Cole Credit Property Trust II Inc
Form S-11
November 06, 2006

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As filed with the Securities and Exchange Commission on November 3, 2006

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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. o

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. o

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. o

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

CALCULATION OF REGISTRATION FEE

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, $0.01 par value	125,000,000	$ 10.00	$ 1,250,000,000	$ 133,750
Common Stock, $0.01 par value(1)	25,000,000	$ 9.50	$ 237,500,000	$ 25,413

(1) Represents shares issuable pursuant to the Registrant s distribution reinvestment plan.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant files a further amendment which specifically states that this Registration Statement will thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement becomes effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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SUBJECT TO COMPLETION, DATED NOVEMBER 3, 2006

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 , 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.

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 Risk Factors beginning on page 18 for a description of some of the risks you should consider before buying shares of our common stock. These risks include the following:

- We have a limited operating history and we currently own a limited number of properties, which makes our future performance and the performance of your investment difficult to predict. 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.

- Until we generate operating cash flow sufficient to pay distributions to our stockholders, 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.

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

	Price to Public	**Selling Commissions**	**Dealer Manager Fee**	**Net Proceeds (Before Expenses)**
Primary Offering				
Per Share	$ 10.00	$ 0.70	$ 0.15	$ 9.15
Total Maximum	$ 1,250,000,000	$ 87,500,000	$ 18,750,000	$ 1,143,750,000
Distribution Reinvestment Plan				
Per Share	$ 9.50	$	$	$ 9.50
Total Maximum	$ 237,500,000	$	$	$ 237,500,000

, 2007

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SUITABILITY STANDARDS

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

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

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

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

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

After you have purchased the minimum investment amount, any additional purchase must be at least $1,000 (100 shares), or made pursuant to (1) our automatic purchase plan or (2) 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:

Arizona, California, Iowa, Michigan 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.

Kansas In addition to our standard suitability requirements, it is recommended that investors should invest no more than ten percent of their liquid net worth in our shares and securities of other real estate investment trusts.

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

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

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

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

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

- meet the minimum income and net worth standards established in your state;
- can reasonably benefit from an investment in our common stock based on your overall investment objectives and portfolio structure;
- are able to bear the economic risk of the investment based on your overall financial situation; and
- have an apparent understanding of:
  - the fundamental risks of an investment in our common stock;
  - the risk that you may lose your entire investment;
  - the lack of liquidity of our common stock;
  - the restrictions on transferability of our common stock;
  - the background and qualifications of our advisor; and
  - the tax consequences of an investment in our common stock.

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

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QUESTIONS AND ANSWERS ABOUT THIS OFFERING

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

Q: What is a REIT?

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

- pays distributions to investors of at least 90% of its taxable income;
- avoids the double taxation treatment of income that generally results from investments in a corporation because a REIT generally is not subject to federal corporate income taxes on its net income, provided certain income tax requirements are satisfied; and
- combines the capital of many investors to acquire a large-scale diversified real estate portfolio under professional management.

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

A: We focus our investments primarily on the acquisition of freestanding, single-tenant retail 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 and real estate investment programs for over 25 years. He also is the chief executive officer of Cole REIT Advisors II, LLC (Cole Advisors II), which is our advisor. Since January 1, 1995, Mr. Cole has sponsored 65 private real estate programs with an aggregate of over 6,800 investors.

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 executive vice president and chief financial officer of Cole 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 senior vice president, 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.

Marcus E. Bromley is an independent member of our board of directors, chairman of its compensation committee and a member of its audit committee. Since December 1993, Mr. Bromley has served as a

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member of the board of trustees of Gables Residential Trust, a multi-family residential REIT listed on the New York Stock Exchange. From December 1993 until June 2000, Mr. Bromley also served as the chief executive officer of Gables Residential Trust. Prior to joining Gables Residential Trust, Mr. Bromley was a division partner of Trammell Crow Residential.

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

Q: Will you acquire properties in joint ventures?

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

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

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

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

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

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

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

Q: What is an UPREIT ?

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

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 be not be able to invest the proceeds in real estate promptly and such short-term investments will not earn as high of a return as we expect to earn on our real estate investments.

Q: How does a best efforts offering work?

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

Q: Who can buy shares?

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

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

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

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

A: Yes. You may make an investment through your individual retirement account (IRA), a simplified employee pension (SEP) plan or other tax-deferred account. In making these investment decisions, you should consider, at a minimum, (1) whether the investment is in accordance with the documents and instruments governing your IRA, plan or other account, (2) whether the investment satisfies the fiduciary requirements associated with your IRA, plan or other account, (3) whether the investment will generate unrelated business taxable income (UBTI) to your IRA, plan or other account, (4) whether there is sufficient liquidity for such investment under your IRA, plan or other account, (5) the need to value the assets of your IRA, plan or other account annually or more frequently, and (6) whether the investment would constitute a prohibited transaction under applicable law.

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

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

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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*.

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

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 has 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 October 30, 2006, we owned 71 properties located in 23 states.

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@colecapital.com*.

Additional information about us and our affiliates may be obtained at *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 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

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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.

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 October 30, 2006, we owned 71 properties, comprising approximately 2.3 million rentable square feet of commercial space located in 23 states. Our properties as of October 30, 2006, are listed below.

Property Description	Tenant	Rentable Square Feet
Tractor Supply Parkersburg, WV	Tractor Supply Company	22,000
Walgreens Brainerd, MN	Walgreen Co.	15,000
Rite Aid Alliance, OH	Rite Aid of Ohio, Inc.	11,000

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Property Description	Tenant	Rentable Square Feet
La-Z-Boy Glendale, AZ	EBCO, Inc.	23,000
Walgreens Florissant, MO	Walgreen Co.	15,000
Walgreens (Telegraph) St. Louis, MO	Walgreen Co.	15,000
Walgreens (Gravois) St. Louis, MO	Walgreen Co.	15,000
Walgreens Columbia, MO	Walgreen Co.	14,000
Walgreens Olivette, MO	Walgreen Co.	15,000
CVS Alpharetta, GA	Mayfield CVS, Inc.	10,000
Lowe s Enterprise, AL	Lowe s Home Centers, Inc.	95,000
CVS Richland Hills, TX	CVS EGL Grapevine N Richland Hills Texas, LP	11,000
FedEx Package Distribution Center Rockford, IL	FedEx Ground Package System, Inc.	67,000
Plastech Auburn Hills, MI	LDM Technologies, Inc.	112,000
Academy Sports Macon, GA	Academy, LTD	75,000
David s Bridal Lenexa, KS	David s Bridal, Inc.	12,000
Rite Aid Enterprise, AL	Harco, Inc.	15,000
Rite Aid Wauseon, OH	Rite Aid of Ohio, Inc.	15,000
Staples Crossville, TN	Staples the Office Superstore East, Inc.	24,000
Rite Aid Saco, ME	Rite Aid of Maine, Inc.	11,000
Wadsworth Boulevard Marketplace	Various	198,000
Mountainside Fitness Chandler, AZ	Mountainside Fitness Centers of Ocotillo, LLC	31,000
Drexel Heritage Distribution Center Hickory, NC	Drexel Heritage Furniture Industries, Inc.	261,000
Rayford Square Spring, TX	Various	80,000
CVS (Scioto Trail) Portsmouth, OH	Revco Discount Drug Centers, Inc.	10,000
Wawa Hockessin, DE	Wawa, Inc.	5,000
Wawa Manahawkin, NJ	Wawa, Inc.	5,000
Wawa Narberth, PA	Wawa, Inc.	5,000
CVS (Sublease) Lakewood, OH	Various	13,000
Rite Aid Cleveland, OH	Rite Aid of Ohio, Inc.	11,000
Rite Aid Fremont, OH	Rite Aid of Ohio, Inc.	11,001
Walgreens Knoxville, TN	Walgreen Co.	15,000
CVS Madison, MS	CVS EGL Highland Madison MS, Inc.	14,000
Rite Aid Defiance, OH	Rite Aid of Ohio, Inc.	15,000
Conns San Antonio, TX	CAI, LP	25,000
Dollar General Crossville, TN	Dolgencorp, Inc.	24,000
Dollar General Ardmore, TN	Dolgencorp, Inc.	24,000
Dollar General Livingston, TN	Dolgencorp, Inc.	24,000
Wehrenberg Theatre Arnold, MO	Wehrenberg, Inc.	50,000
Sportsman s Warehouse Wichita, KS	Sportsman s Warehouse, Inc.	50,000
CVS (Chillicothe) Portsmouth, OH	Revco DS, Inc.	11,000
Advance Auto Greenfield, IN	Advance Stores Company, Incorporated	7,000

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Property Description	Tenant	Rentable Square Feet
Advance Auto Trenton, OH	Advance Stores Company, Incorporated	7,000
Rite Aid Lansing, MI	Rite Aid of Michigan, Inc.	12,000
Advance Auto Columbia Heights, MN	Advance Stores Company, Incorporated	7,000
Advance Auto Fergus Falls, MN	Advance Stores Company, Incorporated	7,000
CVS Okeechobee, FL	CVS EGL Parrott Okechobee FL, LLC	13,000
Office Depot Dayton, OH	Office Depot, Inc.	20,000
Advance Auto Holland, MI	Advance Stores Company, Incorporated	7,000
Advance Auto Holland Township, MI	Advance Stores Company, Incorporated	7,000
Advance Auto Zeeland, MI	Advance Stores Company, Incorporated	7,000
CVS Orlando, FL	CVS EGL Lake Pickett FL, LLC	14,000
Office Depot Greenville, MS	Office Depot, Inc.	25,000
Office Depot Warrensburg, MO	Office Depot, Inc.	20,000
CVS Gulfport, MS	CVS EGL East Pass Gulfport MS, LLC	11,000
Advance Auto Grand Forks, ND	Advance Stores Company, Incorporated	7,000
CVS Clinton, NY	CVS BDI, Inc.	10,000
Oxford Theatre Co Oxford, MS	Oxford Theatre Company, Inc.	35,000
Advance Auto Duluth, MN	Advance Stores Company, Incorporated	7,000
Walgreens Picayune, MS	Walgreen Co.	15,000
Kohl s Wichita, KS	Kohl s Department Stores, Inc.	87,000
Lowe s Lubbock, TX	Lowe s Home Centers, Inc.	130,000
Lowe s Midland, TX	Lowe s Home Centers, Inc.	130,000
Advance Auto Grand Bay, AL	Advance Stores Company, Incorporated	7,000
Advance Auto Hurley, MS	Advance Stores Company, Incorporated	7,000
Advance Auto Rainsville, AL	Advance Stores Company, Incorporated	7,000
Golds Gym O Fallon, IL	Gold s St. Louis, LLC	41,000
Rite Aid Glassport, PA	Rite Aid of Pennsylvania, Inc.	15,000
Rite Aid Hanover, PA	Rite Aid of Pennsylvania, Inc.	15,000
David s Bridal & Radio Shack Topeka, KS	Federated Dept. Stores & Radio Shack Corp.	10,000
American T.V. Peoria, IL	American TV & Appliance of Madison, Inc.	127,000

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.

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

Estimated Use of Proceeds of This Offering

Depending primarily on the number of shares we sell in this offering and assuming all shares sold under our distribution reinvestment plan are sold at $9.50 per share, we estimate for each share sold in this offering that between approximately $8.77 (assuming no shares available under our distribution reinvestment plan are sold) and approximately $8.90 (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	106,250,000	7.1%	106,250,000	8.5%
Organization and Offering Expenses	22,312,500	1.5%	18,750,000	1.5%
Amount Available for Investment	1,358,937,500	91.4%	1,125,000,000	90.0%
Acquisition and Development:				
Acquisition and Advisory Fees	26,490,010	1.8%	21,929,825	1.8%
Acquisition Expenses	6,622,502	0.5%	5,482,456	0.4%
Initial Working Capital Reserve	1,324,501	0.1%	1,096,491	0.1%
Amount Invested in Properties	$ 1,324,500,487	89.0%	$ 1,096,491,228	87.7%

Investment Objectives

Our primary investment objectives are:

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

to preserve, protect and return your invested capital.

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

Conflicts of Interest

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

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

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

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

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 private real estate program with similar investment objectives, and Cole REIT Advisors, LLC (Cole Advisors), the advisor to Cole REIT I. These conflicts of interest could result in decisions that are not in our best interests. See the Conflicts of Interest section of this 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 September 30, 2006, we had 19 million shares of common stock outstanding.

(2) Cole Holdings Corporation currently owns 20,000 shares of our common stock, which represents less than 1% of our issued and outstanding shares of common stock.

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Prior Offering Summary

As of September 30, 2006, we had sold approximately 19 million shares of common stock in our initial public offering, with gross offering proceeds of approximately $189 million. From this amount, we paid approximately $5.2 million in acquisition fees to Cole Realty Advisors, approximately $1.6 million in finance coordination fees to Cole Advisors, approximately $15.8 million in selling commissions and dealer manager fees to Cole Capital Corporation and approximately $2.8 million in organization and offering cost reimbursement to Cole Advisors.

In addition to our initial public offering, from January 1, 1996 through December 31, 2005, our chairman, chief executive officer and president, Christopher H. Cole, through entities he directly or indirectly controls, has sponsored 65 privately offered real estate programs, including 19 limited partnerships, four debt offerings, 22 tenant-in-common programs, and 17 Delaware statutory trust (DST) program offerings and is currently sponsoring Cole Credit Property Trust, Inc., a privately offered REIT. As of March 31, 2006, such programs have raised an aggregate of approximately $608.1 million from over approximately 6,800 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, 1996 through December 31, 2005. 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 , 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.

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Type of Compensation	Determination of Amount	Estimated Amount for Maximum Offering (150,000,000 shares)
	Offering Stage	
Selling Commission	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 reallow all selling commissions to participating broker-dealers.	$87,500,000
Dealer Manager Fee	We will pay to Cole Capital Corporation 1.5% of gross proceeds of our primary offering; we will not pay a dealer manager fee with respect to sales under our distribution reinvestment plan; Cole Capital Corporation may reallow all or a portion of its dealer manager fees to participating broker-dealers.	$18,750,000
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
	Operational Stage	
Acquisition and Advisory Fees	We will pay to Cole Advisors II 2% of the contract purchase price of each property acquired.	$26,490,010
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.	$6,622,502
Asset Management Fees	We will pay Cole Advisors II a monthly fee equal to 0.02083%, which is one-twelfth of 0.25%, of the aggregate assets value plus costs and expenses incurred by the advisor in providing asset management services.	Not determinable at this time. Because the fee is based on a fixed percentage of aggregate asset value there is no maximum dollar amount of this fee.

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Type of Compensation	Determination of Amount	Estimated Amount for Maximum Offering (150,000,000 shares)
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	Not determinable at this time. Because the fee is based on a fixed

	or to make other permitted investments, or that is assumed, directly or indirectly, in connection with the acquisition of properties, we will pay the advisor a financing coordination fee equal to 1% of the amount available and/or outstanding under such financing, subject to certain limitations.	percentage of any debt financing, there is no maximum dollar amount of this fee.

Type of Compensation	Determination of Amount	Estimated Amount for Maximum Offering (150,000,000 shares)
	Liquidation/ Listing Stage	
Real Estate Commissions	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.	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

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.

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Listing

We will seek to list our shares of common stock for trading on a national securities exchange, The Nasdaq National Market, or any successor exchange or market when and if our independent directors believe listing would be in the best interest of our stockholders. However, at this time, we have no intention to list our shares. We do not anticipate that there will be any market for our common stock unless and until our shares are listed. If we do not list our shares of common stock on a national securities exchange or on The Nasdaq National Market 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   , 2009, which is two years from the effective date of this offering, unless the offering is extended, or the date we sell 25,000,000 shares under the 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 death or bankruptcy of a stockholder. 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; and (2) funding for the redemption of shares will be limited to the amount of net proceeds we receive from the sale of shares under our distribution reinvestment plan. These limits may prevent us from accommodating all requests made in any year. During the term of this offering, and subject to certain provisions described in the section of this prospectus captioned Description of Shares Share Redemption Program, the redemption price per share will depend on the length of time you have held such shares as follows: after one year from the purchase date 92.5% of the amount you paid for each share; after two years from the purchase date 95% of the amount you paid for each share; after three years from the purchase date 97.5% of the amount you paid for each share; and after four years from the purchase date 100% of the amount you paid for each share.

Upon receipt of a request for redemption, we will conduct a Uniform Commercial Code search to ensure that no liens are held against the shares. 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 or The Nasdaq National Market, 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

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stockholders from time to time. You are entitled to one vote for each share of common stock you own at any of these meetings.

Restriction on Share Ownership

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

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RISK FACTORS

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

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

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

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

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

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

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

Our ability to achieve our investment objectives and to pay distributions is dependent upon the performance of Cole Advisors II, our advisor, in the acquisition of our investments, the selection of our tenants and the determination of any financing arrangements. Except for the investments described in this prospectus, you will have no opportunity to evaluate the terms of transactions or other economic or financial data concerning our investments. You must rely entirely on the management ability of Cole Advisors II and the

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

If our advisor loses or is unable to obtain key personnel, our ability to implement our investment strategies could be delayed or hindered, which could adversely affect our ability to make distributions and the value of your investment.

Our success depends to a significant degree upon the contributions of certain of our executive officers and other key personnel of our advisor, including Christopher H. Cole, Blair D. Koblenz, Christopher P. Robertson, John M. Pons, D. Kirk McAllaster, Jr., Sean D. Leahy and Marc T. Nemer, each of whom would be difficult to replace. Our advisor does not have an employment agreement with any of these key personnel and we cannot guarantee that all, or any particular one, will remain affiliated with us and/or advisor. If any of our key personnel were to cease their affiliation with our advisor, our operating results could suffer. Further, we do not intend to separately maintain key person life insurance on Mr. Cole or any other person. We believe that our future success depends, in large part, upon our advisor s ability to hire and retain highly skilled managerial, operational and marketing personnel. Competition for such personnel is intense, and we cannot assure you that our advisor will be successful in attracting and retaining such skilled personnel. If our advisor loses or is unable to obtain the services of key personnel, our ability to implement our investment strategies could be delayed or hindered, and the value of your investment may decline.

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

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

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

Risks Related to Conflicts of Interest

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

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

During the period from January 1, 1996 to December 31, 2005, affiliates of our advisor have sponsored 65 privately offered real estate investment programs, including 24 limited partnerships, a real estate investment trust, four debt offerings and 22 tenant-in-common programs and 17 Delaware Statutory Trust (DST) programs. As of March 31, 2006, such prior programs had raised approximately $608.1 million from approximately 6,800 investors. Affiliates of our advisor may sponsor other real estate investment programs in the future. We may buy properties at the same time as one or more of the other Cole-sponsored programs managed by officers and key personnel of Cole Advisors II. There is a risk that Cole Advisors II will choose a property that provides lower returns to us than a property purchased by another Cole-sponsored program. We cannot be sure that officers and key personnel acting on behalf of Cole Advisors II and on behalf of managers of other Cole-sponsored programs will act in our best interests when deciding whether to allocate any particular property to us. In addition, we may acquire properties in geographic areas where other Cole-sponsored programs own properties. Also, we may acquire properties from, or sell properties to, other Cole-sponsored programs. If one of the other Cole-sponsored programs attracts a tenant that we are competing for, we could suffer a loss of revenue due to delays in locating another suitable tenant. You will not have the opportunity to evaluate the manner in which these conflicts of interest are resolved before or after making your investment. Similar conflicts of interest may apply if our advisor determines to make or purchase mortgage loans or participations in mortgage loans on our behalf, since other Cole-sponsored programs may be competing with us for these investments.

