank or other institutional lender to finance the remaining acquisition and development expenses;
- complete the development and allow the tenant or tenants to take possession of the property; and
- provide for the acquisition of the property by us.

We will be required to pay a substantial sum to our development company affiliate at the time of entering into the contract as a refundable earnest money deposit to be credited against the purchase price at closing, which will be applied to the cost of acquiring the land and initial development costs. We expect that the earnest money deposit will represent approximately 20% to 30% of the purchase price of the developed property set forth in the purchase contract.

We may enter into a contract to acquire property from an affiliate engaged in property development even if we have not yet raised sufficient proceeds to enable us to pay the full amount of the purchase price at closing. We may also elect to close a purchase before the development of the property has been completed, in which case we would obtain an assignment of the construction and development contracts from our affiliate and would complete the construction either directly or through a joint venture with an affiliate. Any contract between us, directly or indirectly through a joint venture with an affiliate, and an affiliated development company for the purchase of property to be developed will provide that we will be obligated to purchase the property only if:

- the affiliated development company completes the improvements, which generally will include the completion of the development, in accordance with the specifications of the contract;
- one or more approved tenants takes possession of the building under a lease satisfactory to our advisor; and
- we have sufficient proceeds available for investment at closing to pay the balance of the purchase price remaining after payment of the earnest money deposit.

Our advisor will not cause us to enter into a contract to acquire property from an affiliated development company if it does not reasonably anticipate that funds will be available to purchase the property at the time of closing. If we enter into a contract to acquire property from an affiliated development company and, at the time for closing, are unable to purchase the property because we do not have sufficient proceeds available for investment, we will not be required to

close the purchase of the property and will be entitled to a refund of our earnest money deposit from the affiliated development company. Because the affiliated development company may be an entity without substantial assets or operations, our board of directors may require that the affiliated development company's obligation to refund our earnest money deposit be guaranteed by another entity, such as Cole Realty Advisors, our affiliated property manager, which provides property management and leasing services to various Cole programs, including us, for substantial monthly fees. As of the time Cole Realty Advisors or any other guarantor may be required to perform under any guaranty, we cannot assure you that such guarantor will have sufficient assets to refund all of our earnest money deposit in a lump sum payment. In such a case, we would be required to accept installment payments over time payable out of the revenues of the guarantor's operations We

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cannot assure you that we would be able to collect the entire amount of our earnest money deposit under such circumstances. See Risk Factors General Risks Related to Investments in Real Estate.

**Section 1031 Program**

Persons selling real estate held for investment often seek to reinvest the proceeds of that sale in another real estate investment in an effort to obtain favorable tax treatment under Section 1031 of the Internal Revenue Code. Cole Capital Partners, an affiliate of our advisor, has developed a co-ownership programs to facilitate these transactions, which are referred to as like-kind exchanges. For each co-ownership program (Section 1031 Program), Cole Capital Partners or another Cole affiliate will create a single member limited liability company or a Delaware statutory trust (each of which we refer to as a Cole Exchange Entity). A Cole Exchange Entity typically will acquire all or part of a real estate property to be owned in co-ownership arrangements with persons wishing to engage in like-kind exchanges, which we refer to as Section 1031 Participants. Generally, a Cole Exchange Entity will acquire the subject property and prepare and, through a registered broker-dealer, market a private placement memorandum for the sale of co-ownership interests in that property. In many instances, affiliates of our advisor will sell or contribute a property to a Cole Exchange Entity for the purpose of selling off the property. Properties acquired in connection with the co-ownership program, if any, initially may be partially or entirely financed with debt. Typically, multiple investors will acquire co-ownership interests in a single property. In a substantial majority of these transactions, the underlying property serves as collateral for the mortgage loan used to finance the purchase of the property. To the extent the loan is not repaid in full as part of the co-ownership program, the loan remains outstanding after the sale of the co-ownership interests to the Section 1031 Participants. These loans generally are non-recourse and are secured by the real property. However, Cole Capital Partners or another Cole affiliate typically is required to indemnify and become liable to the lender for customary carve-outs under the loan financing documents, including but not limited to fraud or intentional misrepresentation, physical waste of the property, misapplication or misappropriation of insurance proceeds and failure to pay taxes.

Although we do not presently intend to participate in the Section 1031 Program, we may do so if our board of directors, including a majority of our independent directors, determines that our participation is in the best interest of our stockholders. In the event that our board of directors determines that it is in our best interest to participate in the Section 1031 Program, we may co-invest in the property with the Cole Exchange Entity or purchase a co-ownership interest from, or in, as applicable, the Cole Exchange Entity. In that event, as an owner of co-ownership interests in properties, we will be subject to the risks that co-ownership of properties with unrelated third parties entails.

We may co-invest with or purchase co-ownership interests from, or in, as applicable, a Cole Exchange Entity only if a majority of our directors not otherwise interested in the transaction and a majority of our independent directors approves of the transaction as being fair, competitive and commercially reasonable to us. We anticipate that in the event we participate in the Section 1031 Program, generally we will purchase the interest at the Cole Exchange Entity's cost (before offering expenses and fees). However, if the price to us is in excess of the cost of the asset paid by our affiliate, a majority of our directors not otherwise interested in the transaction and a majority of our independent directors must determine that substantial justification for such excess exists and that such excess is reasonable. In no event shall the cost of such asset to us exceed the greater of the Cole Exchange Entity's cost or the current appraised value for the property interest performed by an independent appraiser.

Although the Cole Exchange Entity will charge fees and expenses to Section 1031 Participants and/or will sell the co-ownership interests at a price above the price it paid for the property, if we participate in the co-ownership program we will not pay any fees or expenses to the Cole Exchange Entity. We will, however, pay our advisor the acquisition and advisory fees and reimburse the advisor for its expenses as described under Management Compensation to the same extent as with other types of property acquisitions.

If we purchase co-ownership interests, we will be subject to various risks associated with co-tenancy arrangements which are not otherwise present in real estate investments, such as the risk that the interests of the non-affiliated Section 1031 Participants will become adverse to our interests. In any co-ownership program, Cole Capital Partners, the Cole Exchange Entity, or the other co-owners may have economic or business interests or goals that are or may become inconsistent with our business interests or goals. For instance, Cole Capital Partners

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will receive substantial fees in connection with its sponsoring of a Section 1031 Program (although we will not be required to pay such fees) and our participation in such a transaction likely would facilitate its consummation of the transactions. For these reasons, our advisor may face a conflict in structuring the terms of the relationship between our interests and the interest of Cole Capital Partners or the Cole Exchange Entity. As a result, agreements and transactions between the parties with respect to the property will not have the benefit of arm's-length negotiation of the type normally conducted between unrelated parties.

## **Disposition Policies**

We intend to hold each property we acquire for an extended period, generally eight to ten years. However, circumstances might arise that could result in the early sale of some properties. We may sell a property before the end of the expected holding period if we believe the sale of the property would be in the best interests of our stockholders.

The determination of whether a particular property should be sold or otherwise disposed of will be made after consideration of relevant factors, including prevailing economic conditions and current tenant creditworthiness, with a view to achieving maximum capital appreciation. We cannot assure you that this objective will be realized. The selling price of a property that is net leased will be determined in large part by the amount of rent payable under the lease. If a tenant has a repurchase option at a formula price, we may be limited in realizing any appreciation. In connection with our sales of properties we may lend the purchaser all or a portion of the purchase price. In these instances, our taxable income may exceed the cash received in the sale. The terms of payment will be affected by custom in the area in which the property being sold is located and the then-prevailing economic conditions.

## **Investment Limitations**

Our charter and investment policies place numerous limitations on us with respect to the manner in which we may invest our funds or issue securities. These limitations cannot be changed unless our charter is amended, which requires approval of our stockholders, or we otherwise change our investment policies. Unless our charter is amended, or we revise our investment policies, we will not:

borrow in excess of 60% of the greater of the aggregate cost (before deducting depreciation or other non-cash reserves) or fair market value of all assets owned by us, unless approved by a majority of our independent directors and disclosed to our stockholders in our next quarterly report along with the justification for such excess borrowing;

make investments in unimproved property or mortgage loans on unimproved property in excess of 10% of our total assets;

make or invest in mortgage loans unless an appraisal is obtained concerning the underlying property, except for those mortgage loans insured or guaranteed by a government or government agency;

make or invest in mortgage loans, including construction loans, on any one property if the aggregate amount of all mortgage loans on such property would exceed an amount equal to 85% of the appraised value of such property unless substantial justification exists for exceeding such limit because of the presence of other underwriting criteria;

make an investment in a property or mortgage loan if the related acquisition fees and acquisition expenses are unreasonable or exceed 6% of the purchase price of the property or, in the case of a mortgage loan, 6% of the funds advanced; provided that the investment may be made if a majority of our independent directors determines that the transaction is commercially competitive, fair and reasonable to us;



invest in equity securities unless a majority of our independent directors approves such investment as being fair, competitive and commercially reasonable;

invest in real estate contracts of sale, otherwise known as land sale contracts, unless the contract is in recordable form and is appropriately recorded in the chain of title;

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invest in commodities or commodity futures contracts, except for futures contracts when used solely for the purpose of hedging in connection with our ordinary business of investing in real estate assets and mortgages;

issue equity securities on a deferred payment basis or other similar arrangement;

issue debt securities in the absence of adequate cash flow to cover debt service;

issue equity securities that are assessable after we have received the consideration for which our board of directors authorized their issuance; or

issue equity securities redeemable solely at the option of the holder, which restriction has no effect on our share redemption program or the ability of our operating partnership to issue redeemable partnership interests.

In addition, our charter includes many other investment limitations in connection with transactions with affiliated entities or persons, which limitations are described above under **Conflicts of Interest**. Our charter also includes restrictions on roll-up transactions, which are described under **Description of Shares** below.

**Change in Investment Objectives and Limitations**

Our charter requires that our independent directors review our investment policies at least annually to determine that the policies we follow are in the best interest of our stockholders. Each determination and the basis therefor shall be set forth in the minutes of the meetings of our board of directors. The methods of implementing our investment policies also may vary as new real estate development trends emerge and new investment techniques are developed. The methods of implementing our investment objectives and policies, except as otherwise provided in the organizational documents, may be altered by a majority of our directors, including a majority of the independent directors, without the approval of our stockholders.

**Real Property Investments**

We engage in the acquisition and ownership of commercial properties throughout the United States. We invest primarily in income-generating retail, office and distribution properties, net leased to investment grade and other creditworthy tenants.

As of April 25, 2008, we, through separate wholly-owned limited liability companies, have acquired a 100% fee simple interest in 379 properties consisting of approximately 13.1 million gross rentable square feet of commercial space located in 45 states and the U.S. Virgin Islands. The properties were generally acquired through the use of mortgage notes payable and proceeds from our ongoing public offering of our common stock.

The following table summarizes these properties in order of acquisition date:

<b>Property</b>	<b>Type</b>	<b>Date Acquired</b>	<b>Year Built</b>	<b>Purchase Price</b>	<b>Fees Paid to Sponsor(1)</b>	<b>Rentable Square Feet</b>	<b>Physical Occupancy</b>
Tractor Supply							
Parkersburg, WV	Specialty retail	9/26/05	2005	\$ 3,259,243	\$ 83,115	21,688	100%
	Drugstore	10/5/05	2000	4,328,500	114,710	15,120	100%

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Walgreens Brainerd, MN Rite Aid Alliance, OH	Drugstore	10/20/05	1996	2,100,000	42,000	11,348	100%
La-Z-Boy Glendale, AZ Walgreens Florissant, MO	Home furnishings	10/25/05	2001	5,691,525	148,000	23,000	100%
Walgreens Saint Louis, MO (Gravois)	Drugstore	11/2/05	2001	5,187,632	111,671	15,120	100%
Walgreens Saint Louis, MO (Telegraph)	Drugstore	11/2/05	2001	6,152,942	108,917	15,120	100%
Walgreens Columbia, MO	Drugstore	11/22/05	2002	5,059,426	132,412	15,120	100%
Walgreens Olivette, MO	Drugstore	11/22/05	2001	6,271,371	125,000	13,973	100%
CVS Alpharetta, GA	Drugstore	11/22/05	2001	7,822,222	156,000	15,030	100%
Lowe s Enterprise, AL	Drugstore	12/1/05	1998	3,100,000	82,000	10,125	100%
CVS Richland Hills, TX	Home improvement	12/1/05	1995	7,475,000	184,000	95,173	100%
FedEx Rockford, IL	Drugstore	12/8/05	1997	3,660,000	97,000	10,908	100%
	Distribution	12/9/05	1994	6,150,000	149,000	67,925	100%

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<b>Property</b>	<b>Type</b>	<b>Date Acquired</b>	<b>Year Built</b>	<b>Purchase Price</b>	<b>Fees Paid to Sponsor(1)</b>	<b>Rentable Square Feet</b>	<b>Physical Occupancy</b>
Plastech Auburn Hills, MI	Automotive parts	12/15/05	1995	\$ 23,600,000	\$ 472,000	111,881	100%
Academy Sports Macon, GA	Sporting goods	1/6/06	2005	5,600,000	148,000	74,532	100%
David s Bridal Lenexa, KS	Specialty retail	1/11/06	2005	3,270,000	83,000	12,083	100%
Rite Aid Enterprise, AL	Drugstore	1/26/06	2005	3,714,000	94,000	14,564	100%
Rite Aid Wauseon, OH	Drugstore	1/26/06	2005	3,893,679	79,000	14,564	100%
Staples Crossville, TN	Office supply	1/26/06	2001	2,900,000	77,000	23,942	100%
Rite Aid Saco, ME	Drugstore	1/27/06	1997	2,500,000	64,000	11,180	100%
Wadsworth Boulevard Denver, CO	Specialty retail/Warehouse club	2/6/06	1991	18,500,000	490,000	198,477	100%
Mountainside Fitness Chandler, AZ	Health and fitness	2/9/06	2001	5,863,000	117,000	31,063	100%
Drexel Heritage Hickory, NC	Furnishings	2/24/06	1963	4,250,000	113,000	261,057	100%
Rayford Square Spring, TX	Automotive parts/ Restaurant/Specialty retail	3/2/06	1973	9,900,000	257,000	79,968	100%
CVS Portsmouth, OH	Drugstore	3/8/06	1997	2,166,000	57,000	10,170	100%
Wawa Hockessin, DE	Convenience stores	3/29/06	2000	4,830,000		5,160	100%(4)
Wawa Manahawkin, NJ	Convenience stores	3/29/06	2000	4,414,000		4,695	100%(4)
Wawa Narbeth, PA	Convenience stores	3/29/06	2000	4,206,000		4,461	100%(4)
CVS Lakewood, OH	Drugstore/Financial services	4/20/06	1996	2,450,000	62,000	12,800	100%

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Rite Aid Cleveland, OH	Drugstore	4/27/06	1997	2,568,700	71,000	11,325	100%
Rite Aid Fremont, OH	Drugstore	4/27/06	1997	2,524,500	70,000	11,325	100%
Walgreens Knoxville, TN	Drugstore	5/8/06	2000	4,750,000	125,000	15,120	100%
CVS Madison, MS	Drugstore	5/26/06	2004	4,463,088	28,000	13,824	100%(4)
Rite Aid Defiance, OH	Drugstore	5/26/06	2005	4,326,165	23,000	14,564	100%(4)
Conns San Antonio, TX	Consumer electronics	5/26/06	2002	4,624,619	36,000	25,230	100%(4)
Dollar General Crossville, TN	Specialty retail	6/2/06	2006	3,000,000	80,000	24,341	100%
Dollar General Ardmore, TN	Specialty retail	6/9/06	2005	2,775,000	73,000	24,341	100%
Dollar General Livingston, TN	Specialty retail	6/12/06	2006	2,856,000	76,000	24,341	100%
Wehrenberg Arnold, MO	Theaters	6/14/06	1998	8,200,000	82,000	50,000	100%
Sportmans Warehouse Wichita, KS	Specialty retail	6/27/06	2006	8,231,000	226,000	50,003	100%
CVS Portsmouth, OH	Drugstore	6/28/06	1997	2,101,708	61,000	10,650	100%(4)
Advance Auto Greenfield, IN	Automotive parts	6/29/06	2003	1,375,500	28,000	7,000	100%
Advance Auto Trenton, OH	Automotive parts	6/29/06	2003	1,060,000	21,000	7,000	100%
Rite Aid Lansing, MI	Drugstore	6/29/06	1950	1,735,000	45,000	11,680	100%
Advance Auto Columbia Heights, MN	Automotive parts	7/06/06	2005	1,730,578	45,000	7,000	100%
Advance Auto Fergus Falls, MN	Automotive parts	7/06/06	2005	1,203,171	31,000	7,000	100%
CVS Okeechobee, FL	Drugstore	7/07/06	2001	6,459,262	41,000	13,050	100%(4)
Office Depot Dayton, OH	Office supply	7/07/06	2005	3,416,526	21,000	19,880	100%(4)
	Automotive parts	7/12/06	2006	2,071,843	12,000	7,000	100%(4)

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Advance Auto Holland, MI Advance Auto Holland Township, MI	Automotive parts	7/12/06	2006	2,137,244	12,000	7,000	100%(4)
Advance Auto Zeeland, MI CVS Orlando, FL Office Depot Greenville, MS Office Depot Warrensburg, MO CVS Gulfport, MS	Automotive parts Automotive parts Drugstore Office supply Office supply Drugstore	7/12/06 7/12/06 7/12/06 7/12/06 7/19/06 8/10/06	2006 2006 2005 2000 2001 2000	1,840,715 4,956,763 3,491,470 2,880,552 4,414,117	11,000 30,000 22,000 18,000 26,000	7,000 13,013 25,083 20,000 11,359	100%(4) 100%(4) 100%(4) 100%(4) 100%(4)
Advance Auto Grand Forks, ND CVS Clinton, NY Oxford Theatre Oxford, MS	Automotive parts Drugstore Theaters	8/15/06 8/24/06 8/31/06	2005 2006 2006	1,399,657 3,050,000 9,692,503	36,000 80,000 246,000	7,000 10,055 35,000	100% 100% 100%
Advance Auto Duluth, MN Walgreens Picayune, MS	Automotive parts Drugstore	9/8/06 9/15/06	2006 2006	1,432,565 4,255,000	9,000 113,000	7,000 14,820	100% 100%

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Kohl's Wichita, KS	Apparel	9/27/06	1996	\$ 7,866,000	\$ 209,000	86,584	100%
Lowe's Lubbock, TX	Home improvement	9/27/06	1996	11,508,000	305,000	137,480	100%
Lowe's Midland, TX	Home improvement	9/27/06	1996	11,099,000	293,000	134,050	100%
Advance Auto Grand Bay, AL	Automotive parts	9/29/06	2005	1,115,605	22,000	7,000	100%
Advance Auto Hurley, MS	Automotive parts	9/29/06	2005	1,083,195	22,000	7,000	100%
Advance Auto Rainsville, AL	Automotive parts	9/29/06	2005	1,328,000	27,000	7,000	100%
Gold's Gym O'Fallon, IL	Health and fitness	9/29/06	2005	7,300,000	183,000	38,000	100%
Rite Aid Glassport, PA	Drugstore	10/04/06	2006	3,788,000	99,000	14,564	100%
David's Bridal/Radio Shack Topeka, KS	Specialty retail/Consumer electronics	10/13/06	2006	3,021,000	60,000	10,150	100%
Rite Aid Hanover, PA	Drugstore	10/17/06	2006	6,330,000	168,000	14,584	100%
American TV & Appliance Peoria, IL	Consumer electronics	10/23/06	2003	11,336,983	304,000	126,852	100%
Tractor Supply La Grange, TX	Specialty retail	11/06/06	2006	2,580,000	66,000	24,727	100%
Staples Peru, IL	Office supply	11/09/06	1998	3,215,000	83,000	23,925	100%
Fedex Council Bluffs, IA	Distribution	11/15/06	1999	3,361,000	89,000	23,510	100%
Fedex Edwardsville, KS	Distribution	11/15/06	1999	19,815,000	525,000	155,965	100%
CVS Glenville Scotia, NY	Drugstore	11/16/06	2006	5,250,000	139,000	12,900	100%
Advance Auto Ashland, KY	Automotive parts	11/17/06	2006	1,681,000	34,000	7,000	100%

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Advance Auto Jackson, OH	Automotive parts	11/17/06	2005	1,352,000	27,000	7,000	100%
Advance Auto New Boston, OH	Automotive parts	11/17/06	2005	1,516,000	30,000	7,000	100%
Advance Auto Scottsburg, IN	Automotive parts	11/17/06	2006	1,272,000	25,000	7,000	100%
Tractor Supply Livingston, TN	Specialty retail	11/22/06	2006	3,100,000	79,000	24,727	100%
Tractor Supply New Braunfels, TX	Specialty retail	11/22/06	2006	3,150,000	81,000	24,727	100%
Office Depot Benton, AR	Office supply	11/21/06	2001	3,275,000	87,000	20,515	100%
Old Time Pottery Fairview Heights,IL	Home furnishings	11/21/06	1979	4,280,000	107,000	97,849	100%
Infiniti Davie, FL	Motor vehicle dealerships	11/30/06	2006	9,432,000	189,000	20,927	100%
Office Depot Oxford, MS	Office supply	12/01/06	2006	3,487,450	93,000	20,000	100%
Tractor Supply Crockett, TX	Specialty retail	12/01/06	2006	2,450,000	62,000	24,727	100%
Mercedes Benz Atlanta, GA	Motor vehicle dealerships	12/15/06	2000	11,760,000	235,000	40,588	100%
Dick's Sporting Goods Amherst, NY	Sporting goods	12/20/06	1986	9,725,000	195,000	55,745	100%
Chili's Paris, TX	Restaurant	12/28/06	1999	2,750,000	73,000	6,698	100%
Staples Clarksville, IN	Office supply	12/29/06	2006	4,430,000	118,000	20,388	100%
HOM Fargo, ND	Furniture retail	1/04/07	2004	12,000,000	288,000	122,108	100%
La-Z-Boy Newington, CT	Furnishings store	1/5/07	2006	6,900,000	179,000	20,701	100%
Advance Auto Maryland Heights, MO	Specialty retailer	1/12/07	2005	1,893,000	38,000	7,000	100%
Victoria Crossing Victoria, TX	Shopping center Headquarters	1/12/07 1/18/07	2006 1976	12,608,000 102,000,000	338,000 2,683,000	87,473 1,500,596	92.3% 100%



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Academy Sports Katy, TX								
Gordmans Peoria, IL	Department store	1/18/07	2006	9,000,000	230,000	60,947	100%	
One Pacific Place Omaha, NE	Shopping center	2/6/07	1988	36,000,000	954,000	91,564	95.2%	
Sack n Save/O Reilly Auto Garland, TX	Shopping center	2/6/07	1970	5,060,000	134,000	65,295	100%	
Tractor Supply Ankeny, IA	Specialty retail	2/9/07	2006	3,000,000	60,000	19,097	100%	
ABX Air Coventry, RI	Distribution center	2/16/07	1998	4,090,000	107,000	33,000	100%	
Office Depot Enterprise, AL	Office supply	2/27/07	2006	2,776,357	75,000	20,000	100%	
Northern Tool Blaine, MN	Specialty retail	2/28/07	2006	4,900,000	130,000	25,488	100%	
Office Max Orangeburg, SC	Office supply	2/28/07	1999	3,125,000	82,000	23,500	100%	
Walgreens Cincinnati, OH	Drug store	3/6/07	2000	5,140,000	136,000	15,120	100%	
Walgreens Madeira, OH	Drug store	3/6/07	1998	4,425,000	118,000	13,905	100%	
Walgreens Sharonville, OH	Drug store	3/6/07	1998	4,085,000	109,000	13,905	100%	

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AT&T Beaumont, TX	Office building	3/19/07	1971	\$ 12,275,000	\$ 332,000	141,525	100%
Walgreens Shreveport, LA	Drugstore	3/23/07	1998	4,140,000	111,000	13,905	100%
Cost-U-Less St. Croix, USVI	Warehouse Club	3/26/07	2005	6,210,000	164,000	38,365	100%
Gallina Centro Collierville, TN	Shopping center	3/26/07	2000	17,750,000	497,000	142,727	100%
Apria Healthcare St. John, MO	Healthcare	3/28/07	1996	6,500,000	130,000	52,200	100%
Logan s Roadhouse Fairfax, VA	Restaurant	3/28/07	1998	3,209,000	80,000	7,839	100%
Logan s Roadhouse Johnson City, TN	Restaurant	3/28/07	1996	3,866,000	97,000	7,839	100%
Center at 7500 Cottonwood Jenison, MI	Shopping center	3/30/07	1993	5,290,000	106,000	84,933	100%
Tractor Supply Greenfield, MN	Specialty retail	4/2/07	2006	4,050,000	103,000	22,675	100%
Eckerd Lincolnton, NC	Drugstore	4/3/07	1998	2,262,000	61,000	10,908	100%
Lincoln Place Fairview Heights, IL	Shopping center	4/5/07	1998	44,000,000	1,234,320	272,829	100%
Ashley Furniture Amarillo, TX	Furniture retail	4/6/07	1980	5,920,000	159,000	74,797	100%
Pocatello Square Pocatello, ID	Shopping center	4/6/07	2006	23,000,000	632,500	138,925	90%
Tractor Supply Paw Paw, MI	Specialty retail	4/9/07	2006	3,095,000	82,000	22,670	100%
Tractor Supply Marinette, WI	Specialty retail	4/9/07	2006	2,950,000	78,000	19,097	100%
Staples Greenville, SC	Office supply	4/11/07	2007	4,545,000	120,000	20,388	100%
Big 5 Center Aurora, CO	Retail center	4/11/07	2006	4,290,000	114,000	15,800	100%
Rite Aid Plains, PA	Drugstore	4/16/07	2006	5,200,000	137,800	14,564	100%

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Tractor Supply Navasota, TX	Specialty retail	4/18/07	2006	3,015,000	80,800	22,670	100%
Sportsman s Warehouse De Pere, WI	Specialty retail	4/20/07	2004	6,010,000	159,625	48,453	100%
Eckerd Easton, PA	Drugstore	4/25/07	2005	5,970,000	160,000	13,813	100%
Applebee s Portfolio Various	Restaurant	4/26/07(2)	Various	65,000,000	1,722,500	120,246	100%
Walgreens Bridgetown, OH	Drugstore	4/30/06	1998	4,475,000	119,930	13,905	100%
Rite Aid Fredericksburg, VA	Drugstore	5/2/07	2007	5,415,000	167,880	14,564	100%
Tractor Supply Fredericksburg, TX	Specialty retail	5/7/07	2007	3,125,000	82,813	22,670	100%
Sam s Club Anderson, SC	Warehouse club	5/8/07	1993	12,000,000	321,600	134,664	100%
Walgreens Dallas, TX	Drugstore	5/9/07	1996	3,150,000	84,750	13,905	100%
Wal-Mart New London, WI	Discount retail	5/9/07	1991	2,614,000	70,060	51,985	100%
Rite Aid Lima, OH	Drugstore	5/14/07	2005	4,745,962	125,949	14,564	100%
Rite Aid Allentown, PA	Drugstore	5/15/07	2006	5,561,112	147,372	14,564	100%
CVS Florence, SC	Drugstore	5/17/07	1998	2,625,000	69,563	10,125	100%
Eckerd Spartanburg (Main), SC	Drugstore	5/17/07	1998	3,475,000	92,088	10,908	100%
Staples Warsaw, IN	Office supply	5/17/07	1998	3,215,000	82,800	23,990	100%
Walgreens Bryan, TX	Drugstore	5/18/07	2001	6,325,000	167,610	15,050	100%
Walgreens Harris County, TX	Drugstore	5/18/07	2000	5,650,000	149,730	15,050	100%
Wal-Mart Spencer, IN	Discount retail	5/23/07	1987	2,025,682	54,284	41,304	100%
Tractor Supply Fairview, TN	Specialty retail	5/25/07	2007	2,970,000	78,705	19,067	100%
Borders Rapid City, SD	Specialty retail	6/1/07	1999	6,461,000	173,150	20,000	100%
Borders Reading, PA	Specialty retail	6/1/07	1997	6,261,000	167,790	25,023	100%
Walgreens Gainesville, FL	Drugstore	6/1/07	1997	3,625,000	97,150	13,905	100%

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Chili's Fredericksburg, TX	Restaurant	6/5/07	1985	2,314,000	61,320	5,494	100%
Tractor Supply Baytown, TX	Specialty retail	6/11/07	2007	3,310,000	88,710	22,670	100%
Starbucks Covington, TN	Restaurant	6/22/07	2006	1,516,000	30,320	1,805	100%
Starbucks Sedalia, MO	Restaurant	6/22/07	2006	1,227,000	24,540	1,800	100%
Winco Eureka, CA	Grocery store	6/27/07	1960	16,300,000	446,470	82,490	100%
Eckerd Vineland, NJ	Drugstore	6/27/07	1997	5,000,000	135,000	14,910	100%
Eckerd Mantua, NJ	Drugstore	6/27/07	1993	2,050,000	55,700	8,710	100%

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<b>Property</b>	<b>Type</b>	<b>Date Acquired</b>	<b>Year Built</b>	<b>Purchase Price</b>	<b>Fees Paid to Sponsor(1)</b>	<b>Rentable Square Feet</b>	<b>Physical Occupancy</b>
Best Buy (Super Value) Warwick, RI	Specialty retail	6/27/07	1992	\$ 7,300,000	\$ 199,500	64,514	100%
Best Buy Evanston, IL	Specialty retail	6/27/07	1996	8,250,000	224,000	45,397	100%
Academy Sports Houston, TX	Specialty retail	6/27/07	1995	5,400,000	146,250	53,381	100%
Kroger La Grange, GA	Grocery store	6/28/07	1998	7,293,750	193,500	61,331	100%
La-Z-Boy Kentwood, MI	Specialty retail	6/28/07	1986	5,145,386	138,928	30,245	100%
Circuit City Mesquite, TX	Specialty retail	6/29/07	1996	7,825,000	199,550	42,918	100%
Tractor Supply Prior Lake, MN	Specialty retail	6/29/07	1991	5,050,000	133,833	36,183	100%
Staples Guntersville, AL	Office supply	7/6/07	2001	3,325,000	88,113	23,942	100%
Walgreens Kansas City (Independence), MO	Drugstore	7/11/07	1997	4,598,000	121,860	13,905	100%
Walgreens Topeka, KS	Drugstore	7/11/07	1999	3,121,950	81,139	13,905	100%
Walgreens Kansas City (Linwood), MO	Drugstore	7/11/07	2000	3,750,000	99,375	13,905	100%
Walgreens Kansas City (Troost), MO	Drugstore	7/11/07	2000	4,928,000	123,200	13,905	100%
Walgreens Kansas City (63rd St), MO	Drugstore	7/11/07	2000	4,335,000	117,045	13,905	100%
Circuit City Taunton, MA	Specialty retail	7/13/07	2001	7,860,000	200,430	32,748	100%
Circuit City Distribution Center Groveland, FL	Specialty retail	7/17/07	1999	27,548,810	753,476	706,560	100%
Walgreens Fort Worth, TX	Drugstore	7/17/07	1999	4,855,153	133,853	15,120	100%
Kohl's Lake Zurich, IL	Apparel	7/17/07	2000	12,712,730	345,005	88,306	100%
EDS Salt Lake City, UT	Technology Services	7/17/07	1993	22,824,824	636,496	406,101	100%

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Lowes Cincinnati, OH Dickinson	Home improvement	7/17/07	1998	20,558,483	549,170	129,044	100%
Theatre Yukon, OK	Theaters	7/17/07	2007	4,550,000	91,000	27,442	100%
Telrex Kings Mountain, NC	Marketing	7/17/07	2007	8,690,000	234,630	60,000	100%
CVS Amarillo, TX	Drugstore	7/19/07	1994	2,791,067	73,231	9,504	100%
Taco Bell Brazil, IN	Restaurant	7/19/07	1996	1,969,655	39,393	1,993	100%
Taco Bell Henderson, KY	Restaurant	7/19/07	1992	1,552,607	31,052	2,320	100%
Academy Sports Baton Rouge, LA	Sporting goods	7/19/07	1996	6,942,782	185,726	52,500	100%
Taco Bell Washington, IN	Restaurant	7/19/07	1995	1,255,545	25,111	2,093	100%
Taco Bell Robinson, IL	Restaurant	7/19/07	1994	1,550,672	31,013	1,944	100%
Taco Bell Princeton, IN	Restaurant	7/19/07	1992	1,424,328	28,487	2,436	100%
Eckerd Mableton, GA	Drugstore	7/19/07	1994	1,850,637	48,983	8,996	100%
Taco Bell/KFC Spencer, IN	Restaurant	7/19/07	1999	964,865	19,297	2,296	100%
CVS Del City, OK	Drugstore	7/19/07	1998	4,179,502	109,900	10,906	100%
Taco Bell Anderson, IN	Restaurant	7/19/07	1995	1,725,514	34,510	2,166	100%
Academy Sports North Richland Hills, TX	Sporting goods	7/19/07	1996	6,292,471	168,019	52,500	100%
Dave and Buster s Addison, IL	Restaurant	7/19/07	2006	13,928,571	334,571	50,000	100%
Academy Sports Houston (Southwest), TX	Sporting goods	7/19/07	1996	7,138,821	189,026	52,548	100%
Academy Sports Houston (Breton), TX	Sporting goods	7/19/07	1995	4,724,567	124,941	53,381	100%
Eckerd Chattanooga, TN	Drugstore	7/19/07	1997	2,797,644	75,153	10,909	100%
Taco Bell/KFC Vincennes, IN	Restaurant	7/19/07	2000	1,478,690	29,574	2,691	100%
Taco Bell Martinsville, IN	Restaurant	7/19/07	1986	1,973,552	39,471	2,057	100%
LJS/A&W Houston, TX	Restaurant	7/19/07	2004	1,204,821	24,096	34,094	100%
Fed Ex Peoria, IL	Distribution	7/20/07	1997	3,200,000	84,800	38,200	100%

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Gold s Gym St. Peters, MO	Fitness	7/31/07	2007	7,500,000	202,500	39,900	100%
Fed Ex Walker, MI	Distribution	8/8/07	2001	7,323,891	193,168	78,304	100%
Wal-Mart Bay City, TX	Discount retail	8/14/07	1990	3,755,000	75,100	90,921	30%
Walgreens Richmond, VA	Drugstore	8/17/07	1997	4,025,000	80,500	13,869	100%

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<b>Property</b>	<b>Type</b>	<b>Date Acquired</b>	<b>Year Built</b>	<b>Purchase Price</b>	<b>Fees Paid to Sponsor(1)</b>	<b>Rentable Square Feet</b>	<b>Physical Occupancy</b>
Circuit City Aurora, CO	Specialty retail	8/22/07	1995	\$ 7,200,000	\$ 191,770	39,440	100%
Home Depot Bedford Park, IL	Home improvement	8/22/07	1992	29,400,000	588,000	217,952	100%
24 Hr Fitness Olathe, KS	Fitness	8/24/07	2007	7,210,000	192,365	25,000	100%
Walgreens Dallas, TX (De Soto)	Drugstore	8/27/07	1997	3,367,000	67,340	13,905	100%
Gold's Gym O Fallon, MO	Fitness	8/29/07	2007	7,750,000	209,250	39,900	100%
Wal-Mart Washington, IL	Discount retail	9/10/07	1989	3,578,000	71,560	74,136	35%
Wal-Mart Borger, TX	Discount retail	9/12/07	1991	3,205,000	64,100	65,930	100%
Broadview Village Square Chicago, IL	Retail shopping center	9/14/07	1994	58,000,000	1,475,000	329,161	96%
Chambers Corners Wayland, MI	Retail shopping center	9/19/07	2000	8,823,103	176,462	99,564	100%
Ashley Furniture Anderson, SC	Furniture retail	9/28/07	2006	4,300,000	86,000	23,800	100%
Best Buy Fayetteville, NC	Specialty retail	10/4/07	1999	6,727,000	133,540	45,582	100%
Massard Farms Fort Smith, AR	Shopping center	10/11/07	2001	15,750,000	417,370	126,584	99%
Wal-Mart Whiteville, NC	Discount retail	10/11/07	1988	2,667,000	53,340	65,930	39%(2)
Staples Moraine, OH	Office supply	10/12/07	2006	3,800,000	76,000	20,388	100%
Wickes Furniture Chicago, IL	Furniture retail	10/17/07	2007	23,440,000	628,050	48,000	100%
Walgreens Brentwood, TN	Drugstore	10/17/07	2006	5,640,000	112,800	14,820	100%
Starbucks Bowling Green, KY	Restaurant	10/23/07	2007	1,657,000	33,140	1,850	100%
Walgreens Harriman, TN	Drugstore	10/24/07	2007	5,026,820	101,655	14,820	100%
Starbucks Shawnee, OK	Restaurant	10/31/07	2006	1,096,909	21,938	1,750	100%
	Office	11/1/07	2007	70,000,000	1,822,500	138,558	100%



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Station Casino Headquarters Las Vegas, NV Starbucks Oklahoma City, OK	Restaurant	11/20/07	2007	1,238,671	24,773	1,741	100%
Starbucks Chattanooga, TN	Restaurant	11/26/07	2007	1,420,000	28,400	1,850	100%
Starbucks Maryville, TN	Restaurant	11/26/07	2007	1,490,000	29,800	1,850	100%
Starbucks Powell, TN	Restaurant	11/26/07	2007	1,324,000	26,480	1,850	100%
Starbucks Seymour, TN	Restaurant	11/26/07	2007	1,351,000	27,020	1,850	100%
Walgreens Beverly Hills, TX	Drugstore	12/5/07	1998	3,600,000	72,000	13,905	100%
Walgreens Waco, TX	Drugstore	12/5/07	1998	3,600,000	72,000	13,905	100%
Allstate Ins. Contact Center Cross Plains, WI	Call center	12/7/07	1998	5,720,000	114,400	34,992	100%
Mealey s Furniture Maple Shade, NJ	Home furnishings	12/12/07	1978	5,350,000	107,000	66,750	100%
Circle K Albuquerque, NM	Convenience store	12/20/07	1994	1,275,719	34,844	2,700	100%
Circle K Baton Rouge (Burbank), LA	Convenience store	12/20/07	1976	951,727	33,044	2,400	100%
Circle K Baton Rouge (Floyzell), LA	Convenience store	12/20/07	1977	1,407,341	35,044	2,780	100%
Circle K Baton Rouge (Jefferson), LA	Convenience store	12/20/07	1970	1,083,349	33,444	2,780	100%
Circle K Beaufort, SC	Convenience store	12/20/07	1997	1,640,210	36,644	2,660	100%
Circle K Bluffton, SC	Convenience store	12/20/07	1997	2,591,937	40,644	2,448	100%
Circle K Bossier City, LA	Convenience store	12/20/07	1987	1,528,838	36,144	3,211	100%
Circle K Charleston, SC	Convenience store	12/20/07	1987	2,602,061	41,644	3,000	100%
Circle K Charlotte (Independence), NC	Convenience store	12/20/07	1996	1,883,204	37,994	2,556	100%
	Convenience store	12/20/07	1997	1,954,077	38,344	2,477	100%

Circle K Charlotte (Sharon), NC								
Circle K Charlotte (Sugar Creek), NC	Convenience store	12/20/07	1991	2,014,826	38,644	2,170	100%	
Circle K Columbia (Garners), SC	Convenience store	12/20/07	1993	2,116,073	39,144	2,600	100%	
Circle K Columbia (Hardscrabble), SC	Convenience store	12/20/07	1997	1,751,582	37,344	2,477	100%	

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<b>Property</b>	<b>Type</b>	<b>Date Acquired</b>	<b>Year Built</b>	<b>Purchase Price</b>	<b>Fees Paid to Sponsor(1)</b>	<b>Rentable Square Feet</b>	<b>Physical Occupancy</b>
Circle K El Paso (Americas), TX	Convenience store	12/20/07	2000	\$ 2,217,318	\$ 40,044	3,500	100%
Circle K El Paso (Mesa), TX	Convenience store	12/20/07	1999	1,144,097	34,444	3,150	100%
Circle K El Paso (Zaragosa), TX	Convenience store	12/20/07	1999	2,065,450	39,244	3,800	100%
Circle K Fort Mill, SC	Convenience store	12/20/07	1999	2,359,067	40,744	6,553	100%
Circle K Goose Creek, SC	Convenience store	12/20/07	1983	1,366,842	35,044	2,632	100%
Circle K Huntersville, NC	Convenience store	12/20/07	2006	2,014,826	38,644	2,770	100%
Circle K Mount Pleasant, SC	Convenience store	12/20/07	1978	1,538,962	35,844	2,820	100%
Circle K Port Wentworth, GA	Convenience store	12/20/07	1991	2,325,656	39,844	3,760	100%
Circle K Savannah (Johnny Mercer), GA	Convenience store	12/20/07	1990	1,609,836	35,744	1,152	100%
Circle K Savannah(King George), GA	Convenience store	12/20/07	1997	1,609,836	36,344	2,477	100%
Circle K Shreveport, LA	Convenience store	12/20/07	1988	1,214,970	34,544	3,180	100%
Circle K Springdale, SC	Convenience store	12/20/07	1999	1,741,457	36,944	1,760	100%
Exxon West Monroe(503 Thomas), LA	Convenience store	12/20/07	1983	1,468,089	35,844	3,327	100%
Holland Oil Akron (940 Arlington), OH	Convenience store	12/20/07	1991	1,133,972	34,144	2,800	100%
Holland Oil Akron(1178 Arlington), OH	Convenience store	12/20/07	1994	1,417,465	35,544	2,862	100%
Holland Oil Akron(1559 E. Market), OH	Convenience store	12/20/07	1995	1,457,964	35,544	1,624	100%
Holland Oil Akron(1693 West Market), OH	Convenience store	12/20/07	1999	1,599,711	36,844	4,977	100%
Holland Oil Akron(Albrecht), OH	Convenience store	12/20/07	1997	1,113,723	34,044	2,763	100%
Holland Oil Akron (Brittain), OH	Convenience store	12/20/07	1995	1,245,345	34,744	2,857	100%
Holland Oil Akron (Brown), OH	Convenience store	12/20/07	1950	1,306,093	34,744	2,635	100%
Holland Oil Akron (Cuyahoga), OH	Convenience store	12/20/07	1998	1,630,085	36,944	2,800	100%
Holland Oil Akron (Darrow), OH	Convenience store	12/20/07	1994	1,214,970	34,744	2,800	100%

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Holland Oil Akron (Exchange), OH	Convenience store	12/20/07	1996	1,468,089	35,844	3,190	100%
Holland Oil Akron (Main St.), OH	Convenience store	12/20/07	2000	1,184,596	34,344	3,258	100%
Holland Oil Akron (Manchester), OH	Convenience store	12/20/07	1994	1,640,210	36,744	2,800	100%
Holland Oil Akron (Ridgewood), OH	Convenience store	12/20/07	1969	1,306,093	34,744	1,710	100%
Holland Oil Akron (Waterloo), OH	Convenience store	12/20/07	2001	1,184,596	34,644	2,800	100%
Holland Oil Barberton (5 th St.), OH	Convenience store	12/20/07	1983	1,235,220	34,644	2,800	100%
Holland Oil Barberton (31st St.), OH	Convenience store	12/20/07	1991	971,976	33,144	2,800	100%
Holland Oil Barberton (Wooster), OH	Convenience store	12/20/07	1981	2,247,695	39,744	3,600	100%
Holland Oil Bedford, OH	Convenience store	12/20/07	2000	1,275,719	34,944	2,450	100%
Holland Oil Brookpark, OH	Convenience store	12/20/07	1998	1,356,717	35,244	2,740	100%
Holland Oil Canton (12 th Street), OH	Convenience store	12/20/07	1990	1,164,347	33,894	2,800	100%
Holland Oil Canton (Tuscarawas), OH	Convenience store	12/20/07	2000	2,197,071	39,644	4,500	100%
Holland Oil Cleveland, OH	Convenience store	12/20/07	2002	1,589,586	36,444	4,318	100%

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Holland Oil Copley, OH	Convenience store	12/20/07	1993	\$ 1,154,222	\$ 34,244	2,439	100%
Holland Oil Cuyahoga Falls (Bath), OH	Convenience store	12/20/07	2002	2,024,951	38,744	4,269	100%
Holland Oil Cuyahoga Falls (Port), OH	Convenience store	12/20/07	1995	1,387,091	35,444	2,959	100%
Holland Oil Cuyahoga Falls (State), OH	Convenience store	12/20/07	1972	1,032,725	33,244	2,100	100%
Holland Oil Fairlawn, OH	Convenience store	12/20/07	1993	1,609,836	36,344	2,900	100%
Holland Oil Kent, OH	Convenience store	12/20/07	1994	992,226	33,344	2,068	100%
Holland Oil Maple Heights, OH	Convenience store	12/20/07	1998	1,488,339	35,944	2,967	100%
Holland Oil Northfield, OH	Convenience store	12/20/07	1983	1,943,953	38,244	4,647	100%
Holland Oil Norton, OH	Convenience store	12/20/07	1984	1,437,715	35,644	3,750	100%
Holland Oil Parma, OH	Convenience store	12/20/07	2002	1,255,469	35,044	3,039	100%
Holland Oil Seville, OH	Convenience store	12/20/07	2003	2,450,190	41,344	7,200	100%
Holland Oil Twinsburg, OH	Convenience store	12/20/07	2005	1,356,717	35,244	3,298	100%
Holland Oil Willoughby, OH	Convenience store	12/20/07	1986	1,194,721	34,444	2,938	100%
Shell Monroe, LA	Convenience store	12/20/07	1986	1,528,838	36,144	4,140	100%
Spectrum Auburn, AL	Convenience store	12/20/07	1990	1,731,333	36,544	2,772	100%
Spectrum Augusta, GA	Convenience store	12/20/07	1981	1,103,598	33,644	3,010	100%
Spectrum Columbus (Airport), GA	Convenience store	12/20/07	1984	1,538,962	35,644	2,205	100%
Spectrum Columbus (Beaver Run), GA	Convenience store	12/20/07	1995	2,510,939	40,744	3,760	100%
	Convenience store	12/20/07	1995	3,341,168	44,344	4,750	100%

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Spectrum Columbus (Bradley), GA	Convenience store	12/20/07	1990	1,609,836	36,044	2,205	100%
Spectrum Columbus (Buena Vista), GA	Convenience store	12/20/07	2005	1,670,584	36,344	2,874	100%
Spectrum Columbus (Warm Springs), GA	Convenience store	12/20/07	1978	1,964,202	37,744	4,934	100%
Spectrum Lanett, AL	Convenience store	12/20/07	1974	850,479	32,894	2,631	100%
Spectrum Macon (Arkwright), GA	Convenience store	12/20/07	1993	1,144,097	33,944	2,248	100%
Spectrum Macon (Riverside), GA	Convenience store	12/20/07	1974	1,255,469	34,344	2,580	100%
Spectrum Martinez, GA	Convenience store	12/20/07	1985	1,275,719	34,644	2,250	100%
Spectrum Mobile (Airport), AL	Convenience store	12/20/07	1987	1,822,455	36,944	1,800	100%
Spectrum Mobile (Moffett), AL	Convenience store	12/20/07	1988	1,559,212	34,894	678	100%
Spectrum North Augusta, GA	Convenience store	12/20/07	1999	1,194,721	34,244	2,240	100%
Spectrum Opelika (2 nd Ave), AL	Convenience store	12/20/07	1989	1,306,093	34,644	2,531	100%
Spectrum Opelika (Columbus), AL	Convenience store	12/20/07	1988	2,348,943	39,944	3,796	100%
Spectrum Phenix City, AL	Convenience store	12/20/07	1999	1,599,711	36,544	3,054	100%
Spectrum Pine Mountain, GA	Convenience store	12/20/07	1999	1,144,097	34,344	3,285	100%
Spectrum Valley, AL	Convenience store	12/20/07	1974	1,559,212	36,344	3,312	100%
Spirit West Monroe (1602 Thomas), LA	Convenience store	12/20/07	1999	1,670,584	36,844	3,927	100%
Walgreens Cincinnati (Seymour), OH	Drugstore	12/21/07	2000	4,890,000	97,800	15,120	100%
Tractor Supply Rome, NY	Specialty retail	1/4/08	2007	3,150,000	63,000	19,097	100%
HH Gregg Greensboro, NC	Specialty retail	1/11/08	2007	6,800,000	136,000	30,167	100%
	Restaurant	1/16/08	2007	1,172,414	23,448	1,741	100%

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Starbucks Altus,  
OK  
Milford  
Commons

Milford, NH	Shopping center	1/17/08	2005	7,950,000	217,169	77,830	100%
CarMax Greenville, SC	Auto dealership	1/25/08	1998	22,000,000	591,250	46,535	100%

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Bank of America Delray Beach, FL	Office building	1/31/08	1975	\$ 15,000,000	\$ 388,601	54,600	100%
Circuit City Kennesaw, GA	Specialty retail	1/31/08	1998	19,840,000	514,934	183,088	100%
Mustang Engineering Houston, TX	Office building	1/31/08	1983	19,000,000	492,228	136,954	100%
Office Depot Alcoa, TN	Office supply	1/31/08	1999	3,658,000	97,230	26,850	100%
Arby s New Castle, PA	Restaurant	1/31/08	1999	1,520,000	39,260	3,263	100%
CarMax Raleigh, NC	Auto dealership	1/31/08	1994	9,145,000	237,242	56,439	100%
CarMax Pineville, NC	Auto dealership	1/31/08	2002	9,888,000	256,237	18,697	100%
Hilltop Plaza Bridgeton, MO	Retail center	2/6/08	1991	23,195,000	463,900	302,921	100%
Academy Sports Lufkin, TX	Specialty retail	2/7/08	2003	5,200,000	134,715	60,750	100%
Best Buy Wichita, KS	Specialty retail	2/7/08	1984	11,321,000	293,756	66,756	100%
Bridgestone Tire Atlanta, GA	Automotive	2/7/08	1998	2,432,000	63,259	10,325	100%
Bosco s Voorhees, NJ	Department Store	2/7/08	1970	4,090,000	108,380	173,767	100%
CVS Indianapolis, IN	Drugstore	2/7/08	1998	3,690,000	96,098	10,880	100%
FedEx Mishawaka, IN	Distribution	2/7/08	1993	3,932,000	101,971	54,779	100%
Marsh Supermarket Indianapolis, IN	Grocery	2/7/08	1999	14,316,000	371,671	63,750	100%
Starbucks Stillwater, OK	Restaurant	2/28/08	2007	1,303,448	26,069	1,850	100%



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Walgreens Oneida, TN	Drugstore	2/29/08	2007	5,022,901	38,000	14,820	100%(4)
Starbucks Memphis, TN	Restaurant	3/4/08	2007	1,367,000	27,340	1,853	100%
Starbucks Ponca City, OK	Restaurant	3/11/08	2007	1,061,753	21,235	1,750	100%
Starbucks Kingsport, TN	Restaurant	3/25/08	2008	1,328,000	26,560	1,850	100%
Pep Boys Albuquerque, NM	Automotive parts	3/25/08	1990	3,773,000	75,460	21,768	100%
Pep Boys Arlington Heights, IL	Automotive parts	3/25/08	1995	6,139,000	122,780	20,464	100%
Pep Boys Clarksville, IN	Automotive parts	3/25/08	1993	2,517,000	50,340	22,211	100%
Pep Boys Colorado Springs, CO	Automotive parts	3/25/08	1994	2,665,000	53,300	22,211	100%
Pep Boys El Centro, CA	Automotive parts	3/25/08	2006	2,426,000	48,520	18,196	100%
Pep Boys Fort Myers, FL	Automotive parts	3/25/08	1994	3,048,000	60,960	22,225	100%
Pep Boys Frederick, MD	Automotive parts	3/25/08	1987	4,717,000	94,340	17,690	100%
Pep Boys Hampton, VA	Automotive parts	3/25/08	1993	3,998,000	79,960	22,211	100%
Pep Boys Lakeland, FL	Automotive parts	3/25/08	1991	2,717,000	54,340	20,747	100%
Pep Boys Nashua, NH	Automotive parts	3/25/08	1996	4,375,000	87,500	19,300	100%
Pep Boys New Hartford, NY	Automotive parts	3/25/08	1992	2,369,000	47,380	22,211	100%
Pep Boys Orem, UT	Automotive parts	3/25/08	1990	3,048,000	60,960	21,770	100%
Pep Boys Pasadena, TX	Automotive parts	3/25/08	1995	4,988,000	99,760	22,341	100%
Pep Boys Redlands, CA	Automotive parts	3/25/08	1994	4,620,000	92,400	22,290	100%
Pep Boys San Antonio, TX	Automotive parts	3/25/08	1988	2,460,000	49,200	23,373	100%
Pep Boys Tamarac, FL	Automotive parts	3/25/08	1997	4,085,000	81,700	18,020	100%
	Automotive parts	3/25/08	1991	1,925,000	38,500	22,356	100%

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Pep Boys Tampa, FL Pep Boys West Warwick, RI	Automotive parts	3/25/08	1993	3,702,000	74,040	22,211	100%
Walgreens Batesville, MS	Drugstore	3/31/08	2007	5,321,000	106,420	14,250	100%
Tractor Supply Clovis, NM	Specialty retail	4/7/08	2007	3,060,000	61,200	19,097	100%
BJ s Wholesale Club Haverhill, MA	Specialty retail	4/14/08	2006	19,400,000	388,000	119,598	100%
				\$ 2,002,286,439	\$ 48,440,647	13,238,022	

(1) Fees paid to sponsor include payments made to an affiliate of our advisor for acquisition fees in connection with the property acquisition and payments to our advisor for finance coordination fees for services in connection with the origination or assumption of debt financing obtained to acquire the respective property. For more

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detailed information on fees paid to affiliates of our sponsor, see the section captioned Management Compensation beginning on page 62 of the prospectus.

- (2) The single-tenant restaurants that comprise the Applebee's Portfolio were built in various years, beginning in 1990 through 2006.
- (3) Wal-Mart Stores, Inc. (Wal-Mart) is lessee at this property and they have subleased approximately 25,830 square feet to Tractor Supply Company. The remaining space at the building, approximately 40,100 square feet, is vacant. Wal-Mart remains the tenant under the original lease agreement.
- (4) This property was purchased from affiliates of our advisor. A majority of our board of directors, including all of our independent directors, not otherwise interested in the acquisition, approved the acquisition as being fair and reasonable to us and at a price to us no greater than the cost of the asset to the affiliate. The cost to us was not in excess of the current appraised value of the property as determined by an independent expert selected by our independent directors.

The following table sets forth the principal provisions of the lease terms for the major tenants at each property listed above.

Property	Number of Tenants	Major Tenants*	Total Square Feet Leased	% of Total Square Feet	Renewal Options**	Current	Base Rent	Lease Term	
						Annual Base Rent	per Square Foot	Beginning	To
Tractor Supply Company, Waukegan, IL	1	Tractor Supply Company	21,688	100%	4/5 yr.	\$ 228,147 250,962 276,058	\$ 10.52 11.57 12.73	9/26/2005 8/1/2010 8/1/2015	7/31/2010 7/31/2015 7/31/2020
Walgreens, Minnetonka, MN	1	Walgreen Co.	15,120	100%	8/5 yr.	303,000	20.04	10/5/2005	6/30/2020
Rite Aid, Cincinnati, OH	1	Rite Aid of Ohio, Inc.	11,348	100%	6/5 yr.	189,023	16.66	10/20/2005	4/30/2017
7-Eleven, Phoenix, AZ	1	EBCO, Inc.	23,000	100%	3/5 yr.	419,750	18.25	10/25/2005	10/31/2015
Walgreens, St. Louis, MO	1	Walgreen Co.	15,120	100%	8/5 yr.	344,000	22.75	11/2/2005	2/28/2021
Walgreens, St. Louis, MO (Gravois)	1	Walgreen Co.	15,120	100%	8/5 yr.	408,000	26.98	11/2/2005	10/31/2021
Walgreens, St. Louis, MO (Telegraph)	1	Walgreen Co.	15,120	100%	8/5 yr.	335,500	22.19	11/2/2005	12/31/2021

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Walgreens Columbia, MO	1	Walgreen Co.	13,973	100%	8/5 yr.	427,300	30.58	11/22/2005	6/30/2022
Walgreens Covette, MO	1	Walgreen Co.	15,030	100%	10/5 yr.	528,000	35.13	11/22/2005	10/31/2026
CVS Cohasset, MA	1	Mayfield CVS, Inc.,	10,125	100%	3/5 yr.	206,600	20.40	12/1/2005	5/31/2008
						218,997	21.63	6/1/2008	5/31/2013
						232,136	22.93	6/1/2013	1/31/2019
Walgreens Enterprise, TX	1	Lowe's Home Centers, Inc CVS EGL Grapevine N Richland Hills Texas, LP	95,173	100%	6/5 yr.	500,000	5.25	12/1/2005	4/30/2015
CVS Richland Hills, TX	1		10,908	100%	4/5 yr.	265,249	24.32	12/8/2005	8/28/2007
						270,849	24.83	8/29/2007	8/28/2012
						276,449	25.34	8/29/2012	8/28/2017
FedEx Rockford, IL	1	Fed Ex Ground Package System, Inc.	67,925	100%	2/5 yr.	445,632	6.56	12/9/2005	9/30/2015
CVS Stech Burn Hills, TX	1	LDM Technologies, Inc.	111,881	100%	2/5 yr.	1,790,100	16.00	12/15/2005	1/31/2021(
Academy Sports Macon, GA	1	Academy, LTD	74,532	100%	4/5 yr.	408,804	5.48	1/6/2006	1/31/2011
						421,064	5.65	2/1/2011	1/31/2016
						433,695	5.82	2/1/2016	1/31/2021
						446,706	5.99	2/1/2021	1/31/2026
David's Bridal Mesa, KS	1	David's Bridal, Inc.	12,083	100%	2/5 yr.	235,200	19.47	1/11/2006	12/31/2010
						258,720	21.41	1/1/2011	12/31/2015
Rite Aid Enterprise, TX	1	Harco, Inc.	14,564	100%	6/5 yr.	289,629	19.89	1/26/2006	1/31/2026
Rite Aid Mason, OH	1	Rite Aid of Ohio, Inc.	14,564	100%	6/5 yr.	311,720	21.40	1/26/2006	1/31/2026
CVS Crosbyville, TX	1	Staples the Office Superstore East, Inc	23,942	100%	3/5 yr.	221,463	9.25	1/26/2006	6/30/2016
Rite Aid Cochran, ME	1	Rite Aid of Maine, Inc.	11,180	100%	4/5 yr.	210,743	18.85	1/27/2006	2/28/2017
Walgreens Henderson, CO	2	Sam's PW, Inc. Hob-Lob Limited Partnership	108,224	55%	10/5 yr.	820,245	7.58	2/8/2006	11/30/2016
			90,253	45%	10/5 yr.	585,000	6.48	2/8/2006	10/31/2016
Walgreens Mountainside Business	1	Hatten Holdings, Inc.	31,063	100%	2/5 yr.	469,051	15.10	2/10/2006	12/31/2006

andler, AZ

523,101	16.84	1/1/2007	12/31/2011
583,363	18.78	1/1/2012	12/31/2016
651,391	20.97	1/1/2017	7/18/2022

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Property	Number of Tenants	Major Tenants*	Total Square Feet Leased	% of		Renewal Options**	Current Annual Base Rent	Base Rent per Square Foot	Lease Term	
				Total Square Feet	Options**				Beginning	To
Drexel Heritage Furniture Industries, Rocky, NC	1	Drexel Heritage Furniture Industries, Inc.	261,057	100%	3/5 yr.	\$ 338,078 390,090	\$ 1.30 1.49	2/24/2006 9/9/2010	9/8/2010 9/8/2015	
Wyford Square Spring, TX	5	Academy Corp	50,500	63%	2/5 yr.	371,175 383,800 396,425 409,050	7.35 7.60 7.85 8.10	3/1/2006 11/1/2009 11/1/2014 11/1/2019	10/31/2009 10/31/2014 10/31/2019 10/31/2024	
		CB Jackson Hi-Lo Auto Supply, LP	12,302 8,136	15% 10%	None 1/5 yr.	125,484 60,720	10.20 7.46	3/1/2006 3/1/2006	12/31/2008 3/31/2008	
W/S Bartsmouth H (Scioto Trail)	1	Revco Discount Drug Centers, inc.	10,170	100%	4/5 yr.	153,333 156,666 160,000	15.08 15.40 15.73	3/8/2006 8/1/2008 8/1/2013	7/31/2008 7/31/2013 7/31/2018	
Wawa Lockessin, E	1	Wawa, Inc.	5,160	100%	6/5 - 9 yrs.	365,185	70.77	3/29/2006	12/31/2021(	
Wawa Manahawkin,	1	Wawa, Inc.	4,695	100%	6/5 - 9 yrs.	332,276	70.77	3/29/2006	12/31/2021(	
Wawa Arbeth, PA	1	Wawa, Inc.	4,461	100%	6/5 - 9 yrs.	315,715	70.77	3/29/2006	12/31/2021(	
W/S Newwood, H	2	Revco Discount Drug Centers	10,800	84%	2/5 yr.	180,900 191,700	16.75 17.75	4/20/2006 10/1/2006	9/30/2006 9/30/2016	
		Charter One Bank, N.A	2,000	16%	1/5yr	30,992 33,898	15.50 16.95	4/20/2006 8/1/2006	7/31/2006 7/31/2011	
Rite Aid Cleveland, H	1	Rite Aid of Ohio, Inc.	11,325	100%	6/5 yr.	220,470	19.47	4/27/2006	6/30/2018	
Rite Aid Mont, OH	1	Rite Aid of Ohio, Inc.	11,325	100%	6/5 yr.	201,955	17.83	4/27/2006	2/28/2018	
Walgreens Noxville,	1	Walgreen Co.	15,120	100%	8/5 yr.	350,000	23.15	5/8/2006	5/31/2020	

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CVS Madison, MS	1	CVS EGL Highland Madison MS, Inc.	13,824	100%	4/5 yr.	302,484	21.88	5/26/2006	6/10/2024
Rite Aid Cincinnati, OH	1	Rite Aid of Ohio, Inc.	14,564	100%	6/5 yr.	337,917	23.20	5/26/2006	1/31/2026
Conns San Antonio, TX	1	CAI, LP	25,230	100%	5/3 yr.	338,000	13.40	5/26/2006	4/30/2008
						351,520	13.93	5/1/2008	4/30/2011
						365,581	14.49	5/1/2011	4/30/2014
						380,204	15.07	5/1/2014	4/30/2017
ollar General Covington, TN	1	Dolgencorp, Inc.	24,341	100%	6/5 yr.	217,852	8.95	6/2/2006	3/31/2016
						239,637	9.84	4/1/2016	3/31/2021
ollar General Madison, TN	1	Dolgencorp, Inc.	24,341	100%	6/5 yr.	208,116	8.55	6/9/2006	11/30/2015
						228,928	9.41	12/1/2015	11/30/2020
ollar General Livingston, TN	1	Dolgencorp, Inc.	24,341	100%	6/5 yr.	214,200	8.80	6/12/2006	4/30/2016
						235,620	9.68	5/1/2016	4/30/2021
ehrenberg Theatre Rolla, MO	1	Wehrenberg, Inc.	50,000	100%	2/5 yr.	784,453	15.69	6/14/2006	3/31/2009
						836,094	16.72	4/1/2009	3/31/2014
						897,572	17.95	4/1/2014	3/31/2019
ortmans Warehouse Wichita, KS	1	Sportsman s Warehouse, Inc.,	50,003	100%	5/5 yr.	639,046	12.78	6/27/2006	4/30/2011
						670,998	13.42	5/1/2011	4/30/2016
						704,548	14.09	5/1/2016	4/30/2021
VS Wurtsmouth H (Hillicothe)	1	Revco Discount Drug Centers, Inc.	10,650	100%	4/5 yr.	143,700	13.49	6/28/2006	11/30/2007
						149,100	14.00	12/1/2007	11/30/2017
lvance Auto Greenfield, IN	1	Advance Stores Company, Inc.	7,000	100%	2/5 yr.	110,040	15.72	6/29/2006	6/30/2013
lvance Auto Canton, OH	1	Advance Stores Company, Inc.	7,000	100%	2/5 yr.	84,782	12.11	6/29/2006	6/30/2013
te Aid Livonia, MI	1	Rite Aid of Michigan, Inc.	11,680	100%	4/5 yr.	160,480	13.74	6/29/2006	12/31/2006
						166,320	14.24	1/1/2007	12/31/2011
						172,160	14.74	1/1/2012	12/31/2016
lvance Auto Columbia, SC	1	Advance Stores Company, Inc.	7,000	100%	3/5 yr.	131,524	18.79	7/6/2006	1/31/2016

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rights, MN					138,100	19.73	2/1/2016	1/31/2021	
Advance Auto									
ergus Falls, MN	1	Advance Stores Company, Inc.	7,000	100%	3/5 yr.	91,441	13.06	7/6/2006	11/30/2015
						96,013	13.72	12/1/2015	11/30/2020
/S									
eechobee,	1	Eckerd Corporation	13,050	100%	5/5 yr.	435,130	33.34	7/7/2006	7/5/2026
Office Depot									
lyton, OH	1	Office Depot, Inc.	19,880	100%	4/5 yr.	237,566	11.95	7/7/2006	12/31/2021
Advance Auto									
lland, MI	1	Advance Stores Company, Inc.	7,000	100%	3/5 yr.	149,063	21.29	7/12/2006	1/31/2016
						163,969	23.42	2/1/2016	1/31/2021



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Property	Number of Tenants	Major Tenants*	Total Square Feet Leased	% of Total Square Feet	Renewal Options**	Current	Base Rent	Lease Term	
						Annual Base Rent	per Square Foot	Beginning	To
Advance Auto Holland Township, MI	1	Advance Stores Company, Inc.	7,000	100%	3/5 yr.	\$ 153,908 169,299	\$ 21.99 24.19	7/12/2006 2/1/2016	1/31/2016 1/31/2021
Advance Auto Holland, MI	1	Advance Stores Company, Inc.	7,000	100%	3/5 yr.	132,089 145,298	18.87 20.76	7/12/2006 2/1/2016	1/31/2016 1/31/2020
CVS Orlando, FL	1	CVS EGL Lake Pickett FL, LLC	13,013	100%	4/5 yr.	324,765	24.96	7/12/2006	11/1/2025
Office Depot Greenville, SC	1	Office Depot, Inc.	25,083	100%	3/5 yr.	256,804	10.24	7/12/2006	9/30/2015
Office Depot Warrensburg, MO	1	Office Depot, Inc.	20,000	100%	4/5 yr.	210,000	10.50	7/19/2006	8/31/2016
CVS Gulfport, MS	1	CVS EGL East Pass Gulfport MS, Inc.	11,359	100%	4/5 yr.	281,136	24.75	8/10/2006	10/24/2025
Advance Auto Grand Forks, ND	1	Advance Stores Company, Inc.	7,000	100%	3/5 yr.	106,375 111,694	15.20 15.96	8/15/2006 1/1/2016	12/31/2015 12/31/2020
CVS Clinton, NY	1	CVS BDI, Inc.,	10,055	100%	4/5 yr.	222,661	22.14	8/24/2006	1/31/2032
Theatre Oxford, MS	1	Oxford Theater Company, Inc.	35,000	100%	N/A	848,088 883,092 918,084 953,088	24.23 25.23 26.23 27.23	8/31/2006 8/1/2011 8/1/2016 8/1/2021	7/31/2011 7/31/2016 7/31/2021 7/31/2026
Advance Auto Duluth, MN	1	Advance Stores Company, Inc.	7,000	100%	3/5 yr.	108,875 114,319	15.55 16.33	9/8/2006 3/1/2016	2/28/2016 2/28/2021
Walgreens Biloxi, MS	1	Walgreen Co.	14,820	100%	10/5 yr.	291,385	19.66	9/15/2006	3/31/2031
Kohl's Wichita, KS	1	Kohl's Illinois, Inc.	86,584	100%	6/5 yr.	601,759	6.95	9/27/2006	1/28/2017
Lowe's Hubbock, TX	1	Lowe's Home Centers, Inc.	137,480	100%	6/5 yr.	861,280	6.26	9/27/2006	4/30/2016
Lowe's Midland, TX	1	Lowe's Home Centers, Inc.	134,050	100%	6/5 yr.	829,960	6.19	9/27/2006	4/30/2016

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Advance Auto Grand Bay, LA	1	Advance Stores Company, Inc.	7,000	100%	3/5 yr.	84,786 93,265	12.11 13.32	9/29/2006 9/1/2015	8/31/2015 8/31/2020
Advance Auto Hurley, MS	1	Advance Stores Company, Inc.	7,000	100%	3/5 yr.	82,324 90,556	11.76 12.94	9/29/2006 4/1/2016	3/31/2016 3/31/2021
Advance Auto Lainsville, LA	1	Advance Stores Company, Inc.	7,000	100%	3/5 yr.	100,928 111,021	14.42 15.86	9/29/2006 1/1/2015	12/31/2015 12/31/2020
Gold's Gym Fallon, IL	1	Gold's St Louis, LLC	38,000	100%	2/5 yr.	588,000 616,800	15.47 16.23	9/29/2006 10/1/2015	9/30/2015 9/30/2019
Rite Aid Classport, PA	1	Rite Aid of Pennsylvania, Inc.	14,564	100%	6/5 yr.	295,504	20.29	10/4/2006	7/31/2026
David's Bridal/Radio Shack Pepeka, KS	2	David's Bridal, Inc.	7,750	76%	2/5 yr.	166,625 183,288	21.50 23.65	10/13/2006 11/1/2011	10/31/2011 10/31/2016
		Radio Shack Corporation	2,400	24%	3/5 yr.	60,000	25.00	10/13/2006	1/31/2012
Rite Aid Hanover, PA	1	Rite Aid	14,584	100%	4/5 yr.	493,787	33.86	10/17/2006	10/31/2026
American TV & Appliance Georia, IL	1	American TV & Appliance of Madison, Inc.	126,852	100%	8/5 yr.	840,750 924,825 1,017,308	6.63 7.29 8.02	10/23/2006 9/24/2008 9/24/2013	9/23/2008 9/23/2013 9/23/2018
Tractor Supply La Grange, TX	1	Tractor Supply Texas	24,727	100%	4/5 yr.	189,000 207,900 228,690	7.64 8.41 9.25	11/6/2006 6/1/2011 6/1/2016	5/31/2011 5/31/2016 5/31/2021
Staples Peru, LA	1	Staples the Office Superstore East, Inc	23,925	100%	3/5 yr.	257,194 258,390	10.75 10.80	11/10/2006 7/1/2008	6/30/2008 6/30/2013
Fedex Council Huffs, IA	1	Fedex Freight East, Inc.	23,510	100%	4/5 yr.	252,054	10.72	11/15/2006	9/30/2021
Fedex Edwardsville, MS	1	Fedex Freight East, Inc.	155,965	100%	4/5 yr.	1,486,123	9.53	11/15/2006	9/30/2021
CVS Henville Cotia, NY	1	CVS Mack Drug of New York, LLC	12,900	100%	4/5 yr.	371,912	28.83	11/16/2006	1/31/2032

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Advance Auto Shland, KY	1	Advance Stores Company, Inc.	7,000	100%	3/5 yr.	126,948 139,643	18.14 19.95	11/17/2006 7/1/2016	6/30/2016 6/30/2021
Advance Auto ckson, OH	1	Advance Stores Company, Inc.	7,000	100%	3/5 yr.	102,100 112,304	14.59 16.04	11/17/2006 10/1/2015	9/30/2015 9/30/2020
Advance Auto ew Boston, H	1	Advance Stores Company, Inc.	7,000	100%	3/5 yr.	114,501 125,951	16.36 17.99	11/17/2006 7/1/2015	6/30/2015 6/30/2020

