

Cole Credit Property Trust II Inc  
Form POS AM  
February 01, 2008

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As filed with the Securities and Exchange Commission on February 1, 2008

Registration No. 333-138444

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
POST-EFFECTIVE AMENDMENT NO. 3 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)

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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. o

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This Post-Effective Amendment No. 3 consists of the following:

1. The Registrant's final form of Prospectus dated May 11, 2007;
  2. Supplement No. 1 dated May 16, 2007, Supplement No. 2 dated July 23, 2007, Supplement No. 3 dated August 8, 2007, Supplement No. 4 dated August 15, 2007, Supplement No. 5 dated September 21, 2007, Supplement No. 6 dated November 2, 2007, Supplement No. 7 dated November 15, 2007, Supplement No. 8 dated December 20, 2007 and Supplement No. 9 dated February 1, 2008, to the Registrant's Prospectus dated May 11, 2007, included herewith, each of which will be delivered as an unattached document along with the Prospectus dated May 11, 2007.
  3. Part II, included herewith.
  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 20 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 156 for a description of compensation that may be received by our dealer manager and other broker-dealers in this offering.

May 11, 2007

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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, Michigan, North Carolina 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, 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, Ohio or Pennsylvania resident's net worth.

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Iowa and Kansas 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, our chairman, chief executive officer and president, has been active in the acquisition, financing, management and structuring of commercial real estate transactions for over 28 years and has been engaged as a general partner in the structuring and management of real estate limited partnerships since February 1979. He also is the chief executive officer of Cole REIT Advisors II, LLC (Cole Advisors II), which is our advisor. Through Mr. Cole's affiliated entities, as of December 31, 2006, Mr. Cole has sponsored 71 private real estate programs with an aggregate of over 6,500 investors since January 1, 1997.

Blair D. Koblenz, our executive vice president and chief financial officer, has been active in the structuring and financial management of commercial real estate investments for over 20 years. He also is president of Cole



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Advisors II. Prior to joining the Cole entities in 1994, he practiced in public accounting from 1979 to 1982 with an emphasis in taxation and business planning. He then served in a financial officer capacity for other real estate investment companies and operators in Arizona from 1982 to 1994.

John M. Pons, our secretary, also is executive vice president, chief operating officer, secretary and general counsel 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 Finance Corporation since December 2001. Prior to December 2001, Mr. Pons was engaged in a private legal practice. Mr. Pons has over eleven 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

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may give us an advantage in acquiring desired properties from persons who may not otherwise sell their properties because of unfavorable tax results.

**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?**

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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 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 May 9, 2007, we owned 156 properties located in 37 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.

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.

**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

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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 May 9, 2007, we owned 156 properties, comprising approximately 6.5 million rentable square feet of commercial space located in 37 states and the U.S. Virgin Islands. Our properties as of May 9, 2007, 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		23,942	2,900,000

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	Staples the Office Superstore East, Inc.		
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

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<b>Property Description</b>	<b>Tenant</b>	<b>Rentable Square Feet</b>	<b>Purchase Price</b>
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
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
		10,150	3,021,000

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David s BridalRadio Shack	Topeka, KS	Federated Dept. Stores & Radio Shack Corp.		
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

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<b>Property Description</b>	<b>Tenant</b>	<b>Rentable Square Feet</b>	<b>Purchase Price</b>
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
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
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 Save O'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



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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 Lincolnton, NC	ECK-001, LLC	10,908	2,262,000
Tractor Supply Greenfield, MN	Tractor Supply Company	22,675	4,050,000

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<b>Property Description</b>	<b>Tenant</b>	<b>Rentable Square Feet</b>	<b>Purchase Price</b>
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
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
		6,504,109	\$ 927,323,376

(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

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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 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;

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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;

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

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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 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 May 9, 2007, we had approximately 51,600,000 shares of common stock outstanding, held by approximately 12,000 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, 2006, we had sold approximately 37,000,000 shares of common stock in our initial public offering, with gross offering proceeds of approximately \$306.5 million. From this amount, we paid approximately \$5.8 million in acquisition fees to Cole Realty Advisors, approximately \$1.8 million in finance coordination fees to Cole Advisors II, approximately \$23.3 million in selling commissions and dealer manager fees to Cole Capital Corporation and approximately \$3.8 million in organization and offering cost reimbursement to Cole Advisors II.

In addition to our initial public offering, from January 1, 1997 through December 31, 2006, our chairman, chief executive officer and president, Christopher H. Cole, through entities he directly or indirectly controls, has sponsored 71 privately offered real estate programs, including 16 limited partnerships, four debt offerings, 49 tenant-in-common programs, and Cole Credit Property Trust, Inc. (Cole REIT I), a privately offered REIT.

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As of December 31, 2006, such programs have raised an aggregate of approximately \$576.2 million from over approximately 6,500 investors, and have owned and operated a total of 182 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, 1997 through December 31, 2006. 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.

Type of Compensation	Determination of Amount	Estimated Amount for Maximum Offering (150,000,000 shares)
Selling Commission	<p><i>Offering Stage</i></p> <p>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 selling commissions to participating broker-dealers.</p>	\$87,500,000





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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 reallocate 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	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.	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.
Operating Expenses	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 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.	Not determinable at this time.
Financing Coordination Fee	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	Not determinable at this time. Because the fee is based on a fixed percentage of any debt

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.

financing, there is no maximum dollar amount of this fee.

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Type of Compensation	Determination of Amount	Estimated Amount for Maximum Offering (150,000,000 shares)
Real Estate Commissions	<p><b>Liquidation/ Listing Stage</b></p> <p>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>	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.
Subordinated Participation in Net Sale Proceeds (payable only if we are not listed on an exchange)	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.	Not determinable at this time. There is no maximum amount of these payments.
Subordinated Incentive Listing Fee (payable only if we are listed on an exchange, which we have no intention to do at this time)	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 for our advisor's incentive compensation.	Not determinable at this time. There is no maximum amount of this fee.

**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 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.

**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

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not list our shares of common stock on a national securities exchange by June 27, 2015, 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."

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.

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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. For this Uniform Commercial Code search, we will charge an administrative fee equal to the lesser of \$250 or 4% of the original purchase price of the shares to be redeemed to the stockholder, which will be deducted from the proceeds of the redemption. If a lien exists, the fee will be charged to the stockholder, although no shares will be redeemed. The administrative fee will be paid to us and any additional costs in conducting the Uniform Commercial Code search will be borne by us. The payment of this administrative fee will be waived if the redemption occurs upon the death of a stockholder or if our advisor, in its sole discretion, determines that the redeeming stockholder has suffered an economic hardship. 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.

### ***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.

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***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

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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 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, 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, Blair D. Koblenz, Christopher P. Robertson, John M. Pons, D. Kirk McAllaster, Jr., Sean D. Leahy and Marc T. Nemer, 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. 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



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available for distribution to you. See the section captioned Management Limited Liability and Indemnification of Directors, Officers, Employees and Other Agents elsewhere herein.

### **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, 1997 to December 31, 2006, affiliates of our advisor have sponsored 71 privately offered real estate investment programs, including 16 limited partnerships, a REIT, four debt offerings and 49 tenant-in-common programs. As of December 31, 2006, such prior programs had raised approximately \$576.2 million from approximately 6,500 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



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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 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

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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 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.

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***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;

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

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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.

***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) at least 25% of our assets must 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



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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;

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

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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 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, 2006, we had sold approximately 37,000,000 shares of common stock in our initial public offering, with gross offering proceeds of approximately \$306.5 million. From this amount, we paid approximately \$5.8 million in acquisition fees to Cole Realty Advisors, approximately \$1.8 million in finance coordination fees to Cole Advisors II, approximately \$23.3 million in selling commissions and dealer manager fees to Cole Capital Corporation and approximately \$3.8 million in organization and offering cost reimbursement to Cole Advisors II. For a more

detailed discussion of the fees

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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 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

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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 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 affects 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.





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***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, 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.

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***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 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

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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.

***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.

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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.

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



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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.

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

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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, 2006, we had total outstanding indebtedness of approximately \$218.3 million. 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 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,

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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.

***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 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, 2006, we had approximately \$218.3 million of indebtedness, approximately \$2.7 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

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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;

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.



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**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 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

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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 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.



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***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.
- (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



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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

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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.

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.

**Table of Contents****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 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(s)</b>
Christopher H. Cole	54	Chairman of the Board of Directors, Chief Executive Officer and President
Blair D. Koblenz	48	Executive Vice President and Chief Financial Officer
John M. Pons	43	Secretary
Marcus E. Bromley	57	Independent Director
Elizabeth L. Watson	47	Independent Director

**Christopher H. Cole** has served as the chairman, chief executive officer and president of our company since our formation. He also has been the chief executive officer of Cole Advisors II since its formation and also was its president from its formation until March 2007. Mr. Cole also has served as the chief executive officer and treasurer of Cole Capital Partners since 2003. He also was its president from its formation until March 2007. Mr. Cole has been engaged as a general partner in the structuring and management of real estate limited partnerships since February 1979. He also is the chief executive officer and treasurer of Cole Capital Advisors, Inc. (Cole Capital Advisors), Equity Fund Advisors, Inc. (Equity Fund Advisors), Cole Realty Advisors and Cole Advisors. He is the President of CHC Partners, which has served as the general partner in prior real estate programs, since 1985. Mr. Cole has been the president and chief executive officer of Cole Equities Incorporated (Cole Equities), a consulting company since 1980. He currently serves as executive vice president and treasurer of Cole Capital Corporation. He has served as the chairman, chief executive officer and president of Cole REIT I since its formation in March 2004. Mr. Cole served as the president of Cole Partnerships, Inc. from its formation to August 1995 and currently serves as the chief executive officer.

**Blair D. Koblenz** has served as executive vice president and chief financial officer of our company since its formation. He has been active in the structuring and financial management of commercial real estate investments for over 20 years. He is also president and the secretary of Cole Capital Partners, Cole Capital Advisors, Cole Realty Advisors and Equity Fund Advisors and is the president of Cole Advisors and Cole Advisors II. He has served as president of Cole Capital Corporation since December 2002 and previously served as vice president. He also serves as vice president and chief financial officer of Cole Partnerships, Cole Real Estate Services, Inc., and CHC Partners. He serves as secretary of Cole Equities. Mr. Koblenz has served as a director and executive vice president and chief financial officer of Cole REIT I since its formation in March 2004. 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 B.S. 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 (NAREIT).

**John M. Pons** has served as secretary of our company since its formation. He also is executive vice president, chief operating officer and general counsel of Cole Capital Partners, Cole Capital Advisors and Equity Fund Advisors, and is executive vice president, chief operating officer, secretary and general counsel of Cole Advisors and Cole Advisors II. Mr. Pons also has served as a director and secretary of Cole REIT I since

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its formation in March 2004. 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 twelve 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 B.S. degree in Mathematics from Colorado State University and a M.S. degree in Administration from Central Michigan University before attending the University of Denver where he earned his J.D. (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. 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

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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, 2006:

Name	Fees Earned or Paid in		Option Awards(1) (\$)	Non-Equity Incentive Plan Compensation		Deferred Compensation Earnings(2) (\$)	All Other Compensation (\$)	Total (\$)	Change in Pension Value and Nonqualified
	Cash (\$)	Stock Awards (\$)		(\$)	(\$)				
Christopher H. Cole	\$	\$	\$	\$	\$	\$	\$	\$	
Marcus E. Bromley	39,000			27,750			1,811	68,561	
Elizabeth L. Watson	40,000			27,750				67,750	

(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, 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

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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:

- o 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
- o 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 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.

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**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.

**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

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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.



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.

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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.

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

<b>Name</b>	<b>Age</b>	<b>Position(s)</b>
Christopher H. Cole	54	Chief Executive Officer and Treasurer
Blair D. Koblenz	48	President and Secretary
D. Kirk McAllaster, Jr.	40	Executive Vice President and Chief Financial Officer

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Christopher P. Robertson	40	Senior Vice President, Acquisitions
John M. Pons	43	Executive Vice President, Chief Operating Officer, Secretary and General Counsel
Sean D. Leahy	36	Director of Real Estate and Portfolio Management
Marc T. Nemer	34	Vice President, Legal Services and Compliance

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The backgrounds of Messrs. Cole, Koblenz 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.

**D. Kirk McAllaster, Jr.** is executive vice president and chief financial officer of Cole Capital Partners, Cole Advisors and Cole Advisors II. Prior to March 2007, Mr. McAllaster was the vice president, finance and accounting of such entities. 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 B.S. degree from California State Polytechnic University Pomona with a major in Accounting. He is a Certified Public Accountant and is a member of the American Institute of CPAs and the Arizona Society of CPAs.

