Cole Credit Property Trust II Inc
Form 424B3
October 09, 2008

COLE CREDIT PROPERTY TRUST II, INC.

SUPPLEMENT NO. 7 DATED OCTOBER 8, 2008

TO THE PROSPECTUS DATED APRIL 30, 2008

This document supplements, and should be read in conjunction with, the prospectus of Cole Credit Property Trust II, Inc. dated April 30, 2008, Supplement No. 3 dated July 29, 2008, Supplement No. 4 dated August 18, 2008, Supplement No. 5 dated September 4, 2008 and Supplement No. 6 dated October 1, 2008. Supplement No. 3 superseded and replaced all previous supplements to the prospectus. Unless otherwise defined in this supplement, capitalized terms used in this supplement shall have the same meanings as set forth in the prospectus.

The purpose of this supplement is to describe the following:

(1) the status of the offering of shares in Cole Credit Property Trust II, Inc.;

(2) clarification and addition of risk factors;

(3) recent real property investments; and

(4) potential real property investments.

Status of Our Public Offerings

As of October 3, 2008, we had approximately 26.4 million shares available for sale (excluding shares offered pursuant to our distribution reinvestment plan) in our follow-on offering, or approximately $263.6 million. Based on the shares currently available, we anticipate the offering will close to new investments on or about November 30, 2008.

If all of the shares we are offering pursuant to the follow-on offering have not been sold by May 11, 2009, we may extend the offering as permitted under applicable law. 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. The follow-on 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.

We commenced our initial public offering on June 27, 2005. We terminated our initial public offering on May 22, 2007. We issued a total of 54,838,315 shares in our initial public offering, including 53,909,877 shares sold in the primary offering and 928,438 shares sold pursuant to our distribution reinvestment plan, resulting in gross offering proceeds to us of approximately $547.4 million.

We commenced our follow-on offering of shares of our common stock on May 23, 2007. Pursuant to the follow-on offering, we are offering up to 143,050,000 shares in a primary offering and up to 6,000,000 shares pursuant to our distribution reinvestment plan. As of October 3, 2008, we had accepted investors' subscriptions for, and issued, approximately 122,042,482 shares of our common stock in the follow-on offering, including approximately 116,688,449 shares sold in the primary offering and approximately 5,354,033 shares sold pursuant to our distribution reinvestment plan, resulting in gross proceeds to us of approximately $1.2 billion. Combined with our initial public offering, we had received a total of approximately $1.8 billion in gross offering proceeds as of October 3, 2008.

On September 18, 2008, we registered 30,000,000 additional shares to be offered pursuant to our distribution reinvestment plan in a Registration Statement on Form S-3. We will stop offering shares under the distribution reinvestment plan portion of our follow-on offering before we begin offering shares under the Registration Statement on Form S-3.

Risk Factors

The following information supersedes and replaces in its entirety the first paragraph of the risk factor under the caption "Adverse economic conditions will negatively affect our returns and profitability" on page 36 of the prospectus:

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

Our operating results may be affected by market and economic challenges, including the current global economic credit environment, 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, or by the real estate industry, including the following:

- poor economic conditions may result in tenant defaults under leases;
- re-leasing may require concessions or reduced rental rates under the new leases;
- poor economic conditions may result in lower revenue to us from retailers who pay us a percentage of their revenues under percentage rent leases;
- constricted access to credit may result in tenant defaults or non-renewals under 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 slow down or downturn cannot be predicted. Our operations could be negatively affected to the extent that an economic slow down or downturn is prolonged or becomes more severe.

The following information supplements the risk factors section of the prospectus:

Dislocations in the credit markets and real estate markets could have a material adverse effect on our results of operations, financial condition and ability to pay distributions to you.

Domestic and international financial markets currently are experiencing significant dislocations which have been brought about in large part by failures in the U.S. banking system. These dislocations have severely impacted the availability of credit and have contributed to rising costs associated with obtaining credit. If debt financing is not available on terms and conditions we find acceptable, we may not be able to obtain financing for investments. If this dislocation in the credit markets persists, our ability to borrow monies to finance the purchase of, or other activities related to, real estate assets will be negatively impacted. If we are unable to borrow monies on terms and conditions that we find acceptable, we likely will have to reduce the number of properties we can purchase, and the return on the properties we do purchase may be lower. In addition, we may find it difficult, costly or impossible to refinance indebtedness which is maturing. 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. In addition, if we pay fees to lock-in a favorable interest rate, falling interest rates or other factors could require us to forfeit these fees. All of these events would have a material adverse effect on our results of operations, financial condition and ability to pay distributions.