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Property	Number of Tenants	Major Tenants*	Total Square Feet Leased	% of Total Square Feet	Renewal Options**	Current Annual Base Rent	Base Rent per Square Foot	Lease Term	
								Beginning	To
Advance tsburg,	1	Advance Stores Company, Inc.	7,000	100%	3/5 yr.	\$ 96,008 100,808	\$ 13.72 14.40	11/17/2006 9/1/2016	8/31/2016 8/31/2021
tor ngston,	1	Tractor Supply Texas	24,727	100%	4/5 yr.	225,000 247,500 272,250	9.10 10.01 11.01	11/22/2006 11/14/2011 11/14/2016	11/13/2011 11/13/2016 11/13/2021
tor ly New nfels, TX	1	Tractor Supply Texas	24,727	100%	4/5 yr.	224,500 246,950 271,645	9.08 9.99 10.99	11/22/2006 3/1/2011 3/1/2016	2/28/2011 2/28/2016 2/28/2021
ce Depot on, AR	1	Office Depot, Inc.	20,515	100%	4/5 yr.	246,180 251,309	12.00 12.25	11/21/2006 12/1/2011	11/30/2011 11/30/2016
Time ery view ghts, IL	1	Old Time Pottery, Inc.	97,849	100%	3/5 yr.	342,472 366,934	3.50 3.75	11/21/2006 1/1/2011	12/31/2010 12/30/2015
iti Davie,	1	Warren Henry Automobiles, Inc.	20,927	100%	4/5 yr.	707,395	33.80	11/30/2006	7/1/2021
ce Depot ord, MS	1	Office Depot, Inc.	20,000	100%	3/5 yr.	264,000 290,000	13.20 14.50	12/1/2006 11/1/2016	10/31/2016 10/31/2021
tor ly ckett, TX	1	Tractor Supply Texas	24,727	100%	4/5 yr.	179,000 196,900 216,590	7.24 7.96 8.76	12/1/2006 10/24/2011 10/24/2016	10/23/2011 10/23/2016 10/23/2021
cedes z Atlanta,	1	Atlanta Eurocars	40,588	100%	4/5 yr.	900,000 990,000 1,089,000 1,197,900	22.17 24.39 26.83 29.51	12/15/2006 1/1/2012 1/1/2017 1/1/2022	12/31/2011 12/31/2016 12/31/2021 12/31/2026
	1		55,745	100%	3/5 yr.	762,592	13.68	12/20/2006	11/30/2010

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Dick's Sporting Goods Merst, NY					790,464	14.18	12/1/2010	11/30/2015	
Paris, IL	1	Brinker Texas, L.P.	6,698	100%	2/5 yr.	200,913	30.00	12/28/2006	11/30/2023
Staples the Office Superstore East, Inc.	1		20,388	100%	3/5 yr.	326,208	16.00	12/29/2006	10/31/2011
					356,790	17.50	11/1/2011	10/31/2016	
M Fargo, Inc.	1	HOM Furniture, Inc.	122,108	100%	4/5 yr.	968,000	7.93	1/4/2007	12/31/2011
					1,017,159	8.33	1/1/2012	12/31/2016	
					1,070,877	8.77	1/1/2017	1/31/2022	
Z-Boy Galleries of Paramus, Inc.	1		20,701	100%	2/5 yr.	496,824	24.00	1/5/2007	12/31/2016
					558,297	27.00	1/1/2017	12/26/2021	
Advance Stores Company, Inc.	1		7,000	100%	3/5 yr.	142,940	20.42	1/12/2007	2/28/2016
					150,088	21.44	3/1/2016	2/28/2021	
Ross Dress for Less, Inc.	3		30,187	35%	5/5 yr.	279,230	9.25	1/12/2007	1/31/2012
					286,777	9.50	2/1/2012	1/31/2017	
Bed Bath & Beyond, Inc.			23,000	26%	5/5 yr.	172,500	7.50	1/12/2007	1/31/2017
Petsmart, Inc.			20,087	23%	6/5 yr.	270,959	13.50	1/12/2007	5/31/2016
Academy Ltd	1		1,500,596	100%	8/5 yr.	7,038,000	4.69	1/18/2007	1/31/2027
Gordmans, Inc.	1		60,947	100%	4/5 yr.	684,000	11.22	1/18/2007	3/31/2011
					714,000	11.72	4/1/2011	3/31/2016	
No single tenant occupies greater than 10.0% of the rentable square feet of this property.	24		85,763	95%	Various				
Minyard Food Stores, Inc.	2		58,695	90%	3/10 yr.	375,648	6.40	2/6/2007	4/30/2010
					396,191	6.75	5/1/2010	4/30/2020	
Hi-Lo Auto Supply, LP			6,600	10%	3/5 yr.	25,920	3.93	2/6/2007	6/30/2011
					27,994	4.24	7/1/2011	6/30/2016	

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					30,233	4.58	7/1/2016	6/30/2021	
tor bly eny, IA	1	Tractor Supply Company	19,097	100%	4/5 yr.	213,252	11.17	2/9/2007	8/23/2011
					234,576	12.28	8/24/2011	8/23/2016	
					258,036	13.51	8/24/2016	8/23/2021	
K Air entry, RI ce Depot rprise,	1	ABX Air, Inc.	33,000	100%	4/5 yr.	316,990	9.61	2/14/2007	1/31/2014
	1	Office Depot, Inc.	20,000	100%	3/5 yr.	215,129	10.76	2/27/2007	10/31/2016
					225,135	11.26	11/1/2016	10/31/2021	

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Property	Number of Tenants	Major Tenants*	Total Square Feet Leased	% of	Renewal Options**	Current	Base Rent	Lease Term	
				Total Square Feet		Annual Base Rent	per Square Foot	Beginning	To
Northern Tool Blaine, MN	1	Northern Tool and Equipment, Inc.	25,488	100%	3/5 yr.	\$ 344,598 380,536	\$ 13.52 14.93	2/28/2007 12/1/2016	11/30/2016 11/30/2021
OfficeMax Orangeburg, SC	1	OfficeMax, Inc.	23,500	100%	4/5 yr.	252,625	10.75	2/28/2007	6/30/2014
Walgreens Cincinnati, OH	1	Walgreen Co.	15,120	100%	8/5 yr.	365,000	24.14	3/6/2007	3/31/2020
Walgreens Madeira, OH	1	Walgreen Co.	13,905	100%	8/5 yr.	314,000	22.58	3/6/2007	8/31/2018
Walgreens Marionville, MO	1	Walgreen Co.	13,905	100%	8/5 yr.	290,000	20.86	3/6/2007	10/31/2023
AT&T Beaumont, TX	1	AT&T Services, Inc.	141,525	100%	2/5 yr.	900,473	6.36	3/19/2007	3/18/2012(7)
Walgreens Breveport, VA	1	Walgreen Co.	13,905	100%	8/5 yr.	327,000	23.52	3/23/2007	9/30/2019
Post-U-Less St. Croix, WI	1	CULUSVI, Inc.	38,365	100%	2/5 yr.	512,000	13.35	3/26/2007	3/31/2022
Ballina Centro Collierville, TN	11	Stein Mart, Inc.	36,000	34%	3/5 yr.	234,000 252,000	6.50 7.00	3/28/2007 4/1/2011	3/31/2011 3/31/2016
		Kroger Limited Partnership, I	59,670	41%	11/5 yr.	172,000 189,200	2.88 3.17	3/28/2007 4/1/2011	3/31/2011 3/31/2021
		Walgreen Co.	20,071	14%	8/5 yr.	350,000	17.44	5/9/2006	5/31/2016
Apria Healthcare St. John, MO	1	Apria Healthcare, Inc.	52,200	100%	1/5 yr.	514,464	9.86	3/28/2007	10/31/2013
Logan s Roadhouse Fairfax, VA	1	Logan s Roadhouse, Inc.	7,839	100%	5/5 yr.	224,619	28.65	3/28/2007	11/29/2026(8)
Logan s Roadhouse	1	Logan s Roadhouse, Inc.	7,839	100%	5/5 yr.	270,623	34.52	3/28/2007	11/29/2026(9)

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Johnson County, TN Center at 600 Cottonwood Ave Clinton, MI	4	Hob-Lob Limited Partnership Leppinks, Inc.	54,533 16,000	64% 19%	2/5 yr. 3/5 yr.	259,032 97,104 99,046 101,027 103,048 105,108	4.75 6.07 6.19 6.31 6.44 6.57	3/30/2007 3/30/2007 8/1/2007 8/1/2008 8/1/2009 8/1/2010	10/31/2009 7/31/2007 7/31/2008 7/31/2009 7/31/2010 7/31/2011
McKer Lincolnton, NC	1	ECK-001, LLC	10,908	100%	4/5 yr.	169,648 175,100 180,552	15.55 16.05 16.55	4/30/2007 8/8/2007 8/8/2012	8/7/2007 8/7/2012 8/7/2017
Tractor Supply Greenfield, IN	1	Tractor Supply Company	22,675	100%	4/5 yr.	289,228 318,150 349,965	12.76 14.03 15.43	4/2/2007 4/1/2011 4/1/2016	3/31/2011 3/31/2016 3/31/2021
Lincoln Race Fairview Heights, IL	19	Kohl's Department Stores, Inc. Ultimate Electronics, Inc.	86,584 31,000	32% 13%	5/5 yr. 2/5 yr.	530,760 367,816 409,780 439,780 483,758	6.13 11.50 12.81 13.75 15.13	4/5/2007 4/5/2007 3/1/2008 3/1/2010 3/1/2013	2/1/2020 2/28/2008 2/28/2010 2/28/2013 2/28/2018
		Marshalls of IL, LLC	30,000	11%	3/5 yr.	292,500 307,500	9.75 10.25	4/5/2007 9/1/2007	8/31/2007 8/31/2012
		LNT, Inc.	28,023	10%		308,000 322,000	10.99 11.49	4/5/2007 9/1/2007	8/31/2007 8/31/2012
Marillo Furniture Shelby, TX	1	Choice Furniture, Inc.	74,797	100%	N/A	463,741 493,660 523,579	6.20 6.60 7.00	4/6/2007 5/1/2011 5/1/2016	4/30/2011 4/30/2016 4/30/2021
Locatello Square Locatello, ID	5	Sportsman's Warehouse, Inc	47,979 30,187	35% 22%	5/5 yr. 4/5 yr.	428,705 476,605 493,370 514,925 535,522 562,346 590,607 530,760	8.94 9.93 10.28 10.73 11.16 11.72 12.31 17.58	4/6/2007 12/1/2007 12/1/2008 12/1/2009 12/1/2010 12/1/2011 12/1/2016 4/6/2007	11/30/2007 11/30/2008 11/30/2009 11/30/2010 11/30/2011 11/30/2016 11/30/2021 1/31/2017



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Tractor Supply Paw aw, MI		Ross Dress for Less, Inc. Staples the Office Superstore, Inc.	20,388	15%	2/5 yr.	243,637	11.95	4/6/2007	9/30/2016
	1	Tractor Supply Company	22,670	100%	4/5 yr.	277,840	10.05	4/9/2007	12/10/2011
						250,624	11.06	12/11/2011	12/10/2016
						275,686	12.16	12/11/2016	12/10/2021
Tractor Supply Marinette, MI		Tractor Supply Company	19,097	100%	4/5 yr.	213,933	11.20	4/9/2007	12/15/2011
						235,326	12.32	12/16/2011	12/15/2016
						258,858	13.55	12/16/2016	12/15/2021

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Property	Number of Tenants	Major Tenants*	Total Square Feet Leased	% of Total Square Feet	Renewal Options**	Current	Base Rent	Lease Term					
						Annual Base Rent	per Square Foot	Beginning	To				
Wille, SC	1	Staples the Office Superstore East, Inc.	20,388	100%	4/5 yr.	\$ 318,053	\$ 15.60	4/11/2007	3/31/2010				
						339,460	16.65	4/1/2012	3/31/2015				
Center, CO	4	Big 5 Corporation	10,000	63%	3/5 yr.	150,000	15.00	4/11/2007	12/31/2010				
						162,000	16.20	1/1/2012	12/31/2015				
						178,200	17.82	1/1/2017	1/31/2022				
						M-Fast, Inc.	3,500	22%	2/5 yr.	87,500	25.00	4/11/2007	12/31/2010
										88,900	25.40	1/1/2008	12/31/2010
										90,300	25.80	1/1/2009	12/31/2010
										91,700	26.20	1/1/2010	12/31/2010
										93,100	26.60	1/1/2011	12/31/2010
										94,500	27.00	1/1/2012	12/31/2010
										95,900	27.40	1/1/2013	12/31/2010
97,300	27.80	1/1/2014	12/31/2010										
98,700	28.20	1/1/2015	12/31/2010										
100,100	28.60	1/1/2016	12/31/2010										
nd Plains,	1	Rite Aid of Pennsylvania, Inc.	14,564	100%	6/5 yr.	390,173	26.79	4/16/2007	5/3/2012				
Supply, TX	1	Tractor Supply Company of Texas, LP	22,670	100%	4/5 yr.	215,640	9.51	4/18/2007	9/26/2010				
						229,640	10.13	9/27/2011	9/26/2015				
						244,584	10.79	9/27/2015	9/26/2020				
man s ouse De VI	1	Sportsman s Warehouse, Inc.	48,453	100%	5/5 yr.	474,839	9.80	4/20/2007	10/28/2010				
						CPI	CPI	10/29/2009	10/28/2014				
						CPI	CPI	10/29/2014	10/28/2019				
Easton,	1	Thrift Drug, Inc.	13,813	100%	2/5 yr.	464,379	33.62	4/25/2007	2/1/2012				
ee s io Master	(10)	Restaurant Concepts Lease III, LLC	44,781	100%	N/A	1,702,000							
							38.01	4/26/2007	4/30/2010				
						1,838,160	41.05	5/1/2012	4/30/2015				
						2,003,594	44.74	5/1/2017	4/30/2020				
						2,203,954	49.22	5/1/2022	4/30/2025				
ee s io Master I	(11)	Restaurant Concepts II, LLC	36,985	100%	N/A	1,486,000	40.18	4/26/2007	4/30/2010				

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						1,604,880	43.39	5/1/2012	4/30/2012
						1,749,319	47.30	5/1/2017	4/30/2017
						1,924,251	52.03	5/1/2022	4/30/2022
see s									
io Master		Restaurant Concepts							
II	(12)	II, LLC	38,480	100%	N/A	1,555,000	40.41	4/25/2007	4/30/2012
						1,679,400	43.64	5/1/2012	4/30/2012
						1,830,546	47.57	5/1/2017	4/30/2017
						2,013,601	52.33	5/1/2022	4/30/2022
ens									
town,									
	1	Walgreen Co.	13,905	100%	8/5 yr.	315,300	22.68	4/30/2007	5/31/2012
d									
cksburg,	1	Rite Aid of Virginia, Inc.	14,564	100%	4/5 yr.	392,063	26.92	5/2/2007	2/28/2012
Club									
on, SC	1	Wal-Mart Stores, Inc.	134,664	100%	6/5 yr.	810,677	6.02	5/8/2007	11/14/2012
Supply									
cksburg,	1	Tractor Supply Company of Texas, LP	22,670	100%	4/5 yr.	225,000	9.93	5/7/07	3/3/2012
						247,500	10.92	3/4/2012	3/3/2012
						272,250	12.01	3/4/2017	3/3/2012
ens									
TX	1	Walgreen Co.	13,905	100%	8/5yr.	240,000	17.26	5/9/2007	9/30/2012
art New									
n, WI	1	Wal-Mart Stores, Inc.	51,985	100%	5/5yr.	202,640	3.90	5/9/2007	1/31/2012
d Lima,									
	1	Rite Aid of Ohio, Inc.	14,564	100%	6/5yr	370,185	25.42	05/14/07	01/31/2012
ontaine)									
d	1	Rite Aid of Pennsylvania, Inc.	14,564	100%	6/5yr.	419,864	28.83	05/15/07	02/21/2012
own, PA									
lorence,	1	Florence CVS, Inc.	10,125	100%	4/5yr.	177,188	17.50	05/17/07	01/31/2012
burg									
, SC	1	Eckerd Corporation	10,908	100%	4/5yr.	268,555	24.62	05/17/07	09/28/2012
		Staples the Office							
w, IN	1	Superstore East, Inc.	23,990	100%	4/5yr.	261,491	10.90	05/17/07	05/31/2012
ens									
TX	1	Walgreen Co.	15,050	100%	8/5yr.	432,900	28.76	05/18/07	04/30/2012
ens									
County,	1	Walgreen Co.	15,050	100%	8/5yr.	389,340	25.87	05/18/07	03/31/2012
c Supply									
w, TN	1	Tractor Supply Company	19,067	100%	4/5yr.	216,420	11.35	05/25/07	05/04/2012
s Rapid									
D	1	Borders, Inc.	20,000	100%	5/5yr.	465,923	23.30	06/01/07	03/31/2012
s									
g, PA	1	Borders, Inc.	25,023	100%	4/5yr.	451,392	18.04	06/01/07	01/31/2012
ens									
ville, FL	1	Walgreen Co.	13,905	100%	8/5yr.	262,800	18.90	06/01/07	01/31/2012



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<b>Property</b>	<b>Number of Tenants</b>	<b>Major Tenants*</b>	<b>Total Square Feet Leased</b>	<b>% of Total Square Feet</b>	<b>Renewal Options**</b>	<b>Current Annual Base Rent</b>	<b>Base Rent per Square Foot</b>	<b>Lease Term Beginning To</b>	
ili s dericksburg,	1	Brinker Texas, L.P. Tractor Supply	5,494	100%	2/5yr.	\$ 162,000	\$ 29.49	06/05/07	11/30/2
ctor Supply ytown, TX	1	Company	22,670	100%	4/5yr.	235,000	10.37	06/11/07	05/29/2
anco Eureka,	1	Winco Foods, LLC	82,490	100%	2/5yr.	1,043,955	12.66	06/27/07	06/23/1
kerd eland, NJ	1	Eckerd Corporation	14,910	100%	4/5yr.	363,310	24.37	06/27/07	03/05/1
kerd Mantua,	1	Eckerd Corporation	8,710	100%	4/5yr.	157,227	18.05	06/27/07	06/17/1
st Buy (Super lue)	1	Best Buy Stores, LP	64,514	100%	4/5yr.	537,625	8.33	06/27/07	02/01/2
erwick, RI	1	Best Buy Stores, LP	45,397	100%	3/5yr.	576,300	12.69	06/27/07	02/26/1
st Buy anston, IL	1	Academy, LTD	53,381	100%	4/5yr.	379,277	7.11	06/27/07	05/31/1
ademy Sports uston, TX	1	Starbucks Corporation	1,805	100%	4/5yr.	105,376	58.38	06/22/07	04/30/1
rbucks vington, TN	1	Starbucks Corporation	1,800	100%	4/5yr.	85,302	47.39	06/22/07	03/31/1
rbucks alia, MO	1	The Kroger Co. La-Z-Boy Showcase	61,331	100%	N/A	531,126	8.66	06/28/07	01/31/1
oger Grange, GA	1	Shoppes of Detroit, Inc.	30,245	100%	4/5yr.	385,904	12.76	06/28/07	10/31/1
Z-Boy ntwood, MI	1	Circuit City Stores, Inc.	42,918	100%	4/5yr.	586,844	13.67	06/29/07	01/31/1
cuit City squite, TX	1	Tractor Supply Company	36,183	100%	4/5yr.	366,000	10.12	06/29/07	06/04/2
ctor Supply or Lake, MN	1	Circuit City Stores, Inc.	706,560	100%	2/10yr.	1,830,075	2.59	07/17/07	08/31/2
cuit City tribution nter oveland, FL	1	Walgreen Co.	15,120	100%	8/5yr.	305,842	20.23	07/17/07	11/30/1
lgreens t Worth, TX	1	Kohl s Department Stores, Inc.	88,306	100%	6/5yr.	800,902	9.07	07/17/07	01/30/2
hl s Lake rich, IL	1	EDS Information Services,							

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S Salt Lake y, UT	1	LLC	406,101	100%	3/5yr.	593,418	1.46	07/17/07	07/31/1
we s incinnati, OH	1	Lowe s Home Centers, Inc.	129,044	100%	6/5yr.	1,227,509	9.51	07/17/07	02/28/1
lgreens ansas City nwood), MO	1	Walgreen Co.	13,905	100%	8/5yr.	264,400	19.01	07/11/07	01/31/1
lgreens ansas City oost), MO	1	Walgreen Co.	13,905	100%	8/5yr.	348,000	25.03	07/11/07	03/31/2
lgreens ansas City rd St), MO	1	Walgreen Co.	13,905	100%	8/5yr.	307,857	22.14	07/11/07	12/31/1
lgreens ansas City pendence), D	1	Walgreen Co.	13,905	100%	8/5yr.	323,291	23.25	07/11/07	12/31/1
lgreens eoka, KS	1	Walgreen Co.	13,905	100%	8/5yr.	228,000	16.40	07/11/07	09/30/1
S Amarillo, co Bell	1	Eckerd Corporation	9,504	100%	4/5yr.	187,488	19.73	07/19/07	12/03/1
azil, IN	1	Southern Bells, Inc.	1,993	100%	3/5yr.	142,800	71.65	07/19/07	05/17/2
co Bell nderson, KY	1	Southern Bells, Inc.	2,320	100%	3/5yr.	114,117	49.19	07/19/07	05/17/2
ademy Sports on Rouge, co Bell	1	Academy Louisiana Co., LLC	52,500	100%	4/5yr.	455,582	8.68	07/19/07	06/30/1
ashington, IN	1	Southern Bells, Inc.	2,093	100%	3/5yr.	93,538	44.69	07/19/07	05/17/2
co Bell binson, IL	1	Southern Bells, Inc.	1,944	100%	3/5yr.	116,300	59.83	07/19/07	05/17/2
co Bell nceton, IN	1	Southern Bells, Inc.	2,436	100%	3/5yr.	106,825	43.85	07/19/07	05/17/2
kerd bleton, GA	1	Eckerd Corporation	8,996	100%	4/5yr.	135,490	15.06	07/19/07	01/28/1
co Bell/KFC encer, IN	1	Southern Bells, Inc.	2,296	100%	3/5yr.	71,400	31.10	07/19/07	05/17/2
S Del City, K co Bell	1	Eckerd Corporation	10,906	100%	4/5yr.	283,290	25.98	07/19/07	10/06/1
nderson, IN	1	Southern Bells, Inc.	2,166	100%	3/5yr.	124,237	57.36	07/19/07	05/17/2
ademy Sports Richland ls, TX	1	Academy, LTD	52,500	100%	4/5yr.	450,850	8.59	07/19/07	05/31/0
ve and ster s dison, IL	1	Dave and Buster s, Inc.	50,000	100%	3/5yr.	975,000	19.50	07/19/07	05/31/2
ademy Sports uston outhwest), TX	1	Academy, LTD	52,548	100%	4/5yr.	494,548	9.41	07/19/07	02/01/1

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Academy Sports Houston (Houston), TX	1	Academy, LTD	53,381	100%	4/5yr.	325,550	6.10	07/19/07	06/30/1
Eckerd Mattanooga, Eckerd co Bell/KFC ncness, IN1	1	Eckerd Corporation	10,909	100%	4/5yr.	201,276	18.45	07/19/07	07/25/1
co Bell Martinsville, IN	1	Southern Bells, Inc.	2,691	100%	3/5yr.	107,205	39.84	07/19/07	05/17/2
co Bell Martinsville, IN	1	Southern Bells, Inc.	2,057	100%	3/5yr.	143,082	69.56	07/19/07	05/17/2
S/A&W Houston, TX	1	LJS Restaurants, Inc.	34,094	100%	3/5yr.	72,000	2.11	07/19/07	12/01/1
Dickinson Theatre Yukon, K Circuit City anton, MA	1	Dickinson Theatres, Inc.	27,442	100%	3/5yr.	392,421	14.30	07/17/07	06/30/2
erx Kings ountain, NC	1	Circuit City Stores, Inc.	32,748	100%	2/10yr.	570,000	17.41	07/13/07	02/28/2
	1	TelerX Marketing, Inc.	60,000	100%	3/5yr.	604,800	10.08	07/17/07	05/31/1

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Property	Number of Tenants	Major Tenants*	Total Square Feet Leased	% of Total Square Feet	Renewal Options**	Current Annual Base Rent	Base Rent per Square Foot	Lease Term Beginning To	
Staples Crestwood, IL	1	Staples the Office Super Store East, Inc.	23,942	100%	4/5yr.	\$ 248,997	\$ 10.40	07/06/07	03/31/17
Federal Express Crestwood, IL	1	Federal Express Corporation	38,200	100%	2/5yr.	227,290	5.95	07/20/07	03/31/17
Wal-Mart Crestwood, IL	1	Wal-Mart Stores, Inc.	41,304	100%	5/5yr.	147,553	3.57	05/23/07	01/31/17
Gold's Gym Crestwood, IL	1	Gold's St. Louis, LLC	39,900	100%	2/5yr.	584,136 642,789	14.64 16.11	07/31/07 07/28/17	07/27/17 07/27/17
FedEx Crestwood, IL	1	FedEx Ground Package System, Inc.	78,304	100%	2/5yr.	549,292	7.01	08/08/07	05/31/17
Wal-Mart Crestwood, IL	1	Wal-Mart Realty Company	90,921	100%	5/5yr.	338,799	3.73	08/14/07	01/31/17
Walgreen Crestwood, IL	1	Walgreen Co.	13,869	100%	8/5yr.	292,000	21.05	08/17/07	08/31/17
Circuit City Crestwood, IL	1	Circuit City Stores West Coast, Inc.	39,440	100%	2/10yr.	538,382	13.65	08/22/07	01/31/17
Home Depot Crestwood, IL	1	Home Depot U.S.A., Inc. (Waban Lease)	109,952	50%	3/5yr.	1,130,856	10.28	08/22/07	10/31/17
Home Depot Crestwood, IL	1	Home Depot U.S.A., Inc. (Pace Lease)	108,000	50%	10/5yr.	756,000	7.00	08/22/07	10/31/17
24 Hour Fitness Crestwood, IL	1	24 Hour Fitness USA, Inc.	25,000	100%	4/5yr.	537,500 602,000 674,250 755,250	21.50 24.08 26.97 30.21	08/24/07 08/01/12 08/01/17 08/01/22	07/31/17 07/31/17 07/31/17 07/31/17
Walgreen Crestwood, IL	1	Walgreen Co.	13,905	100%	8/5yr.	245,230	17.64	08/27/07	11/30/17
Gold's Gym Crestwood, IL	1	Gold's St. Louis, LLC	39,900	100%	2/5yr.	605,868 666,456	15.18 16.70	08/29/07 08/11/17	08/10/17 08/10/17
Wal-Mart Crestwood, IL	1	Wal-Mart Realty Company	74,136	100%	5/5yr.	295,483	3.99	09/10/07	01/31/17



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Wal-Mart Supercenter, TX Address Chicago, IL	1	Wal-Mart Real Estate Business Trust	65,930	100%	5/5yr.	280,482	4.25	09/12/07	01/31/14
	25	Home Depot U.S.A., Inc.	135,351	41%	4/5yr.	1,458,703	10.78	09/14/07	01/31/14
		The Sports Authority, Inc.	42,658	13%	4/5yr.	387,330	9.08	09/14/07	01/31/14
						426,149	9.99	02/01/10	01/31/14
Members Wayland, MI	8	FFH Wayland, LLC	41,400	42%	3/5yr.	240,000	5.80	09/19/07	08/31/14
						252,000	6.09	09/01/12	08/31/14
		Harding and Hill, Inc.	35,764	36%	4/5yr.	343,000	9.59	09/19/07	06/14/14
Key Furniture Person, SC	1	Hillsboro Retail Group, Inc.	23,800	100%	1/5yr.	333,200	14.00	09/28/07	08/31/14
						366,520	15.40	09/01/14	12/31/14
Buy Lafayetteville,	1	Best Buy Stores, LP	45,582	100%	3/5yr.	463,911	10.18	10/04/07	06/21/14
						477,828	10.48	06/22/09	06/21/14
						492,163	10.80	06/22/14	06/21/14
Sard Smith,	6	Kohl's Department Stores, Inc.	86,584	68%	5/5yr.	684,014	7.90	10/11/07	01/29/14
		LNT, Inc.	32,000	25%	3/5yr.	344,000	10.75	10/11/07	01/31/14
Wal-Mart Lafayetteville,	1	Wal-Mart Stores, Inc.	65,930	100%	5/5yr.	243,532	3.69	10/11/07	01/31/14
Wickes Cincinnati, OH	1	Staples the Office Superstore East, Inc.	20,388	100%	4/5yr.	285,432	14.00	10/12/07	01/31/14
Wickes Chicago, IL	1	Wickes Furniture Company, Inc.	48,000	100%	5/5yr.	1,920,000	40.00	10/17/07	05/31/14
						2,208,000	46.00	06/01/17	05/31/14
Walgreens Lafayetteville,	1	Walgreen Co.	14,820	100%	10/5yr.	371,800	25.09	10/17/07	09/30/14
Starbucks Lafayetteville, KY	1	Starbucks Corporation	1,850	100%	4/5yr.	115,995	62.70	10/23/07	02/28/14
						127,595	68.97	03/01/12	02/28/14
Walgreens Memphis, TN	1	Walgreen Co.	14,820	100%	10/5yr.	335,500	22.64	10/24/07	08/31/14
Starbucks Lafayetteville, OK	1	Starbucks Corporation	1,750	100%	2/5yr.	78,000	44.57	10/31/07	09/30/14
						85,800	49.03	10/01/11	09/30/14
Station Lafayetteville, MO	1	Station Casino, Inc.	138,558	100%	4/5yr.	5,250,000(14)	37.89	11/01/07	10/31/14

quarters Vegas,	1	Starbucks Corporation	1,741	100%	4/5yr.	88,500 97,350	50.83 55.92	11/20/07 11/01/12	10/31/ 02/28/
bucks ahoma , OK	1	Starbucks Corporation	1,850	100%	4/5yr.	102,953 113,239	55.65 61.21	11/26/07 11/01/12	10/31/ 02/28/
bucks ttanooga,	1	Starbucks Corporation	1,850	100%	4/5yr.	108,000 118,800	58.38 64.22	11/26/07 08/01/12	07/31/ 07/31/

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Property	Number of Tenants	Major Tenants*	Total Square Feet Leased	% of Total Square Feet	Renewal Options**	Current	Base Rent	Lease Term	
						Annual Base Rent	per Square Foot	Beginning	To
Starbucks Well, TN	1	Starbucks Corporation	1,850	100%	4/5yr.	\$ 96,000 105,600	\$ 51.89 57.08	11/26/07 07/01/12	06/30/12 06/30/17
Starbucks Mour, TN	1	Starbucks Corporation	1,850	100%	4/5yr.	98,000 107,800	52.97 58.27	11/26/07 01/01/12	10/31/12 02/28/18
Walgreens verly Hills,	1	Walgreen Co.	13,905	100%	8/5yr.	270,000	19.42	12/05/07	09/30/18
Walgreens co, TX	1	Walgreen Co.	13,905	100%	8/5yr.	270,000	19.42	12/05/07	10/31/18
Insurance Contact Center ss Plains, WI	1	Allstate Insurance Company	34,992	100%	2/5yr.	443,349 452,216 461,260 470,485 479,895 489,493 499,283	12.67 12.92 13.18 13.45 13.71 13.99 14.27	12/07/07 07/01/08 07/01/09 07/01/10 07/01/11 07/01/12 07/01/13	06/30/08 06/30/09 06/30/10 06/30/11 06/30/12 06/30/13 06/30/14
Mealey's Furniture Maple de, NJ	1	Mealey's Furniture Holdings, Inc.	66,750	100%	1/5yr. 5/5yr;	475,000	7.12	12/12/07	12/31/13
Circle K ouquerque,	1	Circle K/Mac's, G.P.	2,700	100%	2/10 yr. 5/5yr;	96,955	35.91	12/20/07	12/31/28(1
Circle K Baton ge rban), LA	1	Circle K/Mac's, G.P.	2,400	100%	2/10 yr. 5/5yr;	72,331	30.14	12/20/07	12/31/27(1
Circle K Baton ge ynell), LA	1	Circle K/Mac's, G.P.	2,780	100%	2/10 yr. 5/5yr;	106,958	38.47	12/20/07	12/31/28(1
Circle K Baton ge erson), LA	1	Circle K/Mac's, G.P.	2,780	100%	2/10 yr. 5/5yr;	82,335	29.62	12/20/07	12/31/27(1
Circle K aufort, SC	1	Circle K/Mac's, G.P.	2,660	100%	2/10 yr. 5/5yr;	124,656	46.86	12/20/07	12/31/26(1
Circle K ffton, SC	1	Circle K/Mac's, G.P.	2,448	100%	2/10 yr. 5/5yr;	196,987	80.47	12/20/07	12/31/26(1
	1	Circle K/Mac's, G.P.	3,211	100%		116,192	36.19	12/20/07	12/31/28(1

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Circle K Bossier y, LA					5/5yr; 2/10 yr.				
Circle K Charleston, SC	1	Circle K/Mac s, G.P.	3,000	100%	5/5yr; 2/10 yr.	197,757	65.92	12/20/07	12/31/27(1
Circle K Charlotte (dependence),	1	Circle K/Mac s, G.P.	2,556	100%	5/5yr; 2/10 yr.	143,124	56.00	12/20/07	12/31/28(1
Circle K Charlotte (aron), NC	1	Circle K/Mac s, G.P.	2,477	100%	5/5yr; 2/10 yr.	148,510	59.96	12/20/07	12/31/27(1
Circle K Charlotte (Sugar ek), NC	1	Circle K/Mac s, G.P.	2,170	100%	5/5yr; 2/10 yr.	153,127	70.57	12/20/07	12/31/26(1
Circle K Columbia (arners), SC	1	Circle K/Mac s, G.P.	2,600	100%	5/5yr; 2/10 yr.	160,822	61.85	12/20/07	12/31/26(1
Circle K Columbia (ardscrabble),	1	Circle K/Mac s, G.P.	2,477	100%	5/5yr; 2/10 yr.	133,120	53.74	12/20/07	12/31/28(1
Circle K El Paso (mericas), TX	1	Circle K/Mac s, G.P.	3,500	100%	5/5yr; 2/10 yr.	168,516	48.15	12/20/07	12/31/26(1
Circle K El Paso (esa), TX	1	Circle K/Mac s, G.P.	3,150	100%	5/5yr; 2/10yr.	86,951	27.60	12/20/07	12/31/28(1
Circle K El Paso (ragosa), TX	1	Circle K/Mac s, G.P.	3,800	100%	5/5yr; 2/10 yr.	156,974	41.31	12/20/07	12/31/26(1
Circle K t Mill, SC	1	Circle K/Mac s, G.P.	6,553	100%	5/5yr; 2/10 yr.	179,289	27.36	12/20/07	12/31/26(1
Circle K Goose ek, SC	1	Circle K/Mac s, G.P.	2,632	100%	5/5yr; 2/10 yr.	103,880	39.47	12/20/07	12/31/26(1
Circle K ntersville,	1	Circle K/Mac s, G.P.	2,770	100%	5/5yr; 2/10 yr.	153,127	55.28	12/20/07	12/31/27(1

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<b>Property</b>	<b>Number of Tenants</b>	<b>Major Tenants*</b>	<b>Total Square Feet Leased</b>	<b>% of Total Square Feet</b>	<b>Renewal Options**</b>	<b>Current Annual Base Rent</b>	<b>Base Rent per Square Foot</b>	<b>Lease Term</b>	
								<b>Beginning</b>	<b>To</b>
Circle K Mount Pleasant, SC	1	Circle K/Mac s, G.P.	2,820	100%	5/5yr; 2/10 yr.	\$ 116,961	\$ 41.48	12/20/07	12/31/26(13)
Circle K Port Wentworth, GA	1	Circle K/Mac s, G.P.	3,760	100%	5/5yr; 2/10 yr.	176,750	47.01	12/20/07	12/31/27(13)
Circle K Savannah (Johnny Mercer), GA	1	Circle K/Mac s, G.P.	1,152	100%	5/5yr; 2/10 yr.	122,348	106.20	12/20/07	12/31/27(13)
Circle K Savannah (King George), GA	1	Circle K/Mac s, G.P.	2,477	100%	5/5yr; 2/10 yr.	122,348	49.39	12/20/07	12/31/28(13)
Circle K Shreveport, LA	1	Circle K/Mac s, G.P.	3,180	100%	5/5yr; 2/10 yr.	92,338	29.04	12/20/07	12/31/26(13)
Circle K Springdale, SC	1	Circle K/Mac s, G.P.	1,760	100%	5/5yr; 2/10 yr.	132,351	75.20	12/20/07	12/31/27(13)
Exxon West Monroe (503 Thomas), LA	1	Circle K/Mac s, G.P.	3,327	100%	5/5yr; 2/10 yr.	111,575	33.54	12/20/07	12/31/27(13)
Shell Oil Station (940 Marlinton), OH	1	Circle K/Mac s, G.P.	2,800	100%	5/5yr; 2/10 yr.	86,182	30.78	12/20/07	12/31/28(13)
Shell Oil Station (1178 Marlinton), OH	1	Circle K/Mac s, G.P.	2,862	100%	5/5yr; 2/10 yr.	107,727	37.64	12/20/07	12/31/27(13)
Shell Oil Station (559 E. Market), OH	1	Circle K/Mac s, G.P.	1,624	100%	5/5yr; 2/10 yr.	110,805	68.23	12/20/07	12/31/27(13)
Shell Oil Station (1693 West Market), OH	1	Circle K/Mac s, G.P.	4,977	100%	5/5yr; 2/10 yr.	121,578	24.43	12/20/07	12/31/28(13)
Shell Oil Station (Albrecht), OH	1	Circle K/Mac s, G.P.	2,763	100%	5/5yr; 2/10 yr.	84,643	30.63	12/20/07	12/31/27(13)
Shell Oil Station (Brittain), OH	1	Circle K/Mac s, G.P.	2,857	100%	5/5yr; 2/10 yr.	94,646	33.13	12/20/07	12/31/26(13)
Shell Oil Station (Brown), OH	1	Circle K/Mac s, G.P.	2,635	100%	5/5yr; 2/10 yr.	99,263	37.67	12/20/07	12/31/26(13)
Shell Oil Station (Cuyahoga), OH	1	Circle K/Mac s, G.P.	2,800	100%	5/5yr; 2/10 yr.	123,886	44.25	12/20/07	12/31/26(13)

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olland Oil kron (Darrow), H	1	Circle K/Mac s, G.P.	2,800	100%	5/5yr; 2/10 yr.	92,338	32.98	12/20/07	12/31/26(13
olland Oil kron Exchange), OH	1	Circle K/Mac s, G.P.	3,190	100%	5/5yr; 2/10 yr.	111,575	34.98	12/20/07	12/31/28(13
olland Oil kron (Main St.), H	1	Circle K/Mac s, G.P.	3,258	100%	5/5yr; 2/10 yr.	90,029	27.63	12/20/07	12/31/26(13
olland Oil kron Manchester), OH	1	Circle K/Mac s, G.P.	2,800	100%	5/5yr; 2/10 yr.	124,656	44.52	12/20/07	12/31/27(13
olland Oil kron Ridgewood), OH	1	Circle K/Mac s, G.P.	1,710	100%	5/5yr; 2/10 yr.	99,263	58.05	12/20/07	12/31/27(13
olland Oil kron (Waterloo), H	1	Circle K/Mac s, G.P.	2,800	100%	5/5yr; 2/10 yr.	90,029	32.15	12/20/07	12/31/28(13
olland Oil arberton (5 th t.), OH	1	Circle K/Mac s, G.P.	2,800	100%	5/5yr; 2/10 yr.	93,877	33.53	12/20/07	12/31/28(13
olland Oil arberton (31 st t.), OH	1	Circle K/Mac s, G.P.	2,800	100%	5/5yr; 2/10 yr.	73,870	26.38	12/20/07	12/31/27(13

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Property	Number of Tenants	Major Tenants*	Total Square Feet Leased	% of Total Square Feet	Renewal Options**	Current	Base Rent	Lease Term	
						Annual Base Rent	per Square Foot	Beginning	To
Holland Oil Barberton (Wooster), OH	1	Circle K/Mac s, G.P.	3,600	100%	5/5yr; 2/10 yr.	\$ 170,825	\$ 47.45	12/20/07	12/31/26(13)
Holland Oil Bedford, OH	1	Circle K/Mac s, G.P.	2,450	100%	5/5yr; 2/10 yr.	96,955	39.57	12/20/07	12/31/28(13)
Holland Oil Brookpark, OH	1	Circle K/Mac s, G.P.	2,740	100%	5/5yr; 2/10 yr.	103,110	37.63	12/20/07	12/31/26(13)
Holland Oil Canton (12 th Street), OH	1	Circle K/Mac s, G.P.	2,800	100%	5/5yr; 2/10 yr.	88,490	31.60	12/20/07	12/31/26(13)
Holland Oil Canton (Tuscarawas), OH	1	Circle K/Mac s, G.P.	4,500	100%	5/5yr; 2/10 yr.	166,977	37.11	12/20/07	12/31/28(13)
Holland Oil Cleveland, OH	1	Circle K/Mac s, G.P.	4,318	100%	5/5yr; 2/10 yr.	120,809	27.98	12/20/07	12/31/26(13)
Holland Oil Copley, OH	1	Circle K/Mac s, G.P.	2,439	100%	5/5yr; 2/10 yr.	87,721	35.97	12/20/07	12/31/27(13)
Holland Oil Cuyahoga Falls (Bath), OH	1	Circle K/Mac s, G.P.	4,269	100%	5/5yr; 2/10 yr.	153,896	36.05	12/20/07	12/31/28(13)
Holland Oil Cuyahoga Falls (Port), OH	1	Circle K/Mac s, G.P.	2,959	100%	5/5yr; 2/10 yr.	105,419	35.63	12/20/07	12/31/26(13)
Holland Oil Cuyahoga Falls (State), OH	1	Circle K/Mac s, G.P.	2,100	100%	5/5yr; 2/10 yr.	78,487	37.37	12/20/07	12/31/28(13)
Holland Oil Fairlawn, OH	1	Circle K/Mac s, G.P.	2,900	100%	5/5yr; 2/10 yr.	122,348	42.19	12/20/07	12/31/28(13)
Holland Oil Kent, OH	1	Circle K/Mac s, G.P.	2,068	100%	5/5yr; 2/10 yr.	75,409	36.46	12/20/07	12/31/27(13)
Holland Oil Maple Heights, OH	1	Circle K/Mac s, G.P.	2,967	100%	5/5yr; 2/10 yr.	113,114	38.12	12/20/07	12/31/26(13)
	1		4,647	100%		147,740	31.79	12/20/07	12/31/28(13)

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Holland Oil Northfield, OH	1	Circle K/Mac s, G.P.			5/5yr; 2/10 yr.				
Holland Oil Norton, OH	1	Circle K/Mac s, G.P.	3,750	100%	5/5yr; 2/10 yr.	109,266	29.14	12/20/07	12/31/26(13)
Holland Oil Parma, OH	1	Circle K/Mac s, G.P.	3,039	100%	5/5yr; 2/10 yr.	95,416	31.40	12/20/07	12/31/28(13)
Holland Oil Seville, OH	1	Circle K/Mac s, G.P.	7,200	100%	5/5yr; 2/10 yr.	186,214	25.86	12/20/07	12/31/28(13)
Holland Oil Twinsburg, OH	1	Circle K/Mac s, G.P.	3,298	100%	5/5yr; 2/10 yr.	103,110	31.26	12/20/07	12/31/28(13)
Holland Oil Willoughby, OH	1	Circle K/Mac s, G.P.	2,938	100%	5/5yr; 2/10 yr.	90,799	30.91	12/20/07	12/31/26(13)
Shell Monroe, LA	1	Circle K/Mac s, G.P.	4,140	100%	5/5yr; 2/10 yr.	116,192	28.07	12/20/07	12/31/28(13)
Spectrum Auburn, AL	1	Circle K/Mac s, G.P.	2,772	100%	5/5yr; 2/10 yr.	131,581	47.47	12/20/07	12/31/26(13)
Spectrum Augusta, GA	1	Circle K/Mac s, G.P.	3,010	100%	5/5yr; 2/10 yr.	83,873	27.86	12/20/07	12/31/26(13)
Spectrum Columbus (Airport), GA	1	Circle K/Mac s, G.P.	2,205	100%	5/5yr; 2/10 yr.	116,961	53.04	12/20/07	12/31/27(13)
Spectrum Columbus (Beaver Run), GA	1	Circle K/Mac s, G.P.	3,760	100%	5/5yr; 2/10 yr.	190,831	50.75	12/20/07	12/31/28(13)
Spectrum Columbus (Bradley), GA	1	Circle K/Mac s, G.P.	4,750	100%	5/5yr; 2/10 yr.	253,929	53.46	12/20/07	12/31/28(13)
Spectrum Columbus (Buena Vista), GA	1	Circle K/Mac s, G.P.	2,205	100%	5/5yr; 2/10 yr.	122,348	55.49	12/20/07	12/31/27(13)
Spectrum Columbus (Lumpkin), GA	1	Circle K/Mac s, G.P.	2,874	100%	5/5yr; 2/10 yr.	126,964	44.18	12/20/07	12/31/28(13)



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Property	Number of Tenants	Major Tenants*	Total Square Feet Leased	% of Total Square Feet	Renewal Options**	Current Annual Base Rent	Base Rent per Square Foot	Lease Term	
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Spectrum Columbus (Farmington), GA	1	Circle K/Macys, G.P.	4,934	100%	5/5yr; 2/10 yr.	\$ 149,279	\$ 30.26	12/20/07	12/31/27(
Spectrum Pratt, AL	1	Circle K/Macys, G.P.	2,631	100%	5/5yr; 2/10 yr.	64,636	24.57	12/20/07	12/31/28(
Spectrum Conover (Kwright),	1	Circle K/Macys, G.P.	2,248	100%	5/5yr; 2/10 yr.	86,951	38.68	12/20/07	12/31/26(
Spectrum Conover (Werside),	1	Circle K/Macys, G.P.	2,580	100%	5/5yr; 2/10 yr.	95,416	36.98	12/20/07	12/31/28(
Spectrum Martinez,	1	Circle K/Macys, G.P.	2,250	100%	5/5yr; 2/10 yr.	96,955	43.09	12/20/07	12/31/26(
Spectrum Mobile (Port), AL	1	Circle K/Macys, G.P.	1,800	100%	5/5yr; 2/10 yr.	138,507	76.95	12/20/07	12/31/26(
Spectrum Mobile (Hoffett),	1	Circle K/Macys, G.P.	678	100%	5/5yr; 2/10 yr.	118,500	174.78	12/20/07	12/31/26(
Spectrum North Augusta, GA	1	Circle K/Macys, G.P.	2,240	100%	5/5yr; 2/10 yr.	90,799	40.54	12/20/07	12/31/28(
Spectrum Prichard (2 nd), AL	1	Circle K/Macys, G.P.	2,531	100%	5/5yr; 2/10 yr.	99,263	39.22	12/20/07	12/31/28(
Spectrum Prichard (Lika Columbus),	1	Circle K/Macys, G.P.	3,796	100%	5/5yr; 2/10 yr.	178,520	47.03	12/20/07	12/31/27(
Spectrum Prichard (Cincinnati),	1	Circle K/Macys, G.P.	3,054	100%	5/5yr; 2/10 yr.	121,578	39.81	12/20/07	12/31/28(
Spectrum Prichard (Mountain),	1	Circle K/Macys, G.P.	3,285	100%	5/5yr; 2/10 yr.	86,951	26.47	12/20/07	12/31/26(
	1	Circle K/Macys, G.P.	3,312	100%		118,500	35.78	12/20/07	12/31/28(

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pectrum ley, AL it West nroe 02 omas), LA top Plaza lgeyton,					5/5yr; 2/10 yr.				
	1	Circle K/Mac s, G.P.	3,927	100%	5/5yr; 2/10 yr.	126,964	32.33	12/20/07	12/31/26(
	4	Lowe s Home Centers, Inc.(1)	136,641	45%	6/5yr.	615,000	4.50	02/06/08	05/29/27
		Kmart Corporation	104,231	35%	10/5yr.	609,751	5.85	02/06/08	09/30/16
		TSA Stores, Inc.	42,000	14%	10/5yr.	300,000	7.14	02/06/08	08/31/16
						364,500	6.00	02/07/08	05/31/09
						375,419	6.18	06/01/09	05/31/14
						386,664	6.36	06/01/14	05/31/19
demey rts kin, TX	1	Academy, Ltd.	60,750	100%	4/5yr.	398,246	6.56	06/01/19	06/30/24
						781,152	11.70	02/07/08	05/09/11
						804,587	12.05	05/10/11	05/09/16
t Buy hita, KS	1	Best Buy Stores, LP	66,756	100%	3/5yr.	828,724	12.41	05/10/16	05/09/21
						182,412	17.67	02/07/08	11/30/08
						189,708	18.37	12/01/08	11/30/13
lgestone Atlanta,	1	BFS Retail & Commercial Operations, LLC	10,325	100%	4/5yr.	197,297	19.11	12/01/13	11/30/18
						417,041	2.40	02/07/08	09/30/08
cov s rhees, NJ	1	Boscov s Department Store, LLC	173,767	100%	3/10yr.	324,699	1.87	10/01/08	09/27/18
S anapolis,	1	Hook-Superx, LLC	10,880	100%	4/5yr.	258,304	23.74	02/07/08	12/12/23
Ex hawaka,	1	FedEx Ground Package System, Inc.	54,779	100%	2/5yr.	304,800	5.56	02/07/08	08/31/14
sh ermarket anapolis,	1	Marsh Supermarkets, LLC	63,750	100%	4/5yr.	1,208,363	18.95	02/07/08	09/30/20
						94,500	51.08	02/28/08	02/28/13
bucks water,	1	Starbucks Corporation	1,850	100%	4/5yr.	103,950	56.19	03/01/13	02/28/18
greens ida, TN	1	Walgreen Co.	14,820	100%	10/5yr.	329,000	22.20	02/29/08	07/31/32
						95,744	51.67	03/04/08	01/31/13
bucks nphis,	1	Starbucks Corporation	1,853	100%	4/5yr.	105,306	56.83	2/1/13	1/31/18
greens cinnati	1	Walgreen Co.	15,120	100%	8/5yr.	380,000	25.13	12/21/07	11/30/20

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								Beginning	To
Tractor Supply Company	1	Tractor Supply Company	19,097	100%	4/5yr.	\$ 235,000 510,426 540,593	\$ 12.31 16.92 17.92	01/04/08 01/11/08 12/01/12	12/18/07 11/30/07 11/30/07
Gregg Appliances, Inc.	1	Gregg Appliances, Inc.	30,167	100%	4/5yr.	570,760 85,000	18.92 48.82	12/01/17 01/16/08	11/30/16 11/30/16
Starbucks Corporation	1	Starbucks Corporation	1,741	100%	4/5yr.	93,500 358,000 390,715 423,430	53.70 N/A(15) N/A(15) N/A(15)	12/01/12 01/17/08 05/01/11 05/01/16	02/28/12 04/30/12 04/30/12 04/30/12
The Stop & Shop Supermarket Company, LLC	5	The Stop & Shop Supermarket Company, LLC	65,430	84%	11/5yr.	456,146 1,493,604 1,527,210 1,561,573 1,596,708 1,632,634 1,669,368 1,706,929 1,745,335	N/A(15) 32.10 32.82 33.56 34.31 35.08 35.87 36.68 37.51	05/01/21 01/25/08 08/10/08 08/10/09 08/10/10 08/10/11 08/10/12 08/10/13 08/10/14	04/30/10 08/09/07 08/09/07 08/09/07 08/09/07 08/09/07 08/09/07 08/09/07 08/09/07
CarMax Auto Superstores, Inc.	1	CarMax Auto Superstores, Inc.	46,535	100%	2/10yr.	1,784,605	38.35	08/10/15	08/09/14
Bank of America, N.A.	1	Bank of America, N.A.	54,600	100%	N/A	900,000	16.48	01/31/08	01/31/08
Circuit City Stores, Inc.	1	Circuit City Stores, Inc.	183,088	100%	2/10yr.	1,488,000 1,369,540 1,417,474 1,465,408 1,513,342 1,561,276 1,609,210	8.13 10.00 10.35 10.70 11.05 11.40 11.75	01/31/08 01/31/08 09/01/08 09/01/09 09/01/10 09/01/11 09/01/12	09/30/07 08/31/07 08/31/07 08/31/07 08/31/07 08/31/07 08/31/07

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						1,657,143	12.10	09/01/13	08/31/13
Mustang Engineering		Mustang Engineering, LP	136,954	100%	4/5yr.	1,705,077	12.45	09/01/14	08/31/14
Office Depot	1	Office Depot, Inc. RTM Acquisition	26,850	100%	3/5yr.	292,665	10.90	01/31/08	09/30/08
	1	Company, LLC	3,263	100%	2/5yr.	117,807	36.10	01/31/08	12/31/08
						118,985	36.46	01/01/09	12/31/09
						120,175	36.83	01/01/10	12/31/10
						121,376	37.20	01/01/11	12/31/11
						122,590	37.57	01/01/12	12/31/12
						123,816	37.95	01/01/13	12/31/13
						125,054	38.32	01/01/14	12/31/14
						126,305	38.71	01/01/15	12/31/15
						127,568	39.10	01/01/16	12/31/16
						128,843	39.49	01/01/17	12/31/17
						130,312	39.88	01/01/18	12/31/18
						131,433	40.28	01/01/19	12/31/19
						132,747	40.68	01/01/20	12/31/20
CarMax	1	CarMax Auto Superstores, Inc.	56,439	100%	2/10yr.	685,910	12.15	01/31/08	11/30/08
	1	CarMax Auto Superstores, Inc.	18,687	100%	4/5yr.	692,216	37.02	01/31/08	07/31/08
						77,500	44.29	3/11/2008	01/31/08
Starbucks	1	Starbucks Corporation	1,750	100%	4/5yr.	85,250	48.71	2/1/2013	02/28/13
						97,607	52.76	3/25/2008	01/31/08
Starbucks	1	Starbucks Corporation	1,850	100%	4/5yr.	107,368	58.04	2/1/2013	02/28/13
The Pep Boys	1	The Pep Boys Manny, Moe, and Jack	21,768	100%	4/5yr.	292,417	13.43	3/25/2008	03/31/08
	1	The Pep Boys Manny, Moe, and Jack	20,464	100%	4/5yr.	475,788	23.25	3/25/2008	03/31/08
	1	The Pep Boys Manny, Moe, and Jack	22,211	100%	4/5yr.	195,087	8.78	3/25/2008	03/31/08
	1	The Pep Boys Manny, Moe, and Jack	22,211	100%	4/5yr.	206,562	9.30	3/25/2008	03/31/08
	1	The Pep Boys Manny, Moe, and Jack	18,196	100%	4/5yr.	188,025	10.33	3/25/2008	03/31/08
	1	The Pep Boys Manny, Moe, and Jack	22,225	100%	4/5yr.	236,215	10.63	3/25/2008	03/31/08
	1	The Pep Boys Manny, Moe, and Jack	17,690	100%	4/5yr.	365,593	20.67	3/25/2008	03/31/08



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Property	Number of Tenants	Major Tenants*	Total Square Feet Leased	% of		Renewal Options**	Current Annual Base Rent	Base Rent per Square Foot	Lease Term	
				Total Square Feet	Feet				Beginning	To
Pep Boys Hampton, VA	1	The Pep Boys Manny, Moe, and Jack	22,211	100%	4/5yr.	\$ 309,843	\$ 13.95	3/25/2008	03/31/23	
Pep Boys Lakeland, FL	1	The Pep Boys Manny, Moe, and Jack	20,747	100%	4/5yr.	210,531	10.15	3/25/2008	03/31/23	
Pep Boys Nashua, NH	1	The Pep Boys Manny, Moe, and Jack	19,300	100%	4/5yr.	339,037	17.57	3/25/2008	03/31/23	
Pep Boys New Hartford, NY	1	The Pep Boys Manny, Moe, and Jack	22,211	100%	4/5yr.	183,611	8.27	3/25/2008	03/31/23	
Pep Boys Orem, UT	1	The Pep Boys Manny, Moe, and Jack	21,770	100%	4/5yr.	236,205	10.85	3/25/2008	03/31/23	
Pep Boys Pasadena, TX	1	The Pep Boys Manny, Moe, and Jack	22,341	100%	4/5yr.	386,558	17.30	3/25/2008	03/31/23	
Pep Boys Redlands, CA	1	The Pep Boys Manny, Moe, and Jack	22,290	100%	4/5yr.	358,037	16.06	3/25/2008	03/31/23	
Pep Boys San Antonio, TX	1	The Pep Boys Manny, Moe, and Jack	23,373	100%	4/5yr.	\$ 190,636	\$ 8.16	3/25/2008	03/31/23	
Pep Boys Tamarac, FL	1	The Pep Boys Manny, Moe, and Jack	18,020	100%	4/5yr.	316,551	17.57	3/25/2008	03/31/23	
Pep Boys Tampa, FL	1	The Pep Boys Manny, Moe, and Jack	22,356	100%	4/5yr.	149,184	6.67	3/25/2008	03/31/23	
Pep Boys West Warwick, RI	1	The Pep Boys Manny, Moe, and Jack	22,211	100%	4/5yr.	286,892	12.92	3/25/2008	03/31/23	
Walgreens Batesville, MS	1	Walgreen Co.	14,250	100%	10/5yr.	351,200	24.65	3/31/2008	07/31/32	
						228,000	11.94	4/7/08	11/20/12	
						250,800	13.13	11/21/12	11/20/17	
Tractor Supply Clovis, NM	1	Tractor Supply Company	19,097	100%	4/5yr.	275,880	14.45	11/21/17	11/20/22	

BJ's Wholesale Club Haverhill, MA	1	BJ's Wholesale Club, Inc.	119,598	100%	4/5yr.	1,285,679	10.75	4/14/08	4/4/27
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\* Major tenants include those tenants that occupy greater than 10.0% of the rentable square feet of their respective property.

\*\* Represents option renewal period / term of each option.

- (1) The initial annual rent of \$419,750 as displayed in the table above is subject to rental escalations of 2% each year through the remainder of the lease, which expires October 31, 2015. For the purposes of presentation the individual rental escalations were not displayed in the table above.
- (2) The annual base rent of \$1,790,100 as displayed in the table above is fixed through the first 13 months of the initial lease term, with a 2.5% rental escalation beginning 14 months after the start of the initial lease term, and every 12 months thereafter for the remaining term of the lease, which expires January 31, 2021. For the purposes of presentation the individual rental escalations were not displayed in the table above.
- (3) The Wawa Properties are 100% leased to Wawa under a master lease agreement. The current aggregate annual base rent of \$1,013,117 is fixed through the initial lease term and was allocated based on the square feet of each property as a percentage of the total square feet for all three properties.
- (4) The current aggregate annual base rent of \$707,395 as displayed in the table above is fixed through July 1, 2007 with rental escalations of 1.25% each year for the remainder of the initial lease term, which expires July 1, 2021. For the purposes of presentation the individual rental escalations were not displayed in the table above.
- (5) The initial annual base rent under the lease is \$7,038,000 as displayed in the table above increases each year, by 1.5% of the then current annual base rent. The initial term of the lease expires January 31, 2027. For the purposes of presentation the individual rental escalations were not displayed in the table above.
- (6) The current aggregate annual base rent of \$316,990 as displayed in the table above is fixed through the first year of the initial lease term and increases 3% each year through the remainder of the lease term, which expires January 31, 2014. For the purposes of presentation the individual rental escalations were not displayed in the table above.



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- (7) The current aggregate annual base rent of \$900,473 is fixed through the first year of the initial lease, and increases 1.5% each year through the initial lease term, which expires March 31, 2017. For the purposes of presentation the individual rental escalations were not displayed in the table above.
- (8) The current aggregate annual base rent of \$224,619 as displayed in the table above is fixed through November 29, 2007 with rental escalations of 1.75% each year for the remainder of the initial lease term, which expires November 29, 2026. For the purposes of presentation the individual rental escalations were not displayed in the table above.
- (9) The current aggregate annual base rent of \$270,623 as displayed in the table above is fixed through November 29, 2007 with rental escalations of 1.75% each year for the remainder of the initial lease term, which expires November 29, 2026. For the purposes of presentation the individual rental escalations were not displayed in the table above.
- (10) The lease consists of eight single-tenant restaurants, which are subject to a master lease agreement. The properties are located in New Mexico, Georgia, Oregon, Washington, and Colorado.
- (11) The lease consists of seven single-tenant restaurants, which are subject to a master lease agreement. The properties are located in New Mexico, Georgia, Washington, and Colorado.
- (12) The lease consists of seven single-tenant restaurants, which are subject to a master lease agreement. The properties are located in New Mexico, Georgia, Washington, and Colorado.
- (13) The initial annual rent for the property is subject to rental escalations of 1.5% each year through the remainder of the lease. For the purposes of presentation the individual rental escalations were not displayed in the table above.
- (14) The lease with Station Casino, Inc. includes annual rental increases of 1.25% each year of the initial lease term.
- (15) The lease agreement with Stop & Shop Supermarket Company, LLC, is a ground lease. As such, base rent per square foot is not applicable for this lease.

Cole Realty Advisors has the sole and exclusive right to manage, operate, lease and supervise the overall maintenance of the properties listed above and currently receives a property management fee of 2% of the monthly gross revenues from our single-tenant properties and 4% of the gross revenues from our multi-tenant properties. We currently have no plan for any renovations, improvements or development of the properties listed above and we believe that all are adequately insured.