**Christopher P. Robertson** is senior vice president, acquisitions for Cole Capital Partners, Cole Advisors and Cole Advisors II. Prior to joining Cole in October 2003, Mr. Robertson worked for Shell Capital, Inc., an investment banking division of Shell Oil Company, as vice president of business development. From 1998 until joining Shell Capital in 2000, he was employed at Franchise Finance Corporation of America as its vice president of corporate finance. While at Franchise Finance Corporation he structured numerous sale-leaseback and senior debt transactions in the restaurant, convenience store/gas, and automotive aftermarket industries. Mr. Robertson received a B.B.A. degree from Baylor University with majors in both Finance and Real Estate in 1988. In 1993, Mr. Robertson received a M.B.A. degree in Finance from Pepperdine University.

**Sean D. Leahy** is director of real estate and portfolio management of Cole Capital Partners, Cole Capital Advisors, Cole Advisors and Cole Advisors II. Prior to joining Cole in September 2003, Mr. Leahy spent four years as assistant vice president with the Phoenix office of Lowe Enterprises, Inc., a national pension fund advisor, where he was involved with acquisitions and dispositions, and leasing and asset management for the company's Arizona portfolio of commercial properties. Prior to joining Lowe Enterprises, Mr. Leahy spent five years with the Phoenix office of Ernst & Young, LLP, most recently as a real estate consulting manager. Mr. Leahy is a licensed real estate broker and Certified Public Accountant. Mr. Leahy received a B.S. degree with majors in Finance and Accounting from the University of Arizona.

**Marc T. Nemer** is vice president, legal services and compliance of Cole Capital Partners, Cole Advisors and Cole Advisors II. Prior to joining Cole in February 2006, 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.

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.

## **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;

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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, 2007, 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 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 May 9, 2007, its affiliates had approximately 118 full-time employees, each of whom may dedicate a portion of his or her time providing

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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, 2007, 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.

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

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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 National Association of Securities Dealers, Inc. (NASD). 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. Cole Capital Corporation is an affiliate of both our advisor and the property manager. See Conflicts of Interest.

The current officers of Cole Capital Corporation are:

<b>Name</b>	<b>Age</b>	<b>Position(s)</b>
Blair D. Koblenz	48	President and Secretary
Christopher H. Cole	54	Executive Vice President and Treasurer

The backgrounds of Messrs. Koblenz and Cole are described in the Management Executive Officers and Directors section of this prospectus.

**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, Blair D. Koblenz, John M. Pons, Sean D. Leahy and Christopher P. Robertson. 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 reallowance 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 reallow 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 reallowance to participating broker-dealers, except that no dealer manager fee is payable on shares sold under our distribution reinvestment plan. Cole Capital Corporation may reallow 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

*Acquisition and Operations Stage*

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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.	\$26,368,177
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Type of Compensation(1)	Determination of Amount	Estimated Amount for Maximum Offering(2)
Acquisition Expenses Cole Advisors II	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 Cole Advisors II(7)	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 Cole Realty Advisors(8)	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 Cole Realty Advisors(8)	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 excluding any gain from the sale of assets for that period.	Actual amounts are dependent upon the expenses incurred and, therefore, cannot be determined at the present time.



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<b>Type of Compensation(1)</b>	<b>Determination of Amount</b>	<b>Estimated Amount for Maximum Offering(2)</b>
Real Estate Commissions Cole Advisors II or its Affiliates(10)	<p style="text-align: center;"><b><i>Liquidation/Listing Stage</i></b></p> <p>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.</p>	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.



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- (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.
- (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

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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.

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- (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.
- (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;

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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

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.

<b>Name of Beneficial Owner(1)</b>	<b>Common Stock Beneficially Owned(2)</b>	
	<b>Number of Shares of Common Stock</b>	<b>Percentage of Class</b>
Christopher H. Cole, Chairman of the Board of Directors, Chief Executive Officer and President(3)	30,753	*
Blair D. Koblenz, Executive Vice President and Chief Financial Officer		
John M. Pons, Senior Vice President, Secretary and General Counsel		
Marcus E. Bromley, Independent Director	10,000	*
Elizabeth L. Watson, Independent Director	10,000	*
All directors and executive officers as a group (five persons)(3)	50,753	*

\* Less than 1%.

- (1) Address of each beneficial owner listed is 2555 East Camelback Road, Suite 400, Phoenix, Arizona 85016.
- (2) For purposes of calculating the percentage beneficially owned, the number of shares of common stock deemed outstanding includes (a) 51,600,767 shares outstanding as of May 9, 2007, and (b) shares issuable pursuant to options held by the respective person or group that may be exercised within 60 days following May 9, 2007. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission that deem shares to be beneficially owned by any person or group who has or shares voting and investment power with respect to such shares.
- (3) Includes 20,000 shares owned by Cole Holdings Corporation and 10,753 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.

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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, 2006, an affiliate of our advisor has issued approximately \$112.3 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 49 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

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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 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 be 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

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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 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

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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.

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 May 9, 2007.



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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.

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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 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

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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 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

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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 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



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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 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 and property condition report, our advisor also will, to the extent such information is available, consider the following:

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

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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

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

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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.

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,

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2006, we had an aggregate debt leverage ratio of 49% 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 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



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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

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

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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 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

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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 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

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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 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



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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;

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.

**Table of Contents****Real Property Investments**

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

As of May 9, 2007, we, through separate wholly-owned limited partnerships or limited liability companies, had acquired a 100% fee simple interest in 156 properties consisting of an aggregate of approximately 6.5 million gross rentable square feet located in 37 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	September 26, 2005	2005	\$ 3,259,243	\$ 83,115	21,688	100%
Walgreens Brainerd, MN	Drugstore	October 5, 2005	2000	4,328,500	114,710	15,120	100%
Rite Aid Alliance, OH	Drugstore	October 20, 2005	1996	2,100,000	42,000	11,348	100%
La-Z-Boy Glendale, AZ	Home furnishings	October 25, 2005	2001	5,691,525	148,000	23,000	100%
Walgreens Florissant, MO	Drugstore	November 2, 2005	2001	5,187,632	111,671	15,120	100%
Walgreens Saint Louis, MO (Gravois)	Drugstore	November 2, 2005	2001	6,152,942	108,917	15,120	100%
Walgreens Saint Louis, MO (Telegraph)	Drugstore	November 2, 2005	2001	5,059,426	132,412	15,120	100%
Walgreens Columbia, MO	Drugstore	November 22, 2005	2002	6,271,371	125,000	13,973	100%
Walgreens Olivette, MO	Drugstore	November 22, 2005	2001	7,822,222	156,000	15,030	100%
CVS Alpharetta, GA	Drugstore	December 1, 2005	1998	3,100,000	82,000	10,125	100%
Lowe's Enterprise, AL	Home improvement	December 1, 2005	1995	7,475,000	184,000	95,173	100%

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CVS Richland Hills, TX	Drugstore	December 8, 2005	1997	3,660,000	97,000	10,908	100%
FedEx Rockford, IL	Distribution	December 9, 2005	1994	6,150,000	149,000	67,925	100%
Plastech Auburn Hills, MI	Automotive parts	December 15, 2005	1995	23,600,000	472,000	111,881	100%
Academy Sports Macon, GA	Sporting goods	January 6, 2006	2005	5,600,000	148,000	74,532	100%
David's Bridal Lenexa, KS	Specialty retail	January 11, 2006	2005	3,270,000	83,000	12,083	100%
Rite Aid Enterprise, AL	Drugstore	January 26, 2006	2005	3,714,000	94,000	14,564	100%
Rite Aid Wauseon, OH	Drugstore	January 26, 2006	2005	3,893,679	79,000	14,564	100%
Staples Crossville, TN	Office supply	January 26, 2006	2001	2,900,000	77,000	23,942	100%
Rite Aid Saco, ME	Drugstore	January 27, 2006	1997	2,500,000	64,000	11,180	100%
Wadsworth Boulevard Denver, CO	Specialty Retail/Warehouse Club	February 6, 2006	1991	18,500,000	490,000	198,477	100%
Mountainside Fitness Chandler, AZ	Health and fitness	February 9, 2006	2001	5,863,000	117,000	31,063	100%
Drexel Heritage Hickory, NC	Furnishings	February 24, 2006	1963	4,250,000	113,000	261,057	100%
Rayford Square Spring, TX	Automotive parts/Restaurant/Specialty Retail	March 2, 2006	1973	9,900,000	257,000	79,968	100%
CVS Portsmouth, OH	Drugstore	March 8, 2006	1997	2,166,000	57,000	10,170	100%
Wawa Hockessin, DE	Convenience stores	March 29, 2006	2000	4,830,000		5,160	100%
Wawa Manahawkin, NJ	Convenience stores	March 29, 2006	2000	4,414,000		4,695	100%
Wawa Narbeth, PA	Convenience stores	March 29, 2006	2000	4,206,000		4,461	100%
CVS Lakewood, OH	Drugstore/Financial Services	April 20, 2006	1996	2,450,000	62,000	12,800	100%
	Drugstore	April 27, 2006	1997	2,568,700	71,000	11,325	100%

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Rite Aid Cleveland, OH	Drugstore	April 27, 2006	1997	2,524,500	70,000	11,325	100%
Rite Aid Fremont, OH	Drugstore	May 8, 2006	2000	4,750,000	125,000	15,120	100%
Walgreens Knoxville, TN	Drugstore	May 26, 2006	2004	4,463,088	28,000	13,824	100%
CVS Madison, MS	Drugstore	May 26, 2006	2005	4,326,165	23,000	14,564	100%
Rite Aid Defiance, OH	Consumer electronics	May 26, 2006	2002	4,624,619	36,000	25,230	100%
Conns San Antonio, TX	Specialty retail	June 2, 2006	2006	3,000,000	80,000	24,341	100%
Dollar General Crossville, TN	Specialty retail	June 9, 2006	2005	2,775,000	73,000	24,341	100%
Dollar General Ardmore, TN	Specialty retail	June 12, 2006	2006	2,856,000	76,000	24,341	100%
Dollar General Livingston, TN	Theaters	June 14, 2006	1998	8,200,000	82,000	50,000	100%
Wehrenberg Arnold, MO	Specialty retail	June 27, 2006	2006	8,231,000	226,000	50,003	100%
Sportmans Warehouse Wichita, KS							

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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>
CVS Portsmouth, OH	Drugstore	June 28, 2006	1997	2,101,708	61,000	10,650	100%
Advance Auto Greenfield, IN	Automotive parts	June 29, 2006	2003	1,375,500	28,000	7,000	100%
Advance Auto Trenton, OH	Automotive parts	June 29, 2006	2003	1,060,000	21,000	7,000	100%
Rite Aid Lansing, MI	Drugstore	June 29, 2006	1950	1,735,000	45,000	11,680	100%
Advance Auto Columbia Heights, MN	Automotive parts	July 6, 2006	2005	1,730,578	45,000	7,000	100%
Advance Auto Fergus Falls, MN	Automotive parts	July 6, 2006	2005	1,203,171	31,000	7,000	100%
CVS Okeechobee, FL	Drugstore	July 7, 2006	2001	6,459,262	41,000	13,050	100%
Office Depot Dayton, OH	Office supply	July 7, 2006	2005	3,416,526	21,000	19,880	100%
Advance Auto Holland, MI	Automotive parts	July 12, 2006	2006	2,071,843	12,000	7,000	100%
Advance Auto Holland Township, MI	Automotive parts	July 12, 2006	2006	2,137,244	12,000	7,000	100%
Advance Auto Zeeland, MI	Automotive parts	July 12, 2006	2006	1,840,715	11,000	7,000	100%
CVS Orlando, FL	Drugstore	July 12, 2006	2005	4,956,763	30,000	13,013	100%
Office Depot Greenville, MS	Office supply	July 12, 2006	2000	3,491,470	22,000	25,083	100%
Office Depot Warrensburg, MO	Office supply	July 19, 2006	2001	2,880,552	18,000	20,000	100%
CVS Gulfport, MS	Drugstore	August 10, 2006	2000	4,414,117	26,000	11,359	100%
Advance Auto Grand	Automotive parts	August 15, 2006	2005	1,399,657	36,000	7,000	100%