In addition to volatility in the credit markets, the real estate market is subject to fluctuation and can be impacted by factors such as general economic conditions, supply and demand, availability of financing and interest rates. To the extent we purchase real estate in an unstable market, we are subject to the risk that if the real estate market ceases to attract the same level of capital investment in the future that it attracts at the time of our purchases, or the number of companies seeking to acquire properties decreases, the value of our investments may not appreciate or may decrease significantly below the amount we pay for these investments.

The failure of any bank in which we deposit our funds could reduce the amount of cash we have available to pay distributions and make additional investments.

We intend to diversify our cash and cash equivalents among several banking institutions in an attempt to minimize exposure to any one of these entities. However, the Federal Deposit Insurance Corporation, or "FDIC," only insures amounts up to $250,000 per depositor per insured bank. We expect that we will have cash and cash equivalents and restricted cash deposited in certain financial institutions in excess of federally insured levels. If any of the banking institutions in which we have deposited funds ultimately fails, we may lose our deposits over $250,000. The loss of our deposits could reduce the amount of cash we have available to distribute or invest and could result in a decline in the value of your investment.

The following information supersedes and replaces in its entirety the second paragraph of the risk factor under the caption "Increases in interest rates could increase the amount of our debt payments and adversely affect our ability to pay distributions to our stockholders" on page 41 of the prospectus:

As of June 30, 2008, we had approximately $1.0 billion of indebtedness, approximately $77.3 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.

Real Property Investments

The following information supplements, and should be read in conjunction with, the table in the section captioned "Prospectus Summary — Description of Real Estate Investments" beginning on page 7 of the prospectus:

Description of Real Estate Investments

As of October 8, 2008, we owned 471 properties, comprising approximately 18.1 million gross rentable square feet of commercial space located in 45 states and the U.S. Virgin Islands. Properties acquired between August 15, 2008 and October 8, 2008 are listed below.

Property Description	Type	Tenant	Rentable Square Feet		Purchase Price
Ferguson Portfolio – Various (1)	Specialty Retail	Ferguson Enterprises, Inc.	1,111,843		$86,793,249
Home Depot – Lakewood, CO	Home Improvement	Home Depot U.S.A, Inc.	102,000	(6)	11,300,000
Walgreens – Mobile, AL	Drugstore	Walgreen Co.	13,650		5,415,000
Aaron Rents Portfolio – Various (2)	Specialty Retail	Aaron Rents, Inc.	259,185		32,675,202
Lowe's – Chester, NY	Home Improvement	Lowe's Home Centers, Inc.	131,798	(6)	7,037,037
HH Gregg – Grove City, OH	Specialty Retail	Gregg Appliances, Inc.	30,167		5,902,000
BJ's Wholesale Club – Ft. Lauderdale, FL	Warehouse Club	BJ's Wholesale Club, Inc.	119,598		28,272,857
HH Gregg – Mt. Juliet, TN	Specialty Retail	Gregg Appliances, Inc.	30,000		6,346,000
Winter Garden Village – Winter Garden, FL	Shopping Center	Various	758,988	(5)	180,351,286
Payless ShoeSource – Columbia, SC (3)	Specialty Retail	Payless ShoeSource Inc.	5,534		1,400,000
Walgreens – Jacksonville, FL (3)	Drugstore	Walgreen Co.	15,120		5,050,000
CVS – Hamilton, OH (3)	Drugstore	CVS Corporation	11,180		3,600,000
Walgreens – Akron, OH (3)	Drugstore	Walgreen Co.	13,500		2,820,000
Walgreens – Seattle, WA (3)	Drugstore	Walgreen Co.	14,410		6,770,000
Walgreens – LaMarque, TX (3)	Drugstore	Walgreen Co.	15,120		4,510,000
CVS – Mechanicville, NY (3)	Drugstore	CVS Albany, L.L.C.	10,125		2,600,000
Office Depot – Laurel, MS (3)	Office Supply	Office Depot, Inc.	20,515		2,650,000
Home Depot – Colma, CA (3)(4)	Home Improvement	Home Depot U.S.A., Inc.	99,970		39,310,000
Walgreens – Saginaw, MI (3)	Drugstore	Walgreen Co.	15,120		4,200,000
Walgreens – Tulsa, OK (3)	Drugstore	Walgreen Co.	13,000		2,190,000
Walgreens – Broken Arrow, OK (3)	Drugstore	Walgreen Co.	13,000		2,100,000
Office Depot – London, KY (3)	Office Supply	Office Depot, Inc.	20,468		3,500,000
Best Buy – Las Cruces, NM (4)	Electronics Retail	Best Buy Stores, L.P.	30,000		6,100,000
Staples – Angola, IN (4)	Office Supply	Staples, Inc.	24,049		3,200,000
TJ Maxx – Staunton, VA (4)	Specialty Retail	The TJX Companies, Inc.	78,823		4,300,000
AT&T Wireless – Santa Clara, CA (4)	Communications	AT&T Wireless Services, Inc.	33,257		10,200,000
Walgreens – Tulsa, OK (4)	Drugstore	Walgreen Co.	13,500		2,950,000
Walgreens – Crossville, TN (4)	Drugstore	Walgreen Co.	15,070		4,450,000
CVS – Columbia, TN (Nashville) (4)	Drugstore	Revco Discount Drug Centers, Inc.	10,715		2,400,000
CVS – Columbia, TN (James Campbell) (4)	Drugstore	Revco Discount Drug Centers, Inc.	10,759		2,600,000
Walgreens – Newton, IA (4)	Drugstore	Walgreen Co.	15,047		4,330,000
FedEx – Huntsville, AL	Distribution	FedEx Freight East, Inc.	56,360		10,947,787