In connection with the property acquisitions noted above, we incurred or assumed the following fixed and variable rate mortgage notes:

	<b>Fixed Rate</b>	<b>Fixed</b>		<b>Variable</b>		
	<b>Loan</b>	<b>Interest</b>	<b>Maturity</b>	<b>Rate</b>	<b>Maturity</b>	<b>Total Loan</b>
<b>Property</b>	<b>Amount</b>	<b>Rate</b>	<b>Date</b>	<b>Loan</b>	<b>Date</b>	<b>Outstanding</b>
				<b>Amount</b>		

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Tractor Supply Parkersburg, WV	\$ 1,793,000	5.57%	10/11/15	\$ 814,000	12/26/05	\$ 2,607,000
Walgreens Brainerd, MN	2,814,000	5.44%	10/11/15	649,000	1/4/06	3,463,000
Rite Aid Alliance, OH		N/A	N/A		N/A	
La-Z-Boy Glendale, AZ	3,415,000	5.76%	11/11/10	1,138,000	1/25/06	4,553,000
Walgreens Florissant, MO	3,372,000	5.48%	11/11/15	778,000	2/2/06	4,150,000
Walgreens Saint Louis, MO (Gravois)	3,289,000	5.48%	11/11/15	759,000	2/2/06	4,048,000
Walgreens Saint Louis, MO (Telegraph)	3,999,000	5.48%	11/11/15	923,000	2/2/06	4,922,000
Walgreens Columbia, MO	4,645,369	5.15%	7/11/08		N/A	4,487,895
Walgreens Olivette, MO	5,567,894	5.15%	7/11/08		N/A	5,379,146
CVS Alpharetta, GA	2,015,000	5.52%	12/11/10	465,000	3/1/06	2,480,000
Lowe s Enterprise, AL	4,859,000	5.52%	12/11/10	1,121,000	3/1/06	5,980,000
CVS Richland Hills, TX	2,379,000	5.52%	12/11/10	549,000	3/8/06	2,928,000
FedEx Rockford, IL	3,998,000	5.61%	12/11/10	922,000	3/10/06	4,920,000
Plastech Auburn Hills, MI		N/A	N/A	17,700,000	12/14/06	17,700,000
Academy Sports Macon, GA	3,478,000	5.69%	1/11/16	802,000	4/6/06	4,280,000

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Property	Fixed Rate	Fixed	Maturity Date	Variable	Maturity Date	Total Loan Outstanding
	Loan Amount	Interest Rate		Rate Loan Amount		
David s Bridal Lenexa, KS	\$ 1,799,000	5.86%	1/11/11	\$ 817,000	4/11/06	\$ 2,616,000
Rite Aid Enterprise, AL	2,043,000	5.80%	2/11/16	928,000	4/26/06	2,971,000
Rite Aid Wauseon, OH	2,142,000	5.80%	2/11/16	973,000	4/26/06	3,115,000
Staples Crossville, TN	1,885,000	5.71%	2/11/11	435,000	4/26/06	2,320,000
Rite Aid Saco, ME	1,375,000	5.82%	2/11/11	625,000	4/27/06	2,000,000
Wadsworth Boulevard Denver, CO	12,025,000	5.57%	3/1/11	2,275,000	12/31/06	14,300,000
Mountainside Fitness Chandler, AZ		N/A	N/A	4,690,400	12/31/06	4,690,400
Drexel Heritage Hickory, NC	2,763,000	5.80%	3/11/11	637,000	5/24/06	3,400,000
Rayford Square Spring, TX	5,940,000	5.64%	4/1/16		N/A	5,940,000
CVS Portsmouth, OH	1,424,000	5.67%	3/11/11	329,000	6/8/06	1,753,000
Wawa Hockessin, DE, Manahawkin, NJ, Narberth, PA		N/A	N/A	7,234,787	2/26/10	7,234,787
CVS Lakewood, OH	1,348,000	5.77%	5/11/11	612,000	7/20/06	1,960,000
Rite Aid Cleveland, OH	1,413,000	6.05%	5/11/11	642,000	7/27/06	2,055,000
Rite Aid Fremont, OH	1,388,000	6.05%	5/11/11	632,000	7/27/06	2,020,000
Walgreens Knoxville, TN	3,088,000	5.80%	5/11/11	712,000	8/8/06	3,800,000
CVS Madison, MS	2,809,000	5.60%	2/11/16		N/A	2,809,000
Rite Aid Defiance, OH	2,321,000	5.76%	1/11/16		N/A	2,321,000
Conns San Antonio, TX	2,461,000	5.86%	5/11/11	1,119,000	7/25/06	3,580,000
Dollar General Crossville, TN	1,950,000	5.75%	6/11/16	450,000	9/2/06	2,400,000
Dollar General Ardmore, TN	1,804,000	5.79%	6/11/16	416,000	9/9/06	2,220,000
Dollar General Livingston, TN	1,856,000	5.79%	7/11/16	429,000	10/12/06	2,285,000
Wehrenberg Arnold, MO		N/A	N/A		N/A	
Sportmans Warehouse Wichita, KS		N/A	N/A	6,173,250	12/27/06	6,173,250
CVS Portsmouth, OH		N/A	N/A		N/A	
Advance Auto Greenfield, IN		N/A	N/A		N/A	
Advance Auto Trenton, OH		N/A	N/A		N/A	
Rite Aid Lansing, MI	1,041,000	5.90%	7/1/16		N/A	1,041,000
	1,038,000	5.83%	7/11/16	346,000	10/6/06	1,384,000

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Advance Auto Columbia Heights, MN						
Advance Auto Fergus Falls, MN	722,000	5.83%	7/11/16	241,000	10/6/06	963,000
CVS Okeechobee, FL	4,076,000	5.60%	2/11/16		N/A	4,076,000
Office Depot Dayton, OH	2,130,000	5.73%	2/11/16		N/A	2,130,000
Advance Auto Holland, MI	1,193,000	5.83%	4/11/16		N/A	1,193,000
Advance Auto Holland Township, MI	1,231,000	5.83%	4/11/16		N/A	1,231,000
Advance Auto Zeeland, MI	1,057,000	5.83%	4/11/16		N/A	1,057,000
CVS Orlando, FL	3,016,000	5.68%	4/11/16		N/A	3,016,000
Office Depot Greenville, MS	2,192,000	5.76%	3/11/11		N/A	2,192,000
Office Depot Warrensburg, MO	1,810,000	5.85%	4/11/11		N/A	1,810,000
CVS Gulfport, MS	2,611,000	5.28%	4/11/16		N/A	2,611,000
Advance Auto Grand Forks, ND	840,000	5.87%	9/11/16	280,000	11/15/06	1,120,000
CVS Clinton, NY	1,983,000	5.74%	9/11/16	457,000	12/24/06	2,440,000(2)
Oxford Theatre Oxford, MS	5,175,000	6.11%	9/1/16		N/A	5,175,000(1)
Advance Auto Duluth, MN	860,000	5.87%	10/11/16	286,000	12/22/06	1,146,000
Walgreens Picayune, MS	2,766,000	5.53%	10/11/16	638,000	1/15/07	3,404,000(2)
Kohl s Wichita, KS	5,200,000	6.11%	9/1/16		N/A	5,200,000(1)
Lowe s Lubbock, TX	7,150,000	6.11%	9/1/16		N/A	7,150,000(1)

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<b>Property</b>	<b>Fixed Rate Loan Amount</b>	<b>Fixed Interest Rate</b>	<b>Maturity Date</b>	<b>Variable Rate Loan Amount</b>	<b>Maturity Date</b>	<b>Total Loan Outstanding</b>
Lowe s Midland, TX	\$ 7,475,000	6.11%	9/1/16	\$	N/A	\$ 7,475,000(1)
Advance Auto Grand Bay, AL		N/A	N/A		N/A	
Advance Auto Hurley, MS		N/A	N/A		N/A	
Advance Auto Rainsville, AL		N/A	N/A		N/A	
Gold s Gym O Fallon, IL	3,650,000	5.83%	10/11/16	2,190,000	17/27/06	5,840,000(2)
Rite Aid Glassport, PA	2,325,000	6.10%	11/1/16		N/A	2,325,000
David s BridalRadio Shack Topeka, KS	2,000,000	5.77%	12/1/16		N/A	2,000,000
Rite Aid Hanover, PA	4,115,000	6.11%	11/1/16		N/A	4,115,000
American TV & Appliance Peoria, IL	7,358,971	6.00%	10/1/18		N/A	7,358,971
Tractor Supply La Grange, TX	1,405,000	5.99%	12/1/16		N/A	1,405,000(3)
Staples Peru, IL	1,930,000	5.66%	12/1/11		N/A	1,930,000
Fedex Council Bluffs, IA	2,185,000	5.97%	12/1/16		N/A	2,185,000
Fedex Edwardsville, KS	12,880,000	5.97%	12/1/16		N/A	12,880,000
CVS Glenville Scotia, NY	3,413,000	5.74%	12/11/16	787,000	3/16/07	4,200,000
Advance Auto Ashland, KY		N/A	N/A		N/A	
Advance Auto Jackson, OH		N/A	N/A		N/A	
Advance Auto New Boston, OH		N/A	N/A		N/A	
Advance Auto Scottsburg, IN		N/A	N/A		N/A	
Tractor Supply Livingston, TN	1,725,000	5.99%	12/1/16		N/A	1,725,000(3)
Tractor Supply New Braunfels, TX	1,750,000	5.99%	12/1/16		N/A	1,750,000(3)
Office Depot Benton, AR	2,130,000	5.77%	12/1/16		N/A	2,130,000
Old Time Pottery Fairview Heights, IL	2,140,000	6.31%	12/11/11	1,284,000	3/21/07	3,424,000
Infiniti Davie, FL		N/A	N/A		N/A	
Office Depot Oxford, MS	2,295,000	6.17%	12/1/16		N/A	2,295,000
	1,325,000	5.99%	12/1/16		N/A	1,325,000(3)

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Tractor Supply Crockett, TX						
Mercedes Benz Atlanta, GA		N/A	N/A		N/A	
Dick's Sporting Goods Amherst, NY	6,321,000	5.62%	2/1/17		N/A	6,321,000
Chili's Paris, TX	1,790,000	5.65%	1/1/17		N/A	1,790,000
Staples Clarksville, IN	2,900,000	5.78%	1/1/17		N/A	2,900,000
HOM Fargo, ND	4,800,000	5.56%	2/1/2017		N/A	4,800,000
La-Z-Boy Newington, CT	4,140,000	5.66%	2/1/2017		N/A	4,140,000
Advance Auto Maryland Heights, MO		N/A	N/A		N/A	
Victoria Crossing Victoria, TX	8,288,000	5.71%	2/11/17	1,912,000	4/12/07	10,200,000
Academy Sports Katy, TX	68,250,000	5.61%	2/1/17		N/A	68,250,000
Gordmans Peoria, IL	4,950,000	5.71%	2/1/17		N/A	4,950,000
One Pacific Place Omaha, NE	23,400,000	5.53%	3/1/17		N/A	23,400,000
Sack n Save O'Reilly Auto Garland, TX	3,290,000	5.54%	3/1/17		N/A	3,290,000
Tractor Supply Ankeny, IA	1,950,000	5.65%	5/1/17		N/A	1,950,000
ABX Air Coventry, RI	2,454,000	5.70%	4/1/12		N/A	2,454,000
Office Depot Enterprise, AL	1,850,000	6.29%	3/1/17		N/A	1,850,000
Northern Tool Blaine, MN	3,185,000	6.00%	9/1/16		N/A	3,185,000(4)
Office Max Orangeburg, SC	1,875,000	5.61%	4/1/12		N/A	1,875,000
Walgreens Cincinnati, OH	3,341,000	6.00%	9/1/16		N/A	3,341,000(4)
Walgreens Madeira, OH	2,876,000	5.70%	4/1/12		N/A	2,876,000
Walgreens Sharonville, OH	2,655,000	5.62%	4/1/12		N/A	2,655,000
AT&T Beaumont, TX	8,592,000	5.87%	4/1/17		N/A	8,592,000

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Property	Fixed Rate	Fixed	Maturity Date	Variable	Maturity Date	Total Loan Outstanding
	Loan Amount	Interest Rate		Rate Loan Amount		
Walgreens Shreveport, LA	\$ 2,815,000	5.56%	4/11/17	\$ 497,000	6/23/07	\$ 3,312,000
Cost-U-Less,- St. Crois, USVI	4,035,000	5.76%	4/1/17		N/A	4,035,000
Gallina Centro Collierville, TN	14,200,000	5.72%	4/11/17		N/A	14,200,000
Apria Healthcare St. John, MO		N/A	N/A		N/A	
Logan s Roadhouse Fairfax, VA	1,605,000	6.00%	4/11/17	962,000	6/27/07	2,567,000
Logan s Roadhouse Johnson City, TN	1,933,000	6.00%	4/11/17	1,160,000	6/27/07	3,093,000
Center at 7500 Cottonwood Jenison, MI		N/A	N/A		N/A	
Eckerd Lincolnton, NC	1,538,000	5.80%	4/11/17	271,000	7/3/07	1,809,000
Tractor Supply Greenfield, MN	2,227,500	5.57%	7/1/17		N/A	2,227,500
Lincoln Place Fairview Heights, IL	35,432,000	5.70%	5/1/17		N/A	35,432,000
Amarillo Furniture Ashley, TX	4,026,000	5.59%	4/11/17	710,000	7/5/07	4,736,000
Pocatello Square Pocatello, ID	17,250,000	5.53%	4/11/17	1,150,000	8/6/07	18,400,000
Tractor Supply Paw Paw, MI	2,048,000	5.65%	5/1/17		N/A	2,048,000
Tractor Supply Marinette, WI	1,918,000	5.65%	5/1/17		N/A	1,918,000
Staples Greenville, SC	2,955,000	5.51%	6/11/17		N/A	2,955,000
Big 5 Center Aurora, CO	2,804,000	5.57%	6/11/17		N/A	2,804,000
Rite Aid Plains, PA	3,380,000	5.60%	5/17/17		N/A	3,380,000
Tractor Supply Navasota, TX	2,050,000	5.80%	5/11/17	362,000	7/18/2007	2,412,000
Sportsman s Warehouse De Pere, WI	3,906,500	5.52%	5/1/17		N/A	3,906,500
Eckerd Easton, PA	4,060,000	5.80%	4/11/17	716,000	7/4/2007	4,776,000
Applebee s Portfolio Master Loan I	15,161,185	5.68%	5/11/17		N/A	15,161,185(5)
	13,237,086	5.68%	5/11/17		N/A	13,327,086(6)

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Applebee s Portfolio Master Loan II						
Applebee s Portfolio Master Loan III	13,851,729	5.68%	5/11/17		N/A	13,851,729(7)
Walgreens Bridgetown, OH	3,043,000	5.80%	5/11/17	537,000	8/27/2007	3,580,000
Rite Aid Fredericksburg, VA	2,979,000	5.92%	5/11/17	1,353,000	8/2/2007	4,332,000
Sam s Club Anderson, SC	8,160,000	5.80%	5/11/17	1,440,000	8/4/2007	9,600,000
Tractor Supply Fredericksburg, TX	2,031,250	5.57%	6/1/17		N/A	2,031,250
Walgreens Dallas, TX	2,175,000	5.76%	6/1/17		N/A	2,175,000
Wal-Mart New London, WI	1,778,000	5.80%	5/11/17	313,000	8/9/2007	2,091,000
Rite Aid Lima, OH (Bellefontaine)	3,103,000	5.46%	6/1/2017		N/A	3,103,000
Rite Aid Allentown, PA	3,615,000	5.78%	6/1/2017		N/A	3,615,000
CVS Florence, SC	1,706,205	5.73%	6/1/2017		N/A	1,706,205
Eckerd Spartanburg (Main), SC	2,258,750	5.73%	6/1/2017		N/A	2,258,750
Staples Warsaw, IN	1,850,000	5.73%	6/1/2017		N/A	1,850,000
Walgreens Bryan, TX	4,111,000	5.70%	6/11/2017	949,000	8/18/2007	5,060,000
Walgreens Harris County, TX	3,673,000	5.70%	6/11/2017	848,000	8/18/2007	4,521,000
Tractor Supply Fairview, TN	1,930,500	5.59%	6/1/2017		N/A	1,930,500
Borders Rapid City, SD	4,393,000	5.66%	6/11/2017	776,000	9/1/2007	5,169,000
Borders Reading, PA	4,257,000	5.66%	6/11/2017	752,000	9/1/2007	5,009,000
Walgreens Gainesville, FL	2,465,000	5.60%	6/11/2017	435,000	9/1/2007	2,900,000
Chili s Fredericksburg, TX	1,504,000	5.55%	6/11/2017	347,000	9/5/2007	1,851,000
Tractor Supply Baytown, TX	2,251,000	5.60%	6/11/2017	397,000	9/11/2007	2,648,000
Winco Eureka, CA	11,247,000	5.71%	7/1/2017		N/A	11,247,000
Eckerd Vineland, NJ	3,500,000	5.71%	7/1/2017		N/A	3,500,000
Eckerd Mantua, NJ	1,470,000	5.71%	7/1/2017		N/A	1,470,000
Best Buy (Super Value) Warwick, RI	5,350,000	5.71%	7/1/2017		N/A	5,350,000



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<b>Property</b>	<b>Fixed Rate Loan Amount</b>	<b>Fixed Interest Rate</b>	<b>Maturity Date</b>	<b>Variable Rate Loan Amount</b>	<b>Maturity Date</b>	<b>Total Loan Outstanding</b>
Best Buy Evanston, IL	\$ 5,900,000	5.71%	7/1/2017	\$	N/A	\$ 5,900,000
Academy Sports Houston, TX	3,825,000	5.71%	7/1/2017		N/A	3,825,000
Starbucks Covington, TN		N/A	N/A		N/A	
Starbucks Sedalia, MO		N/A	N/A		N/A	
Kroger La Grange, GA	4,750,000	5.21%	7/1/2012		N/A	4,750,000
La-Z-Boy Kentwood, MI	3,602,000	5.32%	7/1/2012		N/A	3,602,000
Circuit City Mesquite, TX	4,305,000	5.32%	7/1/2012		N/A	4,305,000
Tractor Supply Prior Lake, MN	3,283,250	5.73%	7/1/2017		N/A	3,283,250
Circuit City Distribution Center Groveland, FL	20,250,000	5.55%	8/11/2017		N/A	20,250,000
Walgreens Fort Worth, TX	3,675,000	5.55%	8/11/2017		N/A	3,675,000
Kohl's Lake Zurich, IL	9,075,000	5.55%	8/11/2017		N/A	9,075,000
EDS Salt Lake City, UT	18,000,000	5.55%	8/11/2017		N/A	18,000,000
Lowe's Cincinnati, OH	13,800,000	5.55%	8/11/2017		N/A	13,800,000
Walgreens Kansas City (Linwood), MO	2,437,500	5.69%	7/11/2017		N/A	2,437,500
Walgreens Kansas City (Troost), MO	2,464,000	5.79%	7/11/2017		N/A	2,464,000
Walgreens Kansas City (63rd St), MO	3,034,500	5.79%	7/11/2017		N/A	3,034,500
Walgreens Kansas City (Independence), MO	2,990,000	5.69%	7/11/2017		N/A	2,990,000
Walgreens Topeka, KS	1,870,000	5.79%	7/11/2017		N/A	1,870,000
CVS Amarillo, TX	1,741,000	5.83%	8/1/2017		N/A	1,741,000
Taco Bell Brazil, IN		N/A	N/A		N/A	
Taco Bell Henderson, KY		N/A	N/A		N/A	
Academy Sports Baton Rouge, LA	4,687,000	5.83%	8/1/2017		N/A	4,687,000
Taco Bell Washington, IN		N/A	N/A		N/A	
Taco Bell Robinson, IL		N/A	N/A		N/A	
Taco Bell Princeton, IN		N/A	N/A		N/A	
Eckerd Mableton, GA	1,197,000	5.67%	8/1/2017		N/A	1,197,000
Taco Bell/KFC Spencer, IN		N/A	N/A		N/A	
CVS Del City, OK	2,631,000	5.82%	8/1/2017		N/A	2,631,000
Taco Bell Anderson, IN		N/A	N/A		N/A	
Academy Sports N Richland Hills, TX	4,217,000	5.83%	8/1/2017		N/A	4,217,000
Dave and Busters Addison, IL	5,600,000	5.56%	8/1/2017		N/A	5,600,000

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Academy Sports Houston (Southwest), TX	4,625,000	5.83%	8/1/2017		N/A	4,625,000
Academy Sports Houston (Breton), TX	3,045,000	5.83%	8/1/2017		N/A	3,045,000
Eckerd Chattanooga, TN	1,920,000	5.67%	8/1/2017		N/A	1,920,000
Taco Bell/KFC Vincennes, IN		N/A	N/A		N/A	
Taco Bell Martinsville, IN		N/A	N/A		N/A	
LJS/A&W Houston, TX		N/A	N/A		N/A	
Dickinson Theatre Yukon, OK		N/A	N/A		N/A	
Circuit City Taunton, MA	4,323,000	5.32%	8/1/2012		N/A	4,323,000
Telrx Kings Mountain, NC	6,083,000	5.27%	8/1/2012		N/A	6,083,000
Staples Guntersville, AL	2,161,250	5.24%	8/1/2012		N/A	2,161,250
Federal Express Peoria, IL	2,080,000	5.6%	7/20/2017		N/A	2,080,000
Wal-Mart Spencer, IN	1,377,000	5.8%	6/11/2017	243,000	8/3/2007	1,620,000

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<b>Property</b>	<b>Fixed Rate Loan Amount</b>	<b>Fixed Interest Rate</b>	<b>Maturity Date</b>	<b>Variable Rate Loan Amount</b>	<b>Maturity Date</b>	<b>Total Loan Outstanding</b>
Gold s Gym St. Peters, MO	\$ 5,250,000	5.91%	10/1/2017	\$	N/A	\$ 5,250,000
Fed Ex Walker, MI	4,669,000	6.30%	9/1/2012		N/A	4,669,000
Circuit City Aurora, CO	4,777,000	6.30%	9/1/2017		N/A	4,777,000
24 Hour Fitness Olathe, KS	4,816,500	6.15%	9/1/2017		N/A	4,816,500
Gold s Gym O Fallon, MO	5,425,000	6.09%	9/1/2017		N/A	5,425,000
Broadview Village Square Chicago, IL	31,500,000	5.86%	10/1/2017		N/A	31,500,000
Massard Farms Fort Smith, AR	10,237,000	6.86%	11/1/2017		N/A	10,237,000
Wickes Furniture Chicago, IL	15,925,000	6.88%	10/1/2017		N/A	15,925,000
Station Casino Las Vegas, NV	42,250,000	6.52%	11/1/2017		N/A	42,250,000
Circle K Portfolio Academy Sports Lufkin, TX	66,000,000	6.69%	1/1/2018		N/A	66,000,000
Best Buy Wichita, KS		N/A	N/A	3,685,765	2/1/2009	3,685,765
Bridgestone Tire Atlanta, GA		N/A	N/A	8,080,331	2/1/2009	8,080,331
Boscov s Voorhees, NJ		N/A	N/A	1,754,282	2/1/2009	1,754,282
CVS Indianapolis, IN		N/A	N/A	3,189,604	2/1/2009	3,189,604
FedEx Mishawaka, IN		N/A	N/A	2,675,724	2/1/2009	2,675,724
Marsh Supermarket Indianapolis, IN		N/A	N/A	2,799,764	2/1/2009	2,799,764
Walgreens Oneida, TN		N/A	N/A	10,242,174	2/1/2009	10,242,174
Milford Commons Milford, NH	5,816,924	5.59%	4/11/2016		N/A	5,816,924
CarMax Greenville, SC	15,125,000	5.90%	12/1/2016		N/A	15,125,000
Bank of America Delray Beach, FL		N/A	N/A	10,632,014	2/1/2009	10,632,014
		N/A	N/A	14,176,019	2/1/2009	14,176,019

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Circuit City Kennesaw, GA Mustang Engineering Houston, TX	N/A	N/A	13,467,218	2/1/2009	13,467,218
Office Depot Alcoa, TN Arby's New Castle, PA	N/A	N/A	2,888,364	2/1/2009	2,888,364
CarMax Raleigh, NC	N/A	N/A	1,063,201	2/1/2009	1,063,201
CarMax Pineville, NC	N/A	N/A	6,520,969	2/1/2009	6,520,969
Pep Boys Portfolio I	N/A	N/A	7,017,129	2/1/2009	7,017,129
Pep Boys Portfolio II	N/A	N/A	16,000,000	3/31/2009	16,000,000
Walgreens Basteville, MS	N/A	N/A		N/A	
Tractor Supply Clovis, NM	N/A	N/A		N/A	
BJ's Wholesale Club Haverhill, NM	N/A	N/A		N/A	
			950,581,863		203,380,995
					1,153,706,636

- (1) Mortgage note is cross-collateralized and cross-secured with the LO Midland Property, LO Lubbock Property, KO Wichita Property and OT Oxford Property.
- (2) Mortgage note is cross-collateralized and cross-secured with the CV Clinton Property, WG Picayune Property and GG O Fallon Property.
- (3) Mortgage note is cross-collateralized and cross-secured with the TS La Grange Property, TS Crockett Property, TS Livingston Property and TS New Braunfels Property.
- (4) Mortgage note is cross-collateralized and cross-secured with the NT Blaine Property and the WG Cincinnati Property.
- (5) The loan was used to fund eight single-tenant restaurants, which are subject to a master loan agreement. The properties are located in New Mexico, Georgia, Oregon, Washington, and Colorado.

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- (6) The loan was used to fund seven single-tenant restaurants, which are subject to a master loan agreement. The properties are located in New Mexico, Georgia, Washington, and Colorado.
- (7) The loan was used to fund seven single-tenant restaurants, which are subject to a master loan agreement. The properties are located in New Mexico, Georgia, Washington, and Colorado.

The fixed rate debt mortgage notes mature on various dates from July 2012 to January 2018, as set forth above. The mortgage notes are generally non-recourse to us and Cole OP II, but both are liable for customary non-recourse carveouts.

The fixed rate mortgage notes generally may not be prepaid, in whole or in part, except under the following circumstances: (i) full prepayment may be made on any of the three (3) monthly payment dates occurring immediately prior to the maturity date, and (ii) partial prepayments resulting from the application of insurance or condemnation proceeds to reduce the outstanding principal balance of the mortgage notes. Notwithstanding the prepayment limitations, we may sell the property to a buyer that assumes the respective mortgage loan. The transfer would be subject to the conditions set forth in the individual property's mortgage note document, including without limitation, the lender's approval of the proposed buyer and the payment of the lender's fees, costs and expenses associated with the sale of the property and the assumption of the loan.

In the event a mortgage note is not paid off on the maturity date, the mortgage loans include default provisions. Upon the occurrence of an event of default, interest on the mortgage notes will accrue at an annual default interest rate equal to the lesser of (a) the maximum rate permitted by applicable law, or (b) 4% above the fixed interest rate. In addition, we will be required to pay a prepayment consideration in an amount equal to the greater of 1.0% of the outstanding principal balance of the mortgage note, or the present value of the remaining scheduled payments of principal and interest from the date such payment is received through the maturity date at the time any payment is received by the lender.

The variable rate mortgage notes require monthly interest-only payments. As of April 25, 2008, we had repaid approximately \$4.7 million of the variable rate mortgage notes set forth above. The remaining \$124.0 million matures on various dates from February 2009 to August 2009, as set forth above. The mortgage notes are generally non-recourse to us and Cole OP II, but both are liable for customary non-recourse carveouts.

The variable rate mortgage notes, related to the Pep Boys Portfolio I and Pep Boys Portfolio II properties, were obtained from Series B, LLC and Series C, LLC, each an affiliate of our advisor. The variable rate mortgage notes are secured by the limited partnership interests held by Cole OP II in Cole PB Portfolio I, LP, and Cole PB Portfolio II, LP, respectively. All of the members of our board of directors, including all of our independent board members, not otherwise interested in such transaction approved the transaction as being fair, competitive and commercially reasonable and no less favorable to us than loans from unaffiliated parties under the same circumstances.

The variable rate mortgages may be prepaid at any time without premium or penalty. In the event the variable rate mortgages are not paid off on the maturity date, the variable rate mortgage notes include default provisions. Upon the occurrence of an event of default, interest on the mortgage notes will accrue at 4% above the variable interest rate and all interest and principal will become immediately due and payable.

For federal income tax purposes, the depreciable basis in the properties noted above is approximately \$2.5 billion in total. When we calculate depreciation expense for tax purposes, we will use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 years, respectively. The depreciable basis in the properties noted above are detailed as follows:

<b>Property</b>	<b>Depreciable Tax Basis</b>
Tractor Supply Parkersburg, WV	\$ 2,419,149
Walgreens Brainerd, MN	3,455,534
Rite Aid Alliance, OH	1,721,992
La-Z-Boy Glendale, AZ	3,308,706
Walgreens Florissant, MO	3,798,660
Walgreens Saint Louis, MO (Gravois)	4,041,203
Walgreens Saint Louis, MO (Telegraph)	3,405,433

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<b>Property</b>	<b>Depreciable Tax Basis</b>
Walgreens Columbia, MO	\$ 4,066,885
Walgreens Olivette, MO	4,920,452
CVS Alpharetta, GA	1,974,033
Lowe s Enterprise, AL	6,620,785
CVS Richland Hills, TX	2,617,497
FedEx Rockford, IL	4,810,302
Plastech Auburn Hills, MI	20,812,140
Academy Sports Macon, GA	4,546,122
David s Bridal Lenexa, KS	2,588,991
Rite Aid Enterprise, AL	2,892,211
Rite Aid Wauseon, OH	2,920,310
Staples Crossville, TN	2,421,793
Rite Aid Saco, ME	2,188,010
Wadsworth Boulevard Denver, CO	14,190,910
Mountainside Fitness Chandler, AZ	4,818,016
Drexel Heritage Hickory, NC	3,958,998
Rayford Square Spring, TX	7,936,443
CVS Portsmouth, OH	1,667,154
Wawa Hockessin, DE	3,087,470
Wawa Manahawkin, NJ	2,821,552
Wawa Narbeth, PA	2,688,592
CVS Lakewood, OH	1,973,647
Rite Aid Cleveland, OH	2,070,669
Rite Aid Fremont, OH	1,728,442
Walgreens Knoxville, TN	3,068,515
CVS Madison, MS	3,368,662
Rite Aid Defiance, OH	3,126,556
Conns San Antonio, TX	3,562,750
Dollar General Crossville, TN	2,435,881
Dollar General Ardmore, TN	2,114,108
Dollar General Livingston, TN	2,033,053
Wehrenberg Arnold, MO	5,698,096
Sportmans Warehouse Wichita, KS	6,843,371
CVS Portsmouth, OH	1,770,141
Advance Auto Greenfield, IN	755,462
Advance Auto Trenton, OH	772,177
Rite Aid Lansing, MI	1,547,295
Advance Auto Columbia Heights, MN	1,236,120
Advance Auto Fergus Falls, MN	1,058,994
CVS Okeechobee, FL	4,812,804
Office Depot Dayton, OH	2,583,810
Advance Auto Holland, MI	1,432,089
Advance Auto Holland Township, MI	1,463,900
Advance Auto Zeeland, MI	1,384,950
CVS Orlando, FL	2,807,200

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Office Depot Greenville, MS	2,583,810
Office Depot Warrensburg, MO	1,829,024
CVS Gulfport, MS	3,032,978
Advance Auto Grand Forks, ND	1,070,994
CVS Clinton, NY	2,462,819
Oxford Theatre Oxford, MS	9,636,227



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<b>Property</b>	<b>Depreciable Tax Basis</b>
Advance Auto Duluth, MN	\$ 1,190,975
Walgreens Picayune, MS	3,153,167
Kohl s Wichita, KS	6,289,365
Staples Greenville, SC	4,545,000
Lowe s Lubbock, TX	7,247,827
Lowe s Midland, TX	7,883,933
Advance Auto Grand Bay, AL	905,396
Advance Auto Hurley, MS	952,326
Advance Auto Rainsville, AL	991,239
Gold s Gym O Fallon, IL	6,060,922
Rite Aid Glassport, PA	3,268,815
David s Bridal/Radio Shack Topeka, KS	2,535,491
Rite Aid Hanover, PA	4,638,296
American TV & Appliance Peoria, IL	9,573,469
Tractor Supply La Grange, TX	2,402,825
Staples Peru, IL	2,024,975
Fedex Council Bluffs, IA	2,932,591
Fedex Edwardsville, KS	18,589,934
CVS Glenville Scotia, NY	3,796,109
Advance Auto Ashland, KY	1,096,360
Advance Auto Jackson, OH	952,219
Advance Auto New Boston, OH	1,092,304
Advance Auto Scottsburg, IN	1,054,818
Tractor Supply Livingston, TN	2,761,104
Tractor Supply New Braunfels, TX	2,733,111
Office Depot Benton, AR	2,803,944
Old Time Pottery Fairview Heights, IL	3,338,050
Infiniti Davie, FL	6,661,739
Office Depot Oxford, MS	2,666,293
Tractor Supply Crockett, TX	2,236,043
Mercedes Benz Atlanta, GA	9,401,653
Dick s Sporting Goods Amherst, NY	6,873,019
Chili s Paris, TX	2,234,337
Staples Clarksville, IN	3,595,974
HOM Fargo, ND	11,133,123
La-Z-Boy Newington, CT	5,598,393
Advance Auto Maryland Heights, MO	1,218,676
Victoria Crossing Victoria, TX	10,421,408
Academy Sports Katy, TX	96,108,815
Gordmans Peoria, IL	7,635,360
One Pacific Place Omaha, NE	20,033,912
Sack n Save/O Reilly Auto Garland, TX	3,203,422
Tractor Supply Ankeny, IA	2,362,924
ABX Air Coventry, RI	2,261,338
Office Depot Enterprise, AL	2,085,763

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Northern Tool Blaine, MN	2,794,139
Office Max Orangeburg, SC	2,624,618
Walgreens Cincinnati, OH	3,947,186
Walgreens Madeira, OH	3,491,063
Walgreens Sharonville, OH	3,004,123
AT&T Beaumont, TX	12,043,930

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<b>Property</b>	<b>Depreciable Tax Basis</b>
Walgreens Shreveport, LA	\$ 3,789,514
Cost-U-Less, St. Crois, USVI	5,912,063
Gallina Centro Collierville, TN	12,535,873
Apria Healthcare St. John, MO	4,992,618
Logan s Roadhouse Fairfax, VA	1,776,432
Logan s Roadhouse Johnson City, TN	2,918,164
Center at 7500 Cottonwood Jenison, MI	4,344,581
Eckerd Lincoln, NC	2,262,000
Tractor Supply Greenfield, MN	4,050,000
Lincoln Place Fairview Heights, IL	44,000,000
Ashley Furniture Amarillo, TX	5,920,000
Pocatello Square Pocatello, ID	23,000,000
Tractor Supply Paw Paw, MI	3,095,000
Tractor Supply Marinette, MI	2,950,000
Big 5 Center Aurora, CO	4,290,000
Rite Aid Plains, PA	5,200,000
Tractor Supply Navasota, TX	3,015,000
Sportsman s Warehouse De Pere, WI	6,010,000
Eckerd Easton, PA	5,970,000
Applebee s Portfolio Various	65,000,000
Walgreens Bridgetown, OH	4,475,000
Rite Aid Fredericksburg, VA	5,415,000
Sam s Club Anderson, SC	12,000,000
Tractor Supply Fredericksburg, TX	3,125,000
Walgreens Dallas, TX	3,150,000
Wal-Mart New London, WI	2,614,000
Rite Aid Lima, OH (Bellefontaine)	4,745,962
Rite Aid Allentown, PA	5,561,112
CVS Florence, SC	1,939,879
Eckerd Spartanburg (Main), SC	2,206,496
Staples Warsaw, IN	2,975,976
Walgreens Bryan, TX	5,688,753
Walgreens Harris County, TX	4,130,920
Tractor Supply Fairview, TN	2,616,643
Borders Rapid City, SD	5,028,711
Borders Reading, PA	4,289,688
Walgreens Gainesville, FL	2,668,219
Chili s Fredericksburg, TX	1,917,255
Tractor Supply Baytown, TX	2,582,105
Winco Eureka, CA	12,402,598
Eckerd Vineland, NJ	2,849,536
Eckerd Mantua, NJ	1,213,686
Best Buy (Super Value) Warwick, RI	3,435,067
Best Buy Evanston, IL	4,638,272
Academy Sports Houston, TX	1,590,469

Starbucks Covington, TN	1,009,060
Starbucks Sedalia, MO	1,026,547
Kroger La Grange, GA	6,397,575
La-Z-Boy Kentwood, MI	3,876,176
Circuit City Mesquite, TX	6,928,335
Tractor Supply Prior Lake, MN	3,437,491

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<b>Property</b>	<b>Depreciable Tax Basis</b>
Circuit City Distribution Center Groveland, FL	\$ 22,039,048
Walgreens Fort Worth, TX	3,884,122
Kohl's Lake Zurich, IL	10,170,184
EDS Salt Lake City, UT	18,259,859
Lowe's Cincinnati, OH	16,446,786
Walgreens Kansas City (Linwood), MO	3,000,000
Walgreens Kansas City (Troost), MO	3,942,400
Walgreens Kansas City (63rd St), MO	3,468,000
Walgreens Kansas City (Independence), MO	3,678,400
Walgreens Topeka, KS	2,497,560
CVS Amarillo, TX	2,232,854
Taco Bell Brazil, IN	1,575,724
Taco Bell Henderson, KY	1,242,086
Academy Baton Rouge, LA	5,554,226
Taco Bell Washington, IN	1,004,436
Taco Bell Robinson, IL	1,240,538
Taco Bell Princeton, IN	1,139,462
Eckerd Mableton, GA	1,480,510
Taco Bell/KFC Spencer, IN	771,892
CVS Del City, OK	3,343,602
Taco Bell Anderson, IN	1,380,411
Academy N Richland Hills, TX	5,033,977
Dave and Buster's Addison, IL	11,142,857
Academy Houston (Southwest), TX	5,711,057
Academy Houston (Breton), TX	3,779,654
Eckerd Chattanooga, TN	2,238,115
Taco Bell/KFC Vincennes, IN	1,182,952
Taco Bell Martinsville, IN	1,578,842
LJS/A & W Houston, TX	963,857
Dickinson Theatre Yukon, OK	3,640,000
Circuit City Taunton, MA	6,288,000
Telrx Kings Mountain, NC	6,952,000
Staples Guntersville, AL	2,660,000
Federal Express Peoria, IL	2,560,000
Wal-Mart Spencer, IN	1,796,169
Gold's Gym St. Peters, MO	6,000,000
Fed Ex Walker, MI	5,859,113
Wal-Mart Bay City, TX	3,004,000
Walgreens Richmond, VA	3,395,239
Circuit City Aurora, CO	5,609,992
Home Depot Bedford Park, IL	20,962,397
24 Hr Fitness Olathe, KS	6,302,395
Walgreens Dallas, TX (De Soto)	3,084,049
Gold's Gym O Fallon, MO	4,830,249
Wal-Mart Washington, IL	2,862,400

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Wal-Mart Borger, TX	2,564,000
Broadview Village Square Chicago, IL	46,400,000
Chambers Corners Wayland, MI	7,058,482
Ashley Furniture Anderson, SC	3,730,530
Best Buy Fayetteville, NC	4,802,602
Massard Farms Fort Smith, AR	12,600,000

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<b>Property</b>	<b>Depreciable Tax Basis</b>
Wal-Mart Whiteville, NC	\$ 2,133,600
Staples Moraine, OH	3,040,000
Wickes Furniture Chicago, IL	18,752,000
Walgreens Brentwood, TN	4,512,000
Starbucks Bowling Green, KY	1,325,600
Walgreens Harriman, TN	4,021,456
Starbucks Shawnee, OK	877,527
Station Casino Headquarters Las Vegas, NV	56,000,000
Starbucks Oklahoma City, OK	891,352
Starbucks Chattanooga, TN	935,699
Starbucks Maryville, TN	877,181
Starbucks Powell, TN	854,534
Starbucks Seymour, TN	809,925
Walgreens Beverly Hills, TX	2,880,000
Walgreens Waco, TX	2,880,000
Allstate Insurance Contact Center Cross Plains, WI	4,576,000
Mealey s Furniture Maple Shade, NJ	4,280,000
Circle K Albuquerque, NM	1,020,575
Circle K Baton Rouge (Burbank), LA	761,382
Circle K Baton Rouge (Floynell), LA	1,125,873
Circle K Baton Rouge (Jefferson), LA	866,679
Circle K Beaufort, SC	1,312,168
Circle K Bluffton, SC	2,073,550
Circle K Bossier City, LA	1,223,070
Circle K Charleston, SC	2,081,649
Circle K Charlotte (Independence), NC	1,506,563
Circle K Charlotte (Sharon), NC	1,563,262
Circle K Charlotte (Sugar Creek), NC	1,611,861
Circle K Columbia (Garners), SC	1,692,858
Circle K Columbia (Hardscrabble), SC	1,401,266
Circle K El Paso (Americas), TX	1,773,854
Circle K El Paso (Mesa), TX	915,278
Circle K El Paso (Zaragosa), TX	1,652,360
Circle K Fort Mill, SC	1,887,254
Circle K Goose Creek, SC	1,093,474
Circle K Huntersville, NC	1,611,861
Circle K Mount Pleasant, SC	1,231,170
Circle K Port Wentworth, GA	1,860,525
Circle K Savannah (Johnny Mercer), GA	1,287,869
Circle K Savannah (King George), GA	1,287,869
Circle K Shreveport, LA	971,976
Circle K Springdale, SC	1,393,166
Exxon West Monroe (503 Thomas), LA	1,174,471
Holland Oil Akron (940 Arlington), OH	907,178
Holland Oil Akron (1178 Arlington), OH	1,133,972

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Holland Oil Akron (1559 E. Market), OH	1,166,371
Holland Oil Akron (1693 West Market), OH	1,279,769
Holland Oil Akron (Albrecht), OH	890,978
Holland Oil Akron (Brittain), OH	996,276
Holland Oil Akron (Brown), OH	1,044,874
Holland Oil Akron (Cuyahoga), OH	1,304,068



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<b>Property</b>	<b>Depreciable Tax Basis</b>
Holland Oil Akron (Darrow), OH	\$ 971,976
Holland Oil Akron (Exchange), OH	1,174,471
Holland Oil Akron (Main St.), OH	947,677
Holland Oil Akron (Manchester), OH	1,312,168
Holland Oil Akron (Ridgewood), OH	1,044,874
Holland Oil Akron (Waterloo), OH	947,677
Holland Oil Barberton (5 th St.), OH	988,176
Holland Oil Barberton (31 st St.), OH	777,581
Holland Oil Barberton (Wooster), OH	1,798,156
Holland Oil Bedford, OH	1,020,575
Holland Oil Brookpark, OH	1,085,374
Holland Oil Canton (12 th Street), OH	931,478
Holland Oil Canton (Tuscarawas), OH	1,757,657
Holland Oil Cleveland, OH	1,271,669
Holland Oil Copley, OH	923,378
Holland Oil Cuyahoga Falls (Bath), OH	1,619,961
Holland Oil Cuyahoga Falls (Port), OH	1,109,673
Holland Oil Cuyahoga Falls (State), OH	826,180
Holland Oil Fairlawn, OH	1,287,869
Holland Oil Kent, OH	793,781
Holland Oil Maple Heights, OH	1,190,671
Holland Oil Northfield, OH	1,555,162
Holland Oil Norton, OH	1,150,172
Holland Oil Parma, OH	1,004,375
Holland Oil Seville, OH	1,960,152
Holland Oil Twinsburg, OH	1,085,374
Holland Oil Willoughby, OH	955,777
Shell Monroe, LA	1,223,070
Spectrum Auburn, AL	1,385,066
Spectrum Augusta, GA	882,878
Spectrum Columbus (Airport), GA	1,231,170
Spectrum Columbus (Beaver Run), GA	2,008,751
Spectrum Columbus (Bradley), GA	2,672,934
Spectrum Columbus (Buena Vista), GA	1,287,869
Spectrum Columbus (Lumpkin), GA	1,336,467
Spectrum Columbus (Warm Springs), GA	1,571,362
Spectrum Lanett, AL	680,383
Spectrum Macon (Arkwright), GA	915,278
Spectrum Macon (Riverside), GA	1,004,375
Spectrum Martinez, GA	1,020,575
Spectrum Mobile (Airport), AL	1,457,964
Spectrum Mobile (Moffett), AL	1,247,370
Spectrum North Augusta, GA	955,777
Spectrum Opelika (2 nd Ave), AL	1,044,874
Spectrum Opelika (Columbus), AL	1,879,154

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Spectrum Phenix City, AL	1,279,769
Spectrum Pine Mountain, GA	915,278
Spectrum Valley, AL	1,247,370
Spirit West Monroe (1602 Thomas), LA	1,336,467
Hilltop Plaza Bridgeton, MO	18,556,000
Academy Sports Lufkin, TX	4,160,000

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<b>Property</b>	<b>Depreciable Tax Basis</b>
Best Buy Wichita, KS	\$ 9,056,800
Bridgestone Tire Atlanta, GA	1,945,600
Boscov's Voorhees, NJ	3,272,000
CVS Indianapolis, IN	2,952,000
FedEx Mishawaka, IN	3,145,600
Marsh Supermarket Indianapolis, IN	11,452,800
Starbucks Stillwater, OK	1,042,758
Walgreens Oneida, TN	4,018,321
Starbucks Memphis, TN	1,093,600
Walgreens Cincinnati (Seymour), OH	3,912,000
Tractor Supply Rome, NY	2,520,000
HH Gregg Greensboro, NC	5,440,000
Starbucks Altus, OK	937,931
Milford Commons Milford, NH	6,360,000
CarMax Greenville, SC	17,600,000
Bank of America Delray Beach, FL	12,000,000
Circuit City Kennesaw, GA	15,872,000
Mustang Engineering Houston, TX	15,200,000
Office Depot Alcoa, TN	2,926,400
Arby's New Castle, PA	1,216,000
CarMax Raleigh, NC	7,316,000
CarMax Pineville, NC	7,910,400
Starbucks Ponca City, OK	849,402
Starbucks Kingsport, TN	1,062,400
Pep Boys Albuquerque, NM	3,018,400
Pep Boys Arlington Heights, IL	4,911,200
Pep Boys Clarksville, IN	2,013,600
Pep Boys Colorado Springs, CO	2,132,000
Pep Boys El Centro, CA	1,940,800
Pep Boys Fort Myers, FL	2,438,400
Pep Boys Frederick, MD	3,773,600
Pep Boys Hampton, VA	3,198,400
Pep Boys Lakeland, FL	2,173,600
Pep Boys Nashua, NH	3,500,000
Pep Boys New Hartford, NY	1,895,200
Pep Boys Orem, UT	2,438,400
Pep Boys Pasadena, TX	3,990,400
Pep Boys Redlands, CA	3,696,000
Pep Boys San Antonio, TX	1,968,000
Pep Boys Tamarac, FL	3,268,000
Pep Boys West Warwick, RI	2,961,600
Pep Boys Tampa, FL	1,540,000
Walgreens Batesville, MS	4,256,800
Tractor Supply Clovis, NM	2,448,000
BJ's Wholesale Club Haverhill, NM	15,520,000



**Table of Contents*****Tenant Lease Expirations***

The following table sets forth, as of April 25, 2008, lease expirations of our properties, including the properties described above, for each of the next ten years assuming no renewal options are exercised. For purposes of the table, the total annual base rent column represents annualized base rent, based on rent in effect on January 1 of the respective year, for each lease that expires during the respective year.

<b>Year Ending December 31,</b>	<b>Number of Leases Expiring</b>	<b>Approx. Square Feet Expiring</b>	<b>Total Annual Base Rent</b>	<b>% of Total Annual Base Rent</b>
2008	11	53,937	\$ 438,659	>0%
2009	15	107,463	1,150,045	1%
2010	15	128,264	1,459,966	1%
2011	13	51,260	874,728	1%
2012	15	142,434	1,735,177	1%
2013	19	364,674	3,601,910	2%
2014	14	275,736	3,366,274	2%
2015	17	1,188,626	8,630,538	6%
2016	30	1,566,823	13,313,229	9%
2017	36	1,366,010	13,425,130	9%
2018	26	621,086	6,902,209	5%
	211	5,866,312	\$ 54,897,917	37%

**Mortgage Notes**

On September 28, 2007, CCPT II Finance, LLC, an Arizona limited liability company ( "CCPT Finance" ), which is a wholly-owned subsidiary of Cole OP II, acquired a portfolio of 23 mortgage notes with an aggregate face amount of \$45,265,849 secured by 23 Cracker Barrel Old Country Store restaurants (the "Cracker Barrel Properties" ) located in 16 states (the "CB Mortgage Notes" ). The CB Mortgage Notes were purchased from GE Capital Franchise Finance Corporation, which is not affiliated with us, our subsidiaries or affiliates.

The purchase price of the CB Mortgage Notes was approximately \$48.4 million, exclusive of closing costs, resulting in a premium of 6.9%. The acquisition was funded by net proceeds from our ongoing public offering and an approximately \$36.3 million loan from General Electric Capital Corporation secured by the CB Mortgage Notes (the "Cracker Barrel Loan" ). In connection with the acquisition, we paid an affiliate of our advisor an acquisition fee of approximately \$968,000 and our advisor a finance coordination fee of approximately \$363,000.

The borrower under the CB Mortgage Notes is Country Stores Property II, LLC (the "CB Borrower" ). The CB Borrower is a subsidiary of U.S. Realty Advisors, who utilized the CB Mortgage Notes in part to fund the purchase of the Cracker Barrel Properties in July 2000. The CB Mortgage Notes have an unpaid principal balance of approximately \$45.3 million and a fixed interest rate of 9.84% with aggregate annual fixed payments of principal and interest \$5,375,280 per year, which is payable monthly. The CB Mortgage Notes are non-recourse to the CB Borrower and

may be prepaid in full, but not in part, by the CB Borrower, subject to a yield maintenance premium. Failure to make any required payments under the CB Mortgage Notes by the CB Borrower in a timely manner will cause an event of default, which will result in an 18.0% default interest rate, late charges equal to 5.0% of the amount of such overdue payment, and all interest and principal may become immediately due and payable in full. The maturity date of the CB Mortgage Notes is August 1, 2020.

The Cracker Barrel Properties are 100% leased to Cracker Barrel Old Country Store, Inc. (the Tenant), a wholly-owned subsidiary of CBRL Group, Inc. (Cracker Barrel), which guarantees the lease. Cracker Barrel engages in the operation and development of restaurants and retail concepts in the United States. It operates restaurants under the Cracker Barrel Old Country Store name at 564 locations in 41 states. Cracker Barrel has a Standard & Poor's credit rating of BB- and its stock is publicly traded on the Nasdaq Global Select Market under the symbol CBRL.

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The Cracker Barrel Loan has a variable interest rate based on the one-month LIBOR rate plus 200 basis points with monthly interest-only payments and the outstanding principal and any accrued and unpaid interest due on March 31, 2008. The Cracker Barrel Loan, of approximately \$36.3 million, was repaid in full in March 2008.

On December 27, 2007, CCPT II Finance, acquired a portfolio of 46 mortgage notes with an aggregate face amount of approximately \$33.3 million secured by 20 KFC restaurants (the KFC Properties ) located in nine states and 26 O Reilly Auto Parts stores (the O Reilly Properties ) located in two states (collectively, the KFC/OAP Mortgage Notes ). The KFC/OAP Mortgage Notes were purchased from GE Capital Franchise Finance Corporation, which is not affiliated with us, our subsidiaries or affiliates.

The purchase price of the KFC/OAP Mortgage Notes was approximately \$37.1 million, exclusive of closing costs, resulting in a premium of 11.4%. The acquisition was funded by net proceeds from our ongoing public offering and an approximately \$35.0 million loan from Wachovia Bank secured by a portfolio of 23 commercial loans owned by CCPT Finance (the Wachovia Loan ). In connection with the acquisition, we paid an affiliate of our advisor an acquisition fee of approximately \$743,000 and our advisor a finance coordination fee of approximately \$350,000.

The borrowers under the KFC/OAP Mortgage Notes are LoJon Property II, LLC and CarPar Property II, LLC (collectively, the KFC/OAP Borrowers ). The KFC/OAP Borrowers are each a subsidiary of U.S. Realty Advisors, who utilized the KFC/OAP Mortgage Notes in part to fund the purchase of the KFC Properties (the KFC Notes ) in August 2003 and the O Reilly Properties (the O Reilly Notes ) in December 2000. The Mortgage Notes have an unpaid principal balance of approximately \$33.3 million and a fixed interest rate of 10.47% for all of the KFC Notes, a fixed interest rate of 8.60% for 10 of the O Reilly Notes, and 9.35% for the remaining 16 O Reilly Notes. The current aggregate annual fixed payments of principal and interest is \$3,902,790 per year, which is payable monthly. The KFC Notes have an escalation in principal and interest payments of 4.04% every two years, with the next escalation date on October 1, 2008, continuing through the maturity date.

The KFC/OAP Mortgage Notes are non-recourse to the KFC/OAP Borrowers and may be prepaid in full, but not in part, by the KFC/OAP Borrowers, subject to a yield maintenance premium. Failure to make any required payments under the Mortgage Notes by the Borrowers in a timely manner will cause an event of default, which will result in a 13.0% default interest rate, late charges equal to 5.0% of the amount of such overdue payment, and all interest and principal may become immediately due and payable in full. The maturity date of the mortgage notes associated with the O Reilly Properties and the KFC Properties is January 1, 2021 and October 1, 2020, respectively.

The KFC Properties are 100% leased to KFC U.S. Properties, Inc., which is a wholly-owned subsidiary of Yum! Brands, Inc. In determining the creditworthiness of KFC we considered a variety of factors, including historical financial information and financial performance, and regional market position.

The O Reilly Properties are 100% leased to O Reilly Automotive, Inc. ( O Reilly ). O Reilly operates specialty retail stores that sell new and used automotive parts. O Reilly operates over 1,744 stores in the United States and its stock is publicly traded on the Nasdaq Global Select Market under the symbol ORLY. In determining the creditworthiness of O Reilly we considered a variety of factors, including historical financial information and financial performance, and regional market position.

The Wachovia Loan has a variable interest rate based on the one-month LIBOR rate plus 275 basis points with monthly interest-only payments and the outstanding principal and any accrued and unpaid interest due on March 27, 2008. The loan, of approximately \$35 million, was repaid in full in March 2008.

**Table of Contents****SELECTED FINANCIAL DATA**

The following data should be read in conjunction with our consolidated financial statements and the notes thereto and the section of this prospectus captioned Management's Discussion and Analysis of Financial Condition and Results of Operations. The selected financial data presented below has been derived from our audited consolidated financial statements.

	<b>Year Ended December 31, 2007</b>	<b>Year Ended December 31, 2006</b>	<b>Year Ended December 31, 2005</b>	<b>From Inception (September 29, 2004) through December 31, 2004</b>
<b>Balance Sheet Data:</b>				
Total investment in real estate assets, net	\$ 1,794,352,512	\$ 446,544,041	\$ 91,618,285	\$
Investment in mortgages receivable, net	\$ 87,099,624	\$	\$	\$
Cash and cash equivalents	\$ 43,517,178	\$ 37,566,490	\$ 4,575,144	\$ 200,000
Restricted cash	\$ 14,032,616	\$ 5,839,733	\$ 1,813,804	\$
Total assets	\$ 1,967,697,834	\$ 500,420,792	\$ 98,809,838	\$
Mortgage notes payable	\$ 1,055,681,538	\$ 218,265,916	\$ 66,804,041	\$
Notes payable to affiliates	\$	\$	\$ 4,453,000	\$
Escrowed investor proceeds	\$ 12,737,969	\$ 5,710,730	\$ 1,813,804	\$
Stockholders' equity	\$ 781,086,865	\$ 266,236,497	\$ 25,204,966	\$ 200,000
<b>Operating Data:</b>				
Total revenue	\$ 89,842,150	\$ 19,519,507	\$ 741,669	\$
General and administrative	\$ 2,011,322	\$ 952,789	\$ 156,252	\$
Property operating expenses	\$ 6,466,677	\$ 1,416,745	\$	\$
Property and asset management fees	\$ 4,184,271	\$ 936,977	\$ 38,768	\$
Depreciation and amortization	\$ 30,482,273	\$ 6,469,366	\$ 221,411	\$
Impairment of real estate assets	\$ 5,400,000	\$	\$	\$
Operating Income	\$ 41,297,607	\$ 9,743,630	\$ 325,238	\$
Interest expense	\$ 39,075,748	\$ 8,901,113	\$ 467,386	\$
Net income (loss)	\$ 4,480,017	\$ 1,345,996	\$ (114,591)	\$
Funds from operations(1)	\$ 40,362,290	\$ 7,815,362	\$ 106,820	\$
<b>Cash Flow Data:</b>				
Cash flows provided by operations	\$ 43,366,041	\$ 7,861,475	\$ 397,741	\$
Cash flows used in investing activities	\$ (1,364,777,444)	\$ (320,176,509)	\$ (93,640,753)	\$
Cash flows provided by financing activities	\$ 1,327,362,091	\$ 345,306,380	\$ 97,618,156	\$ 200,000
<b>Per share data:</b>				
Net income (loss) basic and diluted	\$ 0.07	\$ 0.10	\$ (0.28)	\$
Weighted average dividends declared	\$ 0.68	\$ 0.64	\$ 0.47	\$
Weighted average shares outstanding basic	60,929,996	13,275,635	411,909	
	60,931,316	13,275,635	411,909	



Weighted average shares outstanding  
diluted

- (1) See Management's Discussion and Analysis of Financial Condition and Results of Operations - Funds From Operations for information regarding why we present funds from operations and for a reconciliation of this non-GAAP financial measure to net income (loss).

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with our accompanying consolidated financial statements and notes thereto.

**Forward-Looking Statements**

This section contains forward-looking statements, including discussion and analysis of the financial condition of us and our subsidiaries, our anticipated capital expenditures, amounts of anticipated cash distributions to our stockholders in the future and other matters. These forward-looking statements are not historical facts but are the intent, belief or current expectations of our management based on their knowledge and understanding of our business and industry. Words such as may, will, anticipates, expects, intends, plans, believes, seeks, estimates, should and variations of these words and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements.

Forward-looking statements that were true at the time made may ultimately prove to be incorrect or false. Investors are cautioned not to place undue reliance on forward-looking statements, which reflect our management's view as of March 31, 2008. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results. Factors that could cause actual results to differ materially from any forward-looking statements made in this prospectus supplement include changes in general economic conditions, changes in real estate conditions, construction costs that may exceed estimates, construction delays, increases in interest rates, lease-up risks, inability to obtain new tenants upon the expiration of existing leases, and the potential need to fund tenant improvements or other capital expenditures out of operating cash flows. The forward-looking statements should be read in light of the risk factors identified in the Risk Factors section of our annual report on Form 10-K for the year ended December 31, 2007 and the Risk Factors section of the registration statement relating to this offering (SEC File No. 333-138444), each as filed with the Securities and Exchange Commission.

Management's discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On a regular basis, we evaluate these estimates. These estimates are based on management's historical industry experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

**Overview**

We were formed on September 29, 2004 to acquire and operate commercial real estate primarily consisting of freestanding, single-tenant, retail properties net leased to investment grade and other creditworthy tenants located throughout the United States. We commenced our principal operations on September 23, 2005, when we issued the initial 486,000 shares of our common stock in our initial public offering. Prior to such date, we were considered a development stage company. We acquired our first real estate property on September 26, 2005. We have no paid employees and are externally advised and managed by Cole Advisors II, one of our affiliates. We intend to qualify,

and currently qualify, as a real estate investment trust for federal income tax purposes.

Our operating results and cash flows are primarily influenced by rental income from our commercial properties and interest expense on our property acquisition indebtedness. Rental income accounted for approximately 92% and approximately 94% of total revenue during the years ended December 31, 2007 and 2006, respectively. As approximately 99% of our properties are under lease, with an average remaining lease term of approximately 14.6 years, we believe our exposure to changes in commercial rental rates on our portfolio is substantially mitigated. Our advisor regularly monitors the creditworthiness of our tenants by reviewing the tenant's financial results, credit rating agency reports (if any) on the tenant or guarantor, the operating history of the property with such tenant, the

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tenant's market share and track record within its industry segment, the general health and outlook of the tenant's industry segment, and other information for changes and possible trends. If our advisor identifies significant changes or trends that may adversely affect the creditworthiness of a tenant, it will gather a more in-depth knowledge of the tenant's financial condition and, if necessary, attempt to mitigate the tenant credit risk by evaluating the possible sale of the property, or identifying a possible replacement tenant should the current tenant fail to perform on the lease. As of December 31, 2007, the debt leverage ratio of our portfolio, which is the ratio of total gross real estate assets to mortgage notes payable, was approximately 52%, with approximately 11% of the debt, or approximately \$114.8 million, subject to variable interest rates. As of March 31, 2008, we had repaid approximately \$93.5 million of the debt subject to variable interest rates. The repayments of the debt subject to variable interest rates were made with proceeds from our Follow-on Offering. As we continue to raise capital under our follow-on offering and invest the proceeds in commercial real estate, we will be subject to changes in real estate prices and changes in interest rates on new indebtedness used to acquire the properties. We may manage our risk of changes in real estate prices on future property acquisitions by entering into purchase agreements and loan commitments simultaneously so that our operating yield is determinable, by contracting with developers for future delivery of properties, or by entering into sale-leaseback transactions. We expect to manage our interest rate risk by monitoring the interest rate environment in connection with our planned property acquisitions to determine the appropriate acquisition financing, which may include fixed rate loans, variable rate loans or interest rate hedges. If we are unable to acquire suitable properties or obtain suitable financing for future acquisitions, our results of operations may be adversely affected.

As of December 31, 2007, we owned 250 freestanding single-tenant retail properties, 69 freestanding single-tenant commercial properties, and 14 multi-tenant retail properties, which were approximately 99% leased. Of the leases related to these properties, 13 were classified as direct financing leases, as discussed in Note 3 to our consolidated financial statements. During the years ended December 31, 2007 and 2006, we acquired 242 and 77 properties, respectively. During the year ended December 31, 2007, we also purchased two portfolios of mortgage notes receivable for an aggregate price of approximately \$87.4 million, consisting of 69 mortgage notes receivable secured by 43 restaurant properties and 26 single-tenant retail properties, each of which is subject to a net lease. See Note 6 to our consolidated financial statements. Our results of operations are not indicative of those expected in future periods as we expect that rental income, operating expenses, asset management fees, depreciation expense, interest expense, and net income will each increase in the future as we acquire additional properties and as our current properties are owned for an entire period.

The current mortgage lending and interest rate environment for real estate in general is uncertain. We may experience more stringent lending criteria, which may limit our ability to finance certain property acquisitions. Additionally, for properties in which we are able to obtain acquisition financing, the interest rates on such loans may not meet our underwriting criteria. We expect to manage the current mortgage lending environment by utilizing fixed rate loans if the terms are acceptable, utilizing short-term variable rate loans, assuming existing mortgage loans in connection with property acquisitions, entering into interest rate lock agreements, or any combination of those measures. We also may acquire a much larger percentage of our properties for cash without financing. If we are unable to obtain suitable financing for future acquisitions or we acquire a larger percentage of our properties for cash without financing, our results of operations may be adversely affected. Additionally, if we are unable to identify suitable properties at appropriate prices in the current credit environment, we may have a larger amount of uninvested cash, which may adversely affect our results of operations. We will continue to evaluate alternatives in the current market, including purchasing or originating debt backed by real estate, which could produce attractive yields in the current market environment. Our management is not aware of any material trends or uncertainties, other than national economic conditions affecting real estate generally that may reasonably be expected to have a material impact, favorable or unfavorable, on revenues or income from the acquisition and operations of real properties and mortgage loans, other than those discussed above or referred to in our annual report on Form 10-K.

With our objectives of providing current income to our stockholders and preserving their capital, we view our most significant challenges as:

continuing to raise sufficient amounts of equity capital in order to acquire a large, diversified portfolio while maintaining a moderate leverage ratio; and

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investing net offering proceeds in properties that are accretive to our stockholders distributions at a time when the demand for high-quality, income-producing properties is high and the market competitive.

**Application of Critical Accounting Policies**

Our accounting policies have been established to conform with generally accepted accounting principles in the United States ( GAAP ). The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If management s judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied, thus, resulting in a different presentation of the financial statements. Additionally, other companies may utilize different estimates that may impact comparability of our results of operations to those of companies in similar businesses.

The critical accounting policies outlined below have been discussed with members of the audit committee of our board of directors.

**Investment in Real Estate Assets**

We are required to make subjective assessments as to the useful lives of our depreciable assets. We consider the period of future benefit of the asset to determine the appropriate useful life of each asset. Real estate assets are stated at cost, less accumulated depreciation. Amounts capitalized to real estate assets consist of the cost of acquisition or construction and any tenant improvements or major improvements and betterments that extend the useful life of the related asset. All repairs and maintenance are expensed as incurred.

All assets are depreciated on a straight line basis. The estimated useful lives of our assets by class generally are as follows:

Building	40 years
Tenant improvements	Lesser of useful life or lease term
Intangible lease assets	Lesser of useful life or lease term

Impairment losses are recorded on long-lived assets used in operations, which includes the operating property, when indicators of impairment are present and the assets carrying amount is greater than the sum of the future undiscounted cash flows, excluding interest, estimated to be generated by those assets. We have identified one property with impairment indicators for which the undiscounted future cash flows expected from the use of the property and related intangible assets and their eventual disposition was less than the carrying value of the assets. As a result, we reduced the carrying value of the real estate and related intangible assets to their estimated fair value and recorded an impairment loss of \$5.4 million during the year ended December 31, 2007. No impairment losses were recorded for the year ended December 31, 2006.

Projections of expected future cash flows require us to estimate future market rental income amounts subsequent to the expiration of current lease agreements, property operating expenses, discount rates, the number of months it takes to release the property and the number of years the property is held for investment. The use of inappropriate assumptions in the future cash flow analysis would result in an incorrect assessment of the property s future cash flow and fair value and could result in the overstatement of the carrying value of our real estate and related intangible assets

and net income.

When a real estate asset is identified by management as held for sale, we cease depreciation of the asset and estimate the sales price, net of selling costs. If, in management's opinion, the net sales price of the asset is less than the net book value of the asset, an adjustment to the carrying value would be recorded to reflect the estimated fair value of the property.

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### **Allocation of Purchase Price of Acquired Assets**

Upon the acquisition of real properties, we allocate the purchase price of such properties to acquired tangible assets, consisting of land and building, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases and the value of in-place leases, based in each case on their fair values. We utilize independent appraisals to assist in the determination of the fair values of the tangible assets of an acquired property (which includes land and building).

The fair values of above-market and below-market in-place lease values are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) an estimate of fair market lease rates for the corresponding in-place leases, which is generally obtained from independent appraisals, measured over a period equal to the non-cancelable term of the lease. The above-market and below-market lease values are capitalized as intangible lease assets or liabilities and amortized as an adjustment of rental income over the lesser of the useful life or the remaining terms of the respective leases.

The fair values of in-place leases include direct costs associated with obtaining a new tenant, opportunity costs associated with lost rentals which are avoided by acquiring an in-place lease. Direct costs associated with obtaining a new tenant include commissions, tenant improvements, and other direct costs and are estimated in part by utilizing information obtained from independent appraisals and management's consideration of current market costs to execute a similar lease. These direct costs are included in intangible lease assets in the accompanying consolidated balance sheet and are amortized to expense over the lesser of the useful life or the remaining terms of the respective leases. The value of opportunity costs is calculated using the contractual amounts to be paid pursuant to the in-place leases over a market absorption period for a similar lease. These intangibles are included in intangible lease assets in the accompanying consolidated balance sheet and are amortized to expense over the lesser of the useful life or the remaining term of the respective leases.

The determination of the fair values of the assets and liabilities acquired requires the use of significant assumptions with regard to the current market rental rates, rental growth rates, discount rates and other variables. The use of inappropriate estimates would result in an incorrect assessment of our purchase price allocations, which could impact the amount of our reported net income.

### **Investment in Direct Financing Leases**

We evaluate the leases associated with our real estate properties in accordance with SFAS No. 13, *Accounting for Leases* ( SFAS 13 ). For the real estate property leases classified as direct financing leases, we account for the building portion of the property leases as direct financing leases and the land portion of these leases as operating leases. For the direct financing leases, we record an asset (net investment) representing the aggregate future minimum lease payments, estimated residual value of the leased property and deferred incremental direct costs less unearned income. We recognize income over the life of the lease to approximate a level rate of return on the net investment. We value residual values, which are reviewed quarterly, as estimated amounts we expect to receive at lease termination from the disposition of leased property. Actual residual values realized could differ from these estimates. We recognize write-downs of estimated residual value as permanent impairments in the current period.

### **Investment in Mortgage Notes Receivable**

Mortgage notes receivable consist of loans we acquired, which are secured by real estate properties. Mortgage notes receivable are recorded at stated principal amounts net of any discount or premium or deferred loan origination costs or fees. The related discounts or premiums on mortgage notes receivable purchased are amortized or accreted over the



life of the related mortgage receivable. We defer certain loan origination and commitment fees, net of certain origination costs, and amortize them as an adjustment of the mortgage notes receivable's yield over the term of the related mortgage receivable. We evaluate the collectibility of both interest and principal on each mortgage note receivable to determine whether it is impaired. A mortgage note receivable is considered to be impaired, when based upon current information and events, it is probable that we will be unable to collect all amounts due according to the existing contractual terms. When a mortgage note receivable is considered to be impaired, the amount of loss is calculated by comparing the recorded investment to the value determined by

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discounting the expected future cash flows at the mortgage note receivable's effective interest rate or to the value of the underlying collateral if the mortgage note receivable is collateralized. Interest income on performing mortgage note receivable is accrued as earned. Interest income on impaired mortgage notes receivable is recognized on a cash basis. No impairment losses were recorded related to mortgage notes receivable for either of the years ended December 31, 2007 and 2006.

## **Revenue Recognition**

Upon the acquisition of real estate, certain properties have leases where minimum rent payments increase during the term of the lease. We record rental revenue for the full term of each lease on a straight-line basis. When we acquire a property, the term of existing leases is considered to commence as of the acquisition date for the purposes of this calculation. We defer the recognition of contingent rental income, such as percentage rents, until the specific target that triggers the contingent rental income is achieved. Reimbursements from tenants for recoverable real estate taxes and operating expenses are included in rental income in the period the related costs are incurred.

## **Income Taxes**

We are taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code. We generally will not be subject to federal corporate income tax to the extent we distribute our REIT taxable income to our stockholders, and so long as we distribute at least 90% of our REIT taxable income. REITs are subject to a number of other organizational and operational requirements. Even if we qualify for taxation as a REIT, we may be subject to certain state and local taxes on our income and property, and federal income and excise taxes on our undistributed income.

## **Results of Operations**

We commenced our principal operations on September 23, 2005, when we issued the initial 486,000 shares of our common stock in our initial public offering. Prior to such date, we were considered a development stage company. We acquired our first real estate property on September 26, 2005.

## **Year Ended December 31, 2007 Compared to the Year Ended December 31, 2006**

As of December 31, 2007, we owned 333 commercial properties, of which approximately 99% of the rentable space was leased, compared to 91 commercial properties at December 31, 2006. We also owned a portfolio of 69 mortgage notes receivable at December 31, 2007. We had no mortgage notes receivable at December 31, 2006. Accordingly, our results of operations for the year ended December 31, 2007, as compared to the year ended December 31, 2006, reflect significant increases in all categories.

*Revenue.* Revenue increased approximately \$70.3 million, or approximately 360%, to approximately \$89.8 million for the year ended December 31, 2007, compared to approximately \$19.5 million for the year ended December 31, 2006. Our revenue primarily consists of rental income from net leased commercial properties, which accounted for approximately 92% and 94% of total revenues during the years ended December 31, 2007 and 2006, respectively.

Rental income increased approximately \$64.1 million, or approximately 349%, to approximately \$82.5 million for the year ended December 31, 2007, compared to approximately \$18.4 million for the year ended December 31, 2006. The increase was primarily due to the acquisition of 242 new properties during the year ended December 31, 2007 and the ownership of the 77 properties acquired during the year ended December 31, 2006 for the full year in 2007. During the year ended December 31, 2007, we acquired 242 additional properties for which we pay certain operating expenses subject to reimbursement by the tenant, which resulted in approximately \$5.2 million of tenant reimbursement income in 2007 compared to approximately \$1.2 million in 2006.

During the year ended December 31, 2007, we acquired 13 properties that we accounted for as direct financing leases. We had no properties accounted for as direct financing leases at December 31, 2006. Earned income from direct financing leases was approximately \$1.1 million for the year ended December 31, 2007, with no earned

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income from direct financing leases recorded for year ended December 31, 2006. See Note 3 to our consolidated audited financial statements accompanying our annual report on Form 10-K.

Interest income on mortgages receivable was approximately \$1.1 million for the year ended December 31, 2007, with no mortgages receivable interest income recorded for the year ended December 31, 2006. We purchased approximately \$87.4 million of mortgage notes receivable during the year ended December 31, 2007. We had no mortgage notes receivable at December 31, 2006. See Note 6 to our consolidated audited financial statements accompanying our annual report on Form 10-K.

*General and Administrative Expenses.* General and administrative expenses increased approximately \$1.0 million, or approximately 111%, to approximately \$2.0 million for the year ended December 31, 2007, compared to approximately \$953,000 for the year ended December 31, 2006. The increase was primarily due to increases in state franchise and income taxes due to the increase in the number of properties owned from 91 properties at December 31, 2006 to 333 properties at December 31, 2007. The primary general and administrative expense items are legal and accounting fees, state franchise and income taxes, organizational costs, and other licenses and fees.

*Property Operating Expenses.* Property operating expenses increased approximately \$5.1 million, or approximately 356%, to approximately \$6.5 million for the year ended December 31, 2007, compared to approximately \$1.4 million for the year ended December 31, 2006. The increase was primarily due to the ownership of more properties during the year ended December 31, 2007 than in the year ended December 31, 2006, for which we initially pay certain operating expenses and are reimbursed by the tenant in accordance with the respective lease agreements, including 10 additional multi-tenant shopping centers. At December 31, 2007, we owned 14 multi-tenant shopping centers compared to four at December 31, 2006. The primary property operating expense items are repairs and maintenance, property taxes, bad debt expense and insurance.

*Property and Asset Management Fees.* Pursuant to the advisory agreement with our advisor, we are required to pay to our advisor a monthly asset management fee equal to one-twelfth of 0.25% of the aggregate asset value of our properties determined in accordance with the advisory agreement as of the last day of the preceding month. Pursuant to the property management agreement with our affiliated property manager, during the year ended December 31, 2007, we paid to our property manager a property management and leasing fee in an amount equal to 2% of gross revenues. In accordance with the property management agreement, we may pay Cole Realty Advisors (i) up to 2% of gross revenues from our single-tenant properties and (ii) up to 4% of gross revenues from our multi-tenant properties, as determined pursuant to the agreement, less all payments to third-party management subcontractors.

Property and asset management fees increased approximately \$3.2 million, or approximately 347%, to approximately \$4.2 million for the year ended December 31, 2007, compared to approximately \$937,000 for the year ended December 31, 2006. Property management fees increased approximately \$1.2 million to approximately \$1.6 million for the year ended December 31, 2007 from approximately \$350,000 for the year ended December 31, 2006. The increase in property management fees was primarily due to an increase in rental income to approximately \$82.5 million for the year ended December 31, 2007, from approximately \$18.4 million for the year ended December 31, 2006, due to the acquisition of 242 new properties during the year ended December 31, 2007. Asset management fees increased approximately \$2.0 million to approximately \$2.6 million for the year ended December 31, 2007 from approximately \$587,000 for the year ended December 31, 2006. The increase in asset management fees was primarily due to an increase in the average aggregate book value of properties owned to approximately \$1.2 billion during the year ended December 31, 2007 from approximately \$272.5 million during the year ended December 31, 2006. The increase in aggregate book value is due to the acquisition of 242 new properties during the year ended December 31, 2007.

*Depreciation and Amortization Expenses.* Depreciation and amortization expenses increased approximately \$24.0 million, or approximately 371%, to approximately \$30.5 million for the year ended December 31, 2007, compared to approximately \$6.5 million for the year ended December 31, 2006. The increase was primarily due to an increase in the average aggregate book value of properties owned to approximately \$1.2 billion at December 31, 2007 from approximately \$272.5 million at December 31, 2006. The increase in aggregate book value was primarily due to the acquisition of 242 new properties during the year ended December 31, 2007.

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*Impairment of Real Estate Assets.* Impairment on real estate assets was approximately \$5.4 million for the year ended December 31, 2007, with no impairment loss recorded for the year ended December 31, 2006. The impairment was due to impairment losses recorded on one property during the year ended December 31, 2007, as discussed in Note 2 to our consolidated audited financial statements beginning on page F-1.

*Interest and Other Income.* Interest and other income increased approximately \$1.8 million, or approximately 349%, to approximately \$2.3 million for the year ended December 31, 2007, compared to approximately \$503,000 for the year ended December 31, 2006. Interest income increased approximately \$1.3 million, or approximately 253%, to approximately \$1.8 million for the year ended December 31, 2007, compared to approximately \$503,000 for the year ended December 31, 2006. The increase was primarily due to higher uninvested cash during the year ended December 31, 2007, compared to the year ended December 31, 2006 due to increased proceeds from our initial public offering and follow-on offering. Cash and cash equivalents was approximately \$43.5 million at December 31, 2007 compared to approximately \$37.6 million at December 31, 2006. Other income consists of the net gain on disposal of rate locks of approximately \$478,000 for the year ended December 31, 2007. On August 10, 2007, we elected to terminate our rate lock agreements, as discussed in Note 9 to our consolidated audited financial statements beginning on page F-1. No other income was recorded for the year ended December 31, 2006.

*Interest Expense.* Interest expense increased approximately \$30.2 million, or approximately 339%, to approximately \$39.1 million for the year ended December 31, 2007, compared to approximately \$8.9 million for the year ended December 31, 2006. The increase was primarily due to an increase in the average mortgage notes payable outstanding during the year ended December 31, 2007 to approximately \$637.0 million from approximately \$142.5 million during the year ended December 31, 2006. The increase in average mortgage notes payable was due to our acquisition of 105 new debt agreements during the year ended December 31, 2007.

Our property acquisitions during the year ended December 31, 2007, were financed in part with short-term and long-term notes payable as discussed in Note 6 to our consolidated audited financial statements beginning on page F-1. We expect that our interest expense in future periods will vary based on our level of future borrowings, which will depend on the level of proceeds raised in our follow-on offering, the cost of our borrowings, and the opportunity to acquire real estate assets that meet our investment objectives.

**Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005**

As of December 31, 2006, we owned 91 commercial properties compared to 14 commercial properties at December 31, 2005, all of which were 100% leased. Accordingly, our results of operations for the year ended December 31, 2006 as compared to the year ended December 31, 2005 reflect significant increases in all categories.

*Revenue.* Rental income increased approximately \$17.6 million, or approximately 2,375%, to approximately \$18.4 million for the year ended December 31, 2006 compared to approximately \$742,000 for the year ended December 31, 2005. The increase was primarily due to our acquisition of 77 new properties during the year ended December 31, 2006 and the recording of rental income for the 14 properties acquired during 2005 for 12 months during the year ended December 31, 2006, compared to three months, or less, during the year ended December 31, 2005. Our revenue primarily consists of rental income from net leased commercial properties, which accounted for approximately 94% and approximately 100% of total revenues during the years ended December 31, 2006 and 2005, respectively. During 2006, we acquired certain properties for which we pay certain operating expenses subject to reimbursement by the tenant, which resulted in approximately \$1.2 million of tenant reimbursement income for the year ended December 31, 2006 compared to no amounts for the year ended December 31, 2005.

*General and Administrative Expenses.* General and administrative expenses increased approximately \$797,000, or approximately 510%, to approximately \$953,000 for the year ended December 31, 2006, compared to approximately

\$156,000 for the year ended December 31, 2005. The increase was primarily due to increases in legal and accounting fees, primarily due to our increase in assets and operations and a full year of Securities and Exchange Commission reporting obligations in the year ended December 31, 2006, compared to six months in the year ended December 31, 2005, and increases in state franchise and income taxes due to the increase in the number of properties owned from 14 properties at December 31, 2005 to 91 properties at December 31, 2006. The primary

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general and administrative expense items are legal and accounting fees, organizational costs, state franchise and income taxes, and other licenses and fees.

*Property Operating Expenses.* Property operating expenses were approximately \$1.4 million for the year ended December 31, 2006, with no property operating expenses recorded for the year ended December 31, 2005. The increase was primarily due to the acquisition of certain properties subsequent to December 31, 2005, for which we initially paid certain operating expenses and are reimbursed by the tenant in accordance with the respective lease agreements. At December 31, 2005, our portfolio consisted solely of properties in which each tenant paid substantially all expenses directly. The primary property operating expense items are repairs and maintenance, property taxes, and insurance.