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

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

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

Cole Capital Partners, LLC (Cole Capital Partners), an affiliate of our advisor, has developed programs to facilitate the acquisition of real estate properties in co-ownership arrangements with persons who are looking to invest proceeds from a sale of real estate in order to qualify for like-kind exchange treatment under Section 1031 of the Internal Revenue Code (a Section 1031 Program). Section 1031 Programs are structured as co-ownership arrangements with other investors in the property (Section 1031 Participants) who are seeking to defer taxes under Section 1031 of the Internal Revenue Code. These programs are structured either as a tenant-in-common program or by use of a Delaware Statutory Trust. When Cole Capital Partners develops such a program, it generally organizes a new entity (a Cole Exchange Entity) to acquire all or part of a property. We may participate in the program by either co-investing in the property with the Cole Exchange Entity or purchasing a co-ownership interest from the Cole Exchange Entity, generally at the Cole Exchange Entity s cost. In that event, as a co-owner of properties, we will be subject to the risks inherent in the co-ownership arrangements with unrelated third parties. Our purchase of co-ownership interests will present conflicts of interest between us and affiliates of our advisor. The business interests of Cole Capital Partners and the Cole Exchange Entity may be adverse to, or to the detriment of, our interests. Further, any agreement that we enter into with a Cole Exchange Entity will not be negotiated in an arm s-length transaction and, as a result of the affiliation between our advisor, Cole Capital Partners and the Cole Exchange Entity, our advisor may be reluctant to enforce the agreements against such entities.

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

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

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

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

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

Under our advisory agreement, Cole Advisors II is entitled to fees that are structured in a manner intended to provide incentives to our advisor to perform in our best interests and in the best interests of our stockholders. However, because our advisor does not maintain a significant equity interest in us and is entitled to receive substantial minimum compensation regardless of performance, our advisor s interests are not wholly aligned with those of our stockholders. In that regard, our advisor could be motivated to recommend riskier or more speculative investments in order for us to generate the specified levels of performance or sales proceeds that would entitle our advisor to fees. In addition, our advisor s entitlement to fees upon the sale of our assets and to participate in sale proceeds could result in our advisor recommending sales of our investments at the earliest possible time at which sales of investments would produce the level of return that would entitle the advisor to compensation relating to such sales, even if continued ownership of those investments might be in our best long-term interest. Our advisory agreement requires us to pay a performance-based termination fee to our advisor in the event that we terminate the advisor prior to the listing of our shares for trading on an exchange or, absent such listing, in respect of its participation in net sales proceeds. To avoid paying this fee, our independent directors may decide against terminating the advisory agreement prior to our listing of our shares or disposition of our investments even if, but for the termination fee, termination of the advisory agreement would be in our best interest. In addition, the requirement to pay the fee to the advisor at termination could cause us to make different investment or disposition decisions than we would otherwise make, in order to satisfy our obligation to pay the fee to the terminated advisor. Moreover, our advisor has the right to terminate the advisory agreement upon a change of control of our company and thereby trigger the payment of the performance fee, which could have the effect of delaying, deferring or preventing the change of control.

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

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

Risks Related to This Offering and Our Corporate Structure

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Maryland law provides a second anti-takeover statute, its Control Share Acquisition Act, which provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by the corporation s disinterested stockholders by a vote of two-thirds of the votes entitled to be cast on the matter. Shares of stock owned by interested stockholders, that is, by the acquirer, by officers or by directors who are employees of the corporation, are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock that would entitle the acquirer to exercise voting power in electing directors within specified ranges of voting power. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder

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approval. A control share acquisition means the acquisition of control shares. The control share acquisition statute does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the articles of incorporation or bylaws of the corporation. Our bylaws contain a provision exempting from the Control Share Acquisition act any and all acquisitions of our common stock by Cole Advisors II or any affiliate of Cole Advisors II. This statute could have the effect of discouraging offers from third parties to acquire us and increasing the difficulty of successfully completing this type of offer by anyone other than our affiliates or any of their affiliates. For a more detailed discussion on the Maryland laws governing control share acquisitions, see the section of this prospectus captioned Description of Shares Control Share Acquisitions.

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

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

- limitations on capital structure;
- restrictions on specified investments;
- prohibitions on transactions with affiliates; and
- compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly change our operations.

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

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

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

Our board of directors determines our major policies, including our policies regarding investments, financing, growth, debt capitalization, REIT qualification and distributions. Our board of directors may amend 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 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; and (2) funding for the redemption of shares will be limited to the net proceeds we receive from the sale of shares under our distribution reinvestment plan. These limits might prevent us from accommodating all redemption requests made in any year. See the Description of Shares Share Redemption Program section of this prospectus for more information about the share redemption program. These restrictions severely limit your ability to sell your shares should you require liquidity, and limit your ability to recover the value you invested or the fair market value of your shares.

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

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

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

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

Your interest in Cole REIT II 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 September 30, 2006, we had sold approximately 19 million shares of common stock in our initial public offering, with gross offering proceeds of approximately $189 million. From this amount, we paid approximately $5.2 million in acquisition fees to Cole Realty Advisors, approximately $1.6 million in finance coordination fees to Cole Advisors, approximately $15.8 million in selling commissions and dealer manager fees to Cole Capital Corporation and approximately $2.8 million in organization and offering cost reimbursement to Cole Advisors. For a more detailed discussion of these fees, see the Management Compensation section of this prospectus.

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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. 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 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.

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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 effects that geographic area would have a magnified adverse effect on our portfolio. Similarly, if our tenants are concentrated in a certain industry or industries, any adverse effect to that industry generally would have a disproportionately adverse effect on our portfolio.

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

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

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

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

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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.

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.

As of October 30, 2006, approximately 83% 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 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

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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 cannot assure you that will have adequate 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.

Revenue from our properties depends on the amount of our tenants retail revenue, making us vulnerable to general economic downturns and other conditions affecting the retail industry.

As of October 30, 2006, approximately 69% of our leases provide for base rent plus contractual base rent increases. Some of our leases may also include a percentage rent clause for additional rent above the base amount based upon a specified percentage of the sales our tenants generate. Under those leases that contain percentage rent clauses, our revenue from tenants may decrease as the sales of our tenants decrease. Generally, retailers face declining revenues during downturns in the economy. As a result, the portion of our revenue that we derive from percentage rent leases could decline upon a general economic downturn. As of October 30, 2006, approximately 100% of our current rental revenue is from base rents and approximately 0% is from rents based on a specific percentage of sales.

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

Some of our properties will most likely be contiguous to other parcels of real property, comprising part of the same retail center. In connection with such properties, there will likely exist 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. As of October 30, 2006, approximately 13% of our properties are subject to CC&Rs.

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

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

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

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

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

- our development company affiliate fails to develop the property;
- all or a specified portion of the pre-leased tenants fail to take possession under their leases for any reason; or
- we are unable to raise sufficient proceeds from our offering to pay the purchase price at closing.

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.

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

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

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

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

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

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. Some of these 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.

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; however, we will not obtain an independent third-party environmental assessment for every property we acquire. In addition, we cannot assure you that any such assessment that we do obtain will 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.

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

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

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

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

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 October 30, 2006, we had total outstanding indebtedness of approximately $180 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

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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. We expect that during the period of this offering we will request that our independent directors approve borrowings in excess of this limitation since we will then be in the process of raising our equity capital to acquire our portfolio. As a result, we expect that our debt levels will be higher until we have invested most of our capital.

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

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 October 30, 2006, we had approximately $180 million of indebtedness, including approximately $3.9 million of variable-rate debt. We expect that we will incur variable-rate indebtedness in the future. To the extent that we incur variable rate debt, increases in interest rates would increase our interest costs, which could reduce our cash flows and our ability to pay distributions to you. In addition, if we need to repay existing debt during periods of rising interest rates, we could be required to liquidate one or more of our investments in properties at times that may not permit realization of the maximum return on such investments.

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

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

Risks Associated with Co-Ownership Transactions

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

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

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

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

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

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

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

- we could have limited control and rights, with management decisions made entirely by a third-party; or the possibility that we will not have the right to sell the property at a time that otherwise could result in the property being sold for its maximum value.

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

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

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

Federal Income Tax Risks

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

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

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

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

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

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

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

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

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

Legislative or regulatory action could adversely affect investors.

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

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

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investor did not at any time during a specified testing period directly or indirectly own more than 5% of the value of our outstanding common stock. See Federal Income Tax Considerations Special Tax Considerations for Non-U.S. Stockholders Sale of our Shares by a Non-U.S. Stockholder.

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

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

- your investment is consistent with your fiduciary obligations under ERISA and the Internal Revenue Code;
- your investment is made in accordance with the documents and instruments governing your plan or IRA, including your plan s investment policy;
- your investment satisfies the prudence and diversification requirements of ERISA;
- your investment will not impair the liquidity of the plan or IRA;
- your investment will not produce UBTI for the plan or IRA;
- you will be able to value the assets of the plan annually in accordance with ERISA requirements; and
- your investment will not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the Internal Revenue Code.

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

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. Such statements include, in particular, statements about our plans, strategies and prospects. These forward-looking statements can be identified by the use of forward-looking terminology such as may, will, anticipates, expects, intends, plans, believes, seeks, estimates, woul and variations of these words and similar expressions. Although we believe that our expectations reflected in the forward-looking statements are based on reasonable assumptions, these expectations may not prove to be correct. Important factors that could cause our actual results to differ materially from the expectations reflected in these forward-looking statements include those set forth under Risk Factors above, as well as general economic, business and market conditions, changes in federal and local laws and regulations and increased competitive pressures.

These forward-looking statements are subject to various risks and uncertainties, including those discussed above under Risk Factors, that could cause our actual results to differ materially from those projected in any forward-looking statement we make. We do not undertake to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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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 89.0% of the money that stockholders invest will be used to buy real estate or make other investments, while the remaining approximately 11.0% 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.

	Offering Amount(1)		Percent
Gross Offering Proceeds	$	1,487,500,000	100%
Less Public Offering Expenses:			
Selling Commissions and Dealer Manager Fee(2)		106,250,000	7.1%
Organization and Offering Expenses(3)		22,312,500	1.5%
Amount Available for Investment(4)	$	1,358,937,500	91.4%
Acquisition and Development			
Acquisition and Advisory Fees(5)		26,490,010	1.8%
Acquisition Expenses(6)		6,622,502	0.5%
Initial Working Capital Reserve(7)		1,324,501	0.1%
Amount Invested in Properties(8)	$	1,324,500,487	89.0%

(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 1.5% 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 reallow 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 reallow its dealer manager fee up to 1.5% 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

miscellaneous expenses relating to the selection, acquisition and development of real estate properties. For purposes of this table, we have assumed expenses of 0.5% of average invested assets, which for purposes of this table we have assumed is our estimated amount invested in properties; however, expenses on a particular acquisition may be higher. Notwithstanding the foregoing, the total of all acquisition expenses and acquisition fees payable with respect to a particular property or investment shall be reasonable, and shall not exceed an amount equal to 4% of the contract purchase price of the property, or in the case of a mortgage loan 4% of the funds advanced, unless a majority of our directors (including a majority of our independent directors) not otherwise interested in the transaction approve fees and expenses in excess of this limit and determine the transaction to be commercially competitive, fair and reasonable to us.

(7) Working capital reserves typically are utilized for extraordinary expenses that are not covered by revenue generation of the property, such as tenant improvements, leasing commissions and major capital expenditures. Alternatively, a lender may require its own formula for escrow of working capital reserves. Because we expect most of our leases will be net leases, as described elsewhere herein, we do not expect to maintain significant working capital reserves.

(8) Includes amounts anticipated to be invested in properties net of fees, expenses and initial working capital reserves.

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MANAGEMENT

General

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

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

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

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

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

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

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.

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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.

Name	Age	Position(s)
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	Senior Vice President, Secretary and General Counsel
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 and President of Cole Advisors II since its formation. Mr. Cole also has served as the President and Chief Executive Officer of Cole Capital Partners since 2003 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 and President of Cole Capital Advisors, Inc. (Cole Capital Advisors), Equity Fund Advisors, Inc. (Equity Fund Advisors), and Cole Advisors. Mr. Cole is the Chief Executive Officer, President and Treasurer of Cole Realty 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 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 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 Executive Vice President and Chief Financial Officer of Cole Capital Partners, Cole Capital Advisors, Equity Fund Advisors, Cole Advisors and Cole Advisors II. Mr. Koblenz is the Executive Vice President, Chief Financial Officer and Secretary of Cole Realty Advisors. 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, Partnership Advisors, 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/ 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 Senior Vice President and General Counsel of Cole Capital Partners, Cole Capital Advisors and Equity Fund Advisors, and is Senior Vice President, 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 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 eleven 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. Mr. Bromley has 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, Atlanta, South Florida, Washington, D.C. and Southern California that is listed on the New York Stock Exchange, since December 1993. 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 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 John 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 (or greater, if such higher price is necessary so that such option shall not be considered a nonqualified deferred compensation plan under Section 409A of the Internal Revenue Code) and vest after one year from the date of grant. We expect that the independent directors will continue to receive an additional 5,000-share option grants on the date of each annual meeting of stockholders, each with an exercise price equal to $9.15 per share during such time as we are offering shares to the public at $10.00 per share and thereafter at 100% of the then-current fair market value per share. All directors receive reimbursement of reasonable out-of-pocket expenses incurred in connection with attendance at meetings of our board of directors. If a director is also an employee of Cole REIT II or Cole Advisors II or their affiliates, we do not pay compensation for services rendered as a director. We do not compensate Mr. Cole for his service to us on the board of directors.

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 (or greater, if such higher price is necessary so that such options shall not be considered a nonqualified deferred compensation plan under Section 409A of the Internal Revenue Code). It is intended that the exercise price for future options granted under our independent director stock option plan will be at least 100% of the fair market value of our common stock as of the date that the option is granted.

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

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

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

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

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

Provisions Applicable to Our Stock Option Plan

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

- accelerate the vesting and/or exercisability of the non-assumed option;
- unilaterally cancel any such non-assumed option that has not vested and/or that has not become exercisable;
- unilaterally cancel such non-assumed option in exchange for:
  - whole and/or fractional shares (or for whole shares and cash in lieu of any fractional share) that, in the aggregate, are equal in value to the gain that could be realized by the award recipient upon the exercise of such option (taking into account vesting and/or exercisability of such option); or
  - cash or other property equal in value to the gain that could be realized upon the exercise of such option (taking into account vesting and/or exercisability of such option);
- unilaterally cancel such non-assumed option after providing the holder of such option with (1) an opportunity to exercise such non-assumed option to the extent vested within a specified period prior to the date of the change of control, and (2) notice of such opportunity to exercise prior to the commencement of such specified period; and/or
- unilaterally cancel such non-assumed option if there would be no gain realized upon the immediate exercise price of such option (taking into account vesting).

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

Compliance with the American Jobs Creation Act

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

Under Section 409A, nonqualified deferred compensation plans must meet certain requirements regarding the timing of distributions or payments and the timing of agreements or elections to defer payments, and must also prohibit any possibility of acceleration of distributions or payments, as well as certain other requirements. Currently, based on the statutory language and the committee reports accompanying the statute, it is possible that some stock options (those with an exercise price that is ever less than the fair market value of the underlying stock as of the date of grant) could 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 gross income to the extent not subject to a substantial risk of forfeiture and not previously included in the gross income of the affected individual, (ii) interest at the underpayment rate plus one percent 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), and (iii) a 20% additional tax would be imposed on the amounts required to be included in 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 being paid to the individual from which we could withhold taxes. We will 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 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 either because the options, award, agreement or arrangement will not be considered a nonqualified deferred compensation plan, or our expectation that the Internal Revenue Service will provide guidance or regulations clarifying that Section 409A would not apply to such option, award, agreement or arrangement. Furthermore, if this belief is not correct, we intend to either terminate or modify such option, award, agreement or arrangement (during a transitional period that the Internal Revenue Service is required to provide by Section 885(f) of the American Jobs Creation Act of 2004, which enacted Section 409A) 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 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

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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.

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.

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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:

Name	Age	Position(s)
Christopher H. Cole	54	Chief Executive Officer and President
Blair D. Koblenz	48	Executive Vice President and Chief Financial Officer
Christopher P. Robertson	40	Senior Vice President, Acquisitions
John M. Pons	43	Senior Vice President, Secretary and General Counsel
D. Kirk McAllaster, Jr.	39	Vice President, Finance and Accounting
Sean D. Leahy	36	Director of Real Estate and Portfolio Management
Marc T. Nemer	33	Legal Counsel Securities

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.

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.

D. Kirk McAllaster, Jr. is Vice President, Finance and Accounting of Cole Capital Partners, Cole Advisors and Cole Advisors II. Prior to joining Cole in May 2003, Mr. McAllaster worked for six years with Deloitte & Touche LLP, most recently as Audit Senior Manager. He has over 16 years of accounting and

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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.

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 Legal Counsel   Securities 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 executive officers 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;
- 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 October 30, 2006, its affiliates had approximately 80 full-time employees, each of whom may dedicate a portion of his or her time providing services to our advisor. Our advisor is responsible for a pro rata portion of each employee s compensation based upon the approximate percentage of time the employee dedicates to our advisor. Cole Advisors II may assign the advisory agreement to an affiliate upon approval of a majority of our independent directors. We may assign or transfer the advisory agreement to a successor entity; provided that at least a majority of our independent directors determines that any such successor advisor possesses sufficient qualifications to perform the advisory function and to justify the compensation payable to the advisor. Our independent directors will base their determination on the general facts and circumstances that they deem applicable, including the overall experience and specific industry experience of the successor advisor and its management. Other factors that will be considered are the compensation to be paid to the successor advisor and any potential conflicts of interest that may occur.

The fees payable to Cole Advisors II under the advisory agreement are described in further detail in the section captioned Management Compensation below. We also describe in that section our obligation to reimburse Cole

Advisors II for organization and offering expenses, administrative and management services, and payments made by Cole Advisors II to third parties in connection with potential acquisitions.

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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, President and Treasurer of Cole Realty Advisors, and Blair D. Koblenz serves as its Executive Vice President, Chief Financial Officer 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 ,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 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:

Name	Age	Position(s)
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.

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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)
	Offering Stage	
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 1.5% 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.	$18,750,000
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	
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.	$26,490,010

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Type of Compensation(1)	Determination of Amount	Estimated Amount for Maximum Offering(2)
Acquisition Expenses Cole Advisors II	We will reimburse our advisor for acquisition expenses incurred in the process of acquiring property. We expect these expenses to be approximately 0.5% of the purchase price of each property. In no event will the total of all fees and acquisition expenses payable with respect to a particular property or investment exceed 4% of the contract purchase price.	$6,622,502
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.

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

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

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

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

(3) Selling commissions and, in some cases, the dealer manager fee, will not be charged with regard to shares sold to or for the account of certain categories of purchasers. See Plan of Distribution. Selling commissions and the dealer manager fee will not be charged with regard to shares purchased pursuant to our distribution reinvestment plan.