FedEx – Baton Rouge, LA	Distribution	FedEx Freight East, Inc.	29,400	8,998,880
CVS – Atlanta, GA	Drugstore	Big B Drugs, Inc.	12,013	3,841,000
			3,153,284	$509,110,298

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(1) The Ferguson Portfolio consists of seven single-tenant retail properties and one single-tenant commercial property located in various states, which were purchased under a sale-lease back agreement and the properties are subject to eight identical lease agreements.
(2) The Aaron Rents Portfolio consists of 25 single-tenant retail properties located in various states, which were purchased under a sale-lease back agreement and the properties are subject to a master lease agreement.
(3) Property was acquired from Cole Credit Property Fund LP, an affiliate of our advisor. The Company's board of directors, including all of the independent directors, not otherwise interested in the transaction, approved the transaction as being fair and reasonable to the Company, at a price in excess of the cost to Cole Credit Property Fund LP, but substantial justification exists for such excess, such excess is reasonable and the costs of the interest did not exceed its current fair market value as determined by an independent appraiser approved by the Company's independent directors.

(4) Property was acquired from Cole Credit Property Fund II LP, an affiliate of our advisor. The Company's board of directors, including all of the independent directors, not otherwise interested in the transaction, approved the transaction as being fair and reasonable to the Company, at a price in excess of the cost to Cole Credit Property Fund II LP, but substantial justification exists for such excess, such excess is reasonable and the costs of the interest did not exceed its current fair market value as determined by an independent appraiser approved by the Company's independent directors.
(5) Rentable square feet includes approximately 59,000 square feet accounted for under 11 ground leases.
(6) Square feet accounted for under a ground lease.

The following information supplements the section of our prospectus captioned "Investment Objectives and Policies — Real Property Investments" beginning on page 87 of the prospectus:

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 October 8, 2008, we, through separate wholly-owned limited liability companies, have acquired a 100% fee simple interest in 471 properties consisting of approximately 18.1 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 properties acquired between August 15, 2008 and October 8, 2008 in order of acquisition date:

Property	Date Acquired	Year Built	Purchase Price	Fees Paid to Sponsor (1)	Initial Yield (2)	Physical Occupancy
Ferguson Portfolio – Various	August 21, 2008	Various	$86,793,249	$1,735,865	7.43%	100%
Home Depot – Lakewood, CO	August 27, 2008	2006	11,300,000	226,000	6.86%	100%
Walgreens – Mobile, AL	August 28, 2008	2007	5,415,000	108,300	6.60%	100%
Aaron's Rents Portfolio – Various	September 15, 2008	Various	32,675,202	653,504	7.50%	100%
Lowe's – Chester, NY	September 19, 2008	2008	7,037,037	140,741	6.75%	100%
HH Gregg – Grove City, OH	September 17, 2008	2008	5,902,000	118,040	7.82%	100%
BJ's Wholesale Club – Ft. Lauderdale, FL	September 23, 2008	2007	28,272,857	565,457	7.00%	100%
HH Gregg – Mt. Juliet, TN	September 23, 2008	2008	6,346,000	126,920	7.80%	100%
Winter Garden Village – Winter Garden, FL	September 26, 2008	2007	180,351,286	4,664,026	7.39%	99.1%
Payless Shoe Source – Columbia, SC	September 30, 2008	1998	1,400,000	28,000	9.88%	100%
Walgreens – Jacksonville, FL	September 30, 2008	2000	5,050,000	101,000	7.05%	100%
CVS – Hamilton, OH	September 30, 2008	1999	3,600,000	72,000	7.28%	100%
Walgreens – Akron, OH	September 30, 2008	1994	2,820,000	56,400	7.99%	100%
Walgreens – Seattle, WA	September 30, 2008	2002	6,770,000	135,400	6.75%	100%
Walgreens – LaMarque, TX	September 30, 2008	2000	4,510,000	90,200	7.07%	100%
CVS – Mechanicville, NY	September 30, 2008	1998	2,600,000	52,000	7.27%	100%
Office Depot – Laurel, MS	September 30, 2008	2002	2,650,000	53,000	7.55%	100%
Home Depot – Colma, CA	September 30, 2008	1995	39,310,000	786,200	6.39%	100%
Walgreens – Saginaw, MI	September 30, 2008	2001	4,200,000	84,000	7.57%	100%
Walgreens – Tulsa, OK	September 30, 2008	1993	2,190,000	43,800	8.01%	100%
Walgreens – Broken Arrow, OK	September 30, 2008	1993	2,100,000	42,000	7.74%	100%
Office Depot – London, KY	September 30, 2008	2001	3,500,000	70,000	7.57%	100%
Best Buy – Las Cruces, NM	September 30, 2008	2002	6,100,000	160,090	7.94%	100%
Staples – Angola, IN	September 30, 2008	1999	3,200,000	83,990	7.74%	100%
TJ Maxx – Staunton, VA	September 30, 2008	1988	4,300,000	117,160	9.62%	100%
AT&T Wireless – Santa Clara, CA	September 30, 2008	2002	10,200,000	264,320	6.56%	100%
Walgreens – Tulsa, OK	September 30, 2008	1994	2,950,000	78,260	7.73%	100%
Walgreens – Crossville, TN	September 30, 2008	2001	4,450,000	116,530	7.28%	100%
CVS – Columbia, TN (Nashville)	September 30, 2008	1998	2,400,000	65,150	8.15%	100%
CVS – Columbia, TN (James Campbell)	September 30, 2008	1998	2,600,000	69,350	7.01%	100%
Walgreens – Newton, IA	September 30, 2008	2000	4,330,000	86,600	7.51%	100%
FedEx – Huntsville, AL	September 30, 2008	2008	10,947,787	218,955	7.50%	100%
FedEx – Baton Rouge, LA	October 3, 2008	2008	8,998,880	179,978	7.52%	100%
CVS – Atlanta, GA	October 7, 2008	2006	3,841,000	76,820	7.25%	100%
			$509,110,298	$11,470,056		

(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, where applicable. For more detailed information on fees paid to affiliates of our sponsor, see the section captioned "Management Compensation" beginning on page 62 of the prospectus.

(2) Initial yield is calculated as the annual rental income for the in-place leases at the respective property divided by the property purchase price, exclusive of closing costs and fees paid to sponsor.

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The following table sets forth the principal provisions of the lease term for the major tenants at the properties listed above:

Property	Number of Tenants	Major Tenants*	Total Square Feet Leased	% of Total Square Feet Leased	Rene
Ferguson Portfolio – Various	1	Ferguson Enterprises, Inc.	1,111,843	100%	4/5 yr
Home Depot – Lakewood, CO	1	Home Depot U.S.A, Inc.	102,000	100%	11/5 y
Walgreens – Mobile, AL	1	Walgreens	13,650	100%	10/5 y
Aaron's Rents Portfolio – Various	1	Aaron's Rents, Inc.	259,382	100%	3/5yr
Lowe's – Chester, NY	1	Lowe's Home Centers, Inc.	131,798	100%	8/5 yr
HH Gregg – Grove City, OH	1	Gregg Appliances, Inc.	30,167	100%	4/5 yr
BJ's Wholesale Club- Ft. Lauderdale, FL	1	BJ's Wholesale Club, Inc.	119,598	100%	4/5 yr
HH Gregg – Mt. Juliet, TN	1	Gregg Appliances, Inc.	30,000	100%	4/5 yr
Winter Garden Village – Winter Garden , FL	82	Beall's Department Stores, Inc.	80,000	10.5%	5/5 yr
Payless Shoe Source – Columbia, SC	1	Payless ShoeSource Inc.	5,534	100%	3/5 yr
Walgreens – Jacksonville, FL	1	Walgreen Co.	15,120	100%	4/10 y
CVS – Hamilton, OH	1	CVS Corporation	11,180	100%	6/5 yr
Walgreens – Akron, OH	1	Walgreen Co.	13,500	100%	3/10 y
Walgreens – Seattle, WA	1	Walgreen Co.	14,410	100%	4/10 y
Walgreens – LaMarque, TX	1	Walgreen Co.	15,120	100%	4/10 y
CVS – Mechanicville, NY	1	CVS Albany, L.L.C.	10,125	100%	4/5 yr
Office Depot – Laurel, MS	1	Office Depot, Inc.	20,515	100%	4/5 yr
Home Depot – Colma, CA	1	Home Depot U.S.A., Inc.	99,970	100%	4/5 yr
Walgreens – Saginaw, MI	1	Walgreen Co.	15,120	100%	4/10 y
Walgreens – Tulsa, OK	1	Walgreen Co.	13,000	100%	3/10 y
Walgreens – Broken Arrow, OK	1	Walgreen Co.	13,000	100%	3/10 y
Office Depot – London, KY	1	Office Depot, Inc.	20,468	100%	4/5 yr
Best Buy – Las Cruces, NM	1	Best Buy Stores, L.P.	30,000	100%	3/5 yr
Staples – Angola, IN	1	Staples, Inc.	24,049	100%	4/5 yr
TJ Maxx – Staunton, VA	1	The TJX Companies, Inc.	78,823	100%	4/5 yr
AT&T Wireless – Santa Clara, CA	1	AT&T Wireless Services, Inc.	33,257	100%	3/5 yr

