

Cole Credit Property Trust II Inc  
Form POS AM  
August 08, 2007

**Table of Contents**

As filed with the Securities and Exchange Commission on August 8, 2007

Registration No. 333-138444

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
POST-EFFECTIVE AMENDMENT NO. 1 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)

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

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

**Copies to:  
Lauren Burnham Prevost, Esq.  
Heath D. Linsky, Esq.  
Morris, Manning & Martin, LLP  
1600 Atlanta Financial Center  
3343 Peachtree Road, N.E.  
Atlanta, Georgia 30326-1044  
(404) 233-7000**

**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

---

**Table of Contents**

This Post-Effective Amendment No. 1 consists of the following:

1. The Registrant's final form of Prospectus dated May 11, 2007;
  2. Supplement No. 1 dated May 15, 2007, Supplement No. 2 dated July 23, 2007 and Supplement No. 3 dated August 8, 2007, 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.
-

**Table of Contents**

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

---

**Table of Contents**

**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.

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

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.

**Table of Contents**

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.

**Table of Contents****TABLE OF CONTENTS**

	<b>Page</b>
SUITABILITY STANDARDS	i
QUESTIONS AND ANSWERS ABOUT THIS OFFERING	1
PROSPECTUS SUMMARY	5
Cole Credit Property Trust II, Inc.	5
Our Advisor	5
Our Management	5
Our REIT Status	6
Summary Risk Factors	6
Description of Real Estate Investments	7
Estimated Use of Proceeds of This Offering	11
Investment Objectives	11
Conflicts of Interest	11
Prior Offering Summary	12
The Offering	13
Compensation to Cole Advisors II and its Affiliates	13
Distribution Policy and Distributions	16
Listing	16
Distribution Reinvestment Plan	17
Share Redemption Program	17
Cole Operating Partnership II, LP	18
ERISA Considerations	18
Description of Shares	18
RISK FACTORS	20
Risks Related to an Investment in Cole Credit Property Trust II, Inc.	20
Risks Related to Conflicts of Interest	22
Risks Related to This Offering and Our Corporate Structure	24
General Risks Related to Investments in Real Estate	29
Risks Associated with Debt Financing	36
Risks Associated with Co-Ownership Transactions	38
Federal Income Tax Risks	39
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS	42
ESTIMATED USE OF PROCEEDS	43
MANAGEMENT	45
General	45
Committees of the Board of Directors	46
Audit Committee	46
Compensation Committee	47
Executive Officers and Directors	47
Compensation of Directors	48
Director Compensation Table	49
2004 Independent Directors Stock Option Plan	49
Provisions Applicable to Our Stock Option Plan	50
Compliance with the American Jobs Creation Act	51



**Table of Contents**

	<b>Page</b>
Limited Liability and Indemnification of Directors, Officers, Employees and Other Agents	51
The Advisor	53
The Advisory Agreement	54
Affiliated Companies	56
Investment Decisions	57
MANAGEMENT COMPENSATION	58
STOCK OWNERSHIP	65
CONFLICTS OF INTEREST	66
Interests in Other Real Estate Programs	66
Other Activities of Cole Advisors II and its Affiliates	67
Competition in Acquiring, Leasing and Operating of Properties	67
Affiliated Dealer Manager	67
Affiliated Property Manager	67
Lack of Separate Representation	68
Joint Ventures with Affiliates of Cole Advisors II	68
Receipt of Fees and Other Compensation by Cole Advisors II and Its Affiliates	68
Certain Conflict Resolution Procedures	68
INVESTMENT OBJECTIVES AND POLICIES	71
General	71
Acquisition and Investment Policies	71
Making Loans and Investments in Mortgages	78
Acquisition of Properties from Affiliates	80
Section 1031 Program	81
Disposition Policies	82
Investment Limitations	82
Change in Investment Objectives and Limitations	83
Real Property Investments	84
SELECTED FINANCIAL DATA	102
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	103
Overview	103
Application of Critical Accounting Policies	104
Results of Operations	106
Portfolio Information	108
Funds From Operations	109
Liquidity and Capital Resources	109
Cash Flow Analysis	111
Election as a REIT	112
Inflation	113
Related-Party Transactions and Agreements	113
Conflicts of Interest	113
Subsequent Events	113
Impact of Recent Accounting Pronouncements	113
Off Balance Sheet Arrangements	113