(4) These organization and offering expenses include all expenses (other than selling commissions and the dealer manager fee) to be paid by us in connection with the offering, including our legal, accounting, printing, mailing and filing fees, charges of our escrow holder, due diligence expense reimbursements to participating broker-dealers and amounts to reimburse Cole Advisors II for its portion of the salaries of the employees of its affiliates who provide services to our advisor and other costs in connection with preparing supplemental sales materials, holding educational conferences and attending retail seminars conducted by broker-dealers. Our advisor will be responsible for the payment of all such organization and offering expenses to the extent such expenses exceed 1.5% of the aggregate gross proceeds of this offering.

(5) This estimate assumes the amount of proceeds available for investment is equal to the gross offering proceeds less the public offering expenses, and we have assumed that no financing is used to acquire properties or other real estate assets. Our board s investment policies limit our ability to purchase property if the total of all acquisition fees and expenses relating to the purchase exceeds 4% of the contract purchase price unless a majority of our directors (including a majority of our independent directors) not otherwise interested in the transaction approve fees and expenses in excess of this limit and determine the transaction to be commercially competitive, fair and reasonable to us.

(6) Included in the computation of such fees will be any real estate commission, acquisition and advisory fee, development fee, construction fee, non-recurring management fee, loan fees, financing coordination fees or points or any fee of a similar nature.

(7) Aggregate asset value will be equal to the aggregate value of our assets (other than investments in bank accounts, money markets funds or other current assets) at cost before deducting depreciation, bad debts or other similar non-cash reserves and without reduction for any debt relating to such assets at the date of measurement, except that during such periods in which our board of directors is determining on a regular basis the current value of our net assets for purposes of enabling fiduciaries of employee benefit plans stockholders to comply with applicable Department of Labor reporting requirements, aggregate asset value is the greater of (i) the amount determined pursuant to the foregoing or (ii) our assets aggregate valuation most recently established by our board without reduction for depreciation, bad debts or other similar non-cash reserves and without reduction for any debt secured by or relating to such assets.

(8) The property management and leasing fees payable to Cole Realty Advisors are subject to the limitation that the aggregate of all property management and leasing fees paid to Cole Realty Advisors and its affiliates plus all payments to third parties for property management and leasing services may not exceed the amount that other non-affiliated property management and leasing companies generally charge for similar services in the same geographic location. Additionally, all property management and leasing fees, including both those paid to Cole Realty Advisors and third parties, are subject to the limit on total operating expenses as described in footnote (4). Cole Realty Advisors may subcontract its duties for a fee that may be less than the fee provided for in our property management agreement with Cole Realty Advisors.

(9) We may reimburse our advisor in excess of that limit in the event that a majority of our independent directors determine, based on unusual and non-recurring factors, that a higher level of expense is justified. In such an event, we will send notice to each of our stockholders within 60 days after the end of the fiscal quarter for which such determination was made, along with an explanation of the factors our independent directors considered in making such determination. We will not reimburse our advisor for personnel costs in connection with services for which the advisor receives acquisition fees or real estate commissions.

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

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

(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 or included for quotation on The Nasdaq National Market, 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. Our independent directors shall also supervise the performance of our advisor and the compensation that we pay to it to determine that the provisions of our advisory agreement are being carried out.

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

- the size of the advisory fee in relation to the size, composition and profitability of our portfolio;
- the success of Cole Advisors II in generating opportunities that meet our investment objectives;
- the rates charged to other REITs, especially similarly structured REITs, and to investors other than REITs by advisors performing similar services;
- additional revenues realized by Cole Advisors II through its relationship with us;
- the quality and extent of service and advice furnished by Cole Advisors II;
- the performance of our investment portfolio, including income, conservation or appreciation of capital, frequency of problem investments and competence in dealing with distress situations; and
- 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.

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.

	Common Stock Beneficially Owned(2)	
Name of Beneficial Owner(1)	**Number of Shares of Common Stock**	**Percentage of Class**
Cole Holdings Corporation	20,000	*
Christopher H. Cole, Chairman of the Board of Directors, Chief Executive Officer and President(3)	20,000	*
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	5,000	*
Elizabeth L. Watson, Independent Director	5,000	*
All directors and executive officers as a group (five persons)(3)	30,000	*

* 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) 19 million shares outstanding as of September 30, 2006, and (b) shares issuable pursuant to options held by the respective person or group that may be exercised within 60 days following the date of this prospectus. 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. Mr. Cole is the sole stockholder of Cole Holdings Corporation and controls the voting and disposition decisions of Cole Holdings Corporation.

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 us and our subsidiaries. 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 June 30, 2006, an affiliate of our advisor has issued approximately $63.3 million of debt pursuant to three private offerings, the proceeds of which were used to acquire single-tenant properties in 31 states. Cole Capital Partners, an affiliate of our advisor, has sponsored 16 currently operating tenant-in-common 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 19 different states, including Cole Credit Property Fund Limited Partnership (Cole Credit LP I) and Cole Credit Property Fund II Limited Partnership (Cole Credit LP II). See Prior Performance Summary. Affiliates of our officers and entities owned or managed by such affiliates also may acquire or develop real estate for their own accounts, and have done so in the past. Furthermore, affiliates of our officers and entities owned or managed by such affiliates intend to form additional real estate investment entities in the future, whether public or private, which can be expected to have the same investment objectives and policies as we do and which may be involved in the same geographic area, and such persons may be engaged in sponsoring one or more of such entities at approximately the same time as our shares of common stock are being offered. Our advisor, its affiliates and affiliates of our officers are not obligated to present to us any particular investment opportunity that comes to their attention, even if such opportunity is of a character that might be suitable for investment by us. Our advisor and its affiliates likely will experience conflicts of interest as they simultaneously perform services for us and other affiliated real estate programs.

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

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

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Other Activities of Cole Advisors II and its Affiliates

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

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

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

Competition in Acquiring, Leasing and Operating of Properties

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

Affiliated Dealer Manager

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

Affiliated Property Manager

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

Lack of Separate Representation

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

Joint Ventures with Affiliates of Cole Advisors II

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

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

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

Certain Conflict Resolution Procedures

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

In order to reduce or eliminate certain potential conflicts of interest, our charter contains a number of restrictions relating to (1) transactions we enter into with Cole Advisors II and its affiliates, (2) certain future

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offerings, and (3) allocation of investment opportunities among affiliated entities. These restrictions include, among others, the following:

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

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

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

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

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

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

the policy of each program relating to leverage of properties;

the income tax effects of the purchase to each program;

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

If a subsequent development, such as a delay in the closing of a property or a delay in the construction of a property, causes any such investment, in the opinion of Cole Advisors II, to be more appropriate for a program other than the program that committed to make the investment, Cole Advisors II may 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 1% of our outstanding common stock as of October 30, 2006.

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 or for quotation on The Nasdaq National Market 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 or include them for quotation on The Nasdaq National Market by the tenth anniversary of the termination or completion of this offering, our charter requires that we either:

- seek stockholder approval of an extension or amendment of this listing deadline; or
- seek stockholder approval to adopt a plan of liquidation of the corporation.

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

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

Acquisition and Investment Policies

Types of Investments

We invest primarily in income-generating retail properties, net leased to investment grade and other creditworthy tenants. Our investments may be direct investments in such properties or in other entities that own or invest in, directly or indirectly, interests in such properties. We seek to acquire a portfolio of real estate that is diversified by geographical location and by type and size of property. Currently, our portfolio consists primarily of freestanding, single-tenant properties net leased for use as retail establishments. A portion of our portfolio also includes multi-tenant retail properties and single-tenant properties leased to office and industrial tenants. Although we expect our portfolio will continue to consist primarily of freestanding, single-tenant properties, we expect to continue to invest in other property types, including office and industrial properties, leased to one or more tenants. In addition, we expect to further diversify our portfolio by investing in multi-tenant properties that compliment our overall investment objectives and mortgage loans (See Making Loans and Investments in Mortgages).

Many of our properties will be leased to tenants in the chain or franchise retail industry, including but not limited to convenience stores, drug stores and restaurant properties. Other properties may be leased to large, national big box retailers, so-called power centers, which are comprised of big box retailers and smaller retail establishments, and other multi-tenant properties that compliment our overall investment objectives. Our advisor monitors industry trends and invests in properties on our behalf that serve to provide a favorable return balanced with risk. Our management primarily targets retail businesses with established track records. This industry is highly property dependent, therefore our advisor believes it offers highly competitive sale-leaseback investment opportunities.

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

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

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

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

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

Investment Grade and Other Creditworthy Tenants

In evaluating potential property acquisitions consistent with our investment objectives, we will 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 will be national or super-regional retail chains of 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. As of October 30, 2006, approximately 46% of all scheduled lease payments were projected to be derived from tenants that maintain an investment grade credit rating, while approximately 32% and 22% of scheduled lease payments were projected to be derived from non-investment grade tenants and non-rated tenants, respectively. Changes in tenant credit ratings, coupled with future acquisition and disposition activity, may increase or decrease our concentration of investment grade tenants in the future.

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

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

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

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

Description of Leases

We typically purchase single-tenant properties with existing leases, and when spaces become vacant or existing leases expire we anticipate entering into net leases. Net leases means leases that typically require that tenants pay all or a majority of the operating expenses, including real estate taxes, special assessments and sales and use taxes, utilities, insurance and building repairs related to the property, in addition to the lease payments. There are various forms of net leases, typically classified as triple net or double net. Triple net leases typically require the tenant to pay all costs associated with a property in addition to the base rent and percentage rent, if any. Double net leases typically have the landlord responsible for the roof and structure, or other aspects of the property, while the tenant is responsible for all remaining expenses associated with the property. In the event that we acquire multi-tenant properties, we expect to have a variety of lease arrangements with the tenants of such properties. Since each lease is an individually negotiated contract between two or more parties, each contract will have different obligations of both the landlord and tenant. Many large national tenants have standard lease forms that generally do not vary from property to property, and we will have limited ability to revise the terms of leases to those tenants.

We anticipate that a majority of our acquisitions will have lease terms of ten years or more at the time of the acquisition. We may acquire properties under which the lease term has partially run. 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 Corporation and any entity formed under Cole Holdings Corporation.

Some leases do require that the ownership entity 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 ownership entity procures such insurance, the policy lists the ownership entity 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. The original tenant generally will remain fully liable under the lease unless we release that tenant.

Other Possible Investments

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

Our criteria for investing in mortgage loans will be substantially the same as those involved in our investment in properties. We do not intend to make loans to other persons (other than mortgage loans), to underwrite securities of other issuers or to engage in the purchase and sale of any types of investments other than interests in real estate.

Investment Decisions

Cole Advisors II has substantial discretion with respect to the selection of specific investments and the purchase and sale of our properties, subject to the approval of our board of directors. In pursuing our investment 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
- 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 advisor will consider whether properties are leased by, or have leases guaranteed by, companies that maintain an investment grade rating by either Standard and 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 will carefully review the terms of each existing lease by considering various factors, including:

- rent escalations
- remaining lease term
- renewal option terms
- tenant purchase options
- termination options

scope of the landlord s maintenance, repair and replacement requirements

projected net cash flow yield

projected internal rates of return.

Conditions to Closing Our Acquisitions

Generally, we will 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 will 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 asses 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 identity 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, is normally surrendered if the property is not purchased and is normally 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 Our Operating Partnership Agreement elsewhere in this prospectus and Joint Venture Investments sections 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, we cannot assure you that the Internal Revenue Service will not challenge this characterization. In the event that any sale-leaseback transaction is re-characterized as a financing transaction for federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed. See Federal Income Tax Considerations Sale-Leaseback

Transactions.

Joint Venture Investments

We may enter into joint ventures, partnerships, co-tenancies and other co-ownership arrangements with third parties as well as affiliated entities, including other real estate programs sponsored by affiliates of our advisor for the acquisition, development or improvement of properties with affiliates of our advisor, including other real estate programs sponsored by affiliates of our advisor. We may also enter into such arrangements

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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 September 30, 2006, we had an aggregate debt leverage ratio of 52% of the aggregate original purchase price of our properties.

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

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

Making Loans and Investments in Mortgages

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

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

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

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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 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.

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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 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 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.

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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 places numerous limitations on us with respect to the manner in which we may invest our funds or issue securities. These limitations cannot be changed unless our charter is amended, which requires approval of our stockholders. Unless our charter is amended, 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.

Real Property Investments

We engage in the acquisition and ownership of commercial real properties throughout the United States. We invest primarily in income-generating retail properties, net leased to investment grade and other creditworthy tenants. As of October 30, 2006, we owned 100% fee simple interest, through our operating partnership and its wholly-owned subsidiaries, in 71 properties, comprising approximately 2.3 million rentable square feet, located in 23 states.

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The following table shows lease expirations of our portfolio as of October 30, 2006, during each of the next ten years and thereafter, assuming no exercise of renewal options or termination rights:

Year of Lease Expiration	Total Number of Leases	Rentable Square Feet Expiring	2006 Annualized Gross Base Rent	Percentage of Total 2006 Annualized Gross Base Rent
Vacant			$	0%
2007 2015	9	580,373	3,103,777	12%
2016	7	274,649	2,699,715	10%
Thereafter	55	1,432,846	20,722,878	78%
	71	2,287,868	26,526,370	100%

As of December 31, 2005, we had the following indebtedness outstanding:

rty	Location	Fixed Rate Loan Amount	Fixed Interest Rate	Maturity Date	Variable Rate Loan Amount	Maturity Date	Tota Loan Outstan
ch mortgage	Auburn Hills, MI	$	N/A	N/A	$ 17,700,000	December 14, 2006	$ 17,700
s mortgage	Enterprise, AL	4,859,000	5.52%	December 11, 2010	1,121,000	March 1, 2006	5,980
eens age note	Olivette, MO	5,379,146	5.15%	July 11, 2008		N/A	5,379
eens (Gravois mortgage note	Saint Louis, MO	3,999,000	5.48%	November 11, 2015	923,000	February 2, 2006	4,922
Ground ution Center age note	Rockford, IL	3,998,000	5.61%	December 11, 2010	922,000	March 10, 2006	4,920
Boy age note	Glendale, AZ	3,415,000	5.76%	November 11, 2010	1,138,000	January 25, 2006	4,553
eens age note	Columbia, MO	4,487,895	5.15%	July 11, 2008		N/A	4,487
d Party Note	N/A		N/A	N/A	4,453,000	June 30, 2006	4,453
eens age note	Florissant, MO	3,372,000	5.48%	November 11, 2015	778,000	February 2, 2006	4,150
eens raph Rd) age note	St. Louis, MO	3,289,000	5.48%	November 11, 2015	759,000	February 2, 2006	4,048
	Brainerd, MN	2,814,000	5.44%	October 11, 2015	649,000	January 4, 2006	3,463

eens age note							
mortgage	Richland Hills, TX	2,379,000	5.52%	December 11, 2010	549,000	March 8, 2006	2,928
mortgage	Alpharetta, GA	2,015,000	5.52%	December 11, 2010	465,000	March 1, 2006	2,480
r Supply age note	Parkersburg, WV	1,793,000	5.57%	October 11, 2015		N/A	1,793
ndebtedness		$ 41,800,041			$ 29,457,000		$ 71,257

The fixed rate debt mortgage notes require monthly interest-only payments with the principal balance due July 2008 through December 2015. The variable rate debt mortgage notes bear interest at the one-month LIBOR rate plus 200 basis points and require monthly interest-only payments. Each of the mortgage notes are secured by the respective property. The mortgage notes are generally non-recourse to us and Cole Op II, but both Cole Op II and we are liable for customary non-recourse carveouts.

The mortgage notes may not be prepaid, in whole or in part, except under the following circumstances: (i) full prepayment may be made on any of the three (3) monthly payment dates occurring immediately prior to the maturity date, and (ii) partial prepayments resulting from the application of insurance or condemnation proceeds to reduce the outstanding principal balance of the mortgage notes. Notwithstanding the prepayment limitations, we may sell the properties to a buyer that assumes the respective mortgage loan. The transfer would be subject to the conditions set forth in the individual property s mortgage note document, including without limitation, the lender s approval of the proposed buyer and the payment of the lender s fees, costs and expenses associated with the sale of the property and the assumption of the loan.

In the event that a mortgage note is not paid off on the respective maturity date, each mortgage note includes hyperamortization provisions. The interest rate during the hyperamortization period shall be the fixed interest rate as stated on the respective mortgage note agreement plus 2.0%. The individual mortgage note maturity date, under the hyperamortization provisions, will be extended by 20 years. During such period, the lender will apply 100% of the rents collected to (i) all payments for escrow or reserve accounts, (ii) payment

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of interest at the original fixed interest rate, (iii) payments for the replacement reserve account, (iv) any other amounts due in accordance with the mortgage note agreement other than any additional interest expense, (v) any operating expenses of the property pursuant to an approved annual budget, (vi) any extraordinary expenses, (vii) payments to be applied to the reduction of the principal balance of the mortgage note, and (viii) any additional interest expense which is not paid will be added to the principal balance of the mortgage note.

The weighted average interest rate relating to the fixed rate debt mortgage at December 31, 2005 was approximately 5.47%.

As of June 30, 2006, we had the following mortgage notes payable:

ty	Location	Fixed Rate Loan Amount	Fixed Interest Rate	Maturity Date	Variable Rate Loan Amount(1)	Maturity Date	Tot Loan Acquis
ny Sports g goods	Macon, GA	$ 3,478,000	5.69%	January 11, 2016	$ 802,000(2)	April 6, 2006	$ 4,28
s Bridal y retail	Lenexa, KS	1,799,000	5.86%	January 11, 2011	817,000(2)	April 11, 2006	2,61
d drugstore	Enterprise, AL	2,043,000	5.80%	February 11, 2016	928,000(2)	April 26, 2006	2,97
d drugstore	Wauseon, OH	2,142,000	5.80%	February 11, 2016	973,000(2)	April 26, 2006	3,11
office supply	Crossville, TN	1,885,000	5.71%	February 11, 2011	435,000(2)	April 26, 2006	2,32
d drugstore	Saco, ME	1,375,000	5.82%	February 11, 2011	625,000(2)	April 27, 2006	2,00
orth ard place	Denver, CO	12,025,000	5.57%	March 1, 2011	2,275,000(2)	December 31, 2006	14,30
inside Fitness	Chandler, AZ		N/A	N/A	4,690,400(2)	December 31, 2006	4,69
Heritage e retail	Hickory, NC	2,763,000	5.80%	March 11, 2011	637,000(2)	May 24, 2006	3,40
d Square retail	Spring, TX	5,940,000	5.64%	April 1, 2016		N/A	5,94
ugstore	Portsmouth, OH	1,424,000	5.67%	March 11, 2011	329,000(2)	June 8, 2006	1,75
convenience	Various		N/A	N/A	7,234,787(3)	February 26, 2010	7,23
ugstore	Lakewood, OH	1,348,000	5.77%	May 11, 2011	612,000	July 20, 2006	1,96
d drugstore	Cleveland, OH	1,413,000	6.05%	May 11, 2011	642,000	July 27, 2006	2,05
d drugstore	Fremont, OH	1,388,000	6.05%	May 11, 2011	632,000	July 27, 2006	2,02
ens drugstore	Knoxville, TN	3,088,000	5.80%	May 11, 2011	712,000	August 8, 2006	3,80
ugstore	Madison, MS	2,809,000	5.60%	February 11, 2016		N/A	2,80
d drugstore	Defiance, OH	2,321,000	5.76%	January 11, 2016		N/A	2,32
appliance	San Antonio, TX	2,461,000	5.86%	May 11, 2011	1,119,000	July 25, 2006	3,58
General y retailer	Crossville, TN	1,950,000	5.75%	June 11, 2016	450,000	September 2, 2006	2,40
General y retailer	Ardmore, TN	1,804,000	5.79%	June 11, 2016	416,000	September 9, 2006	2,22

General y retailer	Livingston, TN	1,856,000	5.79%	July 11, 2016	429,000	October 12, 2006	2,28
ans use specialty	Wichita, KS		N/A	N/A	6,173,250(4)	December 27, 2006	6,17
d drugstore	Lansing, MI	1,041,000	5.90%	July 1, 2016		N/A	1,04
ndebtedness		$ 56,353,000			$ 30,931,437		$ 87,28

(1) The variable rate mortgage notes bear interest at the one-month LIBOR rate plus 200 basis points with interest only paid monthly.