*Property and Asset Management Fees.* Pursuant to the advisory agreement with our advisor, we are required to pay to our advisor a monthly asset management fee equal to 1/12 of 0.25% of the aggregate asset value of our properties determined in accordance with the advisory agreement as of the last day of the preceding month. Pursuant to the property management agreement with our advisor, we are required to pay to our advisor a property management and leasing fee in an amount equal to 2.0% of gross revenues for determined pursuant to the agreement, less all payments to third-party management subcontractors.

Property and asset management fees increased approximately \$898,000, or approximately 2,317% to approximately \$937,000 for the year ended December 31, 2006 compared to approximately \$39,000 for the year ended December 31, 2005. Property management fees increased approximately \$336,000 to approximately \$350,000 for the year ended December 31, 2006 from approximately \$14,000 for the year ended December 31, 2005. The increase in property management fees was primarily due to an increase in rental income to approximately \$18.4 million for the year ended December 31, 2006 from approximately \$742,000 for the year ended December 31, 2005. Asset management fees increased approximately \$562,000 to approximately \$587,000 for the year ended December 31, 2006 from approximately \$25,000 for the year ended December 31, 2005. The increase in asset management fees was primarily due to an increase in the aggregate book value of properties owned to approximately \$272.5 million at December 31, 2006 from approximately \$45.8 million at December 31, 2005.

*Depreciation and Amortization Expenses.* Depreciation and amortization expenses increased approximately \$6.3 million, or approximately 2,822%, to approximately \$6.5 million for the year ended December 31, 2006 compared to approximately \$221,000 for the year ended December 31, 2005. The increase was primarily due to an increase in the average aggregate book value of properties owned to approximately \$272.5 million at December 31, 2006 from approximately \$45.8 million at December 31, 2005 and the recording of depreciation and amortization for 12 months during the year ended December 31, 2006 compared to three months during the year ended December 31, 2005. The increase in aggregate book value is due to the acquisition of 77 new properties during the year ended December 31, 2006 and the ownership of the 14 properties acquired during the year ended December 31, 2005 for a full year in the year ended December 31, 2006.

*Interest and Other Income.* Interest income increased approximately \$475,000, or approximately 1,727%, to approximately \$503,000 for the year ended December 31, 2006 compared to approximately \$28,000 for the year ended December 31, 2005. The increase was primarily due to having higher uninvested cash throughout the year due to proceeds from our initial public offering. Cash and cash equivalents was approximately \$37.6 million at December 31, 2006 compared to approximately \$4.6 million at December 31, 2005.

*Interest Expense.* Interest expense increased approximately \$8.4 million, or approximately 1,804%, to approximately \$8.9 million for the year ended December 31, 2006 compared to approximately \$467,000 for the year ended December 31, 2005. The increase was primarily due to an increase in the average mortgage notes payable outstanding during 2006 to approximately \$142.5 million from approximately \$33.4 million during 2005 and the recording of



interest expense for 12 months during the year ended December 31, 2006 compared to four months during the year ended December 31, 2005. The increase in average mortgage notes payable was primarily due to the acquisition of 77 new properties during the year ended December 31, 2006 and the ownership of the 14 properties acquired during the year ended December 31, 2005 for a full year in the year ended December 31, 2006.

**Table of Contents****Portfolio Information*****Real Estate Portfolio***

As of December 31, 2007, we owned 333 properties located in 43 states and the U.S. Virgin Islands, the gross rentable space of which was approximately 99% leased with an average lease term remaining of approximately 14.6 years. Of the leases related to these properties, 13 were classified as direct financing leases, as discussed in Note 3 to our consolidated audited financial statements beginning on page F-1.

As of December 31, 2007, our five highest geographic concentrations were as follows:

<b>Location</b>	<b>Total Number of Properties</b>	<b>Rentable Square Feet</b>	<b>2007 Annualized Gross Base Rent</b>	<b>Percentage of 2007 Annualized Gross Base Rent</b>
Texas	37	2,971,410	\$ 21,478,871	16%
Illinois	15	1,561,408	17,668,130	13%
Ohio	55	485,004	10,343,761	8%
Georgia	27	285,079	6,174,133	5%
Nevada	1	138,558	5,921,959	5%
	135	5,441,459	\$ 61,586,854	47%

As of December 31, 2007, our five highest tenant industry concentrations were as follows:

<b>Industry</b>	<b>Total Number of Leases</b>	<b>Rentable Square Feet</b>	<b>2007 Annualized Gross Base Rent</b>	<b>Percentage of 2007 Annualized Gross Base Rent</b>
Drugstore	67	879,666	\$ 20,129,282	15%
Specialty retail	101	1,648,755	18,212,397	14%
Sporting goods	14	2,144,776	14,287,476	11%
Convenience stores	84	277,478	11,832,533	9%
Restaurant	59	313,569	10,215,372	8%
	325	5,264,244	\$ 74,677,060	57%

As of December 31, 2007, our five highest tenant concentrations were as follows:

<b>Tenant</b>	<b>Total Number of Leases</b>	<b>2007 Annualized Gross Base Rent</b>	<b>Percentage of 2007 Annualized Gross Base Rent</b>
Academy Sports sporting goods	8	\$ 11,231,925	8%
Circle K convenience store	83	10,819,415	8%
Walgreens drug store	31	10,227,145	8%
Station Casinos gaming	1	5,921,959	4%
Applebee s restaurant	22	5,323,351	4%
	145	\$ 43,523,795	32%

### **Mortgage Notes Receivable Portfolio**

During the year ended December 31, 2007, we acquired two portfolios of mortgage notes receivable for an aggregate purchase price of approximately \$87.4 million consisting of 69 mortgage notes receivable, secured by 23 restaurant properties leased to Cracker Barrel Old Country Store, 20 restaurant properties leased to KFC, and 26 retail properties leased to O Reilly Auto Parts.

**Table of Contents****Funds From Operations**

We believe that funds from operations ( FFO ) is a beneficial indicator of the performance of a REIT. Because FFO calculations exclude such factors as depreciation and amortization of real estate assets and gains or losses from sales or impairment of operating real estate assets (which can vary among owners of identical assets in similar conditions based on historical cost accounting and useful-life estimates), they facilitate comparisons of operating performance between periods and between other REITs. Our management believes that accounting for real estate assets in accordance with generally accepted accounting principles in the United States ( GAAP ) implicitly assumes that the value of real estate assets diminishes predictability over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. As a result, we believe that the use of FFO, together with the required GAAP presentations, provide a more complete understanding of our performance relative to our competitors and a more informed and appropriate basis on which to make decisions involving operating, financing, and investing activities. Other REITs may not define FFO in accordance with the current National Association of Real Estate Investment Trusts ( NAREIT ) definition or may interpret the current NAREIT definition differently than we do.

FFO is a non-GAAP financial measure and does not represent net income as defined by GAAP. Net income as defined by GAAP is the most relevant measure in determining our operating performance because FFO includes adjustments that investors may deem subjective, such as adding back expenses such as depreciation and amortization. Accordingly, FFO should not be considered as an alternative to net income as an indicator of our operating performance.

Our calculation of FFO is presented in the following table for the period ended as indicated:

	<b>December 31, 2007</b>	<b>Year Ended December 31, 2006</b>	<b>December 31, 2005</b>
Net income (loss)	\$ 4,480,017	\$ 1,345,996	\$ (114,591)
Add:			
Depreciation of real estate assets	20,460,219	4,396,460	151,472
Amortization of lease related costs	10,022,054	2,072,906	69,939
Impairment on real estate assets	5,400,000		
<b>FFO</b>	<b>\$ 40,362,290</b>	<b>\$ 7,815,362</b>	<b>\$ 106,820</b>

Set forth below is additional information (often considered in conjunction with FFO) that may be helpful in assessing our operating results:

In order to recognize revenues on a straight-line basis over the terms of the respective leases, we recognized additional revenue by straight-lining rental revenue of approximately \$4.4 million, approximately \$790,000, and approximately \$34,000 during the years ended December 31, 2007, 2006 and 2005, respectively.

Net income includes a net gain on disposal of rate lock of approximately \$478,000 for the year ended December 31, 2007. No gain on disposal of rate lock was recorded for the years ended December 31, 2006 and 2005. See Note 9 to our consolidated audited financial statements accompanying our annual report on Form 10-K.

Amortization of deferred financing costs totaled approximately \$1.9 million, approximately \$548,000 and approximately \$18,000 during the years ended December 31, 2007 and 2006, respectively.

### **Liquidity and Capital Resources**

We expect to continue to raise capital through the sale of our common stock and to utilize the net proceeds from the sale of our common stock and proceeds from secured or unsecured financings to complete future property acquisitions. As of December 31, 2007, we had received and accepted subscriptions for 93,828,038 shares of

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common stock in our initial public offering and follow-on offering for gross proceeds of approximately \$936.5 million.

### **Short-term Liquidity and Capital Resources**

We expect to meet our short-term liquidity requirements through net cash provided by property operations and proceeds from the Offering, as well as, secured or unsecured borrowings from banks and other lenders to finance our expected future acquisitions. In addition, we may obtain a secured or unsecured revolving line of credit. We expect our operating cash flows to increase as additional properties are added to our portfolio. We expect that approximately 88.6% of the gross proceeds from the sale of our common stock will be invested in real estate, approximately 9.2% will be used to pay sales commissions, dealer manager fees and offering and organizational costs, with the remaining 2.2% used to pay acquisition and advisory fees and acquisition expenses. Our advisor pays the offering and organizational costs associated with the sale of our common stock, which we reimburse up to 1.5% of the capital raised by us in connection with our offering of shares of common stock. As of December 31, 2007, Cole Advisors II had paid approximately \$8.4 million of offering and organization costs since the inception of our initial public offering and we had reimbursed our advisor for all such costs, of which approximately \$59,000 was expensed as organizational costs.

During the period from January 1, 2008 to March 31, 2008, we completed the acquisition of 41 single-tenant properties and two multi-tenant properties in separate transactions for an aggregate purchase price of approximately \$261.0 million, exclusive of closing costs. The acquisitions were funded with proceeds from our initial public offering and follow-on offering and approximately \$144.9 million in aggregate proceeds from six loans.

On January 8, 2008, our board of directors declared a daily distribution of \$0.00191781 per share for stockholders of record as of the close of business on each day of the period commencing on January 1, 2008 and ending on March 31, 2008. The distributions for the period commencing on January 1, 2008 and ending on January 31, 2008 were paid in February 2008 and totaled approximately \$5.8 million, of which approximately \$3.2 million was reinvested in shares through our distribution reinvestment program. The distributions for the period commencing on February 1, 2008 and ending on February 29, 2008 were paid in March 2008 and totaled approximately \$5.8 million, of which approximately \$3.2 million was reinvested in shares through our distribution reinvestment program.

### **Long-term Liquidity and Capital Resources**

We expect to meet our long-term liquidity requirements through proceeds from the sale of our common stock, proceeds from secured or unsecured financings from banks and other lenders, the selective and strategic sale of properties and net cash flows from operations. We expect that our primary uses of capital will be for property acquisitions, for the payment of tenant improvements, for the payment of offering-related costs, for the payment of operating expenses, including interest expense on any outstanding indebtedness, and for the payment of distributions to our stockholders.

We expect that substantially all net cash generated from operations will be used to pay distributions to our stockholders after certain capital expenditures, including tenant improvements and leasing commissions, are paid at the properties; however, we may use other sources to fund distributions as necessary. To the extent that cash flows from operations are lower due to fewer properties being acquired or lower returns on the properties, distributions paid to our stockholders may be lower. We expect that substantially all net cash resulting from equity or debt financing will be used to fund acquisitions, certain capital expenditures identified at acquisition, repayments of outstanding debt, or distributions to our stockholders.

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As of December 31, 2007, we had cash and cash equivalents of approximately \$43.5 million, which we expect to be used primarily to invest in additional real estate, pay operating expenses and pay stockholder distributions.

As of December 31, 2007, we had approximately \$1.1 billion of debt outstanding, consisting of approximately \$940.9 million in fixed rate, term mortgage loans, approximately \$43.5 million in variable rate term mortgage loans, and approximately \$71.3 million in variable rate loans secured by our mortgage notes receivable. The weighted average interest rate at December 31, 2007, under the fixed rate term mortgage loans was approximately 5.85%, the

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variable rate term mortgage interest rate is stated at LIBOR plus 1.5% to 2.0%, and the variable rate loans secured by mortgage notes receivable interest rate is stated at LIBOR plus 2.0% to 2.75%. Additionally the ratio of debt to total gross assets was approximately 52% and the weighted average years to maturity was approximately 7.34 years.

Our contractual obligations as of December 31, 2007 were as follows:

Contractual Obligations	Total	Payments Due by Period(2)			
		Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
Principal payments fixed rate debt	\$ 940,914,150	\$ 10,529,965	\$ 59,140,128	\$ 47,207,063	\$ 824,036,994
Interest payments fixed rate debt	481,745,169	56,353,808	162,688,293	99,649,042	163,054,026
Principal payments variable rate debt	114,767,388	114,767,388			
Interest payments variable rate debt(1)	2,508,224	2,508,224			
<b>Total</b>	<b>\$ 1,539,934,931</b>	<b>\$ 184,159,385</b>	<b>\$ 221,828,421</b>	<b>\$ 146,856,105</b>	<b>\$ 987,091,020</b>

(1) Rates ranging from 6.84% to 8.09% were used to calculate the variable debt payment obligations in future periods. These were the rates effective as of December 31, 2007.

(2) Principal paydown amounts are included in payments due by period amounts.

Our charter prohibits us from incurring debt that would cause our borrowings to exceed the greater of 60% of our gross assets, valued at the greater of the aggregate cost (before depreciation and other non-cash reserves) or fair market value of all assets owned by us, unless approved by a majority of our independent directors and disclosed to our stockholders in our next quarterly report. During the quarter ended March 31, 2006, the independent directors approved borrowings that caused our leverage ratio at certain times to exceed the 60% limitation. The independent directors believed such borrowing levels were justified for the following reasons:

the borrowings enabled us to purchase the properties and earn rental income more quickly;

the property acquisitions were likely to increase the net offering proceeds from our initial public offering by allowing us to show potential investors actual acquisitions, thereby improving our ability to meet our goal of acquiring a diversified portfolio of properties to generate current income for investors and preserve investor capital; and

based on expected equity sales at the time and scheduled maturities of our short-term variable rate debt, leverage was likely to exceed the charter's guidelines only for a limited period of time.

**Cash Flow Analysis*****Year ended December 31, 2007 Compared to the Year ended December 31, 2006***



*Operating Activities*

Net cash provided by operating activities increased approximately \$35.5 million, or approximately 452%, to approximately \$43.4 million for the year ended December 31, 2007, compared to net cash provided by operating activities of approximately \$7.9 million for the year ended December 31, 2006. The increase was primarily due to an increase in net income of approximately \$3.1 million, increases in depreciation and amortization expenses totaling approximately \$24.5 million, an impairment of real estate assets of approximately \$5.4 million and an increase in accounts payable and accrued expenses of approximately \$4.0 million, offset by an increase in rents and tenant receivables of approximately \$3.3 million for the year ended December 31, 2007. See *Results of Operations* for a more complete discussion of the factors impacting our operating performance.

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*Investing Activities*

Net cash used in investing activities increased approximately \$1.0 billion, or approximately 326%, to approximately \$1.4 billion for the year ended December 31, 2007, compared to net cash used in investing activities of approximately \$320.2 million for the year ended December 31, 2006. The increase was primarily due to the acquisition of 242 real estate properties during the year ended December 31, 2007 compared to the acquisition of 77 properties during the year ended December 31, 2006, and we acquired approximately \$87.4 million of mortgage notes receivable using cash of approximately \$51.1 million and mortgage notes payable obtained from the seller of approximately \$36.3 million.

*Financing Activities*

Net cash provided by financing activities increased approximately \$982.1 million, or approximately 284%, to approximately \$1.3 billion for the year ended December 31, 2007, compared to net cash provided by financing activities of approximately \$345.3 million for the year ended December 31, 2006. The increase was primarily due to an increase in aggregate net proceeds from the issuance of common stock in our initial public offering and the follow-on offering of approximately \$335.1 million, an increase in proceeds from the issuance of mortgage and affiliate notes of approximately \$686.3 million, and a decrease in repayments of mortgage and affiliate notes payable of approximately \$10.5 million, offset by an increase in distributions to investors of approximately \$13.9 million, an increase in offering costs on issuance of common stock of approximately \$31.4 million and an increase in deferred financing costs paid of approximately \$15.6 million. The increase in proceeds from issuance of mortgage and affiliate notes payable was due to our issuance of 105 new mortgages during the year ended December 31, 2007, compared to 46 new mortgages during the year ended December 31, 2006. Also, we borrowed approximately \$72.2 million from our revolving mortgage notes payable.

***Year ended December 31, 2006 Compared to the Year ended December 31, 2005***

*Operating Activities*

Net cash provided by operating activities increased approximately \$7.5 million, or approximately 1,877%, to approximately \$7.9 million for the year ended December 31, 2006, compared to net cash provided by operating activities of approximately \$398,000 for the year ended December 31, 2005. The increase was primarily due to net income for the period of approximately \$1.3 million and depreciation and amortization expenses totaling approximately \$7.0 million offset by increases in rents and tenant receivables of approximately \$2.4 million. See

Results of Operations for a more complete discussion of the factors impacting our operating performance.

*Investing Activities*

Net cash used in investing activities increased approximately \$226.6 million, or approximately 242%, to approximately \$320.2 million for the year ended December 31, 2006, compared to net cash used in investing activities of approximately \$93.6 million for the year ended December 31, 2005. The increase was primarily due to the acquisition of 77 real estate properties during the year ended December 31, 2006 compared to the acquisition of 14 properties during the year ended December 31, 2005, and an approximately \$2.2 million increase in restricted cash, due to an increase cash held in escrow pending the issuance of shares to investors.

*Financing Activities*

Net cash provided by financing activities increased approximately \$247.7 million, or approximately 254%, to approximately \$345.3 million for the year ended December 31, 2006, compared to net cash provided by financing activities of approximately \$97.6 million for the year ended December 31, 2005. The increase was primarily due to an

increase in net proceeds from the issuance of common stock in the Initial Offering of approximately \$222.8 million and an increase in proceeds from the issuance of mortgage and affiliate notes of approximately \$93.9 million, offset by an increase in repayments of mortgage and affiliate notes payable of approximately \$63.5 million. The increase in proceeds from issuance of mortgage and affiliate notes payable was due to the issuance of 59 new mortgages during the year ended December 31, 2006 compared to nine new mortgages during the year ended December 31, 2005. The increase in repayments of mortgage and affiliate notes payable was due to

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the repayment of short-term variable rate debt at its maturity during the year ended December 31, 2006 and the repayment of approximately \$4.5 million of affiliate notes payable during the year ended December 31, 2006.

## **Election as a REIT**

We are taxed as a REIT under the Internal Revenue Code of 1986, as amended. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our ordinary taxable income to stockholders. As a REIT, we generally will not be subject to federal income tax on taxable income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we will then be subject to federal income taxes on our taxable income for four years following the year during which qualification is lost, unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to stockholders. However, we believe that we are organized and operate in such a manner as to qualify for treatment as a REIT for federal income tax purposes. No provision for federal income taxes has been made in our accompanying consolidated financial statements. We are subject to certain state and local taxes related to the operations of properties in certain locations, which have been provided for in our accompanying financial statements.

## **Inflation**

The real estate market has not been affected significantly by inflation in the past several years due to the relatively low inflation rate. However, in the event inflation does become a factor, the leases on the real estate we may acquire may not include provisions that would protect us from the impact of inflation.

## **Related-Party Transactions and Agreements**

We have entered into agreements with Cole Advisors II and its affiliates, whereby we pay certain fees to, or reimburse certain expenses of, Cole Advisors II or its affiliates for acquisition and advisory fees and expenses, organization and offering costs, sales commissions, dealer manager fees, asset and property management fees and reimbursement of operating costs. See Note 11 to our consolidated financial statements beginning on page F-1 for a discussion of the various related-party transactions, agreements and fees.

## **Conflicts of Interest**

Affiliates of Cole Advisors II act as sponsor, general partner or advisor to various private real estate limited partnerships and a REIT that offered its shares pursuant to an exemption from registration. As such, there are conflicts of interest where Cole Advisors II or its affiliates, while serving in the capacity as sponsor, general partner or advisor for another Cole sponsored program, may be in competition with us in connection with property acquisitions, property dispositions, and property management. The compensation arrangements between affiliates of Cole Advisors II and these other Cole sponsored programs could influence its advice to us.

## **Subsequent Events**

Certain events subsequent to December 31, 2007 through March 31, 2008, including the sale of shares of common stock, the acquisition of 43 properties and the attainment of additional mortgage financing are discussed in Note 18 to the consolidated financial statements beginning on page F-1.

## **Impact of Recent Accounting Pronouncements**

Reference is made to Note 2 to the consolidated financial statements beginning on page F-1 regarding the impact of recent accounting pronouncements.

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**PRIOR PERFORMANCE SUMMARY**

**Prior Investment Programs**

*The information presented in this section represents the historical experience of certain real estate programs managed over the last ten years by Cole Capital Advisors, Cole Capital Partners and other affiliates of our advisor, including certain officers and directors of our advisor. Investors should not assume that they will experience returns, if any, comparable to those experienced by investors in such prior real estate programs.*

During the period from January 1, 1998 to December 31, 2007, affiliates of our advisor sponsored 68 privately offered prior programs, including 10 limited partnerships, a real estate investment trust (Cole REIT I), four debt offerings, 27 Delaware Statutory Trust programs and 26 tenant-in-common programs. As of December 31, 2007, such prior programs had raised approximately \$665.1 million from approximately 6,300 investors. Each of the 10 limited partnerships, the real estate investment trust, four of the debt offerings, the 27 Delaware Statutory Trust programs and the 26 tenant-in-common programs have investment objectives and policies similar to those of this program. See Tables I and II of the Prior Performance Tables for more detailed information about the experience of our affiliates in raising and investing funds for offerings initiated over the last four years and compensation paid to the sponsors of these programs.

We intend to conduct this offering in conjunction with future offerings by one or more public and/or private real estate entities sponsored by Cole Capital Advisors, Cole Capital Partners and their affiliates. To the extent that such entities have the same or similar objectives as ours or involve similar or nearby properties, such entities may be in competition with the properties acquired by us. See the **Conflicts of Interest** section of this prospectus for additional information.

The information in this section and in the Prior Performance Tables attached to this prospectus as Appendix A provides relevant summary information concerning real estate programs sponsored by our affiliates. The Prior Performance Tables set forth information as of the dates indicated regarding certain of these prior programs as to (1) experience in raising and investing funds (Table I); (2) compensation to the sponsor and its affiliates (Table II); (3) annual operating results of prior real estate programs (Table III); (4) results of completed programs (Table IV); and (5) results of sales or disposals of properties (Table V). Additionally, Table VI, which is contained in Part II of the registration statement for this offering and which is not part of the prospectus, contains certain additional information relating to properties acquired by the prior real estate programs.

We will furnish copies of such table to any prospective investor upon request and without charge. The purpose of this prior performance information is to enable you to evaluate accurately the experience of our advisor and its affiliates in sponsoring like programs. The following discussion is intended to summarize briefly the objectives and performance of the prior real estate programs and to disclose any material adverse business developments sustained by them.

Upon written request, any potential investor may obtain, without charge, the most recent annual report on Form 10-K or Form 10-KSB filed with the SEC by any public program sponsored by our advisor or its affiliates that has reported to the SEC within the last 24 months. For a reasonable fee, those programs will provide copies of any exhibits to such Form 10-K or Form 10-KSB.

**Summary Information**

During the period from January 1, 1998 to December 31, 2007, affiliates of our advisor were general partners in 10 limited partnerships with similar investment objectives to our program, involving the sale of limited partnership

interests to 2,231 investors, raising approximately \$104.0 million of capital. The foregoing partnerships purchased in the aggregate 33 properties for an approximate acquisition cost of \$225.8 million, of which approximately 52.1% is attributable to 23 single-tenant commercial properties, 45.5% is attributable to seven shopping centers, 1.2% is attributable to one data center and 1.2% is attributable to two unimproved or partially-improved land parcels intended for high-rise/data center development. Seven of the properties are located in the Phoenix metropolitan area, one is located in northern Arizona and 25 are located in the following states: three in Tennessee; three in Oklahoma; two in California; two in Florida; two in Ohio; and one each in Alabama, Indiana, Iowa, Kentucky,

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Michigan, Mississippi, Nevada, New Mexico, New York, South Carolina, Texas, Virginia and Washington. The properties were purchased on terms varying from all cash to market rate financing. To date, 11 of the properties were sold.

Of the above, two real estate investment programs that acquired retail shopping centers and two limited partnerships that acquired single-tenant commercial properties, were sponsored since January 1, 2003. Cole Capital Partners, through wholly owned subsidiaries, serves as the general partner of Cole Credit Property Fund Limited Partnership (CCPF) and Cole Credit Property Fund II Limited Partnership (CCPF II). As of December 31, 2007, CCPF had raised \$25.0 million and acquired 14 single-tenant commercial properties or an interest therein (including one property co-owned with CCPF II) in 12 states across the U.S. for an aggregate acquisition cost of approximately \$56.1 million. As of December 31, 2007, CCPF II had raised approximately \$24.5 million and had acquired ten single-tenant commercial properties or an interest therein (including one property co-owned with CCPF) in seven states for an aggregate acquisition cost of approximately \$61.5 million. All of the properties acquired by CCPF and CCPF II were net leased to investment grade tenants, which are companies that have a debt rating by Moody's of Baa3 or better or a credit rating by Standard & Poor's of BBB- or better, or are guaranteed by a company with such rating, at the time of acquisition. Subsequent to the acquisition by CCPF, the tenants at two properties representing less than 7.5% of the fund's invested equity have been downgraded below investment grade, one of which has filed for Chapter 11 bankruptcy protection and CCPF wrote off its approximately \$1.5 million investment in such property.

In addition to the partnerships described above, as of December 31, 2007, affiliates of our advisor had issued an aggregate of approximately \$114.1 million in collateralized senior notes through four debt offerings and had acquired an aggregate of 159 single-tenant retail properties in 37 states for an aggregate acquisition cost of approximately \$953.5 million. As of December 31, 2007, 145 of the properties had been sold, of which 26 were sold as part of Cole Capital Partners' tenant-in-common program, 45 were sold as part of Cole Capital Partners' Delaware Statutory Trust Program, eight were sold to Cole REIT I and 16 were sold to us. On April 28, 2006, an affiliate of our advisor redeemed at par all of the approximately \$28.0 million in collateralized senior notes issued under the first debt offering.

In addition, as of December 31, 2007, Cole REIT I, had raised approximately \$100.3 million, and had acquired 42 single-tenant retail properties in 19 states for an aggregate acquisition cost of approximately \$199.1 million.

In addition, the Cole Exchange Entities offer properties to Section 1031 exchange investors in the form of the sale of tenant-in-common ownership interests in such properties. As of December 31, 2007, aggregate ownership interests of \$171.4 million had been sold in 26 private offerings of properties located in 14 states. In addition, the Cole Exchange Entities offer properties through the Delaware Statutory Trust Program whereby beneficial interests are offered in trusts that acquire real property. As of December 31, 2007, aggregate ownership interests of approximately \$175.2 million were sold in 27 private offerings of properties located in 21 states. See the Prior Performance Tables attached to this memorandum as Appendix A for additional information regarding the foregoing programs.

The following table shows a breakdown of the aggregate amount of the acquisition and development costs of the properties purchased by the prior real estate programs of our affiliates as of December 31, 2007:

<b>Type of Property</b>	<b>New</b>	<b>Used</b>	<b>Construction</b>
Retail	7.2%	92.8%	
Office buildings		100%	
Land		100%	
Data Center			100%



These programs have sold 132 of the total of 281 properties, or 47.0% of such properties. The original purchase price of the properties that were sold was approximately \$890.5 million, and the aggregate sales price of such properties was approximately \$954.6 million. See Tables III, IV and V of the Prior Performance Tables for more detailed information as to the operating results of such programs whose offerings closed in the last five years, results of such programs that have completed their operations over the last five years and the sales or other disposals of properties with investment objectives similar to ours over the last three years.

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An entity affiliated with the officers of Cole Partnerships, Inc. raised \$5 million in a debt offering for general corporate purposes, including investments in joint ventures with affiliates, which has been repaid.

During the three years ended December 31, 2007, the prior real estate programs had purchased 134 properties located in 33 states. Based on the aggregate purchase price of the 134 properties, approximately, 17.6% of the properties were located in Missouri, approximately, 11.9% of the properties were located in Texas, approximately, 8.9% of the properties were located in Florida, approximately 6.4% of the properties were located in Illinois and 5.5% of the properties were located in Washington. The remaining 49.7% of the properties purchased were located in 28 states, with no individual state concentration greater than 5%. Based on the aggregate purchase price of the 134 properties, 80.6% were single-tenant retail properties, 3.9% were single-tenant commercial properties and 15.5% were multi-tenant retail properties. A total of 121 of the properties were purchased with a combination of offering proceeds and mortgage notes payable and the remaining 13 of properties were purchased solely using offering proceeds.

The prior programs sponsored by our affiliates have occasionally been adversely affected by the cyclical nature of the real estate market. They have experienced, and may in the future experience, decreases in net income when economic conditions decline. One of these programs, Cole Santa Fe Investors, LP owned an approximately 263,000 square foot shopping center. Distributions to investors in that program were suspended indefinitely due to a tenant bankruptcy beginning with the quarter ended December 31, 2003. On November 30, 2007, the property was sold for approximately \$26.3 million which resulted in a return to investors of 100% of their original investment plus a return of approximately 13.5% per year. In addition, Cole Southwest Opportunity Fund, LP completed development of a data facility in Phoenix, Arizona in August 2001 through a joint venture and was unable to lease the facility as a result of the severe downturn in the telecommunications industry. On April 6, 2005, the Phoenix facility was sold for \$16.3 million, which along with the previous sale of vacant land parcels in Las Vegas, Nevada, formerly owned by a wholly owned subsidiary of Cole Southwest Opportunity Fund, LP, resulted in a return to investors of approximately 83% of their original investment upon liquidation of the limited partnership. See Prior Performance Tables Table III.

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**FEDERAL INCOME TAX CONSIDERATIONS**

**General**

The following is a summary of material federal income tax considerations associated with an investment in shares of our common stock. This summary does not address all possible tax considerations that may be material to an investor and does not constitute tax advice. Moreover, this summary does not deal with all tax aspects that might be relevant to you, as a prospective stockholder, in light of your personal circumstances, nor does it deal with particular types of stockholders that are subject to special treatment under the Internal Revenue Code, such as insurance companies, tax-exempt organizations or financial institutions or broker-dealers.

The Internal Revenue Code provisions governing the federal income tax treatment of REITs are highly technical and complex, and this summary is qualified in its entirety by the express language of applicable Internal Revenue Code provisions, treasury regulations promulgated thereunder (Treasury Regulations) and administrative and judicial interpretations thereof.

We urge you, as a prospective investor, to consult your own tax advisor regarding the specific tax consequences to you of a purchase of shares, ownership and sale of the shares and of our election to be taxed as a REIT. These consequences include the federal, state, local, foreign and other tax consequences of such purchase, ownership, sale and election.

**Opinion of Counsel**

Morris, Manning & Martin, LLP acts as our counsel, has reviewed this summary and is of the opinion that it fairly summarizes the federal income tax considerations addressed that are material to our stockholders. It is also the opinion of our counsel that we qualify to be taxed as a REIT under the Internal Revenue Code for our taxable year ended December 31, 2007, provided that we have operated and will continue to operate in accordance with various assumptions and the factual representations we made to counsel concerning our business, properties and operations. We must emphasize that all opinions issued by Morris, Manning & Martin, LLP are based on various assumptions and are conditioned upon the assumptions and representations we made concerning certain factual matters related to our business and properties. Moreover, our qualification for taxation as a REIT depends on our ability to meet the various qualification tests imposed under the Internal Revenue Code discussed below, the results of which will not be reviewed by Morris, Manning & Martin, LLP. Accordingly, we cannot assure you that the actual results of our operations for any one taxable year will satisfy these requirements. See Risk Factors Federal Income Tax Risks. The statements made in this section of the prospectus and in the opinion of Morris, Manning & Martin, LLP are based upon existing law and Treasury Regulations, as currently applicable, currently published administrative positions of the Internal Revenue Service and judicial decisions, all of which are subject to change, either prospectively or retroactively. We cannot assure you that any changes will not modify the conclusions expressed in counsel's opinion. Moreover, an opinion of counsel is not binding on the Internal Revenue Service, and we cannot assure you that the Internal Revenue Service will not successfully challenge our status as a REIT.

**Taxation of the Company**

We elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code, effective for our taxable year ended December 31, 2005. We believe that, commencing with such taxable year, we were organized and operated in such a manner as to qualify for taxation as a REIT under the Internal Revenue Code. We believe that we have operated, and we intend to continue to operate, in such a manner to qualify for taxation as a REIT, but no

assurance can be given that we will operate in a manner so as to qualify or remain qualified as a REIT. Pursuant to our charter, our board of directors has the authority to make any tax elections on our behalf that, in their sole judgment, are in our best interest. This authority includes the ability to elect not to qualify as a REIT for federal income tax purposes or, after qualifying as a REIT to revoke or otherwise terminate our status as a REIT. Our board of directors has the authority under our charter to make these elections without the necessity of obtaining the approval of our stockholders. In addition, our board of directors has the authority to waive any restrictions and limitations contained in our charter that are intended to preserve our status as a REIT during any period in which our board of directors has determined not to pursue or preserve our status as a REIT.

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Although REITs continue to receive substantially better tax treatment than entities taxed as corporations, it is possible that future legislation would cause a REIT to be a less advantageous tax status for companies that invest in real estate, and it could become more advantageous for such companies to elect to be taxed for federal income tax purposes as a corporation. As a result, our charter provides our board of directors with the ability, under certain circumstances, to elect not to qualify us as a REIT or, after we have qualified as a REIT, to revoke or otherwise terminate our REIT election and cause us to be taxed as a corporation, without the vote of our stockholders. Our board of directors has fiduciary duties to us and to all investors and could only cause such changes in our tax treatment if it determines in good faith that such changes are in the best interest of our stockholders.

As a REIT, we generally will not be subject to federal corporate income taxes on that portion of our ordinary income or capital gain that we distribute currently to our stockholders, because the REIT provisions of the Internal Revenue Code generally allow a REIT to deduct distributions paid to its stockholders. This substantially eliminates the federal double taxation on earnings (taxation at both the corporate level and stockholder level) that usually results from an investment in a corporation.

As a REIT we are subject to federal income taxation as follows:

we are taxed at regular corporate rates on our undistributed REIT taxable income, including undistributed net capital gains;

under some circumstances, we will be subject to alternative minimum tax;

if we have net income from the sale or other disposition of foreclosure property that is held primarily for sale to customers in the ordinary course of business or other non-qualifying income from foreclosure property, we will be subject to tax at the highest corporate rate on that income;

if we have net income from prohibited transactions (which are, in general, sales or other dispositions of property other than foreclosure property held primarily for sale to customers in the ordinary course of business), our income from such prohibited transaction will be subject to a 100% tax;

if we fail to satisfy either of the 75% or 95% gross income tests (discussed below) but have nonetheless maintained our qualification as a REIT because applicable conditions have been met, we will be subject to a 100% tax on an amount equal to the greater of the amount by which we fail the 75% or 95% test multiplied by a fraction calculated to reflect our profitability;

if we fail to distribute during each year at least the sum of (i) 85% of our REIT ordinary income for the year, (ii) 95% of our REIT capital gain net income for such year and (iii) any undistributed taxable income from prior periods, we will be subject to a 4% excise tax on the excess of the required distribution over the amounts actually distributed; and

if we acquire any asset from a C corporation (*i.e.*, a corporation generally subject to corporate-level tax) in a carryover-basis transaction and we subsequently recognize gain on the disposition of the asset during the ten-year period beginning on the date on which we acquired the asset, then a portion of the gains may be subject to tax at the highest regular corporate rate, pursuant to guidelines issued by the Internal Revenue Service.

## **Requirements for Qualification as a REIT**

In order for us to continue to qualify as a REIT, we must meet, and we must continue to meet, the requirements discussed below relating to our organization, sources of income, nature of assets, distributions of income to our stockholders and recordkeeping.

***Organizational Requirements***

In order to qualify for taxation as a REIT under the Internal Revenue Code, we must:

be a domestic corporation;

elect to be taxed as a REIT and satisfy relevant filing and other administrative requirements;

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- be managed by one or more trustees or directors;
- have transferable shares;
- not be a financial institution or an insurance company;
- use a calendar year for federal income tax purposes;
- have at least 100 stockholders for at least 335 days of each taxable year of twelve months; and
- not be closely held.

As a Maryland corporation, we satisfy the first requirement, and we elected to be taxed as a REIT when we filed our 2005 federal income tax return with the Internal Revenue Service. In addition, we are managed by a board of directors, we have transferable shares and we do not intend to operate as a financial institution or insurance company. We utilize the calendar year for federal income tax purposes. We would be treated as closely held only if five or fewer individuals or certain tax-exempt entities own, directly or indirectly, more than 50% (by value) of our shares at any time during the last half of our taxable year. For purposes of the closely held test, the Internal Revenue Code generally permits a look-through for pension funds and certain other tax-exempt entities to the beneficiaries of the entity to determine if the REIT is closely held. We currently meet the requirement of having more than 100 stockholders. In addition, our charter provides for restrictions regarding transfer of shares that are intended to assist us in continuing to satisfy these share ownership requirements. Such transfer restrictions are described in Description of Shares Restrictions on Ownership and Transfer. These provisions permit us to refuse to recognize certain transfers of shares that would tend to violate these REIT provisions. We can offer no assurance that our refusal to recognize a transfer will be effective. However, based on the foregoing, we should currently satisfy the organizational requirements, including the share ownership requirements, required for qualifying as a REIT under the Internal Revenue Code. Notwithstanding compliance with the share ownership requirements outlined above, tax-exempt stockholders may be required to treat all or a portion of their distributions from us as UBTI if tax-exempt stockholders, in the aggregate, exceed certain ownership thresholds set forth in the Internal Revenue Code. See Treatment of Tax-Exempt Stockholders below.

***Ownership of Interests in Partnerships and Qualified REIT Subsidiaries***

In the case of a REIT that is a partner in a partnership, Treasury Regulations provide that the REIT is deemed to own its proportionate share, based on its interest in partnership capital, of the assets of the partnership and is deemed to have earned its allocable share of partnership income. Also, if a REIT owns a qualified REIT subsidiary, which is defined as a corporation wholly-owned by a REIT that does not elect to be taxed as a taxable REIT subsidiary under the Internal Revenue Code, the REIT will be deemed to own all of the subsidiary's assets and liabilities and it will be deemed to be entitled to treat the income of that subsidiary as its own. In addition, the character of the assets and gross income of the partnership or qualified REIT subsidiary shall retain the same character in the hands of the REIT for purposes of satisfying the gross income tests and asset tests set forth in the Internal Revenue Code.

***Operational Requirements – Gross Income Tests***

To maintain our qualification as a REIT, we must, on an annual basis, satisfy the following gross income requirements:

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At least 75% of our gross income, excluding gross income from prohibited transactions, for each taxable year must be derived directly or indirectly from investments relating to real property or mortgages on real property. Gross income includes rents from real property and, in some circumstances, interest, but excludes gross income from dispositions of property held primarily for sale to customers in the ordinary course of a trade or business. Such dispositions are referred to as prohibited transactions. This is known as the 75% Income Test.

At least 95% of our gross income, excluding gross income from prohibited transactions, for each taxable year must be derived from the real property investments described above and from distributions, interest and gains from the sale or disposition of stock or securities or from any combination of the foregoing. This is known as the 95% Income Test.



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The rents we receive, or that we are deemed to receive, qualify as rents from real property for purposes of satisfying the gross income requirements for a REIT only if the following conditions are met:

the amount of rent received from a tenant generally must not be based in whole or in part on the income or profits of any person; however, an amount received or accrued generally will not be excluded from the term rents from real property solely by reason of being based on a fixed percentage or percentages of gross receipts or sales;

rents received from a tenant will not qualify as rents from real property if an owner of 10% or more of the REIT directly or constructively owns 10% or more of the tenant or a subtenant of the tenant (in which case only rent attributable to the subtenant is disqualified);

if rent attributable to personal property leased in connection with a lease of real property is greater than 15% of the total rent received under the lease, then the portion of rent attributable to the personal property will not qualify as rents from real property ; and

the REIT must not operate or manage the property or furnish or render services to tenants, other than through an independent contractor who is adequately compensated and from whom the REIT does not derive any income. However, a REIT may provide services with respect to its properties, and the income derived therefrom will qualify as rents from real property, if the services are usually or customarily rendered in connection with the rental of space only and are not otherwise considered rendered to the occupant. Even if the services with respect to a property are impermissible tenant services, the income derived therefrom will qualify as rents from real property if such income does not exceed 1% of all amounts received or accrued with respect to that property.

We will be paid interest on the mortgage loans that we make or acquire. All interest qualifies under the 95% gross income test. If a mortgage loan is secured exclusively by real property, all of such interest will also qualify for the 75% income test. If both real property and other property secure the mortgage loan, then all of the interest on such mortgage loan will also qualify for the 75% gross income test if the amount of the loan did not exceed the fair market value of the real property at the time of the loan commitment.

If we acquire ownership of property by reason of the default of a borrower on a loan or possession of property by reason of a tenant default, if the property qualifies and we elect to treat it as foreclosure property, the income from the property will qualify under the 75% Income Test and the 95% Income Test notwithstanding its failure to satisfy these requirements for three years, or if extended for good cause, up to a total of six years. In that event, we must satisfy a number of complex rules, one of which is a requirement that we operate the property through an independent contractor. We will be subject to tax on that portion of our net income from foreclosure property that does not otherwise qualify under the 75% Income Test.

Prior to investing the offering proceeds in properties, we may satisfy the 75% Income Test and the 95% Income Test by investing in liquid assets such as government securities or certificates of deposit, but earnings from those types of assets are qualifying income under the 75% Income Test only for one year from the receipt of proceeds. Accordingly, to the extent that offering proceeds have not been invested in properties prior to the expiration of this one-year period, in order to satisfy the 75% Income Test, we may invest the offering proceeds in less liquid investments such as mortgage-backed securities, maturing mortgage loans purchased from mortgage lenders or shares in other REITs. We expect to receive proceeds from the offering in a series of closings and to trace those proceeds for purposes of determining the one-year period for new capital investments. No rulings or regulations have been issued under the provisions of the Internal Revenue Code governing new capital investments, however, so there can be no assurance

that the Internal Revenue Service will agree with this method of calculation.

Except for amounts received with respect to certain investments of cash reserves, we anticipate that substantially all of our gross income will be derived from sources that will allow us to satisfy the income tests described above. We can give no assurance in this regard, however. Notwithstanding our failure to satisfy one or both of the 75% Income and the 95% Income Tests for any taxable year, we may still qualify as a REIT for that year

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if we are eligible for relief under specific provisions of the Internal Revenue Code. These relief provisions generally will be available if:

our failure to meet these tests was due to reasonable cause and not due to willful neglect;

we attach a schedule of our income sources to our federal income tax return; and

any incorrect information on the schedule is not due to fraud with intent to evade tax.

It is not possible, however, to state whether, in all circumstances, we would be entitled to the benefit of these relief provisions. For example, if we fail to satisfy the gross income tests because nonqualifying income that we intentionally earn exceeds the limits on this income, the Internal Revenue Service could conclude that our failure to satisfy the tests was not due to reasonable cause. As discussed above in *Taxation of the Company*, even if these relief provisions apply, a tax would be imposed with respect to the excess net income.

### ***Operational Requirements    Asset Tests***

At the close of each quarter of our taxable year, we also must satisfy the following three tests relating to the nature and diversification of our assets:

First, at least 75% of the value of our total assets must be represented by real estate assets, cash, cash items and government securities. The term *real estate assets* includes real property, mortgages on real property, shares in other qualified REITs and a proportionate share of any real estate assets owned by a partnership in which we are a partner or of any qualified REIT subsidiary of ours.

Second, no more than 25% of our total assets may be represented by securities other than those in the 75% asset class.

Third, of the investments included in the 25% asset class, the value of any one issuer's securities that we own may not exceed 5% of the value of our total assets. Additionally, we may not own more than 10% of any one issuer's outstanding voting securities.

The 5% test must generally be met for any quarter in which we acquire securities. Further, if we meet the asset tests at the close of any quarter, we will not lose our REIT status for a failure to satisfy the asset tests at the end of a later quarter if such failure occurs solely because of changes in asset values. If our failure to satisfy the asset tests results from an acquisition of securities or other property during a quarter, we can cure the failure by disposing of a sufficient amount of nonqualifying assets within 30 days after the close of that quarter. We maintain, and will continue to maintain, adequate records of the value of our assets to ensure compliance with the asset tests and will take other action within 30 days after the close of any quarter as may be required to cure any noncompliance.

### ***Operational Requirements    Annual Distribution Requirement***

In order to be taxed as a REIT, we are required to make distributions, other than capital gain distributions, to our stockholders each year in the amount of at least 90% of our REIT taxable income, which is computed without regard to the distributions paid deduction and our capital gain and subject to certain other potential adjustments.

While we must generally make distributions in the taxable year to which they relate, we may also pay distributions in the following taxable year if (1) they are declared before we timely file our federal income tax return for the taxable year in question, and (2) they are made on or before the first regular distribution payment date after the declaration.

Even if we satisfy the foregoing distribution requirement and, accordingly, continue to qualify as a REIT for tax purposes, we will still be subject to tax on the excess of our net capital gain and our REIT taxable income, as adjusted, over the amount of distributions made to stockholders.

In addition, if we fail to distribute during each calendar year at least the sum of:

85% of our ordinary income for that year;

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95% of our capital gain net income other than the capital gain net income that we elect to retain and pay tax on for that year; and

any undistributed taxable income from prior periods,

we will be subject to a 4% excise tax on the excess of the amount of such required distributions over amounts actually distributed during such year.

We intend to make timely distributions sufficient to satisfy this requirement; however, it is possible that we may experience timing differences between (1) the actual receipt of income and payment of deductible expenses, and (2) the inclusion of that income. It is also possible that we may be allocated a share of net capital gain attributable to the sale of depreciated property that exceeds our allocable share of cash attributable to that sale.

In such circumstances, we may have less cash than is necessary to meet our annual distribution requirement or to avoid income or excise taxation on certain undistributed income. We may find it necessary in such circumstances to arrange for financing or raise funds through the issuance of additional shares in order to meet our distribution requirements, or we may pay taxable stock distributions to meet the distribution requirement.

If we fail to satisfy the distribution requirement for any taxable year by reason of a later adjustment to our taxable income made by the Internal Revenue Service, we may be able to pay deficiency distributions in a later year and include such distributions in our deductions for distributions paid for the earlier year. In such event, we may be able to avoid being taxed on amounts distributed as deficiency distributions, but we would be required in such circumstances to pay interest to the Internal Revenue Service based upon the amount of any deduction taken for deficiency distributions for the earlier year.

We may also elect to retain, rather than distribute, our net long-term capital gains. The effect of such an election would be as follows:

we would be required to pay the tax on these gains;

our stockholders, while required to include their proportionate share of the undistributed long-term capital gains in income, would receive a credit or refund for their share of the tax paid by us; and

the basis of a stockholder's shares would be increased by the difference between the designated amount included in the stockholder's long-term capital gains and the tax deemed paid with respect to such shares.

In computing our REIT taxable income, we will use the accrual method of accounting and depreciate depreciable property under the alternative depreciation system. We are required to file an annual federal income tax return, which, like other corporate returns, is subject to examination by the Internal Revenue Service. Because the tax law requires us to make many judgments regarding the proper treatment of a transaction or an item of income or deduction, it is possible that the Internal Revenue Service will challenge positions we take in computing our REIT taxable income and our distributions. Issues could arise, for example, with respect to the allocation of the purchase price of properties between depreciable or amortizable assets and non-depreciable or non-amortizable assets such as land and the current deductibility of fees paid to Cole Advisors or its affiliates. Were the Internal Revenue Service successfully to challenge our characterization of a transaction or determination of our REIT taxable income, we could be found to have failed to satisfy a requirement for qualification as a REIT. If, as a result of a challenge, we are determined to have failed to satisfy the distribution requirements for a taxable year, we would be disqualified as a REIT unless we were permitted to pay a deficiency distribution to our stockholders and pay interest thereon to the Internal Revenue

Service, as provided by the Internal Revenue Code. A deficiency distribution cannot be used to satisfy the distribution requirement, however, if the failure to meet the requirement is not due to a later adjustment to our income by the Internal Revenue Service.

***Operational Requirements    Recordkeeping***

In order to continue to qualify as a REIT, we must maintain records as specified in applicable Treasury Regulations. Further, we must request, on an annual basis, information designed to disclose the ownership of our outstanding shares. We intend to comply with such requirements.

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### **Failure to Qualify as a REIT**

If we fail to qualify as a REIT for any reason in a taxable year and applicable relief provisions do not apply, we will be subject to tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates. We will not be able to deduct distributions paid to our stockholders in any year in which we fail to qualify as a REIT. We also will be disqualified for the four taxable years following the year during which qualification was lost unless we are entitled to relief under specific statutory provisions. See **Risk Factors** **Federal Income Tax Risks**.

### **Sale-Leaseback Transactions**

Some of our investments may be in the form of sale-leaseback transactions. In most instances, depending on the economic terms of the transaction, we will be treated for federal income tax purposes as either the owner of the property or the holder of a debt secured by the property. We do not expect to request an opinion of counsel concerning the status of any leases of properties as true leases for federal income tax purposes.

The Internal Revenue Service may take the position that a specific sale-leaseback transaction that we treat as a true lease is not a true lease for federal income tax purposes but is, instead, a financing arrangement or loan. We may also structure some sale-leaseback transactions as loans. In this event, for purposes of the asset tests and the 75% Income Test, each such loan likely would be viewed as secured by real property to the extent of the fair market value of the underlying property. We expect that, for this purpose, the fair market value of the underlying property would be determined without taking into account our lease. If a sale-leaseback transaction were so recharacterized, we might fail to satisfy the asset tests or the income tests and, consequently, lose our REIT status effective with the year of recharacterization. Alternatively, the amount of our REIT taxable income could be recalculated, which might also cause us to fail to meet the distribution requirement for a taxable year.

### **Taxation of U.S. Stockholders**

#### ***Definition***

In this section, the phrase **U.S. stockholder** means a holder of shares that for federal income tax purposes:

is a citizen or resident of the United States;

is a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof;

is an estate or trust, the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust, if a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

For any taxable year for which we qualify for taxation as a REIT, amounts distributed to taxable U.S. stockholders will be taxed as described below.

#### ***Distributions Generally***

Distributions to U.S. stockholders, other than capital gain distributions discussed below, will constitute distributions up to the amount of our current or accumulated earnings and profits and will be taxable to the stockholders as ordinary income. Individuals receiving qualified dividends, distributions from domestic and certain qualifying foreign subchapter C corporations, may be entitled to lower rates on distributions (at rates applicable to long-term capital gains, currently at a maximum rate of 15%) provided certain holding period requirements are met. However, individuals receiving distributions from us, a REIT, will generally not be eligible for the lower rates on distributions except with respect to the portion of any distribution which (a) represents distributions being passed through to us from a corporation in which we own shares (but only if such distributions would be eligible for the new lower rates on distributions if paid by the corporation to its individual stockholders), (b) is equal to our REIT taxable income (taking into account the distributions paid deduction available to us) less any taxes paid by us on these items during our previous taxable year, or (c) is attributable to built-in gains realized and recognized by us from disposition of properties acquired by us in non-recognition transaction, less any taxes



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paid by us on these items during our previous taxable year. These distributions are not eligible for the distributions received deduction generally available to corporations. To the extent that we make a distribution in excess of our current or accumulated earnings and profits, the distribution will be treated first as a tax-free return of capital, reducing the tax basis in each U.S. stockholder's shares, and the amount of each distribution in excess of a U.S. stockholder's tax basis in its shares will be taxable as gain realized from the sale of its shares. Distributions that we declare in October, November or December of any year payable to a stockholder of record on a specified date in any of these months will be treated as both paid by us and received by the stockholder on December 31 of the year, provided that we actually pay the distribution during January of the following calendar year. U.S. stockholders may not include any of our losses on their own federal income tax returns.

We will be treated as having sufficient earnings and profits to treat as a distribution any distribution by us up to the amount required to be distributed in order to avoid imposition of the 4% excise tax discussed above. Moreover, any deficiency dividend will be treated as an ordinary or capital gain distribution, as the case may be, regardless of our earnings and profits. As a result, stockholders may be required to treat as taxable some distributions that would otherwise result in a tax-free return of capital.

### ***Capital Gain Distributions***

Distributions to U.S. stockholders that we properly designate as capital gain distributions will be treated as long-term capital gains, to the extent they do not exceed our actual net capital gain, for the taxable year without regard to the period for which the U.S. stockholder has held his or her shares.

### ***Passive Activity Loss and Investment Interest Limitations***

Our distributions and any gain you realize from a disposition of shares will not be treated as passive activity income, and stockholders may not be able to utilize any of their passive losses to offset this income on their personal tax returns. Our distributions (to the extent they do not constitute a return of capital) will generally be treated as investment income for purposes of the limitations on the deduction of investment interest. Net capital gain from a disposition of shares and capital gain distributions generally will be included in investment income for purposes of the investment interest deduction limitations only if, and to the extent, you so elect, in which case any such capital gains will be taxed as ordinary income.

### ***Certain Dispositions of the Shares***

In general, any gain or loss realized upon a taxable disposition of shares by a U.S. stockholder who is not a dealer in securities, including any disposition pursuant to our proposed share redemption program, will be treated as long-term capital gain or loss if the shares have been held for more than twelve months and as short-term capital gain or loss if the shares have been held for twelve months or less. If, however, a U.S. stockholder has received any capital gains distributions with respect to his shares, any loss realized upon a taxable disposition of shares held for six months or less, to the extent of the capital gains distributions received with respect to his shares, will be treated as long-term capital loss. Also, the Internal Revenue Service is authorized to issue Treasury Regulations that would subject a portion of the capital gain a U.S. stockholder recognizes from selling his shares or from a capital gain distribution to a tax at a 25% rate, to the extent the capital gain is attributable to depreciation previously deducted.

### ***Information Reporting Requirements and Backup Withholding for U.S. Stockholders***

Under some circumstances, U.S. stockholders may be subject to backup withholding at a rate of 30% on payments made with respect to, or cash proceeds of a sale or exchange of, our shares. Backup withholding will apply only if the stockholder:

fails to furnish his or her taxpayer identification number, which, for an individual, would be his or her Social Security Number;

furnishes an incorrect tax identification number;

is notified by the Internal Revenue Service that he or she has failed properly to report payments of interest and distributions or is otherwise subject to backup withholding; or

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under some circumstances, fails to certify, under penalties of perjury, that he or she has furnished a correct tax identification number and that (a) he or she has not been notified by the Internal Revenue Service that he or she is subject to backup withholding for failure to report interest and distribution payments or (b) he or she has been notified by the Internal Revenue Service that he or she is no longer subject to backup withholding.

Backup withholding will not apply with respect to payments made to some stockholders, such as corporations and tax-exempt organizations. Backup withholding is not an additional tax. Rather, the amount of any backup withholding with respect to a payment to a U.S. stockholder will be allowed as a credit against the U.S. stockholder's U.S. federal income tax liability and may entitle the U.S. stockholder to a refund, provided that the required information is furnished to the Internal Revenue Service. U.S. stockholders should consult their own tax advisors regarding their qualifications for exemption from backup withholding and the procedure for obtaining an exemption.

### **Treatment of Tax-Exempt Stockholders**

Tax-exempt entities such as employee pension benefit trusts, individual retirement accounts and charitable remainder trusts generally are exempt from federal income taxation. Such entities are subject to taxation, however, on any UBTI. Our payment of distributions to a tax-exempt employee pension benefit trust or other domestic tax-exempt stockholder generally will not constitute UBTI to such stockholder unless such stockholder has borrowed to acquire or carry its shares.

In the event that we were deemed to be predominately held by qualified employee pension benefit trusts that each hold more than 10% (in value) of our shares, such trusts would be required to treat a certain percentage of the distributions paid to them as UBTI. We would be deemed to be predominately held by such trusts if either (i) one employee pension benefit trust owns more than 25% in value of our shares, or (ii) any group of employee pension benefit trusts, each owning more than 10% in value of our shares, holds in the aggregate more than 50% in value of our shares. If either of these ownership thresholds were ever exceeded, any qualified employee pension benefit trust holding more than 10% in value of our shares would be subject to tax on that portion of our distributions made to it which is equal to the percentage of our income that would be UBTI if we were a qualified trust, rather than a REIT. We will attempt to monitor the concentration of ownership of employee pension benefit trusts in our shares, and we do not expect our shares to be deemed to be predominately held by qualified employee pension benefit trusts, as defined in the Internal Revenue Code, to the extent required to trigger the treatment of our income as to such trusts.

For social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans exempt from federal income taxation under Sections 501(c)(7), (c)(9), (c)(17) and (c)(20) of the Internal Revenue Code, respectively, income from an investment in our shares will constitute UBTI unless the stockholder in question is able to deduct amounts set aside or placed in reserve for certain purposes so as to offset the UBTI generated. Any such organization that is a prospective stockholder should consult its own tax advisor concerning these set aside and reserve requirements.

### **Special Tax Considerations for Non-U.S. Stockholders**

The rules governing U.S. income taxation of non-resident alien individuals, foreign corporations, foreign partnerships and foreign trusts and estates (non-U.S. stockholders) are complex. The following discussion is intended only as a summary of these rules. Non-U.S. stockholders should consult with their own tax advisors to determine the impact of federal, state and local income tax laws on an investment in our shares, including any reporting requirements.

### ***Income Effectively Connected with a U.S. Trade or Business***

In general, non-U.S. stockholders will be subject to regular U.S. federal income taxation with respect to their investment in our shares if the income derived therefrom is effectively connected with the non-U.S. stockholder's conduct of a trade or business in the United States. A corporate non-U.S. stockholder that receives income that is (or is treated as) effectively connected with a U.S. trade or business also may be subject to a branch profits tax under Section 884 of the Internal Revenue Code, which is payable in addition to the regular U.S. federal corporate income tax.

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The following discussion will apply to non-U.S. stockholders whose income derived from ownership of our shares is deemed to be not effectively connected with a U.S. trade or business.

### ***Distributions Not Attributable to Gain from the Sale or Exchange of a United States Real Property Interest***

A distribution to a non-U.S. stockholder that is not attributable to gain realized by us from the sale or exchange of a United States real property interest within the meaning of the Foreign Investment in Real Property Tax Act of 1980, as amended (FIRPTA), and that we do not designate as a capital gain distribution will be treated as an ordinary income distribution to the extent that it is made out of current or accumulated earnings and profits. Generally, any ordinary income distribution will be subject to a U.S. federal income tax equal to 30% of the gross amount of the distribution unless this tax is reduced by the provisions of an applicable tax treaty. Any such distribution in excess of our earnings and profits will be treated first as a return of capital that will reduce each non-U.S. stockholder's basis in its shares (but not below zero) and then as gain from the disposition of those shares, the tax treatment of which is described under the rules discussed below with respect to dispositions of shares.

### ***Distributions Attributable to Gain from the Sale or Exchange of a United States Real Property Interest***

Distributions to a non-U.S. stockholder that are attributable to gain from the sale or exchange of a United States real property interest will be taxed to a non-U.S. stockholder under Internal Revenue Code provisions enacted by FIRPTA. Under FIRPTA, such distributions are taxed to a non-U.S. stockholder as if the distributions were gains effectively connected with a U.S. trade or business. Accordingly, a non-U.S. stockholder will be taxed at the normal capital gain rates applicable to a U.S. stockholder (subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of non-resident alien individuals). Distributions subject to FIRPTA also may be subject to a 30% branch profits tax when made to a corporate non-U.S. stockholder that is not entitled to a treaty exemption. Capital gain distributions generally will be treated as subject to FIRPTA.

### ***Withholding Obligations With Respect to Distributions to Non-U.S. Stockholders***

Although tax treaties may reduce our withholding obligations, based on current law, we will generally be required to withhold from distributions to non-U.S. stockholders, and remit to the Internal Revenue Service:

35% of designated capital gain distributions or, if greater, 35% of the amount of any distributions that could be designated as capital gain distributions; and

30% of ordinary income distributions (*i.e.*, distributions paid out of our earnings and profits).

In addition, if we designate prior distributions as capital gain distributions, subsequent distributions, up to the amount of the prior distributions, will be treated as capital gain distributions for purposes of withholding. A distribution in excess of our earnings and profits will be subject to 30% withholding if at the time of the distribution it cannot be determined whether the distribution will be in an amount in excess of our current or accumulated earnings and profits. If the amount of tax we withhold with respect to a distribution to a non-U.S. stockholder exceeds the stockholder's U.S. tax liability with respect to that distribution, the non-U.S. stockholder may file a claim with the Internal Revenue Service for a refund of the excess.

### ***Sale of Our Shares by a Non-U.S. Stockholder***

A sale of our shares by a non-U.S. stockholder will generally not be subject to U.S. federal income taxation unless our shares constitute a United States real property interest. Our shares will not constitute a United States real property interest if we are a domestically controlled REIT. A domestically controlled REIT is a REIT that at all times during a

specified testing period has less than 50% in value of its shares held directly or indirectly by non-U.S. stockholders. We currently anticipate that we will be a domestically controlled REIT. Therefore, sales of our shares should not be subject to taxation under FIRPTA. However, we do expect to sell our shares to non-U.S. stockholders and we cannot assure you that we will continue to be a domestically controlled REIT. If we were not a domestically controlled REIT, whether a non-U.S. stockholder's sale of our shares would be subject to tax under FIRPTA as a sale of a United States real property interest would depend on whether our shares were

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regularly traded on an established securities market and on the size of the selling stockholder's interest in us. Our shares currently are not regularly traded on an established securities market.

If the gain on the sale of shares were subject to taxation under FIRPTA, a non-U.S. stockholder would be subject to the same treatment as a U.S. stockholder with respect to the gain, subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of non-resident alien individuals. In addition, distributions that are treated as gain from the disposition of shares and are subject to tax under FIRPTA also may be subject to a 30% branch profits tax when made to a corporate non-U.S. stockholder that is not entitled to a treaty exemption. Under FIRPTA, the purchaser of our shares may be required to withhold 10% of the purchase price and remit this amount to the Internal Revenue Service.

Even if not subject to FIRPTA, capital gains will be taxable to a non-U.S. stockholder if the non-U.S. stockholder is a non-resident alien individual who is present in the United States for 183 days or more during the taxable year and some other conditions apply, in which case the non-resident alien individual will be subject to a 30% tax on his or her U.S. source capital gains.

### ***Information Reporting Requirements and Backup Withholding for Non-U.S. Stockholders***

Additional issues may arise for information reporting and backup withholding for non-U.S. stockholders. Non-U.S. stockholders should consult their tax advisors with regard to U.S. information reporting and backup withholding requirements under the Internal Revenue Code.

### **Statement of Stock Ownership**

We are required to demand annual written statements from the record holders of designated percentages of our shares disclosing the actual owners of the shares. Any record stockholder who, upon our request, does not provide us with required information concerning actual ownership of the shares is required to include specified information relating to his or her shares in his or her federal income tax return. We also must maintain, within the Internal Revenue District in which we are required to file, our federal income tax return, permanent records showing the information we have received about the actual ownership of shares and a list of those persons failing or refusing to comply with our demand.

### **State and Local Taxation**

We and any operating subsidiaries that we may form may be subject to state and local tax in states and localities in which they or we do business or own property. The tax treatment of us, Cole OP II, any operating subsidiaries we may form and the holders of our shares in local jurisdictions may differ from the federal income tax treatment described above.

### **Tax Aspects of Our Operating Partnership**

The following discussion summarizes certain federal income tax considerations applicable to our investment in Cole OP II, our operating partnership. The discussion does not cover state or local tax laws or any federal tax laws other than income tax laws.

### ***Classification as a Partnership***

We will be entitled to include in our income a distributive share of Cole OP II's income and to deduct our distributive share of Cole OP II's losses only if Cole OP II is classified for federal income tax purposes as a partnership, rather than

as an association taxable as a corporation. Under applicable Treasury Regulations known as Check-the-Box-Regulations, an unincorporated entity with at least two members may elect to be classified either as an association taxable as a corporation or as a partnership. If such an entity fails to make an election, it generally will be treated as a partnership for federal income tax purposes. Cole OP II intends to be classified as a partnership for federal income tax purposes and will not elect to be treated as an association taxable as a corporation under the Check-the-Box-Regulations.



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Even though Cole OP II will be treated as a partnership for federal income tax purposes, it may be taxed as a corporation if it is deemed to be a publicly traded partnership. A publicly traded partnership is a partnership whose interests are traded on an established securities market or are readily tradable on a secondary market, or the substantial equivalent thereof. However, even if the foregoing requirements are met, a publicly traded partnership will not be treated as a corporation for federal income tax purposes if at least 90% of such partnership's gross income for a taxable year consists of qualifying income under Section 7704(d) of the Internal Revenue Code. Qualifying income generally includes any income that is qualifying income for purposes of the 95% Income Test applicable to REITs (90% Passive-Type Income Exception). See Requirements for Qualification as a REIT Operational Requirements Gross Income Tests above.

Under applicable Treasury Regulations known as the PTP Regulations, limited safe harbors from the definition of a publicly traded partnership are provided. Pursuant to one of those safe harbors (the Private Placement Exclusion), interests in a partnership will not be treated as readily tradable on a secondary market or the substantial equivalent thereof if (i) all interests in the partnership were issued in a transaction (or transactions) that was not required to be registered under the Securities Act, and (ii) the partnership does not have more than 100 partners at any time during the partnership's taxable year. In determining the number of partners in a partnership, a person owning an interest in a flow-through entity, such as a partnership, grantor trust or S corporation, that owns an interest in the partnership is treated as a partner in such partnership only if (a) substantially all of the value of the owner's interest in the flow-through is attributable to the flow-through entity's interest, direct or indirect, in the partnership and (b) a principal purpose of the use of the flow-through entity is to permit the partnership to satisfy the 100 partner limitation. Cole OP II qualifies for the Private Placement Exclusion. Moreover, even if Cole OP II were considered a publicly traded partnership under the PTP Regulations because it is deemed to have more than 100 partners, we believe Cole OP II should not be treated as a corporation because it is eligible for the 90% Passive-Type Income Exception described above.

We have not requested, and do not intend to request, a ruling from the Internal Revenue Service that Cole OP II will be classified as a partnership for federal income tax purposes. Morris, Manning & Martin, LLP is of the opinion, however, that based on certain factual assumptions and representations, Cole OP II will be treated for federal income tax purposes as a partnership and not as an association taxable as a corporation, or as a publicly traded partnership. Unlike a tax ruling, however, an opinion of counsel is not binding upon the Internal Revenue Service, and we can offer no assurance that the Internal Revenue Service will not challenge the status of Cole OP II as a partnership for federal income tax purposes. If such challenge were sustained by a court, Cole OP II would be treated as a corporation for federal income tax purposes, as described below. In addition, the opinion of Morris, Manning & Martin, LLP is based on existing law, which is to a great extent the result of administrative and judicial interpretation. No assurance can be given that administrative or judicial changes would not modify the conclusions expressed in the opinion.

If for any reason Cole OP II were taxable as a corporation, rather than a partnership, for federal income tax purposes, we would not be able to qualify as a REIT. See Requirements for Qualification as a REIT Operational Requirements Gross Income Tests and Operational Requirements Asset Tests above. In addition, any change in Cole OP II's status for tax purposes might be treated as a taxable event, in which case we might incur a tax liability without any related cash distribution. Further, items of income and deduction of Cole OP II would not pass through to its partners, and its partners would be treated as stockholders for tax purposes. Consequently, Cole OP II would be required to pay income tax at corporate tax rates on its net income, and distributions to its partners would not be deductible in computing Cole OP II's taxable income.

***Income Taxation of the Operating Partnership and Its Partners***

*Partners, Not a Partnership, Subject to Tax*

A partnership is not a taxable entity for federal income tax purposes. As a partner in Cole OP II, we will be required to take into account our allocable share of Cole OP II's income, gains, losses, deductions and credits for any taxable year of Cole OP II ending within or with our taxable year, without regard to whether we have received or will receive any distribution from Cole OP II.

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*Partnership Allocations*

Although a partnership agreement generally determines the allocation of income and losses among partners, such allocations will be disregarded for tax purposes under Section 704(b) of the Internal Revenue Code if they do not comply with the provisions of Section 704(b) of the Internal Revenue Code and the Treasury Regulations promulgated thereunder. If an allocation is not recognized for federal income tax purposes, the item subject to the allocation will be reallocated in accordance with the partner's interests in the partnership, which will be determined by taking into account all of the facts and circumstances relating to the economic arrangement of the partners with respect to such item. Cole OP II's allocations of taxable income and loss are intended to comply with the requirements of Section 704(b) of the Internal Revenue Code and the Treasury Regulations promulgated thereunder.

*Tax Allocations With Respect to Contributed Properties*

Pursuant to Section 704(c) of the Internal Revenue Code, income, gain, loss and deductions attributable to appreciated or depreciated property that is contributed to a partnership in exchange for an interest in the partnership must be allocated for federal income tax purposes in a manner such that the contributor is charged with, or benefits from, the unrealized gain or unrealized loss associated with the property at the time of the contribution. The amount of such unrealized gain or unrealized loss is generally equal to the difference between the fair market value of the contributed property at the time of contribution and the adjusted tax basis of such property at the time of contribution. Under applicable Treasury Regulations, partnerships are required to use a reasonable method for allocating items subject to Section 704(c) of the Internal Revenue Code, and several reasonable allocation methods are described therein.

Under the partnership agreement for Cole OP II, depreciation or amortization deductions of Cole OP II generally will be allocated among the partners in accordance with their respective interests in Cole OP II, except to the extent that Cole OP II is required under Section 704(c) of the Internal Revenue Code to use a method for allocating depreciation deductions attributable to its properties that results in us receiving a disproportionately large share of such deductions. We may possibly be allocated lower amounts of depreciation deductions for tax purposes with respect to contributed properties than would be allocated to us if each such property were to have a tax basis equal to its fair market value at the time of contribution. These allocations may cause us to recognize taxable income in excess of cash proceeds received by us, which might adversely affect our ability to comply with the REIT distribution requirements, although we do not anticipate that this event will occur. The foregoing principles also will affect the calculation of our earnings and profits for purposes of determining which portion of our distributions is taxable as a distribution. The allocations described in this paragraph may result in a higher portion of our distributions being taxed as a distribution if we acquire properties in exchange for units of the Cole OP II than would have occurred had we purchased such properties for cash.

*Basis in Operating Partnership Interest*

The adjusted tax basis of our partnership interest in Cole OP II generally is equal to (1) the amount of cash and the basis of any other property contributed to Cole OP II by us, (2) increased by (a) our allocable share of Cole OP II's income and (b) our allocable share of indebtedness of Cole OP II, and (3) reduced, but not below zero, by (a) our allocable share of Cole OP II's loss and (b) the amount of cash distributed to us, including constructive cash distributions resulting from a reduction in our share of indebtedness of Cole OP II.