**Table of Contents**

	<b>Page</b>
PRIOR PERFORMANCE SUMMARY	114
Prior Investment Programs	114
Summary Information	114
FEDERAL INCOME TAX CONSIDERATIONS	117
General	117
Opinion of Counsel	117
Taxation of the Company	117
Requirements for Qualification as a REIT	118
Failure to Qualify as a REIT	123
Sale-Leaseback Transactions	123
Taxation of U.S. Stockholders	123
Treatment of Tax-Exempt Stockholders	125
Special Tax Considerations for Non-U.S. Stockholders	126
Statement of Stock Ownership	127
State and Local Taxation	128
Tax Aspects of Our Operating Partnership	128
INVESTMENT BY TAX-EXEMPT ENTITIES AND ERISA CONSIDERATIONS	132
General	132
Minimum and Other Distribution Requirements Plan Liquidity	132
Annual or More Frequent Valuation Requirement	133
Fiduciary Obligations Prohibited Transactions	134
Plan Assets Definition	134
Plan Assets Registered Investment Company Exception	134
Publicly Offered Securities Exemption	134
Plan Assets Operating Company Exception	135
Plan Assets Not Significant Investment Exception	136
Consequences of Holding Plan Assets	136
Prohibited Transactions	136
Prohibited Transactions Consequences	137
DESCRIPTION OF SHARES	138
Common Stock	138
Preferred Stock	138
Meetings and Special Voting Requirements	139
Restrictions on Ownership and Transfer	140
Distribution Policy and Distributions	142
Stockholder Liability	143
Business Combinations	144
Control Share Acquisitions	144
Subtitle 8	145
Advance Notice of Director Nominations and New Business	146
Share Redemption Program	146
Restrictions on Roll-up Transactions	148

**Table of Contents**

	<b>Page</b>
SUMMARY OF AMENDED AND RESTATED DISTRIBUTION REINVESTMENT PLAN	149
Investment of Distributions	149
Election to Participate or Terminate Participation	150
Reports to Participants	150
Excluded Distributions	150
Federal Income Tax Considerations	151
Amendment and Termination	151
OUR OPERATING PARTNERSHIP AGREEMENT	152
General	152
Capital Contributions	152
Operations	152
Exchange Rights	154
Amendments to the Partnership Agreement	154
Termination of the Partnership	154
Transferability of Interests	155
PLAN OF DISTRIBUTION	156
The Offering	156
Cole Capital Corporation	156
Compensation We Will Pay for the Sale of Our Shares	156
Shares Purchased by Affiliates	158
Volume Discounts	158
Subscription Process	159
Investments by IRAs and Qualified Plans	160
HOW TO SUBSCRIBE	160
SUPPLEMENTAL SALES MATERIAL	161
LEGAL MATTERS	161
EXPERTS	161
WHERE YOU CAN FIND MORE INFORMATION	161
FINANCIAL INFORMATION	F-1
APPENDIX A: PRIOR PERFORMANCE TABLES	A-1
APPENDIX B: SUBSCRIPTION AGREEMENT	B-1
APPENDIX C: ADDITIONAL INVESTMENT SUBSCRIPTION AGREEMENT	C-1
APPENDIX D: AMENDED AND RESTATED DISTRIBUTION REINVESTMENT PLAN	D-1

**Table of Contents**

**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

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

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.

**Table of Contents**

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

**Table of Contents**

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?**

**Table of Contents**

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)

**Table of Contents**

**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@colecapiatal.com](mailto:investorservices@colecapiatal.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

## **Table of Contents**

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.