(2) The respective variable rate loan amounts were repaid prior to June 30, 2006.

(3) The respective variable rate loan was refinanced on June 9, 2006 to a $7,748,000 term mortgage loan with a fixed interest rate of 6.56% maturing on June 11, 2006.

(4) The loan is a revolving credit facility secured by the respective property.

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

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

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SELECTED FINANCIAL DATA

We were formed on September 29, 2004, and did not commence operations until September 23, 2005, when we accepted the minimum amount of subscriptions pursuant to our initial offering. Accordingly, the following selected financial data for the year ended December 31, 2005, is not comparable to the period from inception (September 29, 2004) through December 31, 2004. The following data should be read in conjunction with our consolidated financial statements and the notes thereto and the section of this prospectus captioned Management s Discussion and Analysis of Financial Condition and Results of Operations. The selected financial data presented below has been derived from our consolidated financial statements.

	Six Months Ended June 30, 2006	Year Ended December 31, 2005	From Inception (September 29, 2004) Through December 31, 2004
Balance Sheet Data:			
Total real estate assets	$ 226,530,705	$ 91,618,285	$ 200,000
Cash and cash equivalents	3,344,877	4,575,144	
Restricted cash	5,083,390	1,813,804	
Total assets	237,668,688	98,809,838	
Mortgage notes payable	129,987,739	66,804,041	
Notes payable to affiliates		4,453,000	
Escrowed investor proceeds	5,083,390	1,813,804	
Stockholders equity	99,032,085	25,204,966	200,000
Operating Data:			
Rental income	5,992,573	741,669	
General and administrative	540,856	156,252	
Property and asset management fees	301,368	38,768	
Depreciation and amortization	2,108,120	221,411	
Interest expense	3,494,710	467,386	
Net loss	(364,435)	(114,591)	
Funds from operations(1)	1,743,685	106,820	
Cash Flow Data:			
Cash flows provided by operations	1,895,947	397,741	
Cash flows used in investing activities	(123,183,033)	(93,640,753)	
Cash flows provided by financing activities	120,056,819	97,618,156	200,000
Distributions declared	1,988,140	195,209	
Per share data:			
Net loss basic and diluted	$ (0.06)	$ (0.28)	$
Funds from operations(1)	$ 0.26	$ 0.26	$
Distributions declared	$ 0.30	$ 0.47	$
Weighted average shares outstanding	6,587,125	411,909	

(1) See Management s Discussion and Analysis of Financial Condition and Results of Operations Funds From Operations for information regarding why we present funds from operations and for reconciliation of this non-generally accepted accounting principles in the United States (GAAP) financial measure to net loss.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our accompanying consolidated financial statements and notes thereto.

Overview

We were formed on September 29, 2004 to acquire and operate commercial real estate primarily consisting of freestanding, single-tenant properties net leased to investment grade and other creditworthy tenants located throughout the United States. We have no paid employees and are externally advised and managed by Cole Advisors II, an affiliate of ours. We elected to be taxed as a real estate investment trust for federal income tax purposes beginning with the year ended December 31, 2005.

We commenced our principal operations on September 23, 2005, when we issued the initial 486,000 shares of our common stock pursuant to our initial public offering of common stock. Prior to such date, we were considered a development stage company. We acquired our first real estate property on September 26, 2005, thus the results of our operations for the year ended December 31, 2005, and the period from inception to December 31, 2004, are indicative of an early-stage enterprise with growing revenues and expenses associated with the acquisition of properties, organization, and interest expense associated with debt financing on the real estate acquisitions, and general and administrative expenses at a high percentage of total revenues.

We derive a substantial portion of our revenue from our rental income. As a result, our operating results and cash flows are primarily influenced by rental income from our commercial properties and interest expense on our property acquisition indebtedness. Rental income accounted for approximately 95% of total revenue during the three months and six months ended June 30, 2006. As 100% of our properties are under lease, with an average remaining lease term of approximately 12.5 years, our exposure to changes in commercial rental rates on our portfolio is substantially mitigated. As of June 30, 2006, the debt leverage ratio of our portfolio was approximately 57%, with approximately 19% of the debt, or $24.2 million, subject to variable interest rates. We intend to manage our interest rate risk by repaying approximately $4.6 million , or 19%, of our short-term variable rate debt as it matures during the quarter ending September 30, 2006 and we expect to refinance the remaining approximately $19.6 million, or 81%, of our variable rate debt as it matures during the fourth quarter of 2006. We expect to fund the repayments with proceeds from this offering. Additionally, as we continue to raise capital under our offering and invest the proceeds in commercial real estate, we will be subject to changes in real estate prices and changes in interest rates on new indebtedness used to acquire the properties. We may manage our risk of changes in real estate prices on future property acquisitions by entering into purchase agreements and loan commitments simultaneously such that our operating yield is determinable, by contracting with developers for future delivery of properties, or by entering into sale-leaseback transactions. We expect to manage our interest rate risk by monitoring the interest rate environment in connection with our planned property acquisitions to determine the appropriate acquisition financing, which may include fixed rate loans, variable rate loans or interest rate hedges. If we are unable to acquire suitable properties or obtain suitable financing for future acquisitions, our results of operations may be adversely affected.

Our management is not aware of any material trends or uncertainties, other than national economic conditions affecting real estate generally (such as lower capitalization rates and increasing interest rates, which lead to higher interest expense), that may reasonably be expected to have a material impact, favorable or unfavorable, on revenues or income from the acquisition and operations of real properties and mortgage loans.

As of June 30, 2006, we owned 39 single-tenant, freestanding retail properties, two single-tenant freestanding commercial properties, and two multi-tenant retail properties, all of which were 100% leased. During the three months ended June 30, 2006, we acquired 16 single-tenant, freestanding retail properties. During the six months ended June 30, 2006, we acquired 28 single-tenant, freestanding retail properties and two multi-tenant retail properties. Our results of operations are not indicative of those expected in future periods as we expect that rental income, operating expenses, asset management fees, depreciation expense, interest expense, and net income will each increase in the future as we acquire additional properties and as our current properties are owned for an entire period.

With our goals of providing current income to our stockholders and preserving their capital, we view our most significant challenges as:

continuing to raise sufficient amounts of equity capital in order to acquire a large, diversified portfolio while maintaining a moderate leverage ratio; and

investing net offering proceeds in properties that are accretive to our stockholders at a time when the demand for high-quality, income-producing properties is high and the market competitive.

Application of Critical Accounting Policies

Our accounting policies have been established to conform with GAAP. The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If management s judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied, thus resulting in a different presentation of the financial statements. Additionally, other companies may utilize different estimates that may impact comparability of our results of operations to those of companies in similar businesses.

The critical accounting policies outlined below have been discussed with members of the audit committee of the board of directors.

Investment in Real Estate Assets

We are required to make subjective assessments as to the useful lives of our depreciable assets. We consider the period of future benefit of the asset to determine the appropriate useful lives. These assessments, which are based on estimates, have a direct impact on net income. The estimated useful lives of our assets by class are generally as follows:

Building	40 years
Tenant improvements	Lease term
Intangible lease assets	Lesser of useful life or lease term

Impairment losses are recorded on long-lived assets used in operations, which includes the operating property, when indicators of impairment are present and the assets carrying amount is greater than the sum of the future undiscounted cash flows, excluding interest, estimated to be generated by those assets. As of June 30, 2006, no indicators of impairment existed and no losses had been recorded.

Allocation of Purchase Price of Acquired Assets

Upon the acquisition of real properties, it is our policy to allocate the purchase price of properties to acquired tangible assets, consisting of land and building, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, other value of in-place leases and value of tenant relationships, based in each case on their fair values.

We utilize independent appraisals to assist in determining the fair values of the tangible assets of an acquired property (which includes land and building). Factors considered by us in performing these analyses include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance, and other operating expenses and estimates of lost rental revenue during the expected lease-up periods based on current market demand.

The fair values of above-market and below-market in-place lease values are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) an estimate of fair market lease rates for the corresponding in-place leases, which is generally obtained from independent appraisals, measured over a period equal to the remaining non-cancelable term of the lease. The above-market and below-market lease values are capitalized as intangible lease assets or liabilities and amortized as an adjustment of rental income over the remaining terms of the respective leases.

The fair values of in-place leases include direct costs associated with obtaining a new tenant, opportunity costs associated with lost rentals which are avoided by acquiring an in-place lease, and tenant relationships. Direct costs associated with obtaining a new tenant include commissions, tenant improvements, and other direct costs and are estimated based on independent appraisals and management s consideration of current market costs to execute a similar lease. These direct costs are included in intangible lease assets in the accompanying consolidated balance sheet and are amortized to expense over the remaining terms of the respective leases. The value of opportunity costs is calculated using the contractual amounts to be paid pursuant to the in-place leases over a market absorption period for a similar lease. Customer relationships are valued based on expected renewal of a lease or the likelihood of obtaining a particular tenant for other locations. These intangibles are included in intangible lease assets in the accompanying consolidated balance sheet and are amortized to expense over the remaining term of the respective leases.

The determination of the fair values of the assets and liabilities acquired requires the use of significant assumptions with regard to the current market rental rates, rental growth rates, discount rates and other variables. The use of inappropriate estimates would result in an incorrect assessment of our purchase price allocations, which could impact the amount of our reported net income.

Valuation of Real Estate Assets

We continually monitor events and changes in circumstances that could indicate that the carrying amounts of our real estate and related intangible assets may not be recoverable. When indicators of potential impairment are present that indicate that the carrying amounts of real estate and related intangible assets may not be recoverable, we assess the recoverability of the assets by determining whether the carrying value of the assets will be recovered through the undiscounted future operating cash flows expected from the use of the assets and their eventual disposition. In the event that such expected undiscounted future cash flows do not exceed the carrying value, we will adjust the real estate and related intangible assets to the fair value and recognize an impairment loss.

Projections of expected future cash flows require us to estimate future market rental income amounts subsequent to the expiration of current lease agreements, property operating expenses, discount rates, the number of months it takes to re-lease the property and the number of years the property is held for investment. The use of inappropriate assumptions in the future cash flow analysis would result in an incorrect assessment of the property s future cash flow and fair value and could result in the overstatement of the carrying value of our real estate and related intangible assets and net income.

Revenue Recognition

Upon the acquisition of real estate, certain properties have leases where minimum rent payments increase during the term of the lease. We record rental revenue for the full term of each lease on a straight-line basis. Accordingly, we record a receivable from tenants that we expect to collect over the remaining lease term rather than currently, which we record as rents receivable. When we acquire a property, the term of existing leases is considered to commence as of the acquisition date for the purposes of this calculation. In accordance with Staff Accounting Bulletin 101, *Revenue Recognition in Financial Statements*, we defer the recognition of contingent rental income, such as percentage rents, until the specific target that triggers the contingent rental income is achieved. Cost recoveries from tenants are included in rental income in the period the related costs are incurred.

Income Taxes

We elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code commencing with our taxable year ended December 31, 2005. If we qualify for taxation as a REIT, we generally will not be subject to federal corporate income tax to the extent we distribute our REIT taxable income to our stockholders, and so long as we distribute at least 90% of our REIT taxable income. REITs are subject to a number of other organizational and operational requirements. Even as a REIT, we may be subject to certain state and local taxes on our income and property, and federal income and excise taxes on our undistributed income. We believe we are organized and operating in such a manner as to qualify to be taxed as a REIT for the taxable years ending December 31, 2005 and 2006.

Results of Operations

Three Months Ended June 30, 2006

Revenue for the three months ended June 30, 2006, totaled approximately $3.7 million. Rental income accounted for approximately 95% of our revenue. During the three months ended June 30, 2006, we owned an average of 36 properties, with an average income capitalization rate of approximately 7.75%. Income capitalization rate is measured as the ratio of the rental income produced by a property divided by the purchase price of the property. The higher the income capitalization rate for a property, the higher the amount of revenue the property is generating relative to its purchase price.

Property operating expenses for the three months ended June 30, 2006, were approximately $154,000, which included property taxes, maintenance costs, and utilities which are substantially reimbursed by the tenant.

Property and asset management fees were approximately $176,000 and depreciation and amortization expenses were approximately $1.3 million for the three months ended June 30, 2006. Property management fees and asset management fees and depreciation and amortization expenses are directly related to the value of real estate owned by us or the rental income generated by such assets. During the three months ended June 30, 2006, the average aggregate value of our real estate assets was $197.8 million.

General and administrative expenses for the three months ended June 30, 2006, totaled approximately $330,000, primarily relating to accounting and legal fees, independent directors fees, stock compensation expense, and other organization costs. During the three months ended June 30, 2006, we incurred amortization of deferred financing costs and interest expense of approximately $2.0 million.

We sustained a net loss for the three months ended June 30, 2006, of approximately $182,000, primarily as a result of incurring overhead-related general and administrative expenses and other operating costs, including costs incurred to refinance a loan, without sufficient rental revenues from properties to cover the costs. Loss per share for the three months ended June 30, 2006 was $0.02. With the acquisition of new properties in future periods, we anticipate that revenue, general and administrative expenses, net income, and earnings per share will increase. However, we expect general and administrative expenses to decrease as a percentage of total revenue.

Six Months Ended June 30, 2006

Revenue for the six months ended June 30, 2006, totaled approximately $6.3 million. Rental income accounted for approximately 95% of our revenue. During the six months ended June 30, 2006 we owned an average of 29 properties, with an average income capitalization rate of approximately 7.79%. Income capitalization rate is measured as the ratio of the rental income produced by a property divided by the purchase price of the property. The higher the income capitalization rate for a property, the higher the amount of revenue the property is generating relative to its purchase price.

Property operating expenses for the six months ended June 30, 2006, were approximately $294,000, which included costs such as property taxes, maintenance costs, and utilities which are substantially reimbursed by the tenant.

Property and asset management fees were approximately $301,000 and depreciation and amortization expenses were approximately $2.1 million for the six months ended June 30, 2006. Property management fees and asset management fees and depreciation and amortization expenses are directly related to the value of real estate owned by us or the rental income generated by such assets. During the six months ended June 30, 2006, the average aggregate value of our real estate assets was $159.1 million.

General and administrative expenses for the six months ended June 30, 2006, totaled approximately $541,000, primarily relating to accounting and legal fees, independent directors fees, stock compensation expense, and other organization costs.

We sustained a net loss for the six months ended June 30, 2006 of approximately $364,000, primarily as a result of incurring overhead-related general and administrative expenses and other operating costs, including costs incurred to refinance a loan, without sufficient rental revenues from properties to cover the costs. Loss per share for the six months ended June 30, 2006, was $0.06. With the acquisition of new properties in future periods, we anticipate that revenue, general and administrative expenses, net income, and earnings per share will increase. However, we expect general and administrative expenses to decrease as a percentage of total revenue.

During the three months ended June 30, 2006, we incurred amortization of deferred financing costs and interest expense of approximately $2.0 million, which included approximately $162,000 of expenses incurred to refinance a variable rate loan. During the six months ended June 30, 2006, we incurred amortization of deferred financing costs and interest expense of approximately $3.5 million. Property operating expenses for the six months ended June 30, 2006 were approximately $294,000. As of June 30, 2006, we had outstanding debt of approximately $130.0 million related to real estate acquisitions, of which approximately $60.2 million was incurred and approximately $15.9 million was assumed in the six months ended June 30, 2006. Our debt financing costs in future periods will vary based on our level of future borrowings, which will depend on the level of investor proceeds raised, the cost of borrowings, and the opportunity to acquire real estate assets meeting our investment objectives.

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

We commenced our principal operations on September 23, 2005, when we issued the initial 486,000 shares pursuant to the public offering of our common stock and we made our initial real estate acquisition on September 26, 2005. As a result, our consolidated financial results for the year ended December 31, 2005 are not comparable to the results for the period from September 29, 2004 (date of inception) to December 31, 2004.

Results of operations for the year ended December 31, 2005 primarily consisted of the following:

Real Estate Operations. Rental income was approximately $742,000, depreciation and amortization expense was approximately $221,000, property and asset management fees were approximately $39,000, and interest expense was approximately $467,000 for the year ended December 31, 2005. All of such costs were directly related to the timing of our real estate acquisitions during 2005. We acquired our initial property on September 26, 2005, and 13 additional properties during the fourth quarter of 2005. We expect all of such amounts to increase in future periods as the properties acquired in 2005 are owned for a full year and as we acquire new properties.

Our property acquisitions during the year ended December 31, 2005, were financed in part with short-term and long-term notes payable as discussed in Note 5 to our consolidated financial statements. Our interest expense in future periods will vary based on our level of future borrowings, which will depend on the level of proceeds raised in the public offering of our common stock, the cost of borrowings, and the opportunity to acquire real estate assets which meet our investment objectives.

General and Administrative Expenses. General and administrative expenses for the year ended December 31, 2005, totaled approximately $156,000, constituting 21% of total revenues. The primary components of general and administrative expenses were board of directors fees, legal fees, accounting fees, and organizational costs of approximately $49,000, $36,000, $27,000, and $17,000, respectively. Such expenses represented approximately six months of expense as we incurred no general and administrative expenses prior to the

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June 27, 2005, the effective date of the public offering of our common stock. With the acquisition of new properties in future periods and incurring such costs for a full year, we anticipate that general and administrative expenses will increase in amount, but decrease as a percentage of total revenue.

We sustained a net loss for the year ended December 31, 2005, of approximately $115,000, primarily as a result of incurring overhead-related general and administrative expenses, depreciation and amortization expenses and interest expense without sufficient rental income from properties to cover the costs. Loss per share for the year ended December 31, 2005 was $0.28. With the acquisition of new properties in future periods, we anticipate that rental income and earnings per share will both increase.

Portfolio Information

As of October 30, 2006, we owned 71 properties located in 23 states, all of which were 100% leased to single- or multi-tenants with an average lease term remaining of approximately 11 years.