If the allocation of our distributive share of Cole OP II's loss would reduce the adjusted tax basis of our partnership interest in Cole OP II below zero, the recognition of such loss will be deferred until such time as the recognition of such loss would not reduce our adjusted tax basis below zero. If a distribution from Cole OP II or a reduction in our share of Cole OP II's liabilities (which is treated as a constructive distribution for tax purposes) would reduce our adjusted tax basis below zero, any such distribution, including a constructive distribution, would constitute taxable

income to us. The gain realized by us upon the receipt of any such distribution or constructive distribution would normally be characterized as capital gain, and if our partnership interest in Cole OP II has been held for longer than the required long-term capital gain holding period (currently one year), the distribution would constitute long-term capital gain.

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*Depreciation Deductions Available to the Operating Partnership*

Cole OP II will use a portion of contributions made by us from offering proceeds to acquire interests in properties. To the extent that Cole OP II acquires properties for cash, Cole OP II's initial basis in such properties for federal income tax purposes generally will be equal to the purchase price paid by Cole OP II. Cole OP II plans to depreciate each such depreciable property for federal income tax purposes under the alternative depreciation system of depreciation. Under this system, Cole OP II generally will depreciate such buildings and improvements over a 40-year recovery period using a straight-line method and a mid-month convention and will depreciate furnishings and equipment over a twelve-year recovery period. To the extent that Cole OP II acquires properties in exchange for units of Cole OP II, Cole OP II's initial basis in each such property for federal income tax purposes should be the same as the transferor's basis in that property on the date of acquisition by Cole OP II. Although the law is not entirely clear, Cole OP II generally intends to depreciate such depreciable property for federal income tax purposes over the same remaining useful lives and under the same methods used by the transferors.

*Sale of the Operating Partnership's Property*

Generally, any gain realized by Cole OP II on the sale of property held for more than one year will be long-term capital gain, except for any portion of such gain that is treated as depreciation or cost recovery recapture. Any gain recognized by Cole OP II upon the disposition of a property acquired by Cole OP II for cash will be allocated among the partners in accordance with their respective interests in Cole OP II.

Our share of any gain realized by Cole OP II on the sale of any property held by Cole OP II as inventory or other property held primarily for sale to customers in the ordinary course of Cole OP II's trade or business will be treated as income from a prohibited transaction that is subject to a 100% penalty tax. We, however, do not currently intend to acquire or hold or allow Cole OP II to acquire or hold any property that represents inventory or other property held primarily for sale to customers in the ordinary course of our or Cole OP II's trade or business.

*Tenant-In-Common Program*

Each of the properties (Section 1031 Program properties) that are the subject of the Section 1031 Program will initially be purchased by a single member limited liability company or Delaware statutory trust, referred to in this prospectus as a Cole Exchange Entity. Each Cole Exchange Entity will initially be owned by our affiliate, Cole Capital Partners or its affiliate. Cole Capital Partners will then market co-ownership interests in these properties to those Section 1031 Participants who wish to re-invest proceeds arising from dispositions of their real estate assets owned by the Section 1031 Participants. The Section 1031 Participants will be able to defer the recognition of taxable gain arising from the sale of their real estate assets by investing proceeds into the co-ownership interests that qualify for purposes of Section 1031 of the Internal Revenue Code as replacement real estate assets. We anticipate that the Cole Exchange Entity will obtain a legal opinion in connection with each Section 1031 Program to the effect that the program will qualify as a like-kind exchange under Section 1031 of the Internal Revenue Code. However, the Internal Revenue Service may not take a position contrary to such an opinion.

As Cole Capital Partners successfully markets co-ownership interests in the Section 1031 Program properties, these will be sold to the Section 1031 Participants. Cole Capital Partners will recognize gain or loss arising from such sales measured by the difference between the sum of its cost basis and costs of closing and the price at which it sells such interests to the Section 1031 Participants. Cole Capital Partners will be responsible for reporting such income to the extent of any net gains and will be liable for any resulting tax. This will have no impact on our tax liability.

If Cole OP II purchases interests in the Section 1031 Program Properties, the tax treatment will be the same as it would with respect to other acquisitions of real property. Cole OP II will become the owner of an interest in real

estate, it will have a basis in the real estate equal to its cost, and its holding period for such real estate will begin on the day of the acquisition. Upon subsequent sale of such interest, it will recognize gain or loss in the same fashion it would with any other real estate investments. Any fees that a Cole Exchange Entity pays to Cole OP II for participating in a Section 1031 Program will be taxable as ordinary income to Cole OP II.

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**INVESTMENT BY TAX-EXEMPT ENTITIES AND ERISA CONSIDERATIONS**

**General**

The following is a summary of some non-tax considerations associated with an investment in our shares by tax-qualified pension, stock bonus or profit-sharing plans, employee benefit plans described in Section 3(3) of ERISA, annuities described in Section 403(a) or (b) of the Internal Revenue Code, an individual retirement account or annuity described in Sections 408 or 408A of the Internal Revenue Code, an Archer MSA described in Section 220(d) of the Internal Revenue Code, a health savings account described in Section 223(d) of the Internal Revenue Code, or a Coverdell education savings account described in Section 530 of the Internal Revenue Code, which are referred to as Plans and IRAs, as applicable. This summary is based on provisions of ERISA and the Internal Revenue Code, including amendments thereto through the date of this prospectus, and relevant regulations and opinions issued by the Department of Labor and the Internal Revenue Service through the date of this prospectus. We cannot assure you that adverse tax decisions or legislative, regulatory or administrative changes that would significantly modify the statements expressed herein will not occur. Any such changes may or may not apply to transactions entered into prior to the date of their enactment.

Our management has attempted to structure us in such a manner that we will be an attractive investment vehicle for Plans and IRAs. However, in considering an investment in our shares, those involved with making such an investment decision should consider applicable provisions of the Internal Revenue Code and ERISA. While each of the ERISA and Internal Revenue Code issues discussed below may not apply to all Plans and IRAs, individuals involved with making investment decisions with respect to Plans and IRAs should carefully review the rules and exceptions described below, and determine their applicability to their situation.

In general, individuals making investment decisions with respect to Plans and IRAs should, at a minimum, consider:

- whether the investment is in accordance with the documents and instruments governing such Plan or IRA;
- whether the investment satisfies the prudence and diversification and other fiduciary requirements of ERISA, if applicable;
- whether the investment will result in UBTI to the Plan or IRA (see Federal Income Tax Considerations Treatment of Tax-Exempt Stockholders );
- whether there is sufficient liquidity for the Plan or IRA, considering the minimum and other distribution requirements under the Internal Revenue Code and the liquidity needs of such Plan or IRA, after taking this investment into account;
- the need to value the assets of the Plan or IRA annually or more frequently; and
- whether the investment would constitute or give rise to a prohibited transaction under ERISA or the Internal Revenue Code, if applicable.

Additionally, individuals making investment decisions with respect to Plans and IRAs must remember that ERISA requires that the assets of an employee benefit plan must generally be held in trust, and that the trustee, or a duly authorized named fiduciary or investment manager, must have authority and discretion to manage and control the assets of an employee benefit plan.

**Minimum and Other Distribution Requirements    Plan Liquidity**

Potential Plan or IRA investors who intend to purchase our shares should consider the limited liquidity of an investment in our shares as it relates to the minimum distribution requirements under the Internal Revenue Code, if applicable, and as it relates to other distributions (such as, for example, cash out distributions) that may be required under the terms of the Plan or IRA from time to time. If the shares are held in an IRA or Plan and, before we sell our properties, mandatory or other distributions are required to be made to the participant or beneficiary of such IRA or Plan, pursuant to the Internal Revenue Code, then this would require that a distribution of the shares be made in kind to such participant or beneficiary or that a rollover of such shares be made to an IRA or other plan, which may not be



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permissible making the distribution or rollover of the IRA or Plan receiving the rollover under the terms and provisions of IRA or Plan. Even if permissible, a distribution of shares in kind to a participant or beneficiary of an IRA or Plan must be included in the taxable income of the recipient for the year in which the shares are received at the then current fair market value of the shares, even though there would be no corresponding cash distribution with which to pay the income tax liability arising because of the distribution of shares. See Risk Factors Federal Income Tax Risks. The fair market value of any such distribution-in-kind can be only an estimated value per share because no public market for our shares exists or is likely to develop. See Annual Valuation Requirement below. Further, there can be no assurance that such estimated value could actually be realized by a stockholder because estimates do not necessarily indicate the price at which our shares could be sold. Also, for distributions subject to mandatory income tax withholding under Section 3405 or other tax withholding provisions of the Internal Revenue Code, the trustee of a Plan may have an obligation, even in situations involving in-kind distributions of shares, to liquidate a portion of the in-kind shares distributed in order to satisfy such withholding obligations, although there might be no market for such shares. There may also be similar state and/or local tax withholding or other tax obligations that should be considered.

### **Annual or More Frequent Valuation Requirement**

Fiduciaries of Plans may be required to determine the fair market value of the assets of such Plans on at least an annual basis and, sometimes, as frequently as quarterly. If the fair market value of any particular asset is not readily available, the fiduciary is required to make a good faith determination of that asset's value. Also, a trustee or custodian of an IRA must provide an IRA participant and the Internal Revenue Service with a statement of the value of the IRA each year. However, currently, neither the Internal Revenue Service nor the Department of Labor has promulgated regulations specifying how fair market value should be determined.

Unless and until our shares are listed on a national securities exchange, it is not expected that a public market for our shares will develop. To assist fiduciaries of Plans subject to the annual reporting requirements of ERISA and IRA trustees or custodians to prepare reports relating to an investment in our shares, we intend to provide reports of our quarterly and annual determinations of the current estimated share value to those fiduciaries (including IRA trustees and custodians) who identify themselves to us and request the reports. Until two full fiscal years after the termination of this offering or the termination of any subsequent offering of our shares, we intend to use the offering price of shares in our most recent offering as the per share value (unless we have made a special distribution to stockholders of net sales proceeds from the sale of one or more properties prior to the date of determination of the per share value, in which case we will use the offering price less the per share amount of the special distribution). Beginning two full fiscal years after the last offering of our shares, our board of directors will determine the value of our properties and other assets based on such information as our board determines appropriate, which may include independent valuations of our properties or of our enterprise as a whole.

We anticipate that we will provide annual reports of our determination of value (1) to IRA trustees and custodians not later than January 15 of each year, and (2) to other Plan fiduciaries within 75 days after the end of each calendar year. Each determination may be based upon valuation information available as of October 31 of the preceding year, updated, however, for any material changes occurring between October 31 and December 31.

There can be no assurance, however, with respect to any estimate of value that we prepare, that:

the estimated value per share would actually be realized by our stockholders upon liquidation, because these estimates do not necessarily indicate the price at which properties can be sold;

our stockholders would be able to realize estimated net asset values if they were to attempt to sell their shares, because no public market for our shares exists or is likely to develop; or

that the value, or method used to establish value, would comply with ERISA or Internal Revenue Code requirements described above.

**Fiduciary Obligations Prohibited Transactions**

Any person identified as a fiduciary with respect to a Plan incurs duties and obligations under ERISA as discussed herein. For purposes of ERISA, any person who exercises any authority or control with respect to the

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management or disposition of the assets of a Plan is considered to be a fiduciary of such Plan. Further, many transactions between a Plan or an IRA and a party-in-interest or a disqualified person with respect to such Plan or IRA are prohibited by ERISA and/or the Internal Revenue Code. ERISA also requires generally that the assets of Plans be held in trust and that the trustee, or a duly authorized investment manager, have exclusive authority and discretion to manage and control the assets of the Plan.

In the event that our properties and other assets were deemed to be assets of a Plan or IRA, referred to herein as plan assets, our directors would, and employees of our affiliates might be deemed fiduciaries of any Plans or IRAs investing as stockholders. If this were to occur, certain contemplated transactions between us and our directors and employees of our affiliates could be deemed to be prohibited transactions. Additionally, ERISA's fiduciary standards applicable to investments by Plans would extend to our directors and possibly employees of our affiliates as Plan fiduciaries with respect to investments made by us, and the requirement that Plan Assets be held in trust could be deemed to be violated.

### **Plan Assets Definition**

Prior to the passage of the Pension Protection Act of 2006 (the PPA), neither ERISA nor the Internal Revenue Code contained a definition of Plan Assets. After the passage of the PPA, new Section 3(42) of ERISA now defines plan assets in accordance with Department of Labor regulations with certain express exceptions. A Department of Labor regulation, referred to in this discussion as the Plan Asset Regulation, as modified by the express exceptions noted in the PPA, provides guidelines as to whether, and under what circumstances, the underlying assets of an entity will be deemed to constitute Plan Assets. Under the Plan Asset Regulation, the assets of an entity in which a Plan or IRA makes an equity investment will generally be deemed to be assets of such Plan or IRA unless the entity satisfies one of the exceptions to this general rule. Generally, the exceptions require that the investment in the entity be one of the following:

in securities issued by an investment company registered under the Investment Company Act;

in publicly offered securities, defined generally as interests that are freely transferable, widely held and registered with the Securities and Exchange Commission;

in an operating company, which includes venture capital operating companies and real estate operating companies; or

in which equity participation by benefit plan investors is not significant.

### **Plan Assets Registered Investment Company Exception**

The shares we are offering will not be issued by a registered investment company. Therefore we do not anticipate that we will qualify for the exception for investments issued by a registered investment company.

### **Publicly Offered Securities Exemption**

As noted above, if a Plan acquires publicly offered securities, the assets of the issuer of the securities will not be deemed to be Plan Assets under the Plan Asset Regulation. The definition of publicly offered securities requires that such securities be widely held, freely transferable and satisfy registration requirements under federal securities laws.

Under the Plan Asset Regulation, a class of securities will meet the registration requirements under federal securities laws if they are (i) part of a class of securities registered under section 12(b) or 12(g) of the Exchange Act, or (ii) part

of an offering of securities to the public pursuant to an effective registration statement under the Securities Act and the class of securities of which such security is a part is registered under the Exchange Act within 120 days (or such later time as may be allowed by the Securities and Exchange Commission) after the end of the fiscal year of the issuer during which the offering of such securities to the public occurred. We anticipate that we will meet the registration requirements under the Plan Asset Regulation. Also under the Plan Asset Regulation, a class of securities will be widely held if it is held by 100 or more persons independent of the issuer. We anticipate that this requirement will be easily met. Although our shares are intended to satisfy the registration requirements under this

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definition, and we expect that our securities will be widely-held, the freely transferable requirement must also be satisfied in order for us to qualify for the publicly offered securities exception.

The Plan Asset Regulation provides that whether a security is freely transferable is a factual question to be determined on the basis of all relevant facts and circumstances. Our shares are subject to certain restrictions on transferability typically found in REITs, and are intended to ensure that we continue to qualify for federal income tax treatment as a REIT. The Plan Asset Regulation provides, however, that where the minimum investment in a public offering of securities is \$10,000 or less, the presence of a restriction on transferability intended to prohibit transfers that would result in a termination or reclassification of the entity for state or federal tax purposes will not ordinarily affect a determination that such securities are freely transferable. The minimum investment in our shares is less than \$10,000. Thus, the restrictions imposed in order to maintain our status as a REIT should not prevent the shares from being deemed freely transferable. Therefore, we anticipate that we will meet the publicly offered securities exception, although there are no assurances that we will qualify for this exception.

### **Plan Assets Operating Company Exception**

If we are deemed not to qualify for the publicly offered securities exemption, the Plan Asset Regulation also provides an exception with respect to securities issued by an operating company, which includes venture capital operating companies and real estate operating companies. To constitute a venture capital operating company, 50% or more of the assets of the entity must be invested in venture capital investments. A venture capital investment is an investment in an operating company (other than a venture capital operating company) as to which the entity has or obtains direct management rights. To constitute a real estate operating company, 50% or more of the assets of an entity must be invested in real estate which is managed or developed and with respect to which such entity has the right to substantially participate directly in the management or development activities.

While the Plan Asset Regulation and relevant opinions issued by the Department of Labor regarding real estate operating companies are not entirely clear as to whether an investment in real estate must be direct, it is common practice to insure that an investment is made either (i) directly into real estate, (ii) through wholly-owned subsidiaries, or (iii) through entities in which all but a de minimis interest is separately held by an affiliate solely to comply with the minimum safe harbor requirements established by the Internal Revenue Service for classification as a partnership for federal tax purposes. We have structured ourselves, and our operating partnership, in this manner in order to enable us to meet the real estate operating company exception. To the extent interests in our operating partnership are obtained by third-party investors, it is possible that the real estate operating company exception will cease to apply to us. However, in such an event we believe that we are structured in a manner which would allow us to meet the venture capital operating company exception because our investment in our operating partnership, an entity investing directly in real estate over which we maintain substantially all of the control over the management and development activities, would constitute a venture capital investment.

Notwithstanding the foregoing, 50% of our, or our operating partnership's, investment, as the case may be, must be in real estate over which we maintain the right to substantially participate in the management and development activities. An example in the Plan Asset Regulation indicates that if 50% or more of an entity's properties are subject to long-term leases under which substantially all management and maintenance activities with respect to the properties are the responsibility of the lessee, such that the entity merely assumes the risk of ownership of income-producing real property, then the entity may not be eligible for the real estate operating company exception. By contrast, a second example in the Plan Asset Regulation indicates that if 50% or more of an entity's investments are in shopping centers in which individual stores are leased for relatively short periods to various merchants, as opposed to long-term leases where substantially all management and maintenance activities are the responsibility of the lessee, then the entity will likely qualify as a real estate operating company. The second example further provides that the entity may retain contractors, including affiliates, to conduct the management of the properties so long as the entity has the

responsibility to supervise and the authority to terminate the contractors. We intend to use contractors over which we have the right to supervise and the authority to terminate. Due to the uncertainty of the application of the standards set forth in the Plan Asset Regulation, there can be no assurance as to our ability to structure our operations, or the operations of our operating partnership, as the case may be, to qualify for the real estate operating company exception.

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### **Plan Assets Not Significant Investment Exception**

The Plan Asset Regulation provides that equity participation in an entity by benefit plan investors is significant if at any time 25% or more of the value of any class of equity interests is held by benefit plan investors. As modified by the PPA, a benefit plan investor is now defined to mean an employee benefit plan subject to Part 4 of Title I of ERISA, any plan to which Section 4975 of the Internal Revenue Code applies and any entity whose underlying assets include plan assets by reason of a plan's investment in such entity. In the event we determine that we fail to meet the publicly offered securities exception, as a result of a failure to sell an adequate number of shares or otherwise, and we cannot ultimately establish that we are an operating company, we intend to restrict ownership of each class of equity interests held by benefit plan investors to an aggregate value of less than 25% and thus qualify for the exception for investments in which equity participation by benefit plan investors is not significant.

### **Consequences of Holding Plan Assets**

In the event that our underlying assets were treated by the Department of Labor as Plan Assets, our management would be treated as fiduciaries with respect to each Plan or IRA stockholder, and an investment in our shares might expose the fiduciaries of the Plan or IRA to co-fiduciary liability under ERISA for any breach by our management of the fiduciary duties mandated under ERISA. Further, if our assets are deemed to be Plan Assets, an investment by a Plan or IRA in our shares might be deemed to result in an impermissible commingling of Plan Assets with other property.

If our management or affiliates were treated as fiduciaries with respect to Plan or IRA stockholders, the prohibited transaction restrictions of ERISA would apply to any transaction involving our assets. These restrictions could, for example, require that we avoid transactions with entities that are affiliated with our affiliates or us or restructure our activities in order to obtain an administrative exemption from the prohibited transaction restrictions. Alternatively, we might have to provide Plan or IRA stockholders with the opportunity to sell their shares to us or we might dissolve or terminate.

### **Prohibited Transactions**

Generally, both ERISA and the Internal Revenue Code prohibit Plans and IRAs from engaging in certain transactions involving Plan Assets with specified parties, such as sales or exchanges or leasing of property, loans or other extensions of credit, furnishing goods or services, or transfers to, or use of, Plan Assets. The specified parties are referred to as parties-in-interest under ERISA and as disqualified persons under the Internal Revenue Code. These definitions generally include both parties owning threshold percentage interests in an investment entity and persons providing services to the Plan or IRA, as well as employer sponsors of the Plan or IRA, fiduciaries and other individuals or entities affiliated with the foregoing.

A person generally is a fiduciary with respect to a Plan or IRA for these purposes if, among other things, the person has discretionary authority or control with respect to Plan Assets or provides investment advice for a fee with respect to Plan Assets. Under Department of Labor regulations, a person will be deemed to be providing investment advice if that person renders advice as to the advisability of investing in our shares, and that person regularly provides investment advice to the Plan or IRA pursuant to a mutual agreement or understanding that such advice will serve as the primary basis for investment decisions, and that the advice will be individualized for the Plan or IRA based on its particular needs. Thus, if we are deemed to hold Plan Assets, our management could be characterized as fiduciaries with respect to such assets, and each would be deemed to be a party-in-interest under ERISA and a disqualified person under the Internal Revenue Code with respect to investing Plans and IRAs. Whether or not we are deemed to hold

Plan Assets, if we or our affiliates are affiliated with a Plan or IRA investor, we might be a disqualified person or party-in-interest with respect to such Plan or IRA investor, resulting in a prohibited transaction merely upon investment by such Plan or IRA in our shares.

**Prohibited Transactions    Consequences**

ERISA forbids Plans from engaging in prohibited transactions. Fiduciaries of a Plan that allow a prohibited transaction to occur will breach their fiduciary responsibilities under ERISA, and may be liable for any damage



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sustained by the Plan, as well as civil (and criminal, if the violation was willful) penalties. If it is determined by the Department of Labor or the Internal Revenue Service that a prohibited transaction has occurred, any disqualified person or party-in-interest involved with the prohibited transaction would be required to reverse or unwind the transaction and, for a Plan, compensate the Plan for any loss resulting therefrom. Additionally, the Internal Revenue Code requires that a disqualified person involved with a prohibited transaction must pay an excise tax equal to a percentage of the amount involved in the transaction for each year in which the transaction remains uncorrected. The percentage is generally 15%, but is increased to 100% if the prohibited transaction is not corrected promptly. For IRAs, if an IRA engages in a prohibited transaction, the tax-exempt status of the IRA may be lost.

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**DESCRIPTION OF SHARES**

We were formed under the laws of the state of Maryland. The rights of our stockholders are governed by Maryland law as well as our charter and bylaws. The following summary of the terms of our common stock is only a summary, and you should refer to the Maryland General Corporation Law and our charter and bylaws for a full description. The following summary is qualified in its entirety by the more detailed information contained in our charter and bylaws. Copies of our charter and bylaws are available upon request.

Our charter authorizes us to issue up to 250,000,000 shares of stock, of which 240,000,000 shares are designated as common stock at \$0.01 par value per share and 10,000,000 shares are designated as preferred stock at \$0.01 par value per share. As of April 25, 2008, approximately 124,100,000 shares of our common stock were issued and outstanding, held by approximately 26,000 stockholders, and no shares of preferred stock were issued and outstanding. Our board of directors may amend our charter to increase or decrease the aggregate number of our authorized shares or the number of shares of any class or series that we have authority to issue without any action by our stockholders.

Our charter also contains a provision permitting our board of directors, including at least a majority of the independent directors who do not have an interest in the transaction and without any action by our stockholders, to classify or reclassify any unissued common stock or preferred stock into one or more classes or series by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions or other distributions, qualifications, or terms or conditions of redemption of any new class or series of stock, subject to certain restrictions, including the express terms of any class or series of stock outstanding at the time. We believe that the power to classify or reclassify unissued shares of stock and thereafter issue the classified or reclassified shares provides us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs that might arise.

Our charter and bylaws contain certain provisions that could make it more difficult to acquire control of our company by means of a tender offer, a proxy contest or otherwise. These provisions are expected to discourage certain types of coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of our company to negotiate first with our board of directors. We believe that these provisions increase the likelihood that proposals initially will be on more attractive terms than would be the case in their absence and facilitate negotiations that may result in improvement of the terms of an initial offer that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders. See **Risk Factors** **Risks Related to an Investment in Cole REIT II**.

To the extent that the Maryland General Corporation Law conflicts with the provisions set forth in the NASAA REIT Guidelines, the NASAA REIT Guidelines will control, unless the provisions of the Maryland General Corporations Law are mandatory under Maryland law.

**Common Stock**

Subject to any preferential rights of any other class or series of stock and to the provisions of our charter regarding the restriction on the transfer of common stock, the holders of common stock are entitled to such distributions as may be authorized from time to time by our board of directors out of legally available funds and declared by us and, upon our liquidation, are entitled to receive all assets available for distribution to our stockholders. Upon issuance for full payment in accordance with the terms of this offering, all common stock issued in the offering will be fully paid and non-assessable. Holders of common stock will not have preemptive rights, which means that they will not have an automatic option to purchase any new shares that we issue, or preference, conversion, exchange, sinking fund,

redemption or appraisal rights. Shares of our common stock have equal distribution, liquidation and other rights.

**Preferred Stock**

Our charter authorizes our board of directors to designate and issue one or more classes or series of preferred stock without stockholder approval and to fix the voting rights, liquidation preferences, distribution rates, conversion rights, redemption rights and terms, including sinking fund provisions, and certain other rights and

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preferences with respect to such preferred stock. Because our board of directors has the power to establish the preferences and rights of each class or series of preferred stock, it may afford the holders of any series or class of preferred stock preferences, powers, and rights senior to the rights of holders of common stock. If we ever created and issued preferred stock with a distribution preference over common stock, payment of any distribution preferences of outstanding preferred stock would reduce the amount of funds available for the payment of distributions on the common stock. Further, holders of preferred stock are normally entitled to receive a preference payment in the event we liquidate, dissolve, or wind up before any payment is made to the common stockholders, likely reducing the amount common stockholders would otherwise receive upon such an occurrence. In addition, under certain circumstances, the issuance of preferred stock may delay, prevent, render more difficult or tend to discourage the following:

- a merger, offer, or proxy contest;
- the assumption of control by a holder of a large block of our securities; or
- the removal of incumbent management.

Also, our board of directors, without stockholder approval, may issue preferred stock with voting and conversion rights that could adversely affect the holders of common stock.

We currently have no preferred stock issued or outstanding. Our board of directors has no present plans to issue shares of preferred stock, but it may do so at any time in the future without stockholder approval.

## **Meetings and Special Voting Requirements**

Subject to our charter restrictions on transfer of our stock, each holder of common stock is entitled at each meeting of stockholders to one vote per share owned by such stockholder on all matters submitted to a vote of stockholders, including the election of directors. There is no cumulative voting in the election of our board of directors, which means that the holders of a majority of shares of our outstanding common stock can elect all of the directors then standing for election and the holders of the remaining shares of common stock will not be able to elect any directors.

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders holding at least two-thirds of the shares entitled to vote on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter provides for approval of these matters by the affirmative vote of a majority of the votes entitled to be cast.

However, under the Maryland General Corporation Law and our charter, the following events do not require stockholder approval:

- stock exchanges in which we are the successor; and
- transfers of less than substantially all of our assets.

Also, because our operating assets are held by our subsidiaries, these subsidiaries may be able to merge or sell all or substantially all of their assets without the approval of our stockholders.

An annual meeting of our stockholders will be held each year, at least 30 days after delivery of our annual report to our stockholders. Special meetings of stockholders may be called only upon the request of a majority of our directors, a majority of the independent directors, the president, the chief executive officer or upon the written request of stockholders holding at least 10% of our outstanding shares. Upon receipt of a written request of stockholders holding at least 10% of our outstanding shares stating the purpose of the special meeting, our secretary will provide all of our stockholders written notice of the meeting and the purpose of such meeting. The meeting must be held not less than 15 nor more than 60 days after the distribution of the notice of meeting. The presence of holders of a majority of our outstanding shares, either in person or by proxy, will constitute a quorum.

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Our stockholders are entitled to receive a copy of our stockholder list upon request. The list provided by us will include each stockholder's name, address and telephone number, if available, and the number of shares owned by each stockholder and will be sent within ten days of the receipt by us of the request. A stockholder requesting a list will be required to pay reasonable costs of postage and duplication. Stockholders and their representatives shall also be given access to our corporate records at reasonable times. We have the right to request that a requesting stockholder represent to us that the list and records will not be used to pursue commercial interests.

If we do not list our shares of common stock on a national securities exchange by the tenth anniversary of the completion or termination of our initial public offering, our charter requires that we either (i) seek stockholder approval of an extension or amendment of this listing deadline, or (ii) seek stockholder approval of the liquidation of the corporation. If we sought and did not obtain stockholder approval of an extension or amendment to the listing deadline, we would then be required to seek stockholder approval of our liquidation. If we sought and failed to obtain stockholder approval of our liquidation, our charter would not require us to list or liquidate and we could continue to operate as before. In such event, there will be no public market for shares of our common stock and you may be required to hold the shares indefinitely. If we sought and obtained stockholder approval of our liquidation, we would begin an orderly sale of our properties and distribute our net proceeds to you. In the event that the listing of our stock on a national securities exchange occurs on or before the tenth anniversary of the termination of our initial public offering, the corporation shall continue perpetually unless dissolved pursuant to any applicable provision of the Maryland General Corporation Law.

## **Restrictions on Ownership and Transfer**

In order for us to qualify as a REIT under the Internal Revenue Code, we must meet the following criteria regarding our stockholders' ownership of our shares:

five or fewer individuals (as defined in the Internal Revenue Code to include certain tax exempt organizations and trusts) may not own, directly or indirectly, more than 50% in value of our outstanding shares during the last half of a taxable year; and

100 or more persons must beneficially own our shares during at least 335 days of a taxable year of twelve months or during a proportionate part of a shorter taxable year.

See **Federal Income Tax Considerations** for further discussion of this topic. We may prohibit certain acquisitions and transfers of shares so as to ensure our initial and continued qualification as a REIT under the Internal Revenue Code. However, there can be no assurance that this prohibition will be effective. Because we believe it is essential for us to qualify as a REIT, and, once qualified, to continue to qualify, our charter provides (subject to certain exceptions) that no stockholder may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code, more than 9.8% in value of our outstanding shares of stock or more than 9.8% of the number or value (in either case as determined in good faith by our board of directors) of any class or series of our outstanding shares of common stock. The 9.8% ownership limit must be measured in terms of the more restrictive of value or number of shares.

Our board of directors, in its sole discretion, may waive this ownership limit if evidence satisfactory to our directors is presented that such ownership will not then or in the future jeopardize our status as a REIT. Also, these restrictions on transferability and ownership will not apply if our directors determine that it is no longer in our best interests to continue to qualify as a REIT.

Additionally, our charter further prohibits the transfer or issuance of our stock if such transfer or issuance:

with respect to transfers only, results in our common stock being owned by fewer than 100 persons;

results in our being closely held within the meaning of Section 856(h) of the Internal Revenue Code;

results in our owning, directly or indirectly, more than 9.8% of the ownership interests in any tenant or subtenant; or

otherwise results in our disqualification as a REIT.

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Any attempted transfer of our stock which, if effective, would result in our stock being owned by fewer than 100 persons will be null and void. In the event of any attempted transfer of our stock which, if effective, would result in (i) violation of the ownership limit discussed above, (ii) in our being closely held under Section 856(h) of the Internal Revenue Code, (iii) our owning (directly or indirectly) more than 9.8% of the ownership interests in any tenant or subtenant or (iv) our otherwise failing to qualify as a REIT, then the number of shares causing the violation (rounded to the nearest whole share) will be automatically transferred to a trust for the exclusive benefit of one or more charitable beneficiaries, and the proposed transferee will not acquire any rights in the shares. To avoid confusion, these shares so transferred to a beneficial trust will be referred to in this prospectus as Excess Securities. Excess Securities will remain issued and outstanding shares and will be entitled to the same rights and privileges as all other shares of the same class or series. The trustee of the beneficial trust, as holder of the Excess Securities, will be entitled to receive all distributions authorized by the board of directors on such securities for the benefit of the charitable beneficiary. Our charter further entitles the trustee of the beneficial trust to vote all Excess Securities.

The trustee of the beneficial trust may select a transferee to whom the Excess Securities may be sold as long as such sale does not violate the 9.8% ownership limit or the other restrictions on transfer. Upon sale of the Excess Securities, the intended transferee (the transferee of the Excess Securities whose ownership would violate the 9.8% ownership limit or the other restrictions on transfer) will receive from the trustee of the beneficial trust the lesser of such sale proceeds, or the price per share the intended transferee paid for the Excess Securities (or, in the case of a gift or devise to the intended transferee, the price per share equal to the market value per share on the date of the transfer to the intended transferee). The trustee of the beneficial trust will distribute to the charitable beneficiary any amount the trustee receives in excess of the amount to be paid to the intended transferee.

In addition, we have the right to purchase any Excess Securities at the lesser of (i) the price per share paid in the transfer that created the Excess Securities, or (ii) the current market price, until the Excess Securities are sold by the trustee of the beneficial trust. An intended transferee must pay, upon demand, to the trustee of the beneficial trust (for the benefit of the beneficial trust) the amount of any distribution we pay to an intended transferee on Excess Securities prior to our discovery that such Excess Securities have been transferred in violation of the provisions of the charter. If any legal decision, statute, rule, or regulation deems or declares the transfer restrictions included in our charter to be void or invalid, then we may, at our option, deem the intended transferee of any Excess Securities to have acted as an agent on our behalf in acquiring such Excess Securities and to hold such Excess Securities on our behalf.

Any person who (i) acquires or attempts to acquire shares in violation of the foregoing ownership restriction, transfers or receives shares subject to such limitations, or would have owned shares that resulted in a transfer to a charitable trust, or (ii) proposes or attempts any of the transactions in clause (i), is required to give us 15 days written notice prior to such transaction. In both cases, such persons must provide to us such other information as we may request in order to determine the effect, if any, of such transfer on our status as a REIT. The foregoing restrictions will continue to apply until our board of directors determines it is no longer in our best interest to continue to qualify as a REIT.

The ownership restriction does not apply to the underwriter in a public offering of shares or to a person or persons so exempted from the ownership limit by our board of directors based upon appropriate assurances that our qualification as a REIT is not jeopardized. Any person who owns 5% or more of the outstanding shares during any taxable year will be asked to deliver a statement or affidavit setting forth the number of shares beneficially owned, directly or indirectly.

**Distribution Policy and Distributions**

We currently pay distributions to our stockholders and we intend to continue to pay regular distributions to our stockholders. We currently calculate our monthly distributions on a daily record and declaration date. Therefore, new



investors will be entitled to distributions immediately upon the purchase of their shares. Because substantially all of our operations will be performed indirectly through Cole OP II, our operating partnership, our ability to pay distributions depends in large part on Cole OP II's ability to pay distributions to its partners, including to us. In the event we do not have enough cash from operations to fund the distribution, we may borrow, issue additional

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securities or sell assets in order to fund the distributions or make the distributions out of net proceeds from this offering.

Historically, we have primarily declared distributions to stockholders as of daily record dates and aggregated and paid such distributions monthly. Our board of directors declared distributions equal to \$0.05 per share for stockholders of record as of the close of business on the seventh day of each month during the period from October 2005 through February 2006 and \$0.0521 per share for stockholders of record on March 7, 2006. During the period from April 1, 2006 through June 30, 2006, our board of directors declared daily distributions of \$0.0017123 per share for stockholders of record as of the close of business on each day during the period. During the period from July 1, 2006 through June 30, 2007, our board of directors declared daily distributions of \$0.0017808 per share for stockholders of record as of the close of business on each day during the period. During the period from July 1, 2007 through March 31, 2008, our board of directors declared daily distributions of \$0.00191781 per share for stockholders of record as of the close of business on each day during the period. During the period from April 1, 2008 through June 30, 2008, our board of directors declared daily distributions of \$0.00191257 per share for stockholders of record as of the close of business on each day during the period.

Our board of directors began declaring distributions in October 2005, after we commenced business operations. We have primarily declared distributions on a quarterly basis, with daily record dates. These distributions generally are aggregated and paid monthly. Our board of directors intends to continue this distribution policy for so long as it decides this policy is in the best interests of our stockholders.

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We have made the following distributions to our stockholders:

<b>Period Ended</b>	<b>Date Paid</b>	<b>Distribution</b>
12/31/2005(1)	1/3/2006	\$ 195,209
3/31/2006(1)	4/3/2006	621,070
4/30/2006	5/26/2006	368,157
5/31/2006	6/15/2006	462,055
6/30/2006	7/15/2006	536,858
7/31/2006	8/15/2006	688,819
8/30/2006	9/15/2006	830,693
9/30/2006	10/15/2006	940,028
10/31/2006	11/15/2006	1,123,576
11/30/2006	12/15/2006	1,308,857
12/31/2006	1/15/2007	1,612,094
1/31/2007	2/15/2007	1,803,080
2/28/2007	3/15/2007	1,835,149
3/31/2007	4/15/2007	2,255,892
4/30/2007	5/15/2007	2,499,612
5/31/2007	6/15/2007	2,931,586
6/30/2007	7/15/2007	3,064,592
7/31/2007	8/15/2007	3,697,846
8/31/2007	9/15/2007	4,080,423
9/30/2007	10/15/2007	4,272,729
10/31/2007	11/15/2007	4,755,120
11/30/2007	12/15/2007	4,920,565
12/31/2007	1/15/2008	5,434,275
1/31/2008	2/15/2008	5,749,193
2/29/2008	3/15/2008	5,782,451
3/31/2008	4/15/2008	6,662,473
		\$ 68,432,402

(1) Distribution was paid on a quarterly basis.

Distributions to stockholders are characterized for federal income tax purposes as ordinary income, capital gains, non-taxable return of capital or a combination of the three. Distributions that exceed our current and accumulated earnings and profits (calculated for tax purposes) constitute a return of capital for tax purposes rather than a distribution and reduce the shareholders' basis in our common shares. To the extent that a distribution exceeds both current and accumulated earnings and profits and the shareholders' basis in the common shares, it will generally be treated as a capital gain. We annually notify stockholders of the taxability of distributions paid during the preceding year.

For the years ended December 31, 2007 and December 31, 2006, approximately 41% and 42%, respectively, of the distributions paid were taxable to the investor as ordinary taxable income and approximately 59% and 58%, respectively, were treated as return of capital for federal income tax purposes. No distributions were paid during the

year ended December 31, 2005. The amount of distributions paid and taxable portion in this period are not indicative or predictive of amounts anticipated in future periods.

We expect to continue to regularly pay distributions on a monthly basis, unless our results of operations, our general financial condition, general economic conditions, or other factors inhibit us from doing so. Distributions will be authorized at the discretion of our board of directors, which will be directed, in substantial part, by its

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obligation to cause us to comply with the REIT requirements of the Internal Revenue Code. The funds we receive from operations that are available for distribution may be affected by a number of factors, including the following:

- the amount of time required for us to invest the funds received in the offering;
- our operating and interest expenses;
- the ability of tenants to meet their obligations under the leases associated with our properties;
- the amount of distributions or dividends received by us from our indirect real estate investments;
- our ability to keep our properties occupied;
- our ability to maintain or increase rental rates when renewing or replacing current leases;
- capital expenditures and reserves for such expenditures;
- the issuance of additional shares; and
- financings and refinancings.

We must distribute to our stockholders at least 90% of our taxable income each year in order to meet the requirements for being treated as a REIT under the Internal Revenue Code. This requirement is described in greater detail in the Federal Income Tax Considerations Requirements For Qualification as a REIT Operational Requirements Annual Distribution Requirements section of this prospectus. Our directors may authorize distributions in excess of this percentage as they deem appropriate. Because we may receive income from interest or rents at various times during our fiscal year, distributions may not reflect our income earned in that particular distribution period, but may be made in anticipation of cash flow that we expect to receive during a later period and may be made in advance of actual receipt of funds in an attempt to make distributions relatively uniform. To allow for such differences in timing between the receipt of income and the payment of expenses, and the effect of required debt payments, among other things, could require us to borrow funds from third parties on a short-term basis, issue new securities, or sell assets to meet the distribution requirements that are necessary to achieve the tax benefits associated with qualifying as a REIT. These methods of obtaining funding could affect future distributions by increasing operating costs and decreasing available cash. In addition, such distributions may constitute a return of capital. See Federal Income Tax Considerations Requirements for Qualification as a REIT.

## **Stockholder Liability**

The Maryland General Corporation Law provides that our stockholders:

- are not liable personally or individually in any manner whatsoever for any debt, act, omission or obligation incurred by us or our board of directors; and

- are under no obligation to us or our creditors with respect to their shares other than the obligation to pay to us the full amount of the consideration for which their shares were issued.

## **Business Combinations**

Under Maryland law, business combinations between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

any person who beneficially owns 10% or more of the voting power of the corporation's shares; or

an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

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A person is not an interested stockholder under the statute if the board of directors approved in advance the transaction by which he otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the five-year prohibition, any business combination between the Maryland corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and
- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation's stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, our board of directors has exempted any business combination with Cole Advisors II or any affiliate of Cole Advisors II. Consequently, the five-year prohibition and the super-majority vote requirements will not apply to business combinations between us and Cole Advisors II or any affiliate of Cole Advisors II. As a result, Cole Advisors II or any affiliate of Cole Advisors II may be able to enter into business combinations with us that may not be in the best interest of our stockholders, without compliance with the super-majority vote requirements and the other provisions of the statute.

The business combination statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

### **Control Share Acquisitions**

With some exceptions, Maryland law provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of stockholders holding two-thirds of the votes entitled to be cast on the matter, excluding control shares :

- owned by the acquiring person;
- owned by our officers; and
- owned by our employees who are also directors.

*Control shares* mean voting shares which, if aggregated with all other voting shares owned by an acquiring person or shares for which the acquiring person can exercise or direct the exercise of voting power, would entitle the acquiring person to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;

one-third or more but less than a majority; or

a majority or more of all voting power.

Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition occurs when, subject to some exceptions, a person directly or indirectly acquires ownership or the power to direct the exercise of voting power (except solely by virtue of a revocable proxy) of issued and outstanding control shares. A person who has made or proposes to make a control share acquisition, upon satisfaction of some specific conditions, including an undertaking to pay expenses, may compel our board of directors to call a special meeting of our stockholders to be held within 50 days of a



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demand to consider the voting rights of the control shares. If no request for a meeting is made, we may present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then, subject to some conditions and limitations, we may redeem any or all of the control shares (except those for which voting rights have been previously approved) for fair value determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of such shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of such appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition. The control share acquisition statute does not apply to shares acquired in a merger, consolidation, or share exchange if we are a party to the transaction or to acquisitions approved or exempted by our charter or bylaws.

As permitted by Maryland General Corporation Law, our bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions of our common stock by Cole Advisors II or any affiliate of Cole Advisors II.

## **Subtitle 8**

Subtitle 8 of Title 3 of the Maryland General Corporation Law permits a Maryland corporation with a class of equity securities registered under the Exchange Act and at least three independent directors to elect to be subject, by provision in its charter or bylaws or a resolution of its board of directors and notwithstanding any contrary provision in the charter or bylaws, to any or all of five provisions:

a classified board,

a two-thirds vote requirement for removing a director,

a requirement that the number of directors be fixed only by vote of the directors,

a requirement that a vacancy on the board be filled only by the remaining directors and for the remainder of the full term of the class of directors in which the vacancy occurred, and

a majority requirement for the calling of a special meeting of stockholders.

Pursuant to Subtitle 8, we have elected to provide that vacancies on our board of directors may be filled only by the remaining directors and for the remainder of the full term of the directorship in which the vacancy occurred. Through provisions in our charter and bylaws unrelated to Subtitle 8, we already vest in the board the exclusive power to fix the number of directorships.

## **Advance Notice of Director Nominations and New Business**

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of individuals for election to the board of directors and the proposal of business to be considered by stockholders may be made only (i) pursuant to our notice of the meeting, (ii) by the board of directors or (iii) by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice procedures of the bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting.

Nominations of individuals for election to the board of directors at a special meeting may be made only (i) pursuant to our notice of the meeting, (ii) by the board of directors, or (iii) provided that the board of directors has determined that directors will be elected at the meeting, by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

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**Share Redemption Program**

Our board of directors has adopted a share redemption program that enables our stockholders to sell their shares to us in limited circumstances. Our share redemption program permits you to sell your shares back to us after you have held them for at least one year, subject to the significant conditions and limitations described below.

Our common stock is currently not listed on a national securities exchange and we will not seek to list our stock until such time as our independent directors believe that the listing of our stock would be in the best interest of our stockholders. In order to provide stockholders with the benefit of interim liquidity, stockholders who have held their shares for at least one year may present all or a portion consisting of at least 25%, of the holder's shares to us for redemption at any time in accordance with the procedures outlined below. At that time, we may, subject to the conditions and limitations described below, redeem the shares presented for redemption for cash to the extent that we have sufficient funds available to us to fund such redemption. We will not pay to our board of directors, advisor or its affiliates any fees to complete any transactions under our share redemption program.

During the term of this offering and any subsequent public offering of our shares, the redemption price per share will depend on the length of time you have held such shares as follows: after one year from the purchase date 92.5% of the amount you paid for each share; after two years from the purchase date 95% of the amount you paid for each share; after three years from the purchase date 97.5% of the amount you paid for each share; and after four years from the purchase date 100% of the amount you paid for each share (in each case, as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to our common stock). At any time we are engaged in an offering of shares, the per share price for shares purchased under our redemption plan will always be equal to or lower than the applicable per share offering price. Thereafter, the per share redemption price will be based on the then-current net asset value of the shares (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to our common stock). Our board of directors will announce any redemption price adjustment and the time period of its effectiveness as a part of its regular communications with our stockholders. At any time the redemption price is determined by any method other than the net asset value of the shares, if we have sold property and have made one or more special distributions to our stockholders of all or a portion of the net proceeds from such sales, the per share redemption price will be reduced by the net sale proceeds per share distributed to investors prior to the redemption date as a result of the sale of such property in the special distribution. Our board of directors will, in its sole discretion, determine which distributions, if any, constitute a special distribution. While our board of directors does not have specific criteria for determining a special distribution, we expect that a special distribution will only occur upon the sale of a property and the subsequent distribution of the net sale proceeds. Upon receipt of a request for redemption, we will conduct a Uniform Commercial Code search to ensure that no liens are held against the shares. We will bear any costs in conducting the Uniform Commercial Code search. We will not redeem any shares that are subject to a lien. In addition, upon the death of a stockholder, upon request, we will waive the one-year holding requirement. Shares redeemed in connection with the death of a stockholder will be redeemed at a purchase price equal to the price actually paid for the shares (except for redemption requests submitted within twelve months from the date of purchase on behalf of stockholders who originally purchased shares through a family member registered representative, which shall be redeemed at \$9.30 per share). In addition, we may waive the holding period in the event of a stockholder's bankruptcy or other exigent circumstances.

During any calendar year, we will not redeem in excess of 3% of the weighted average number of shares outstanding during the prior calendar year; provided, however, that shares subject to a redemption requested upon the death of a stockholder will not be subject to this cap. The cash available for redemption will be limited to the proceeds from the sale of shares pursuant to our distribution reinvestment plan.

We will redeem our shares on the last business day of the month following the end of each quarter. Requests for redemption would have to be received on or prior to the end of the quarter in order for us to repurchase the shares as of the end of the next month. You may withdraw your request to have your shares redeemed at any time prior to the last day of the applicable quarter.

If we could not purchase all shares presented for redemption in any quarter, based upon insufficient cash available and the limit on the number of shares we may redeem during any calendar year, we would attempt to honor redemption requests on a pro rata basis; provided, however, that we may give priority to the redemption of a

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deceased stockholder's shares. We would treat the unsatisfied portion of the redemption request as a request for redemption the following quarter. At such time, you may then (1) withdraw your request for redemption at any time prior to the last day of the new quarter or (2) ask that we honor your request at such time, if, any, when sufficient funds become available. Such pending requests will generally be honored on a pro rata basis. We will determine whether we have sufficient funds available as soon as practicable after the end of each quarter, but in any event prior to the applicable payment date.

Our board of directors may choose to amend, suspend or terminate our share redemption program upon 30 days notice at any time. Additionally we will be required to discontinue sales of shares under the distribution reinvestment plan on the earlier of May 11, 2009, which is two years from the effective date of this offering, unless the offering is extended, or the date we sell all of the shares registered for sale under the distribution reinvestment plan, unless we file a new registration statement with the Securities and Exchange Commission and applicable states. Because the redemption of shares will be funded with the net proceeds we receive from the sale of shares under the distribution reinvestment plan, the discontinuance or termination of the distribution reinvestment plan will adversely affect our ability to redeem shares under the share redemption program. We would notify you of such developments (i) in the annual or quarterly reports mentioned above or (ii) by means of a separate mailing to you, accompanied by disclosure in a current or periodic report under the Exchange Act. During this offering, we would also include this information in a prospectus supplement or post-effective amendment to the registration statement, as then required under federal securities laws.

Our share redemption program is only intended to provide interim liquidity for stockholders until a liquidity event occurs, such as listing of the shares on a national securities exchange or our merger with a listed company. The share redemption program will be terminated if the shares become listed on a national securities exchange. We cannot guarantee that a liquidity event will occur.

The shares we redeem under our share redemption program will be cancelled and return to the status of unauthorized but unissued shares. We do not intend to resell such shares to the public unless they are first registered with the Securities and Exchange Commission under the Securities Act and under appropriate state securities laws or otherwise sold in compliance with such laws.

## **Restrictions on Roll-up Transactions**

A Roll-up Transaction is a transaction involving the acquisition, merger, conversion or consolidation, directly or indirectly, of us and the issuance of securities of an entity (Roll-up Entity) that is created or would survive after the successful completion of a Roll-up Transaction. This term does not include:

a transaction involving our securities that have been listed on a national securities exchange for at least 12 months; or

a transaction involving our conversion to trust, or association form if, as a consequence of the transaction, there will be no significant adverse change in stockholder voting rights, the term of our existence, compensation to Cole Advisors II or our investment objectives.

In connection with any Roll-up Transaction involving the issuance of securities of a Roll-up Entity, an appraisal of all of our assets shall be obtained from a competent independent appraiser. The assets shall be appraised on a consistent basis, and the appraisal will be based on the evaluation of all relevant information and will indicate the value of the assets as of a date immediately prior to the announcement of the proposed Roll-up Transaction. The appraisal shall assume an orderly liquidation of assets over a 12-month period. The terms of the engagement of the independent appraiser shall clearly state that the engagement is for the benefit of us and our stockholders. A summary of the appraisal, indicating all material assumptions underlying the appraisal, shall be included in a report to stockholders in

connection with any proposed Roll-up Transaction.

In connection with a proposed Roll-up Transaction, the sponsor of the Roll-up Transaction must offer to stockholders who vote no on the proposal the choice of:

(1) accepting the securities of the Roll-up Entity offered in the proposed Roll-up Transaction; or

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(2) one of the following:

(a) remaining as holders of our common stock and preserving their interests therein on the same terms and conditions as existed previously, or

(b) receiving cash in an amount equal to the stockholder's pro rata share of the appraised value of our net assets.

We are prohibited from participating in any Roll-up Transaction:

that includes provisions that would materially impede or frustrate the accumulation of shares by any purchaser of the securities of the Roll-up Entity, except to the minimum extent necessary to preserve the tax status of the Roll-up Entity, or which would limit the ability of an investor to exercise the voting rights of its securities of the Roll-up Entity on the basis of the number of shares held by that investor;

in which our investor's rights to access of records of the Roll-up Entity will be less than those provided in the section of this prospectus entitled Meetings and Special Voting Requirements above; or

in which any of the costs of the Roll-up Transaction would be borne by us if the Roll-up Transaction is not approved by the stockholders.

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**SUMMARY OF AMENDED AND RESTATED DISTRIBUTION REINVESTMENT PLAN**

We have adopted an amended and restated distribution reinvestment plan. The amended and restated reinvestment plan allows you to have distributions otherwise payable to you in cash reinvested in additional shares of our common stock. We are offering up to 25,000,000 shares for sale purchase to our distribution reinvestment plan at a purchase price equal to the higher of \$9.50 per share or 95% of the estimated value of a share of our common stock. Following is a summary of our distribution reinvestment plan. A complete copy of our amended and restated distribution reinvestment plan is included in this prospectus as Appendix D.

**Investment of Distributions**

The amended and restated distribution reinvestment plan allows our stockholders, and, subject to certain conditions set forth in the plan, any stockholder or partner of any other publicly offered limited partnership, real estate investment trust or other real estate program sponsored by our advisor or its affiliates, to elect to purchase shares of our common stock with our distributions or distributions from such other programs. We have the discretion to extend the offering period for the shares being offered pursuant to this prospectus under our distribution reinvestment plan beyond the termination of this offering until we have sold all of the shares allocated to the plan through the reinvestment of distributions. We may also offer shares pursuant to a new registration statement.

No dealer manager fees or sales commissions will be paid with respect to shares purchased pursuant to the distribution reinvestment plan, therefore, we will retain all of the proceeds from the reinvestment of distributions. Accordingly, substantially all the economic benefits resulting from distribution reinvestment purchases by stockholders from the elimination of the dealer manager fee and selling commissions will inure to the benefit of the participant through the reduced purchase price.

Pursuant to the terms of our distribution reinvestment plan the reinvestment agent, which currently is us, will act on behalf of participants to reinvest the cash distributions they receive from us. Stockholders participating in the distribution reinvestment plan may purchase fractional shares. If sufficient shares are not available for issuance under our distribution reinvestment plan, the reinvestment agent will remit excess cash distributions to the participants. Participants purchasing shares pursuant to our distribution reinvestment plan will have the same rights as stockholders with respect to shares purchased under the plan and will be treated in the same manner as if such shares were issued pursuant to our offering.

After the termination of the offering of our shares registered for sale pursuant to the distribution reinvestment plan under the this prospectus and any subsequent offering, we may determine to allow participants to reinvest cash distributions from us in shares issued by another Cole-sponsored program only if all of the following conditions are satisfied:

prior to the time of such reinvestment, the participant has received the final prospectus and any supplements thereto offering interests in the subsequent Cole-sponsored program and such prospectus allows investments pursuant to a distribution reinvestment plan;

a registration statement covering the interests in the subsequent Cole-sponsored program has been declared effective under the Securities Act;

the offer and sale of such interests are qualified for sale under applicable state securities laws;



the participant executes the subscription agreement included with the prospectus for the subsequent Cole-sponsored program; and

the participant qualifies under applicable investor suitability standards as contained in the prospectus for the subsequent Cole-sponsored program.

Stockholders who invest in subsequent Cole-sponsored programs pursuant to our distribution reinvestment plan will become investors in such subsequent Cole-sponsored program and, as such, will receive the same reports as other investors in the subsequent Cole-sponsored program.

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### **Election to Participate or Terminate Participation**

A stockholder may become a participant in our distribution reinvestment plan by making a written election to participate on his or her subscription agreement at the time he or she subscribes for shares. Any stockholder who has not previously elected to participate in the distribution reinvestment plan may so elect at any time by delivering to the reinvestment agent a completed enrollment form or other written authorization required by the reinvestment agent. Participation in our distribution reinvestment plan will commence with the next distribution payable after receipt of the participant's notice, provided it is received at least ten days prior to the last day of the fiscal quarter, month or other period to which the distribution relates.

Some brokers may determine not to offer their clients the opportunity to participate in our distribution reinvestment plan. Any prospective investor who wishes to participate in our distribution reinvestment plan should consult with his or her broker as to the broker's position regarding participation in the distribution reinvestment plan.

We reserve the right to prohibit qualified retirement plans from participating in our distribution reinvestment plan if such participation would cause our underlying assets to constitute plan assets of qualified retirement plans. See Investment by Tax-Exempt Entities and ERISA Considerations.

Each stockholder electing to participate in our distribution reinvestment plan agrees that, if at any time he or she fails to meet the applicable investor suitability standards or cannot make the other investor representations or warranties set forth in the then current prospectus or subscription agreement relating to such investment, he or she will promptly notify the reinvestment agent in writing of that fact.

Subscribers should note that affirmative action in the form of written notice to the reinvestment agent must be taken to withdraw from participation in our distribution reinvestment plan. A withdrawal from participation in our distribution reinvestment plan will be effective with respect to distributions for a quarterly or monthly distribution period, as applicable, only if written notice of termination is received at least ten days prior to the end of such distribution period. In addition, a transfer of shares prior to the date our shares are listed for trading on a national securities exchange, which we have no intent to do at this time and which may never occur will terminate participation in the distribution reinvestment plan with respect to such transferred shares as of the first day of the distribution period in which the transfer is effective, unless the transferee demonstrates to the reinvestment agent that the transferee meets the requirements for participation in the plan and affirmatively elects to participate in the plan by providing to the reinvestment agent an executed enrollment form or other written authorization required by the reinvestment agent.

Offers and sales of shares pursuant to the distribution reinvestment plan must be registered in every state in which such offers and sales are made. Generally, such registrations are for a period of one year. Thus, we may have to stop selling shares pursuant to the distribution reinvestment plan in any states in which our registration is not renewed or extended.

### **Reports to Participants**

Within 90 days after the end of each calendar year, the reinvestment agent will mail to each participant a statement of account describing, as to such participant, the distributions received, the number of shares purchased, the purchase price for such shares and the total shares purchased on behalf of the participant during the prior year pursuant to our distribution reinvestment plan.

### **Excluded Distributions**

Our board of directors may designate that certain cash or other distributions attributable to net sales proceeds will be excluded from distributions that may be reinvested in shares under our distribution reinvestment plan (Excluded Distributions). Accordingly, in the event that proceeds attributable to the potential sale transaction described above are distributed to stockholders as an Excluded Distribution, such amounts may not be reinvested in our shares pursuant to our distribution reinvestment plan. The determination of whether all or part of a distribution will be deemed to be an Excluded Distribution is separate and unrelated to our requirement to distribute 90% of our taxable REIT income. In its initial determination of whether to make a distribution and the amount of the

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distribution, our board of directors will consider, among other factors, our cash position and our distribution requirements as a REIT. Once our board of directors determines to make the distribution, it will then consider whether all or part of the distribution will be deemed to be an Excluded Distribution. In most instances, we expect that our board of directors would not deem any of the distribution to be an Excluded Distribution. In that event, the amount distributed to participants in our distribution reinvestment plan will be reinvested in additional shares of our common stock. If all or a portion of the distribution is deemed to be an Excluded Distribution, the distribution will be made to all stockholders, however, the excluded portion will not be reinvested. As a result, we would not be able to use any of the Excluded Distribution to assist in meeting future distributions and the stockholders would not be able to use the distribution to purchase additional shares of our common stock through our distribution reinvestment plan. We currently do not have any planned Excluded Distributions, which will only be made, if at all, in addition to, not in lieu of, regular distributions.

## **Federal Income Tax Considerations**

Taxable participants will incur tax liability for partnership income allocated to them even though they have elected not to receive their distributions in cash but rather to have their distributions reinvested under our distributions reinvestment plan. See Risk Factors Federal Income Tax Risks. In addition, to the extent you purchase shares through our distribution reinvestment plan at a discount to their fair market value, you will be treated for tax purposes as receiving an additional distribution equal to the amount of the discount. At least until our offering stage is complete, we expect that (i) we will sell shares under the distribution reinvestment plan at \$9.50 per share, (ii) no secondary trading market for our shares will develop and (iii) our advisor will estimate the fair market value of a share to be \$10.00. Therefore, at least until our offering stage is complete, participants in our distribution reinvestment plan will be treated as having received a distribution of \$10.00 for each \$9.50 reinvested by them under our distribution reinvestment plan. You will be taxed on the amount of such distribution as a dividend to the extent such distribution is from current or accumulated earnings and profits, unless we have designated all or a portion of the dividend as a capital gain dividend. Tax information regarding each participant's participation in the plan will be provided to each participant at least annually.

## **Amendment and Termination**

We reserve the right to amend any aspect of our distribution reinvestment plan with ten days' notice to participants. The reinvestment agent also reserves the right to terminate a participant's individual participation in the plan, and we reserve the right to terminate our distribution reinvestment plan itself in our sole discretion at any time, by sending ten days' prior written notice of termination to the terminated participant or, upon termination of the plan, to all participants.

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**OUR OPERATING PARTNERSHIP AGREEMENT**

**General**

Cole OP II was formed in September, 2004 to acquire, own and operate properties on our behalf. It is an Umbrella Partnership Real Estate Investment Trust, or UPREIT, which structure is utilized generally to provide for the acquisition of real property from owners who desire to defer taxable gain that would otherwise be recognized by them upon the disposition of their property. These owners may also desire to achieve diversity in their investment and other benefits afforded to owners of stock in a REIT. For purposes of satisfying the asset and income tests for qualification as a REIT for tax purposes, the REIT's proportionate share of the assets and income of an UPREIT, such as Cole OP II, are deemed to be assets and income of the REIT.

A property owner may contribute property to an UPREIT in exchange for limited partnership units on a tax-free basis. In addition, Cole OP II is structured to make distributions with respect to limited partnership units that will be equivalent to the distributions made to holders of our common stock. Finally, a limited partner in Cole OP II may later exchange his or her limited partnership units in Cole OP II for shares of our common stock in a taxable transaction.

The partnership agreement for Cole OP II contains provisions that would allow, under certain circumstances, other entities, including other Cole-sponsored programs, to merge into or cause the exchange or conversion of their interests for interests of Cole OP II. In the event of such a merger, exchange or conversion, Cole OP II would issue additional limited partnership interests, which would be entitled to the same exchange rights as other limited partnership interests of Cole OP II. As a result, any such merger, exchange or conversion ultimately could result in the issuance of a substantial number of shares of our common stock, thereby diluting the percentage ownership interest of other stockholders.

We hold substantially all of our assets through Cole OP II. We are the sole general partner of Cole OP II, and our advisor, Cole Advisors II, is the only limited partner of Cole OP II. As the sole general partner of Cole OP II, we have the exclusive power to manage and conduct the business of Cole OP II.

The following is a summary of certain provisions of the partnership agreement of Cole OP II. This summary is not complete and is qualified by the specific language in the partnership agreement. You should refer to the partnership agreement, itself, which we have filed as an exhibit to the registration statement, for more detail.

**Capital Contributions**

As we accept subscriptions for shares, we will transfer substantially all of the net proceeds of the offering to Cole OP II as a capital contribution. However, we will be deemed to have made capital contributions in the amount of the gross offering proceeds received from investors. Cole OP II will be deemed to have simultaneously paid the selling commissions and other costs associated with the offering. If Cole OP II requires additional funds at any time in excess of capital contributions made by our advisor and us (which are minimal in amount), or from borrowings, we may borrow funds from a financial institution or other lender and lend such funds to Cole OP II on the same terms and conditions as are applicable to our borrowing of such funds. In addition, we are authorized to cause Cole OP II to issue partnership interests for less than fair market value if we conclude in good faith that such issuance is in the best interests of Cole OP II and us.

**Operations**

The partnership agreement requires that Cole OP II be operated in a manner that will enable us to (1) satisfy the requirements for being classified as a REIT for tax purposes, (2) avoid any federal income or excise tax liability, and (3) ensure that Cole OP II will not be classified as a publicly traded partnership for purposes of Section 7704 of the Internal Revenue Code, which classification could result in Cole OP II being taxed as a corporation, rather than as a partnership. See Federal Income Tax Considerations Tax Aspects of Our Operating Partnership Classification as a Partnership.

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The partnership agreement provides that Cole OP II will distribute cash flow from operations as follows:

first, to us until we have received aggregate distributions with respect to the current fiscal year equal to the minimum amount necessary for us to distribute to our stockholders to enable us to maintain our status as a REIT under the Internal Revenue Code with respect to such fiscal year;

next, to the limited partners until our limited partners have received aggregate distributions equal to the amount that would have been distributed to them with respect to all prior fiscal years had all Cole OP II income for all such prior fiscal years been allocated to us, each limited partner held a number of our common shares equal to the number of Cole OP II units that it holds and the REIT had distributed all such amounts to our stockholders (including the limited partners);

next, to us and to the limited partners until each partner has received aggregate distributions with respect to the current fiscal year and all fiscal years had all Cole OP II income for the current fiscal year and all such prior fiscal years been allocated to us, our income with respect to the current fiscal year and each such prior fiscal year equaled the minimum amount necessary to maintain our status as a REIT under the Internal Revenue Code, each limited partner held a number of common shares equal to the number of Cole OP II units that we hold and we had distributed all such amounts to its stockholders (including the limited partners); and

finally, to us and the limited partners in accordance with the partners' percentage interests in Cole OP II.

Similarly, the partnership agreement of Cole OP II provides that taxable income is allocated to the limited partners of Cole OP II in accordance with their relative percentage interests such that a holder of one unit of limited partnership interest in Cole OP II will be allocated taxable income for each taxable year in an amount equal to the amount of taxable income to be recognized by a holder of one of our shares, subject to compliance with the provisions of Sections 704(b) and 704(c) of the Internal Revenue Code and corresponding Treasury Regulations. Losses, if any, generally will be allocated among the partners in accordance with their respective percentage interests in Cole OP II.

Upon the liquidation of Cole OP II, after payment of debts and obligations, any remaining assets of Cole OP II will be distributed to partners with positive capital accounts in accordance with their respective positive capital account balances. If we were to have a negative balance in our capital account following a liquidation, we would be obligated to contribute cash to Cole OP II equal to such negative balance for distribution to other partners, if any, having positive balances in such capital accounts.

In addition to the administrative and operating costs and expenses incurred by Cole OP II in acquiring and operating real properties, Cole OP II will pay all of our administrative costs and expenses, and such expenses will be treated as expenses of Cole OP II. Such expenses will include:

all expenses relating to the formation and continuity of our existence;

all expenses relating to the public offering and registration of securities by us;

all expenses associated with the preparation and filing of any periodic reports by us under federal, state or local laws or regulations;

all expenses associated with compliance by us with applicable laws, rules and regulations;

all costs and expenses relating to any issuance or redemption of partnership interests or shares of our common stock; and

all our other operating or administrative costs incurred in the ordinary course of our business on behalf of Cole OP II.

All claims between the partners of Cole OP II arising out of the partnership agreement are subject to binding arbitration.



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**Exchange Rights**

The limited partners of Cole OP II, including Cole Advisors II, have the right to cause their limited partnership units to be redeemed by Cole OP II or purchased by us for cash. In either event, the cash amount to be paid will be equal to the cash value of the number of our shares that would be issuable if the limited partnership units were exchanged for our shares on a one-for-one basis. Alternatively, we may elect to purchase the limited partnership units by issuing one share of our common stock for each limited partnership unit exchanged. As of December 31, 2007, there were 9,009 partnership units outstanding. These exchange rights may not be exercised, however, if and to the extent that the delivery of shares upon exercise would (1) result in any person owning shares in excess of our ownership limits, (2) result in shares being owned by fewer than 100 persons, (3) cause us to be closely held within the meaning of Section 856(h) of the Internal Revenue Code, (4) cause us to own 10% or more of the ownership interests in a tenant within the meaning of Section 856(d)(2)(B) of the Internal Revenue Code, or (5) cause the acquisition of shares by a redeemed limited partner to be integrated with any other distribution of our shares for purposes of complying with the Securities Act.

Subject to the foregoing, limited partners of Cole OP II may exercise their exchange rights at any time after one year following the date of issuance of their limited partnership units. However, a limited partner may not deliver more than two exchange notices each calendar year and may not exercise an exchange right for less than 1,000 limited partnership units, unless such limited partner holds less than 1,000 units, in which case, it must exercise his exchange right for all of his units. We do not expect to issue any of the shares of common stock offered hereby to limited partners of Cole OP II in exchange for their limited partnership units. Rather, in the event a limited partner of Cole OP II exercises its exchange rights, and we elect to purchase the limited partnership units with shares of our common stock, we expect to issue unregistered shares of common stock, or subsequently registered shares of common stock, in connection with such transaction.

**Amendments to the Partnership Agreement**

Our consent, as the general partner of Cole OP II, is required for any amendment to the partnership agreement. We, as the general partner of Cole OP II, and without the consent of any limited partner, may amend the partnership agreement in any manner, provided, however, that the consent of limited partners holding more than 50% of the interests of the limited partners is required for the following:

any amendment affecting the conversion factor or the exchange right in a manner adverse to the limited partners;

any amendment that would adversely affect the rights of the limited partners to receive the distributions payable to them pursuant to the partnership agreement (other than the issuance of additional limited partnership interests);

any amendment that would alter the allocations of Cole OP II's profit and loss to the limited partners (other than the issuance of additional limited partnership interests);

any amendment that would impose on the limited partners any obligation to make additional capital contributions to Cole OP II; and

any amendment pursuant to a plan of merger, plan of exchange or plan of conversion, unless the partnership agreement of the surviving limited partnership does not materially differ from the partnership agreement of

Cole OP II immediately before the transaction.

**Termination of the Partnership**

Cole OP II will have perpetual duration, unless it is dissolved earlier upon the first to occur of the following:

we declare for bankruptcy or withdraw from the partnership, *provided, however*, that the remaining partners may decide to continue the business;

ninety days after the sale or other disposition of all or substantially all of the assets of the partnership;

the exchange of all limited partnership interests (other than such interests we, or are affiliates, hold); or

we elect, as the general partner, to dissolve the partnership.

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**Transferability of Interests**

We may not (1) voluntarily withdraw as the general partner of Cole OP II, (2) engage in any merger, consolidation or other business combination, or (3) transfer our general partnership interest in Cole OP II (except to a wholly-owned subsidiary), unless the transaction in which such withdrawal, business combination or transfer occurs results in the limited partners receiving or having the right to receive an amount of cash, securities or other property equal in value to the amount they would have received if they had exercised their exchange rights immediately prior to such transaction or unless, in the case of a merger or other business combination, the successor entity contributes substantially all of its assets to Cole OP II in return for an interest in Cole OP II and agrees to assume all obligations of the general partner of Cole OP II. We may also enter into a business combination or transfer our general partnership interest upon the receipt of the consent of a majority-in-interest of the limited partners of Cole OP II, other than Cole Advisors II and other affiliates of Christopher H. Cole. With certain exceptions, a limited partner may not transfer its interests in Cole OP II, in whole or in part, without our written consent as general partner.

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**PLAN OF DISTRIBUTION**

**The Offering**

We are offering a maximum of 150,000,000 shares of our common stock to the public through Cole Capital Corporation, our dealer manager, a registered broker-dealer affiliated with our advisor. Of this amount, we are offering 125,000,000 shares in our primary offering at a price of \$10.00 per share, except as provided below. The shares are being offered on a best efforts basis, which means generally that the dealer manager is required to use only its best efforts to sell the shares and it has no firm commitment or obligation to purchase any of the shares. We also are offering up to 25,000,000 shares for sale pursuant to our distribution reinvestment plan. The purchase price for shares sold under our distribution reinvestment plan will be equal to the higher of 95% of the estimated value of a share of common stock, as estimated by our board of directors, and \$9.50 per share. The reduced purchase price for shares purchased pursuant to our distribution reinvestment plan reflects that there will be no fees, commissions or expenses paid with respect to these shares. We reserve the right to reallocate the shares of our common stock we are offering between the primary offering and the distribution reinvestment plan. The offering of shares of our common stock will terminate on or before May 11, 2009, which is two years after the effective date of this offering, unless the offering is extended. In addition, at the discretion of our board of directors, we may elect to extend the termination date of our offering of shares reserved for issuance pursuant to our distribution reinvestment plan until we have sold all shares allocated to such plan through the reinvestment of distributions, in which case participants in the plan will be notified. This offering must be registered in every state in which we offer or sell shares. Generally, such registrations are for a period of one year. Thus, we may have to stop selling shares in any state in which our registration is not renewed or otherwise extended annually. We reserve the right to terminate this offering at any time prior to the stated termination date.

**Cole Capital Corporation**

Cole Capital Corporation, our dealer manager, was organized in 1992 for the purpose of participating in and facilitating the distribution of securities in programs sponsored by Cole Capital Partners, its affiliates and its predecessors. For additional information about Cole Capital Corporation, including information relating to Cole Capital Corporation's affiliation with us, please refer to the section of this prospectus captioned Management Affiliated Companies Dealer Manager.