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Forks, ND							
CVS Clinton, NY	Drugstore	August 24, 2006	2006	3,050,000	80,000	10,055	100%
Oxford Theatre, MS	Theaters	August 31, 2006	2006	9,692,503	246,000	35,000	100%
Advance Auto, Duluth, MN	Automotive parts	September 8, 2006	2006	1,432,565	9,000	7,000	100%
Walgreens Picayune, MS	Drugstore	September 15, 2006	2006	4,255,000	113,000	14,820	100%
Kohl's Wichita, KS	Apparel	September 27, 2006	1996	7,866,000	209,000	86,584	100%
Lowe's Lubbock, TX	Home improvement	September 27, 2006	1996	11,508,000	305,000	137,480	100%
Lowe's Midland, TX	Home improvement	September 27, 2006	1996	11,099,000	293,000	134,050	100%
Advance Auto, Grand Bay, AL	Automotive parts	September 29, 2006	2005	1,115,605	22,000	7,000	100%
Advance Auto, Hurley, MS	Automotive parts	September 29, 2006	2005	1,083,195	22,000	7,000	100%
Advance Auto, Rainsville, AL	Automotive parts	September 29, 2006	2005	1,328,000	27,000	7,000	100%
Gold's Gym O'Fallon, IL	Health and fitness	September 29, 2006	2005	7,300,000	183,000	38,000	100%
Rite Aid Glassport, PA	Drugstore	October 4, 2006	2006	3,788,000	99,000	14,564	100%
David's Bridal/Radio Shack, Topeka, KS	Specialty Retail/Consumer Electronics	October 13, 2006	2006	3,021,000	60,000	10,150	100%
Rite Aid Hanover, PA	Drugstore	October 17, 2006	2006	6,330,000	168,000	14,584	100%
American TV & Appliance, Peoria, IL	Consumer electronics	October 23, 2006	2003	11,336,983	304,000	126,852	100%
Tractor Supply, La Grange, TX	Specialty retail	November 6, 2006	2006	2,580,000	66,000	24,727	100%
Staples Peru, IL	Office supply	November 9, 2006	1998	3,215,000	83,000	23,925	100%
Fedex Council Bluffs, IA	Distribution	November 15, 2006	1999	3,361,000	89,000	23,510	100%
	Distribution	November 15, 2006	1999	19,815,000	525,000	155,965	100%

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Fedex Edwardsville, KS							
CVS Glenville Scotia, NY	Drugstore	November 16, 2006	2006	5,250,000	139,000	12,900	100%
Advance Auto Ashland, KY	Automotive parts	November 17, 2006	2006	1,681,000	34,000	7,000	100%
Advance Auto Jackson, OH	Automotive parts	November 17, 2006	2005	1,352,000	27,000	7,000	100%
Advance Auto New Boston, OH	Automotive parts	November 17, 2006	2005	1,516,000	30,000	7,000	100%
Advance Auto Scottsburg, IN	Automotive parts	November 17, 2006	2006	1,272,000	25,000	7,000	100%
Tractor Supply Livingston, TN	Specialty retail	November 22, 2006	2006	3,100,000	79,000	24,727	100%
Tractor Supply New Braunfels, TX	Specialty retail	November 22, 2006	2006	3,150,000	81,000	24,727	100%
Office Depot Benton, AR	Office supply	November 21, 2006	2001	3,275,000	87,000	20,515	100%
Old Time Pottery Fairview Heights,IL	Home furnishings	November 21, 2006	1979	4,280,000	107,000	97,849	100%
Infiniti Davie, FL	Motor vehicle dealerships	November 30, 2006	2006	9,432,000	189,000	20,927	100%
Office Depot Oxford, MS	Office supply	December 1, 2006	2006	3,487,450	93,000	20,000	100%
Tractor Supply Crockett, TX	Specialty retail	December 1, 2006	2006	2,450,000	62,000	24,727	100%
Mercedes Benz Atlanta, GA	Motor vehicle dealerships	December 15, 2006	2000	11,760,000	235,000	40,588	100%
Dick's Sporting Goods Amherst, NY	Sporting goods	December 20, 2006	1986	9,725,000	195,000	55,745	100%
Chili's Paris, TX	Restaurant	December 28, 2006	1999	2,750,000	73,000	6,698	100%
Staples Clarksville, IN	Office supply	December 29, 2006	2006	4,430,000	118,000	20,388	100%
	Furniture retail	January 4, 2007	2004	12,000,000	288,000	122,108	100%



HOM Fargo,  
ND

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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>
La-Z-Boy Newington, CT	Furnishings store	January 5, 2007	2006	6,900,000	179,000	20,701	100%
Advance Auto Maryland Heights, MO	Specialty retailer	January 12, 2007	2005	1,893,000	38,000	7,000	100%
Victoria Crossing Victoria, TX	Shopping center	January 12, 2007	2006	12,608,000	338,000	87,473	92.3%
Academy Sports Katy, TX	Headquarters	January 18, 2007	1976	102,000,000	2,683,000	1,500,596	100%
Gordmans Peoria, IL	Department store	January 18, 2007	2006	9,000,000	230,000	60,947	100%
One Pacific Place Omaha, NE	Shopping center	February 6, 2007	1988	36,000,000	954,000	91,564	95.2%
Sack n Save/O Reilly Auto Garland, TX	Shopping center	February 6, 2007	1970	5,060,000	134,000	65,295	100%
Tractor Supply Ankeny, IA	Specialty retail	February 9, 2007	2006	3,000,000	60,000	19,097	100%
ABX Air Coventry, RI	distribution center	February 16, 2007	1998	4,090,000	107,000	33,000	100%
Office Depot Enterprise, AL	office supply	February 27, 2007	2006	2,776,357	75,000	20,000	100%
Northern Tool Blaine, MN	Specialty retail	February 28, 2007	2006	4,900,000	130,000	25,488	100%
Office Max Orangeburg, SC	office supply	February 28, 2007	1999	3,125,000	82,000	23,500	100%
Walgreens Cincinnati, OH	drug store	March 6, 2007	2000	5,140,000	136,000	15,120	100%
Walgreens Madeira, OH	drug store	March 6, 2007	1998	4,425,000	118,000	13,905	100%
Walgreens Sharonville, OH	drug store	March 6, 2007	1998	4,085,000	109,000	13,905	100%
AT&T Beaumont, TX	office building	March 19, 2007	1971	12,275,000	332,000	141,525	100%
Walgreens Shreveport, LA	Drugstore	March 23, 2007	1998	4,140,000	111,000	13,905	100%
Cost-U-Less Croix, USVI	St.Warehouse Club	March 26, 2007	2005	6,210,000	164,000	38,365	100%
Gallina Centro Collierville, TN	Shopping center	March 26, 2007	2000	17,750,000	497,000	142,727	100%

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Apria Healthcare St. John, MO	Healthcare	March 28, 2007	1996	6,500,000	130,000	52,200	100%
Logan s Roadhouse Fairfax, VA	Restaurant	March 28, 2007	1998	3,209,000	80,000	7,839	100%
Logan s Roadhouse Johnson City, TN	Restaurant	March 28, 2007	1996	3,866,000	97,000	7,839	100%
Center at 7500 Cottonwood Jenison, MI	Shopping center	March 30, 2007	1993	5,290,000	106,000	84,933	100%
Eckerd Lincolnton, NC	Drugstore	April 3, 2007	1998	2,262,000	61,000	10,908	100%
Tractor Supply Greenfield, MN	Specialty retail	April 2, 2007	2006	4,050,000	103,000	22,675	100%
Lincoln Place Fairview Heights, IL	Shopping center	April 5, 2007	1998	44,000,000	1,234,320	272,829	100%
Ashley Furniture Amarillo, TX	Furniture retail	April 6, 2007	1980	5,920,000	159,000	74,797	100%
Pocatello Square Pocatello, ID	Shopping center	April 6, 2007	2006	23,000,000	632,500	138,925	90%
Tractor Supply Paw Paw, MI	Specialty retail	April 9, 2007	2006	3,095,000	82,000	22,670	100%
Tractor Supply Marinette, WI	Specialty retail	April 9, 2007	2006	2,950,000	78,000	19,097	100%
Staples Greenville, SC	Office supply	April 11, 2007	2007	4,545,000	120,000	20,388	100%
Big 5 Center Aurora, CO	Retail center	April 11, 2007	2006	4,290,000	114,000	15,800	100%
Rite Aid PA	Plains, Drugstore	April 16, 2007	2006	5,200,000	137,800	14,564	100%
Tractor Supply Navasota, TX	Specialty retail	April 18, 2007	2006	3,015,000	80,800	22,670	100%
Sportsman s Warehouse De Pere, WI	Specialty retail	April 20, 2007	2004	6,010,000	159,625	48,453	100%
Eckerd PA	Easton, Drugstore	April 25, 2007	2005	5,970,000	160,000	13,813	100%
Applebee s Portfolio Various	Restaurant	April 26, 2007(2)	Various	65,000,000	1,722,500	120,246	100%
Walgreens Bridgetown, OH	Drugstore	April 30, 2006	1998	4,475,000	119,930	13,905	100%
Rite Aid Fredericksburg,	Drugstore	May 2, 2007	2007	5,415,000	167,880	14,564	100%

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VA Sam's Club Anderson, SC	Warehouse club	May 8, 2007	1993	12,000,000	321,600	134,664	100%
Tractor Supply Fredericksburg, TX	Specialty retail	May 7, 2007	2007	3,125,000	82,813	22,670	100%
Walgreens Dallas, TX	Drugstore	May 9, 2007	1996	3,150,000	84,750	13,905	100%
Wal-Mart London, WI	New Discount retail	May 9, 2007	1991	2,614,000	70,060	51,985	100%
				\$ 927,323,376	\$ 22,343,242	6,504,109	

- (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 detailed information on fees paid to affiliates of our sponsor, see the section captioned "Management Compensation" beginning on page 58 of the prospectus.
- (2) The single-tenant restaurants that comprise the Applebee's Portfolio were built in various years, beginning in 1990 through 2006.

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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 Wintersburg, VA	1	Tractor Supply Company	21,688	100%	4/5 yr.	\$ 228,147	\$ 10.52	9/26/2005	7/31/2010
						250,962	11.57	8/1/2010	7/31/2015
						276,058	12.73	8/1/2015	7/31/2020
Walgreens Fairfield, OH	1	Walgreen Co. Rite Aid of Ohio, Inc.	15,120	100%	8/5 yr.	303,000	20.04	10/5/2005	6/30/2020
						189,023	16.66	10/20/2005	4/30/2017
Walgreens Tomball, TX	1	EBCO, Inc.	23,000	100%	3/5 yr.	419,750	18.25	10/25/2005	10/31/2015
Walgreens Cincinnati, OH	1	Walgreen Co.	15,120	100%	8/5 yr.	344,000	22.75	11/2/2005	2/28/2021
Walgreens St. Louis, MO	1	Walgreen Co.	15,120	100%	8/5 yr.	408,000	26.98	11/2/2005	10/31/2021
Walgreens St. Louis, MO	1	Walgreen Co.	15,120	100%	8/5 yr.	335,500	22.19	11/2/2005	12/31/2021
Walgreens Columbia, SC	1	Walgreen Co.	13,973	100%	8/5 yr.	427,300	30.58	11/22/2005	6/30/2022
Walgreens Springfield, MO	1	Walgreen Co.	15,030	100%	10/5 yr.	528,000	35.13	11/22/2005	10/31/2026
Walgreens Cincinnati, OH	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, AL	1	Lowe's Home Centers, Inc	95,173	100%	6/5 yr.	500,000	5.25	12/1/2005	4/30/2015
			10,908	100%	4/5 yr.	265,249	24.32	12/8/2005	8/28/2007

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S Richland Hills, TX		CVS EGL Grapevine N Richland Hills Texas, LP				270,849	24.83	8/29/2007	8/28/2012
						276,449	25.34	8/29/2012	8/28/2017
IEEx 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
stech Burn Hills,	1	LDM Technologies, Inc.	111,881	100%	2/5 yr.	1,790,100	16.00	12/15/2005	1/31/2021
Academy Sports Con, 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 Lexa, 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, Columbus, OH	1	Harco, Inc.	14,564	100%	6/5 yr.	289,629	19.89	1/26/2006	1/31/2026
Rite Aid Museum, Columbus, OH	1	Rite Aid of Ohio, Inc.	14,564	100%	6/5 yr.	311,720	21.40	1/26/2006	1/31/2026
Staples Columbusville, OH	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 Columbus, ME	1	Rite Aid of Maine, Inc.	11,180	100%	4/5 yr.	210,743	18.85	1/27/2006	2/28/2017
Woodsworth Boulevard Denver, 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
Mountainside Business Center, AZ	1	Hatten Holdings, Inc.	31,063	100%	2/5 yr.	469,051	15.10	2/10/2006	12/31/2006
						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
Drexel Heritage Furniture Rocky, NC	1	Drexel Heritage Furniture Industries, Inc.	261,057	100%	3/5 yr.	338,078	1.30	2/24/2006	9/8/2010
						390,090	1.49	9/9/2010	9/8/2015
Lyford Square Dallas, TX	5	Academy Corp	50,500	63%	2/5 yr.	371,175	7.35	3/1/2006	10/31/2009