**Table of Contents**

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

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

	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

**Table of Contents**

<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	Dolgencorp, Inc.	24,341	3,000,000
Dollar General Ardmore, TN	Dolgencorp, Inc.	24,341	2,775,000
Dollar General Livingston, TN	Dolgencorp, 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

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

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

8

**Table of Contents**

<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

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

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

**Table of Contents**

<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

10

---

**Table of Contents**

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:

	Maximum Offering (including distribution reinvestment plan)		Maximum Offering (not including distribution reinvestment plan)	
	Amount	Percent	Amount	Percent
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;

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

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

**Table of Contents**

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.

**Table of Contents**

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> 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



**Table of Contents**

<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.

**Table of Contents**

<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.

**Table of Contents**

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

## **Table of Contents**

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.

## **Table of Contents**

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.

**Table of Contents**

***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**.

**Table of Contents**

**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

**Table of Contents**

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 Association, 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



**Table of Contents**

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

**Table of Contents**

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

## **Table of Contents**

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.

**Table of Contents**

***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

**Table of Contents**

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

**Table of Contents**

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

**Table of Contents**

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

## **Table of Contents**

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

**Table of Contents**

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.



**Table of Contents**

***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.

**Table of Contents**

***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

**Table of Contents**

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.

**Table of Contents**

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

**Table of Contents**

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

## **Table of Contents**

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,

## **Table of Contents**

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

## **Table of Contents**

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.

**Table of Contents**

**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

**Table of Contents**

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.



**Table of Contents**

***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.

**Table of Contents**

**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

**Table of Contents**

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.

**Table of Contents**

**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

## **Table of Contents**

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

## **Table of Contents**

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

**Table of Contents**

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

**Table of Contents**

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.

**Table of Contents**

**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

**Table of Contents**

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.

**Table of Contents**

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

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

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

## **Table of Contents**

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;

**Table of Contents**

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

## **Table of Contents**

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

**Table of Contents**

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*

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

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
--	--	--------------

**Table of Contents**

<b>Type of Compensation(1)</b>	<b>Determination of Amount</b>	<b>Estimated Amount for Maximum Offering(2)</b>
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.

**Table of Contents**

<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.



**Table of Contents**

Type of Compensation(1)	Determination of Amount	Estimated Amount for Maximum Offering(2)
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)	<p>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.</p>	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)	<p>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.</p>	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.

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

- (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

**Table of Contents**

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.

**Table of Contents**

- (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;

**Table of Contents**

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.

**Table of Contents**

**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.

## **Table of Contents**

### **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

## **Table of Contents**

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

**Table of Contents**

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

**Table of Contents**

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.

**Table of Contents**

**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.

**Table of Contents**

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

## **Table of Contents**

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

## **Table of Contents**

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

**Table of Contents**

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

**Table of Contents**

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

## **Table of Contents**

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,

**Table of Contents**

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

**Table of Contents**

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

## **Table of Contents**

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

## **Table of Contents**

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

## **Table of Contents**

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

**Table of Contents**

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%

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

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%

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

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							

**Table of Contents**

<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%

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

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%

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

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

HOM Fargo,  
ND

**Table of Contents**

<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%

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

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 Plains, PA	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 Easton, PA	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%

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

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.

**Table of Contents**

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 Annual Base Rent	Base Rent per Square Foot	Lease Term	
								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 St. Louis, 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

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

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
FEEx 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,	1	Harco, Inc.	14,564	100%	6/5 yr.	289,629	19.89	1/26/2006	1/31/2026
Rite Aid Museum,	1	Rite Aid of Ohio, Inc.	14,564	100%	6/5 yr.	311,720	21.40	1/26/2006	1/31/2026
Staples Rossville,	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 Co, 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 Candler, 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 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 Spring, TX	5	Academy Corp	50,500	63%	2/5 yr.	371,175	7.35	3/1/2006	10/31/2009