**Compensation We Will Pay for the Sale of Our Shares**

Except as provided below, we will pay our dealer manager selling commissions of 7% of the gross offering proceeds. We also will pay the dealer manager a fee in the amount of 2% of the gross offering proceeds as compensation for acting as the dealer manager and for expenses incurred in connection with marketing and due diligence expense reimbursement. No sales commissions or dealer manager fees will be paid with respect to shares purchased pursuant to the distribution reinvestment plan. We will not pay referral or similar fees to any accountants, attorneys or other persons in connection with the distribution of the shares. See the Summary of Amended and Restated Distribution Reinvestment Plan Investment of Distributions section of this prospectus.

We expect our dealer manager to utilize two distribution channels to sell our shares, which have different selling commissions, and consequently, a different purchase price for the shares. In the event of the sale of shares in our primary offering by other broker-dealers that are members of FINRA, the purchase price will be \$10.00 per share. In the event of the sale of shares in our primary offering to an investment advisory representative, the purchase price for such shares will be \$9.30 per share, reflecting the fact that our dealer manager will waive the 7% selling commission

on such shares. We will not pay selling commissions or a dealer manager fee in connection with the sale of shares under our distribution reinvestment plan. The dealer manager may reallow to each of the participating broker dealers a portion of its dealer manager fee earned on the proceeds raised by the participating broker-dealer. This reallowance would be in the form of a non-accountable marketing allowance and due diligence expense reimbursement. The amount of the reallowance will be determined by the dealer manager based upon

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factors including the participating broker-dealer's level of marketing support, level of due diligence review and success of its sales efforts, each as compared to those of the other participating broker-dealers.

	<b>Per Share</b>	<b>Total Maximum</b>
<b>Primary Offering</b>		
Price to Public	\$ 10.00	\$ 1,250,000,000
Selling Commissions	0.70	87,500,000
Dealer Manager Fees	0.20	25,000,000
Proceeds to Cole REIT II	\$ 9.10	\$ 1,137,500,000
<b>Distribution Reinvestment Plan</b>		
Price to Public	\$ 9.50	\$ 237,500,000
Distribution Selling Commissions		
Dealer Manager Fees		
Proceeds to Cole REIT II	\$ 9.50	\$ 237,500,000

We may sell shares in our primary offering to retirement plans of broker-dealers participating in the offering, to broker-dealers in their individual capacities, to IRAs and qualified plans of their registered representatives or to any one of their registered representatives in their individual capacities (and their spouses, parents and minor children) at a discount. The purchase price for such shares shall be \$9.30 per share, reflecting the fact that selling commissions in the amount of \$0.70 per share will not be payable in connection with such sales. The net proceeds to us from such sales will not be affected by such sales of shares at a discount.

We or our affiliates also may provide permissible forms of non-cash compensation to registered representatives of our dealer manager and the participating broker-dealers, such as golf shirts, fruit baskets, cakes, chocolates, a bottle of wine or tickets to a sporting event. In no event shall such items exceed an aggregate value of \$100 per annum per participating salesperson, or be pre-conditioned on achievement of a sales target. The value of such items will be considered underwriting compensation in connection with this offering.

We have agreed to indemnify the participating broker-dealers, including our dealer manager and selected registered investment advisors, against certain liabilities arising under the Securities Act. However, the Securities and Exchange Commission takes the position that indemnification against liabilities arising under the Securities Act is against public policy and is unenforceable.

In addition to the compensation described above, our sponsor may pay certain costs associated with the sale and distribution of our shares. We will not reimburse our sponsor for such payments. Nonetheless, such payments will be deemed to be underwriting compensation by FINRA. In accordance with the rules of FINRA, the table below sets forth the nature and estimated amount of all items that will be viewed as underwriting compensation by FINRA that are anticipated to be paid by us and our sponsor in connection with the offering. The amounts shown assume we sell all of the shares offered hereby and that all shares are sold in our primary offering through participating broker-dealers, which is the distribution channel with the highest possible selling commissions and dealer manager fees.

	<b>Total Maximum</b>
Selling commissions	\$ 87,500,000
Dealer manager fee reallocation to participating broker-dealers	8,750,000
Dealer manager wholesaling compensation	20,723,000
Expense reimbursements for wholesaling travel and expenses	4,030,000
Broker-dealer conference fees and training and education meetings	2,800,000
Due diligence allowance	160,000
Legal fees of the dealer manager	120,000
 Total(1)	 \$ 124,083,000

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- (1) Of this amount, \$87,500,000 and \$25,000,000 will be paid by us from the proceeds of this offering in the form of selling commissions and dealer manager fees, respectively. The remaining \$11,583,000 will be paid by our sponsor without reimbursement by us.

The total amount of underwriting compensation, including selling commissions, dealer manager fees and other expenses paid or reimbursed by us, our sponsor or any other source in connection with the offering, will not exceed 10% of the gross proceeds of this offering, plus up to an additional 0.5% of gross proceeds (\$500,000 if the maximum offering amount is sold) for reimbursement of *bona fide* due diligence expenses.

**Shares Purchased by Affiliates**

Our executive officers and directors, as well as officers and employees of Cole Advisors II and their family members (including spouses, parents, grandparents, children and siblings) or other affiliates, may purchase shares offered in this offering at a discount. The purchase price for such shares shall be \$9.10 per share, reflecting the fact that selling commissions in the amount of \$0.70 per share and a dealer manager fee in the amount of \$0.20 per share will not be payable in connection with such sales. The net offering proceeds we receive will not be affected by such sales of shares at a discount. Our executive officers, directors and other affiliates will be expected to hold their shares purchased as stockholders for investment and not with a view towards resale. In addition, shares purchased by Cole Advisors II or its affiliates will not be entitled to vote on any matter presented to the stockholders for a vote. With the exception of the 20,000 shares initially sold to Cole Holdings Corporation in connection with our organization, no director, officer, advisor or any affiliate may own more than 9.8% in value or number of our outstanding common stock.

**Volume Discounts**

Volume discounts based on reduced sales commissions are available for purchasers of certain minimum numbers of shares, as defined below, volume discounts resulting in reductions in selling commissions payable with respect to such sales are available. In such event, any such reduction will be credited to the investor by reducing the purchase price per share. The following table illustrates the various discount levels available:

<b>Dollar Volume Shares Purchased</b>	<b>Sales Commission Percent</b>	<b>Per Share</b>	<b>Purchase Price per Incremental Share in Volume Discount Range</b>	<b>Dealer Manager Fees per Share</b>	<b>Net Proceeds per Share</b>
\$250,000 or less	7.0%	\$ 0.70	\$ 10.00	\$ 0.20	\$ 9.10
\$250,001-\$500,000	6.0%	0.60	9.90	0.20	9.10
\$500,001-\$1,000,000	5.0%	0.50	9.80	0.20	9.10
\$1,000,001-\$2,000,000	4.0%	0.40	9.70	0.20	9.10
\$2,000,001-\$5,000,000	3.0%	0.30	9.60	0.20	9.10
\$5,000,001-\$10,000,000	2.0%	0.20	9.50	0.20	9.10
Over \$10,000,001	1.0%	0.10	9.40	0.20	9.10



For example, if an investor purchases 60,000 shares, the investor would pay (1) \$250,000 for the first 25,000 shares, (2) \$247,500 for the next 25,000 shares (\$9.90 per share), and (3) \$98,000 for the next 10,000 shares (\$9.80 per share), for a total purchase price of \$595,500 (approximately \$9.925 per share) rather than \$600,000 for the shares. After the payment of sales commissions of \$37,500 (approximately \$0.625 per share) and payment of the dealer manager fee, we would receive net proceeds of \$546,000 (\$9.10 per share). The net proceeds to us will not be affected by volume discounts. All investors will be deemed to have contributed the same amount per share to us for purposes of declaring and paying distributions. Therefore, an investor who has received a volume discount will realize a better return on his or her investment in our shares than investors who do not qualify for a discount.

Subscriptions may be combined for the purpose of determining the volume discounts in the case of subscriptions made by any purchaser, as that term is defined below, provided all such shares are purchased through the same broker-dealer (unless agreed to in writing by us and the respective broker-dealers). The volume discount is prorated among the separate subscribers considered to be a single purchaser. Any request to combine

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more than one subscription must be made in writing, submitted simultaneously with the subscription for shares, and must set forth the basis for such request. Any request for volume discounts will be subject to our verification that all of the combined subscriptions were made by a single purchaser.

For the purposes of such volume discounts, the term purchaser includes:

an individual, his or her spouse and their children under the age of 21 who purchase the shares for his, her or their own account;

a corporation, partnership, association, joint-stock company, trust fund or any organized group of persons, whether incorporated or not;

an employees trust, pension, profit-sharing or other employee benefit plan qualified under Section 401(a) of the Internal Revenue Code; and

all commingled trust funds maintained by a given bank.

In addition, investors may request in writing to aggregate subscriptions as part of a combined order for purposes of determining the number of shares purchased, provided that any aggregate group of subscriptions must be received from the same broker-dealer (unless agreed to in writing by us and the respective broker-dealers), including our dealer manager.

In order to encourage purchases of 1,000,000 or more shares, a potential purchaser who proposes to purchase at least 1,000,000 shares may agree with Cole Advisors II and Cole Capital Corporation to have the dealer manager fee with respect to the sale of such shares reduced or eliminated, and, with the agreement of the participating broker, to have the selling commission payable with respect to the sale of such shares reduced or eliminated. The aggregate fees payable with respect to the sale of such shares would be reduced by as much as \$0.90 per share, resulting in a purchase price of \$9.10 per share, rather than \$10.00 per share.

Because all investors will be deemed to have contributed the same amount per share to us for purposes of declaring and paying distributions, investors who pay a reduced or no commission will receive a higher return on their investment than investors who do not qualify for such discount.

## **Subscription Process**

To purchase shares in this offering, you must complete and sign a subscription agreement, like the one contained in this prospectus as Appendix B, or, if you already are a stockholder, you must complete and sign an additional subscription agreement, like the one contained in this prospectus as Appendix C. You should pay for your shares by delivering a check for the full purchase price of the shares, payable to Wells Fargo Bank, N.A., Escrow Agent for Cole Credit Property Trust II, Inc. You should exercise care to ensure that the applicable subscription agreement is filled out correctly and completely. By executing the subscription agreement, you will attest that you meet the suitability standards described in this prospectus and agree to be bound by all of the terms of the subscription agreement.

Subscriptions will be effective only upon our acceptance, and we reserve the right to reject any subscription in whole or in part. We may not accept a subscription for shares until at least five business days after the date you receive this prospectus. Subject to compliance with Rule 15c2-4 of the Exchange Act, our dealer manager and/or the broker-dealers participating in the offering will promptly submit a subscriber's check on the business day following receipt of the subscriber's subscription documents and check. In certain circumstances where the suitability review

procedures are more lengthy than customary, a subscriber's check will be promptly deposited in compliance with Exchange Act Rule 15c2-4. The proceeds from your subscription will be deposited in a segregated escrow account and will be held in trust for your benefit, pending our acceptance of your subscription.

We accept or reject subscriptions within 35 days after we receive them. If your subscription agreement is rejected, your funds, without interest, or reductions for offering expenses, commissions or fees will be returned to you within ten business days after the date of such rejection. If your subscription is accepted, we will send you a confirmation of your purchase after you have been admitted as an investor. We admit new investors at least monthly and we may admit new investors more frequently.

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**Investments by IRAs and Qualified Plans**

Sterling Trust Company has agreed to act as an IRA custodian for purchasers of our common stock who desire to establish an IRA, SEP or certain other tax-deferred accounts or transfer or rollover existing accounts. Sterling Trust Company has agreed to provide this service to our stockholders with annual maintenance fees charged at a discounted rate. Further information as to custodial services is available through your broker or may be requested from us.

**HOW TO SUBSCRIBE**

Investors who meet the applicable suitability standards and minimum purchase requirements described in the Suitability Standards section of this prospectus may purchase shares of common stock. If you want to purchase shares, you must proceed as follows:

- (1) Read the entire prospectus and the current supplement(s), if any, accompanying this prospectus.
- (2) Complete the execution copy of the applicable subscription agreement. A specimen copy of the subscription agreement, including instructions for completing it, for new investors is included in this prospectus as Appendix B. A specimen copy of the subscription agreement for current stockholders is included in this prospectus as Appendix C.
- (3) Deliver a check to Cole Capital Corporation, or its designated agent, for the full purchase price of the shares being subscribed for, payable to Wells Fargo Bank, N.A., Escrow Agent for Cole Credit Property Trust II, Inc. along with the completed subscription agreement. Certain dealers who have net capital, as defined in the applicable federal securities regulations, of \$250,000 or more may instruct their customers to make their checks payable directly to the dealer. In such case, the dealer will issue a check made payable to us for the purchase price of your subscription. The name of the dealer appears on the subscription agreement.
- (4) By executing the subscription agreement and paying the full purchase price for the shares subscribed for, you will attest that you meet the suitability standards as provided in the Suitability Standards section of this prospectus and as stated in the subscription agreement and agree to be bound by the terms of the subscription agreement.

An approved trustee must process through us and forward us subscriptions made through IRAs, Keogh plans, 401(k) plans and other tax-deferred plans. If you want to purchase shares through an IRA, SEP or other tax-deferred account, Sterling Trust Company has agreed to serve as IRA custodian for such purpose. Sterling Trust Company has agreed to provide this service to our stockholders with annual maintenance fees charged at a discounted rate.

**SUPPLEMENTAL SALES MATERIAL**

In addition to this prospectus, we may utilize certain sales material in connection with the offering of the shares, although only when accompanied by or preceded by the delivery of this prospectus. The sales materials may include information relating to this offering, the past performance of Cole Advisors II, our advisor, and its affiliates, property brochures and articles and publications concerning real estate. In certain jurisdictions, some or all of our sales material may not be permitted and will not be used in those jurisdictions.

The offering of shares is made only by means of this prospectus. Although the information contained in our supplemental sales material will not conflict with any of the information contained in this prospectus, the supplemental materials do not purport to be complete, and should not be considered a part of this prospectus or the

registration statement of which this prospectus is a part.

**LEGAL MATTERS**

Venable LLP, Baltimore, Maryland, will pass upon the legality of the common stock and Morris, Manning & Martin, LLP, Atlanta, Georgia, will pass upon legal matters in connection with our status as a REIT for federal income tax purposes. Morris, Manning & Martin, LLP will rely on the opinion of Venable LLP as to all matters of

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Maryland law. Neither Venable LLP nor Morris, Manning & Martin, LLP purport to represent our stockholders or potential investors, who should consult their own counsel. Morris, Manning & Martin, LLP also provides legal services to Cole Advisors II, our advisor, as well as affiliates of Cole Advisors II, and may continue to do so in the future.

**EXPERTS**

The financial statements included in this prospectus have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing herein and have been included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

Also, the statements of revenues and certain operating expenses for the MT Omaha property for the year ended June 30, 2006, the AS Katy property, the MT Fairview Heights property, the CNL Portfolio Properties, the MT Broadview property for the year ended December 31, 2006 and the Millstein Audit Properties for the year ended December 31, 2007, included in this prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports appearing herein (which reports on the statements of revenues and certain operating expenses express unqualified opinions and include explanatory paragraphs referring to the purpose of the statements), and are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

**WHERE YOU CAN FIND MORE INFORMATION**

We have filed a registration statement on Form S-11 with the Securities and Exchange Commission in connection with our initial public offering. We are required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission.

You may request and obtain a copy of these filings, at no cost to you, by writing or telephoning us at the following address:

Cole Credit Property Trust II, Inc.  
Attn: Investor Relations  
2555 East Camelback Road, Suite 400  
Phoenix, Arizona 85016  
(866) 341-2653

One of our affiliates maintains an Internet site at <http://www.colecapital.com>, at which there is additional information about us. The contents of that site are not incorporated by reference in, or otherwise a part of, this prospectus.

This prospectus does not contain all of the information set forth in the registration statement and the exhibits related thereto as filed with the Securities and Exchange Commission, reference to which is hereby made.

You can read our registration statement and the exhibits thereto and our future Securities and Exchange Commission filings over the Internet at [www.sec.gov](http://www.sec.gov). You may also read and copy any document we file with the Securities and Exchange Commission at its Public Reference Room at 100 F Street, N.W., Washington, D.C. 20549. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the Securities and Exchange Commission at 100 F Street, N.W., Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 or e-mail at [publicinfo@sec.gov](mailto:publicinfo@sec.gov) for further information on the operation of the public reference facilities.



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Cole Credit Property Trust II, Inc.  
Phoenix, Arizona

We have audited the accompanying consolidated balance sheets of Cole Credit Property Trust II, Inc. and subsidiaries ( the Company ) as of December 31, 2007 and 2006 and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2007 and 2006 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Phoenix, Arizona  
March 31, 2008

**Table of Contents****COLE CREDIT PROPERTY TRUST II, INC.****CONSOLIDATED BALANCE SHEETS**

	<b>December 31, 2007</b>	<b>December 31, 2006</b>
<b>ASSETS:</b>		
Investment in real estate assets:		
Land	\$ 412,947,887	\$ 109,506,269
Buildings and improvements, less accumulated depreciation of \$24,075,228 and \$4,547,932 at December 31, 2007 and 2006, respectively	1,090,362,000	282,468,749
Real estate assets under direct financing leases, less unearned income of \$17,297,642 at December 31, 2007	39,260,183	
Acquired intangible lease assets, less accumulated amortization of \$12,925,668 and \$2,251,172 at December 31, 2007 and 2006, respectively	228,790,968	54,569,023
Real estate assets held for sale, less accumulated depreciation and accumulated amortization of \$1,103,519 at December 31, 2007	22,991,474	
Total investment in real estate assets	1,794,352,512	446,544,041
Investment in mortgage notes receivable, less accumulated amortization of \$78,916 at December 31, 2007	87,099,624	
Cash and cash equivalents	43,517,178	37,566,490
Restricted cash	14,032,616	5,839,733
Rents and tenant receivables, less allowance for doubtful accounts of \$521,615 and \$75,000 at December 31, 2007 and 2006, respectively	8,098,152	2,432,536
Prepaid expenses, mortgage loan deposits and other assets	1,144,864	4,248,973
Deferred financing costs, less accumulated amortization of \$2,163,027 and \$565,946 at December 31, 2007 and 2006, respectively	19,452,888	3,789,019
Total assets	\$ 1,967,697,834	\$ 500,420,792
<b>LIABILITIES AND STOCKHOLDERS EQUITY:</b>		
Mortgage notes payable	\$ 1,037,981,538	\$ 218,265,916
Mortgage notes payable associated with assets held for sale	17,700,000	
Accounts payable and accrued expenses	7,776,943	2,016,343
Escrowed investor proceeds	12,737,969	5,710,730
Due to affiliates	1,504,849	67,608
Acquired below market lease intangibles, less accumulated amortization of \$2,083,475 and \$96,484 at December 31, 2007 and 2006, respectively	80,031,916	2,649,374
Distributions payable	5,434,275	1,612,094
Deferred rent and other liabilities	1,783,620	340,974
Total liabilities	1,164,951,110	230,663,039

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Redeemable common stock	21,659,859	3,521,256
STOCKHOLDERS EQUITY:		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized, none issued and outstanding at December 31, 2007 and 2006		
Common stock, \$.01 par value; 240,000,000 shares authorized, 93,621,094 and 30,691,204 shares issued and outstanding at December 31, 2007 and 2006, respectively		
	936,211	306,912
Capital in excess of par value	824,676,200	273,385,603
Accumulated distributions in excess of earnings	(44,525,546)	(7,456,018)
Total stockholders equity	781,086,865	266,236,497
Total liabilities and stockholders equity	\$ 1,967,697,834	\$ 500,420,792

The accompanying notes are an integral part of these consolidated financial statements.

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Table of Contents**COLE CREDIT PROPERTY TRUST II, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Year Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Revenues:</b>			
Rental and other income	\$ 82,491,639	\$ 18,357,174	\$ 741,669
Tenant reimbursement income	5,161,162	1,162,333	
Earned income from direct financing leases	1,075,412		
Interest income on mortgages receivable	1,113,937		
<b>Total revenue</b>	<b>89,842,150</b>	<b>19,519,507</b>	<b>741,669</b>
<b>Expenses:</b>			
General and administrative	2,011,322	952,789	156,252
Property operating expenses	6,466,677	1,416,745	
Property and asset management fees	4,184,271	936,977	38,768
Depreciation	20,460,219	4,396,460	151,472
Amortization	10,022,054	2,072,906	69,939
Impairment of real estate assets	5,400,000		
<b>Total operating expenses</b>	<b>48,544,543</b>	<b>9,775,877</b>	<b>416,431</b>
<b>Operating income</b>	<b>41,297,607</b>	<b>9,743,630</b>	<b>325,238</b>
<b>Other income (expense):</b>			
Interest and other income	2,258,158	503,479	27,557
Interest expense	(39,075,748)	(8,901,113)	(467,386)
<b>Total other expense</b>	<b>(36,817,590)</b>	<b>(8,397,634)</b>	<b>(439,829)</b>
<b>Net income (loss)</b>	<b>\$ 4,480,017</b>	<b>\$ 1,345,996</b>	<b>\$ (114,591)</b>
<b>Net income (loss) per common share:</b>			
Basic and diluted	\$ 0.07	\$ 0.10	\$ (0.28)
<b>Weighted average number of common shares outstanding:</b>			
Basic	60,929,996	13,275,635	411,909
Diluted	60,931,316	13,275,635	411,909

The accompanying notes are an integral part of these consolidated financial statements.



Table of Contents**COLE CREDIT PROPERTY TRUST II, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

	Common Stock		Capital in	Accumulated	Total
	Number of		Excess	Distributions in	Stockholders
	Shares	Par Value	of Par Value	Excess of	Equity
				Earnings	
<b>Balance, December 31, 2004</b>	20,000	\$ 200	\$ 199,800	\$	\$ 200,000
Issuance of common stock	2,812,387	28,124	28,080,997		28,109,121
Distributions				(195,209)	(195,209)
Commissions on stock sales and related dealer manager fees			(2,375,780)		(2,375,780)
Other offering costs			(418,575)		(418,575)
Net loss				(114,591)	(114,591)
<b>Balance, December 31, 2005</b>	2,832,387	28,324	25,486,442	(309,800)	25,204,966
Issuance of common stock	27,858,817	278,588	277,953,219		278,231,807
Distributions				(8,492,214)	(8,492,214)
Commissions on stock sales and related dealer manager fees			(23,254,138)		(23,254,138)
Other offering costs			(3,332,577)		(3,332,577)
Stock compensation expense			53,913		53,913
Redeemable common stock			(3,521,256)		(3,521,256)
Net income				1,345,996	1,345,996
<b>Balance, December 31, 2006</b>	30,691,204	306,912	273,385,603	(7,456,018)	266,236,497
Issuance of common stock	63,156,834	631,568	629,526,228		630,157,796
Distributions				(41,549,545)	(41,549,545)
Commissions on stock sales and related dealer manager fees			(53,346,277)		(53,346,277)
Other offering costs	(226,944)	(2,269)	(2,176,280)		(4,599,965)
					(2,178,549)



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Redemptions of common stock					
Stock compensation expense			25,494		25,494
Redeemable common stock			(18,138,603)		(18,138,603)
Net income				4,480,017	4,480,017
<b>Balance, December 31, 2007</b>	93,621,094	\$ 936,211	\$ 824,676,200	\$ (44,525,546)	\$ 781,086,865

The accompanying notes are an integral part of these consolidated financial statements.

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Table of Contents**COLE CREDIT PROPERTY TRUST II, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Year Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 4,480,017	\$ 1,345,996	\$ (114,591)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	20,460,219	4,396,460	151,472
Amortization	11,000,568	2,630,841	89,793
Amortization of premiums on mortgage notes receivable	78,916		
Stock compensation expense	25,494	53,913	
Impairment of real estate assets	5,400,000		
Net gain on disposal of rate lock deposits	(478,397)		
Changes in assets and liabilities:			
Decrease in investment in real estate under direct financing leases	267,344		
Rents and tenant receivables, net of allowance	(5,665,616)	(2,396,534)	(36,001)
Prepaid expenses and other assets	(842,991)	(269,945)	(11,928)
Accounts payable and accrued expenses	5,760,600	1,733,546	282,797
Deferred rent and other liabilities	2,879,887	367,198	36,199
Net cash provided by operating activities	43,366,041	7,861,475	397,741
<b>Cash flows from investing activities:</b>			
Investment in real estate and related assets	(1,155,146,198)	(278,576,503)	(81,344,139)
Investment in real estate under direct financing leases	(39,527,527)		
Acquired intangible lease assets	(190,400,789)	(40,305,246)	(10,497,499)
Acquired below market lease intangibles	79,378,155	2,731,169	14,689
Investment in mortgage notes receivable	(51,120,374)		
Collection of mortgage loans receivable	232,172		
Restricted cash	(8,192,883)	(4,025,929)	(1,813,804)
Net cash used in investing activities	(1,364,777,444)	(320,176,509)	(93,640,753)
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of common stock	609,840,644	274,710,551	28,109,121
Offering costs on issuance of common stock	(57,946,242)	(26,586,715)	(2,789,170)
Redemptions of common stock	(2,178,549)		
Distributions to investors	(17,410,212)	(3,554,073)	
Proceeds from mortgage and affiliate notes payable	855,019,450	168,764,469	72,084,404
Repayment of mortgage and affiliate notes payable	(53,894,166)	(64,375,352)	(827,363)
Refund of loan deposits	16,333,592	1,936,000	

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Payment of loan deposits	(12,386,492)	(5,903,100)	
Proceeds from rate lock termination	2,162,197		
Escrowed investor proceeds liability	7,027,239	3,896,925	1,813,804
Deferred financing costs paid	(19,205,370)	(3,582,325)	(772,640)
Net cash provided by financing activities	1,327,362,091	345,306,380	97,618,156
<b>Net increase in cash and cash equivalents</b>	<b>5,950,688</b>	<b>32,991,346</b>	<b>4,375,144</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>37,566,490</b>	<b>4,575,144</b>	<b>200,000</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 43,517,178</b>	<b>\$ 37,566,490</b>	<b>\$ 4,575,144</b>
<b>Supplemental Disclosures of Non-Cash Investing and Financing Activities:</b>			
Dividends declared and unpaid	\$ 5,434,275	\$ 1,612,094	\$ 195,209
Mortgage notes assumed in real estate acquisitions	\$	\$ 42,619,758	\$
Mortgage notes payable from seller of mortgages receivable	\$ 36,290,338	\$	\$
Common stock issued through distribution reinvestment plan	\$ 20,317,152	\$ 3,521,256	\$
Commissions and dealer manager fees due to affiliate	\$	\$	\$ 5,185
<b>Supplemental Cash Flow Disclosures:</b>			
Interest paid	\$ 34,319,865	\$ 7,981,952	\$ 223,183

The accompanying notes are an integral part of these consolidated financial statements.

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**COLE CREDIT PROPERTY TRUST II, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 ORGANIZATION AND BUSINESS**

Cole Credit Property Trust II, Inc. (the Company) is a Maryland corporation that was formed on September 29, 2004 to operate as a real estate investment trust (REIT) for federal income tax purposes. Substantially all of the Company's business is conducted through Cole Operating Partnership II, LP (Cole OP II), a Delaware limited partnership. The Company is the sole general partner of and owns an approximately 99.99% partnership interest in Cole OP II. Cole REIT Advisors II, LLC (Cole Advisors II), the affiliate advisor to the Company, is the sole limited partner and owner of an approximately 0.01% (minority interest) of the partnership interests of Cole OP II.

At December 31, 2007, the Company owned 333 properties comprising approximately 11.3 million square feet of single and multi-tenant commercial space located in 43 states and the U.S. Virgin Islands. At December 31, 2007, the rentable space at these properties was approximately 99% leased. As of December 31, 2007, the Company also owned 69 mortgage notes receivable, aggregating approximately \$87.1 million, secured by 43 restaurant properties and 26 single-tenant retail properties, each of which is subject to a net lease.

On June 27, 2005, the Company commenced an initial public offering on a best efforts basis of up to 45,000,000 shares of common stock offered at a price of \$10.00 per share, subject to certain volume and other discounts, pursuant to a Registration Statement on Form S-11 filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended (the Initial Offering). The Registration Statement also covered up to 5,000,000 shares available pursuant to a distribution reinvestment plan (the DRIP) under which our stockholders may elect to have their distributions reinvested in additional shares of the Company's common stock at the greater of \$9.50 per share or 95% of the estimated value of a share of common stock. On November 13, 2006, the Company increased the aggregate amount of the public offering to 49,390,000 shares for the primary offering and 5,952,000 shares pursuant to the DRIP in a related Registration Statement on Form S-11. Subsequently, the Company reallocated the shares of common stock available such that a maximum of 54,140,000 shares of common stock was available under the primary offering for an aggregate offering price of approximately \$541.4 million and a maximum of 1,202,000 shares was available under the DRIP for an aggregate offering price of approximately \$11.4 million.

The Company commenced its principal operations on September 23, 2005, when it issued the initial 486,000 shares of its common stock in the Initial Offering. Prior to such date, the Company was considered a development stage company. The Company terminated the Initial Offering on May 22, 2007. As of the close of business on May 22, 2007, the Company had issued a total of 54,838,315 shares in the Initial Offering, including 53,909,877 shares sold in the primary offering and 928,438 shares sold pursuant to the DRIP, resulting in gross offering proceeds to the Company of approximately \$547.4 million. At the completion of the Initial Offering, a total of 503,685 shares of common stock remained unsold, including 230,123 shares that remained unsold in the primary offering and 273,562 shares of common stock that remained unsold pursuant to the DRIP. All unsold shares in Initial Offering have been deregistered.

On May 23, 2007, the Company commenced its follow-on public offering of up to 150,000,000 shares of common stock (the Follow-on Offering) (collectively with the Initial Offering, the Offerings). The Follow-on Offering includes up to 125,000,000 shares to be offered for sale at \$10.00 per share in the primary offering and up to 25,000,000 shares to be offered for sale pursuant to the Company's DRIP. As of December 31, 2007, the Company had accepted subscriptions for 38,989,723 shares of its common stock in the Follow-on Offering, resulting in gross proceeds to the

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Company of approximately \$389.1 million. Combined with the gross proceeds from the Initial Offering, the Company had aggregate gross proceeds from its offerings of approximately \$936.5 million as of December 31, 2007, before offering costs, selling commissions, and dealer management fees of approximately \$87.3 million. As of December 31, 2007, the Company was authorized to issue 10,000,000 shares of preferred stock, but had none issued or outstanding.

As of March 31, 2008, the Company had received approximately \$1.2 billion in gross offering proceeds through the issuance of 116,473,675 shares of its common stock in its offerings. As of March 31, 2008,

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**COLE CREDIT PROPERTY TRUST II, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

approximately \$659.3 million in shares (65.9 million shares) remained available for sale to the public, exclusive of shares available under the DRIP.

The Company's stock is not currently listed on a national securities exchange. The Company may seek to list its stock for trading on a national securities exchange only if a majority of its independent directors believe listing would be in the best interest of its stockholders. The Company does not intend to list its shares at this time. The Company does not anticipate that there would be any market for its common stock until its shares are listed for trading. In the event it does not obtain listing prior to May 22, 2017, its charter requires that it either: (1) seek stockholder approval of an extension or amendment of this listing deadline; or (2) seek stockholder approval to adopt a plan of liquidation of the corporation.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The summary of significant accounting policies presented below is designed to assist in understanding the Company's consolidated financial statements. These accounting policies conform to generally accepted accounting principles in the United States (GAAP), in all material respects, and have been consistently applied in preparing the accompanying consolidated financial statements.

***Principles of Consolidation and Basis of Presentation***

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

***Use of Estimates***

The preparation of financial statements in conformity with GAAP necessarily requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Investment in Real Estate Assets***

Real estate assets are stated at cost, less accumulated depreciation. Amounts capitalized to real estate assets consist of the cost of acquisition or construction and any tenant improvements or major improvements and betterments that extend the useful life of the related asset. All repairs and maintenance are expensed as incurred.

All assets are depreciated on a straight line basis. The estimate useful lives of our assets by class are generally as follows:

Building	40 years
Tenant improvements	Lesser of useful life or lease term
Intangible lease assets	Lesser of useful life or lease term

Impairment losses are recorded on long-lived assets used in operations, which includes the operating property, when indicators of impairment are present and the assets' carrying amount is greater than the sum of the future undiscounted cash flows, excluding interest, estimated to be generated by those assets. The Company has identified one property with impairment indicators for which the undiscounted future cash flows expected from the use of the property and related intangible assets and their eventual disposition was less than the carrying value of the assets. As a result, the Company reduced the carrying value of the real estate and related intangible assets to their estimated fair value and recorded an impairment loss of \$5.4 million during the year ended December 31, 2007. No impairment losses were recorded for the year ended December 31, 2006.

When a real estate asset is identified by management as held for sale, the Company ceases depreciation of the asset and estimates the sales price, net of selling costs. If, in management's opinion, the net sales price of the asset is

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**COLE CREDIT PROPERTY TRUST II, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

less than the net book value of the asset, an adjustment to the carrying value would be recorded to reflect the estimated fair value of the property.

***Allocation of Purchase Price of Acquired Assets***

Upon the acquisition of real properties, the Company allocates the purchase price of such properties to acquired tangible assets, consisting of land and building, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases and the value of in-place leases, based in each case on their fair values. The Company utilizes independent appraisals to assist in the determination of the fair values of the tangible assets of an acquired property (which includes land and building).

The fair values of above-market and below-market in-place lease values are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) an estimate of fair market lease rates for the corresponding in-place leases, which is generally obtained from independent appraisals, measured over a period equal to the non-cancelable term of the lease. The above-market and below-market lease values are capitalized as intangible lease assets or liabilities and amortized as an adjustment of rental income over the lesser of the useful life or the remaining terms of the respective leases.

The fair values of in-place leases include direct costs associated with obtaining a new tenant and opportunity costs associated with lost rentals which are avoided by acquiring an in-place lease. Direct costs associated with obtaining a new tenant include commissions, tenant improvements, and other direct costs and are estimated in part by utilizing information obtained from independent appraisals and management's consideration of current market costs to execute a similar lease. These direct costs are included in intangible lease assets in the accompanying consolidated balance sheet and are amortized to expense over the lesser of the useful life or the remaining terms of the respective leases. The value of opportunity costs is calculated using the contractual amounts to be paid pursuant to the in-place leases over a market absorption period for a similar lease. These intangibles are included in intangible lease assets in the accompanying consolidated balance sheet and are amortized to expense over the lesser of the useful life or the remaining term of the respective leases.

The determination of the fair values of the assets and liabilities acquired requires the use of significant assumptions with regard to the current market rental rates, rental growth rates, discount rates and other variables. The use of inappropriate estimates would result in an incorrect assessment of the Company's purchase price allocations, which could impact the amount of its reported net income.

***Real Estate Assets Held for Sale***

As of December 31, 2007, the Company had one single-tenant commercial property classified as held for sale. The Company continually monitors the performance of its properties, including their demographics, potential current capital appreciation, and tenants and may identify properties to dispose based on such performance characteristics. During the quarter ended September 30, 2007, the Company identified one property based on such performance characteristics that it elected to market for sale. Therefore, as of September 30, 2007, the Company reclassified its consolidated statements of operations to reflect income and expenses for the property held for sale as discontinued operations and reclassified its consolidated balance sheets to reflect assets related to such property as held for sale.



On February 1, 2008, the property's tenant filed for Chapter 11 bankruptcy protection and, as a result, the Company elected to no longer market the property for sale. Accordingly, the Company no longer classified the property as a discontinued operation within its consolidated statements of operations or its consolidated balance sheets at December 31, 2007. At December 31, 2007, no adjustment of the property's carrying value has been recorded as the book value of the property held for sale did not exceed its estimated fair value. The Company

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**COLE CREDIT PROPERTY TRUST II, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

continues to evaluate the potential impact of the tenant's bankruptcy on the property's future operating results and its carrying value.

***Investment in Direct Financing Leases***

The Company evaluates the leases associated with its real estate properties in accordance with SFAS No. 13, *Accounting for Leases* (SFAS 13). For the real estate property leases classified as direct financing leases, the building portion of the property leases are accounted for as direct financing leases while the land portion of these leases are accounted for as operating leases. For the direct financing leases, we record an asset (net investment) representing the aggregate future minimum lease payments, estimated residual value of the leased property and deferred incremental direct costs less unearned income. Income is recognized over the life of the lease to approximate a level rate of return on the net investment. Residual values, which are reviewed quarterly, represent the estimated amount we expect to receive at lease termination from the disposition of leased property. Actual residual values realized could differ from these estimates. Write-downs of estimated residual value are recognized as permanent impairments in the current period.

***Investment in Mortgage Notes Receivable***

Mortgage notes receivable consist of loans acquired by the Company, which are secured by real estate properties. Mortgage notes receivable are recorded at stated principal amounts net of any discount or premium or deferred loan origination costs or fees. The related discounts or premiums on mortgage notes receivable purchased are amortized or accreted over the life of the related mortgage receivable. The Company defers certain loan origination and commitment fees, net of certain origination costs, and amortizes them as an adjustment of the mortgage notes receivable's yield over the term of the related mortgage receivable. The Company evaluates the collectibility of both interest and principal on each mortgage note receivable to determine whether it is collectible. A mortgage note receivable is considered to be impaired, when based upon current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a mortgage note receivable is considered to be impaired, the amount of loss is calculated by comparing the recorded investment to the value determined by discounting the expected future cash flows at the mortgage note receivable's effective interest rate or to the value of the underlying collateral if the mortgage note receivable is collateralized. Interest income on performing mortgage note receivable is accrued as earned. Interest income on impaired mortgage notes receivable is recognized on a cash basis. No impairment losses were recorded related to mortgage notes receivable for either of the years ended December 31, 2007 and 2006.

***Cash and Cash Equivalents***

The Company considers all highly liquid instruments with maturities when purchased of three months or less to be cash equivalents.

***Restricted Cash and Escrowed Investor Proceeds***

The Company is currently engaged in a public offering of its common stock. Included in restricted cash is escrowed investor proceeds of approximately \$12.7 million and approximately \$5.7 million of offering proceeds for which shares of common stock had not been issued as of December 31, 2007 and 2006, respectively. Restricted cash also

includes approximately \$728,000 and \$0 as of December 31, 2007 and 2006, which is restricted to fund capital expenditures for the Company's real estate investment properties.

***Rents and Tenant Receivables***

Rents and tenant receivables primarily includes amounts to be collected in future periods related to the recognition of rental income on a straight-line basis over the lease term and cost recoveries from tenants. See Revenue Recognition below. The Company makes estimates of the uncollectability of its accounts receivable

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**COLE CREDIT PROPERTY TRUST II, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

related to base rents, expense reimbursements and other revenues. The Company analyzes accounts receivable and historical bad debt levels, customer credit worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. In addition, tenants in bankruptcy are analyzed and estimates are made in connection with the expected recovery of pre-petition and post-petition claims. The Company's reported net income is directly affected by management's estimate of the collectability of accounts receivable. The Company records allowances for those balances that the Company deems to be uncollectible, including any amounts relating to straight-line rent receivables.

***Prepaid Expenses and Other Assets***

Prepaid expenses and other assets includes expenses incurred as of the balance sheet date that relate to future periods and will be expensed or reclassified to another account during the period to which the costs relate. Any amounts with no future economic benefit are charged to earnings when identified.

***Deferred Financing Costs***

Deferred financing costs are capitalized and amortized on a straight-line basis over the term of the related financing arrangement. Amortization of deferred financing costs for the years ended December 31, 2007, 2006 and 2005, was approximately \$1.9 million, approximately \$548,000 and approximately \$18,000, respectively, and was recorded in interest expense in the consolidated statements of operations.

***Revenue Recognition***

Upon the acquisition of real estate, certain properties have leases where minimum rent payments increase during the term of the lease. The Company records rental revenue for the full term of each lease on a straight-line basis. When the Company acquires a property, the term of existing leases is considered to commence as of the acquisition date for the purposes of this calculation. The Company defers the recognition of contingent rental income, such as percentage rents, until the specific target that triggers the contingent rental income is achieved. Expected reimbursements from tenants for recoverable real estate taxes and operating expenses are included in tenant reimbursement income in the period the related costs are incurred.

***Income Taxes***

The Company is taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code. The Company generally will not be subject to federal corporate income tax to the extent it distributes its REIT taxable income to its stockholders, and so long as it distributes at least 90% of its REIT taxable income. REITs are subject to a number of other organizational and operational requirements. Even if the Company qualifies for taxation as a REIT, it may be subject to certain state and local taxes on its income and property, and federal income and excise taxes on its undistributed income.

***Concentration of Credit Risk***

As of December 31, 2007, the Company had cash on deposit in three financial institutions, which was approximately \$43.3 million, approximately \$12.6 million and approximately \$33,000, respectively, in excess of federally insured

levels; however, the Company has not experienced any losses in such account. The Company limits investment of cash investments to financial institutions with high credit standing; therefore, the Company believes it is not exposed to any significant credit risk on cash.

As of December 31, 2007, no single tenant accounted for more than 10% of the Company's gross annualized base rental revenues. Tenants in the drugstore, specialty retail, and sporting goods industries comprise approximately 15%, approximately 14%, and approximately 11%, respectively, of the Company's gross annualized base rental revenues for the year ended December 31, 2007. As of December 31, 2006, no single tenant accounted for

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**COLE CREDIT PROPERTY TRUST II, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

more than 10% of the Company's gross annualized base rental revenues. Tenants in the drugstore, specialty retail and automotive supply industries comprise approximately 25%, approximately 12% and approximately 11%, respectively, of the Company's gross annualized base rental revenues for the year ended December 31, 2006. Additionally, the Company has certain geographic concentration in our property holdings. In particular, as of December 31, 2007, 37 of the Company's properties were located in Texas and 15 of the Company's properties were located in Illinois, accounting for approximately 16% and approximately 13% of Company's 2007 gross annualized base rental revenues, respectively. As of December 31, 2006, nine of the Company's properties were located in Texas and five of the Company's properties were located in Kansas, accounting for approximately 11% and approximately 9% of the Company's 2006 gross annualized base rental revenues, respectively.

***Offering and Related Costs***

Cole Advisors II funds all of the organization and offering costs on the Company's behalf and is reimbursed for such costs up to 1.5% of gross proceeds from the Offerings, excluding selling commissions and the dealer-manager fee. As of December 31, 2007 and 2006, Cole Advisors II had incurred organization and offering costs of approximately \$4.6 million and approximately \$3.8 million, respectively, on behalf of the Company, of which, all were reimbursable by the Company. The offering costs, which include items such as legal and accounting fees, marketing, and promotional printing costs, are recorded as a reduction of capital in excess of par value along with sales commissions and dealer manager fees of 7% and 2%, respectively. Organization costs are expensed as incurred. No organization costs were expensed during the year ended December 31, 2007 and approximately \$57,000 of organization costs was expensed during the year ended December 31, 2006.

***Due to Affiliates***

As of December 31, 2007, the amount due to affiliates primarily consisted of approximately \$743,000 due to Cole Realty Advisors for acquisition fees incurred, approximately \$350,000 due to Cole Advisors II for finance coordination fees incurred, and approximately \$383,000 due to Cole Advisors II for offering costs incurred. As of December 31, 2006, due to affiliates consisted of approximately \$47,000 due to Cole Advisors II for reimbursement of organization and offering costs and approximately \$20,000 due to an affiliate of Cole Advisors II for reimbursement of certain loan costs.

***Stockholders Equity***

As of each of December 31, 2007 and 2006 the Company was authorized to issue 240,000,000 shares of common stock and 10,000,000 shares of preferred stock. All shares of such stock have a par value of \$.01 per share. The Company's board of directors may authorize additional shares of capital stock and amend its terms without obtaining stockholder approval.

The par value of investor proceeds raised from the Offerings is classified as common stock, with the remainder allocated to capital in excess of par value. The Company's share redemption program provides that all redemptions during any calendar year, including those upon death or qualifying disability, are limited to those that can be funded with proceeds raised from the DRIP. In accordance with Accounting Series Release No. 268, *Presentation in Financial Statements of Redeemable Preferred Stock*, the Company accounts for the proceeds received from its DRIP outside of permanent equity for future redemption of shares. During the years ended December 31, 2007 and 2006,

proceeds of approximately \$20.3 million and approximately \$3.5 million were received from the DRIP, respectively, were recorded as redeemable common stock in the respective consolidated balance sheets. As of December 31, 2007, the Company had redeemed 226,944 shares under its share redemption program. As of December 31, 2006, the Company had redeemed no shares under its share redemption program.

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**COLE CREDIT PROPERTY TRUST II, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Earnings Per Share***

Earnings per share are calculated based on the weighted average number of common shares outstanding during each period. Diluted income per share considers the effect of all potentially dilutive share equivalents, including outstanding employee stock options. See Note 13.

***Stock Options***

On January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), *Share-Based Payment* ( SFAS 123R ), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including stock options related to the 2004 Independent Directors Stock Option Plan ( IDSOP ) (see Note 13), based on estimated fair values. The Company adopted SFAS 123R using the modified prospective application. Accordingly, prior period amounts were not restated. As of December 31, 2007, there were 30,000 stock options outstanding under the IDSOP at a weighted average exercise price of \$9.13 per share. As of December 31, 2006, there were 20,000 stock options outstanding under the IDSOP at a weighted average exercise price of \$9.15 per share

***Reportable Segments***

The Financial Accounting Standards Board ( FASB ) issued SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, which establishes standards for reporting financial and descriptive information about an enterprise's reportable segments. The Company determined that it has two operating segments, (i) commercial properties and (ii) mortgage notes receivable. Commercial properties consist of activities related to investing in real estate including retail, office, and distribution properties. The Company's commercial properties generate rental revenue and other income through the leasing of the properties, which comprised 98.7%, 100% and 100% of the Company's total consolidated revenues the years ended December 31, 2007, 2006 and 2005, respectively. Although the Company's commercial properties are geographically diversified throughout the United States, management evaluates operating performance on an individual property level, therefore the Company's properties have been aggregated into one reportable segment. In addition, the Company has not presented separate financial information for the investment in mortgages receivable because its results of operations are not material to the Company's consolidated financial statements as a whole. For the year ended December 31, 2007, the interest income from investment in mortgage notes receivable accounted for 1.2% of the consolidated revenue. For the year ended December 31, 2007, net income from investment in mortgage notes receivable accounted for 3.8% of consolidated net income. Mortgage notes receivable, net of related notes payable accounted for less than 1% of consolidated assets as of December 31, 2007. There were no mortgages receivable, or related interest income, recorded during the year ended December 31, 2006.

***Interest***

Interest is charged to interest expense as it accrues. No interest costs were capitalized during the years ended December 31, 2007 and 2006.

***Distributions Payable and Distribution Policy***



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In order to maintain its status as a REIT, the Company is required to make distributions each taxable year equal to at least 90% of its REIT taxable income excluding capital gains. To the extent funds are available, the Company intends to pay regular quarterly distributions to stockholders. Distributions are paid to those stockholders who are stockholders of record as of applicable record dates.

During January 2008, our board of directors declared a daily distribution of \$0.00191781 per share for stockholders of record as of the close of business on each day of the period commencing on January 1, 2008 and ending on March 31, 2008. The monthly distributions were calculated to be equivalent to an annualized distribution

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**COLE CREDIT PROPERTY TRUST II, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

of seven percent (7.0%) per share, assuming a purchase price of \$10.00 per share. As of December 31, 2007, the Company had distributions payable of approximately \$5.4 million. The distributions were paid in January 2007, of which approximately \$3.0 million was reinvested in shares through our distribution reinvestment program.

***Recent Accounting Pronouncements***

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109* ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 became effective for the Company on January 1, 2007 and its adoption did not have a material impact on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. During February 2008, the FASB issued a Staff Position that will (i) partially defer the effective date of SFAS No. 157 for one year for certain nonfinancial assets and nonfinancial liabilities and (ii) remove certain leasing transactions from the scope of SFAS No. 157. The Company has not determined what impact, if any, the adoption of SFAS No. 157 will have on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS No. 159 ). SFAS No. 159 allows entities to choose to measure eligible financial instruments at fair value with changes in fair value recognized in earnings of each subsequent reporting date. The fair value election is available for most financial assets and liabilities on an instrument-by-instrument basis and is to be elected on the date of the financial instrument is initially recognized. SFAS 159 is effective for all entities as of the beginning of a reporting entity's first fiscal year that begins after November 15, 2007 (with earlier application permitted under certain circumstances). The Company did not choose to take the fair value election allowed by the standard.

In June 2007, the American Institute of Certified Public Accountants ( AICPA ) issued Statement of Position 07-1, *Clarification of the Scope of the Audit and Accounting Guide for Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* ( SOP 07-1 ). SOP 07-1 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide Investment Companies (the Guide ). Entities that are within the scope of the Guide are required, among other things, to carry their investments at fair value, with changes in fair value include in earnings. In October 2007, the FASB indefinitely deferred the provisions of SOP 07-1.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB 51* ( SFAS No. 160 ). This statement amends ARB 51 and revises accounting and reporting requirements for noncontrolling interest (formerly minority interest) in a subsidiary and for the deconsolidation of a subsidiary. Upon its adoption, January 1, 2009 for the Company, noncontrolling interest will be classified as equity,

and income attributed to the noncontrolling interest will be included in the Company's income. The provisions of this standard are applied retrospectively upon adoption. The Company is currently evaluating the impact of adopting SFAS No. 160 on the consolidated financial statements; however, the Company does not expect it to have a material impact on the consolidated results.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) clarifies and amends the accounting guidance for how an acquirer in

**Table of Contents****COLE CREDIT PROPERTY TRUST II, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

a business combination recognizes and measures the assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree. The provisions of SFAS No. 141(R) are effective for the Company for any business combinations occurring on or after December 15, 2008. The Company has not determined what impact, if any, the adoption of SFAS No. 141 (R) will have on its consolidated financial statements.

**NOTE 3 INVESTMENT IN DIRECT FINANCING LEASES**

The Company evaluates the leases associated with its real estate properties in accordance with SFAS 13. For the real estate property leases classified as direct financing leases, the building portion of the property leases are accounted for as direct financing leases while the land portion of these leases are accounted for as operating leases. For the direct financing leases, we record an asset (net investment) representing the aggregate future minimum lease payments, estimated residual value of the leased property and deferred incremental direct costs less unearned income. Income is recognized over the life of the lease to approximate a level rate of return on the net investment. Residual values, which are reviewed quarterly, represent the estimated amount we expect to receive at lease termination from the disposition of leased property. Actual residual values realized could differ from these estimates. Write-downs of estimated residual value are recognized as permanent impairments in the current period. There were no write-downs recognized during the years ended December 31, 2007 and 2006.

The components of investment in direct financing leases as of December 31, 2007 and 2006 were as follows:

	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
Minimum lease payments receivable	\$ 26,862,088	\$
Estimated residual value of leased assets	29,695,737	
Deferred incremental direct costs		
Unearned income	(17,297,642)	
Total	\$ 39,260,183	\$

A summary of minimum lease future rentals, exclusive of any renewals, under the non-cancelable direct financing leases in existence at December 31, 2007 is as follows:

	<b>Amount</b>
<b>Year ending December 31:</b>	
2008	\$ 2,814,172
2009	2,821,326
2010	2,847,953
2011	2,885,052
2012	2,936,275

Thereafter	12,557,310
Total	\$ 26,862,088

**NOTE 4 REAL ESTATE ACQUISITIONS**

During the year ended December 31, 2007, the Company acquired a 100% interest in 242 commercial properties for an aggregate purchase price of approximately \$1.3 billion, including acquisition costs of approximately \$32.5 million. The Company financed the acquisitions through the issuance and assumption of approximately \$820.0 million of mortgage loans generally secured by the individual properties. The Company allocated the purchase price of these properties, including aggregate acquisition costs, to the fair value of the assets acquired and liabilities assumed. The Company allocated approximately \$306.7 million to land, approximately

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\$848.2 million to building and improvements, approximately \$158.6 million to acquired in-place leases, approximately \$39.5 million to investment in direct financing leases, approximately \$79.4 million to acquired below-market leases and approximately \$31.8 million to acquired above-market leases during the year ended December 31, 2007. Additionally, during the year ended December 31, 2007 the Company capitalized approximately \$232,000 of expenditures relating to building and improvements, which will be depreciated over the estimated useful life of each asset.

During the year ended December 31, 2006, the Company acquired a 100% interest in 77 commercial properties for an aggregate purchase price of approximately \$358.8 million, including acquisition costs of approximately \$7.9 million. The Company financed the acquisitions through the issuance and assumption of approximately \$213.2 million of mortgage loans generally secured by the individual properties. The Company allocated the purchase price of these properties, including aggregate acquisition costs, to the fair value of the assets acquired and liabilities assumed. The Company allocated approximately \$85.7 million to land, approximately \$229.5 million to building and improvements, approximately \$46.3 million to acquired in-place leases, approximately \$2.7 million to acquired below-market leases and approximately \$42.6 million related to debt assumed on properties acquired during the year ended December 31, 2006.

**NOTE 5 INTANGIBLE LEASE ASSETS**

Identified intangible lease assets consisted of the following:

	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
Acquired in place leases, net of accumulated amortization of \$11,737,401 and \$2,142,845 at December 31, 2007 and 2006, respectively (with a weighted average life of 185 and 159 months for in-place leases, respectively)	\$ 196,320,176	\$ 51,939,520
Acquired above market leases, net of accumulated amortization of \$1,188,267 and \$108,327 at December 31, 2007 and 2006, respectively (with a weighted average life of 183 and 162 months for acquired above market leases, respectively)	32,470,792	2,629,503
	\$ 228,790,968	\$ 54,569,023

Amortization expense recorded on the identified intangible assets, for each of fiscal years ended December 31, 2007, 2006 and 2005, was approximately \$11.0 million, approximately \$2.2 million, and approximately \$72,000, respectively.

Estimated amortization expense of the respective intangible lease assets as of December 31, 2007 for each of the five succeeding fiscal years is as follows:

<b>Year</b>	<b>Lease In-Place</b>	<b>Amount</b>	
			<b>Above Market Lease</b>
2008	\$ 16,624,480	\$	2,589,037
2009	\$ 16,139,689	\$	2,544,663
2010	\$ 15,573,587	\$	2,464,677
2011	\$ 15,325,819	\$	2,427,407
2012	\$ 15,087,176	\$	2,404,833

**NOTE 6 MORTGAGE NOTES RECEIVABLE ACQUISITIONS**

During the year ended December 31, 2007, the Company acquired a portfolio of 23 mortgage notes receivable with an aggregate face value of approximately \$45.0 million, which are secured by 23 restaurant properties, and a

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**COLE CREDIT PROPERTY TRUST II, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

portfolio of 46 mortgage notes receivable with an aggregate face amount of approximately \$33.3 million secured by 20 restaurant properties and 26 retail properties (collectively, the Mortgage Notes ). The receivable balance of approximately \$87.1 million as of December 31, 2007 consists of the face value of the notes of approximately \$78.3 million, an approximately \$6.9 million premium, and approximately \$1.9 million of acquisition costs, net of accumulated amortization of approximately \$79,000. The premium and acquisition costs will be amortized over the terms of the respective mortgage notes using the effective interest rate method. The Mortgage Notes mature on various dates from August 1, 2020 to January 1, 2021. Interest and principal is due each month at interest rates ranging from 8.60% to 10.47% per annum.

**NOTE 7 MORTGAGE NOTES PAYABLE**

As of December 31, 2007, the Company had 171 mortgage notes payable totaling approximately \$1.1 billion. As of December 31, 2007, the Company had 166 mortgage notes payable totaling approximately \$940.9 million, in connection with real estate assets, with interest rates ranging from 5.15% to 6.88% with a weighted average interest rate of approximately 5.85% (the Fixed Rate Debt ). The Fixed Rate Debt matures on various dates from July 2008 through October 2018. Each of the mortgage notes are secured by the respective property. The mortgage notes are generally non-recourse to the Company and Cole Op II, but both are liable for customary non-recourse carveouts.

As of December 31, 2007, the Company had approximately \$43.5 million outstanding under three revolving lines of credit. During the year ended December 31, 2007, the Company borrowed an aggregate of approximately \$72.2 million and subsequently repaid approximately \$28.7 million on the revolving lines of credit to partially fund certain of the real estate acquisitions described in Note 4. The revolving lines of credit bear interest at variable rates equal to the one-month LIBOR plus 150 to 200 basis points and mature on various dates from January 2008 to September 2008. As of December 31, 2007, no amounts were available under the three revolving lines of credit. The Company repaid approximately \$22.2 million on two revolving lines of credit in January 2008.

As of December 31, 2007, the Company had approximately \$71.3 million of short-term variable rate debt, which bears interest at variable rates equal to the one-month LIBOR rate plus 200 to 275 basis points. Approximately \$36.3 million was secured by certain real estate properties and approximately \$35.0 million was secured by certain mortgage notes receivable. Both notes matured and were repaid in March 2008.

On March 2, 2007, the Company repaid a fixed rate mortgage note of approximately \$5.2 million that was due on October 1, 2016. As a result, approximately \$113,000 of unamortized deferred financing costs was expensed and included in interest expense in the consolidated financial statements for year ended December 31, 2007.

As of December 31, 2006, the Company had 71 mortgage notes payable totaling approximately \$218.3 million, of which approximately \$215.6 million was fixed rate debt with interest rates ranging from 5.15% to 6.31% with a weighted average interest rate of approximately 5.72%. The Company also had approximately \$2.7 million of short-term variable rate debt outstanding at December 31, 2006.

Generally, the Fixed Rate Debt may not be prepaid, in whole or in part, except under the following circumstances: (i) full prepayment may be made on any of the three (3) monthly payment dates occurring immediately prior to the maturity date, and (ii) partial prepayments resulting from the application of insurance or condemnation proceeds to reduce the outstanding principal balance of the mortgage notes. Notwithstanding the prepayment limitations, the



Company may sell the properties to a buyer that assumes the respective mortgage loan. The transfer would be subject to the conditions set forth in the individual property's mortgage note document, including without limitation, the lender's approval of the proposed buyer and the payment of the lender's fees, costs and expenses associated with the sale of the property and the assumption of the loan.

In the event that a mortgage note is not paid off on the respective maturity date, most mortgage note includes hyperamortization provisions. The interest rate during the hyperamortization period shall be the fixed interest rate as stated on the respective mortgage note agreement plus two percent (2.0%). The individual mortgage note maturity date, under the hyperamortization provisions, will be extended by twenty (20) years. During such period,

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the lender will apply 100% of the rents collected to (i) all payments for escrow or reserve accounts, (ii) payment of interest at the original fixed interest rate, (iii) payments for the replacement reserve account, (iv) any other amounts due in accordance with the mortgage note agreement other than any additional interest expense, (v) any operating expenses of the property pursuant to an approved annual budget, (vi) any extraordinary expenses, (vii) payments to be applied to the reduction of the principal balance of the mortgage note, and (viii) any additional interest expense, which is not paid will be added to the principal balance of the mortgage note.

The following table summarizes the scheduled aggregate principal repayments for the five years subsequent to December 31, 2007:

	<b>Principal Repayments</b>
<b>For the year ending December 31:</b>	
2008	\$ 125,297,353
2009	1,069,917
2010	17,808,720
2011	40,261,492
2012	45,286,607
Thereafter	825,957,449
<b>Total</b>	<b>\$ 1,055,681,538</b>

The variable rate mortgages approximate fair market value. The fair value of our fixed rate mortgage notes payable at December 31, 2007 approximates \$1.0 billion.

***Related party notes***

On February 10, 2006, Cole OP II borrowed approximately \$4.7 million from Series B, LLC ( Series B ), an affiliate of the Company and the Company's advisor, by executing a promissory note which was secured by membership interest held by Cole OP II in a wholly-owned subsidiary. The loan proceeds were used to acquire a property with a purchase price of approximately \$5.9 million, exclusive of closing costs. The loan had a variable interest rate based on the one-month LIBOR rate plus 200 basis points with monthly interest-only payments, and the outstanding principal and accrued and unpaid interest was payable in full on December 31, 2006. The loan was generally non-recourse to Cole OP II and could be prepaid at any time without penalty or premium. The Company's board of directors, including all of the independent directors, approved the loan and determined that its terms were no less favorable to the Company than loans between unaffiliated third parties under the same circumstances. Cole OP II repaid the note in full in May 2006.

On February 6, 2006, Cole OP II borrowed approximately \$2.3 million from Series C by executing a promissory note which was secured by membership interest held by Cole OP II in a wholly-owned subsidiary. The loan proceeds were used to acquire a property with a purchase price of approximately \$18.5 million, exclusive of closing costs. The loan had a variable interest rate based on the one-month LIBOR rate plus 200 basis points with monthly interest-only

payments, and the outstanding principal and accrued and unpaid interest was payable in full on December 31, 2006. The loan was generally non recourse to Cole OP II and could be prepaid at any time without penalty or premium. The Company's board of directors, including all of the independent directors, approved the loan and determined that its terms were no less favorable to the Company than loans between unaffiliated third parties under the same circumstances. Cole OP II repaid the note in full in April 2006.

On December 15, 2005, Cole OP II borrowed approximately \$2.5 million and approximately \$2.0 million from Series C, LLC ( Series C ), which is an affiliate of the Company and the Company's advisor, by executing two promissory notes which were secured by membership interests held by Cole OP II in two wholly-owned subsidiaries. Each of the loans had a variable interest rate based on the one-month LIBOR rate plus 200 basis

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points with monthly interest-only payments, and the outstanding principal and accrued and unpaid interest payable in full on June 30, 2006. Each of the loans was generally non recourse to Cole OP II and could be prepaid at any time without penalty or premium. The Company's board of directors, including a majority of its independent directors, approved the loans and determined that the terms of the loans were no less favorable to the Company than loans between unaffiliated third parties under the same circumstances. Cole OP II repaid the notes in full in April 2006.

During the year ended December 31, 2007, no interest expense was incurred for related party transactions. During the years ended December 31, 2006 and 2005 Cole OP II incurred approximately \$210,000 and approximately \$13,000, respectively, in interest expense to affiliates under the aforementioned loans.

**NOTE 8 INTANGIBLE LEASE LIABILITY**

Identified intangible liability relating to the real estate acquisitions discussed in Note 4 consisted of the following:

	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
Acquired below market leases, net of accumulated amortization of \$2,083,475 and \$96,484 at December 31, 2007 and 2006, respectively (with a weighted average life of 199 and 144 months, respectively)	\$ 80,031,916	\$ 2,649,374

Amortization income recorded on the identified intangible liability, for each of fiscal years ended December 31, 2007, 2006 and 2005 was \$2.0 million, \$96,000 and \$52, respectively.

Estimated amortization income of the respective intangible lease liability as of December 31, 2007 for each of the five succeeding fiscal years is as follows:

<b>Year</b>	<b>Amount Below Market Lease</b>
2008	\$ 5,897,599
2009	\$ 5,835,949
2010	\$ 5,681,524
2011	\$ 5,584,089
2012	\$ 5,499,927

**NOTE 9 EXTENDED RATE LOCK AGREEMENTS**

The Company entered into Extended Rate Lock Agreements with Bear Stearns Commercial Mortgage, Inc. ( Bear Stearns ), JP Morgan Chase Bank, N.A. ( JP Morgan ), Wachovia Bank, and Wells Fargo Bank, N.A. ( Wells Fargo ) (the

Rate Locks ) to lock interest rates ranging from 5.49% to 6.69% for up to approximately \$647.8 million in borrowings. Under the terms of Rate Locks, the Company made rate lock deposits totaling approximately \$12.4 million to Bear Stearns, JP Morgan, Wachovia and Wells Fargo. As of December 31, 2007, the Company had no available borrowings under the Rate Locks and no rate lock deposits outstanding.

The Company had approximately \$3.9 million in rate lock deposits outstanding at December 31, 2006, which are reflected as Mortgage Loan Deposits and recorded in Prepaid Expenses, Mortgage Loan Deposits, and Other Assets on the Company's consolidated balance sheet and statement of cash flows.

The rate lock deposits are refundable to the Company on an allocable basis with respect to any loans funded under the agreements. The Rate Locks expire 60 days from execution. The agreements may be extended by intervals of 30 days, up to 180 days, for a rate lock fee of 0.25% of the loan amount or, at the Company's election, by converting the fee into interest rate spread. Either party may terminate the agreement upon notice to the other party

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**COLE CREDIT PROPERTY TRUST II, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

at any time prior to the determination of the rate and the rate locked amount in accordance with the terms of the agreement. In the event the Company wishes to terminate and cancel a Rate Locks agreement, subsequent to the determination of the rate and the rate locked amount, and the Company has satisfied all of the obligations set forth in the agreement, including the payment of any and all hedge breakage costs, and Bear Stearns, JP Morgan, or Wachovia (the Lenders ) has realized a net gain on any hedges entered into by the Lenders relating to the Rate Lock, then Lenders will remit one-half of such net gain to the Company. The Company will be liable to the Lenders for 100% of any net hedge break loss incurred by the Lenders on terminated rate locks. Wells Fargo will retain the rate lock deposit as consideration for locking the rate on terminated rate locks.

On August 10, 2007, the Company terminated its rate lock agreement with Bear Stearns, which fixed interest rates for the remaining unallocated borrowings of up to approximately \$275.8 million. As a result, approximately \$5.7 million in rate lock deposits was refunded to the Company. In accordance with the terms of the rate lock agreements, the Company earned a rate lock breakage gain of approximately \$2.2 million. In addition, the Company expensed previously deferred financing costs of approximately \$1.7 million relating to the remaining unallocated borrowings. The net gain of approximately \$478,000 is included in interest and other income on the condensed consolidated statements of operations.

**NOTE 10 COMMITMENTS AND CONTINGENCIES**

*Litigation*

In the ordinary course of business, the Company may become subject to litigation or claims. There are no material pending legal proceedings known to be contemplated against us.

*Environmental Matters*

In connection with the ownership and operation of real estate, the Company may be potentially liable for costs and damages related to environmental matters. During the year ended December 31, 2007, the Company acquired certain properties which are subject to environmental remediation. In each case, the seller, the tenant and/or another third party has been identified as the responsible party for environmental remediation costs related to the property. Additionally, in connection with the purchase of certain of the properties, the respective sellers and/or tenants have indemnified the Company against future remediation costs. The Company does not believe that the environmental matters identified at such properties will have a material adverse effect on its consolidated results of operations, nor is it aware of any environmental matters at other properties which it believes will have a material adverse effect on its consolidated results of operations.

**NOTE 11 RELATED PARTY TRANSACTIONS AND ARRANGEMENTS**

Certain affiliates of the Company receive, and will continue to receive fees and compensation in connection with the Offerings, and the acquisition, management and sale of the assets of the Company. Cole Capital receives, and will continue to receive, a selling commission of up to 7% of gross offering proceeds before reallowance of commissions earned by participating broker-dealers. Cole Capital reallows, and intends to continue to reallow 100% of commissions earned to participating broker-dealers. In addition, Cole Capital will receive up to 1.5% of gross proceeds from the Offerings, excluding selling commissions and the dealer manager fee. Cole Capital, in its sole

discretion, may reallocate all or a portion of its dealer-manager fee to such participating broker-dealers as a marketing and due diligence expense reimbursement, based on such factors as the volume of shares sold by such participating broker-dealers and marketing support incurred as compared to those of other participating broker-dealers. No selling commissions or dealer-manager fees are paid to Cole Capital in respect to shares sold under the DRIP. During the years ended December 31, 2007, 2006 and 2005, the Company paid approximately \$53.3 million, approximately \$23.3 million and approximately \$2.4 million to Cole Capital for commissions and dealer manager fees, of which approximately \$45.4 million, approximately \$20.0 million and approximately \$2.0 million was reallocated to participating broker-dealers.

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**COLE CREDIT PROPERTY TRUST II, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

All organization and offering expenses associated with the sale of the Company's common stock (excluding selling commissions and the dealer-manager fee) are paid for by Cole Advisors II or its affiliates and are reimbursed by the Company up to 1.5% of gross offering proceeds. Cole Advisors II or its affiliates also receive acquisition and advisory fees of up to 2% of the contract purchase price of each asset for the acquisition, development or construction of real property and will be reimbursed for acquisition costs incurred in the process of acquiring properties, but not to exceed 4.0% of the contract purchase price. The Company expects the acquisition expenses to be approximately 0.5% of the purchase price of each property. During the years ended December 31, 2007, 2006 and 2005, the Company reimbursed the Advisor approximately \$4.6 million, approximately \$3.4 million and approximately \$421,000, respectively, for organizational and offering expenses in the Offerings, of which \$0, approximately \$57,000 and approximately \$2,000, respectively, was expensed as organization costs. During the years ended December 31, 2007, 2006 and 2005, the Company paid Cole Realty Advisors approximately \$26.9 million, approximately \$5.8 million and approximately \$1.7 million, respectively, for acquisition fees.

If Cole Advisors II provides services, as determined by the independent directors, in connection with the origination or refinancing of any debt financing obtained by the Company that is used to acquire properties or to make other permitted investments, or that is assumed, directly or indirectly, in connection with the acquisition of properties, the Company will pay Cole Advisors II or its affiliates a financing coordination fee equal to 1% of the amount available under such financing; provided however, that Cole Advisors II or its affiliates shall not be entitled to a financing coordination fee in connection with the refinancing of any loan secured by any particular property that was previously subject to a refinancing in which Cole Advisors II or its affiliates received such a fee. Financing coordination fees payable from loan proceeds from permanent financing will be paid to Cole Advisors II or its affiliates as the Company acquires such permanent financing. However, no acquisition fees will be paid on loan proceeds from any line of credit until such time as all net offering proceeds have been invested by the Company. During the years ended December 31, 2007, 2006 and 2005, the Company paid Cole Advisors II or its affiliates approximately \$8.0 million, approximately \$1.8 million and approximately \$320,000, respectively, for finance coordination fees.

The Company pays, and expects to continue to pay, Cole Realty Advisors, its affiliated property manager, fees for the management and leasing of the Company's properties. Such fees currently equal, and are expected to continue to equal (i) 2.0% of gross revenues from its single tenant properties and (ii) 4.0% of gross revenues from its multi-tenant properties, plus leasing commissions at prevailing market rates; provided however, that the aggregate of all property management and leasing fees paid to affiliates plus all payments to third parties will not exceed the amount that other nonaffiliated management and leasing companies generally charge for similar services in the same geographic location. Cole Realty Advisors may subcontract its duties for a fee that may be less than the fee provided for in the property management agreement. During the years ended December 31, 2007, 2006 and 2005, the Company paid Cole Realty Advisors approximately \$1.6 million, approximately \$350,000 and approximately \$14,000, respectively, for property management fees.

The Company pays Cole Advisors II an annualized asset management fee of 0.25% of the aggregate asset value of the Company's assets (the Asset Management Fee). The fee is payable monthly in an amount equal to 0.02083% of aggregate asset value as of the last day of the immediately preceding month. During the years ended December 31, 2007, 2006 and 2005, the Company paid asset management fees to Cole Advisors II of approximately \$2.6 million, approximately \$587,000 and approximately \$25,000, respectively.