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					383,800	7.60	11/1/2009	10/31/2014
					396,425	7.85	11/1/2014	10/31/2019
					409,050	8.10	11/1/2019	10/31/2024
	CB Jackson	12,302	15%	None	125,484	10.20	3/1/2006	12/31/2008
	Hi-Lo Auto							
	Supply, LP	8,136	10%	1/5 yr.	60,720	7.46	3/1/2006	3/31/2008
	Revco Discount							
	Drug							
1	Centers, inc.	10,170	100%	4/5 yr.	153,333	15.08	3/8/2006	7/31/2008
					156,666	15.40	8/1/2008	7/31/2013
					160,000	15.73	8/1/2013	7/31/2018

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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	
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Wawa Lockessin, E	1	Wawa, Inc.	5,160	100%	6/5 - 9 yrs.	365,185	70.77	3/29/2006	12/31/2021(3)
Wawa Manahawkin, NJ	1	Wawa, Inc.	4,695	100%	6/5 - 9 yrs.	332,276	70.77	3/29/2006	12/31/2021(3)
Wawa Marbeth, PA	1	Wawa, Inc.	4,461	100%	6/5 - 9 yrs.	315,715	70.77	3/29/2006	12/31/2021(3)
CVS Oakwood, OH	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, OH	1	Rite Aid of Ohio, Inc.	11,325	100%	6/5 yr.	220,470	19.47	4/27/2006	6/30/2018
Rite Aid Remont, OH	1	Rite Aid of Ohio, Inc.	11,325	100%	6/5 yr.	201,955	17.83	4/27/2006	2/28/2018
Walgreens Moxville, TN	1	Walgreen Co.	15,120	100%	8/5 yr.	350,000	23.15	5/8/2006	5/31/2020
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 Defiance, OH	1	Rite Aid of Ohio, Inc.	14,564	100%	6/5 yr.	337,917	23.20	5/26/2006	1/31/2026
Donns San Antonio, TX	1	CAI, LP	25,230	100%	5/3 yr.	338,000 351,520 365,581 380,204	13.40 13.93 14.49 15.07	5/26/2006 5/1/2008 5/1/2011 5/1/2014	4/30/2008 4/30/2011 4/30/2014 4/30/2017
Dollar General Crossville, TN	1	Dolgenercorp, Inc.	24,341	100%	6/5 yr.	217,852 239,637	8.95 9.84	6/2/2006 4/1/2016	3/31/2016 3/31/2021
Dollar General Bardmore, TN	1	Dolgenercorp, Inc.	24,341	100%	6/5 yr.	208,116	8.55	6/9/2006	11/30/2015



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ollar eneral vingston, N	1	Dolgencorp, Inc.	24,341	100%	6/5 yr.	228,928 214,200 235,620	9.41 8.80 9.68	12/1/2015 6/12/2006 5/1/2016	11/30/2020 4/30/2016 4/30/2021
Wehrenberg eatre rnold, MO	1	Wehrenberg, Inc.	50,000	100%	2/5 yr.	784,453 836,094 897,572	15.69 16.72 17.95	6/14/2006 4/1/2009 4/1/2014	3/31/2009 3/31/2014 3/31/2019
portmans arehouse ichita, KS	1	Sportsman s Warehouse, Inc.,	50,003	100%	5/5 yr.	639,046 670,998 704,548	12.78 13.42 14.09	6/27/2006 5/1/2011 5/1/2016	4/30/2011 4/30/2016 4/30/2021
VS ortsmouth H hillicothe)	1	Revco Discount Drug Centers, Inc.	10,650	100%	4/5 yr.	143,700 149,100	13.49 14.00	6/28/2006 12/1/2007	11/30/2007 11/30/2017
dvance uto reenfield, N	1	Advance Stores Company, Inc.	7,000	100%	2/5 yr.	110,040	15.72	6/29/2006	6/30/2013
dvance uto renton, OH	1	Advance Stores Company, Inc.	7,000	100%	2/5 yr.	84,782	12.11	6/29/2006	6/30/2013
ite Aid ansing, MI	1	Rite Aid of Michigan, Inc.	11,680	100%	4/5 yr.	160,480 166,320 172,160	13.74 14.24 14.74	6/29/2006 1/1/2007 1/1/2012	12/31/2006 12/31/2011 12/31/2016
dvance uto olumbia eights, MN	1	Advance Stores Company, Inc.	7,000	100%	3/5 yr.	131,524 138,100	18.79 19.73	7/6/2006 2/1/2016	1/31/2016 1/31/2021
dvance uto Fergus ills, MN	1	Advance Stores Company, Inc.	7,000	100%	3/5 yr.	91,441 96,013	13.06 13.72	7/6/2006 12/1/2015	11/30/2015 11/30/2020
VS keechobee, L	1	Eckerd Corporation	13,050	100%	5/5 yr.	435,130	33.34	7/7/2006	7/5/2026
ffice Depot ayton, OH	1	Office Depot, Inc.	19,880	100%	4/5 yr.	237,566	11.95	7/7/2006	12/31/2021
dvance uto olland, MI	1	Advance Stores Company, Inc.	7,000	100%	3/5 yr.	149,063 163,969	21.29 23.42	7/12/2006 2/1/2016	1/31/2016 1/31/2021

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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 Eeland, 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 1/31/2026

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				Total Square Feet		Annual Base Rent	per Square Foot	Beginning	To
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
Greenville, SC	1	Office Depot, Inc.	25,083	100%	3/5 yr.	256,804	10.24	7/12/2006	9/30/2015
Warrensburg, MO	1	Office Depot, Inc.	20,000	100%	4/5 yr.	210,000	10.50	7/19/2006	8/31/2016
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
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
Clinton, NY	1	CVS BDI, Inc.,	10,055	100%	4/5 yr.	222,661	22.14	8/24/2006	1/31/2032
Oxford 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
Duluth, GA	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
Baylums, MS	1	Walgreen Co.	14,820	100%	10/5 yr.	291,385	19.66	9/15/2006	3/31/2031
Chickasha, OK	1	Kohl's Illinois, Inc.	86,584	100%	6/5 yr.	601,759	6.95	9/27/2006	1/28/2017
Hubbock, TX	1	Lowe's Home Centers, Inc.	137,480	100%	6/5 yr.	861,280	6.26	9/27/2006	4/30/2016
Midland, TX	1	Lowe's Home Centers, Inc.	134,050	100%	6/5 yr.	829,960	6.19	9/27/2006	4/30/2016
Day, AL	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
Hurley, GA	1	Advance Stores Company, Inc.	7,000	100%	3/5 yr.	82,324	11.76	9/29/2006	3/31/2016

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						90,556	12.94	4/1/2016	3/31/2021
Advance Auto Mansville, 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 Lansport, 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 Topeka, 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 Lansport, PA	1	Rite Aid	14,584	100%	4/5 yr.	493,787	33.86	10/17/2006	10/31/2026
American TV & Appliance Chicago, 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, IN	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 Bluffs, IA	1	Fedex Freight East, Inc.	23,510	100%	4/5 yr.	252,054	10.72	11/15/2006	9/30/2021
Fedex Edwardsville, IL	1	Fedex Freight East, Inc.	155,965	100%	4/5 yr.	1,486,123	9.53	11/15/2006	9/30/2021
CVS Hennsville 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
Advance Auto Ashland, KY	1	Advance Stores Company, Inc.	7,000	100%	3/5 yr.	126,948	18.14	11/17/2006	6/30/2016

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						139,643	19.95	7/1/2016	6/30/2021
Advance Auto Jackson, OH	1	Advance Stores Company, Inc.	7,000	100%	3/5 yr.	102,100	14.59	11/17/2006	9/30/2015
						112,304	16.04	10/1/2015	9/30/2020
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Advance New on, OH	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
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
Tractor ly 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
Tractor 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
Office 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
Mini ie, FL	1	Warren Henry Automobiles, Inc.	20,927	100%	4/5 yr.	707,395	33.80	11/30/2006	7/1/2021
Office 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
Tractor 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
Mercedes z anta, GA	1	Atlanta Eurocars	40,588	100%	4/5 yr.	900,000	22.17	12/15/2006	12/31/2011

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						990,000	24.39	1/1/2012	12/31/2016
						1,089,000	26.83	1/1/2017	12/31/2021
						1,197,900	29.51	1/1/2022	12/31/2026
cks rting ds erst, NY	1	Dick's Sporting Goods	55,745	100%	3/5 yr.	762,592	13.68	12/20/2006	11/30/2010
						790,464	14.18	12/1/2010	11/30/2015
i's Paris, les ksville,	1	Brinker Texas, L.P.	6,698	100%	2/5 yr.	200,913	30.00	12/28/2006	11/30/2025
	1	Staples the Office Superstore East, Inc.	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,	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 vington,	1	LZB Furniture Galleries of Paramus, Inc.	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
ance o yland ghts, MO	1	Advance Stores Company, Inc.	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
oria ssing oria, TX	3	Ross Dress for Less, Inc.	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
demey rts Katy,	1	Academy Ltd	1,500,596	100%	8/5 yr.	7,038,000	4.69	1/18/2007	1/31/2027
dmans ia, IL	1	Gordmans, Inc.	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.	85,763	95%	Various				
Pacific e ha, NE	24								
kn /O Reilly o and, TX	2	Minyard Food Stores, Inc.	58,695	90%	3/10 yr.	375,648	6.40	2/6/2007	4/30/2010

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				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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Tractor Supply Company, IA	1	Tractor Supply Company	19,097	100%	4/5 yr.	30,233 213,252 234,576 258,036	4.58 11.17 12.28 13.51	7/1/2016 2/9/2007 8/24/2011 8/24/2016	6/30/2021 8/23/2011 8/23/2016 8/23/2021
ABX Air, Inc. (Providence, RI)	1	ABX Air, Inc.	33,000	100%	4/5 yr.	316,990	9.61	2/14/2007	1/31/2014(6)
Office Depot, Inc. (Enterprise, IL)	1	Office Depot, Inc.	20,000	100%	3/5 yr.	215,129 225,135	10.76 11.26	2/27/2007 11/1/2016	10/31/2016 10/31/2021
Northern Tool and Equipment, Inc. (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, Inc. (Orangeburg, SC)	1	OfficeMax, Inc.	23,500	100%	4/5 yr.	252,625	10.75	2/28/2007	6/30/2014
Walgreen Co. (Cincinnati, OH)	1	Walgreen Co.	15,120	100%	8/5 yr.	365,000	24.14	3/6/2007	3/31/2020
Walgreen Co. (Madera, OH)	1	Walgreen Co.	13,905	100%	8/5 yr.	314,000	22.58	3/6/2007	8/31/2018
Walgreen Co. (Marionville, MO)	1	Walgreen Co.	13,905	100%	8/5 yr.	290,000	20.86	3/6/2007	10/31/2023
AT&T Services, Inc. (Leaumont, TX)	1	AT&T Services, Inc.	141,525	100%	2/5 yr.	900,473	6.36	3/19/2007	3/18/2012(7)
Walgreen Co. (Greveport, VA)	1	Walgreen Co.	13,905	100%	8/5 yr.	327,000	23.52	3/23/2007	9/30/2019
Post-U-Less, Inc. (Croix, SVI)	1	CULUSVI, Inc.	38,365	100%	2/5 yr.	512,000	13.35	3/26/2007	3/31/2022
Stein Mart, Inc. (Martinsburg, WV)	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

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		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 Johnson City, N	1	Logan s Roadhouse, Inc.	7,839	100%	5/5 yr.	270,623	34.52	3/28/2007	11/29/2026(9)
Center at 600 Bottonwood Anison, 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
Eckerd Ancolnton, 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, N	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 Place 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 Shley, TX	1	Choice Furniture, Inc.	74,797	100%	N/A	463,741	6.20	4/6/2007	4/30/2011

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						493,660	6.60	5/1/2011	4/30/2016
						523,579	7.00	5/1/2016	4/30/2021
ocatello quare ocatello, ID	5	Sportsman s Warehouse, Inc	47,979	35%	5/5 yr.	428,705	8.94	4/6/2007	11/30/2007
						476,605	9.93	12/1/2007	11/30/2008
						493,370	10.28	12/1/2008	11/30/2009
						514,925	10.73	12/1/2009	11/30/2010