Property	Number of Tenants	Major Tenants*	Total Square Feet Leased	% of Total Square Feet Leased	Renewal Options**
Walgreens – Tulsa, OK	1	Walgreen Co.	13,500	100%	3/10 yr.
Walgreens – Crossville, TN	1	Walgreen Co.	15,070	100%	4/10 yr.
CVS – Columbia, TN	1	Revco Discount Drug Centers, Inc.	10,715	100%	4/5 yr.
CVS – Columbia, TN	1	Revco Discount Drug Centers, Inc.	10,759	100%	4/5 yr.
Walgreens – Newton, IA	1	Walgreen Co.	15,047	100%	4/10 yr.
FedEx – Huntsville, AL	1	FedEx Freight East, Inc.	56,360	100%	2/5 yr.
FedEx – Baton Rouge, LA	1	FedEx Freight East, Inc.	29,400	100%	2/5 yr.
CVS – Atlanta, GA	1	Big B Drugs, Inc.	12,013	100%	6/5 yr

* 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.

*** Represents lease term beginning with purchase date.

(1) The lease consists of seven single tenant retail properties and one single tenant commercial property, which are subject to a master lease. The initial annual base rent under the lease increases every five years by 7.5% of the then current annual base rent. For purposes of this presentation, the individual rental escalations are not displayed in the table.

(2) Walgreens has the right, at its election, to terminate the lease effective as of the last day of the initial lease term, or effective as of the last day of any month thereafter.

(3) The lease consists of 25 single tenant retail properties, which are subject to a master lease. The initial annual base rent under the lease increases every five years by 2.5% of the then current annual base rent. For purposes of this presentation, the individual rental escalations are not displayed in the table.

(4) The initial annual base rent under the lease increases November 17, 2017 and November 17, 2022 by the lesser of three times the Consumer Price Index or 5%.

(5) The initial annual base rent under the lease increases each year by 8.0% of the then current annual base rent. For the purposes of this presentation, the individual rental escalations are not displayed in the table.

(6) The initial annual base rent under the lease increases every five years by the percentage of the increase, if any, in the United States Bureau of Labor statistics Consumer Price Index for All Items All Urban Consumers for San Francisco-Alameda, California.

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 2.0% of the monthly gross revenues from our properties. In accordance with the property management agreement, we may pay Cole Realty Advisors (i) up to 2.0% of gross revenues from our single tenant properties and (ii) up to 4.0% of 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 the properties are adequately insured.

In connection with the property acquisitions noted above we assumed the following mortgage notes:

Property	Fixed Rate Loan Amount	Fixed Interest Rate	Maturity Date	Variable Rate Loan Amount	Maturity Date	Total Loan Outstanding
Home Depot – Lakewood, CO	$ 8,350,000	5.80%	8/10/2031	$ —	N/A	$ 8,350,000
Payless Shoe Source – Columbia, SC	860,000	4.29%	12/11/2008	—	N/A	860,000
Walgreens – Jacksonville, FL	2,510,750	4.29%	12/11/2008	—	N/A	2,510,750
CVS – Hamilton, OH	1,787,500	4.29%	12/11/2008	—	N/A	1,787,500
Walgreens – Akron, OH	—	N/A	N/A	1,900,000 (1)	6/6/2009	1,900,000
Walgreens – Seattle, WA	3,349,500	4.29%	12/11/2008	—	N/A	3,349,500
Walgreens – LaMarque, TX	2,277,000	4.29%	12/11/2008	—	N/A	2,277,000
CVS – Mechanicville, NY	1,290,000	4.29%	12/11/2008	—	N/A	1,290,000
Office Depot – Laurel, MS	1,270,000	4.29%	12/11/2008	—	N/A	1,270,000
Home Depot – Colma, CA	21,613,000	4.80%	4/11/2009	—	N/A	21,613,000
Walgreens – Saginaw, MI	2,282,500	4.29%	12/11/2008	—	N/A	2,282,500
Walgreens – Tulsa, OK	1,215,500	4.29%	12/11/2008	—	N/A	1,215,500
Walgreens – Broken Arrow, OK	1,127,500	4.29%	12/11/2008	—	N/A	1,127,500
Office Depot – London, KY	1,680,000	4.29%	12/11/2008	—	N/A	1,680,000
Best Buy – Las Cruces, NM	3,809,000	4.46%	5/11/2011	—	N/A	3,809,000
Staples – Angola, IN						