As of October 30, 2006, our five highest geographic concentrations were as follows:

Location	Total Number of Properties	Rentable Square Feet	2006 Annualized Gross Base Rent	Percentage of Total 2006 Annualized Gross Base Rent
Missouri	7	144,363	$ 3,113,324	12%
Texas	5	377,100	2,874,631	11%
Michigan	5	144,561	2,757,480	11%
Ohio	10	123,551	2,138,296	8%
Mississippi	6	106,552	2,116,856	8%
	33	896,127	$ 13,000,587	50%

As of October 30, 2006, our five highest tenant industry concentrations were as follows:

Industry	Total Number of Leases	Rentable Square Feet	2006 Annualized Gross Base Rent	Percentage of Total 2006 Annualized Gross Base Rent
Drugstore	28	365,424	$ 8,309,005	31%
Specialty Retail	12	646,757	5,400,428	21%
Home Improvement	3	356,167	2,191,240	8%
Manufacturing	1	111,881	2,138,878	8%
Movie Theater	2	85,000	1,749,255	7%

	46	1,565,229	$ 19,788,806	75%

As of October 30, 2006, our five highest tenant concentrations were as follows:

Tenant	**Total Number of Leases**	**2006 Annualized Gross Base Rent**	**Percentage of Total 2006 Annualized Gross Base Rent**
Walgreens	8	$ 2,998,885	12%
CVS	10	2,590,619	10%
Rite Aid	10	2,719,501	10%
Plastech	1	2,138,878	8%
Lowe s	3	2,191,240	8%
	32	$ 12,639,123	48%

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Funds From Operations

We believe that funds from operations (FFO) is a beneficial indicator of the performance of a REIT. Because FFO calculations exclude such factors as depreciation and amortization of real estate assets and gains or losses from sales of operating real estate assets (which can vary among owners of identical assets in similar conditions based on historical cost accounting and useful-life estimates), they facilitate comparisons of operating performance between periods and between other REITs. Our management believes that accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictability over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. As a result, we believe that the use of FFO, together with the required GAAP presentations, provide a more complete understanding of our performance relative to our competitors and a more informed and appropriate basis on which to make decisions involving operating, financing, and investing activities. Other REITs may not define FFO in accordance with the current National Association of Real Estate Investment Trusts (NAREIT) definition (as we do) or may interpret the current NAREIT definition differently than we do.

FFO is a non-GAAP financial measure and does not represent net income as defined by GAAP. Net income as defined by GAAP is the most relevant measure in determining our operating performance because FFO includes adjustments that investors may deem subjective, such as adding back expenses such as depreciation and amortization. Accordingly, FFO should not be considered as an alternative to net income as an indicator of our operating performance.

Our calculation of FFO is presented in the following table for the periods ended as indicated:

	Three Months Ended		Six Months Ended	
	June 30, 2006	**June 30, 2005**	**June 30, 2006**	**June 30, 2005**
Net loss	$ (181,847)		$ (364,435)	
Add:				
Depreciation of real estate assets	866,577		1,445,573	
Amortization of lease related costs	409,048		662,547	
FFO	$ 1,093,778		$ 1,743,685	

Set forth below is additional information (often considered in conjunction with FFO) that may be helpful in assessing our operating results:

In order to recognize revenues on a straight-line basis over the terms of the respective leases, we recognized additional revenue by straight-lining rental revenue of approximately $172,000 and $304,000 during the three months and six months ended June 30, 2006, respectively.

During the three months and six months ended June 30, 2006, amortization of deferred financing costs totaled approximately $109,000 and $182,000, respectively.

Liquidity and Capital Resources

We expect to continue to raise capital through our ongoing offering of common stock and to utilize the net proceeds of the offering and proceeds from secured or unsecured financings to complete future property acquisitions. As of June 30, 2006, we had raised approximately $113.7 million in our initial offering.

Short-term Liquidity and Capital Resources

We expect to meet our short-term liquidity requirements through net cash provided by property operations and proceeds from the public offering of our common stock. We expect our operating cash flows to increase as additional properties are added to our portfolio. We expect that approximately 88.4% of the gross proceeds from our public offering of our common stock will be invested in real estate, approximately 9.2% will be used

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to pay sales commissions, dealer manager fees and offering and organizational costs, with the remaining 2.2% used to pay acquisition and advisory fees and acquisition expenses. The offering and organizational costs associated with the public offering of our common stock are initially paid by our advisor, which we reimburse for such costs up to 1.5% of the capital raised by us in the offering. As of June 30, 2006, Cole Advisors had paid approximately $2.5 million of offering and organization costs and we had reimbursed our advisor for approximately $1.8 million of such costs.

Subsequent to June 30, 2006, we completed the acquisition of eleven single-tenant retail buildings in separate transactions for an aggregate purchase price of $34.6 million, exclusive of closing costs. The acquisitions were funded with proceeds from our offering of shares of common stock, approximately $2.3 million in aggregate proceeds from two new loans and the assumption of nine loans aggregating approximately $19.3 million. In addition, subsequent to June 30, 2006, we used available cash and proceeds from the Offering to repay an aggregate of approximately $9.2 million of our variable rate short-term debt related to five loans.

On June 15, 2006, our board of directors authorized a daily distribution of $0.0017808 per share for stockholders of record as of the close of business on each day during the period commencing on July 1, 2006 and ending on September 30, 2006. The payment date for each record date in July 2006 will be in August 2006, the payment date for each record date in August 2006 will be in September 2006, and the payment date for each record date in September 2006 will be in October 2006.

Long-term Liquidity and Capital Resources

We expect to meet our long-term liquidity requirements through proceeds from the sale of our common stock, including through the public offering of our common stock, proceeds from secured or unsecured financings from banks and other lenders, the selective and strategic sale of properties and net cash flows from operations. We expect that our primary uses of capital will be for property acquisitions, for the payment of tenant improvements, for the payment of offering-related costs, for the payment of operating expenses, including interest expense on any outstanding indebtedness, and for the payment of distributions to our stockholders.

We expect that substantially all net cash generated from operations will be used to pay distributions to our stockholders after certain capital expenditures, including tenant improvements and leasing commissions, are paid at the properties; however, we may use other sources to fund distributions as necessary. To the extent that cash flows from operations are lower due to fewer properties being acquired or lower returns on the properties, distributions paid to our stockholders may be lower. We expect that substantially all net cash resulting from equity or debt financing will be used to fund acquisitions, certain capital expenditures identified at acquisition, repayments of outstanding debt, or distributions to our stockholders. Over the long term, we intend to reduce our aggregate borrowings as a percentage of our real estate assets.

As of June 30, 2006, we had approximately $130.0 million of debt outstanding consisting of approximately $105.8 million in fixed rate, term mortgage loans and approximately $24.2 million in variable rate term mortgage loans. The weighted average interest rate at June 30,2006 under the fixed rate term mortgage loans was approximately 5.88% and the variable rate term mortgage interest rate is stated at LIBOR plus 2%. Additionally our debt leverage ratio was approximately 57% and the weighted average years to maturity was 6.68 years at June 30, 2006.

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Our contractual obligations as of June 30, 2006, were as follows:

	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years	Total
Principal payments fixed rate debt	$	$ 9,788,489	$ 47,635,000	$ 48,399,000	$ 105,822,489
Interest payments fixed rate debt	6,007,537	11,527,541	9,990,949	14,068,672	41,594,699
Principal payments variable rate debt	24,165,250				24,165,250
Interest payments variable rate debt(1)	504,289				504,289
Total	$ 30,677,076	$ 21,316,030	$ 57,625,949	$ 62,467,672	$ 172,086,727

(1) A rate of 7.35% was used to calculate the variable debt payment obligations in future periods. This is the rate effective as of June 30, 2005.

Our charter prohibits us from incurring debt that would cause our borrowings to exceed the greater of 60% of our assets, valued at the greater of the aggregate cost (before depreciation and other non-cash reserves) or fair market value of all assets owned by us, unless approved by a majority of our independent directors and disclosed to our stockholders in our next quarterly report. During the fourth quarter of 2005, the independent directors approved borrowings that caused our leverage ratio at certain times to exceed the 60% limitation. The independent directors believed such borrowing levels were justified for the following reasons:

- the borrowings enabled us to purchase the properties and earn rental income more quickly;
- the property acquisitions were likely to increase the net offering proceeds from our initial public offering by allowing us to show potential investors actual acquisitions, thereby improving our ability to meet our goal of acquiring a diversified portfolio of properties to generate current income for investors and preserve investor capital; and
- based on expected equity sales at the time and scheduled maturities of our short-term variable rate debt, leverage was likely to exceed the charter s guidelines only for a limited period of time.

We expect the ratio of debt to total assets to exceed 60% during 2006, but to decline during the year as additional capital is raised and certain of the short-term variable rate debt is paid according to its scheduled maturities.

Cash Flow Analysis

Operating Activities

Net cash provided by operating activities was approximately $1.9 million for the six months ended June 30, 2006, primarily due to a net loss for the period of approximately $364,000 offset by depreciation and amortization of approximately $2.3 million. See Results of Operations for a more complete discussion of the factors impacting our operating performance.

Net cash provided by operating activities was approximately $398,000 for the year ended December 31, 2005, primarily due to a net loss for the period of approximately $115,000 offset by depreciation and amortization expenses totaling approximately $242,000 and an increase in accounts payable and accrued expenses of approximately $283,000. Our initial property acquisition was made on September 26, 2005. See Results of Operations above for a more complete discussion of the factors impacting our operating performance.

Investing Activities

Net cash used in investing activities was approximately $123.2 million for the six months ended June 30, 2006, primarily due to approximately $119.9 million used on the acquisition of 30 properties and the associated acquisition costs and approximately $3.3 million in restricted cash, which is held in escrow pending issuance of shares to investors in the Offering.

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

Financing Activities

Net cash provided by financing activities was approximately $120.1 million for the six months ended June 30, 2006, primarily due to net proceeds from the issuance of common stock under the Offering of approximately $76.2 million, net proceeds from the issuance of mortgage notes of approximately $70.6 million in connection with the acquisition of 30 properties offset by repayments of mortgage notes of approximately $29.1 million and an approximately $3.3 million liability related to investor proceeds, which are held in escrow pending issuance of shares to the investors in the Offering.

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

Election as a REIT

We elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, beginning with the year ended December 31, 2005. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our ordinary taxable income to stockholders. As a REIT, we generally will not be subject to federal income tax on taxable income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we will then be subject to federal income taxes on our taxable income for four years following the year during which qualification is lost, unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to stockholders. However, we believe that we are organized and operate in such a manner as to qualify for treatment as a REIT for federal income tax purposes. No provision for federal income taxes has been made in our accompanying consolidated financial statements, as we incurred a loss for federal income tax purposes. We are subject to certain state and local taxes related to the operations of properties in certain locations, which have been provided for in our accompanying financial statements. The Company believes it is organized and operating in such a manner as to qualify to be taxed as a REIT for the taxable years ended December 31, 2005 and 2006.

Inflation

We are exposed to inflation risk as income from long-term leases is the primary source of our cash flows from operations. There are provisions in certain of our tenant leases that would protect us from the impact of inflation such as step rental increases and percentage rent provisions. However, due to the long-term nature of the leases, the leases may not re-set frequently enough to cover inflation.

Related-Party Transactions and Agreements

We have entered into agreements with Cole Advisors and its affiliates, whereby we pay certain fees to, or reimburse certain expenses of, Cole Advisors or its affiliates for acquisition and advisory fees and expenses,

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organization and offering costs, sales commissions, dealer manager fees, asset and property management fees and reimbursement of operating costs.

Conflicts of Interest

Affiliates of Cole Advisors act as sponsor, general partner or advisor to various private real estate limited partnerships and a REIT that offered its shares pursuant to an exemption from registration. As such, there are conflicts of interest where Cole Advisors or its affiliates, while serving in the capacity as sponsor, general partner or advisor for another Cole-sponsored program, may be in competition with us in connection with property acquisitions, property dispositions, and property management. The compensation arrangements between affiliates of Cole Advisors and these other Cole real estate funds could influence its advice to us.

Subsequent Events

Certain events occurred subsequent to June 30, 2006 through August 14, 2006, the date of our quarterly report on Form 10-Q for the period ended June 30, 2006. Refer to Note 9 to our condensed consolidated financial statements for the period ended June 30, 2006, for further explanation. Such events include:

- Sale of shares of common stock;
- Acquisition of a property in Columbus Heights, Minnesota;
- Acquisition of a property in Fergus Falls, Minnesota;
- Acquisition of a property in Okeechobee, Florida;
- Acquisition of a property in Dayton, Ohio;
- Acquisition of a property in Holland, Michigan;
- Acquisition of a property in Holland Township, Michigan;
- Acquisition of a property in Zeeland, Michigan;
- Acquisition of a property in Orlando, Florida;
- Acquisition of a property in Greenville, Mississippi;
- Acquisition of a property in Warrensburg, Missouri;
- Acquisition of a property in Gulfport, Mississippi;
- Mortgage notes payable incurred in connection with the acquisitions described above;
- Repayments on certain mortgage notes payable and notes payable to affiliates; and
- Execution of an extended rate lock agreement.

Impact of Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board(FASB) issued Statement of Financial Accounting Standards(SFAS) No. 123 (revised 2004), Share-Based Payment . SFAS No. 123 (revised 2004) is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. This statement supersedes Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance.

SFAS No. 123 (revised 2004) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award. We expect to adopt the provisions of SFAS 123 (revised 2004) using a modified prospective application. The modified prospective method requires companies to recognize compensation cost for unvested awards that are outstanding on the effective date based on the fair value that we had originally estimated for purposes of preparing its SFAS 123 pro forma disclosures. For all new awards that are granted or modified after the effective date, a company would use SFAS 123R s measurement model. This statement is effective for us on January 1, 2006. As of December 31, 2005, the amount of unrecognized compensation expense to be recognized in future periods, in accordance with SFAS 123R, is approximately $30,000. Had SFAS No. 123R been implemented in 2005, we would have experienced an approximately $30,000 reduction in our net income and a $0.07 per share decrease in both basic earnings per share and diluted earnings per share.

In July 2005, the FASB issued Staff Position (FSP) Statement of Position (SOP) 78-9-1, *Interaction of American Institute of Certified Public Accountants* (AICPA) SOP 78-9 and Emerging Issues Task Force (EITF) Issue No. 04-5. The EITF reached a consensus on EITF Issue No. 04-5, *Determining Whether a General Partner or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*, stating that a general partner is presumed to control a limited partnership and should consolidate the limited partnership unless the limited partners possess substantive kick-out rights or the limited partners possess substantive participating rights. This FSP eliminates the concept of important rights of SOP 78-9 and replaces it with the concepts of kick-out rights and substantive participating rights as defined in Issue 04-5. This EITF and FSP are effective after June 29, 2005 for general partners of all new partnerships formed and for existing partnerships for which the partnership agreements are modified. For general partners in all other partnerships, this guidance is effective no later than January 1, 2006. We believe the FSP does not have a material impact to the consolidated financial statements.

In March 2005, the FASB issued Interpretation No. 47 Accounting for Conditional Asset Retirement Obligations to clarify that the term *conditional asset retirement obligation* as used in FASB Statement No. 143 is a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that the enterprise may or may not have control over. This Interpretation requires recognition of a liability for the fair value of a conditional asset retirement obligation when incurred if the liability s fair value can be reasonably determined. This Interpretation is effective no later than the end of fiscal years ending after December 15, 2005 (December 31, 2005 for calendar-year enterprises). The implementation of FASB No. 143 and Interpretation No. 47 did not have a material impact to the consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157), which establishes a framework for measuring fair value and requires additional disclosures about fair value measurements. SFAS No. 157 is effective for our fiscal year beginning January 1, 2008. We are currently reviewing the applicability of SFAS No. 157 to our results of operations and financial position.

In September 2006, the SEC staff issued SAB Topic 1N, Financial Statements Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements (SAB No. 108), which addresses how to quantify the effect of an error on the financial statements. SAB No. 108 is effective for our fiscal year ending December 31, 2006. We are currently reviewing the applicability of SAB No. 108 to our results of operations and financial position.

Off Balance Sheet Arrangements

As of June 30, 2006, we had no off balance sheet arrangements.

Quantitative and Qualitative Disclosures about Market Risks

As a result of our use of debt, primarily to acquire properties, we are exposed to interest rate changes. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flow primarily through a moderate level of overall borrowings. However, we currently have a substantial amount of debt outstanding relative to our total assets. We manage our ratio of fixed to floating rate debt with the objective of achieving a mix that we believe is appropriate. Our floating rate debt is based on variable interest rates in order to provide the necessary financing flexibility; however, we are closely monitoring interest rates and will continue to consider the sources and terms of our borrowing facilities to determine whether we have appropriately guarded ourselves against the risk of increasing interest rates in future periods.

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We may enter into interest rate swaps, caps or other arrangements in order to mitigate our interest rate risk on a related financial instrument. We do not enter into derivative or interest rate transactions for speculative purposes. As of June 30, 2006, we had not entered into any such arrangement. All of our debt was entered into for other than trading purposes.

Our financial instruments consist of both fixed and variable rate debt. As of June 30, 2006, our consolidated debt consisted of the following, with scheduled maturities:

	2006	2007	2008	2009	2010	Thereafter
Maturing debt						
Variable rate debt	$ 19,153,250					
Fixed rate debt			$ 9,788,489		$ 16,666,000	$ 84,380,000
Average interest rate on debt						
Variable rate debt	Libor + 2.00%					
Fixed rate debt			5.15%		5.59%	5.78%

Approximately $110.8 million of our total debt outstanding as of June 30, 2006 is subject to fixed rates, with a weighted average interest rate of 5.51% and expirations ranging from 2008 to 2016. As of June 30, 2006, approximately $19.2 million of the approximately $130.0 million outstanding on mortgage and affiliate notes payable was subject to variable interest rates, which bear interest at the one-month LIBOR rate plus 200 basis points A change in the market interest rate impacts the net financial instrument position of our fixed rate debt portfolio but has no impact on interest incurred or cash flows.

As of June 30, 2006 and December 31, 2005, a 1% change in interest rates would result in a change in interest expense of approximately $192,000 and $295,000 per year, respectively.

We do not have any foreign operations or assets. As a result, we are not exposed to fluctuations in foreign currently rates.

PRIOR PERFORMANCE SUMMARY

Prior Investment Programs

The information presented in this section represents the historical experience of certain real estate programs managed over the last ten years by Cole Capital Advisors, Cole Capital Partners and other affiliates of our advisor, including certain officers and directors of our advisor. Investors should not assume that they will experience returns, if any, comparable to those experienced by investors in such prior real estate programs.

During the period from January 1, 1996 to December 31, 2005, affiliates of our advisor have sponsored 65 privately offered prior programs including 19 limited partnerships, a real estate investment trust (Cole REIT I), four debt offerings, 22 tenant-in-common programs and 17 DST program offerings. As of March 31, 2006, such prior programs have raised approximately $608.1 million from approximately 6,800 investors. Each of the 19 limited partnerships, the real estate investment trust, three of the debt offerings, the 22 tenant-in-common programs and the 17 DST program offerings have investment objectives and policies similar to that of this program. See Tables I and II of the Prior Performance Tables for more detailed information about the experience of our affiliates in raising and investing funds for offerings initiated over the last four years and compensation paid to the sponsors of these programs.

We intend to conduct this offering in conjunction with future offerings by one or more public and private real estate entities sponsored by Cole Capital Advisors, Cole Capital Partners and their affiliates. To the extent that such entities have the same or similar objectives as ours or involve similar or nearby properties, such entities may be in competition with the properties acquired by us. See the Conflicts of Interest section of this prospectus for additional information.

The information in this section and in the Prior Performance Tables attached to this prospectus as Appendix A provides relevant summary information concerning real estate programs sponsored by our affiliates. The Prior Performance Tables set forth information as of the dates indicated regarding certain of these prior programs as to (1) experience in raising and investing funds (Table I); (2) compensation to the sponsor and its affiliates (Table II); (3) annual operating results of prior real estate programs (Table III); (4) results of completed programs (Table IV); and (5) results of sales or disposals of properties (Table V). Additionally, Table VI, which is contained in Part II of the registration statement for this offering and which is not part of the prospectus, contains certain additional information relating to properties acquired by the prior real estate programs. We will furnish copies of such table to any prospective investor upon request and without charge. The purpose of this prior performance information is to enable you to evaluate accurately the experience of our advisor and its affiliates in sponsoring like programs. The following discussion is intended to summarize briefly the objectives and performance of the prior real estate programs and to disclose any material adverse business developments sustained by them.