If Cole Advisors II or its affiliates provides a substantial amount of services, as determined by the Company's independent directors, in connection with the sale of one or more properties, the Company will pay Cole Advisors II up to one-half of the brokerage commission paid, but in no event to exceed an amount equal to 2% of the sales price of each property sold. In no event will the combined real estate commission paid to Cole Advisors II, its affiliates and unaffiliated third parties exceed 6% of the contract sales price. In addition, after investors have received a return of their net capital contributions and an 8% annual cumulative, non-compounded return, then Cole Advisors II is

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**COLE CREDIT PROPERTY TRUST II, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

entitled to receive 10% of the remaining net sale proceeds. During the years ended December 31, 2007, 2006 and 2005, the Company did not pay any fees or amounts to Cole Advisors II relating to the sale of properties.

Upon listing of the Company's common stock on a national securities exchange, a fee equal to 10% of the amount by which the market value of the Company's outstanding stock plus all distributions paid by the Company prior to listing, exceeds the sum of the total amount of capital raised from investors and the amount of cash flow necessary to generate an 8% annual cumulative, non-compounded return to investors will be paid to Cole Advisors II (the Subordinated Incentive Listing Fee).

Upon termination of the advisory agreement with Cole Advisors II, other than termination by the Company because of a material breach of the advisory agreement by Cole Advisors II, a performance fee of 10% of the amount, if any, by which (i) the appraised asset value at the time of such termination plus total distributions paid to stockholders through the termination date exceeds (ii) the aggregate capital contribution contributed by investors less distributions from sale proceeds plus payment to investors of an 8% annual, cumulative, non-compounded return on capital. No subordinated performance fee will be paid if the Company has already paid or become obligated to pay Cole Advisors II a Subordinated Incentive Listing Fee.

The Company will reimburse Cole Advisors II for all expenses it paid or incurred in connection with the services provided to the Company, subject to the limitation that the Company will not reimburse for any amount by which its operating expenses (including the Asset Management Fee) at the end of the four preceding fiscal quarters exceeds the greater of (i) 2% of average invested assets, or (ii) 25% of net income other than any additions to reserves for depreciation, bad debts or other similar non-cash reserves and excluding any gain from the sale of assets for that period. The Company will not reimburse for personnel costs in connection with services for which Cole Advisors II receives acquisition fees or real estate commissions. During the year ended December 31, 2007, the Company reimbursed approximately \$672,000 to Cole Advisors II. During the years ended December 31, 2006, and 2005, the Company did not reimburse Cole Advisors II for any such costs.

On February 10, 2006, Cole OP II borrowed approximately \$4.7 million from Series B, an affiliate of the Company and the Company's advisor, by executing a promissory note which was secured by the membership interest held by Cole OP II in a wholly-owned subsidiary. The loan proceeds were used to acquire a property with a purchase price of approximately \$5.9 million, exclusive of closing costs. The loan had a variable interest rate based on the one-month LIBOR rate plus 200 basis points with monthly interest-only payments, and the outstanding principal and accrued and unpaid interest was payable in full on December 31, 2006. The loan was generally non-recourse to Cole OP II and could be prepaid at any time without penalty or premium. The Company's board of directors, including all of the independent directors, approved the loan and determined that its terms were no less favorable to the Company than loans between unaffiliated third parties under the same circumstances. Cole OP II repaid the note in full in May 2006.

On February 6, 2006, Cole OP II borrowed approximately \$2.3 million from Series C, an affiliate of the Company and the Company's advisor, by executing a promissory note which was secured by the membership interest held by Cole OP II in a wholly-owned subsidiary. The loan proceeds were used to acquire a property with a purchase price of approximately \$18.5 million, exclusive of closing costs. The loan had a variable interest rate based on the one-month LIBOR rate plus 200 basis points with monthly interest-only payments, and the outstanding principal and accrued and unpaid interest was payable in full on December 31, 2006. The loan was generally non recourse to Cole OP II and could be prepaid at any time without penalty or premium. The Company's board of directors, including all of the

independent directors, approved the loan and determined that its terms were no less favorable to the Company than loans between unaffiliated third parties under the same circumstances. Cole OP II repaid the note in full in April 2006.

On December 15, 2005, Cole OP II borrowed approximately \$2.5 million and approximately \$2.0 million from Series C by executing two promissory notes which are secured by the membership interests held by Cole OP II in two wholly-owned subsidiaries, respectively. Each of the loans has a variable interest rate based on the one-month

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LIBOR rate plus 200 basis points with monthly interest-only payments, and the outstanding principal and accrued and unpaid interest payable in full on June 30, 2006. Each of the loans is generally non recourse to Cole OP II and may be prepaid at any time without penalty or premium. The Company's board of directors, including a majority of its independent directors, approved the loans and determined that the terms of the loans are no less favorable to the Company than loans between unaffiliated third parties under the same circumstances. Cole OP II repaid the notes in full in April 2006.

Cole OP II incurred no interest expense to affiliates during the year ended December 31, 2007. During the years ended December 31, 2006 and 2005 Cole OP II incurred approximately \$210,000 and approximately \$13,000, respectively, in interest expense to affiliates under the aforementioned loans.

During the year ended December 31, 2007, Cole OP II acquired no properties from affiliates of the Company or the Company's advisor. During the year ended December 31, 2006, Cole OP II acquired the following properties from various affiliates of the Company and the Company's advisor. The acquisitions were funded by net proceeds from the Company's Offering and the assumption of loans secured by the respective properties.

<b>Property Description</b>	<b>Acquisition Date</b>	<b>Location</b>	<b>Seller</b>	<b>Purchase Price</b>	<b>Loan Assumed</b>
Wawa convenience store	March 29, 2006	Hockessin, DE	Series A, LLC	\$ 4,830,000(1)	\$ 2,598,068
Wawa convenience store	March 29, 2006	Manahawkin, NJ	Series A, LLC	4,414,000(1)	2,374,301
Wawa convenience store	March 29, 2006	Narberth, PA	Series A, LLC	4,206,000(1)	2,262,417
Conns appliance retailer	May 26, 2006	San Antonio, TX	Series D, LLC	4,624,619(2)	3,580,000
Rite Aid drugstore	May 26, 2006	Defiance, OH	Cole Acquisitions I, LLC	4,326,165(2)	2,321,000
CVS drugstore	May 26, 2006	Madison, MS	Cole Acquisitions I, LLC	4,463,088(2)	2,809,000
CVS drugstore	June 28, 2006	Portsmouth, OH	Cole Acquisitions I, LLC	2,101,708(2)	1,753,000
CVS drugstore	July 7, 2006	Okeechobee, FL	Cole Acquisitions I, LLC	6,459,262(2)	4,076,000
Office Depot office supply	July 7, 2006	Dayton, OH Holland, MI	LLC	3,416,526(2) 2,071,843(2)	2,130,000 1,193,000

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Advance Auto retailer	specialty	July 12, 2006		Cole Acquisitions I, LLC		
Advance Auto retailer	specialty	July 12, 2006	Holland Township, MI	Cole Acquisitions I, LLC	2,137,244(2)	1,231,000
Advance Auto retailer	specialty	July 12, 2006	Zeeland, MI	Cole Acquisitions I, LLC	1,840,715(2)	1,057,000
CVS drugstore		July 12, 2006	Orlando, FL	Series D, LLC	4,956,763(2)	3,016,000
Office Depot	office supply	July 12, 2006	Greenville, MS	Cole Acquisitions I, LLC	3,491,470(2)	2,192,000
Office Depot	office supply	July 19, 2006	Warrensburg, MO	Series D, LLC	2,880,552(2)	1,810,000
CVS drugstore		August 10, 2006	Gulfport, MS	Cole Acquisitions I, LLC	4,414,117(2)	2,611,000
					\$ 60,634,072	\$ 37,013,786

- (1) The Company's board of directors, including all of the independent directors, approved the transaction as being fair and reasonable to the Company, at a price in excess of the cost to Series A, LLC, but substantial justification exists for such excess, such excess is reasonable and the costs of the interest did exceed its current fair market value as determined by an independent expert selected by the Company's independent directors.
- (2) The Company's board of directors, including all of the independent directors, approved the transactions above as being fair and reasonable to the Company, at a price no greater than the cost to the affiliated entity, and at a cost that did not exceed its current fair market value as determined by an independent expert.

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**COLE CREDIT PROPERTY TRUST II, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 12 ECONOMIC DEPENDENCY**

Under various agreements, the Company has engaged or will engage Cole Advisors II and its affiliates to provide certain services that are essential to the Company, including asset management services, supervision of the management and leasing of properties owned by the Company, asset acquisition and disposition decisions, the sale of shares of the Company's common stock available for issue, as well as other administrative responsibilities for the Company including accounting services and investor relations. As a result of these relationships, the Company is dependent upon Cole Advisors II and its affiliates. In the event that these companies were unable to provide the Company with the respective services, the Company would be required to find alternative providers of these services.

**NOTE 13 INDEPENDENT DIRECTOR'S STOCK OPTION PLAN**

The Company has a stock option plan, the IDSOP, which authorizes the grant of non-qualified stock options to the Company's independent directors, subject to the absolute discretion of the board of directors and the applicable limitations of the plan. The Company intends to grant options under the IDSOP to each qualifying director annually. The exercise price for the options granted under the IDSOP initially will be \$9.15 per share. The options contractual life will be ten years from date of grant. It is intended that the exercise price for future options granted under the IDSOP will be at least 100% of the fair market value of the Company's common stock as of the date the option is granted. The exercise price for the options granted under the IDSOP was \$9.15 per share for 2005 and 2006 and \$9.10 per share for 2007. As of December 31, 2007 and 2006, the Company had granted options to purchase 30,000, and 20,000 shares, respectively. The 10,000 options granted during the year ended December 31, 2007 have a vesting period of approximately nine months. The remaining 20,000 options have a one year vesting period. A total of 1,000,000 shares have been authorized and reserved for issuance under the IDSOP. On January 1, 2006, we adopted SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including stock options related to the IDSOP, based on estimated fair values. The Company adopted SFAS 123R using the modified prospective application. Accordingly, prior period amounts were not restated.

During the year ended December 31, 2007, the Company recorded stock-based compensation charges of approximately \$25,000. During the year ended December 31, 2006, the adoption of SFAS 123R resulted in stock-based compensation charges of approximately \$54,000. Stock-based compensation expense recognized in the years ended December 31, 2007 and 2006 was based on awards ultimately expected to vest, and has been reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company's calculations do not assume any forfeitures.

A summary of the Company's stock option activity under its Independent Director Plan during the years ended December 31, 2007 and 2006 is as follows:

**Weighted  
Average  
Exercise**

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	<b>Number</b>	<b>Price</b>	<b>Exercisable</b>
Outstanding at December 31, 2005	10,000	\$ 9.15	
Granted in 2006	10,000	\$ 9.15	
Outstanding at December 31, 2006	20,000	\$ 9.15	10,000
Granted in 2007	10,000	\$ 9.10	
Outstanding at December 31, 2007	30,000	\$ 9.13	20,000

As of December 31, 2007 and 2006, options to purchase 10,000 shares were unvested with a weighted average contractual remaining life of approximately 8.4 and approximately 9.3 years, respectively.

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**COLE CREDIT PROPERTY TRUST II, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The weighted average fair value of options granted were \$0.70 in 2007 and \$5.55 in 2006. As of December 31, 2007 the number of options that were currently vested and expected to become vested was 30,000 shares which had an intrinsic value of \$26,000.

In accordance with SFAS 123R, the fair value of each stock option granted was estimated as of the date of the grant using the Black-Scholes method based on the following assumptions: a weighted average risk-free interest rate from 4.69% to 5.07%, a projected future dividend yield from 6.25% to 7.00%, expected volatility from 0% to 15.35%, and an expected life of an option of 10 years. Based on these assumptions, the fair value of the options granted during the years ended December 31, 2007 and 2006 were approximately \$7,000 and \$55,000, respectively. As of December 31, 2007, there was approximately \$4,000 of total unrecognized compensation cost related to unvested share-based compensation awards granted under the IDSOP. That cost is expected to be recognized during 2008.

**NOTE 14 STOCKHOLDERS EQUITY**

***Distribution Reinvestment Plan***

The Company maintains a distribution reinvestment plan that allows common stockholders (the Stockholders ) to elect to have the distributions the Stockholders receive reinvested in additional shares of the Company s common stock. The purchase price per share under the distribution reinvestment plan will be the higher of 95% of the fair market value per share as determined by the Company s board of directors and \$9.50 per share. No sales commissions or dealer manager fees will be paid on shares sold under the distribution reinvestment plan. The Company may terminate or amend the distribution reinvestment plan at the Company s discretion at any time upon ten days prior written notice to the Stockholders. Additionally, the Company will be required to discontinue sales of shares under the distribution reinvestment plan on the earlier of May 11, 2009, which is two years from the effective date of the Follow-on Offering, unless the Follow-on Offering is extended, or the date the Company sells 25,000,000 shares under the Follow-on Offering, unless the Company files a new registration statement with the Securities and Exchange Commission and applicable states. During the years ended December 31, 2007 and 2006, approximately 2.1 million and approximately 371,000 shares were purchased under the distribution reinvestment plan, for approximately \$20.3 million and approximately \$3.5 million, respectively, which were recorded as redeemable common stock on the consolidated balance sheets.

***Share Redemption Program***

The Company s share redemption program permits its stockholders to sell their shares back to the Company after they have held them for at least one year, subject to the significant conditions and limitations described below.

There are several restrictions on the stockholder s ability to sell their shares to the Company under the program. The stockholders generally have to hold their shares for one year before selling the shares to the Company under the plan; however, the Company may waive the one-year holding period in the event of the death or bankruptcy of a Stockholder. In addition, the Company will limit the number of shares redeemed pursuant to the Company s share redemption program as follows: (1) during any calendar year, the Company will not redeem in excess of 3.0% of the weighted average number of shares outstanding during the prior calendar year; and (2) funding for the redemption of shares will be limited to the amount of net proceeds the Company receives from the sale of shares under the Company s distribution reinvestment plan. These limits may prevent the Company from accommodating all requests



made in any year. During the term of the Offering, and subject to certain provisions the redemption price per share will depend on the length of time the stockholder has held such shares as follows: after one year from the purchase date 92.5% of the amount the stockholder paid for each share; after two years from the purchase date 95.0% of the amount the stockholder paid for each share; after three years from the purchase date 97.5% of the amount the stockholder paid for each share; and after four years from the purchase date 100.0% of the amount the stockholder paid for each share.

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**Table of Contents****COLE CREDIT PROPERTY TRUST II, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Upon receipt of a request for redemption, the Company will conduct a Uniform Commercial Code search to ensure that no liens are held against the shares. Repurchases will be made quarterly. If funds are not available to redeem all requested redemptions at the end of each quarter, the shares will be purchased on a pro rata basis and the unfulfilled requests will be held until the next quarter, unless withdrawn. The Company's board of directors may amend, suspend or terminate the share redemption program at any time upon 30 days prior written notice to the stockholders. The Company redeemed approximately 227,000 shares under the share redemption program during the year ended December 31, 2007 for approximately \$2.2 million. No shares were redeemed under the share redemption program during the year ended December 31, 2006.

**NOTE 15 INCOME TAXES**

For income tax purposes, dividends to common stockholders are characterized as ordinary income, capital gains, or as a return of a stockholder's invested capital. The following table represents the character of distributions to stockholder for the years ended December 31, 2007, 2006 and 2005.

<b>Character of Distributions:</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Ordinary income	41%	42%	0%
Return of capital	59%	58%	0%
Total	100%	100%	0%

At December 31, 2007, 2006 and 2005, the tax basis carrying value of the Company's total assets was approximately \$1.7 billion, approximately \$500.5 million and approximately \$98.8 million, respectively. During the years ended December 31, 2007, 2006 and 2005, the Company had state income taxes of approximately \$158,000, approximately \$24,000 and approximately \$3,000, respectively, which were recorded in general and administrative expenses in the consolidated statements of operations.

**NOTE 16 OPERATING LEASES**

The Company's operating leases' terms and expirations vary. The leases frequently have provisions to extend the lease agreement and other terms and conditions as negotiated. The Company retains substantially all of the risks and benefits of ownership of the real estate assets leased to tenants.

The future minimum rental income from the Company's investment in real estate assets under non-cancelable operating leases, at December 31, 2007, is as follows:

	<b>Amount</b>
<b>Year ending December 31:</b>	
2008	\$ 113,711,614

2009	113,905,344
2010	112,407,413
2011	111,406,202
2012	110,264,602
Thereafter	962,046,560
Total	\$ 1,523,741,735

**NOTE 17 QUARTERLY RESULTS (Unaudited)**

Presented below is a summary of the unaudited quarterly financial information for the years ended December 31, 2007, 2006 and 2005. The Company believes that all necessary adjustments, consisting only of normal

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recurring adjustments, have been included in the amounts stated below to present fairly, and in accordance with GAAP, the selected quarterly information.

	<b>2007</b>			
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Revenues	\$ 12,597,351	\$ 18,821,384	\$ 26,538,544	\$ 31,884,871
Operating income	6,442,770	4,068,448	13,512,244	17,274,145
Net income (loss)	1,684,727	(3,366,779)	2,997,849	3,164,220
Basic and diluted net income (loss) per share	0.05	(0.06)	0.04	0.04
Dividends per share	\$ 0.16	\$ 0.16	\$ 0.18	\$ 0.18

	<b>2006</b>			
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Revenues	\$ 2,571,786	\$ 3,715,493	\$ 5,392,741	\$ 7,839,487
Operating income	1,262,699	1,779,812	2,748,315	3,952,804
Net income (loss)	(182,588)	(181,847)	548,942	1,161,489
Basic and diluted net income (loss) per share	(0.04)	(0.02)	0.04	0.12
Dividends per share	\$ 0.15	\$ 0.15	\$ 0.16	\$ 0.16

	<b>2005(1)</b>	
	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Revenues	\$ 2,761	\$ 738,908
Operating income (loss)	(27,679)	352,917
Net loss	(29,543)	(85,048)
Basic and diluted net loss per share(2)	(0.46)	(0.05)
Dividends per share	\$	\$ 0.15

(1) No quarterly financial information is presented for the first two quarters of 2005 as the Company was a development stage company during those quarters and had no operations.

(2) The total of the two quarterly amounts for the year ended December 31, 2005, does not equal the total for the year then ended. This difference results from the increase in shares outstanding over the year.

**NOTE 18 SUBSEQUENT EVENTS**

*Sale of Shares of Common Stock*

As of March 24, 2008, the Company had raised approximately \$1.1 billion of gross proceeds through the issuance of approximately 114.4 million shares of its common stock in its offerings (including shares sold under the DRIP). As of March 24, 2008, approximately \$679.8 million (68.0 million shares) remained available for sale to the public in the Follow-on Offering, exclusive of shares available under the DRIP. As of March 24, 2008, 59.6 million shares had been sold in the Follow-on Offering (including shares sold under the DRIP).

*Property Acquisitions*

Subsequent to December 31, 2007, the Company acquired a 100% interest in 44 commercial properties for an aggregate purchase price of approximately \$266.3 million, excluding closing costs. The Company financed the

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**COLE CREDIT PROPERTY TRUST II, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

acquisitions through the issuance and assumption of approximately \$144.9 million of mortgage loans generally secured by the individual property on which each loan was made. The Company allocated the purchase price of these properties, including aggregate acquisitions costs, to the fair market value of the assets acquired and liabilities assumed.

***Mortgage Notes Payable***

Subsequent to December 31, 2007, the Company obtained six mortgage notes payable in connection with the real estate acquisitions described above, totaling approximately \$144.9 million. The Company obtained \$20.9 million of fixed rate debt which bears interest at rates ranging from 5.593% to 5.900% and a weighted average interest rate of 5.815% (the Fixed Rate Debt). The Fixed Rate Debt matures on various dates during 2016. The Company obtained \$124.0 million of variable rate debt which bears interest at rates ranging from one-month LIBOR plus 1.5% to 2.0% (the Variable Rate Debt). The Variable Rate Debt matures on various dates during 2009. Of the Variable Rate Debt, \$16.0 million was borrowed from Series B and \$16.0 million was borrowed from Series C, each of which are affiliates of the Company and the Company's advisor, by executing two promissory notes that were secured by the membership interest held by Cole OP II in certain wholly-owned subsidiaries of Cole OP II.

In addition, subsequent to December 31, 2007, the Company repaid an aggregate of approximately \$71.3 million of variable rate debt related to two mortgage notes payable and repaid approximately \$22.2 million on two of its revolving lines of credit.

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**SUMMARY FINANCIAL INFORMATION OF BUSINESSES ACQUIRED AND  
PROBABLE BUSINESSES TO BE ACQUIRED**

**AS Katy Property**

*Overview*

On January 18, 2007, we acquired an approximately 1.5 million square foot single-tenant corporate headquarters and distribution facility on an approximately 93.8 acre site located in Katy, Texas (the AS Katy Property ), which was constructed in four phases between 1976 and 2006. The AS Katy Property is 100% leased to Academy, Ltd. ( Academy ). The AS Katy Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the AS Katy Property was \$102.0 million, exclusive of closing costs. The acquisition was funded by net proceeds from our ongoing public offering and an approximately \$68.3 million loan secured by the AS Katy Property.

Academy is a sporting goods retailer, operating over 80 stores across the southeastern United States. In determining the creditworthiness of Academy we considered a variety of factors, including historical financial information and financial performance and regional market position.

After reasonable inquiry, we are not aware of any material factors relating to the AS Katy Property, other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

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**INDEPENDENT AUDITORS REPORT**

To the Board of Directors and Stockholders of  
Cole Credit Property Trust II, Inc.  
Phoenix, AZ

We have audited the accompanying statement of revenues and certain operating expenses (the Historical Summary ) of the AS Katy Property (the Property ) for the year ended December 31, 2006. This Historical Summary is the responsibility of Cole Credit Property Trust II, Inc. management. Our responsibility is to express an opinion on the Historical Summary based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission (for inclusion in Supplements to the original Prospectus of Cole Credit Property Trust II, Inc.) as described in Note 1 to the Historical Summary and is not intended to be a complete presentation of the Property s revenues and expenses. In our opinion, such Historical Summary presents fairly, in all material respects, the revenue and certain operating expenses described in Note 1 to the Historical Summary of the AS Katy Property for the year ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE, LLP

Phoenix, Arizona  
March 9, 2007

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**AS KATY PROPERTY**

**STATEMENT OF REVENUES AND CERTAIN OPERATING EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**Revenues:**

Rental revenue \$ 4,935,604

Total revenues 4,935,604

**Certain Operating Expenses:**

Total certain operating expenses

**Revenues in excess of certain operating expenses \$ 4,935,604**

See accompanying notes to statement of revenues and certain operating expenses.

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**AS KATY PROPERTY**

**NOTES TO THE STATEMENT OF REVENUES  
AND CERTAIN OPERATING EXPENSES  
For the Year Ended December 31, 2006**

**1. Basis of Presentation**

On January 18, 2007, Cole Credit Property Trust II, Inc. (the Company) acquired a single-tenant corporate headquarters and distribution facility containing approximately 1.5 million square feet of rentable space located on an approximately 93.8 acre site located in Katy, Texas (the AS Katy Property). The AS Katy property is 100% leased to Academy, Ltd., pursuant to a net lease. The statement of revenues and certain operating expenses (the Historical Summary) has been prepared for the purpose of complying with the provisions of Article 3-14 of Regulation S-X promulgated by the Securities and Exchange Commission (the SEC), which requires certain information with respect to real estate operations to be included with certain filings with the SEC. These Historical Summaries include the historical revenues and certain operating expenses of the AS Katy Property, exclusive of items which may not be comparable to the proposed future operations of the AS Katy Property. Material amounts that would not be directly attributable to future operating results of the AS Katy Property are excluded, and the financial statements are not intended to be a complete presentation of the AS Katy Property's revenues and expenses. Items excluded consist of depreciation, amortization, bank service charges, fees relating to a letter of credit, interest expense and professional expenses.

**2. Significant Accounting Policies**

*Revenue Recognition*

The lease is accounted for as an operating lease and minimum rental income is recognized on a straight-line basis over the remaining term of the lease.

*Repairs and Maintenance*

Expenditures for repairs and maintenance are expensed as incurred.

*Use of Estimates*

The preparation of historical summaries in conformity with generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the reported amounts of revenues and certain operating expenses during the reporting period. Actual results could differ from those estimates.

**3. Lease**

The aggregate annual minimum future rental payments on the non-cancelable operating lease in effect as of December 31, 2006 are as follows:

**Year Ending December 31:**

2007	\$ 6,059,154
2008	6,157,764

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2009	6,259,051
2010	6,362,042
2011	6,466,767
Thereafter	63,235,212
Total	\$ 94,539,990

The minimum future rental payments represents the base rent required to be paid under the terms of the lease exclusive of charges for contingent rents, electrical services, real estate taxes, and operating cost escalations.

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**AS KATY PROPERTY**

**NOTES TO THE STATEMENT OF REVENUES  
AND CERTAIN OPERATING EXPENSES (Continued)**

**4. Tenant Concentration**

For the year ended December 31, 2006, the sole tenant, Academy, Ltd. accounted for 100% of the annual rental income for the AS Katy Property. If the tenant were to default on their lease, future revenue of the AS Katy Property would be materially and adversely impacted.

**5. Commitments and Contingencies**

*Litigation*

The AS Katy Property may be subject to legal claims in the ordinary course of business. The Company believes that the ultimate settlement of any potential claims will not have a material impact on the AS Katy Property's results of operations.

*Environmental Matters*

In connection with the ownership and operation of real estate, the AS Katy Property may be potentially liable for costs and damages related to environmental matters. The AS Katy Property has not been notified by any governmental authority of any non-compliance, liability or other claim, and the Company is not aware of any other environmental condition that they believe will have a material adverse effect on the AS Katy Property's results of operations.

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**MT Omaha Property**

*Overview*

On February 6, 2007, we acquired an approximately 92,000 square foot multi-tenant retail shopping center on an approximately 10.5 acre site located in Omaha, Nebraska (the MT Omaha Property ), which was constructed in 1988 and most recently renovated in 2005. The MT Omaha Property is approximately 95% leased to 24 tenants. Major tenants include Abercrombie & Fitch, Inc. d/b/a Abercrombie & Fitch, Banana Republic, Inc. d/b/a Banana Republic, R.A. Popp Enterprises, Inc. d/b/a Wheatfields and Sur La Table, Inc. d/b/a Sur La Table, however, no single tenant accounts for more than 10.0% of the rentable square feet of the MT Omaha Property. The MT Omaha Property is subject to 24 net leases (the MT Omaha Leases ), pursuant to which each tenant is required to pay substantially all operating expenses, capital expenditures and a proportionate amount of common area maintenance charges in addition to base rent.

The purchase price of the MT Omaha Property was approximately \$36.0 million, exclusive of closing costs. The acquisition was funded by net proceeds from our ongoing public offering and an approximately \$23.8 million loan secured by the MT Omaha Property.

After reasonable inquiry, we are not aware of any material factors relating to the MT Omaha Property, other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

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**INDEPENDENT AUDITORS REPORT**

To the Board of Directors and Stockholders of  
Cole Credit Property Trust II, Inc.  
Phoenix, AZ

We have audited the accompanying statement of revenues and certain operating expenses (the Historical Summary ) of the MT Omaha Property (the Property ) for the year ended June 30, 2006. This Historical Summary is the responsibility of Cole Credit Property Trust II, Inc. management. Our responsibility is to express an opinion on the Historical Summary based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission as described in Note 1 to the Historical Summary and is not intended to be a complete presentation of the Property s revenues and expenses. In our opinion, such Historical Summary presents fairly, in all material respects, the revenue and certain operating expenses described in Note 1 to the Historical Summary of the MT Omaha Property for the year ended June 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE, LLP

Phoenix, Arizona  
March 9, 2007

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Table of Contents**MT OMAHA PROPERTY**

**STATEMENT OF REVENUES AND CERTAIN OPERATING EXPENSES**  
**For the Year Ended June 30, 2006 and**  
**the Six Month Period ended December 31, 2006 (unaudited)**

	<b>Year Ended June 30, 2006</b>	<b>Six Months Ended December 31, 2006 (Unaudited)</b>
<b>Revenues:</b>		
Rental revenue	\$ 2,583,418	\$ 1,339,612
Tenant reimbursement and other	1,056,952	554,155
 Total revenues	 3,640,370	 1,893,767
<b>Certain Operating Expenses:</b>		
Operations and maintenance	331,318	153,900
Real estate taxes	345,385	171,972
Marketing	160,029	101,840
Professional and administrative expenses	108,525	63,301
Management fees	108,352	60,591
Utilities	80,045	34,469
 Total certain operating expenses	 1,133,654	 586,073
 <b>Revenues in excess of certain operating expenses</b>	 <b>\$ 2,506,716</b>	 <b>\$ 1,307,694</b>

See accompanying notes to statement of revenues and certain operating expenses.

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**MT OMAHA PROPERTY**

**NOTES TO THE STATEMENT OF REVENUES AND CERTAIN OPERATING EXPENSES**

**For the Year Ended June 30, 2006  
and the Six Month Period ended December 31, 2006  
(unaudited)**

**1. Basis of Presentation**

On February 6, 2007, Cole Credit Property Trust II, Inc. (the Company) acquired a multi-tenant commercial retail shopping center containing approximately 92,000 square feet of rentable space located on an approximately 10.5 acre site in Omaha, Nebraska (the MT Omaha Property). The MT Omaha Property is approximately 95% leased to 24 tenants, pursuant to net leases.

The statement of revenues and certain operating expenses (the Historical Summary) has been prepared for the purpose of complying with the provisions of Article 3-14 of Regulation S-X promulgated by the Securities and Exchange Commission (the SEC), which requires certain information with respect to real estate operations to be included with certain filings with the SEC. These Historical Summaries include the historical revenues and certain operating expenses of the MT Omaha Property, exclusive of items which may not be comparable to the proposed future operations of the MT Omaha Property. Material amounts that would not be directly attributable to future operating results of the MT Omaha Property are excluded, and the financial statements are not intended to be a complete presentation of the MT Omaha Property's revenues and expenses. Items excluded consist of accounting and professional fees.

**2. Significant Accounting Policies**

***Revenue Recognition***

The leases are accounted for as operating leases and minimum rental income is recognized on a straight-line basis over the remaining term of each lease. Tenant reimbursement revenue is recognized in the same periods in which the related expenses are incurred. Tenant reimbursement revenue includes payments from tenants as reimbursements for property taxes, utilities, and other property operating expenses.

***Repairs and Maintenance***

Expenditures for repairs and maintenance are expensed as incurred.

***Use of Estimates***

The preparation of historical summaries in conformity with generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the reported amounts of revenues and certain operating expenses during the reporting period. Actual results could differ from those estimates.

**3. Leases**

The aggregate annual minimum future rental payments on the non-cancelable operating leases in effect as of June 30, 2006 are as follows:



**Year Ending June 30:**

2007	\$ 2,617,725
2008	2,441,213
2009	2,112,608
2010	1,649,869
2011	1,492,371
Thereafter	3,809,809
Total	\$ 14,123,955

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**MT Fairview Heights Property**

*Overview*

On April 5, 2007, we acquired an approximately 273,000 square foot multi-tenant retail shopping center on an approximately 30.4 acre site located in Fairview Heights, Illinois (the MT Fairview Heights Property), which was constructed in phases in 1998 and 2002. The MT Fairview Heights Property is 100% leased to 19 tenants. Major tenants include Kohl's Department Stores, Inc., d/b/a Kohl's, Ultimate Electronics, Inc., d/b/a Ultimate Electronics, Marshalls of IL, LLC, d/b/a Marshall's and LNT, Inc. d/b/a Marshall's. The MT Fairview Heights Property is subject to 19 net leases (the MT Fairview Heights Leases), pursuant to which each tenant is required to pay substantially all operating expenses, capital expenditures and a proportionate amount of common area maintenance charges in addition to base rent.

The purchase price of the MT Fairview Heights Property was approximately \$44.0 million, exclusive of closing costs. The acquisition was funded by net proceeds from our ongoing public offering and an approximately \$35.4 million loan secured by the MT Fairview Heights Property.

After reasonable inquiry, we are not aware of any material factors relating to the MT Fairview Heights Property, other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

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**INDEPENDENT AUDITORS REPORT**

To the Board of Directors and Stockholders of  
Cole Credit Property Trust II, Inc.  
Phoenix, AZ

We have audited the accompanying statement of revenues and certain operating expenses (the Historical Summary ) of the MT Fairview Heights Property (the Property ) for the year ended December 31, 2006. This Historical Summary is the responsibility of Cole Credit Property Trust II, Inc. management. Our responsibility is to express an opinion on the Historical Summary based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission as described in Note 1 to the Historical Summary and is not intended to be a complete presentation of the Property s revenues and expenses.

In our opinion, such Historical Summary presents fairly, in all material respects, the revenue and certain operating expenses described in Note 1 to the Historical Summary of the MT Fairview Heights Property for the year ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE, LLP

Phoenix, Arizona  
April 10, 2007

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**MT FAIRVIEW HEIGHTS PROPERTY**

**STATEMENT OF REVENUES AND CERTAIN OPERATING EXPENSES**

**For the Year Ended December 31, 2006**

**Revenues:**

Rental revenue	\$ 3,236,104
Tenant reimbursement and other	505,823
Total revenues	3,741,927

**Certain Operating Expenses:**

Operations and maintenance	10,475
Parking and security	121,156
Insurance	20,125
Taxes	364,228
Total certain operating expenses	515,984

Revenues in excess of certain operating expenses \$ 3,225,943

See accompanying notes to statement of revenues and certain operating expenses.

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**MT FAIRVIEW HEIGHTS PROPERTY**

**NOTES TO THE STATEMENT OF REVENUES AND CERTAIN OPERATING EXPENSES**

**For the Year Ended December 31, 2006**

**1. Basis of Presentation**

On April 5, 2007, Cole Credit Property Trust II, Inc. (the Company) acquired a multi-tenant commercial retail shopping center containing approximately 273,000 square feet of rentable space located on an approximately 30.4 acre site in Fairview Heights, Illinois (the MT Fairview Heights Property). The MT Fairview Heights Property is approximately 100% leased to 19 tenants, pursuant to net leases.

The statement of revenues and certain operating expenses (the Historical Summary) has been prepared for the purpose of complying with the provisions of Article 3-14 of Regulation S-X promulgated by the Securities and Exchange Commission (the SEC), which requires certain information with respect to real estate operations to be included with certain filings with the SEC. These Historical Summaries include the historical revenues and certain operating expenses of the MT Fairview Heights Property, exclusive of items which may not be comparable to the proposed future operations of the MT Fairview Heights Property. Material amounts that would not be directly attributable to future operating results of the MT Fairview Heights Property are excluded, and the financial statements are not intended to be a complete presentation of the MT Fairview Heights Property's revenues and expenses. Items excluded consist of management fees, broker fees, depreciation, amortization, miscellaneous fees, and accretion of below market leases.

**2. Significant Accounting Policies**

***Revenue Recognition***

The leases are accounted for as operating leases and minimum rental income is recognized on a straight-line basis over the remaining term of each lease. Tenant reimbursement revenue is recognized in the same periods in which the related expenses are incurred. Tenant reimbursement revenue includes payments from tenants as reimbursements for property taxes, utilities, and other property operating expenses.

***Repairs and Maintenance***

Expenditures for repairs and maintenance are expensed as incurred.

***Use of Estimates***

The preparation of historical summaries in conformity with generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the reported amounts of revenues and certain operating expenses during the reporting period. Actual results could differ from those estimates.

**3. Leases**

The aggregate annual minimum future rental payments on the non-cancelable operating leases in effect as of December 31, 2006 are as follows:

**Year Ending December 31:**

2007	\$ 3,093,165
2008	3,059,464
2009	3,004,160
2010	2,915,047
2011	2,750,544
Thereafter	10,202,109
Total	\$ 25,024,488

The minimum future rental income represents the base rent required to be paid under the terms of the lease exclusive of charges for contingent rents, electrical services, real estate taxes, and operating cost escalations.

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**Table of Contents****MT FAIRVIEW HEIGHTS PROPERTY****NOTES TO THE STATEMENT OF REVENUES AND CERTAIN OPERATING EXPENSES (Continued)****4. Tenant Concentration**

For the year ended December 31, 2006, the following tenants accounted for 10% or more of the annual rental income for the MT Fairview Heights Property.

<b>Tenant Name</b>	<b>Aggregate Annual Rental Income</b>	<b>% Aggregate Annual Rental Income</b>
Ultimate Electronics, Inc.	\$ 424,639	13%
Kohl's Illinois, Inc.	530,760	16%
LNT, Inc.	318,667	10%

If these tenants were to default on their leases, future revenue of the MT Fairview Heights Property would be materially and adversely impacted.

**5. Commitments and Contingencies*****Litigation***

The MT Fairview Heights Property may be subject to legal claims in the ordinary course of business as a property owner. The Company believes that the ultimate settlement of any potential claims will not have a material impact on the MT Fairview Heights Property's results of operations.

***Environmental Matters***

In connection with the ownership and operation of real estate, the MT Fairview Heights Property may be potentially liable for costs and damages related to environmental matters. The MT Fairview Heights Property has not been notified by any governmental authority of any non-compliance, liability or other claim, and the Company is not aware of any other environmental condition that they believe will have a material adverse effect on the MT Fairview Heights Property's results of operations.

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**CNL Portfolio Properties**

*Overview*

On June 22, 2007 and July 19, 2007, we acquired two portfolios consisting of a total of 25 single-tenant commercial retail and restaurant properties containing approximately 3.0 million square feet of rentable space located in ten states (the CNL Portfolio Properties ). The CNL Portfolio Properties were constructed between 1960 and 2006. The CNL Portfolio Properties are 100% leased to nine tenants. Pursuant to 25 net leases, the tenants are required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The total purchase price of the CNL Portfolio Properties was approximately \$107.6 million, exclusive of closing costs. The acquisitions were funded by net proceeds from our ongoing public offering and approximately \$61.0 million in mortgage notes payable secured by the CNL Portfolio Properties.

After reasonable inquiry, we are not aware of any material factors relating to the CNL Portfolio Properties, other than those discussed above, that would cause the reported financial information to be necessarily indicative of future operating results.

In evaluating the properties as acquisitions and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographic, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators.



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**Independent Auditors Report**

To the Board of Directors and Stockholders of  
Cole Credit Properties Trust II, Inc.  
Phoenix, AZ

We have audited the accompanying combined statement of revenues and certain operating expenses (the Historical Summary ) of the CNL Portfolio Properties (the CNL Portfolio ) for the year ended December 31, 2006. This Historical Summary is the responsibility of Cole Credit Properties Trust II, Inc. management. Our responsibility is to express an opinion on the Historical Summary based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission as described in Note 1 to the Historical Summary and is not intended to be a complete presentation of the CNL Portfolio s revenues and expenses.

In our opinion, such Historical Summary presents fairly, in all material respects, the combined revenues and certain operating expenses described in Note 1 to the Historical Summary of the CNL Portfolio for the year ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Phoenix, Arizona  
July 30, 2007

Table of Contents**CNL Portfolio Properties**

**Statement of Revenues and Certain Operating Expenses  
For the Year Ended December 31, 2006 and  
the Three Months Ended March 31, 2007 (Unaudited)**

	<b>Year Ended December 31, 2006</b>		<b>Three Months Ended March 31, 2007 (Unaudited)</b>
<b>Revenues:</b>			
Rental income from operating leases	\$ 3,493,577	\$	1,241,384
Earned income from direct financing leases	2,177,625		531,588
Total revenues	5,671,202		1,772,972
<b>Certain Operating Expenses:</b>			
Operations			
Total certain operating expenses			
<b>Revenues in excess of certain operating expenses</b>	<b>\$ 5,671,202</b>	<b>\$</b>	<b>1,772,972</b>

See accompanying notes to statement of revenues and certain operating expenses.

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**Table of Contents****CNL Portfolio Properties**

**Notes to the Statement of Revenues and Certain Operating Expenses  
For the Year Ended December 31, 2006 and  
the Three Months Ended March 31, 2007 (Unaudited)**

**1. Basis of Presentation**

On June 22, 2007 and July 19, 2007, Cole Credit Properties Trust II, Inc. (the Company) acquired two portfolios consisting of multiple single-tenant commercial retail and restaurant properties containing approximately 3.0 million square feet of rentable space located in multiple states (the CNL Portfolio). The CNL Portfolio is approximately 100% leased to nine tenants, pursuant to net leases. The CNL Portfolio consists of the following properties and associated tenants:

<b>Property</b>	<b>Tenant</b>	<b>Location</b>	<b>Sq Ft</b>
LJ Houston	LJs Restaurants, Inc.	Houston, TX	34,094
TB Princeton	Southern Bells, Inc.	Princeton, IN	2,436
TB Robinson	Southern Bells, Inc.	Robinson, IL	1,944
TB Brazil	Southern Bells, Inc.	Brazil, IN	1,993
TB Washington	Southern Bells, Inc.	Washington, IN	2,093
TB Vincennes	Southern Bells, Inc.	Vincennes, IN	2,691
TB Henderson	Southern Bells, Inc.	Henderson, KY	2,320
TB Martinsville	Southern Bells, Inc.	Martinsville, IN	2,057
TB Anderson	Southern Bells, Inc.	Anderson, IN	2,166
TB Spencer	Southern Bells, Inc.	Spencer, IN	2,296
DB Addison	Dave & Busters, Inc.	Addison, IL	50,000
AS Baton Rouge	Academy Louisiana Co.	Baton Rouge, LA	52,500
AS Houston (Breton)	Academy Corp.	Houston, TX	53,381
AS Houston (SW FW)	Academy Corp.	Houston, TX	52,548
AS Richland Hills	Academy Corp.	Richland Hills, TX	52,500
CV Amarillo	Eckerd Inc.	Amarillo, TX	9,504
CV Del City	Eckerd Inc.	Del City, OK	10,906
EK Chattanooga	Eckerd Inc.	Chattanooga, TN	10,909
EK Mableton	Eckerd Inc.	Mableton, GA	8,996
BB Evanston	Best Buy Stores, LP	Evanston, IL	45,397
AS Houston (Westheimer)	Academy Corp.	Houston, TX	53,381
EK Mantua	Eckerd Inc.	Mantua, NJ	8,710
EK Vineland	Eckerd Inc.	Vineland, NJ	14,910
MT Warwick	Super Valu, Inc.	Warwick, RI	64,514
WA Eureka	Winer Foods, LLC	Eureka, CA	82,490

The statement of revenues and certain operating expenses (the Historical Summary) has been prepared for the purpose of complying with the provisions of Article 3-14 of Regulation S-X promulgated by the Securities and Exchange Commission (the SEC), which requires certain information with respect to real estate operations to be included with certain filings with the SEC. These Historical Summaries include the historical revenues and certain operating expenses of the CNL Portfolio, exclusive of items which may not be comparable to the proposed future operations of the CNL Portfolio. Material amounts that would not be directly attributable to future operating results of the CNL

Portfolio are excluded, and the financial statements are not intended to be a complete presentation of the CNL Portfolio s revenues and expenses. Items excluded consist of management fees, broker fees, depreciation, amortization, miscellaneous fees, and accretion of below market leases.

**Table of Contents****CNL Portfolio Properties****Notes to the Statement of Revenues and Certain Operating Expenses (Continued)****2. Significant Accounting Policies*****Revenue Recognition***

*Operating leases* Rental income is recognized on a straight-line basis over the remaining term of each lease.

*Direct financing leases* Unearned income is deferred and amortized into income over the lease terms so as to produce a constant periodic rate of return on the net investment in the leases.

***Use of Estimates***

The preparation of historical summaries in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and certain operating expenses during the reporting period. Actual results could differ from those estimates.

**3. Leases**

As of December 31, 2006, 12 of the 25 leases have both building and land classified as operating leases and for the remaining 13 leases, the land is classified as operating leases and the buildings as direct financing leases.

The leases have initial terms of ten to 20 years (expiring between 2012 and 2024) and provide for minimum rentals. In addition, the tenant leases generally provide for limited increases in rent as a result of fixed increases, these amounts are recognized on a straight-line bases over the terms of the leases.

The aggregate annual minimum future rental payments on the non-cancelable operating leases in effect as of December 31, 2006 are as follows:

**Year Ending December 31:**

2007	\$ 4,776,728
2008	4,811,829
2009	4,836,572
2010	4,881,741
2011	4,402,532
Thereafter	33,081,489
Total	\$ 56,790,891

The following is a schedule of future minimum lease payments to be received on direct financing leases at December 31, 2006:

**Year Ending December 31:**

2007	\$ 2,885,510
2008	2,909,353
2009	2,916,475
2010	2,950,719
2011	2,991,913
Thereafter	14,180,802
Total	\$ 28,834,772

The above tables do not include future minimum lease payments for renewal periods or rent increases that are based on the Consumer Price Index ( CPI ) or future contingent rents. Payments are also exclusive of potential charges related to real estate taxes and operating cost escalations.

**Table of Contents****CNL Portfolio Properties****Notes to the Statement of Revenues and Certain Operating Expenses (Continued)****4. Tenant Concentration**

For the year ended December 31, 2006, the following tenants accounted for 10% or more of the annual rental income for the CNL Portfolio Properties.

<b>Tenant Name</b>	<b>Aggregate Annual Rental Income</b>	<b>% Aggregate Annual Rental Income</b>
Academy, Ltd.	\$ 2,069,546	32%
Winco	1,011,573	16%
Eckerd Corporation	848,559	13%
Southern Bells, Inc.	716,493	11%

If these tenants were to default on their leases, future revenue of the CNL Portfolio Properties would be materially and adversely impacted.

**5. Commitments and Contingencies*****Litigation***

The CNL Portfolio Properties may be subject to legal claims in the ordinary course of business as a property owner. The Company believes that the ultimate settlement of any potential claims will not have a material impact on the CNL Portfolio Properties' results of operations.

***Environmental Matters***

In connection with the ownership and operation of real estate, the CNL Portfolio Properties may be potentially liable for costs and damages related to environmental matters. The Company, as owner of the CNL Portfolio Properties, has not been notified by any governmental authority of any non-compliance, liability or other claim, and the Company is not aware of any other environmental condition that they believe will have a material adverse effect on the CNL Portfolio Properties' results of operations.

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**MT Broadview Property**

*Overview*

On September 14, 2007, we acquired an approximately 329,000 square foot multi-tenant retail shopping center (the MT Broadview Property ) on an approximately 15.84 acre site located in Chicago, Illinois, which was constructed in 1994. The MT Broadview Property is approximately 96% leased to 25 tenants. Major tenants include Home Depot USA, Inc. d/b/a Home Depot and The Sports Authority, Inc. d/b/a Sports Authority. The MT Broadview Property is subject to 25 separate net leases, pursuant to which each tenant is required to pay substantially all operating expenses, capital expenditures and a proportionate amount of common area maintenance charges in addition to base rent.

The purchase price of the MT Broadview Property was approximately \$58.0 million, exclusive of closing costs. The acquisition was funded by net proceeds from our ongoing public offering and an approximately \$31.5 million loan secured by the MT Broadview Property.

After reasonable inquiry, we are not aware of any material factors relating to the MT Broadview Property, other than those discussed above, which would cause the reported financial information to be necessarily indicative of future operating results.



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**Independent Auditors Report**

To the Board of Directors and Stockholders of  
Cole Credit Property Trust II, Inc.  
Phoenix, AZ

We have audited the accompanying combined statement of revenues and certain operating expenses (the Historical Summary ) of the Broadview Village Square Property (the Property ) for the year ended December 31, 2006. This Historical Summary is the responsibility of Cole Credit Property Trust II, Inc. management. Our responsibility is to express an opinion on the Historical Summary based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission as described in Note 1 to the Historical Summary and is not intended to be a complete presentation of the Property s revenues and expenses.

In our opinion, such Historical Summary presents fairly, in all material respects, the combined revenues and certain operating expenses described in Note 1 to the Historical Summary of the Property for the year ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Phoenix, Arizona  
October 22, 2007

**Table of Contents****MT Broadview Property**

**Statement of Revenues and Certain Operating Expenses  
For the Year Ended December 31, 2006 and  
the Six Months Ended June 30, 2007 (Unaudited)**

	<b>Six Months Ended</b>		<b>Year Ended</b>
	<b>June 30, 2007</b>		<b>December 31,</b>
	<b>(Unaudited)</b>		<b>2006</b>
<b>Revenues:</b>			
Rental income from operating leases	\$ 2,113,940	\$	4,278,868
Tenant reimbursement revenue	527,645		921,942
Total revenues	2,641,585		5,200,810
<b>Certain Operating Expenses:</b>			
Repairs, maintenance and cleaning	109,888		263,589
Utilities	23,823		50,060
Real estate taxes	368,634		715,802
Insurance	22,345		42,092
Total certain operating expenses	524,690		1,071,543
<b>Revenues in excess of certain operating expenses</b>	\$ 2,116,895	\$	4,129,267

See accompanying notes to statement of revenues and certain operating expenses.

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**MT Broadview Property**

**Notes to the Statement of Revenues and Certain Operating Expenses  
For the Year Ended December 31, 2006 and  
the Six Months Ended June 30, 2007 (Unaudited)**

**1. Basis of Presentation**

On September 14, 2007, Cole Credit Property Trust II, Inc. (the Company) acquired a multi-tenant commercial retail shopping center containing approximately 329,161 square feet of rentable space located on an approximately 15.84 acre site in Broadview, Illinois (the MT Broadview Property). The MT Broadview Property is approximately 96.3% leased to 25 tenants, pursuant to net leases.

The statement of revenues and certain operating expenses (the Historical Summary) has been prepared for the purpose of complying with the provisions of Rule 3-14 of Regulation S-X promulgated by the Securities and Exchange Commission (the SEC), which requires certain information with respect to real estate operations to be included with certain filings with the SEC. The Historical Summary includes the historical revenues and certain operating expenses of the Property, exclusive of items which may not be comparable to the proposed future operations of the Property. Material amounts that would not be directly attributable to future operating results of the Property are excluded, and the financial statements are not intended to be a complete presentation of the Property's revenues and expenses. Items excluded consist of management and asset fees, depreciation, amortization, other non-operating expenses, and interest expense.

**2. Significant Accounting Policies**

***Revenue Recognition***

The leases are accounted for as operating leases and minimum rental income is recognized on a straight-line basis over the remaining term of each lease. Contingent rental income, such as percentage rents, is recognized when the specific target which triggers the contingent rental income is achieved. Tenant reimbursement revenue is recognized in the same periods in which the related expenses are incurred. Tenant reimbursement revenue includes payments from tenants as reimbursements for property taxes, utilities, and other property operating expenses.

***Repairs and Maintenance***

Expenditures for repairs and maintenance are expensed as incurred.

***Use of Estimates***

The preparation of historical summaries in conformity with generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the reported amounts of revenues and certain operating expenses during the reporting period. Actual results could differ from those estimates.

**3. Leases**

The leases have initial terms of 5 to 20 years (expiring between 2009 and 2019) and provide for minimum rentals. In addition, the tenant leases generally provide for limited increases in rent as a result of fixed increases, these amounts are recognized on a straight-line basis over the terms of the leases.



**Table of Contents****MT Broadview Property****Notes to the Statement of Revenues and Certain Operating Expenses (Continued)**

The aggregate annual minimum future rental payments on the non-cancelable operating leases in effect as of December 31, 2006 are as follows:

**Year Ending December 31:**

2007	\$ 4,157,739
2008	4,007,178
2009	3,901,593
2010	1,926,959
2011	1,703,798
Thereafter	6,416,504
Total	\$ 22,013,771

The table above does not include future minimum lease payments for renewal periods or rent increases that are based on the Consumer Price Index or future contingent rents. Payments are also exclusive of potential charges related to real estate taxes and operating cost escalations.

**4. Tenant Concentration**

For the year ended December 31, 2006, the following tenant accounted for 10% or more of the annual rental income for the MT Broadview Property.

<b>Tenant Name</b>	<b>Aggregate Annual Rental Income</b>	<b>% Aggregate Annual Rental Income</b>
Home Depot USA, Inc.	\$ 1,458,703	35%

If this tenant were to default on their lease, future revenue of the Property would be materially and adversely impacted.

**5. Commitments and Contingencies*****Litigation***

The MT Broadview Property may be subject to legal claims in the ordinary course of business as a property owner. The Company believes that the ultimate settlement of any potential claims will not have a material impact on the MT Broadview Property's results of operations.

***Environmental Matters***

In connection with the ownership and operation of real estate, the MT Broadview Property may be potentially liable for costs and damages related to environmental matters. The MT Broadview Property has not been notified by any governmental authority of any non-compliance, liability or other claim, and the Company is not aware of any other environmental condition that they believe will have a material adverse effect on the MT Broadview Property's results of operations.

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**Millstein Portfolio Properties**

*Overview*

Series B, LLC, ( Series B ), an affiliate of our advisor, has entered into an agreement to purchase a portfolio consisting of 14 single-tenant commercial retail, office, and industrial properties (the Millstein Portfolio Properties ). The Millstein Portfolio Properties contain approximately 0.9 million square feet of rentable space located in nine states. The Millstein Portfolio Properties were constructed between 1970 and 2003, and are 100% leased to 14 tenants. Pursuant to 14 net leases, the tenants are required to pay substantially all operating expenses and capital expenditures in addition to base rent. Subject to the satisfactory completion of certain conditions to closing, we expect that Series B will assign all of its rights and obligations under the purchase agreement to Cole Credit Property Trust II, Inc., prior to the closing of the transaction.

The total purchase price of the Millstein Portfolio Properties will be approximately \$123.0 million, exclusive of closing costs. We expect to purchase the Millstein Portfolio Properties with proceeds from our ongoing public offering and an approximately \$88.2 million loan secured by the Millstein Portfolio Properties.

After reasonable inquiry, we are not aware of any material factors relating to the Millstein Portfolio Properties, other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

In evaluating the Millstein Portfolio Properties as a potential acquisition and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators.

In accordance with the provisions of Rule 3-14 of Regulation S-X promulgated by the Securities and Exchange Commission, we have included certain information with respect to eight of the 14 real estate properties within the Millstein Portfolio Properties. This certain information includes an audited historical summary of revenues and certain operating expenses (the Historical Summary ) of the following properties: Arby s New Castle, PA, Mustang Engineering Houston, TX, CVS Indianapolis, IN, Bridgestone/Firestone Atlanta, GA, Marsh Supermarket Indianapolis, IN, Bank of America Delray Beach, FL, MI, Academy Sports Lufkin, TX, and Boscov s Voorhees, NJ, (collectively, the Millstein Audit Properties ).

Summary financial data has been provided for the tenants, which occupy the remaining six properties: Office Depot Alcoa, TN, Best Buy Wichita, KS, Circuit City Kennesaw, GA, CarMax Raleigh, NC, CarMax Pineville, NC, and FedEx Ground Mishawaka, IN, (collectively, the Millstein Public Tenant Properties ). Because the Millstein Public Tenant Properties are each 100% leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant or guarantor, we believe that the financial condition and results of operations of the tenant or guarantor, are more relevant to investors than the financial statements of the individual property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the properties are subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned Investment Objectives and Policies Real Property Investments beginning on page 90 of the prospectus. As a result, pursuant to guidance provided by the Securities and Exchange Commission, we have not provided audited financial statements of the Millstein Public Tenant Properties

that have or will be acquired.

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The Historical Summary has been prepared for the purpose of complying with the provisions of Rule 3-14 of Regulation S-X promulgated by the Securities and Exchange Commission, which requires certain information with respect to real estate operations to be included with certain filings with the Securities and Exchange Commission. The Historical Summary includes the historical revenues and certain operating expenses of the Properties, exclusive of items which may not be comparable to the proposed future operations of the Properties. Material amounts that would not be directly attributable to future operating results of the Properties are excluded, and the financial statements are not intended to be a complete presentation of the Properties' revenues and expenses. Items excluded consist of management and asset fees, depreciation, amortization, other non-operating expenses, and interest expense.

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**Independent Auditors Report**

To the Board of Directors and Stockholders of  
Cole Credit Property Trust II, Inc.  
Phoenix, AZ

We have audited the accompanying combined statement of revenues and certain operating expenses (the Historical Summary ) of the Millstein Audit Properties as listed in Note 1 to the Historical Summary (the Properties ) for the year ended December 31, 2007. This Historical Summary is the responsibility of Cole Credit Property Trust II, Inc. management. Our responsibility is to express an opinion on the Historical Summary based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes consideration of internal control over financial reporting as it relates to the Historical Summary as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Properties internal control over financial reporting as it relates to the Historical Summary. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission as described in Note 1 to the Historical Summary and is not intended to be a complete presentation of the Properties revenues and expenses.

In our opinion, such Historical Summary presents fairly, in all material respects, the combined revenues and certain operating expenses described in Note 1 to the Historical Summary of the Properties for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Phoenix, Arizona  
January 30, 2008

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**Millstein Audit Properties**

**Statement of Revenues and Certain Operating Expenses  
For the Year Ended December 31, 2007**

	<b>Year Ended December 31, 2007</b>
<b>Revenues:</b>	
Rental income from operating leases	\$ 4,896,407
Tenant reimbursement revenue	58,500
Other revenue	26,065
Total revenues	4,980,972
<b>Certain Operating Expenses:</b>	
Other expenses	58,140
Total certain operating expenses	58,140
<b>Revenues in excess of certain operating expenses</b>	<b>\$ 4,922,832</b>

See accompanying notes to statement of revenues and certain operating expenses.

**Table of Contents****Millstein Audit Properties****Notes to the Statement of Revenues and Certain Operating Expenses  
For the Year Ended December 31, 2007****1. Basis of Presentation**

Cole Credit Property Trust II, Inc. (the Company) plans to acquire a portfolio, consisting of 14 single-tenant commercial retail and industrial properties containing approximately 0.9 million square feet of rentable square feet of rentable space located in nine states (the Millstein Portfolio Properties) whereby the tenant is responsible for all costs to maintain and operate the properties. Within the Millstein Portfolio Properties are eight net leased properties (the Millstein Audit Properties). The Millstein Audit Properties consists of the following properties and associated tenants:

<b>Property</b>	<b>Tenant</b>
Academy Sports Lufkin, TX	Academy, Ltd.
Arby's New Castle, PA	RTM Acquisition Company, LLC
Mustang Engineering Houston, TX	Mustang Engineering, LP
CVS- Indianapolis, IN	Hook-Superx, Inc.
Bridgestone/Firestone Atlanta, GA	BFS Retail & Commercial Operations, LLC
Marsh Supermarket Indianapolis, IN	Marsh Supermarkets, LLC
Bank of America Delray Beach, FL	Bank of America, N.A.
Boscov's Voorhees, NJ	Boscov's Department Store, LLC

The statement of revenues and certain operating expenses (the Historical Summary) has been prepared for the purpose of complying with the provisions of Article 3-14 of Regulation S-X promulgated by the Securities and Exchange Commission (the SEC), which requires certain information with respect to real estate operations to be included with certain filings with the SEC. The Historical Summary includes the historical revenues and certain operating expenses of the Millstein Audit Properties, exclusive of items which may not be comparable to the proposed future operations of the Millstein Audit Properties. Material amounts that would not be directly attributable to future operating results of the Millstein Audit Properties are excluded, and the financial statements are not intended to be a complete presentation of the Millstein Audit Properties' revenues and expenses. Items excluded consist of management and asset fees, depreciation, amortization, other non-operating expenses, and interest expense.

**2. Significant Accounting Policies*****Revenue Recognition***

The leases are accounted for as operating leases and minimum rental income is recognized on a straight-line basis over the remaining term of each lease. Contingent rental income, such as percentage rents, is recognized when the specific target which triggers the contingent rental income is achieved. Tenant reimbursement revenue is recognized in the same periods in which the related expenses are incurred. Tenant reimbursement revenue includes payments from tenants as reimbursements for property taxes and other property operating expenses.

***Repairs and Maintenance***

Expenditures for repairs and maintenance are the responsibility of the tenant under the respective lease agreements and therefore are not included in the statement of revenues and certain expenses.

*Use of Estimates*

The preparation of historical summaries in conformity with generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the reported amounts of revenues and certain operating expenses during the reporting period. Actual results could differ from those estimates.

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**Table of Contents****Millstein Audit Properties****Notes to the Statement of Revenues and Certain Operating Expenses (Continued)****3. Leases**

The leases have remaining terms of seven to 28 years (expiring between 2015 and 2036) and provide for minimum rentals. In addition, the tenant leases generally provide for limited increases in rent as a result of fixed increases, these amounts are recognized on a straight-line bases over the terms of the leases.

The aggregate annual minimum future rental payments on the non-cancelable operating leases in effect as of December 31, 2007 are as follows:

**Year ending December 31:**

2008	\$ 4,760,015
2009	4,675,569
2010	4,729,242
2011	4,778,378
2012	4,827,525
Thereafter	45,186,411
Total	\$ 68,957,140

The above tables do not include future minimum lease payments for renewal periods or rent increases that are based on the Consumer Price Index ( CPI ) or future contingent rents. Payments are also exclusive of potential charges related to real estate taxes and operating cost escalations.

**4. Tenant Concentration**

For the year ended December 31, 2007, the following tenants accounted for 10% or more of the annual rental income for the Millstein Audit Properties:

<b>Tenant Name</b>	<b>Aggregate Annual Rental Income</b>	<b>% Aggregate Annual Rental Income</b>
Mustang Engineering, LP	\$ 1,346,714	27%
Marsh Supermarkets, LLC	1,208,363	24%
Bank of America, N.A.	900,000	18%

If any of these tenants were to default on their lease, future revenue of the Millstein Audit Properties would be materially and adversely impacted.

**5. Commitments and Contingencies**

***Litigation***

The Millstein Audit Properties may be subject to legal claims in the ordinary course of business as a property owner. The Company believes that the ultimate settlement of any potential claims will not have a material impact on the Millstein Audit Properties' results of operations.

***Environmental Matters***

In connection with the ownership and operation of real estate, the Millstein Audit Properties may be potentially liable for costs and damages related to environmental matters. The Millstein Audit Properties have not been notified by any governmental authority of any non-compliance, liability or other claim, and the Company is not aware of any other environmental condition that it believes will have a material adverse effect on the Millstein Audit Properties' results of operations.

**Table of Contents****SUMMARY FINANCIAL DATA  
TRACTOR SUPPLY COMPANY**

We have acquired the following properties leased to, or guaranteed by, Tractor Supply Company ( Tractor Supply ):

<b>Property Location</b>	<b>Date Acquired</b>	<b>Purchase Price</b>	<b>Square Feet</b>	<b>Year Built</b>
Ankeny, Iowa	2/9/2007	\$ 3,000,000	19,097	2006
Greenfield, Minnesota	4/2/2007	4,050,000	22,675	2006
Marinette, Wisconsin	4/9/2007	2,950,000	19,097	2006
Paw Paw, Michigan	4/9/2007	3,095,650	22,670	2006
Navasota, Texas	4/18/2007	3,015,000	22,670	2006
Fredericksburg, Texas	5/7/2007	3,125,000	22,670	2007
Fairview, Tennessee	5/25/2007	2,970,000	19,067	2007
Baytown, Texas	6/11/2007	3,310,000	22,670	2007
Prior Lake, Minnesota	6/29/2007	5,050,000	36,183	1991
Rome, NY	1/4/2008	3,150,000	19,097	2007
Clovis, NM	4/7/2008	3,060,000	19,097	2007
Total		\$ 36,775,650	244,993	

Tractor Supply currently operates more than 550 retail stores in 34 states, employs more than 7,800 and is headquartered in Brentwood, Tennessee. Tractor Supply's common stock is traded on The Nasdaq Global Select Market under the symbol TSCO.

In evaluating the Tractor Supply properties as potential acquisitions and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators. After reasonable inquiry, we are not aware of any material factors relating to any of the Tractor Supply properties, other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

Because the Tractor Supply properties are each 100% leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the tenant, Tractor Supply, are more relevant to investors than the financial statements of the individual property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the properties are subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned Investment Objectives and Policies Real Property Investments beginning on page 87 of the prospectus. As a result, pursuant to the guidance provided by the SEC, we have not provided audited statements of the properties acquired.



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Tractor Supply currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding Tractor Supply are taken from its previously filed public reports:

	<b>For the Fiscal Year Ended</b>		
	<b>12/29/2007</b>	<b>12/30/2006</b>	<b>12/31/2005</b>
	<b>(In thousands)</b>		
<b>Consolidated Statements of Operations</b>			
Revenues	\$ 2,703,212	\$ 2,369,612	\$ 2,067,979
Operating Income	160,041	148,020	136,444
Net Income	96,241	91,008	85,669

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**As of the Fiscal Year Ended**  
**12/29/2007      12/30/2006      12/31/2005**  
**(In thousands)**

**Consolidated Balance Sheets**

Total Assets	\$ 1,057,971	\$ 1,007,992	\$ 814,795
Long-term Debt	2,351	2,808	10,739
Stockholders' Equity	565,337	598,904	477,698

For more detailed financial information regarding Tractor Supply, please refer to its financial statements, which are publicly available with the Securities and Exchange Commission at <http://www.sec.gov>.

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**SUMMARY FINANCIAL DATA  
OFFICEMAX, INC.**

We have acquired the following property (the OM Orangeburg Property ) leased to, or guaranteed by, OfficeMax, Inc. ( OfficeMax ):

<b>Property Location</b>	<b>Date Acquired</b>	<b>Purchase Price</b>	<b>Square Feet</b>	<b>Year Built</b>
Orangeburg, South Carolina	2/28/2007	\$ 3,125,000	23,500	1999

OfficeMax currently operates more than 1,000 retail stores located in the United States, Canada, and Mexico, employs more than 40,000 people and is headquartered in Naperville, Illinois. OfficeMax has an S&P credit rating of B+ and its common stock is traded on The New York Stock Exchange under the symbol OMX.

In evaluating the OM Orangeburg Property as a potential acquisition and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators.

Because the OM Orangeburg Property is 100% leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the tenant, OfficeMax, are more relevant to investors than the financial statements of the property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the property is subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned Investment Objectives and Policies Real Property Investments beginning on page 87 of the prospectus. As a result, pursuant to the guidance provided by the SEC, we have not provided audited statements of the property acquired.

OfficeMax currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding OfficeMax are taken from its previously filed public reports:

	<b>For the Fiscal Year Ended</b>		
	<b>12/29/2007</b>	<b>12/30/2006</b>	<b>12/31/2005</b>
	<b>(In thousands)</b>		
<b>Consolidated Statements of Operations</b>			
Revenues	\$ 9,081,962	\$ 8,965,707	\$ 9,157,660
Operating Income	344,171	165,902	9,692
Net Income	207,373	91,721	(73,762)

**As of the Fiscal Year Ended**

	12/29/2007	12/30/2006	12/31/2005
		(In thousands)	
<b>Consolidated Balance Sheets</b>			
Total Assets	\$ 6,283,768	\$ 6,216,048	\$ 6,272,142
Long-term Debt	349,421	384,000	407,000
Stockholders Equity	2,278,572	1,985,644	1,735,679

For more detailed financial information regarding OfficeMax, please refer to its financial statements, which are publicly available with the SEC at <http://www.sec.gov>.

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**Table of Contents****SUMMARY FINANCIAL DATA  
WALGREEN CO.**

We have acquired the following properties leased to, or guaranteed by, Walgreen Co. ( Walgreens ):

<b>Property Location</b>	<b>Date Acquired</b>	<b>Purchase Price</b>	<b>Square Feet</b>	<b>Year Built</b>
Cincinnati, Ohio	3/6/2007	\$ 5,140,000	15,120	2000
Madeira, Ohio	3/6/2007	4,425,000	13,905	1998
Sharonville, Ohio	3/6/2007	4,085,000	13,905	1998
Shreveport, Louisiana	3/23/2007	4,140,000	13,905	1998
Bridgetown, Ohio	4/30/2007	4,475,000	13,905	1998
Dallas, Texas	5/8/2007	3,150,000	13,905	1996
Bryan, Texas	5/18/2007	6,325,000	15,050	2001
Harris County, Texas	5/18/2007	5,650,000	15,050	2000
Gainesville, Florida	6/1/2007	3,625,000	13,905	1997
Kansas City (63rd St.), Missouri	7/10/2007	4,335,000	13,905	2000
Kansas City (Independence), Missouri	7/11/2007	4,598,000	13,905	1997
Kansas City (Linwood), Missouri	7/11/2007	3,750,000	13,905	2000
Kansas City (Troost), Missouri	7/10/2007	4,928,000	13,905	2000
Topeka, Kansas	7/10/2007	3,121,950	13,905	1999
Fort Worth, Texas	7/17/2007	4,855,153	15,120	1999
Richmond, VA	8/17/2007	4,025,000	13,869	1997
Dallas (DeSoto), Texas	8/27/2007	3,367,000	13,905	1997
Brentwood, Tennessee	10/17/2007	5,640,000	14,820	2006
Harriman, Tennessee	10/24/2007	5,026,820	14,820	2007
Beverly Hills, TX	12/5/2007	3,600,000	13,905	1998
Waco, TX	12/5/2007	3,600,000	13,905	1998
Cincinnati (Seymour), OH	12/21/2007	4,890,000	15,120	2000
Oneida, TN	2/29/2008	5,022,901	14,820	2007
Batesville, MS	3/31/2008	5,321,000	14,820	2007
<b>Total</b>		<b>\$ 107,095,824</b>	<b>343,279</b>	

Walgreens operates over 4,900 stores in 45 states and Puerto Rico. Walgreens has a Standard & Poor's credit rating of A+ and the company's stock is publicly traded on the New York Stock Exchange under the ticker symbol WAG.

In evaluating the Walgreens properties as potential acquisitions and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators. After reasonable inquiry, we are not aware of any material factors relating to these properties, other than those discussed above, that would cause the reported financial

information not to be necessarily indicative of future operating results.

Because the Walgreens properties are each 100% leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the tenant, Walgreens, are more relevant to investors than the financial statements of the property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the properties are subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned Investment Objectives and Policies Real

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Property Investments beginning on page 87 of the prospectus. As a result, pursuant to the guidance provided by the Securities and Exchange Commission, we have not provided audited statements of the properties acquired.

Walgreens currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding Walgreens are taken from its previously filed public reports:

	<b>For the Six Months Ended 2/29/2008</b>	<b>For the Fiscal Year Ended</b>		
		<b>8/31/2007</b>	<b>8/30/2006</b>	<b>8/31/2005</b>
<b>(In millions)</b>				
<b>Consolidated Statements of Operations</b>				
Revenues	\$ 29,421.5	\$ 53,762.0	\$ 47,409.0	\$ 42,201.6
Operating Income	1,816.0	3,150.7	2,701.5	2,424.0
Net Income	1,141.4	2,041.3	1,750.6	1,559.5

	<b>As of 2/29/2008</b>	<b>As of the Fiscal Year Ended</b>		
		<b>8/31/2007</b>	<b>8/30/2006</b>	<b>8/31/2005</b>
<b>(In millions)</b>				
<b>Consolidated Balance Sheets</b>				
Total Assets	\$ 20,748.3	\$ 19,313.6	\$ 17,131.1	\$ 14,608.8
Long-term Debt	1,376.8	1,306.8	1,118.9	997.7
Stockholders' Equity	12,063.3	11,104.3	10,115.8	8,889.7

For more detailed financial information regarding Walgreens, please refer to its financial statements, which are publicly available with the Securities and Exchange Commission at <http://www.sec.gov>.

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**SUMMARY FINANCIAL DATA  
OFFICE DEPOT, INC.**

We have acquired the following properties leased to, or guaranteed by, Office Depot, Inc. ( Office Depot ):

Property Location	Date Acquired	Purchase Price	Square Feet	Year Built
Enterprise, Alabama	2/27/2007	\$ 2,776,357	20,000	2006
Alcoa, TN	1/31/2008	3,658,000	26,850	1999
Total		\$ 6,434,357	46,850	

Office Depot is a global supplier of office products and services. Office Depot has a Standard & Poor's credit rating of BBB- and its stock is publicly traded on the New York Stock Exchange under the ticker symbol ODP .