Operating Cash Flows. Summary operating cash flow information for the year-to-date periods ended December 30, 2007 and December 31, 2006, respectively, is as follows: (Dollars in thousands):

	Year-to-Date Ended December 30,	December 31,
	2007	2006
Net income	**$ 4,946**	$ 13,811
Depreciation	**7,644**	6,993
Loss (gain) on sale of assets	**10**	(3)
Deferred income taxes	**2,921**	1,974
Changes in working capital items:		
Restricted cash	**3,333**	(855)

Accounts receivable	**(486)**	(3,664)
Inventory	**(13,059)**	(4,937)
Accounts payable and accrued expenses	**348**	2,295
Deferred revenue	**(736)**	(765)
Income taxes payable/receivable	**385**	(2,596)
Other	**(4,360)**	(2,158)
Net cash provided by operating activities	**$ 946**	$ 10,095

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Cash flow from operations for the year-to-date period ended December 30, 2007 decreased $9,149,000 to $946,000 from $10,095,000 for the year-to-date period ended December 31, 2006. This decline in operating cash flow was primarily related to an increase in inventories of $13,059,000 for the year-to-date period ended December 30, 2007 compared to an increase of $4,937,000 for the year-to-date period ended December 31, 2006 and a reduction in net income of $8,865,000 from $13,811,000 for the year to date ended December 31, 2006 to $4,946,000 for the year-to-date period ended December 30, 2007. Inventory for the year-to-date period ended December 30, 2007 increased primarily due to increasing raw material costs and the associated impact in finished goods. These factors, which served to reduce operating cash flow, were partially offset by a decrease in deferred tax assets as well as lower tax payments. Additionally, operating cash flow was impacted by the timing of cash receipts and disbursements resulting in an increase in accounts receivable and an increase in accounts payable partially offset by the pre-payment of certain expenses.

Investing Cash Flows. Net investing cash outflow for the year-to-date period ended December 30, 2007 was $3,586,000 compared to $9,194,000 for the year-to-date period ended December 31. 2006. During the year-to-date period ended December 1, 2006, we made $9,281,000 in capital expenditures, including expenditures relating to distillery expansion at our Atchison plant, the acquisition of feed dryers at our Pekin plant, injection molding and packaging equipment at the Kansas City, Kansas facility, equipment to improve the efficiency of our alcohol production facilities at Pekin as well as construction costs related to our new corporate headquarters and technology center in Atchison. Capital expenditures for the year-to-date period December 30, 2007 were significantly lower at $3,228,000 compared to $9,281,000 for the year to date period ended December 31, 2006.

Financing Cash Flows. Net financing cash outflow for the year-to-date period ended December 30, 2007, was $1,260,000 compared to $4,917,000 for the year-to-date period ended December 31, 2006, for a net decrease in cash outflow of $3,657,000. During the year-to-date period ended December 30, 2007, we had net draws of $3,000,000 under our operating line of credit. Additionally, during the year-to-date period ended December 31, 2006, we purchased 80,500 shares of our common stock at an average price of $24.09 per share for a total of $1.9 million in connection with tax elections made by participants in our option and restricted stock plans. No such transactions occurred in the year-to-date period ended December 30, 2007. Proceeds from stock plans decreased significantly due to a reduced number of stock options being exercised during the quarter.

HEDGING AND INVENTORY COSTS

Included within the carrying value of inventory of $61,287,000 as of December 30, 2007 is the market value of derivative instruments related to our hedging strategy of $7,500,000. Of the $7,400,000 mark-to-market adjustment (where derivative instruments are adjusted to market value) related to these derivative instruments, $5,000,000 has been credited to accumulated other comprehensive income, net of taxes of $3,400,000 to reflect the effective portion of these hedge instruments. Additionally, included within the value of these derivative instruments is the initial cost of approximately $100,000 related to the cost of option contracts. These amounts will subsequently be recognized in earnings as the hedged transaction (consumption of raw materials as part of the manufacturing process) occurs. The remaining $1,000,000 represents an unrealized loss on outstanding derivative contracts for the ineffective portion of put/call option contracts related to reduced time value.