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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	Leased				Beginning	To
							535,522	11.16	12/1/2010	11/30/2011
							562,346	11.72	12/1/2011	11/30/2016
							590,607	12.31	12/1/2016	11/30/2021
		Ross Dress for Less, Inc.	30,187	22%	4/5 yr.	530,760	17.58	4/6/2007	1/31/2017	
		Staples the Office Superstore, Inc.	20,388	15%	2/5 yr.	243,637	11.95	4/6/2007	9/30/2016	
or Supply Paw, MI	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	
or Supply nette, WI		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	
es ville, SC	1	Staples the Office Superstore East, Inc.	20,388	100%	4/5 yr.	318,053	15.60	4/11/2007	3/31/2012	
						339,460	16.65	4/1/2012	3/31/2017	
Center ra, CO	4	Big 5 Corporation	10,000	63%	3/5 yr.	150,000	15.00	4/11/2007	12/31/2011	
						162,000	16.20	1/1/2012	12/31/2016	
						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	12/31/2007	
						88,900	25.40	1/1/2008	12/31/2008	
						90,300	25.80	1/1/2009	12/31/2009	
						91,700	26.20	1/1/2010	12/31/2010	
						93,100	26.60	1/1/2011	12/31/2011	
						94,500	27.00	1/1/2012	12/31/2012	
						95,900	27.40	1/1/2013	12/31/2013	
						97,300	27.80	1/1/2014	12/31/2014	
						98,700	28.20	1/1/2015	12/31/2015	
						100,100	28.60	1/1/2016	12/31/2016	
Aid Plains,	1	Rite Aid of Pennsylvania, Inc.	14,564	100%	6/5 yr.	390,173	26.79	4/16/2007	5/3/2020	
or Supply sota, TX	1	Tractor Supply Company of Texas, LP	22,670	100%	4/5 yr.	215,640	9.51	4/18/2007	9/26/2011	
						229,640	10.13	9/27/2011	9/26/2015	
						244,584	10.79	9/27/2015	9/26/2021	

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Sportsman s house De WI	1	Sportsman s Warehouse, Inc.	48,453	100%	5/5 yr.	474,839	9.80	4/20/2007	10/28/2009
						CPI	CPI	10/29/2009	10/28/2014
						CPI	CPI	10/29/2014	10/28/2019
d Easton, bee s lio er	1	Thrift Drug, Inc. Restaurant Concepts Lease III, LLC	13,813	100%	2/5 yr.	464,379	33.62	4/25/2007	2/1/2020
	(10)		44,781	100%	N/A	1,702,000	38.01	4/26/2007	4/30/2012
						1,838,160	41.05	5/1/2012	4/30/2017
						2,003,594	44.74	5/1/2017	4/30/2022
						2,203,954	49.22	5/1/2022	4/30/2027
bee s lio er Lease II	(11)	Restaurant Concepts II, LLC	36,985	100%	N/A	1,486,000	40.18	4/26/2007	4/30/2012
						1,604,880	43.39	5/1/2012	4/30/2017
						1,749,319	47.30	5/1/2017	4/30/2022
						1,924,251	52.03	5/1/2022	4/30/2027
bee s lio er Lease III	(12)	Restaurant Concepts 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	4/30/2017
						1,830,546	47.57	5/1/2017	4/30/2022
						2,013,601	52.33	5/1/2022	4/30/2027
reens etown, Aid ricksburg, s Club erson, SC or Supply ricksburg,	1	Walgreen Co.	13,905	100%	8/5 yr.	315,300	22.68	4/30/2007	5/31/2019
	1	Rite Aid of Virginia, Inc.	14,564	100%	4/5 yr.	392,063	26.92	5/2/2007	2/28/2027
	1	Wal-Mart Stores, Inc.	134,664	100%	6/5 yr.	810,677	6.02	5/8/2007	11/14/2013
	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	3/3/2017
						272,250	12.01	3/4/2017	3/3/2022

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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
Walgreens Dallas, TX	1	Walgreen Co.	13,905	100%	8/5 yr.	240,000	17.26	5/9/2007	9/30/2016
Wal-Mart New London, WI	1	Wal-Mart Stores, Inc.	51,985	100%	5/5 yr.	202,640	3.90	5/9/2007	1/31/2017

\* 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.

(7)

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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.

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:

Property	Fixed			Variable		Total Loan Outstanding
	Fixed Rate Loan Amount	Interest Rate	Maturity Date	Rate Loan Amount	Maturity Date	
Tractor Supply Parkersburg, WV	\$ 1,793,000	5.57%	10/11/15	\$ 814,000	12/26/05	\$ 2,607,000(7)
Walgreens Brainerd, MN	2,814,000	5.44%	10/11/15	649,000	1/4/06	3,463,000(7)
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(7)

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Property	Fixed Rate	Fixed	Maturity Date	Variable	Maturity Date	Total Loan Outstanding
	Loan Amount	Interest Rate		Rate Loan Amount		
Walgreens Florissant, MO	3,372,000	5.48%	11/11/15	778,000	2/2/06	4,150,000(7)
Walgreens Saint Louis, MO (Gravois)	3,289,000	5.48%	11/11/15	759,000	2/2/06	4,048,000(7)
Walgreens Saint Louis, MO (Telegraph)	3,999,000	5.48%	11/11/15	923,000	2/2/06	4,922,000(7)
Walgreens Columbia, MO	4,645,369	5.15%	7/11/08		N/A	4,487,895(7)
Walgreens Olivette, MO	5,567,894	5.15%	7/11/08		N/A	5,379,146(7)
CVS Alpharetta, GA	2,015,000	5.52%	12/11/10	465,000	3/1/06	2,480,000(7)
Lowe s Enterprise, AL	4,859,000	5.52%	12/11/10	1,121,000	3/1/06	5,980,000(7)
CVS Richland Hills, TX	2,379,000	5.52%	12/11/10	549,000	3/8/06	2,928,000(7)
FedEx Rockford, IL	3,998,000	5.61%	12/11/10	922,000	3/10/06	4,920,000(7)
Plastech Auburn Hills, MI		N/A	N/A	17,700,000	12/14/06	17,700,000(7)
Academy Sports Macon, GA	3,478,000	5.69%	1/11/16	802,000	4/6/06	4,280,000(7)
David s Bridal Lenexa, KS	1,799,000	5.86%	1/11/11	817,000	4/11/06	2,616,000(7)
Rite Aid Enterprise, AL	2,043,000	5.80%	2/11/16	928,000	4/26/06	2,971,000(7)
Rite Aid Wauseon, OH	2,142,000	5.80%	2/11/16	973,000	4/26/06	3,115,000(7)
Staples Crossville, TN	1,885,000	5.71%	2/11/11	435,000	4/26/06	2,320,000(7)
Rite Aid Saco, ME	1,375,000	5.82%	2/11/11	625,000	4/27/06	2,000,000(7)
Wadsworth Boulevard Denver, CO	12,025,000	5.57%	3/1/11	2,275,000	12/31/06	14,300,000(7)
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(7)
Rayford Square Spring, TX	5,940,000	5.64%	4/1/16		N/A	5,940,000(5)
CVS Portsmouth, OH	1,424,000	5.67%	3/11/11	329,000	6/8/06	1,753,000(7)



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Wawa Hockessin, DE, Manahawkin, NJ, Narberth, PA		N/A	N/A	7,234,787	2/26/10	7,234,787(7)
CVS Lakewood, OH	1,348,000	5.77%	5/11/11	612,000	7/20/06	1,960,000(7)
Rite Aid Cleveland, OH	1,413,000	6.05%	5/11/11	642,000	7/27/06	2,055,000(7)
Rite Aid Fremont, OH	1,388,000	6.05%	5/11/11	632,000	7/27/06	2,020,000(7)
Walgreens Knoxville, TN	3,088,000	5.80%	5/11/11	712,000	8/8/06	3,800,000(7)
CVS Madison, MS	2,809,000	5.60%	2/11/16		N/A	2,809,000(7)
Rite Aid Defiance, OH	2,321,000	5.76%	1/11/16		N/A	2,321,000(7)
Conns San Antonio, TX	2,461,000	5.86%	5/11/11	1,119,000	7/25/06	3,580,000(7)
Dollar General Crossville, TN	1,950,000	5.75%	6/11/16	450,000	9/2/06	2,400,000(7)
Dollar General Ardmore, TN	1,804,000	5.79%	6/11/16	416,000	9/9/06	2,220,000(7)
Dollar General Livingston, TN	1,856,000	5.79%	7/11/16	429,000	10/12/06	2,285,000(7)
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(7)
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(5)
Advance Auto Columbia Heights, MN	1,038,000	5.83%	7/11/16	346,000	10/6/06	1,384,000(7)
Advance Auto Fergus Falls, MN	722,000	5.83%	7/11/16	241,000	10/6/06	963,000(7)
CVS Okeechobee, FL	4,076,000	5.60%	2/11/16		N/A	4,076,000(7)
Office Depot Dayton, OH	2,130,000	5.73%	2/11/16		N/A	2,130,000(7)
Advance Auto Holland, MI	1,193,000	5.83%	4/11/16		N/A	1,193,000(7)
Advance Auto Holland Township, MI	1,231,000	5.83%	4/11/16		N/A	1,231,000(7)
Advance Auto Zeeland, MI	1,057,000	5.83%	4/11/16		N/A	1,057,000(7)

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CVS Orlando, FL Office Depot	3,016,000	5.68%	4/11/16		N/A	3,016,000(7)
Greenville, MS Office Depot	2,192,000	5.76%	3/11/11		N/A	2,192,000(7)
Warrensburg, MO	1,810,000	5.85%	4/11/11		N/A	1,810,000(7)
CVS Gulfport, MS Advance Auto	2,611,000	5.28%	4/11/16		N/A	2,611,000(7)
Grand Forks, ND	840,000	5.87%	9/11/16	280,000	11/15/06	1,120,000(7)
CVS Clinton, NY Oxford Theatre	1,983,000	5.74%	9/11/16	457,000	12/24/06	2,440,000(2)(7)
Oxford, MS Advance Auto	5,175,000	6.11%	9/1/16		N/A	5,175,000(1)(5)
Duluth, MN Walgreens	860,000	5.87%	10/11/16	286,000	12/22/06	1,146,000(7)
Picayune, MS	2,766,000	5.53%	10/11/16	638,000	1/15/07	3,404,000(2)(7)
Kohl s Wichita, KS	5,200,000	6.11%	9/1/16		N/A	5,200,000(1)(5)

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Property	Fixed		Maturity Date	Variable		Total Loan Outstanding
	Fixed Rate Loan Amount	Interest Rate		Rate	Maturity Date	
Lowe s Lubbock, TX	7,150,000	6.11%	9/1/16		N/A	7,150,000(1)(5)
Lowe s Midland, TX	7,475,000	6.11%	9/1/16		N/A	7,475,000(1)(5)
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)(7)
Rite Aid Glassport, PA	2,325,000	6.10%	11/1/16		N/A	2,325,000(5)
David s BridalRadio Shack Topeka, KS	2,000,000	5.77%	12/1/16		N/A	2,000,000(8)
Rite Aid Hanover, PA	4,115,000	6.11%	11/1/16		N/A	4,115,000(5)
American TV & Appliance Peoria, IL	7,358,971	6.00%	10/1/18		N/A	7,358,971(6)
Tractor Supply La Grange, TX	1,405,000	5.99%	12/1/16		N/A	1,405,000(3)(5)
Staples Peru, IL	1,930,000	5.66%	12/1/11		N/A	1,930,000(5)
Fedex Council Bluffs, IA	2,185,000	5.97%	12/1/16		N/A	2,185,000(5)
Fedex Edwardsville, KS	12,880,000	5.97%	12/1/16		N/A	12,880,000(5)
CVS Glenville Scotia, NY	3,413,000	5.74%	12/11/16	787,000	3/16/07	4,200,000(7)
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)(5)
Tractor Supply New Braunfels, TX	1,750,000	5.99%	12/1/16		N/A	1,750,000(3)(5)
Office Depot Benton, AR	2,130,000	5.77%	12/1/16		N/A	2,130,000(8)
Old Time Pottery Fairview Heights, IL	2,140,000	6.31%	12/11/11	1,284,000	3/21/07	3,424,000(7)