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

					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
S								
tsmouth	Revco Discount							
(Scioto	Drug							
il)	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

**Table of Contents**

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
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 Wakewood, 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

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

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 ite Aid	1	Advance Stores Company, Inc. Rite Aid of	7,000	100%	2/5 yr.	84,782	12.11	6/29/2006	6/30/2013
ansing, MI	1	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 ights, 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

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

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

**Table of Contents**

Property	Number of Tenants	Major Tenants*	Total Square Feet Leased	% of	Renewal Options**	Current	Base Rent	Lease Term	
				Total Square Feet		Annual Base Rent	per Square Foot	Beginning	To
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
Lowell, TX	1	Lowe's Home Centers, Inc.	137,480	100%	6/5 yr.	861,280	6.26	9/27/2006	4/30/2016
Lowell, TX	1	Lowe's Home Centers, Inc.	134,050	100%	6/5 yr.	829,960	6.19	9/27/2006	4/30/2016
Grand Bay, 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

						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		Radio Shack Corporation	2,400	24%	3/5 yr.	60,000	25.00	10/13/2006	1/31/2012
Rite Aid Manover, PA	1	Rite Aid	14,584	100%	4/5 yr.	493,787	33.86	10/17/2006	10/31/2026
American TV & Appliance Champaign, 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

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

						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
					89				

---

**Table of Contents**

Property	Number of Tenants	Major Tenants*	Total Square Feet Leased	% of Total Square Feet	Renewal Options**	Current	Base Rent	Lease Term	
						Annual Base Rent	per Square Foot	Beginning	To
Advance 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

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

						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

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

				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

90

---

**Table of Contents**

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, 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, Coventry, RI	1	ABX Air, Inc.	33,000	100%	4/5 yr.	316,990	9.61	2/14/2007	1/31/2014(6)
Office Depot Enterprise, L	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 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
Office Max Orangeburg, SC	1	OfficeMax, Inc.	23,500	100%	4/5 yr.	252,625	10.75	2/28/2007	6/30/2014
Walgreens Cincinnati, OH	1	Walgreen Co.	15,120	100%	8/5 yr.	365,000	24.14	3/6/2007	3/31/2020
Walgreens Madeira, OH	1	Walgreen Co.	13,905	100%	8/5 yr.	314,000	22.58	3/6/2007	8/31/2018
Walgreens Marionville, MO	1	Walgreen Co.	13,905	100%	8/5 yr.	290,000	20.86	3/6/2007	10/31/2023
AT&T Beaumont, TX	1	AT&T Services, Inc.	141,525	100%	2/5 yr.	900,473	6.36	3/19/2007	3/18/2012(7)
Walgreens Greveport, VA	1	Walgreen Co.	13,905	100%	8/5 yr.	327,000	23.52	3/23/2007	9/30/2019
Post-U-Less Croix, WI	1	CULUSVI, Inc.	38,365	100%	2/5 yr.	512,000	13.35	3/26/2007	3/31/2022
Centro Mallina, Illinois	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

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

		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 Center at 600	1	Logan s Roadhouse, Inc.	7,839	100%	5/5 yr.	270,623	34.52	3/28/2007	11/29/2026(9)
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

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

						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

**Table of Contents**

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 Paw Paw, MI	1	Tractor Supply Company	22,670	100%	4/5 yr.	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
Tractor Supply Marinette, WI		Tractor Supply Company	19,097	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				
						213,933	11.20	4/9/2007	12/15/2011				
Staples Greenville, SC	1	Staples the Office Superstore East, Inc.	20,388	100%	4/5 yr.	235,326	12.32	12/16/2011	12/15/2016				
						258,858	13.55	12/16/2016	12/15/2021				
						318,053	15.60	4/11/2007	3/31/2012				
Big 5 Center Aurora, CO	4	Big 5 Corporation	10,000	63%	3/5 yr.	339,460	16.65	4/1/2012	3/31/2017				
						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				