In connection with the purchase of raw materials, principally corn and wheat, for anticipated operating requirements, we sometimes enter into various commodity derivative contracts to manage the risk of future grain price increases. During the quarter ended December 30, 2007, we utilized derivatives to hedge approximately 43 percent of corn processed compared with approximately 35 percent of corn processed in the quarter ended December 31, 2006. During the year to date period ended December 30, 2007, we utilized derivatives to hedge approximately 30 percent of corn processed compared with approximately 41 percent of corn processed in the year to date period ended December 31, 2006.   We did not hedge the cost of any wheat that we processed during the quarter or year to date periods ended December 30, 2007. Raw material costs in the quarter ended December 30, 2007 included a net hedging gain of approximately $485,000 compared to a net hedging gain of $2.0 million in the quarter ended December 31, 2006. Raw material costs in the year to date period ended December 30, 2007 included a net hedging loss of approximately $245,000 compared to a net hedging loss of $26,000 in the year to date period ended December 31, 2006.

These hedge transactions are highly effective. Accordingly, nearly all related losses were entirely offset by reduced raw materials costs.

As of December 30, 2007, through the use of derivative contracts, we had hedged 52 percent and 4 percent of our projected corn and wheat consumption respectively, for the remainder of the fiscal year. Including cash purchases, we have hedged 75 percent and 25 percent of our projected corn and wheat consumption respectively, for the remainder of the fiscal year.

COMPARISON TO DECEMBER 31, 2006

During the twelve month period ended December 30, 2007, our consolidated cash decreased $10,479,000. The twelve month decrease was primarily a result of an increase in inventory carrying costs, deposits on pending grain purchases and lower operating cash flow related to reduced net income. Additionally, we incurred capital expenditures of $17,135,000 for the twelve month period ended December 30, 2007 yielding a higher investment in property and equipment. In addition to operating cash flows, we financed capital expenditures and increased inventory using our revolving credit facility.

During the twelve month period ended December 30, 2007, our working capital increased $2,853,000 primarily as a result of increased inventories and deposits on pending grain purchases. This increase in working capital was partially offset by reduced cash balances (including restricted cash), reduced deferred income tax assets and higher balances outstanding on our revolving credit facility.

CONTRACTUAL OBLIGATIONS

As of December 30, 2007, the amount of long-term debt was $10,995,000 compared to $13,091,000 at July 1, 2007.

CAPITAL EXPENDITURES.

In the year to date we have spent $3.2 million in capital expenditures and have commitments for an additional $6.3 million which we anticipate will be spent within the next 12 months.

We are currently exploring alternative sources of energy for our Pekin, Illinois plant in the form of a coal-fired steam generation facility. In this regard we have applied for a license to operate a coal fired facility with the Illinois EPA. However, we are in the preliminary stages of analysis and no decision has been made to proceed beyond the exploratory stage.

Our preliminary estimates suggest a project of this nature would cost approximately $65.0 million to install. However, the actual cost to the company of engaging in such a project is not determinable at the moment. We are exploring the types and availability of various financing alternatives that would require us to pay no more that a portion of the construction costs, and only expect to proceed on such a basis. While there is no definitive time-frame for this project, if an operating license is granted and satisfactory financing arrangements are made, we estimate that it would take three to four years for the facility to be operational after we made a decision to proceed.

FINANCIAL COVENANTS

In connection with our loan and capital lease agreements, we are required to comply with certain covenants, a summary of which are as follows:

- We must maintain a current ratio (current assets to current liabilities) of 1.5 to 1.

- We must maintain minimum consolidated tangible net worth (stockholders equity less intangible assets) equal to the greater of (i) $86 million or (ii) the sum of $86 million plus 50 percent of consolidated net income since September 30, 2001.

- We must maintain a ratio of debt to tangible net worth of not more than 2.5 to 1.

- We may not permit consolidated funded debt (generally, asset acquisition related debt with a final maturity of more than 12 months from origin plus capitalized lease obligations) to exceed 60 percent of total capitalization.

- We must have an average of less than $3 million of unsecured current debt (generally all debt other than funded debt and current maturities of funded debt) during 45 consecutive days in any 12 month period.

- We must maintain at the end of each fiscal quarter a fixed charge ratio (generally, the ratio of (x) the sum of (a) net income [adjusted to exclude gains or losses from the sale or other disposition of capital assets and other matters] plus (b) provision for taxes plus (c) fixed charges, to (y) fixed charges) for the period of the four consecutive fiscal quarters ended as of the measurement date of 1.5 to 1.

LINE OF CREDIT

Our line of credit agreement with Commerce Bank, N. A., as amended extends to July 1, 2008. On February 6, 2008, we entered an amendment with Commerce Bank, N.A. increasing the maximum amount available under the line of credit from $20 million to $30 million. As of December 30, 2007 and February 6, 2008, we had $10.0 million and $12.0 million, respectively, in outstanding borrowings under the line.