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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(5)
Tractor Supply Crockett, TX	1,325,000	5.99%	12/1/16		N/A	1,325,000(3)(5)
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(8)
Chili's Paris, TX	1,790,000	5.65%	1/1/17		N/A	1,790,000(5)
Staples Clarksville, IN	2,900,000	5.78%	1/1/17		N/A	2,900,000(8)
HOM Fargo, ND	4,800,000	5.56%	2/1/2017		N/A	4,800,000(5)
La-Z-Boy Newington, CT	4,140,000	5.66%	2/1/2017		N/A	4,140,000(5)
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(7)
Academy Sports Katy, TX	68,250,000	5.61%	2/1/17		N/A	68,250,000(5)
Gordmans Peoria, IL	4,950,000	5.71%	2/1/17		N/A	4,950,000(8)
One Pacific Place Omaha, NE	23,400,000	5.53%	3/1/17		N/A	23,400,000(5)
Sack n Save O'Reilly Auto Garland, TX	3,290,000	5.54%	3/1/17		N/A	3,290,000(5)
Tractor Supply Ankeny, IA	1,950,000	5.65%	5/1/17		N/A	1,950,000(5)
ABX Air Coventry, RI	2,454,000	5.70%	4/1/12		N/A	2,454,000(5)
Office Depot Enterprise, AL	1,850,000	6.29%	3/1/17		N/A	1,850,000(5)
Northern Tool Blaine, MN	3,185,000	6.00%	9/1/16		N/A	3,185,000(4)(5)
Office Max Orangeburg, SC	1,875,000	5.61%	4/1/12		N/A	1,875,000(5)
Walgreens Cincinnati, OH	3,341,000	6.00%	9/1/16		N/A	3,341,000(4)(5)
Walgreens Madeira, OH	2,876,000	5.70%	4/1/12		N/A	2,876,000(5)
Walgreens Sharonville, OH	2,655,000	5.62%	4/1/12		N/A	2,655,000(5)
AT&T Beaumont, TX	8,592,000	5.87%	4/1/17		N/A	8,592,000(8)
Walgreens Shreveport, LA	2,815,000	5.56%	4/11/17	497,000	6/23/07	3,312,000(7)
Cost-U-Less,- St. Croix, USVI	4,035,000	5.76%	4/1/17		N/A	4,035,000(5)
Gallina Centro Collierville, TN	14,200,000	5.72%	4/11/17		N/A	14,200,000(7)

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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(7)
Logan s Roadhouse Johnson City, TN Center at 7500	1,933,000	6.00%	4/11/17	1,160,000	6/27/07	3,093,000(7)
Cottonwood Jenison, MI		N/A	N/A		N/A	
Eckerd Lincolnton, NC	1,538,000	5.80%	4/11/17 95	271,000	7/3/07	1,809,000(7)

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Property	Fixed Rate	Fixed	Maturity Date	Variable	Maturity Date	Total Loan Outstanding
	Loan Amount	Interest Rate		Rate Loan Amount		
Tractor Supply Greenfield, MN	2,227,500	5.57%	7/1/17		N/A	2,227,500(5)
Lincoln Place Fairview Heights, IL	35,432,000	5.70%	5/1/17		N/A	35,432,000(8)
Amarillo Furniture Ashley, TX	4,026,000	5.59%	4/11/17	710,000	7/5/07	4,736,000(7)
Pocatello Square Pocatello, ID	17,250,000	5.53%	4/11/17	1,150,000	8/6/07	18,400,000(7)
Tractor Supply Paw Paw, MI	2,048,000	5.65%	5/1/17		N/A	2,048,000(7)
Tractor Supply Marinette, WI	1,918,000	5.65%	5/1/17		N/A	1,918,000(7)
Staples Greenville, SC	2,955,000	5.51%	6/11/17		N/A	2,955,000(5)
Big 5 Center Aurora, CO	2,804,000	5.57%	6/11/17		N/A	2,804,000(5)
Rite Aid Plains, PA	3,380,000	5.60%	5/17/17		N/A	3,380,000(5)
Tractor Supply Navasota, TX	2,050,000	5.80%	5/11/17	362,000	7/18/2007	2,412,000(5)
Sportsman s Warehouse De Pere, WI	3,906,500	5.52%	5/1/17		N/A	3,906,500(5)
Eckerd Easton, PA	4,060,000	5.80%	4/11/17	716,000	7/4/2007	4,776,000(7)
Applebee s Portfolio Master Loan I	15,161,185	5.68%	5/11/17		N/A	15,161,185(5)(9)
Applebee s Portfolio Master Loan II	13,237,086	5.68%	5/11/17		N/A	13,327,086(5)(10)
Applebee s Portfolio Master Loan III	13,851,729	5.68%	5/11/17		N/A	13,851,729(5)(11)
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

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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
	\$ 531,157,484			\$ 74,641,437		\$ 605,798,921

- (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) Lender: Bear Stearns Commercial Mortgage.
- (6) Lender: GE Commercial Finance Business Property Corporation.
- (7) Lender: Wachovia Bank, N.A.
- (8) Lender: JP Morgan Chase Bank, N.A.
- (9) 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.
- (10) 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.
- (11) 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 require monthly interest-only payments with the principal balance due on various dates from July 2008 through October 2018. The variable rate debt mortgage notes bear interest at the one-month LIBOR rate plus 200 basis points and require monthly interest-only payments and generally mature within 90 days. 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.

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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, 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, each 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, 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.

For federal income tax purposes, the depreciable basis in the properties noted above is approximately \$827.3 million 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
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



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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

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<b>Property</b>	<b>Depreciable Tax Basis</b>
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
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
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

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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
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
Walgreens Shreveport, LA	3,789,514
Cost-U-Less, St. Croix, 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 Lincolnton, 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
	\$ 827,310,948

**Table of Contents*****Tenant Lease Expirations***

The following table sets forth, as of May 9, 2007, lease expirations of our portfolio 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 which 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>
2007	1	2,000	\$ 37,500	0%
2008	8	43,210	644,731	1%
2009	9	80,143	724,364	1%
2010	6	20,968	400,235	1%
2011	7	34,703	409,101	1%
2012	9	90,077	891,923	1%
2013	10	221,058	1,739,153	3%
2014	7	130,899	1,555,402	2%
2015	9	649,513	3,544,096	6%
2016	18	734,722	6,217,774	10%
2017	13	539,135	4,555,170	7%
	97	2,546,428	\$ 20,546,428	33%

***Potential Property Investments***

Our advisor has identified the following properties as potential suitable investments for us. The acquisition of each such property is subject to a number of conditions. A significant condition to acquiring any one of these potential acquisitions is our ability to raise sufficient proceeds in this offering to pay a portion of the purchase price. An additional condition to acquiring these properties will be our securing debt financing to pay the balance of the purchase price. Such financing may not be available on acceptable terms or at all.

Our evaluation of a property as a potential acquisition, including the appropriate purchase price, will include our consideration of 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; and the presence of demand generators.

We will decide whether to acquire these properties generally based upon:

satisfaction of the conditions to the acquisitions contained in the respective contracts;

no material adverse change occurring relating to the properties, the tenants or in the local economic conditions;

our receipt of sufficient net proceeds from the offering of our common stock to the public and financing proceeds to make these acquisitions; and

our receipt of satisfactory due diligence information including appraisals, environmental reports and tenant and lease information.

Other properties may be identified in the future that we may acquire before or instead of these properties. Due to the considerable conditions to the consummation of the acquisition of these properties, we cannot make any assurances that the closing of these acquisitions is probable.

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<b>Property</b>	<b>Expected Acquisition Date</b>	<b>Seller(1)</b>	<b>Approximate Purchase Price(2)</b>	<b>Approximate Compensation to Sponsor(3)</b>
Eckerd Spartanburg, SC	May 2007	Art Thomas Chevrolet, Inc.	\$ 3,475,000	\$ 104,250
Tractor Supply Fairview, TN	May 2007	GES Farview, LLC	2,970,000	89,100
CVS Florence, SC	May 2007	Art Thomas Chevrolet, Inc. Rap Tilgham Street	2,625,000	78,750
Rite Aid Allentown, PA	May 2007	LP	5,561,112	166,833
Walgreens Bryan, TX	May 2007	29 Briarcrest LP	6,325,000	189,750
Walgreens Harris County, TX	May 2007	Cornerstone Retail LP	5,650,000	169,500
Rite Aid Lima, OH	May 2007	Nom Lima Bath, Ltd.	4,775,000	143,250
Wal-Mart Spencer, IN	May 2007	Spencer/Ros, Inc. LZB 28th Street Store	2,025,682	60,770
La-Z-Boy Kentwood, MI	May 2007	Landlord	5,145,386	154,362
			\$ 38,552,180	\$ 1,156,565

(1) Seller is an unaffiliated third party.

(2) Approximate purchase price does not include acquisition costs which we expect to be approximately 3.0% of the contract purchase price.

(3) Amounts include acquisition fees payable 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 to acquire the respective property.

Each potential property acquisition is subject to a net lease, pursuant to which the tenants are required to pay substantially all operating expenses and capital expenditures in addition to base rent. In the case of a multi-tenant commercial property the tenants are also required to pay a proportionate amount of common area maintenance charges in addition to the items listed above.

<b>Property</b>	<b>Major Tenants*</b>	<b>Guarantor</b>	<b>Total Square Feet Leased</b>	<b>% of Total Square Feet Leased</b>
Eckerd Spartanburg, SC	Eckerd Corporation	Eckerd Corporation	10,908	100%
Tractor Supply Fairview, TN	Tractor Supply Company	Tractor Supply Company	19,067	100%
CVS Florence, SC	Florence CVS, Inc.	CVS, Inc.	10,125	100%

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Rite Aid	Allentown, PA	Rite Aid of Pennsylvania, Inc	Rite Aid, Inc.	14,564	100%
Walgreens	Bryan, TX	Walgreen Co, Inc.	Walgreen Co, Inc.	15,050	100%
Walgreens	Harris County, TX	Walgreen Co, Inc.	Walgreen Co, Inc.	15,050	100%
Rite Aid	Lima, OH	Rite Aid of Ohio, Inc.	Rite Aid, Inc.	14,564	100%
Wal-Mart	Spencer, IN	Wal-Mart Stores, Inc.	Wal-Mart Stores, Inc.	41,304	100%
La-Z-Boy	Kentwood, MI	LA-Z-Boy Showcase Shoppes of Detroit, Inc.	LA-Z-Boy, Inc.	30,267	100%
				170,899	

\* Major tenants are those tenants that occupy greater than 10.0% of the rentable square of their respective property.

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The table below provides leasing information for the major tenants at each respective property.

<b>Property</b>	<b>Major Tenants*</b>	<b>Renewal Options</b>	<b>Annual Base Rent</b>	<b>Base Rent per Square Foot</b>	<b>Lease Term</b>	
					<b>Beginning</b>	<b>To</b>
Eckerd Spartanburg, SC	Eckerd Corporation	4/5 yr.	\$ 263,200	\$ 24.13	9/29/98	9/28/18
Tractor Supply Fairview, TN	Tractor Supply Company	4/5 yr.	216,421	\$ 11.35	8/11/06	8/10/21
CVS Florence, SC	Florence CVS, Inc.	4/5 yr.	177,188	\$ 17.50	9/28/98	1/31/19
Rite Aid Allentown, PA	Rite Aid of Pennsylvania, Inc	6/5 yr.	419,864	\$ 28.83	2/22/07	2/21/27
Walgreens Bryan, TX	Walgreen Co, Inc.	8/5 yr.	432,900	\$ 28.76	4/12/01	4/30/21
Walgreens Harris County, TX	Walgreen Co, Inc.	8/5 yr.	389,340	\$ 25.87	3/29/01	3/31/21
Rite Aid Lima, OH	Rite Aid of Ohio, Inc.	6/5 yr.	370,185	\$ 25.42	10/21/04	1/31/2026
Wal-Mart Spencer, IN	Wal-Mart Stores, Inc.	5/5 yr.	147,553	\$ 3.57	3/24/87	1/31/2013
La-Z-Boy Kentwood, MI	LA-Z-Boy Showcase Shoppes of Detroit, Inc.	4/5 yr.	385,904	\$ 12.75	1/18/07	10/31/17
			\$ 2,802,555			

The following table outlines the anticipated loan terms on debt financing to be secured in connection with the purchase of the potential property acquisitions our advisor has identified for us. Generally, we expect the loans to have a fixed rate, with interest only payments and a five to ten-year maturity.