Summary Information

During the period from January 1, 1996 to December 31, 2005, affiliates of our advisor have been general partners in 19 limited partnerships with similar objectives to our program, involving the sale of limited partnership interests to 3,000 investors, raising approximately $130.0 million of capital. The foregoing partnerships have purchased in the aggregate 42 properties for an approximate acquisition cost of $246.3 million, of which 50.2% is attributable to 16 shopping centers, 47.6% is attributable to 23 single-tenant commercial properties, 1.1% is attributable to one data center and 1.1% is attributable to two unimproved or partially-improved land parcels intended for high-rise/data center development. Twenty-one of the properties are located in the Phoenix metropolitan area, one is located in northern Arizona and 25 are located in 18 other states. The properties have been purchased on terms varying from all cash to market rate financing. To date, 22 of the properties have been sold.

Of the above, two limited partnerships that acquired commercial properties, have been sponsored in the three years since January 1, 2003. CCP, through wholly-owned subsidiaries, serves as the general partner of Cole Credit Property Fund Limited Partnership (CCPF) and Cole Credit Property Fund II Limited Partnership

(CCPF II). As of December 31, 2005, CCPF has raised $25.0 million and acquired 14 properties or an interest therein in 12 states across the United States for an aggregate acquisition cost of approximately $56.2 million. All of such properties are single-tenant commercial properties that were net leased to investment grade tenants as of the date of acquisition. Subsequent to the acquisition by CCPF, the tenants at two properties representing less than 7.5% of the fund s invested equity have been downgraded below investment grade, one of which has filed for Chapter 11 bankruptcy protection. As of December 31, 2005, CCPF II had raised approximately $24.5 million and had acquired 10 properties or an interest therein (including one property co-owned with CCPF) in 7 states for an aggregate acquisition cost of approximately $61.3 million.

In addition to the partnerships described above, as of December 31, 2005, Cole Collateralized Senior Notes, LLC (CCSN), a subsidiary of Cole Capital Advisors, had issued approximately $28.0 million in Series A Notes, and had acquired 25 restaurants and 20 single-tenant retail properties located in 20 states for an aggregate acquisition cost of approximately $188.7 million. As of December 31, 2005, CCSN had sold 43 properties, of which 13 were sold as part of Cole Capital Partners tenant-in-common program and three were sold to Cole REIT I.

In addition to the partnerships described above, as of December 31, 2005, Cole Collateralized Senior Notes II, LLC (CCSN II), a subsidiary of Cole Capital Advisors, had issued approximately $28.7 million in Series B Notes and had acquired 34 single-tenant retail properties in 16 states for an aggregate acquisition cost of approximately $238.8 million. As of December 31, 2005, CCSN II had sold 31 properties, of which 17 were sold as part of Cole Capital Partners tenant-in-common program and five were sold to Cole REIT I.

In addition to the partnerships described above, as of December 31, 2005, Cole Collateralized Senior Notes III, LLC (CCSN III), a subsidiary of Cole Capital Advisors, had issued approximately $28.7 million in Series C Notes and acquired 13 single-tenant retail properties in six states for an aggregate acquisition cost of approximately $64.5 million. As of December 31, 2005, CCSN III had sold 10 properties, of which nine were sold as part of Cole Capital Partners tenant-in-common program.

In addition to the partnerships described above, as of December 31, 2005, Cole Collateralized Senior Notes IV, LLC (CCSN IV), a subsidiary of Cole Capital Advisors, had issued approximately $26.9 million in Series D Notes and had acquired three single-tenant retail properties in three states for an aggregate acquisition cost of approximately $11.9 million.

In addition, CCSN, CCSN II, CCSN III, and CCSN IV each own interests in three single-tenant retail properties through a joint venture. The properties aggregate approximately 345,000 square feet.

Furthermore, as of December 31, 2005, Cole REIT I, had raised approximately $100.9 million through a private offering of common stock, and had acquired 41 single-tenant retail properties in 19 states for an aggregate acquisition cost of approximately $195 million.

Moreover, the Cole Exchange Entities offer properties to Section 1031 of the Internal Revenue Code of 1986, as amended (the Code), exchange investors in the form of the sale of tenant-in-common ownership interests in such properties. As of December 31, 2005, aggregate ownership interests of $103.1 million had been sold in 22 private offerings of properties located in 13 states. In addition, as of December 31, 2005, two other tenant-in-common programs were ongoing with an aggregate offering amount of approximately $61.6 million for which no amounts had been raised as of such date. In addition, the Cole Exchange Entities offer properties through the DST program whereby beneficial interests are offered in trusts that acquire real property. As of December 31, 2005, aggregate ownership interests of approximately $79.0 million had been sold in 20 private offerings of properties located in 12 states. See the Prior Performance Tables attached to this memorandum as Appendix A for additional information regarding the foregoing programs.

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The following table shows a breakdown of the aggregate amount of the acquisition and development costs of the properties purchased by the prior real estate programs of our affiliates as of December 31, 2005:

Type of Property	New	Used	Construction
Retail	1%	99%	
Office Buildings		100%	
Land		100%	
Data Center			100%

These programs have sold 83 of the total of 182 properties, or 45.6% of such properties. The original purchase price of the properties that were sold was $158.8 million, and the aggregate sales price of such properties was $195.1 million. See Tables III, IV and V of the Prior Performance Tables for more detailed information as to the operating results of such programs whose offerings closed in the last five years, results of such programs that have completed their operations over the last five years and the sales or other disposals of properties with investment objectives similar to ours over the last three years.

An entity affiliated with the officers of Cole Partnerships, Inc. raised $5 million in a debt offering for general corporate purposes, including investments in joint ventures with its affiliates. The entity has repaid the debt instruments sold in the offering.

The prior programs sponsored by our affiliates have occasionally been adversely affected by the cyclical nature of the real estate market. They have experienced, and may in the future experience, decreases in net income when economic conditions decline. For example, one of these programs, Cole Santa Fe Investors, LP owns an approximately 262,000 square foot shopping center property. One of the tenants of the property, which leases approximately 50,000 square feet (approximately 19% of the leasable space), has filed for bankruptcy protection and discontinued making rent payments. Distributions to investors in that program have been suspended indefinitely beginning with the quarter ended December 31, 2003. A continued vacancy in the property owned by Cole Santa Fe Investors, LP could adversely affect the ultimate performance of this prior program. In addition, Cole Southwest Opportunity Fund, LP completed development of a Phoenix, Arizona facility in August 2001 through a joint venture and was unable to lease the facility as a result of the severe downturn in the telecommunications industry. On April 6, 2005, the Phoenix facility was sold for $16.3 million. Vacant land parcels in Las Vegas, Nevada, formerly owned by a wholly-owned subsidiary of Cole Southwest Opportunity Fund, LP were previously sold. As a result of these sale transactions, the sponsor estimates that investors will receive approximately 81% of their original investment upon liquidation of the limited partnership. See Table III of the Prior Performance Tables.

FEDERAL INCOME TAX CONSIDERATIONS

General

The following is a summary of material federal income tax considerations associated with an investment in shares of our common stock. This summary does not address all possible tax considerations that may be material to an investor and does not constitute tax advice. Moreover, this summary does not deal with all tax aspects that might be relevant to you, as a prospective stockholder, in light of your personal circumstances, nor does it deal with particular types of stockholders that are subject to special treatment under the Internal Revenue Code, such as insurance companies, tax-exempt organizations or financial institutions or broker-dealers.

The Internal Revenue Code provisions governing the federal income tax treatment of REITs are highly technical and complex, and this summary is qualified in its entirety by the express language of applicable Internal Revenue Code provisions, treasury regulations promulgated thereunder (Treasury Regulations) and administrative and judicial interpretations thereof.

We urge you, as a prospective investor, to consult your own tax advisor regarding the specific tax consequences to you of a purchase of shares, ownership and sale of the shares and of our election to be taxed as a REIT. These consequences include the federal, state, local, foreign and other tax consequences of such purchase, ownership, sale and election.

Opinion of Counsel

Morris, Manning & Martin, LLP acts as our counsel, has reviewed this summary and is of the opinion that it fairly summarizes the federal income tax considerations addressed that are material to our stockholders. It is also the opinion of our counsel that we qualify to be taxed as a REIT under the Internal Revenue Code for our taxable year ended December 31, 2007, provided that we have operated and will continue to operate in accordance with various assumptions and the factual representations we made to counsel concerning our business, properties and operations. We must emphasize that all opinions issued by Morris, Manning & Martin, LLP are based on various assumptions and are conditioned upon the assumptions and representations we made concerning certain factual matters related to our business and properties. Moreover, our qualification for taxation as a REIT depends on our ability to meet the various qualification tests imposed under the Internal Revenue Code discussed below, the results of which will not be reviewed by Morris, Manning & Martin, LLP. Accordingly, we cannot assure you that the actual results of our operations for any one taxable year will satisfy these requirements. See Risk Factors Federal Income Tax Risks. The statements made in this section of the prospectus and in the opinion of Morris, Manning & Martin, LLP are based upon existing law and Treasury Regulations, as currently applicable, currently published administrative positions of the Internal Revenue Service and judicial decisions, all of which are subject to change, either prospectively or retroactively. We cannot assure you that any changes will not modify the conclusions expressed in counsel s opinion. Moreover, an opinion of counsel is not binding on the Internal Revenue Service, and we cannot assure you that the Internal Revenue Service will not successfully challenge our status as a REIT.

Taxation of the Company

We elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code, effective for our taxable year ended December 31, 2005. We believe that, commencing with such taxable year, we were organized and operated in such a manner as to qualify for taxation as a REIT under the Internal Revenue Code. We intend to continue to operate in such a manner, but no assurance can be given that we will operate in a manner so as to qualify or remain qualified as a REIT. Pursuant to our charter, our board of directors has the authority to make any tax elections on our behalf that, in their sole judgment, are in our best interest. This authority includes the ability to elect not to qualify as a REIT for federal income tax purposes or, after qualifying as a REIT to revoke or otherwise terminate our status as a REIT. Our board of directors has the authority under our charter to make these elections without the necessity of obtaining the approval of our stockholders. In addition, our board of directors has the authority to waive any restrictions and limitations contained in our charter that are intended to preserve our status as a REIT during any period in which our board of directors has determined not to pursue or preserve our status as a REIT.

Although REITs continue to receive substantially better tax treatment than entities taxed as corporations, it is possible that future legislation would cause a REIT to be a less advantageous tax status for companies that invest in real estate, and it could become more advantageous for such companies to elect to be taxed for federal income tax purposes as a corporation. As a result, our charter provides our board of directors with the ability, under certain circumstances, to elect not to qualify us as a REIT or, after we have qualified as a REIT, to revoke or otherwise terminate our REIT election and cause us to be taxed as a corporation, without the vote of our stockholders. Our board of directors has fiduciary duties to us and to all investors and could only cause such changes in our tax treatment if it determines in good faith that such changes are in the best interest of our stockholders.

As a REIT, we generally will not be subject to federal corporate income taxes on that portion of our ordinary income or capital gain that we distribute currently to our stockholders, because the REIT provisions of the Internal Revenue Code generally allow a REIT to deduct distributions paid to its stockholders. This substantially eliminates the federal double taxation on earnings (taxation at both the corporate level and stockholder level) that usually results from an investment in a corporation.

As a REIT we are subject to federal income taxation as follows:

- we are taxed at regular corporate rates on our undistributed REIT taxable income, including undistributed net capital gains;
- under some circumstances, we will be subject to alternative minimum tax;
- if we have net income from the sale or other disposition of foreclosure property that is held primarily for sale to customers in the ordinary course of business or other non-qualifying income from foreclosure property, we will be subject to tax at the highest corporate rate on that income;
- if we have net income from prohibited transactions (which are, in general, sales or other dispositions of property other than foreclosure property held primarily for sale to customers in the ordinary course of business), our income will be subject to a 100% tax;
- if we fail to satisfy either of the 75% or 95% gross income tests (discussed below) but have nonetheless maintained our qualification as a REIT because applicable conditions have been met, we will be subject to a 100% tax on an amount equal to the greater of the amount by which we fail the 75% or 95% test multiplied by a fraction calculated to reflect our profitability;
- if we fail to distribute during each year at least the sum of (i) 85% of our REIT ordinary income for the year, (ii) 95% of our REIT capital gain net income for such year and (iii) any undistributed taxable income from prior periods, we will be subject to a 4% excise tax on the excess of the required distribution over the amounts actually distributed; and
- if we acquire any asset from a C corporation (*i.e.*, a corporation generally subject to corporate-level tax) in a carryover-basis transaction and we subsequently recognize gain on the disposition of the asset during the ten-year period beginning on the date on which we acquired the asset, then a portion of the gains may be subject to tax at the highest regular corporate rate, pursuant to guidelines issued by the Internal Revenue Service.

Requirements for Qualification as a REIT

In order for us to continue to qualify as a REIT, we must meet, and we must continue to meet, the requirements discussed below relating to our organization, sources of income, nature of assets, distributions of income to our stockholders and recordkeeping.

Organizational Requirements

In order to qualify for taxation as a REIT under the Internal Revenue Code, we must:

- be a domestic corporation;
- elect to be taxed as a REIT and satisfy relevant filing and other administrative requirements;
- be managed by one or more trustees or directors;
- have transferable shares;
- not be a financial institution or an insurance company;
- use a calendar year for federal income tax purposes;
- have at least 100 stockholders for at least 335 days of each taxable year of twelve months; and
- not be closely held.

As a Maryland corporation, we satisfy the first requirement, and we elected to be taxed as a REIT with the Internal Revenue Service. In addition, we are managed by a board of directors, we have transferable shares and we do not intend to operate as a financial institution or insurance company. We utilize the calendar year for federal income tax purposes. We would be treated as closely held only if five or fewer individuals or certain tax-exempt entities own, directly or indirectly, more than 50% (by value) of our shares at any time during the last half of our taxable year. For purposes of the closely held test, the Internal Revenue Code generally permits a look-through for pension funds and certain other tax-exempt entities to the beneficiaries of the entity to determine if the REIT is closely held. We currently meet the requirement of having more than 100 stockholders. In addition, our charter provides for restrictions regarding transfer of shares that are intended to assist us in continuing to satisfy these share ownership requirements. Such transfer restrictions are described in Description of Shares Restrictions on Ownership and Transfer. These provisions permit us to refuse to recognize certain transfers of shares that would tend to violate these REIT provisions. We can offer no assurance that our refusal to recognize a transfer will be effective. However, based on the foregoing, we should currently satisfy the organizational requirements, including the share ownership requirements, required for qualifying as a REIT under the Internal Revenue Code. Notwithstanding compliance with the share ownership requirements outlined above, tax-exempt stockholders may be required to treat all or a portion of their distributions from us as unrelated business taxable income (UBTI) if tax-exempt stockholders, in the aggregate, exceed certain ownership thresholds set forth in the Internal Revenue Code. See Treatment of Tax-Exempt Stockholders below.

Ownership of Interests in Partnerships and Qualified REIT Subsidiaries

In the case of a REIT that is a partner in a partnership, Treasury Regulations provide that the REIT is deemed to own its proportionate share, based on its interest in partnership capital, of the assets of the partnership and is deemed to have earned its allocable share of partnership income. Also, if a REIT owns a qualified REIT subsidiary, which is defined as a corporation wholly-owned by a REIT that does not elect to be taxed as a taxable REIT subsidiary under the Internal Revenue Code, the REIT will be deemed to own all of the subsidiary s assets and liabilities and it will be deemed to be entitled to treat the income of that subsidiary as its own. In addition, the character of the assets and gross income of the partnership or qualified REIT subsidiary shall retain the same character in the hands of the REIT for purposes of satisfying the gross income tests and asset tests set forth in the Internal Revenue Code.

Operational Requirements — Gross Income Tests

To maintain our qualification as a REIT, we must, on an annual basis, satisfy the following gross income requirements:

At least 75% of our gross income, excluding gross income from prohibited transactions, for each taxable year must be derived directly or indirectly from investments relating to real property or

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mortgages on real property. Gross income includes rents from real property and, in some circumstances, interest, but excludes gross income from dispositions of property held primarily for sale to customers in the ordinary course of a trade or business. Such dispositions are referred to as prohibited transactions. This is known as the 75% Income Test.

At least 95% of our gross income, excluding gross income from prohibited transactions, for each taxable year must be derived from the real property investments described above and from distributions, interest and gains from the sale or disposition of stock or securities or from any combination of the foregoing. This is known as the 95% Income Test.

The rents we receive, or that we are deemed to receive, qualify as rents from real property for purposes of satisfying the gross income requirements for a REIT only if the following conditions are met:

the amount of rent received from a tenant generally must not be based in whole or in part on the income or profits of any person; however, an amount received or accrued generally will not be excluded from the term rents from real property solely by reason of being based on a fixed percentage or percentages of gross receipts or sales;

rents received from a tenant will not qualify as rents from real property if an owner of 10% or more of the REIT directly or constructively owns 10% or more of the tenant or a subtenant of the tenant (in which case only rent attributable to the subtenant is disqualified);

if rent attributable to personal property leased in connection with a lease of real property is greater than 15% of the total rent received under the lease, then the portion of rent attributable to the personal property will not qualify as rents from real property ; and

the REIT must not operate or manage the property or furnish or render services to tenants, other than through an independent contractor who is adequately compensated and from whom the REIT does not derive any income. However, a REIT may provide services with respect to its properties, and the income derived therefrom will qualify as rents from real property, if the services are usually or customarily rendered in connection with the rental of space only and are not otherwise considered rendered to the occupant. Even if the services with respect to a property are impermissible tenant services, the income derived therefrom will qualify as rents from real property if such income does not exceed 1% of all amounts received or accrued with respect to that property.

We will be paid interest on the mortgage loans that we make or acquire. All interest qualifies under the 95% gross income test. If a mortgage loan is secured exclusively by real property, all of such interest will also qualify for the 75% income test. If both real property and other property secure the mortgage loan, then all of the interest on such mortgage loan will also qualify for the 75% gross income test if the amount of the loan did not exceed the fair market value of the real property at the time of the loan commitment.

If we acquire ownership of property by reason of the default of a borrower on a loan or possession of property by reason of a tenant default, if the property qualifies and we elect to treat it as foreclosure property, the income from the property will qualify under the 75% Income Test and the 95% Income Test notwithstanding its failure to satisfy these requirements for three years, or if extended for good cause, up to a total of six years. In that event, we must satisfy a number of complex rules, one of which is a requirement that we operate the property through an independent contractor. We will be subject to tax on that portion of our net income from foreclosure property that does not otherwise qualify under the 75% Income Test.

Prior to investing the offering proceeds in properties, we may satisfy the 75% Income Test and the 95% Income Test by investing in liquid assets such as government securities or certificates of deposit, but earnings from those types of assets are qualifying income under the 75% Income Test only for one year from the receipt of proceeds. Accordingly, to the extent that offering proceeds have not been invested in properties prior to the expiration of this one-year period, in order to satisfy the 75% Income Test, we may invest the offering proceeds in less liquid investments such as mortgage-backed securities, maturing mortgage loans purchased from mortgage lenders or shares in other REITs. We expect to receive proceeds from the offering in a series of closings and to trace those proceeds for purposes of determining the one-year period for new capital investments. No rulings or regulations have been issued under the provisions of the Internal Revenue Code governing new capital investments, however, so there can be no assurance that the Internal Revenue Service will agree with this method of calculation.