Based upon our current expectations, we believe that cash and other liquid assets, operating cash flows, and our line of credit facility will be sufficient to fund anticipated operating, capital and debt service requirements and other commitments through fiscal 2008. However, our operating cash flow can be unexpectedly impacted by numerous factors, some of which are outside of our control. If MGP experiences a significant decline in revenues or increase in operating costs, its operating cash flows could be reduced.

WORKING CAPITAL

Our working capital increased $10,354,000 from July 1, 2007 to December 30, 2007. This increase was primarily the result of increased inventories, prepaid expenses, and deposits as well as decreased deferred revenue and current maturity of long-term debt. These factors, which led to an increase in working capital, were partially offset by reduced cash balances (including restricted cash held with our hedge trading broker), reduced deferred current tax assets, increased accounts payable, as well as increased balances outstanding on our revolving credit facility and increased accrued expenses.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company produces its products from wheat, corn and milo and, as such, is sensitive to changes in commodity prices. Grain futures and/or options are sometimes used as a hedge to protect against fluctuations in the market. The information regarding inventories and futures contracts at July 1, 2007, as presented in Item 7A of the annual report, is not significantly different from December 30, 2007.

ITEM 4. CONTROLS AND PROCEDURES.

(a) Evaluation of disclosure controls and procedures.

Our Chief Executive Officer, President and Chief Financial Officer, after evaluating the design and effectiveness of the Company s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) or 15d-15(e)) as of the end of the period covered by this report (the Evaluation Date), have concluded that as of the Evaluation Date, the Company s disclosure controls and procedures were adequately designed and operating effectively to ensure that material information relating to the Company would be made known to them by others within the Company.

(b) Changes in Internal Controls.

There has been no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Securities Act Rule 13a-15 or 15d-15 that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the quarter ended December 30, 2007 we made no repurchases of our stock.

Item 4. Submission of Matters To a Vote of Security Holders.

(a) The annual meeting of stockholders of the Company was held on October 18, 2007.

(b) At the annual meeting, the following persons where elected to the Board of Directors:

John R. Speirs was elected to the office of Group A Director for a term expiring in 2010 with 14,863,503 common share votes for his election and 919,513 votes withheld;

Cloud L. Cray, Jr. was elected to the office of Group B Director for a term expiring in 2010 with 410 preferred share votes for his election and 0 votes withheld.

John. E. Byom was elected to the office of Group B Director for a term expiring in 2010 with 410 preferred share votes for his election and 0 votes withheld.

In addition, the terms of Gary Gradinger, Linda E. Miller and Daryl L. Schaller, Ph.D. as Group A Directors continued after the annual meeting and the terms of Michael Braude, Randall M. Schrick and Laidacker M. Seaberg as Group B Directors continued after the annual meeting.

(c) (d) Not applicable.

Item 5. Other Information

On February 6, 2008, we entered an amendment to our line of credit agreement with Commerce Bank, N.A. increasing the maximum amount available under the line of credit from $20 million to $30 million and revising the permitted uses. As of February 6, we had $12.0 million in outstanding borrowings under the line.

Item 6. Exhibits

3.1 Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 of the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.)

3.2 Bylaws of the Company (Incorporated by reference to Exhibit 3(b) of the Company s Current Report on Form 8-K filed June 19, 2007 (File Number 0-17196)

*4. Seventh Amendment to Line of Credit Loan Agreement and related Sixth Amended and Restated Line of Credit Note.

*15.1 Letter from independent public accountants pursuant to paragraph (d) of Rule 10-01 of Regulation S-X (incorporated by reference to Independent Accountants Review Report at page 3 hereof)

*15.2	Letter from independent public accountants concerning the use of its Review Report in the Company s Registration Statement Nos. 333-137593, 333-119860 and 333-51849
*31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Acts of 2002
*31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.3	Certification of President pursuant to Section 302 of the Sarbanes-Oxley Acts of 2002
*32.1	Certification of Chief Executive Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32.2	Certification of Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32.3	Certification of President pursuant to Section 302 of the Sarbanes-Oxley Acts of 2002

* Filed herewith

SIGNATURES

Pursuant to the requirements on the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	MGP INGREDIENTS, INC.	
Date: February 7, 2008	By	/s/ Ladd M. Seaberg Ladd M. Seaberg, Chairman of the Board and Chief Executive Officer
Date: February 7, 2008	By	/s/ Timothy W. Newkirk Timothy W. Newkirk, President and Chief Operating Officer
Date: February 7, 2008	By	/s/ Robert Zonneveld Robert Zonneveld, Vice President and Chief Financial Officer