<b>Property</b>	<b>Debt Financing</b>	<b>Type</b>	<b>Rate</b>	<b>Maturity Date</b>
Eckerd Spartanburg, SC	\$ 2,258,750	Interest Only	5.52%	June 2017
Tractor Supply Fairview, TN	1,930,500	Interest Only	5.52%	June 2017
CVS Florence, SC	1,706,250	Interest Only	5.80%	June 2017
Rite Aid Allentown, PA	3,614,723	Interest Only	5.93%	June 2017
Walgreens Bryan, TX	4,111,250	Interest Only	5.40%	June 2017
Walgreens Harris County, TX	3,672,500	Interest Only	5.40%	June 2017
Rite Aid Lima, OH	3,103,000	Interest Only	5.46%	June 2017
Wal-Mart Spencer, IN	1,620,000	Interest Only	5.80%	June 2017
La-Z-Boy Kentwood, MI	3,344,501	Interest Only	5.80%	June 2017
	\$ 25,361,474			



Cole Advisors II, our advisor, is continually evaluating various potential property investments and engaging in discussions and negotiations with sellers, developers and potential tenants regarding the purchase and development of properties for us and other Cole-sponsored programs. At such time while this offering is pending, if we believe that a reasonable probability exists that we will acquire a specific property, this prospectus will be supplemented to disclose the negotiations and pending acquisition of such property. We expect that this will normally occur upon the signing of a purchase agreement for the acquisition of a specific property, but may occur before or after such signing or upon the satisfaction or expiration of major contingencies in any such purchase agreement, depending on the particular circumstances surrounding each potential investment. A supplement to this prospectus will describe any improvements proposed to be constructed thereon and other information that we consider appropriate for an understanding of the transaction. Further data will be made available after any pending acquisition is consummated, also by means of a supplement to this prospectus, if appropriate. **YOU SHOULD UNDERSTAND THAT THE DISCLOSURE OF ANY PROPOSED ACQUISITION CANNOT BE RELIED UPON AS AN ASSURANCE THAT WE WILL ULTIMATELY CONSUMMATE SUCH ACQUISITION OR THAT THE INFORMATION PROVIDED CONCERNING THE PROPOSED ACQUISITION WILL NOT CHANGE PRIOR TO ANY ACTUAL PURCHASE.**

Each of our properties is adequately covered by insurance and we intend to obtain adequate insurance coverage for all future properties that we acquire.

**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, 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 real estate assets	\$ 446,544,041	\$ 91,618,285	\$
Cash and cash equivalents	\$ 37,566,490	\$ 4,575,144	\$ 200,000
Restricted cash	\$ 5,839,733	\$ 1,813,804	\$
Total assets	\$ 500,420,792	\$ 98,809,838	\$
Mortgage notes payable	\$ 218,265,916	\$ 66,804,041	\$
Notes payable to affiliates	\$	\$ 4,453,000	\$
Escrowed investor proceeds	\$ 5,710,730	\$ 1,813,804	\$
Stockholders' equity	\$ 266,236,497	\$ 25,204,966	\$ 200,000
<b>Operating Data:</b>			
Total revenue	\$ 19,519,507	\$ 741,669	\$
General and administrative	\$ 952,789	\$ 156,252	\$
Property operating expenses	\$ 1,416,745	\$	\$
Property and asset management fees	\$ 936,977	\$ 38,768	\$
Depreciation and amortization	\$ 6,469,366	\$ 221,411	\$
Interest expense	\$ 8,901,113	\$ 467,386	\$
Net income (loss)	\$ 1,345,996	\$ (114,591)	\$
Funds from operations(1)	\$ 7,815,362	\$ 106,820	\$
<b>Cash Flow Data:</b>			
Cash flows provided by operations	\$ 7,861,475	\$ 397,741	\$
Cash flows used in investing activities	\$ (320,176,509)	\$ (93,640,753)	\$
Cash flows provided by financing activities	\$ 345,306,381	\$ 97,618,156	\$ 200,000
Dividends declared and unpaid	\$ 1,612,094	\$ 195,209	\$
<b>Per share data:</b>			
Net income (loss) - basic and diluted	\$ 0.10	\$ (0.28)	\$
Funds from operations(1)	\$ 0.59	\$ 0.26	\$
Weighted average dividends declared	\$ 0.64	\$ 0.47	\$
Weighted average shares outstanding	13,275,635	411,909	

(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.

**Overview**

We were formed on September 29, 2004 to acquire and operate commercial real estate primarily consisting of high quality, freestanding, single-tenant 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, an affiliate of ours. We intend to qualify, and currently qualify, as a real estate investment trust for federal income tax purposes.

We derive a substantial portion of our revenue from our rental income. As a result, 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 94% and 100% of total revenue during the years ended December 31, 2006 and 2005, respectively. As 100% of our properties are under lease, with an average remaining lease term of approximately 13.2 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 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, 2006, the debt leverage ratio of our portfolio, which is the ratio of mortgage notes payable to total real estate assets, was approximately 49%, with approximately 1% of the debt, or approximately \$2.7 million subject to variable interest rates. As of March 16, 2007, we had repaid all of the approximately \$2.7 million variable interest rate mortgage notes payable. The repayments of the variable interest rate mortgage notes payable loans was made with proceeds from our initial public offering. As we continue to raise capital pursuant to this 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 such 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, 2006, we owned 83 single-tenant, freestanding retail properties, four single-tenant freestanding commercial properties, and four multi-tenant retail properties, all of which were 100% leased. During the years ended December 31, 2006 and 2005, we acquired 77 and 14 properties, respectively. 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.

Our management is not aware of any material trends or uncertainties, other than national economic conditions affecting real estate generally (such as lower capitalization rates and increasing interest rates, which

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lead to higher interest expense) 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 referred to in this prospectus.

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

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 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 the 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 lives. These assessments, which are based on estimates, have a direct impact on net income. 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

### ***Allocation of Purchase Price of Acquired Assets***

Upon the acquisition of real properties, it is our policy to allocate the purchase price of 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, other value of in-place leases and value of tenant relationships, based in each case on their fair values. We utilize independent appraisals to determine 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 remaining 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 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, and tenant relationships. Direct costs associated with obtaining a new tenant include commissions, tenant improvements, and other

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direct costs and are estimated based on 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 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. Customer relationships are valued based on expected renewal of a lease or the likelihood of obtaining a particular tenant for other locations. These intangibles are included in intangible lease assets in the accompanying consolidated balance sheet and are amortized to expense over 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.

### ***Valuation of Real Estate Assets***

We continually monitor events and changes in circumstances that could indicate that the carrying amounts of our real estate and related intangible assets may not be recoverable. When indicators of potential impairment are present that indicate that the carrying amounts of real estate and related intangible assets may not be recoverable, we assess the recoverability of the assets by determining whether the carrying value of the assets will be recovered through the undiscounted future operating cash flows expected from the use of the assets and their eventual disposition. In the event that such expected undiscounted future cash flows do not exceed the carrying value, we will adjust the real estate and related intangible assets to the fair value and recognize an impairment loss. As of December 31, 2006, the undiscounted future operating cash flows of any property with potential impairment indicators exceeded its carrying value and no impairment losses had been recorded. As of December 31, 2005, no potential impairment indicators existed and no losses had been recorded.

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 re-lease 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.

### ***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. Accordingly, we record a receivable from tenants that we expect to collect over the remaining lease term rather than currently, which we record as rents receivable. 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. In accordance with Staff Accounting Bulletin 101, *Revenue Recognition in Financial Statements*, we defer the recognition of contingent rental income, such as percentage rents, until the specific target that triggers the contingent rental income is achieved. Cost recoveries from tenants are included in tenant reimbursement income in the period the related costs are incurred.

### ***Income Taxes***

We have made an election to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code commencing with our taxable year ended December 31, 2005. If we qualify for taxation as a REIT, 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

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excise taxes on our undistributed income. We believe we are organized and operating in such a manner as to qualify to be taxed as a REIT for the taxable year ended December 31, 2006.

**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, 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 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 the acquisition of 77 new properties during 2006 and the recording of rental income for the 14 properties acquired during 2005 for 12 months during 2006 compared to three months, or less, during 2005. Our revenue primarily consists of rental income from net leased commercial properties, which accounted for approximately 94% and 100% of total revenues during the year ended December 31, 2006 and December 31, 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 in 2006 compared to no amounts in 2005.

*General and Administrative Expenses.* General and administrative expenses increased approximately \$797,000 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 SEC reporting obligations in 2006, compared to six months in 2005, and increases in state franchise and income taxes due to the increase in the number of properties owned from 14 properties in 2005 to 91 properties in 2006. The primary general and administrative expense items are legal and accounting fees, organizational costs, state franchise and income taxes, other licenses and fees, and insurance.

*Property Operating Expenses.* Property operating expenses increased to approximately \$1.4 million during the year ended December 31, 2006 compared to \$0 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 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 a property management agreement with Cole Realty Advisors, our property manager, we were required to pay to our property manager a property management fee in an amount equal to 2% of gross revenues determined pursuant to the agreement, less all payments to third-party management subcontractors. Upon effectiveness of this offering, we are required to pay to our property manager a property management fee equal to (i) 2% of gross revenues for our freestanding, single tenant retail, net leased property and (ii) 4% of gross revenues for our other properties.

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Property and asset management fees increased approximately \$898,000 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 in 2006 from

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approximately \$14,000 in 2005. The increase in property management fees was primarily due to an increase in rental income to approximately \$18.4 million in 2006 from approximately \$742,000 in 2005. Asset management fees increased approximately \$562,000 to approximately \$587,000 in 2006 from approximately \$25,000 in 2005. The increase in asset management fees was primarily due to an increase in the aggregate book value of properties owned to approximately \$444.0 million at December 31, 2006 from approximately \$91.6 million at December 31, 2005.

*Depreciation & Amortization Expenses.* Depreciation and amortization expenses increased approximately \$6.3 million 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 \$443.9 million at December 31, 2006 from approximately \$91.6 million at December 31, 2005 and the recording of depreciation and amortization for 12 months during 2006 compared to three months during 2005. The increase in aggregate book value is due to the acquisition of 77 new properties during 2006 and the ownership of the 14 properties acquired during 2005 for a full year in 2006.

*Interest Income.* Interest income increased approximately \$475,000 to approximately \$503,000 during 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 the 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 to approximately \$8.9 million for the year ended December 31, 2006 compared to approximately \$467,000 during 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 2006 compared to four months during 2005. The increase in average mortgage notes payable was primarily due to the acquisition of 77 new properties during 2006 and the ownership of the 14 properties acquired during 2005 for a full year in 2006.

*Net Income.* Net income increased approximately \$1.5 million to approximately \$1.3 million for the year ended December 31, 2006 compared to a net loss of approximately \$115,000 for the year ended December 31, 2005. The increase was primarily due to the acquisition and ownership of 77 new properties during 2006 and the ownership of the 14 properties acquired during 2005 for a full year in 2006.

Our property acquisitions during the year ended December 31, 2006 were financed in part with short-term and long-term notes payable as discussed in Note 5 to our consolidated financial statements. Our interest expense in future periods will vary based on our level of future borrowings, which will depend on the level of proceeds raised from the sale of our common stock, the cost of borrowings, and the opportunity to acquire real estate assets which meet our investment objectives.

***Year Ended December 31, 2005 Compared to the Period from September 29, 2004 (Date of Inception) to December 31, 2004***

We commenced our principal operations on September 23, 2005 and we made our initial real estate acquisition on September 26, 2005. As a result, our consolidated financial results for the year ended December 31, 2005 are not comparable to the results for the period from September 29, 2004 (date of inception) to December 31, 2004. Results of operations for the year ended December 31, 2005 primarily consisted of the following:

*Real Estate Operations.* Rental income was approximately \$742,000, depreciation and amortization expense was approximately \$221,000, property and asset management fees were approximately \$39,000, and interest expense was

approximately \$467,000 for the year ended December 31, 2005. All of such costs were directly related to the timing of our real estate acquisitions during 2005. We acquired our initial property on September 26, 2005, and 13 additional properties during the fourth quarter of 2005.

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*General and Administrative Expenses.* General and administrative expenses for the year ended December 31, 2005 totaled approximately \$156,000, constituting 21% of total revenues. The primary components of general and administrative expenses were board of directors fees, legal fees, accounting fees, and organizational costs. Such expenses represented approximately six months of expense as we incurred no general and administrative expenses prior to the June 27, 2005, the effective date of the initial public offering.

We sustained a net loss for the year ended December 31, 2005 of approximately \$115,000, primarily as a result of incurring overhead-related general and administrative expenses, depreciation and amortization expenses and interest expense without sufficient rental income from properties to cover the costs.

**Portfolio Information**

As of December 31, 2006, we owned 91 properties located in 26 states, all of which were 100% leased with an average lease term remaining of approximately 13.2 years.