Except for amounts received with respect to certain investments of cash reserves, we anticipate that substantially all of our gross income will be derived from sources that will allow us to satisfy the income tests described above. We can give no assurance in this regard, however. Notwithstanding our failure to satisfy one or both of the 75% Income and the 95% Income Tests for any taxable year, we may still qualify as a REIT for that year if we are eligible for relief under specific provisions of the Internal Revenue Code. These relief provisions generally will be available if:

our failure to meet these tests was due to reasonable cause and not due to willful neglect;

we attach a schedule of our income sources to our federal income tax return; and

any incorrect information on the schedule is not due to fraud with intent to evade tax.

It is not possible, however, to state whether, in all circumstances, we would be entitled to the benefit of these relief provisions. For example, if we fail to satisfy the gross income tests because nonqualifying income that we intentionally earn exceeds the limits on this income, the Internal Revenue Service could conclude that our failure to satisfy the tests was not due to reasonable cause. As discussed above in Taxation of the Company, even if these relief provisions apply, a tax would be imposed with respect to the excess net income.

Operational Requirements Asset Tests

At the close of each quarter of our taxable year, we also must satisfy the following three tests relating to the nature and diversification of our assets:

First, at least 75% of the value of our total assets must be represented by real estate assets, cash, cash items and government securities. The term real estate assets includes real property, mortgages on real property, shares in other qualified REITs and a proportionate share of any real estate assets owned by a partnership in which we are a partner or of any qualified REIT subsidiary of ours.

Second, no more than 25% of our total assets may be represented by securities other than those in the 75% asset class.

Third, of the investments included in the 25% asset class, the value of any one issuer s securities that we own may not exceed 5% of the value of our total assets. Additionally, we may not own more than 10% of any one issuer s outstanding voting securities.

The 5% test must generally be met for any quarter in which we acquire securities. Further, if we meet the asset tests at the close of any quarter, we will not lose our REIT status for a failure to satisfy the asset tests at the end of a later quarter if such failure occurs solely because of changes in asset values. If our failure to satisfy the asset tests results from an acquisition of securities or other property during a quarter, we can cure the failure by disposing of a sufficient amount of nonqualifying assets within 30 days after the close of that quarter. We maintain, and will continue to maintain, adequate records of the value of our assets to ensure compliance with the asset tests and will take other action within 30 days after the close of any quarter as may be required to cure any noncompliance.

Operational Requirements Annual Distribution Requirement

In order to be taxed as a REIT, we are required to make distributions, other than capital gain distributions, to our stockholders each year in the amount of at least 90% of our REIT taxable income, which is computed without regard to the distributions paid deduction and our capital gain and subject to certain other potential adjustments.

While we must generally make distributions in the taxable year to which they relate, we may also pay distributions in the following taxable year if (1) they are declared before we timely file our federal income tax return for the taxable year in question, and (2) they are made on or before the first regular distribution payment date after the declaration.

Even if we satisfy the foregoing distribution requirement and, accordingly, continue to qualify as a REIT for tax purposes, we will still be subject to tax on the excess of our net capital gain and our REIT taxable income, as adjusted, over the amount of distributions made to stockholders.

In addition, if we fail to distribute during each calendar year at least the sum of:

- 85% of our ordinary income for that year;

- 95% of our capital gain net income other than the capital gain net income that we elect to retain and pay tax on for that year; and

- any undistributed taxable income from prior periods,

we will be subject to a 4% excise tax on the excess of the amount of such required distributions over amounts actually distributed during such year.

We intend to make timely distributions sufficient to satisfy this requirement; however, it is possible that we may experience timing differences between (1) the actual receipt of income and payment of deductible expenses, and (2) the inclusion of that income. It is also possible that we may be allocated a share of net capital gain attributable to the sale of depreciated property that exceeds our allocable share of cash attributable to that sale.

In such circumstances, we may have less cash than is necessary to meet our annual distribution requirement or to avoid income or excise taxation on certain undistributed income. We may find it necessary in such circumstances to arrange for financing or raise funds through the issuance of additional shares in order to meet our distribution requirements, or we may pay taxable stock distributions to meet the distribution requirement.

If we fail to satisfy the distribution requirement for any taxable year by reason of a later adjustment to our taxable income made by the Internal Revenue Service, we may be able to pay deficiency distributions in a later year and include such distributions in our deductions for distributions paid for the earlier year. In such event, we may be able to avoid being taxed on amounts distributed as deficiency distributions, but we would be required in such circumstances to pay interest to the Internal Revenue Service based upon the amount of any deduction taken for deficiency distributions for the earlier year.

We may also elect to retain, rather than distribute, our net long-term capital gains. The effect of such an election would be as follows:

- we would be required to pay the tax on these gains;

- our stockholders, while required to include their proportionate share of the undistributed long-term capital gains in income, would receive a credit or refund for their share of the tax paid by us; and

- the basis of a stockholder s shares would be increased by the difference between the designated amount included in the stockholder s long-term capital gains and the tax deemed paid with respect to such shares.

In computing our REIT taxable income, we will use the accrual method of accounting and depreciate depreciable property under the alternative depreciation system. We are required to file an annual federal income tax return, which, like other corporate returns, is subject to examination by the Internal Revenue Service. Because the tax law requires us to make many judgments regarding the proper treatment of a transaction or an item of income or deduction, it is possible that the Internal Revenue Service will challenge positions we take in computing our REIT taxable income and our distributions. Issues could arise, for example, with respect to the allocation of the purchase price of properties between depreciable or amortizable assets and non-depreciable or non-amortizable assets such as land and the current deductibility of fees paid to Cole Advisors or its affiliates. Were the Internal Revenue Service successfully to challenge our characterization of a transaction or determination of our REIT taxable income, we could be found to have failed to satisfy

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a requirement for qualification as a REIT. If, as a result of a challenge, we are determined to have failed to satisfy the distribution requirements for a taxable year, we would be disqualified as a REIT unless we were permitted to pay a deficiency distribution to our stockholders and pay interest thereon to the Internal Revenue Service, as provided by the Internal Revenue Code. A deficiency distribution cannot be used to satisfy the distribution requirement, however, if the failure to meet the requirement is not due to a later adjustment to our income by the Internal Revenue Service.

Operational Requirements Recordkeeping

In order to continue to qualify as a REIT, we must maintain records as specified in applicable Treasury Regulations. Further, we must request, on an annual basis, information designed to disclose the ownership of our outstanding shares. We intend to comply with such requirements.

Failure to Qualify as a REIT

If we fail to qualify as a REIT for any reason in a taxable year and applicable relief provisions do not apply, we will be subject to tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates. We will not be able to deduct distributions paid to our stockholders in any year in which we fail to qualify as a REIT. We also will be disqualified for the four taxable years following the year during which qualification was lost unless we are entitled to relief under specific statutory provisions. See Risk Factors Federal Income Tax Risks.

Sale-Leaseback Transactions

Some of our investments may be in the form of sale-leaseback transactions. In most instances, depending on the economic terms of the transaction, we will be treated for federal income tax purposes as either the owner of the property or the holder of a debt secured by the property. We do not expect to request an opinion of counsel concerning the status of any leases of properties as true leases for federal income tax purposes.

The Internal Revenue Service may take the position that a specific sale-leaseback transaction that we treat as a true lease is not a true lease for federal income tax purposes but is, instead, a financing arrangement or loan. We may also structure some sale-leaseback transactions as loans. In this event, for purposes of the asset tests and the 75% Income Test, each such loan likely would be viewed as secured by real property to the extent of the fair market value of the underlying property. We expect that, for this purpose, the fair market value of the underlying property would be determined without taking into account our lease. If a sale-leaseback transaction were so recharacterized, we might fail to satisfy the asset tests or the income tests and, consequently, lose our REIT status effective with the year of recharacterization. Alternatively, the amount of our REIT taxable income could be recalculated, which might also cause us to fail to meet the distribution requirement for a taxable year.

Taxation of U.S. Stockholders

Definition

In this section, the phrase U.S. stockholder means a holder of shares that for federal income tax purposes:

- is a citizen or resident of the United States;
- is a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof;
- is an estate or trust, the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust, if a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

For any taxable year for which we qualify for taxation as a REIT, amounts distributed to taxable U.S. stockholders will be taxed as described below.

Distributions Generally

Distributions to U.S. stockholders, other than capital gain distributions discussed below, will constitute distributions up to the amount of our current or accumulated earnings and profits and will be taxable to the stockholders as ordinary income. Individuals receiving qualified dividends, distributions from domestic and certain qualifying foreign subchapter C corporations, may be entitled to lower rates on distributions (at rates applicable to long-term capital gains, currently at a maximum rate of 15%) provided certain holding period requirements are met. However, individuals receiving distributions from us, a REIT, will generally not be eligible for the lower rates on distributions except with respect to the portion of any distribution which (a) represents distributions being passed through to us from a corporation in which we own shares (but only if such distributions would be eligible for the new lower rates on distributions if paid by the corporation to its individual stockholders), (b) is equal to our REIT taxable income (taking into account the distributions paid deduction available to us) less any taxes paid by us on these items during our previous taxable year, or (c) are attributable to built-in gains realized and recognized by us from disposition of properties acquired by us in non-recognition transaction, less any taxes paid by us on these items during our previous taxable year. These distributions are not eligible for the distributions received deduction generally available to corporations. To the extent that we make a distribution in excess of our current or accumulated earnings and profits, the distribution will be treated first as a tax-free return of capital, reducing the tax basis in each U.S. stockholder s shares, and the amount of each distribution in excess of a U.S. stockholder s tax basis in its shares will be taxable as gain realized from the sale of its shares. Distributions that we declare in October, November or December of any year payable to a stockholder of record on a specified date in any of these months will be treated as both paid by us and received by the stockholder on December 31 of the year, provided that we actually pay the distribution during January of the following calendar year. U.S. stockholders may not include any of our losses on their own federal income tax returns.

We will be treated as having sufficient earnings and profits to treat as a distribution any distribution by us up to the amount required to be distributed in order to avoid imposition of the 4% excise tax discussed above. Moreover, any deficiency dividend will be treated as an ordinary or capital gain distribution, as the case may be, regardless of our earnings and profits. As a result, stockholders may be required to treat as taxable some distributions that would otherwise result in a tax-free return of capital.

Capital Gain Distributions

Distributions to U.S. stockholders that we properly designate as capital gain distributions will be treated as long-term capital gains, to the extent they do not exceed our actual net capital gain, for the taxable year without regard to the period for which the U.S. stockholder has held his or her shares.

Passive Activity Loss and Investment Interest Limitations

Our distributions and any gain you realize from a disposition of shares will not be treated as passive activity income, and stockholders may not be able to utilize any of their passive losses to offset this income on their personal tax returns. Our distributions (to the extent they do not constitute a return of capital) will generally be treated as investment income for purposes of the limitations on the deduction of investment interest. Net capital gain from a disposition of shares and capital gain distributions generally will be included in investment income for purposes of the investment interest deduction limitations only if, and to the extent, you so elect, in which case any such capital gains will be taxed as ordinary income.

Certain Dispositions of the Shares

In general, any gain or loss realized upon a taxable disposition of shares by a U.S. stockholder who is not a dealer in securities, including any disposition pursuant to our proposed share redemption program, will be treated as long-term capital gain or loss if the shares have been held for more than twelve months and as

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short-term capital gain or loss if the shares have been held for twelve months or less. If, however, a U.S. stockholder has received any capital gains distributions with respect to his shares, any loss realized upon a taxable disposition of shares held for six months or less, to the extent of the capital gains distributions received with respect to his shares, will be treated as long-term capital loss. Also, the Internal Revenue Service is authorized to issue Treasury Regulations that would subject a portion of the capital gain a U.S. stockholder recognizes from selling his shares or from a capital gain distribution to a tax at a 25% rate, to the extent the capital gain is attributable to depreciation previously deducted.

Information Reporting Requirements and Backup Withholding for U.S. Stockholders

Under some circumstances, U.S. stockholders may be subject to backup withholding at a rate of 30% on payments made with respect to, or cash proceeds of a sale or exchange of, our shares. Backup withholding will apply only if the stockholder:

- fails to furnish his or her taxpayer identification number, which, for an individual, would be his or her Social Security Number;
- furnishes an incorrect tax identification number;
- is notified by the Internal Revenue Service that he or she has failed properly to report payments of interest and distributions or is otherwise subject to backup withholding; or
- under some circumstances, fails to certify, under penalties of perjury, that he or she has furnished a correct tax identification number and that (a) he or she has not been notified by the Internal Revenue Service that he or she is subject to backup withholding for failure to report interest and distribution payments or (b) he or she has been notified by the Internal Revenue Service that he or she is no longer subject to backup withholding.

Backup withholding will not apply with respect to payments made to some stockholders, such as corporations and tax-exempt organizations. Backup withholding is not an additional tax. Rather, the amount of any backup withholding with respect to a payment to a U.S. stockholder will be allowed as a credit against the U.S. stockholder s U.S. federal income tax liability and may entitle the U.S. stockholder to a refund, provided that the required information is furnished to the Internal Revenue Service. U.S. stockholders should consult their own tax advisors regarding their qualifications for exemption from backup withholding and the procedure for obtaining an exemption.

Treatment of Tax-Exempt Stockholders

Tax-exempt entities such as employee pension benefit trusts, individual retirement accounts and charitable remainder trusts generally are exempt from federal income taxation. Such entities are subject to taxation, however, on any UBTI, as defined in the Internal Revenue Code. Our payment of distributions to a tax-exempt employee pension benefit trust or other domestic tax-exempt stockholder generally will not constitute UBTI to such stockholder unless such stockholder has borrowed to acquire or carry its shares.

In the event that we were deemed to be predominately held by qualified employee pension benefit trusts that each hold more than 10% (in value) of our shares, such trusts would be required to treat a certain percentage of the distributions paid to them as UBTI. We would be deemed to be predominately held by such trusts if either (i) one employee pension benefit trust owns more than 25% in value of our shares, or (ii) any group of employee pension benefit trusts, each owning more than 10% in value of our shares, holds in the aggregate more than 50% in value of our shares. If either of these ownership thresholds were ever exceeded, any qualified employee pension benefit trust holding more than 10% in value of our shares would be subject to tax on that portion of our distributions made to it which is equal to the percentage of our income that would be UBTI if we were a qualified trust, rather than a REIT. We will attempt to monitor the concentration of ownership of employee pension benefit trusts in our shares, and we do not expect our shares to be deemed to be predominately held by qualified employee pension benefit trusts, as defined in the Internal Revenue Code, to the extent required to trigger the treatment of our income as to such trusts.

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For social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans exempt from federal income taxation under Sections 501(c)(7), (c)(9), (c)(17) and (c)(20) of the Internal Revenue Code, respectively, income from an investment in our shares will constitute UBTI unless the stockholder in question is able to deduct amounts set aside or placed in reserve for certain purposes so as to offset the UBTI generated. Any such organization that is a prospective stockholder should consult its own tax advisor concerning these set aside and reserve requirements.

Special Tax Considerations for Non-U.S. Stockholders

The rules governing U.S. income taxation of non-resident alien individuals, foreign corporations, foreign partnerships and foreign trusts and estates (non-U.S. stockholders) are complex. The following discussion is intended only as a summary of these rules. Non-U.S. stockholders should consult with their own tax advisors to determine the impact of federal, state and local income tax laws on an investment in our shares, including any reporting requirements.

Income Effectively Connected with a U.S. Trade or Business

In general, non-U.S. stockholders will be subject to regular U.S. federal income taxation with respect to their investment in our shares if the income derived therefrom is effectively connected with the non-U.S. stockholder s conduct of a trade or business in the United States. A corporate non-U.S. stockholder that receives income that is (or is treated as) effectively connected with a U.S. trade or business also may be subject to a branch profits tax under Section 884 of the Internal Revenue Code, which is payable in addition to the regular U.S. federal corporate income tax.

The following discussion will apply to non-U.S. stockholders whose income derived from ownership of our shares is deemed to be not effectively connected with a U.S. trade or business.

Distributions Not Attributable to Gain from the Sale or Exchange of a United States Real Property Interest

A distribution to a non-U.S. stockholder that is not attributable to gain realized by us from the sale or exchange of a United States real property interest within the meaning of the Foreign Investment in Real Property Tax Act of 1980, as amended (FIRPTA), and that we do not designate as a capital gain distribution will be treated as an ordinary income distribution to the extent that it is made out of current or accumulated earnings and profits. Generally, any ordinary income distribution will be subject to a U.S. federal income tax equal to 30% of the gross amount of the distribution unless this tax is reduced by the provisions of an applicable tax treaty. Any such distribution in excess of our earnings and profits will be treated first as a return of capital that will reduce each non-U.S. stockholder s basis in its shares (but not below zero) and then as gain from the disposition of those shares, the tax treatment of which is described under the rules discussed below with respect to dispositions of shares.

Distributions Attributable to Gain from the Sale or Exchange of a United States Real Property Interest

Distributions to a non-U.S. stockholder that are attributable to gain from the sale or exchange of a United States real property interest will be taxed to a non-U.S. stockholder under Internal Revenue Code provisions enacted by FIRPTA. Under FIRPTA, such distributions are taxed to a non-U.S. stockholder as if the distributions were gains effectively connected with a U.S. trade or business. Accordingly, a non-U.S. stockholder will be taxed at the normal capital gain rates applicable to a U.S. stockholder (subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of non-resident alien individuals). Distributions subject to FIRPTA also may be subject to a 30% branch profits tax when made to a corporate non-U.S. stockholder that is not entitled to a treaty exemption.

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Withholding Obligations With Respect to Distributions to Non-U.S. Stockholders

Although tax treaties may reduce our withholding obligations, based on current law, we will generally be required to withhold from distributions to non-U.S. stockholders, and remit to the Internal Revenue Service:

35% of designated capital gain distributions or, if greater, 35% of the amount of any distributions that could be designated as capital gain distributions; and

30% of ordinary income distributions (*i.e.*, distributions paid out of our earnings and profits).

In addition, if we designate prior distributions as capital gain distributions, subsequent distributions, up to the amount of the prior distributions, will be treated as capital gain distributions for purposes of withholding. A distribution in excess of our earnings and profits will be subject to 30% withholding if at the time of the distribution it cannot be determined whether the distribution will be in an amount in excess of our current or accumulated earnings and profits. If the amount of tax we withhold with respect to a distribution to a non-U.S. stockholder exceeds the stockholder s U.S. tax liability with respect to that distribution, the non-U.S. stockholder may file a claim with the Internal Revenue Service for a refund of the excess.

Sale of Our Shares by a Non-U.S. Stockholder

A sale of our shares by a non-U.S. stockholder will generally not be subject to U.S. federal income taxation unless our shares constitute a United States real property interest. Our shares will not constitute a United States real property interest if we are a domestically controlled REIT. A domestically controlled REIT is a REIT that at all times during a specified testing period has less than 50% in value of its shares held directly or indirectly by non-U.S. stockholders. We currently anticipate that we will be a domestically controlled REIT. Therefore, sales of our shares should not be subject to taxation under FIRPTA. However, we do expect to sell our shares to non-U.S. stockholders and we cannot assure you that we will continue to be a domestically controlled REIT. If we were not a domestically controlled REIT, whether a non-U.S. stockholder s sale of our shares would be subject to tax under FIRPTA as a sale of a United States real property interest would depend on whether our shares were regularly traded on an established securities market and on the size of the selling stockholder s interest in us. Our shares currently are not regularly traded on an established securities market.