In evaluating the Office Depot properties as potential acquisitions and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators. After reasonable inquiry, we are not aware of any material factors relating to the Office Depot properties other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

Because the Office Depot properties are 100% leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the tenant, Office Depot, are more relevant to investors than the financial statements of the individual property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the properties are subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned Investment Objectives and Policies Real Property Investments beginning on page 87 of the prospectus. As a result, pursuant to guidance provided by the Securities and Exchange Commission, we have not provided audited financial statements of the properties acquired.

Office Depot currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding Office Depot are taken from its previously filed public reports:

	For the Fiscal Year Ended		
	12/30/2007	12/31/2006	12/25/2005
	(In thousands)		
<b>Consolidated Statements of Operations</b>			
Revenues	\$ 15,527,537	\$ 15,010,781	\$ 14,278,944
Operating Income	483,601	713,187	348,042



Net Income	395,615	503,471	273,792
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	<b>As of the Fiscal Year Ended</b>		
	<b>12/30/2007</b>	<b>12/31/2006</b>	<b>12/25/2005</b>
	<b>(In thousands)</b>		

**Consolidated Balance Sheets**

Total Assets	\$ 7,256,540	\$ 6,557,438	\$ 6,098,525
Long-term Debt	607,462	570,752	569,098
Stockholders' Equity	3,083,844	2,597,447	2,739,221

For more detailed financial information regarding Office Depot, please refer to its financial statements, which are publicly available with the Securities and Exchange Commission at <http://www.sec.gov>.

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**SUMMARY FINANCIAL DATA  
APRIA HEALTHCARE GROUP, INC.**

We have acquired the following property leased to, or guaranteed by, Apria Healthcare Group, Inc. ( Apria ).

<b>Property Location</b>	<b>Date Acquired</b>	<b>Purchase Price</b>	<b>Square Feet</b>	<b>Year Built</b>
St. John, Missouri	3/28/2007	\$ 6,500,000	52,200	1996

Apria Healthcare Group Inc. ( Apria ) is the leading national provider of home healthcare products and services. Apria has a Standard & Poor's credit rating of BB+ and its stock is publicly traded on the New York Stock Exchange under the ticker symbol AHG .

In evaluating the Apria Healthcare St. John Property ( AH St. John Property ) as a potential acquisition and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators.

Because the AH St. John Property is 100% leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the tenant, Apria Healthcare, are more relevant to investors than the financial statements of the property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the property is subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned Investment Objectives and Policies Real Property Investments beginning on page 87 of the prospectus. As a result, pursuant to the guidance provided by the SEC, we have not provided audited statements of the property acquired.

Apria currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding Apria Healthcare are taken from its previously filed public reports:

	<b>For the Fiscal Year Ended</b>		
	<b>12/31/2006</b>	<b>12/31/2005</b>	<b>12/31/2004</b>
	<b>(In thousands)</b>		
<b>Consolidated Statements of Operations</b>			
Revenues	\$ 1,517,307	\$ 1,474,101	\$ 1,451,449
Operating Income	147,700	129,489	201,055
Net Income	74,980	66,941	114,008

	<b>As of the Fiscal Year Ended</b>		
	<b>12/31/2006</b>	<b>12/31/2005</b>	<b>12/31/2004</b>

**(In thousands)****Consolidated Balance Sheets**

Total Assets	\$ 1,168,496	\$ 1,185,898	\$ 1,107,664
Long-term Debt	485,000	640,855	475,957
Stockholders' Equity	410,431	327,164	406,185

For more detailed financial information regarding Apria Healthcare, please refer to its financial statements, which are publicly available with the Securities and Exchange Commission at <http://www.sec.gov>.

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**SUMMARY FINANCIAL DATA  
FEDEX CORPORATION**

We have acquired the following properties leased to or guaranteed by FedEx Corporation ( FedEx ):

<b>Property Location</b>	<b>Date Acquired</b>	<b>Purchase Price</b>	<b>Square Feet</b>	<b>Year Built</b>
Peoria, Illinois	7/20/2007	\$ 3,200,000	38,200	1997
Walker, Michigan	8/8/2007	7,575,000	78,034	2001
Mishawaka, Indiana	2/7/2008	3,932,000	54,779	1993
Total		\$ 14,707,000	171,013	

FedEx has a Standard & Poor's credit rating of BBB and the company's stock is publicly traded on the New York Stock Exchange under the ticker symbol FDX.

In evaluating the FedEx properties as potential acquisitions and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators. After reasonable inquiry, we are not aware of any material factors relating to the FedEx properties other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

Because the FedEx properties are 100% leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the tenant, FedEx, are more relevant to investors than the financial statements of the individual property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the properties are subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned "Investment Objectives and Policies - Real Property Investments" beginning on page 87 of the prospectus. As a result, pursuant to guidance provided by the Securities and Exchange Commission, we have not provided audited financial statements of the properties acquired.

FedEx currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding FedEx are taken from its previously filed public reports:

<b>For the Nine Months Ended</b>	<b>For the Fiscal Year Ended</b>		
<b>2/29/2008</b>	<b>5/31/2007</b>	<b>5/31/2006</b>	<b>5/31/2005</b>
	<b>(In millions)</b>		

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Revenues	\$	28,087	\$	22,527	\$	21,296	\$	19,364
Operating Income		2,238		1,913		1,730		1,391
Net Income		1,366		1,251		1,086		823

		<b>As of</b>		<b>As of the Fiscal Year Ended</b>				
		<b>2/29/2008</b>		<b>5/31/2007</b>	<b>5/31/2006</b>	<b>5/31/2005</b>		
					<b>(In millions)</b>			
Total Assets	\$	24,596	\$	16,032	\$	14,726	\$	13,093
Long-term Debt		2,006		745		828		974
Stockholders Equity		14,192		8,905		7,432		6,319

For more detailed financial information regarding FedEx, please refer to its financial statements, which are publicly available with the Securities and Exchange Commission at <http://www.sec.gov>.

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**SUMMARY FINANCIAL DATA  
RITE AID CORPORATION**

We have acquired the following properties leased to, or guaranteed by, Rite Aid Corporation ( Rite Aid ):

<b>Property Location</b>	<b>Date Acquired</b>	<b>Purchase Price</b>	<b>Square Feet</b>	<b>Year Built</b>
Fredericksburg, Virginia	5/2/2007	\$ 5,415,000	14,564	2007
Plains, Pennsylvania	4/16/2007	5,200,000	14,564	2006
Lima, Ohio	5/14/2007	4,775,000	14,564	2005
Allentown, Pennsylvania	5/15/2007	5,561,112	14,564	2006
<b>Total</b>		<b>\$ 20,951,112</b>	<b>58,256</b>	

Rite Aid has operates over 3,300 stores in 28 states and Washington, DC. Rite Aid has a Standard and Poor's credit rating of B+ and its stock is publicly traded on the New York Stock Exchange under the ticker symbol RAD .

In evaluating the Rite Aid properties as a potential acquisitions and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators. After reasonable inquiry, we are not aware of any material factors relating to the Rite Aid properties, other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

Because the Rite Aid properties are leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the lease guarantor, Rite Aid, are more relevant to investors than the financial statements of the property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the properties are subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned Investment Objectives and Policies Real Property Investments beginning on page 87 of the prospectus. As a result, pursuant to guidance provided by the Securities and Exchange Commission, we have not provided audited financial statements of the properties acquired.

Rite Aid currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding Rite Aid has been taken from its previously filed public reports:

<b>For the Fiscal Year Ended</b>		
<b>3/3/2007</b>	<b>3/4/2006</b>	<b>2/26/2005</b>
<b>(In thousands)</b>		

**Consolidated Statements of Operations**

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Revenues	\$ 17,507,719	\$ 17,270,968	\$ 16,816,439
Operating Income	13,582	43,254	134,007
Net Income	26,826	1,273,006	302,478

**As of the Fiscal Year Ended**  
**3/3/2007**                      **3/4/2006**                      **2/26/2005**  
**(In thousands)**

**Consolidated Balance Sheets**

Total Assets	\$ 7,091,024	\$ 6,988,371	\$ 5,932,583
Long-term Debt	2,909,983	2,298,706	2,680,998
Stockholders' Equity	1,662,846	1,606,921	322,934

For more detailed financial information regarding Rite Aid, please refer to its financial statements, which are publicly available with the Securities and Exchange Commission at <http://www.sec.gov>.

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**Table of Contents****SUMMARY FINANCIAL DATA  
WAL-MART STORES, INC.**

We have acquired the following properties leased to, or guaranteed by, Wal-Mart Stores, Inc. ( Wal-Mart ):

<b>Property Location</b>	<b>Date Acquired</b>	<b>Purchase Price</b>	<b>Square Feet</b>	<b>Year Built</b>
Anderson, South Carolina	5/7/2007	\$ 12,000,000	134,664	1993
New London, Wisconsin	5/9/2007	2,614,000	51,985	1991
Spencer, Indiana	5/23/2007	2,025,682	41,304	1987
Bay City, Texas	8/14/2007	3,755,000	90,921	1990
Washington, Illinois	9/10/2007	3,578,000	74,136	1989
Borger, Texas	9/12/2007	3,205,000	65,930	1991
Whiteville, North Carolina	10/11/2007	2,667,000	65,930	1988
Total		\$ 29,844,682	524,870	

Wal-Mart has over 6,700 stores throughout the world. Wal-Mart has a Standard and Poor's credit rating of AA and its stock is publicly traded on the New York Stock Exchange under the ticker symbol WMT .

In evaluating the Wal-Mart properties as a potential acquisitions and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators. After reasonable inquiry, we are not aware of any material factors relating to the Wal-Mart properties, other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

Because the Wal-Mart properties are leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the lease guarantor, Wal-Mart, are more relevant to investors than the financial statements of the property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the properties are subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned Investment Objectives and Policies Real Property Investments beginning on page 87 of the prospectus. As a result, pursuant to guidance provided by the Securities and Exchange Commission, we have not provided audited financial statements of the properties acquired.

Wal-Mart currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding Wal-Mart has been taken from its previously filed public reports:

**For the Fiscal Year Ended**  
**1/31/2008      1/31/2007      1/31/2006**



**(In millions)****Consolidated Statements of Operations**

Revenues	\$ 374,526	\$ 344,992	\$ 308,945
Operating Income	21,996	20,497	18,713
Net Income	12,731	11,284	11,231

**As of the Fiscal Year Ended**

<b>1/31/2008</b>	<b>1/31/2007</b>	<b>1/31/2006</b>
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**(In millions)**

**Consolidated Balance Sheets**

Total Assets	\$ 163,514	\$ 151,193	\$ 135,624
Long-term Debt	33,402	30,735	30,096
Stockholders Equity	64,608	61,573	53,171

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**SUMMARY FINANCIAL DATA  
STAPLES, INC.**

We have acquired the following properties leased to Staples the Office Superstore East, Inc., a wholly owned subsidiary of Staples, Inc. ( Staples ):

<b>Property Location</b>	<b>Date Acquired</b>	<b>Purchase Price</b>	<b>Square Feet</b>	<b>Year Built</b>
Warsaw, IN	5/17/2007	\$ 3,215,000	23,990	1998
Guntersville, AL	7/6/2007	3,325,000	23,942	2001
Moraine, OH	10/12/2007	3,800,000	20,388	2006
Greenville, SC	4/11/2007	4,545,000	20,388	2007
Total		\$ 14,885,000	88,708	

Staples currently operates more than 1,000 retail stores located in the United States, Canada, and Mexico, employs more than 40,000 people and is headquartered in Naperville, Illinois. Staples has an S&P credit rating of BBB+ and its common stock is traded on The Nasdaq Global Select Market under the symbol SPLS.

In evaluating the properties as a potential acquisition and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators.

Because the properties each are 100% leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of Staples, Inc., are more relevant to investors than the financial statements of the properties acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the properties are subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned Investment Objectives and Policies Real Property Investments beginning on page 87 of the prospectus. As a result, pursuant to the guidance provided by the SEC, we have not provided audited statements of the properties acquired.

Staples currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding Staples are taken from its previously filed public reports:

	<b>For the Fiscal Year Ended</b>		
	<b>2/2/2008</b>	<b>2/3/2007</b>	<b>1/28/2006</b>
	<b>(In thousands)</b>		

**Consolidated Statements of Operations**

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Revenues	\$ 19,372,682	\$ 18,160,789	\$ 16,078,852
Operating Income	1,548,249	1,463,069	1,234,081
Net Income	995,670	973,677	784,117

**As of the Fiscal Year Ended**  
**2/2/2008**                      **2/3/2007**                      **1/28/2006**  
(In thousands)

**Consolidated Balance Sheets**

Total Assets	\$ 9,036,344	\$ 8,397,265	\$ 7,732,720
Long-term Debt	342,169	316,465	527,606
Stockholders' Equity	5,718,007	5,021,665	4,481,601

For more detailed financial information regarding Staples, please refer to its financial statements, which are publicly available with the SEC at <http://www.sec.gov>.

**Table of Contents****SUMMARY FINANCIAL DATA  
BORDERS GROUP, INC.**

We have acquired the following properties leased to Borders Group, Inc. ( Borders ):

<b>Property Location</b>	<b>Date Acquired</b>	<b>Purchase Price</b>	<b>Square Feet</b>	<b>Year Built</b>
Rapid City, South Dakota	6/1/2007	\$ 6,461,000	20,000	1999
Reading, Pennsylvania	6/1/2007	6,261,000	25,015	1997
Total		\$ 12,722,000	45,015	

Borders Group, Inc. ( Borders ) is a publicly traded company, which operates over 560 superstores under the Borders name. Borders stock is publicly traded on the New York Stock Exchange under the symbol BGP.

In evaluating the Borders properties as potential acquisitions and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators. After reasonable inquiry, we are not aware of any material factors relating to the Borders properties other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

Because the Borders properties are 100% leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the tenant, Borders, are more relevant to investors than the financial statements of the individual property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the properties are subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned Investment Objectives and Policies Real Property Investments beginning on page 87 of the prospectus. As a result, pursuant to guidance provided by the Securities and Exchange Commission, we have not provided audited financial statements of the properties acquired.

Borders currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding Borders are taken from its previously filed public reports:

	<b>For the Fiscal Year Ended</b>		
	<b>2/2/2008</b>	<b>2/3/2007</b>	<b>1/28/2006</b>
	<b>(In millions)</b>		
<b>Consolidated Statements of Operations</b>			
Revenues	\$ 3,820.9	\$ 3,723.6	\$ 3,717.1
Operating Income	6.6	8.5	170.4

Net Income	(157.4)	(151.3)	101.0
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**As of the Fiscal Year Ended**  
**2/2/2008      2/3/2007      1/28/2006**  
**(In millions)**

**Consolidated Balance Sheets**

Total Assets	\$ 2,302.7	\$ 2,613.4	\$ 2,572.2
Long-term Debt	5.4	5.2	5.4
Stockholders' Equity	476.9	642.0	927.8

For more detailed financial information regarding Borders, please refer to its financial statements, which are publicly available with the Securities and Exchange Commission at <http://www.sec.gov>.

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**Table of Contents****SUMMARY FINANCIAL DATA  
STARBUCKS CORPORATION**

We have acquired the following properties leased to Starbucks Corporation ( Starbucks ):

<b>Property Location</b>	<b>Date Acquired</b>	<b>Purchase Price</b>	<b>Square Feet</b>	<b>Year Built</b>
Covington, Tennessee	6/22/2007	\$ 1,516,000	1,805	2007
Sedalia, Missouri	6/22/2007	1,227,000	1,800	2006
Bowling Green, KY	10/23/2007	1,657,000	1,850	2007
Shawnee, OK	10/31/2007	1,096,909	1,750	2006
Oklahoma City, OK	11/20/2007	1,238,671	1,741	2007
Chattanooga, TN	11/26/2007	1,420,000	1,850	2007
Maryville, TN	11/26/2007	1,490,000	1,850	2007
Powell, TN	11/26/2007	1,324,000	1,850	2007
Seymour, TN	11/26/2007	1,351,000	1,850	2007
Altus, OK	1/16/2008	1,172,414	1,741	2007
Kingsport, TN	3/25/2008	1,328,000	1,850	2008
Memphis, TN	3/4/2008	1,367,000	1,853	2007
Ponca City, OK	3/11/2008	1,061,753	1,750	2007
Stillwater, OK	2/28/2008	1,303,448	1,850	2007
Total		\$ 18,553,195	25,390	

Starbucks is a publicly traded company founded in 1985, that operates over 12,000 retail stores, offering brewed coffees, espresso beverages and food items. Starbucks has a Standard & Poor's credit rating of BBB+ and its stock is publicly traded on the Nasdaq Global Select Market under the symbol SBUX.

In evaluating the Starbucks properties as a potential acquisition and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators.

Because the Starbucks properties are each 100% leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the tenant, Starbucks, are more relevant to investors than the financial statements of the property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the property is subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned Investment Objectives and Policies Real Property Investments beginning on page 87 of the prospectus. As a result, pursuant to the guidance provided by the SEC, we have not provided audited statements of the property acquired.



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Starbucks currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding Starbucks are taken from its previously filed public reports:

	<b>For the 13 Weeks Ended</b>		<b>For the Fiscal Year Ended</b>	
	<b>12/30/2007</b>	<b>9/30/2007</b>	<b>10/1/2006</b>	<b>10/2/2005</b>
<b>(In millions)</b>				
<b>Consolidated Statements of Operations</b>				
Revenues	\$ 2,767.6	\$ 9,411.5	\$ 7,786.9	\$ 6,369.3
Operating Income	333.1	1,053.9	894.0	780.5
Net Income	208.1	672.6	564.3	494.4

	<b>As of</b>		<b>As of the Fiscal Year Ended</b>	
	<b>12/30/2007</b>	<b>9/30/2007</b>	<b>10/1/2006</b>	<b>10/2/2005</b>
<b>(In millions)</b>				
<b>Consolidated Balance Sheets</b>				
Total Assets	\$ 5,506.4	\$ 5,343.9	\$ 4,428.9	\$ 3,513.7
Long-term Debt	550.1	550.1	2.0	2.9
Stockholders' Equity	2,253.2	2,284.1	2,228.5	2,090.3

For more detailed financial information regarding Starbucks, please refer to its financial statements, which are publicly available with the Securities and Exchange Commission at <http://www.sec.gov>.



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**SUMMARY FINANCIAL DATA  
THE KROGER CO.**

We have acquired the following property leased to The Kroger Co. ( Kroger ):

<b>Property Location</b>	<b>Date Acquired</b>	<b>Purchase Price</b>	<b>Square Feet</b>	<b>Year Built</b>
La Grange, Georgia	6/28/2007	\$ 7,293,750	61,331	1998

Kroger operates as a food retailer in the United States. Kroger operates over 2,400 supermarkets in 31 states. Kroger has a Standard & Poor's credit rating of BBB- and its stock is publicly traded on the New York Stock Exchange under the symbol KR.

In evaluating the Kroger La Grange property ( KG La Grange Property ) as a potential acquisition and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators.

Because the KG La Grange Property is 100% leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the tenant, Kroger, are more relevant to investors than the financial statements of the property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the property is subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned Investment Objectives and Policies Real Property Investments beginning on page 87 of the prospectus. As a result, pursuant to the guidance provided by the SEC, we have not provided audited statements of the property acquired.

The Kroger Co. currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding Kroger are taken from its previously filed public reports:

	<b>For the Fiscal Year Ended</b>		
	<b>2/2/2008</b>	<b>2/3/2007</b>	<b>1/28/2006</b>
	<b>(In millions)</b>		
<b>Consolidated Statements of Operations</b> Revenues	\$ 70,235	\$ 66,111	\$ 60,553
Operating Income	3,301	2,236	2,035
Net Income	1,181	1,115	958

	<b>As of the Fiscal Year Ended</b>		
	<b>2/2/2008</b>	<b>2/3/2007</b>	<b>1/28/2006</b>
	<b>(In millions)</b>		

**Consolidated Balance Sheets**

Total Assets	\$ 22,299	\$ 21,215	\$ 20,482
Long-term Debt	6,529	6,154	6,678
Stockholders' Equity	4,914	4,923	4,390

For more detailed financial information regarding Kroger please refer to its financial statements, which are publicly available with the Securities and Exchange Commission at <http://www.sec.gov>.

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**Table of Contents****SUMMARY FINANCIAL DATA  
CIRCUIT CITY STORES, INC.**

We have acquired the following properties leased to Circuit City Stores, Inc. ( Circuit City ):

<b>Property Location</b>	<b>Date Acquired</b>	<b>Purchase Price</b>	<b>Square Feet</b>	<b>Year Built</b>
Mesquite, Texas	6/29/2007	\$ 7,825,000	42,918	1996
Taunton, Massachusetts	7/13/2007	7,860,000	32,748	2001
Groveland, Florida	7/17/2007	27,548,810	706,560	1999
Aurora, CO	8/22/2007	7,200,000	39,440	1995
Kennesaw, Georgia	1/31/2008	19,840,000	183,088	1998
Total		\$ 70,273,810	1,004,754	

Circuit City is a publicly traded company that operates as a specialty retailer of consumer electronics, home office products, entertainment and services. Circuit City's common stock is publicly traded on New York Stock Exchange under the symbol CC.

In evaluating the Circuit City properties as potential acquisitions and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators. After reasonable inquiry, we are not aware of any material factors relating to the properties, other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

Because the Circuit City properties are 100% leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the lessee, Circuit City, are more relevant to investors than the financial statements of the property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the property is subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned Investment Objectives and Policies Real Property Investments beginning on page 87 of the prospectus. As a result, pursuant to guidance provided by the Securities and Exchange Commission, we have not provided audited financial statements of the properties acquired.

Circuit City currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding Circuit City are taken from its previously filed public reports:

**For the Nine  
Months  
Ended**

**For the Fiscal Year Ended**

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	<b>11/30/2007</b>	<b>2/28/2007</b>	<b>2/28/2006</b>	<b>2/28/2005</b>
	<b>(In thousands)</b>			
<b>Consolidated Statements of Operations</b>				
Revenues	\$ 8,093,191	\$ 12,429,754	\$ 11,514,151	\$ 10,413,524
Operating Income (Loss)	(362,417)	(5,303)	214,762	87,012
Net Income (Loss)	(324,748)	(8,281)	139,746	61,658

	<b>As of</b>	<b>As of the Fiscal Year Ended</b>		
	<b>11/30/2007</b>	<b>2/28/2007</b>	<b>2/28/2006</b>	<b>2/28/2005</b>
	<b>(In thousands)</b>			
<b>Consolidated Balance Sheets</b>				
Total Assets	\$ 4,999,615	\$ 4,007,283	\$ 4,069,044	\$ 3,840,010
Long-term Debt	51,538	50,487	51,985	19,944
Stockholders Equity	1,438,662	1,791,244	1,954,633	2,079,927

For more detailed financial information regarding Circuit City, please refer to its financial statements, which are publicly available with the Securities and Exchange Commission at <http://www.sec.gov>.

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**SUMMARY FINANCIAL DATA  
KOHL S CORPORATION**

We have acquired the following property guaranteed by Kohl s Corporation ( Kohl s ):

Property Location	Date Acquired	Purchase Price	Square Feet	Year Built
Lake Zurich, Illinois	7/17/2007	\$ 12,712,730	88,306	2000

Kohl s operates over 730 retail department stores in 41 states. Kohl s has a Standard and Poor s credit rating of BBB+ and its stock is publicly traded on the New York Stock Exchange under the symbol KSS.

In evaluating the Kohl s Lake Zurich property ( KO Lake Zurich Property ) as a potential acquisition and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators.

Because the KO Lake Zurich Property is 100% leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the lease guarantor, Kohl s, are more relevant to investors than the financial statements of the property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the property is subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned Investment Objectives and Policies Real Property Investments beginning on page 87 of the prospectus. As a result, pursuant to the guidance provided by the SEC, we have not provided audited statements of the property acquired.

Kohl s currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding Kohl s are taken from its previously filed public reports:

	<b>For the Fiscal Year Ended</b>		
	<b>2/2/2008</b>	<b>2/3/2007</b>	<b>1/28/2006</b>
	<b>(In thousands)</b>		
<b>Consolidated Statements of Operations</b>			
Revenues	\$ 16,473,734	\$ 15,596,910	\$ 13,444,397
Operating Income	1,804,477	1,814,801	1,416,181
Net Income	1,083,851	1,108,681	841,960

	<b>As of the Fiscal Year Ended</b>		
	<b>2/2/2008</b>	<b>2/3/2007</b>	<b>1/28/2006</b>
	<b>(In thousands)</b>		

**Consolidated Balance Sheets**

Total Assets	\$ 10,560,082	\$ 9,041,177	\$ 9,153,494
Long-term Debt	2,051,875	1,040,057	1,046,104
Stockholders' Equity	6,101,603	5,603,395	5,957,338

For more detailed financial information regarding Kohl's, please refer to its financial statements, which are publicly available with the Securities and Exchange Commission at <http://www.sec.gov>.

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**SUMMARY FINANCIAL DATA  
ELECTRONIC DATA SYSTEMS CORPORATION**

We have acquired the following property guaranteed by Electronic Data Systems Corporation ( EDS ):

<b>Property Location</b>	<b>Date Acquired</b>	<b>Purchase Price</b>	<b>Square Feet</b>	<b>Year Built</b>
Salt Lake City, Utah	7/17/2007	\$ 22,824,824	406,101	1998

EDS is a publicly traded company that provides information technology and business process outsourcing services worldwide. EDS has a Standard & Poor's credit rating of BBB- and its stock is publicly traded on the New York Stock Exchange under the symbol EDS .

In evaluating the EDS Salt Lake property ( ED Salt Lake Property ) as a potential acquisition and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators.

Because the ED Salt Lake Property is 100% leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the lease guarantor, EDS, are more relevant to investors than the financial statements of the property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the property is subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned Investment Objectives and Policies Real Property Investments beginning on page 87 of the prospectus. As a result, pursuant to the guidance provided by the SEC, we have not provided audited statements of the property acquired.

EDS currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding EDS are taken from its previously filed public reports:

	<b>For the Fiscal Year Ended</b>		
	<b>12/31/2007</b>	<b>12/31/2006</b>	<b>12/31/2005</b>
	<b>(In millions)</b>		
<b>Consolidated Statements of Operations</b>			
Revenues	\$ 22,134	\$ 21,268	\$ 19,757
Operating Income	1,132	816	542
Net Income	716	470	150

	<b>As of the Fiscal Year Ended</b>		
	<b>12/31/2007</b>	<b>12/31/2006</b>	<b>12/31/2005</b>

**(In millions)****Consolidated Balance Sheets**

Total Assets	\$ 19,224	\$ 17,954	\$ 17,087
Long-term Debt	3,209	2,965	2,939
Stockholders' Equity	9,691	7,896	7,512

For more detailed financial information regarding EDS, please refer to its financial statements, which are publicly available with the Securities and Exchange Commission at <http://www.sec.gov>.

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**SUMMARY FINANCIAL DATA  
LOWE S COMPANIES, INC.**

We have acquired the following properties leased to Lowe s Companies, Inc. ( Lowe s ):

<b>Property Location</b>	<b>Date Acquired</b>	<b>Purchase Price</b>	<b>Square Feet</b>	<b>Year Built</b>
Cincinnati, Ohio	7/17/2007	\$ 20,558,483	129,044	1998

Lowe s operates retail home improvement stores across the United States and Canada. Lowe s has a Standard & Poor s Credit Rating of A+ and its stock is publicly traded on the New York Stock Exchange under the ticker symbol LOW .

In evaluating the Lowe s Cincinnati property ( LO Cincinnati Property ) as a potential acquisition and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators. After reasonable inquiry, we are not aware of any material factors relating to the LO Cincinnati Property other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

Because the LO Cincinnati Property is 100% leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the tenant, Lowe s, are more relevant to investors than the financial statements of the individual property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the property is subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned Investment Objectives and Policies Real Property Investments beginning on page 87 of the prospectus. As a result, pursuant to guidance provided by the Securities and Exchange Commission, we have not provided audited financial statements of the properties acquired.

Lowe s currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding Lowe s are taken from its previously filed public reports:

	<b>For the Fiscal Year Ended</b>		
	<b>2/1/2008</b>	<b>2/2/2007</b>	<b>2/3/2006</b>
	<b>(In millions)</b>		
<b>Consolidated Statements of Operations</b>			
Revenues	\$ 48,283	\$ 46,927	\$ 43,243
Operating Income	6,071	6,314	5,634
Net Income	2,809	3,105	2,765

**As of the Fiscal Year Ended**

	2/1/2008	2/2/2007	2/3/2006
		(In millions)	
<b>Consolidated Balance Sheets</b>			
Total Assets	\$ 30,869	\$ 27,767	\$ 24,639
Long-term Debt	5,576	4,325	3,499
Stockholders' Equity	16,098	15,725	14,296

For more detailed financial information regarding Lowe's, please refer to its financial statements, which are publicly available with the Securities and Exchange Commission at <http://www.sec.gov>.

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**SUMMARY FINANCIAL DATA  
THE HOME DEPOT, INC.**

We have acquired the following property leased to Home Depot USA, Inc., a wholly-owned subsidiary of The Home Depot, Inc. ( Home Depot ):

<b>Property Location</b>	<b>Date Acquired</b>	<b>Purchase Price</b>	<b>Square Feet</b>	<b>Year Built</b>
Bedford Park, IL	8/22/2007	\$ 29,400,000	217,952	1992
Total				

Home Depot operates as the world's largest home improvement retailer. As of the end of fiscal 2006, Home Depot operated 2,147 stores. Home Depot has a Standard & Poor's credit rating of BBB+ and its stock is publicly traded on the New York Stock Exchange under the ticker symbol HD.

In evaluating the Home Depot Bedford Park Property ( HD Bedford Park Property ) as a potential acquisition and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators.

Because the HD Bedford Park Property is 100% leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the tenant, Home Depot, are more relevant to investors than the financial statements of the property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the property is subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned Investment Objectives and Policies Real Property Investments beginning on page 87 of the prospectus. As a result, pursuant to the guidance provided by the SEC, we have not provided audited statements of the property acquired.

Home Depot currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding Home Depot are taken from its previously filed public reports:

	<b>For the Fiscal Year Ended</b>		
	<b>2/3/2008</b>	<b>1/28/2007</b>	<b>1/29/2006</b>
	<b>(In millions)</b>		
<b>Consolidated Statements of Operations</b>			
Revenues	\$ 77,349	\$ 79,022	\$ 77,019
Operating Income	7,242	8,866	9,047
Net Income	4,395	5,761	5,838

**As of the Fiscal Year Ended**  
**2/2/2008      2/3/2007      1/28/2006**  
**(In millions)**

**Consolidated Balance Sheets**

Total Assets	\$ 44,324	\$ 52,263	\$ 44,405
Long-term Debt	11,383	11,643	2,672
Stockholders' Equity	17,714	25,030	26,909

For more detailed financial information regarding Home Depot please refer to its financial statements, which are publicly available with the Securities and Exchange Commission at <http://www.sec.gov>.

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**SUMMARY FINANCIAL DATA  
BEST BUY CO., INC.**

We have acquired the following property leased to Best Buy Co., Inc. ( Best Buy ):

<b>Property Location</b>	<b>Date Acquired</b>	<b>Purchase Price</b>	<b>Square Feet</b>	<b>Year Built</b>
Wichita, KS	2/7/2008	11,321,000	66,756	1984

Best Buy is a specialty retailer of consumer electronics, appliances and related services, and operates approximately 950 stores. Best Buy has a Standard & Poor's credit rating of BBB and the company's stock is publicly traded on the New York Stock Exchange under the ticker symbol BBY.

In evaluating the BB Wichita Property as a potential acquisition and determining the appropriate amount of consideration to be paid for our interest therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators. After reasonable inquiry, we are not aware of any material factors relating to the BB Wichita Property other than those discussed above that would cause the reported financial information not to be necessarily indicative of future operating results.

Because the BB Wichita Property is 100% leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the tenant, Best Buy, are more relevant to investors than the financial statements of the individual property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the property is subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned Investment Objectives and Policies Real Property Investments beginning on page 87 of the prospectus. As a result, pursuant to guidance provided by the Securities and Exchange Commission, we have not provided audited financial statements of the property acquired.

Best Buy currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding Best Buy are taken from its previously filed public reports:

	<b>For the Nine Months Ended</b>		<b>For the Fiscal Year Ended</b>	
	<b>12/1/2007</b>	<b>3/3/2007</b>	<b>2/25/2006</b>	<b>2/26/2005</b>
<b>(In millions)</b>				
<b>Consolidated Statements of Operations</b>				
Revenues	\$ 26,605	\$ 35,934	\$ 30,848	\$ 27,433
Operating Income	1,018	1,999	1,644	1,442
Net Income	670	1,377	1,140	984

	<b>As of</b>	<b>As of the Fiscal Year Ended</b>		
	<b>12/1/2007</b>	<b>3/3/2007</b>	<b>2/25/2006</b>	<b>2/26/2005</b>
	<b>(In millions)</b>			

**Consolidated Balance Sheets**

Total Assets	\$ 15,474	\$ 13,570	\$ 11,864	\$ 10,294
Long-term Debt	642	590	178	528
Stockholders' Equity	3,746	6,201	5,257	4,449

For more detailed financial information regarding Best Buy, please refer to its financial statements, which are publicly available with the Securities and Exchange Commission at <http://www.sec.gov>.

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**SUMMARY FINANCIAL DATA  
CARMAX, INC.**

We have acquired the following properties (the CarMax Properties ) leased to CarMax Auto Superstores, Inc., ( CarMax ), which is a wholly-owned subsidiary of CarMax, Inc.:

<b>Property Location</b>	<b>Date Acquired</b>	<b>Purchase Price</b>	<b>Square Feet</b>	<b>Year Built</b>
Greenville, SC	1/25/2008	\$ 22,000,000	46,535	1998
Raleigh, NC	1/31/2008	9,145,000	56,439	1994
Pineville, NC	1/31/2008	9,888,000	18,697	2002
Total		\$ 41,033,000	121,671	

CarMax is the nation's largest retailer of used cars, and currently operates 77 used car superstores in 36 metropolitan markets. CarMax's common stock is publicly traded on New York Stock Exchange under the symbol KMX.

In evaluating the CarMax properties as potential acquisitions and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators. After reasonable inquiry, we are not aware of any material factors relating to the CarMax Properties other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

Because the CarMax properties are 100% leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the lessee, CarMax, are more relevant to investors than the financial statements of the property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the property is subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned "Investment Objectives and Policies - Real Property Investments" beginning on page 87 of the prospectus. As a result, pursuant to guidance provided by the Securities and Exchange Commission, we have not provided audited financial statements of the properties acquired.

CarMax currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding CarMax is taken from its previously filed public reports:

<b>For the Nine Months Ended</b>	<b>For the Fiscal Year Ended</b>		
<b>11/30/2007</b>	<b>2/28/2007</b>	<b>2/28/2006</b>	<b>2/28/2005</b>
<b>(In thousands)</b>			

**Consolidated Statements of Operations**

Revenues	\$ 6,154,964	\$ 7,465,656	\$ 6,259,967	\$ 5,260,262
Operating Income	263,607	327,519	220,671	167,573
Net Income	160,196	198,597	134,220	101,315

<b>As of</b>	<b>As of the Fiscal Year Ended</b>		
<b>11/30/2007</b>	<b>2/28/2007</b>	<b>2/28/2006</b>	<b>2/28/2005</b>
	<b>(In thousands)</b>		

**Consolidated Balance Sheets**

Total Assets	\$ 2,109,392	\$ 1,885,573	\$ 1,509,612	\$ 1,293,013
Long-term Debt	27,280	33,744	134,787	128,419
Stockholders Equity	1,454,329	1,247,375	980,103	800,976

For more detailed financial information regarding CarMax, please refer to its financial statements, which are publicly available with the Securities and Exchange Commission at <http://www.sec.gov>.



**Table of Contents****SUMMARY FINANCIAL DATA  
BJ S WHOLESALE CLUB, INC.**

We have acquired the following property leased to, or guaranteed by, BJ s Wholesale Club, Inc. ( BJ s ):

<b>Property Location</b>	<b>Date Acquired</b>	<b>Purchase Price</b>	<b>Square Feet</b>	<b>Year Built</b>
Haverhill, MA	4/14/2008	\$ 19,400,000	119,598	2006

BJ s operates 177 warehouse clubs in 16 and employs approximately 20,800. BJ s common stock is traded on The New York Stock Exchange under the symbol BJ.

In evaluating the BJ s property as a potential acquisition and determining the appropriate amount of consideration to be paid for our interest therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators. After reasonable inquiry, we are not aware of any material factors relating to BJ s property, other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

Because the BJ s Property is 100% leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the tenant, BJ s, are more relevant to investors than the financial statements of the individual property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the properties are subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned Investment Objectives and Policies Real Property Investments beginning on page 87 of the prospectus. As a result, pursuant to the guidance provided by the SEC, we have not provided audited statements of the properties acquired.

BJ s currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding BJ s are taken from its previously filed public reports:

	<b>For the Fiscal Year Ended</b>		
	<b>2/2/2008</b>	<b>2/3/2007</b>	<b>1/28/2006</b>
	<b>(In thousands)</b>		
<b>Consolidated Statements of Operations</b>			
Revenues	\$ 9,005,002	\$ 8,480,218	\$ 7,914,103
Operating Income	195,291	144,383	214,673
Net Income	122,861	72,016	128,533

**As of the Fiscal Year Ended**

	2/2/2008	2/3/2007	1/28/2006
		(In thousands)	
<b>Consolidated Balance Sheets</b>			
Total Assets	\$ 2,046,519	\$ 1,993,014	\$ 1,989,849
Long-term Debt	1,715	2,243	2,737
Stockholders' Equity	980,492	1,019,887	1,015,979

For more detailed financial information regarding BJ's, please refer to its financial statements, which are publicly available with the Securities and Exchange Commission at <http://www.sec.gov>.

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### **Station Casino Las Vegas, NV**

#### ***Overview***

On November 1, 2007, we acquired an approximately 139,000 square foot single-tenant office building on an approximately 3.1 acre site in Las Vegas, Nevada (the SC Las Vegas Property), constructed in 2007. The SC Las Vegas Property is 100% leased to Station Casino, Inc. The SC Las Vegas Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent. The purchase price of the SC Las Vegas Property was \$70.0 million, exclusive of closing costs. The acquisition was funded by net proceeds from our ongoing public offering.

The SC Las Vegas Property had no significant operating history prior to our acquisition of the property on November 1, 2007. As a result, we are not required to file financial statements with respect to the acquired property. After reasonable inquiry, we are not aware of any material factors relating to the property, other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

### **Circle K Portfolio Various Locations**

#### ***Overview***

On December 20, 2007, we acquired an 83 store portfolio of convenience stores from Mac's Convenience Stores, LLC and Circle K Stores, Inc. (the Circle K Portfolio), each a wholly-owned subsidiary of Alimentation Couche Tard, Inc. (Couche-Tard). The Circle K Portfolio includes 83 single-tenant convenience stores containing approximately 250,000 square feet of rentable space located in eight states (the Circle K Portfolio Properties). The Circle K Portfolio Properties were constructed between 1970 and 2006. The Circle K Portfolio Properties are 100% leased to Circle K/Mac's, G.P. a wholly-owned subsidiary of Couche Tard which guarantees the lease. The Circle K Portfolio Properties are subject to a master net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent. The purchase price of the Circle K Portfolio was approximately \$131.5 million, exclusive of closing costs. The acquisition was funded by net proceeds from our ongoing public offering and an approximately \$66.0 million loan secured by the Circle K Portfolio Properties.

The Circle K Portfolio Properties had no significant operating history prior to our acquisition of the properties on December 20, 2007. As a result, we are not required to file financial statements with respect to the acquired properties. After reasonable inquiry, we are not aware of any material factors relating to the properties, other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

### **Pep Boys Portfolio Various Locations**

#### ***Overview***

On March 25, 2008, we acquired an 18 store portfolio of automotive stores from The Pep Boys Manny Moe & Jack (the Pep Boys Portfolio). The Pep Boys Portfolio includes 18 single-tenant automotive stores containing approximately 250,000 square feet of rentable space located in 13 states (the Pep Boys Portfolio Properties). The Pep Boys Portfolio Properties were constructed between 1990 and 2007. The Pep Boys Portfolio Properties are 100% leased to The Pep Boys Manny Moe & Jack. The Pep Boys Portfolio Properties are subject to a master net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent. The purchase price of the Pep Boys Portfolio was approximately \$63.6 million, exclusive of closing costs. The acquisition was funded by net proceeds from our ongoing public offering.

The Pep Boys Portfolio Properties had no significant operating history prior to our acquisition of the properties on March 25, 2008. As a result, we are not required to file financial statements with respect to the acquired properties. After reasonable inquiry, we are not aware of any material factors relating to the properties, other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

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**Cole Credit Property Trust II, Inc.**

Pro Forma Consolidated Balance Sheet  
For the Year Ended December 31, 2007  
(Unaudited)

The following unaudited Pro Forma Consolidated Balance Sheet is presented as if the Company had acquired the properties described in Note B to the Pro Forma Consolidated Balance Sheet on December 31, 2007. We commenced our initial public offering on June 27, 2005. We terminated our initial public offering on May 22, 2007. We commenced our follow-on offering of 150,000,000 shares of common stock on May 23, 2007. Of these shares, we are offering 125,000,000 shares in a primary offering and 25,000,000 shares pursuant to our distribution reinvestment plan.

This Pro Forma Consolidated Balance Sheet should be read in conjunction with the historical financial statements and notes thereto for the year ended December 31, 2007 as included elsewhere in this document. The Pro Forma Consolidated Balance Sheet is unaudited and is not necessarily indicative of what the actual financial position would have been had the Company completed the above transactions on January 1, 2007, nor does it purport to represent its future financial position. This Pro Forma Consolidated Balance sheet only includes the significant property acquisitions pursuant to SEC Rule 3-14 of Regulation S-X and significant mortgage loan acquisitions.

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	<b>December 31, 2007, As Reported (a)</b>	<b>Acquisition Pro Forma Adjustments (b)</b>	<b>Pro Forma December 31, 2007</b>
<b>ASSETS</b>			
Investment in real estate assets:			
Land	\$ 412,947,887	\$ 58,224,267	\$ 471,172,154
Buildings and improvements, less accumulated depreciation of \$24,075,228 at December 31, 2007	1,090,362,000	126,316,560	1,216,678,560
Real estate assets under direct financing leases, net of unearned income of \$17,297,642 at December 31, 2007	39,260,183		39,260,183
Acquired intangible lease assets, less accumulated amortization of \$12,925,668 at December 31, 2007	228,790,968	22,724,389	251,515,357
Real estate assets held for sale, less accumulated depreciation and accumulated amortization of \$1,103,519 at December 31, 2007	22,991,474		22,991,474
Total investment in real estate assets	1,794,352,512	207,265,216	2,001,617,728
Investment in mortgages receivable, less accumulated amortization of \$78,916 at December 31, 2007	87,099,624		87,099,624
Cash and cash equivalents	43,517,178	(43,517,178)	
Restricted cash	14,032,616		14,032,616
Rents and tenant receivables, less allowance for doubtful accounts of \$521,615 at December 31, 2007	8,098,152		8,098,152
Prepaid expenses, mortgage loan deposits and other assets	1,144,864		1,144,864
Deferred financing costs, less accumulated amortization of \$2,163,027 at December 31, 2007	19,452,888	1,844,121	21,297,009
Total assets	\$ 1,967,697,834	\$ 165,592,159	\$ 2,133,289,993
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
Mortgage notes payable	\$ 1,037,981,538	\$ 107,117,558	\$ 1,145,099,096
Mortgage notes payable associated with assets held for sale	17,700,000		17,700,000
Accounts payable and accrued expenses	7,776,943		7,776,943
Escrowed investor proceeds	12,737,969		12,737,969
Due to affiliates	1,504,849		1,504,849
Acquired below market lease intangibles, less accumulated amortization of \$2,083,475 at December 31, 2007	80,031,916	14,648,928	94,680,844
Distributions payable	5,434,275		5,434,275
Deferred rent and other liabilities	1,783,620		1,783,620
Total liabilities	1,164,951,110	121,766,486	1,286,717,596
Redeemable common stock	21,659,859		21,659,859

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Preferred stock, \$0.01 par value; 10,000,000 shares authorized, none issued and outstanding at December 31, 2007

Common stock, \$0.01 par value; 240,000,000 shares authorized, 93,621,094 shares issued and outstanding at December 31, 2007

Capital in excess of par value	936,211	48,695	984,906
Accumulated distributions in excess of earnings	824,676,200	43,776,978	868,453,178
	(44,525,546)		(44,525,546)
Total stockholders' equity	781,086,865	43,825,673	842,912,538
Total liabilities and stockholders' equity	\$ 1,967,697,834	\$ 165,592,159	\$ 2,133,289,993

See accompanying Notes to Pro Forma Consolidated Financial Statements (Unaudited).

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**Table of Contents****Cole Credit Property Trust II, Inc.**

**Pro Forma Consolidated Statement of Operations  
For the Year Ended December 31, 2007  
(Unaudited)**

The following unaudited Pro Forma Consolidated Statement of Operations is presented as if the Company had acquired the properties described in Note C to the Pro Forma Consolidated Statements of Operations on January 1, 2007 or the date significant operations commenced.

This Pro Forma Consolidated Statement of Operations should be read in conjunction with the historical financial statements and notes thereto for the year ended December 31, 2007 as included elsewhere in this document. The Pro Forma Consolidated Statement of Operations is unaudited and is not necessarily indicative of what the actual results of operations would have been had the Company completed the above transactions on the later of January 1, 2007 or commencement of operations, nor does it purport to represent its future operations. This Pro Forma Consolidated Statement of Operations only includes the significant acquisitions pursuant to SEC Rule 3-14 of Regulation S-X and significant mortgage loan acquisitions.

	<b>For the Year Ended December 31, 2007 As Reported (a)</b>	<b>Total 2007 Acquisitions  Pro Forma Adjustments (c)</b>	<b>Total 2008 Acquisitions  Pro Forma Adjustments (d)</b>	<b>Pro Forma, For the Year Ended December 31, 2007</b>
<b>Revenues:</b>				
Rental income	\$ 82,491,639	\$ 22,959,127	\$ 12,857,757	\$ 118,308,522
Tenant reimbursement income	5,161,162	907,874(e)	22,572(e)	6,091,608
Earned income from direct financing leases	1,075,412	1,210,214		2,285,626
Interest earned on mortgage receivable	1,113,937	5,007,090(f)		6,121,027
Total revenue	89,842,150	30,084,305	12,880,328	132,806,783
<b>Expenses:</b>				
General and administrative	2,011,322	180,917	1,781	2,194,019
Property operating expenses	6,466,677	1,003,112	28,281	7,498,070
Property and asset management fees	4,184,271	1,477,496	625,475(g)(h)	6,287,242
Depreciation	20,460,219	4,956,605	3,041,528(i)	28,458,353
Amortization	10,022,054	4,221,208	1,640,051(i)	15,883,313
Impairment of real estate assets	5,400,000			5,400,000



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Total operating expenses	48,544,543	11,839,338	5,337,117	65,720,998
Real estate operating income	41,297,607	18,244,967	7,543,211	67,085,785
<b>Other income (expense):</b>				
Interest income	2,258,158			2,258,158
Interest expense	(39,075,748)	(11,468,078)(j)	(6,343,956)(k)	(56,887,782)
<b>Total other income (expense)</b>	<b>(36,817,590)</b>	<b>(11,468,078)</b>	<b>(6,343,956)</b>	<b>(54,629,624)</b>
<b>Net income (loss)</b>	<b>\$ 4,480,017</b>	<b>\$ 6,776,889</b>	<b>\$ 1,199,256</b>	<b>\$ 12,456,161</b>
<b>Weighted average number of common shares outstanding:</b>				
Basic	60,929,996	33,945,542(l)	9,503,687(l)	104,379,225
Diluted	60,931,316	33,945,542(l)	9,503,687(l)	104,380,545
<b>Net income per common share:</b>				
Basic and diluted	\$ 0.07			\$ 0.12

See accompanying notes to Pro Forma Consolidated Financial Statements (Unaudited).

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**Cole Credit Property Trust II, Inc.**

**Notes to Pro Forma Consolidated Financial Statements  
For the Year Ended December 31, 2007  
(Unaudited)**

- a. Reflects the Company's historical balance sheet as of December 31, 2007 and the Company's historical results of operations for the year ended December 31, 2007
- b. Reflects preliminary purchase price allocations related to the following 2008 acquisitions: the SB Altus Property, the TS Rome Property, the CM Greenville Property, the Millstein Audit Properties, the Millstein Public Tenant Properties, the FE Mishawaka Property, the SB Kingsport Property, the SB Stillwater Property, WG Oneida Property, SB Memphis Property, SB Ponca City Property, WG Batesville Property, TS Clovis, and BJ Haverhill Property.
- c. Reflects the pro forma results of operations for the year ended December 31, 2007 for the following properties (collectively, the 2007 Acquisitions): the AS Katy Property, the AH St. John Property, the MT Omaha Property, the WG Shreveport Property, the OM Orangeburg Property, the WG Cincinnati Property, the WG Madeira Property, the WG Sharonville Property, the TS Ankeny Property, the OD Enterprise Property, the MT Fairview Heights Property, the RA Lima Property, the RA Plains Property, the SC Anderson Property, the TS Fredericksburg Property, the TS Greenfield Property, the TS Marinette Property, the TS Navasota Property, the ST Greenville Property, the WG Bridgetown Property, the WG Dallas Property, the WM New London Property, the WM Spencer Property, the TS Paw Paw Property, the TS Fairview Property, the RA Allentown Property, the WG Bryan Property, the WG Harris County Property, the RA Fredericksburg Property, the ST Warsaw Property, the BD Rapid City Property, the BD Reading Property, the WG Gainesville Property, the TS Baytown Property, the SB Covington Property, the SB Sedalia Property, the KG La Grange Property, the CC Mesquite Property, the TS Prior Lake Property, the ST Guntersville Property, the LO Cincinnati Property, the WG Fort Worth Property, the KO Lake Zurich Property, the CC Groveland Property, the ED Salt Lake City Property, the WG Kansas City (Linwood) Property, the WG Kansas City (Troost) Property, the WG Kansas City (63rd St) Property, the WG Kansas City (Independence) Property, the WG Topeka Property, the CNL Portfolio Properties, the CC Taunton Property, the FE Peoria Property, the FE Walker Property, the WM Bay City Property, the CC Aurora property, the HD Bedford Park Property, the WG Dallas (DeSoto) Property, the WG Richmond Property, the WM Washington Property, MT Broadview Property, the WM Borger Property, the WM Whiteville Property, the ST Moraine Properties, the WG Brentwood Property, the SB Bowling Green Property, the WG Harriman Property, the SB Shawnee Property, the SB Oklahoma City Property, the SB Powell Property, the SB Maryville Property, the SB Seymour Property, the SB Chattanooga Property, the WG Waco Property, the WG Beverly Hills Property, the WG (Seymour) Cincinnati Property.
- d. Reflects the pro forma results of operations for the year ended December 31, 2007 for the following properties (collectively, the 2008 Acquisitions): the SB Altus Property, the TS Rome Property, the CM Greenville Property, the Millstein Audit Properties, the Millstein Public Tenant Properties, the FE Mishawaka Property, the SB Kingsport Property, the SB Stillwater Property, WG Oneida Property, SB Memphis Property, SB Ponca City Property, WG Batesville Property, TS Clovis, and BJ Haverhill Property.
- e. Represents the straight line rental revenues for the Pro Forma Properties in accordance with their respective lease agreements.
- f. Represents a pro forma adjustment related to interest income earned on the Company's portfolio of mortgage notes that bear interest at a rate of 8.60% to 10.47%.

- g. Reflects the annualized asset management fee of 0.25% (a monthly rate of 0.02083%) of the aggregate asset value of the Pro Forma Properties which is payable to our Advisor.
- h. Reflects the property management fee equal to 2% of gross revenues of the Pro Forma Properties which is payable to an affiliate of our Advisor.

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**Cole Credit Property Trust II, Inc.**

**Notes to Pro Forma Consolidated Financial Statements (Continued)**

- i. Represents depreciation and amortization expense for the Pro Forma Properties. Depreciation and amortization expense are based on the Company's preliminary purchase price allocation. All assets are depreciated on a straight line basis. The estimated useful lives of our assets by class are generally as follows:

Building	40 years
Tenant improvements	Lesser of useful life or lease term
Intangible lease assets	Lesser of useful life or lease term

- j. Represents interest expense associated with the debt incurred to finance the acquisitions of the 2007 Acquisitions.

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**Table of Contents****Cole Credit Property Trust II, Inc.****Notes to Pro Forma Consolidated Financial Statements (Continued)**

The following table provides certain information about each of the loans:

**Fixed Rate Tranches**

<b>Property</b>	<b>Amount</b>	<b>Interest Rate</b>	<b>Maturity Date</b>
AS Katy	\$ 68,250,000	5.606%	2/1/2017
OD Enterprise	1,850,000	6.291%	3/1/2017
MT Omaha	23,400,000	5.534%	3/1/2017
TS Ankeny	1,950,000	5.649%	5/1/2017
OM Orangeburg	1,875,000	5.608%	4/1/2012
WG Cincinnati	3,341,000	6.001%	9/1/2016
WG Sharonville	2,655,000	5.615%	4/1/2012
WG Madeira	2,876,000	5.702%	4/1/2012
RA Fredericksburg	2,979,000	5.920%	5/11/2017
ST Warsaw	1,850,000	5.733%	6/1/2017
WG Shreveport	2,815,000	5.560%	4/11/2017
AH St. John	4,420,000	5.650%	7/11/2017
TS Greenfield	2,227,500	5.570%	7/1/2017
TS Marinette	1,918,000	5.649%	5/1/2017
TS Paw Paw	2,048,000	5.649%	5/1/2017
MT Fairview Heights (Lincoln Place)	35,432,000	5.696%	5/1/2017
RA Plains	3,380,000	5.599%	5/1/2017
TS Tractor Supply Navasota, TX	2,050,000	5.800%	5/11/2017
RA Rite Aid Lima	3,103,000	5.733%	6/1/2017
SC Sam's Club Anderson	8,160,000	5.800%	5/11/2017
ST Staples Greenville, SC	2,955,000	5.510%	5/1/2017
TS Tractor Supply Fredericksburg	2,031,250	5.536%	7/1/2017
WG Walgreens Bridgetown	3,043,000	5.800%	5/11/2017
WG Dallas	2,175,000	5.763%	6/1/2017
WM New London	1,778,000	5.800%	5/11/2017
WM Spencer	1,377,000	5.800%	6/11/2017
CVS Florence	1,706,250	5.733%	6/1/2017
RA Allentown	3,615,000	5.783%	6/1/2017
WG Bryan	4,111,000	5.700%	6/11/2017
WG Harris County	3,673,000	5.700%	6/11/2017
TS Fairview	1,930,500	5.593%	6/1/2017
BD Rapid City	4,393,000	5.660%	6/11/2017
BD Reading	4,257,000	5.660%	6/11/2017
WG Gainesville	2,465,000	5.600%	6/11/2017
CH Fredericksburg	1,504,000	5.550%	6/11/2017
TS Baytown	2,251,000	5.600%	6/11/2017

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AS Houston	3,825,000	5.711%	7/1/2017
BB Evanston	5,900,000	5.711%	7/1/2017
BB Warwick	5,350,000	5.711%	7/1/2017
EK Mantua	1,470,000	5.711%	7/1/2017
EK Vineland	3,500,000	5.711%	7/1/2017
WC Eureka	11,247,000	5.711%	7/1/2017
KG La Grange	4,750,000	5.205%	7/1/2012
LZ Kentwood	3,602,000	5.322%	7/1/2012
CC Mesquite	4,305,000	5.322%	7/1/2012

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**Table of Contents****Cole Credit Property Trust II, Inc.****Notes to Pro Forma Consolidated Financial Statements (Continued)**

<b>Property</b>	<b>Amount</b>	<b>Interest Rate</b>	<b>Maturity Date</b>
TS Prior Lake	\$ 3,283,250	5.733%	7/1/2017
ST Guntersville	2,161,250	5.235%	8/1/2012
LO Cincinnati	13,800,000	5.550%	8/11/2017
WG Fort Worth	3,675,000	5.550%	8/11/2017
KO Lake Zurich	9,075,000	5.550%	8/11/2017
CC Groveland	20,250,000	5.550%	8/11/2017
EDS Salt Lake City	18,000,000	5.550%	8/11/2017
WG Kansas City (Linwood)	2,437,500	5.693%	8/1/2017
WG Kansas City (Troost)	2,464,000	5.793%	8/1/2017
WG Kansas City (63rd St)	3,034,500	5.793%	8/1/2017
WG Kansas City (Independence)	2,990,000	5.693%	8/1/2017
WG Topeka	1,870,000	5.793%	8/1/2017
EK Mableton, GA	1,197,000	5.674%	8/1/2017
EK Chattanooga, TN	1,920,000	5.674%	8/1/2017
AS North Richland Hills, TX	4,217,000	5.833%	8/1/2017
CV Amarillo, TX	1,741,000	5.833%	8/1/2017
AS Baton Rouge	4,687,000	5.833%	8/1/2017
AS Houston (Breton)	3,045,000	5.833%	8/1/2017
AS Houston (Southwest)	4,625,000	5.833%	8/1/2017
DB Addison	5,600,000	5.564%	8/1/2017
CV Del City	2,631,000	5.824%	8/1/2017
CC Taunton	4,323,000	5.322%	8/1/2012
FE Peoria	2,080,000	5.604%	8/1/2017
FE Walker	4,669,000	6.302%	9/1/2012
CC Aurora	4,777,000	6.302%	9/1/2017
Broadview Village Square Chicago	31,500,000	5.861%	10/1/2017

**Variable Rate Tranches**

<b>Property</b>	<b>Amount</b>	<b>Interest Rate</b>	<b>Maturity Date</b>
RA Fredericksburg	\$ 1,353,000	LIBOR + 2%	8/2/2007
WG Shreveport	497,000	LIBOR + 2%	6/22/2007
AH St. John	780,000	LIBOR + 2%	9/12/2007
TS Navasota	362,000	LIBOR + 2%	7/18/2007
SC Anderson	1,440,000	LIBOR + 2%	7/2/2007
WG Bridgetown	537,000	LIBOR + 2%	8/30/2007
WM New London	313,000	LIBOR + 2%	8/9/2007
WM Spencer	243,000	LIBOR + 2%	8/3/2007

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WG Bryan	949,000	LIBOR + 2%	8/18/2007
WG Harris County	848,000	LIBOR + 2%	8/18/2007
BD Rapid City	776,000	LIBOR + 2%	9/1/2007
BD Reading	752,000	LIBOR + 2%	9/1/2007
WG Gainesville	435,000	LIBOR + 2%	9/1/2007
CH Fredericksburg	347,000	LIBOR + 2%	9/5/2007
TS Baytown	397,000	LIBOR + 2%	9/11/2007
HD Bedford Park	21,250,000	LIBOR + 1.5%	9/13/2008
Cracker Barrel Notes	36,290,338	LIBOR + 2%	3/31/2008
LoJon/Car Par Notes	35,000,000	LIBOR + 2.75%	3/27/2008

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**Table of Contents****Cole Credit Property Trust II, Inc.****Notes to Pro Forma Consolidated Financial Statements (Continued)**

k. Represents interest expense associated with the debt incurred to finance the 2008 Acquisitions.

The following table provides certain information about each of the loans:

**Fixed Rate Tranches**

<b>Property</b>	<b>Amount</b>	<b>Interest Rate</b>	<b>Maturity Date</b>
CM Greenville	\$ 15,125,000	5.90%	12/1/2016

**Variable Rate Tranches**

<b>Property</b>	<b>Amount</b>	<b>Interest Rate</b>	<b>Maturity Date</b>
AR New Castle	\$ 1,063,201	LIBOR + 1.95%	2/1/2009(1)
BA Delray Beach	10,632,014	LIBOR + 1.95%	2/1/2009(1)
MU Houston	13,467,218	LIBOR + 1.95%	2/1/2009(1)
CM Pineville	7,017,129	LIBOR + 1.95%	2/1/2009(1)
CM Raleigh	6,520,969	LIBOR + 1.95%	2/1/2009(1)
CC Kennesaw	14,176,019	LIBOR + 1.95%	2/1/2009(1)
OD Alcoa	2,888,364	LIBOR + 1.95%	2/1/2009(1)
AS Lufkin	3,685,765	LIBOR + 1.95%	2/1/2009(1)
BS Atlanta	1,754,282	LIBOR + 1.95%	2/1/2009(1)
CV Indianapolis	2,675,724	LIBOR + 1.95%	2/1/2009(1)
MA Indianapolis	10,242,174	LIBOR + 1.95%	2/1/2009(1)
BC Voorhees	3,189,604	LIBOR + 1.95%	2/1/2009(1)
BB Wichita	8,080,331	LIBOR + 1.95%	2/1/2009(1)
FE Mishawaka	2,799,764	LIBOR + 1.95%	2/1/2009(1)
WG Oneida	3,800,000	LIBOR + 1.50%	8/30/2009

(1) Partial repayment of 17% of total loan is due May 1, 2008

1. Represents a pro forma adjustment to the weighted average common shares outstanding to reflect all shares outstanding on December 31, 2007 as though they were issued on January 1, 2007. As the Company had insufficient capital at January 1, 2007 to acquire the respective properties which are included in the pro forma results of operations, it is necessary to assume all of the shares outstanding as of December 31, 2007 were outstanding on January 1, 2007.



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**APPENDIX A**

**PRIOR PERFORMANCE TABLES**

The prior performance tables that follow present certain information regarding private real estate programs previously sponsored by related entities. Ten related partnerships formed from January 1, 1998 to December 31, 2007 have or had similar investment objectives to ours and purchased an aggregate of 7 retail centers with an aggregate of approximately 1,243,000 square feet, one data center with an aggregate of approximately 135,000 square feet and 23 single-tenant retail properties with an aggregate of approximately 544,000 square feet. One partnership purchased two land parcels for development with an aggregate of approximately 452,000 square feet. The prior performance tables also include the activity of Cole Credit Property Trust, Inc. (CCPT), Cole Collateralized Senior Notes, LLC (CCSN), Cole Collateralized Senior Notes II, LLC (CCSN II), Cole Collateralized Senior Notes III, LLC (CCSN III), Cole Collateralized Senior Notes IV (CCSN IV), and the various offerings related to Cole Capital Partners Tenants in Common (TIC) and Delaware Statutory Trust (DST) programs.

As of December 31, 2007, CCPT had raised approximately \$100.3 million and had acquired 42 single-tenant commercial properties, with an aggregate of approximately 1.0 million square feet

As of December 31, 2007, CCSN had issued approximately \$28.0 million in promissory notes and acquired 45 single-tenant retail properties, with an aggregate of approximately 802,000 rentable square feet. As of December 31, 2007, CCSN had sold 45 properties, 13 of which were sold as part of Cole Capital Partners TIC and DST programs and 6 of which were sold to CCPT. On April 28, 2006, CCSN redeemed, at par, all of its approximately \$28.0 million in outstanding promissory notes.

As of December 31, 2007, CCSN II had issued approximately \$28.8 million in promissory notes and acquired 49 single-tenant retail properties with an aggregate of approximately 1.2 million rentable square feet. As of December 31, 2007, CCSN II had sold 47 properties, 31 of which were sold as part of Cole Capital Partners TIC and DST programs and five of which were sold to CCPT.

As of December 31, 2007, CCSN III had issued approximately \$28.7 million in promissory notes and had acquired 33 single-tenant retail properties with an aggregate of approximately 894,000 rentable square feet. As of December 31, 2007, CCSN III had sold 26 properties, 11 of which were sold as part of Cole Capital Partners DST programs.

As of December 31, 2007, CCSN IV had issued approximately \$28.7 million in promissory notes and had acquired 15 single-tenant retail properties with an aggregate of approximately 318,000 rentable square feet. As of December 31, 2008, CCSN IV had sold 10 properties, six of which were sold as part of Cole Capital Partners DST programs and three of which were sold to CCPT.

Cole Partnerships, Inc., an entity affiliated with the officers of Cole Capital Advisors, has raised \$5 million in a debt offering for general corporate purposes, including investments in joint ventures with affiliates, which has been repaid. This program is not considered to have similar investment objectives to this offering.

In addition, Cole Capital Partners, through affiliated entities, offers properties to Section 1031 exchange investors in the form of the sale of tenant-in-common ownership interests in such properties. As of December 31, 2007, aggregate ownership interests of \$171.4 million had been sold in 26 private offerings of properties located in 14 states. In addition, Cole Capital Partners, through affiliated entities, offers properties through the DST Program whereby beneficial interests are offered in trusts that acquire real property. As of December 31, 2007, aggregate ownership

interests of approximately \$175.2 million had been sold in 27 private offerings of properties located in 21 states.

The investment objectives of previous private real estate programs formed from 1979 through 1992 are not similar to the investment objectives of the above programs due to the fact that those properties have been held for capital appreciation in the value of the underlying property.

*Past performance is not necessarily indicative of future results.*

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These tables contain information that may aid a potential investor in evaluating the program presented. However, the information contained in these tables does not relate to the properties held or to be held by us, and the purchase of shares will not create any ownership interest in the programs included in these tables.

These tables are presented on a tax basis rather than on a GAAP basis. Tax basis accounting does not take certain income or expense accruals into consideration at the end of each fiscal year. Income may be understated in the tables, as GAAP accounting would require certain amortization or leveling of rental revenue, the amount of which is undetermined at this time. Expenses may be understated by monthly operating expenses, which typically are paid in arrears.

*Past performance is not necessarily indicative of future results.*

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**Table of Contents****TABLE I****EXPERIENCE IN RAISING AND INVESTING FUNDS (UNAUDITED)**

This table provides a summary of the experience of the sponsors of Prior Real Estate Programs for which offerings have been closed since January 1, 2005. Information is provided with regard to the manner in which the proceeds of the offerings have been applied. Also set forth below is information pertaining to the timing and length of these offerings and the time period over which the proceeds have been invested in the properties. All figures are as of December 31, 2007.

	<b>Cole Collateralized Senior Notes II, LLC (6)</b>	<b>Cole Collateralized Senior Notes III, LLC (6)</b>	<b>Cole Collateralized Senior Notes IV, LLC (6)</b>
Dollar amount offered	\$ 28,750,000(1)	\$ 28,750,000(1)	\$ 28,750,000(1)
Dollar amount raised	28,750,000	28,658,500	28,724,110
Less offering expenses:			
Selling commissions and discounts retained by affiliates	1,428,000	1,504,571	1,436,271
Organizational expenses(4)	642,304	600,234	589,638
Other			
Reserves	9,786,505	1,715,519	1,328,232
Percent available for investment	93%	93%	93%
Acquisition costs:			
Prepaid items and fees related to purchase of property	355,368	1,267,734	320,039
Cash down payment	24,905,117	21,705,666	25,016,348
Acquisition fees(5)	1,547,619	2,503,506	1,536,911
Other			
Total acquisition cost	\$ 26,808,604	\$ 25,476,906	\$ 26,873,298
Percent leverage	69%	81%	61%
Date offering began	02/01/04	01/03/05	05/20/05
Length of offering (in months)	12	7	8
Months to invest 90% of amount available for investment	10	16	12

*Past performance is not necessarily indicative of future results.*

Table of Contents**TABLE I****EXPERIENCE IN RAISING AND INVESTING FUNDS (UNAUDITED) (Continued)**

	<b>Cole Credit Property Trust, Inc.</b>	<b>Walgreens in Edgewood, NM(2)(3)</b>
Dollar amount offered	\$ 110,000,000(8)	\$ 2,134,000
Dollar amount raised	100,972,510	2,134,000
Less offering expenses:		
Selling commissions and discounts retained by affiliates	6,402,966	128,040
Organizational expenses(4)	3,309,792	21,340
Other		
Reserves	1,063,092	19,940
Percent available for investment	90%	93%
Acquisition costs:		
Prepaid items and fees related to purchase of property	1,274,741	60,000
Cash down payment	82,198,983	1,903,340
Acquisition fees(5)	4,437,000	
Other		21,280
Total acquisition cost	\$ 87,910,724	\$ 1,984,620
Percent leverage	58%	50%
Date offering began	04/06/04	09/15/04
Length of offering (months)	17	4
Months to invest 90% of amount available for investment	18	3

*Past performance is not necessarily indicative of future results.*

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**Table of Contents****TABLE I****EXPERIENCE IN RAISING AND INVESTING FUNDS (UNAUDITED) (Continued)**

	<b>Walgreens in Slidell, LA(2)(3)</b>	<b>Walgreens in Westhiemer, TX(2)(3)</b>	<b>Walgreens in Richmond, OH(2)(3)</b>
Dollar amount offered	\$ 2,212,000	\$ 3,900,000	\$ 3,388,000
Dollar amount raised	2,212,000	3,900,000	3,388,000
Less offering expenses:			
Selling commissions and discounts retained by affiliates	132,720	234,000	203,280
Organizational expenses(4)	22,120	39,000	33,880
Other			
Reserves	19,900	34,827	28,405
Percent available for investment	93%	93%	93%
Acquisition costs:			
Prepaid items and fees related to purchase of property	60,000	60,000	60,000
Cash down payment	1,975,240	3,526,680	3,056,970
Acquisition fees(5)			
Other	21,920	40,320	33,870
Total acquisition cost	\$ 2,057,160	\$ 3,627,000	\$ 3,150,840
Percent leverage	50%	51%	50%
Date offering began	11/02/04	10/15/04	10/26/04
Length of offering (months)	8	3	11
Months to invest 90% of amount available for investment	7	2	2

*Past performance is not necessarily indicative of future results.*



Table of Contents**TABLE I****EXPERIENCE IN RAISING AND INVESTING FUNDS (UNAUDITED) (Continued)**

	<b>Home Depot in Spokane, WA(2)(3)</b>	<b>Walgreens in Covington, TN (2)(3)</b>	<b>Walgreens in Orlando, FL(2)(3)</b>
Dollar amount offered	\$ 11,532,000	\$ 2,141,000	\$ 2,486,000
Dollar amount raised	11,532,000	2,141,000	2,486,000
Less offering expenses:			
Selling commissions and discounts retained by affiliates	691,920	128,460	149,160
Organizational expenses(4)	115,320	21,410	24,860
Other			
Reserves	91,832	23,283	20,555
Percent available for investment	93%	93%	93%
Acquisition costs:			
Prepaid items and fees related to purchase of property	430,050	60,000	92,000
Cash down payment	10,283,250	1,910,170	2,195,810
Acquisition fees(5)			
Other	11,460	20,960	24,170
Total acquisition cost	\$ 10,724,760	\$ 1,991,130	\$ 2,311,980
Percent leverage	50%	50%	50%
Date offering began	11/09/04	11/19/04	11/30/04
Length of offering (months)	7	6	6
Months to invest 90% of amount available for investment	6	6	6

*Past performance is not necessarily indicative of future results.*

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**TABLE I**

**EXPERIENCE IN RAISING AND INVESTING FUNDS (UNAUDITED) (Continued)**

&nbsp;nbsp;