As of December 31, 2006, our five highest geographic concentrations were as follows:

<b>Location</b>	<b>Total Number of Properties</b>	<b>Rentable Square Feet</b>	<b>2006 Annualized Gross Base Rents</b>	<b>Percentage of 2006 Annualized Gross Base Rent</b>
Texas	9	468,515	\$ 3,917,448	11%
Kansas	5	314,785	3,241,765	9%
Missouri	7	144,363	3,113,324	9%
Michigan	5	144,561	2,757,480	8%
Illinois	5	354,551	2,606,670	8%
	31	1,426,775	\$ 15,636,687	45%

As of December 31, 2006, our five highest tenant industry concentrations were as follows:

<b>Industry</b>	<b>Total Number of Leases</b>	<b>Rentable Square Feet</b>	<b>2006 Annualized Gross Base Rent</b>	<b>Percentage of 2006 Annualized Gross Base Rent</b>
Drugstore	29	375,975	\$ 8,648,280	25%
Specialty retail	15	422,990	4,103,342	12%
Automotive parts	18	232,017	4,020,941	12%
Home improvement	3	366,703	2,191,240	6%

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Distribution	3	247,400	2,183,809	6%
	68	1,645,085	\$ 21,147,612	61%

As of December 31, 2006, our five highest tenant concentrations were as follows:

<b>Tenant</b>	<b>Total Number of Leases</b>	<b>2006 Annualized Gross Base Rent</b>	<b>Percentage of 2006 Annualized Gross Base Rent</b>
Walgreens-drugstore	8	\$ 2,998,885	9%
CVS-drugstore	11	2,929,894	9%
Rite Aid-drugstore	10	2,719,501	8%
Lowe s-home improvement store	3	2,191,240	6%
FedEx-distribution facility	3	2,183,809	6%
	35	\$ 13,023,329	38%

For more information on our portfolio diversification and statistics, see Real Property Investments above.

**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 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 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 (as we do) 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>Year Ended</b>	
	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Net income (loss)	\$ 1,345,996	\$ (114,591)
Add:		
Depreciation of real estate assets	4,396,460	151,472
Amortization of lease related costs	2,072,906	69,939
<b>FFO</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 \$790,000 and approximately \$34,000 during the years ended December 31, 2006 and 2005, respectively.

Amortization of deferred financing costs totaled approximately \$548,000 and approximately \$18,000 during the years ended December 31, 2006 and 2005, respectively.



## **Liquidity and Capital Resources**

We expect to continue to raise capital through the sale of shares 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, 2006, we had received and accepted subscriptions for 30,691,204 shares of common stock in our initial public offering for gross proceeds of approximately \$306.5 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 sale of our common stock. We expect our operating cash flows to increase as additional

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properties are added to our portfolio. We expect that approximately 88.6% of the gross proceeds from this offering will be invested in real estate, approximately 9.1% will be used to pay sales commissions, dealer manager fees and offering and organizational costs, with the remaining 2.3% used to pay acquisition and advisory fees and acquisition expenses and working capital reserves. The offering and organizational costs associated with this offering are initially paid by our advisor, and reimbursed by us in an aggregate amount not to exceed 1.5% of the capital raised by us in the offering. As of December 31, 2006, Cole Advisors II had paid approximately \$3.8 million of offering and organization costs in respect of our initial public offering and we had reimbursed our advisor for substantially all of such costs, of which approximately \$59,000 was expensed as organizational costs.

During the period from January 1, 2007 to March 19, 2007, we completed the acquisition of 14 single-tenant properties and three multi-tenant properties in separate transactions for an aggregate purchase price of approximately \$229.4 million, exclusive of closing costs. The acquisitions were funded with proceeds from our initial public offering and approximately \$145.9 million in aggregate proceeds from 15 loans. Additionally, we issued an approximately \$6.3 million mortgage note payable on a property owned as of December 31, 2006.

On December 15, 2006, our board of directors declared a daily distribution of \$0.0017808 per share for stockholders of record as of the close of business on each day of the period commencing on January 1, 2007 and ending on March 31, 2007. The distributions for the period commencing on January 1, 2007 and ending on January 31, 2007 were paid in February 2007 and totaled approximately \$1.8 million, of which approximately \$950,000 was reinvested in shares through our distribution reinvestment program. The distributions for the period commencing on February 1, 2007 and ending on February 28, 2007 were paid in March 2007 and totaled approximately \$1.8 million, of which approximately \$970,000 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. Over the long term, we intend to reduce our aggregate borrowings as a percentage of our real estate assets.

As of December 31, 2006, we had cash and cash equivalents of approximately \$37.6 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, 2006, we had approximately \$218.3 million of debt outstanding consisting of approximately \$215.6 million in fixed rate, term mortgage loans and approximately \$2.7 million in variable rate term mortgage loans. The weighted average interest rate at December 31, 2006 under the fixed rate term mortgage loans was 5.72% and the variable rate term mortgage interest rate is stated at LIBOR plus 2%. Additionally the ratio of debt to total assets was approximately 44% and the weighted average years to maturity was 7.70 years.



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Our contractual obligations as of December 31, 2006 are as follows:

Contractual Obligations(1)	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	\$ 215,555,559	\$ 355,849	\$ 26,819,031	\$ 39,518,216	\$ 148,862,463
Interest payments fixed rate debt	100,009,247	12,413,771	36,546,514	18,537,916	32,511,046
Principal payments variable rate debt	2,710,357	2,710,357			
Interest payments variable rate debt(1)	198,300	198,300			
<b>Total</b>	<b>\$ 318,473,463</b>	<b>\$ 15,678,277</b>	<b>\$ 63,365,545</b>	<b>\$ 58,056,132</b>	<b>\$ 181,373,509</b>

(1) A rate of 7.32% was used to calculate the variable debt interest payment obligations in future periods. This is the rate effective as of December 31, 2006.

(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 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 fourth quarter of 2005 and 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, 2006 Compared to the Year ended December 31, 2005****Operating Activities*

Net cash provided by operating activities increased approximately \$7.5 million 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* above 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 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 2006 compared to the acquisition of 14 properties during 2005

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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 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 public 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 in 2006 compared to nine new mortgages in 2005. The increase in repayments of mortgage and affiliate notes payable was due to the repayment of short-term variable rate debt at its maturity during 2006 and the repayment of approximately \$4.5 million of affiliate notes payable during 2006.

### *Year Ended December 31, 2005 Compared to the Period from September 29, 2004 (Date of Inception) to December 31, 2004*

We commenced our principal operations on September 23, 2005 and we made our initial real estate acquisition on September 26, 2005. As a result, our consolidated cash flows for the year ended December 31, 2005 are not comparable to the cash flows for the period from September 29, 2004 (date of inception) to December 31, 2004.

### *Operating Activities*

Net cash provided by operating activities was approximately \$398,000 for the year ended December 31, 2005, primarily due to a net loss for the period of approximately \$115,000 offset by depreciation and amortization expenses totaling approximately \$241,000 and an increase in accounts payable and accrued expenses of approximately \$283,000. Our initial property acquisition was made on September 26, 2005. See **Results of Operations** above for a more complete discussion of the factors impacting our operating performance.

### *Investing Activities*

Net cash used in investing activities was approximately \$93.6 million for the year ended December 31, 2005, primarily due to approximately \$91.8 million used on the acquisition of 14 real estate properties and their associated intangible lease assets and acquisition costs and approximately \$1.8 million in restricted cash, which is held in escrow pending the issuance of shares to investors.

### *Financing Activities*

Net cash provided by financing activities was approximately \$97.6 million for the year ended December 31, 2005, primarily due to net proceeds from the issuance of common stock in the initial public offering of approximately \$25.3 million, net proceeds of \$70.5 million from the issuance of notes in connection with the acquisition of 14 properties and an approximately \$1.8 million liability related to investor proceeds, which are held in escrow pending our acceptance of subscriptions and the issuance of shares to the investors.

## **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

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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**

We are exposed to inflation risk as income from long-term leases is the primary source of our cash flows from operations. There are provisions in certain of our tenant leases that would protect us from the impact of inflation such as step rental increases and percentage rent provisions. However, due to the long-term nature of the leases, the leases may not re-set frequently enough to cover 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 9 to our consolidated financial statements included in this prospectus 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 Cole Advisor II's advice to us. See the section captioned Conflicts of Interest elsewhere in this prospectus.

## **Subsequent Events**

Certain events subsequent to December 31, 2006 through March 16, 2007, including the sale of shares of common stock, the acquisition of 17 properties, the attainment of additional mortgage financing, and the addition of various extended rate lock agreements are discussed in Note 16 to the consolidated financial statements included in this prospectus.

## **Impact of Recent Accounting Pronouncements**

Reference is made to Note 1 to the consolidated financial statements included in this prospectus regarding the impact of recent accounting pronouncements.

Reference is made to Note 10 to the consolidated financial statements included in this prospectus regarding our adoption of SFAS No. 123R, *Share-based Payment*.

## **Off Balance Sheet Arrangements**

As of December 31, 2006 and 2005, we had no off balance sheet arrangements.





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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, 1997 to December 31, 2006, affiliates of our advisor have sponsored 71 privately offered prior programs, including 16 limited partnerships, a real estate investment trust (Cole REIT I), four debt offerings and 49 tenant-in-common programs. As of December 31, 2006, such prior programs have raised approximately \$576.2 million from approximately 6,500 investors. Each of the 16 limited partnerships, the real estate investment trust, four of the debt offerings and the 49 tenant-in-common programs have investment objectives and policies similar to that 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 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, 1997 to December 31, 2006, affiliates of our advisor have been general partners in 16 limited partnerships with similar investment objectives to our program, involving the sale of limited partnership interests to 2,700 investors, raising approximately \$119.9 million of capital. The foregoing partnerships have purchased in the aggregate 39 properties for an approximate acquisition cost of \$238.5 million, of which

approximately 49.2% is attributable to 23 single-tenant commercial properties, 48.6% is attributable to 13 shopping centers, 1.2% is attributable to one data center and 1.0% is attributable to two unimproved or partially-improved land parcels intended for high-rise/data center development. Thirteen 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;

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and one each in Alabama, Indiana, Iowa, Kentucky, Michigan, Mississippi, Nevada, New Mexico, New York, South Carolina, Texas, Virginia and Washington. The properties have been purchased on terms varying from all cash to market rate financing. To date, 15 of the properties have been sold.

Of the above, two real estate investment programs that acquired retail shopping centers and two limited partnerships that acquired single-tenant commercial properties, have been sponsored since January 1, 2002. 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, 2006, CCPF had raised \$25.0 million and acquired 14 single-tenant commercial properties or an interest therein in 12 states across the U.S. for an aggregate acquisition cost of approximately \$56.1 million. As of December 31, 2006, 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 \$61.3 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, 2006, affiliates of our advisor had issued an aggregate of approximately \$112.2 million in collateralized senior notes through four debt offerings and had acquired an aggregate of 132 single-tenant retail properties in 34 states for an aggregate acquisition cost of approximately \$786.5 million. As of December 31, 2006, 119 of the properties had been sold, of which 52 were sold as part of Cole Capital Partners' tenant-in-common 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, 2006, Cole REIT I, had raised approximately \$101.0 million, and had acquired 41 single-tenant retail properties in 19 states for an aggregate acquisition cost of approximately \$195.5 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, 2006, aggregate ownership interests of \$155.5 million had been sold in 25 private offerings of properties located in 14 states. In addition, the Cole Exchange Entities offer properties through the DST Program whereby beneficial interests are offered in trusts that acquire real property. As of December 31, 2006, aggregate ownership interests of approximately \$87.6 had been sold in 24 private offerings of properties located in 12 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, 2006:

<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 111 of the total of 204 properties, or 54.4% of such properties. The original purchase price of the properties that were sold was \$486.2 million, and the aggregate sales price of such properties was \$552.0 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. has raised \$5 million in a debt offering for general corporate purposes, including investments in joint ventures with affiliates, which has been repaid.

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. For example, one of these programs, Cole Santa Fe Investors, LP owns an approximately 263,000 square foot shopping center property of which approximately 50,000 square feet (approximately 19% of the leasable space) is vacant due to a tenant bankruptcy. Distributions to investors in that program have been suspended indefinitely beginning with the quarter ended December 31, 2003. 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. A continued vacancy in the property owned by Santa Fe Investors, LP could adversely affect the ultimate performance of this prior program. 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



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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.

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.

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### ***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;
- 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:

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

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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.

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

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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 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***

## Edgar Filing: Cole Credit Property Trust II Inc - Form POS AM

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



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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;

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

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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.

### **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.

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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 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

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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

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.



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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.

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.



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### ***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 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

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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.

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

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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.

#### ***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



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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.

### *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

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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

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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 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

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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 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

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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 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

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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.

### **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