If the gain on the sale of shares were subject to taxation under FIRPTA, a non-U.S. stockholder would be subject to the same treatment as a U.S. stockholder with respect to the gain, subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of non-resident alien individuals. In addition, distributions that are treated as gain from the disposition of shares and are subject to tax under FIRPTA also may be subject to a 30% branch profits tax when made to a corporate non-U.S. stockholder that is not entitled to a treaty exemption. Under FIRPTA, the purchaser of our shares may be required to withhold 10% of the purchase price and remit this amount to the Internal Revenue Service.

Even if not subject to FIRPTA, capital gains will be taxable to a non-U.S. stockholder if the non-U.S. stockholder is a non-resident alien individual who is present in the United States for 183 days or more during the taxable year and some other conditions apply, in which case the non-resident alien individual will be subject to a 30% tax on his or her U.S. source capital gains.

Information Reporting Requirements and Backup Withholding for Non-U.S. Stockholders

Additional issues may arise for information reporting and backup withholding for non-U.S. stockholders. Non-U.S. stockholders should consult their tax advisors with regard to U.S. information reporting and backup withholding requirements under the Internal Revenue Code.

Statement of Stock Ownership

We are required to demand annual written statements from the record holders of designated percentages of our shares disclosing the actual owners of the shares. Any record stockholder who, upon our request, does not provide us with required information concerning actual ownership of the shares is required to include specified information relating to his or her shares in his or her federal income tax return. We also must maintain, within the Internal Revenue District in which we are required to file, our federal income tax return, permanent records showing the information we have received about the actual ownership of shares and a list of those persons failing or refusing to comply with our demand.

State and Local Taxation

We and any operating subsidiaries that we may form may be subject to state and local tax in states and localities in which they or we do business or own property. The tax treatment of us, Cole OP II, any operating subsidiaries we may form and the holders of our shares in local jurisdictions may differ from the federal income tax treatment described above.

Tax Aspects of Our Operating Partnership

The following discussion summarizes certain federal income tax considerations applicable to our investment in Cole OP II, our operating partnership. The discussion does not cover state or local tax laws or any federal tax laws other than income tax laws.

Classification as a Partnership

We will be entitled to include in our income a distributive share of Cole OP II s income and to deduct our distributive share of Cole OP II s losses only if Cole OP II is classified for federal income tax purposes as a partnership, rather than as an association taxable as a corporation. Under applicable Treasury Regulations known as Check-the-Box-Regulations, an unincorporated entity with at least two members may elect to be classified either as an association taxable as a corporation or as a partnership. If such an entity fails to make an election, it generally will be treated as a partnership for federal income tax purposes. Cole OP II intends to be classified as a partnership for federal income tax purposes and will not elect to be treated as an association taxable as a corporation under the Check-the-Box-Regulations.

Even though Cole OP II will be treated as a partnership for federal income tax purposes, it may be taxed as a corporation if it is deemed to be a publicly traded partnership. A publicly traded partnership is a partnership whose interests are traded on an established securities market or are readily tradable on a secondary market, or the substantial equivalent thereof. However, even if the foregoing requirements are met, a publicly traded partnership will not be treated as a corporation for federal income tax purposes if at least 90% of such partnership s gross income for a taxable year consists of qualifying income under Section 7704(d) of the Internal Revenue Code. Qualifying income generally includes any income that is qualifying income for purposes of the 95% Income Test applicable to REITs (90% Passive-Type Income Exception). See Requirements for Qualification as a REIT Operational Requirements Gross Income Tests above.

Under applicable Treasury Regulations known as the PTP Regulations, limited safe harbors from the definition of a publicly traded partnership are provided. Pursuant to one of those safe harbors (the Private Placement Exclusion), interests in a partnership will not be treated as readily tradable on a secondary market or the substantial equivalent thereof if (i) all interests in the partnership were issued in a transaction (or transactions) that was not required to be registered under the Securities Act, and (ii) the partnership does not have more than 100 partners at any time during the partnership s taxable year. In determining the number of partners in a partnership, a person owning an interest in a flow-through entity, such as a partnership, grantor trust or S corporation, that owns an interest in the partnership is treated as a partner in such partnership only if (a) substantially all of the value of the owner s interest in the flow-through is attributable to the flow-through entity s interest, direct or indirect, in the partnership and (b) a principal purpose of the use of the flow-through entity is to permit the partnership to satisfy the 100 partner limitation. Cole

OP II qualifies for the Private Placement Exclusion. Moreover, even if Cole OP II were considered a publicly traded partnership under the PTP Regulations because it is deemed to have more than 100 partners, we believe Cole OP II should not be treated as a corporation because it is eligible for the 90% Passive-Type Income Exception described above.

We have not requested, and do not intend to request, a ruling from the Internal Revenue Service that Cole OP II will be classified as a partnership for federal income tax purposes. Morris, Manning & Martin, LLP is of the opinion, however, that based on certain factual assumptions and representations, Cole OP II will be treated for federal income tax purposes as a partnership and not as an association taxable as a corporation, or as a publicly traded partnership. Unlike a tax ruling, however, an opinion of counsel is not binding upon the Internal Revenue Service, and we can offer no assurance that the Internal Revenue Service will not challenge the status of Cole OP II as a partnership for federal income tax purposes. If such challenge were sustained by a court, Cole OP II would be treated as a corporation for federal income tax purposes, as described below. In addition, the opinion of Morris, Manning & Martin, LLP is based on existing law, which is to a great extent the result of administrative and judicial interpretation. No assurance can be given that administrative or judicial changes would not modify the conclusions expressed in the opinion.

If for any reason Cole OP II were taxable as a corporation, rather than a partnership, for federal income tax purposes, we would not be able to qualify as a REIT. See Requirements for Qualification as a REIT Operational Requirements Gross Income Tests and Operational Requirements Asset Tests above. In addition, any change in Cole OP II s status for tax purposes might be treated as a taxable event, in which case we might incur a tax liability without any related cash distribution. Further, items of income and deduction of Cole OP II would not pass through to its partners, and its partners would be treated as stockholders for tax purposes. Consequently, Cole OP II would be required to pay income tax at corporate tax rates on its net income, and distributions to its partners would not be deductible in computing Cole OP II s taxable income.

Income Taxation of the Operating Partnership and Its Partners

Partners, Not a Partnership, Subject to Tax

A partnership is not a taxable entity for federal income tax purposes. As a partner in Cole OP II, we will be required to take into account our allocable share of Cole OP II s income, gains, losses, deductions and credits for any taxable year of Cole OP II ending within or with our taxable year, without regard to whether we have received or will receive any distribution from Cole OP II.

Partnership Allocations

Although a partnership agreement generally determines the allocation of income and losses among partners, such allocations will be disregarded for tax purposes under Section 704(b) of the Internal Revenue Code if they do not comply with the provisions of Section 704(b) of the Internal Revenue Code and the Treasury Regulations promulgated thereunder. If an allocation is not recognized for federal income tax purposes, the item subject to the allocation will be reallocated in accordance with the partner s interests in the partnership, which will be determined by taking into account all of the facts and circumstances relating to the economic arrangement of the partners with respect to such item. Cole OP II s allocations of taxable income and loss are intended to comply with the requirements of Section 704(b) of the Internal Revenue Code and the Treasury Regulations promulgated thereunder.

Tax Allocations With Respect to Contributed Properties

Pursuant to Section 704(c) of the Internal Revenue Code, income, gain, loss and deductions attributable to appreciated or depreciated property that is contributed to a partnership in exchange for an interest in the partnership must be allocated for federal income tax purposes in a manner such that the contributor is charged with, or benefits from, the unrealized gain or unrealized loss associated with the property at the time of the contribution. The amount of such unrealized gain or unrealized loss is generally equal to the difference between the fair market value of the contributed property at the time of contribution and the adjusted tax basis of such property at the time of contribution. Under applicable Treasury Regulations, partnerships are required to use a reasonable method for allocating items subject to Section 704(c) of the Internal Revenue Code, and several reasonable allocation methods are described therein.

Under the partnership agreement for Cole OP II, depreciation or amortization deductions of Cole OP II generally will be allocated among the partners in accordance with their respective interests in Cole OP II, except to the extent that Cole OP II is required under Section 704(c) of the Internal Revenue Code to use a

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method for allocating depreciation deductions attributable to its properties that results in us receiving a disproportionately large share of such deductions. We may possibly (1) be allocated lower amounts of depreciation deductions for tax purposes with respect to contributed properties than would be allocated to us if each such property were to have a tax basis equal to its fair market value at the time of contribution, and (2) be allocated taxable gain in the event of a sale of such contributed properties in excess of the economic profit allocated to us as a result of such sale. These allocations may cause us to recognize taxable income in excess of cash proceeds received by us, which might adversely affect our ability to comply with the REIT distribution requirements, although we do not anticipate that this event will occur. The foregoing principles also will affect the calculation of our earnings and profits for purposes of determining which portion of our distributions is taxable as a distribution. The allocations described in this paragraph may result in a higher portion of our distributions being taxed as a distribution if we acquire properties in exchange for units of the Cole OP II than would have occurred had we purchased such properties for cash.

Basis in Operating Partnership Interest

The adjusted tax basis of our partnership interest in Cole OP II generally is equal to (1) the amount of cash and the basis of any other property contributed to Cole OP II by us, (2) increased by (a) our allocable share of Cole OP II s income and (b) our allocable share of indebtedness of Cole OP II, and (3) reduced, but not below zero, by (a) our allocable share of Cole OP II s loss and (b) the amount of cash distributed to us, including constructive cash distributions resulting from a reduction in our share of indebtedness of Cole OP II.

If the allocation of our distributive share of Cole OP II s loss would reduce the adjusted tax basis of our partnership interest in Cole OP II below zero, the recognition of such loss will be deferred until such time as the recognition of such loss would not reduce our adjusted tax basis below zero. If a distribution from Cole OP II or a reduction in our share of Cole OP II s liabilities (which is treated as a constructive distribution for tax purposes) would reduce our adjusted tax basis below zero, any such distribution, including a constructive distribution, would constitute taxable income to us. The gain realized by us upon the receipt of any such distribution or constructive distribution would normally be characterized as capital gain, and if our partnership interest in Cole OP II has been held for longer than the required long-term capital gain holding period (currently one year), the distribution would constitute long-term capital gain.

Depreciation Deductions Available to the Operating Partnership

Cole OP II will use a portion of contributions made by us from offering proceeds to acquire interests in properties. To the extent that Cole OP II acquires properties for cash, Cole OP II s initial basis in such properties for federal income tax purposes generally will be equal to the purchase price paid by Cole OP II. Cole OP II plans to depreciate each such depreciable property for federal income tax purposes under the alternative depreciation system of depreciation. Under this system, Cole OP II generally will depreciate such buildings and improvements over a 40-year recovery period using a straight-line method and a mid-month convention and will depreciate furnishings and equipment over a twelve-year recovery period. To the extent that Cole OP II acquires properties in exchange for units of Cole OP II, Cole OP II s initial basis in each such property for federal income tax purposes should be the same as the transferor s basis in that property on the date of acquisition by Cole OP II. Although the law is not entirely clear, Cole OP II generally intends to depreciate such depreciable property for federal income tax purposes over the same remaining useful lives and under the same methods used by the transferors.

Sale of the Operating Partnership s Property

Generally, any gain realized by Cole OP II on the sale of property held for more than one year will be long-term capital gain, except for any portion of such gain that is treated as depreciation or cost recovery recapture. Any gain recognized by Cole OP II upon the disposition of a property acquired by Cole OP II for cash will be allocated among the partners in accordance with their respective in Cole OP II.

Our share of any gain realized by Cole OP II on the sale of any property held by Cole OP II as inventory or other property held primarily for sale to customers in the ordinary course of Cole OP II s trade or business

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will be treated as income from a prohibited transaction that is subject to a 100% penalty tax. Such prohibited transaction income also may have an adverse effect upon our ability to satisfy the income tests for maintaining our REIT status. See Requirements for Qualification as a REIT Operational Requirements Gross Income Tests above. We, however, do not currently intend to acquire or hold or allow Cole OP II to acquire or hold any property that represents inventory or other property held primarily for sale to customers in the ordinary course of our or Cole OP II s trade or business.

Tenant-In-Common Program

Each of the properties (Section 1031 Program properties) that are the subject of the Section 1031 Program will initially be purchased by a single member limited liability company or Delaware statutory trust, referred to in this prospectus as a Cole Exchange Entity. Each Cole Exchange Entity will initially be owned by our affiliate, Cole Capital Partners or its affiliate. Cole Capital Partners will then market co-ownership interests in these properties to those Section 1031 Participants who wish to re-invest proceeds arising from dispositions of their real estate assets owned by the Section 1031 Participants. The Section 1031 Participants will be able to defer the recognition of taxable gain arising from the sale of their real estate assets by investing proceeds into the co-ownership interests that qualify for purposes of Section 1031 of the Internal Revenue Code as replacement real estate assets. We anticipate that the Cole Exchange Entity will obtain a legal opinion in connection with each Section 1031 Program to the effect that the program will qualify as a like-kind exchange under Section 1031 of the Internal Revenue Code. However, the Internal Revenue Service may not take a position contrary to such an opinion.

As Cole Capital Partners successfully markets co-ownership interests in the Section 1031 Program properties, these will be sold to the Section 1031 Participants. Cole Capital Partners will recognize gain or loss arising from such sales measured by the difference between the sum of its cost basis and costs of closing and the price at which it sells such interests to the Section 1031 Participants. Cole Capital Partners will be responsible for reporting such income to the extent of any net gains and will be liable for any resulting tax. This will have no impact on our tax liability.

If Cole OP II purchases interests in the Section 1031 Program Properties, the tax treatment will be the same as it would with respect to other acquisitions of real property. Cole OP II will become the owner of an interest in real estate, it will have a basis in the real estate equal to its cost, and its holding period for such real estate will begin on the day of the acquisition. Upon subsequent sale of such interest, it will recognize gain or loss in the same fashion it would with any other real estate investments. Any fees that a Cole Exchange Entity pays to Cole OP II for participating in a Section 1031 Program will be taxable as ordinary income to Cole OP II.

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INVESTMENT BY TAX-EXEMPT ENTITIES AND ERISA CONSIDERATIONS

General

The following is a summary of some non-tax considerations associated with an investment in our shares by tax-qualified pension, stock bonus or profit-sharing plans, employee benefit plans described in Section 3(3) of ERISA, annuities described in Section 403(a) or (b) of the Internal Revenue Code, an individual retirement account or annuity described in Sections 408 or 408A of the Internal Revenue Code, an Archer MSA described in Section 220(d) of the Internal Revenue Code, a health savings account described in Section 223(d) of the Internal Revenue Code, or a Coverdell education savings account described in Section 530 of the Internal Revenue Code, which are referred to as Plans and IRAs, as applicable. This summary is based on provisions of ERISA and the Internal Revenue Code, including amendments thereto through the date of this prospectus, and relevant regulations and opinions issued by the Department of Labor and the Internal Revenue Service through the date of this prospectus. We cannot assure you that adverse tax decisions or legislative, regulatory or administrative changes that would significantly modify the statements expressed herein will not occur. Any such changes may or may not apply to transactions entered into prior to the date of their enactment.

Our management has attempted to structure us in such a manner that we will be an attractive investment vehicle for Plans and IRAs. However, in considering an investment in our shares, those involved with making such an investment decision should consider applicable provisions of the Internal Revenue Code and ERISA. While each of the ERISA and Internal Revenue Code issues discussed below may not apply to all Plans and IRAs, individuals involved with making investment decisions with respect to Plans and IRAs should carefully review the rules and exceptions described below, and determine their applicability to their situation.

In general, individuals making investment decisions with respect to Plans and IRAs should, at a minimum, consider:

- whether the investment is in accordance with the documents and instruments governing such Plan or IRA;
- whether the investment satisfies the prudence and diversification and other fiduciary requirements of ERISA, if applicable;
- whether the investment will result in UBTI to the Plan or IRA, see Federal Income Tax Considerations Treatment of Tax-Exempt Stockholders ;
- whether there is sufficient liquidity for the Plan or IRA, considering the minimum distribution requirements under the Internal Revenue Code and the liquidity needs of such Plan or IRA, after taking this investment into account;
- the need to value the assets of the Plan or IRA annually; and
- whether the investment would constitute or give rise to a prohibited transaction under ERISA or the Internal Revenue Code, if applicable.

Additionally, individuals making investment decisions with respect to Plans and IRAs must remember that ERISA requires that the assets of an employee benefit plan must generally be held in trust, and that the trustee, or a duly authorized named fiduciary or investment manager, must have authority and discretion to manage and control the assets of an employee benefit plan.

Minimum Distribution Requirements   Plan Liquidity

Potential Plan or IRA investors who intend to purchase our shares should consider the limited liquidity of an investment in our shares as it relates to the minimum distribution requirements under the Internal Revenue Code, if applicable. If the shares are held in an IRA or Plan and, before we sell our properties, mandatory distributions are required to be made to the participant or beneficiary of such IRA or Plan, pursuant to the Internal Revenue Code, then this would require that a distribution of the shares be made in kind to such participant or beneficiary, which may not be permissible under the terms and provisions of such IRA or Plan. Even if permissible, a distribution of shares in kind must be included in the taxable income of the recipient for the year in which the shares are received at the then current fair market value of the shares, even though there would be no corresponding cash distribution with which to pay the income tax liability arising because of the distribution of shares. See Risk Factors Federal Income Tax Risks. The fair market value of any such distribution-in-kind can be only an estimated value per share because no public market for our shares exists or is likely to develop. See Annual Valuation Requirement below. Further, there can be no assurance that such estimated value could actually be realized by a stockholder because estimates do not necessarily indicate the price at which our shares could be sold. Also, for distributions subject to mandatory income tax withholding under Section 3405 or other tax withholding provisions of the Internal Revenue Code, the trustee of a Plan may have an obligation, even in situations involving in-kind distributions of shares, to liquidate a portion of the in-kind shares distributed in order to satisfy such withholding obligations, although there might be no market for such shares. There may also be similar state and/or local tax withholding or other tax obligations that should be considered.

Annual Valuation Requirement

Fiduciaries of Plans are required to determine the fair market value of the assets of such Plans on at least an annual basis. If the fair market value of any particular asset is not readily available, the fiduciary is required to make a good faith determination of that asset s value. Also, a trustee or custodian of an IRA must provide an IRA participant and the Internal Revenue Service with a statement of the value of the IRA each year. However, currently, neither the Internal Revenue Service nor the Department of Labor has promulgated regulations specifying how fair market value should be determined.

Unless and until our shares are listed on a national securities exchange or are included for quotation on The Nasdaq National Market, it is not expected that a public market for our shares will develop. To assist fiduciaries of Plans subject to the annual reporting requirements of ERISA and IRA trustees or custodians to prepare reports relating to an investment in our shares, we intend to provide reports of our quarterly and annual determinations of the current value of our net assets per outstanding share to those fiduciaries (including IRA trustees and custodians) who identify themselves to us and request the reports. Until two years after any subsequent offering of our shares, we intend to use the offering price of shares in our most recent offering as the per share net asset value (unless we have made a special distribution to stockholders of net sales proceeds from the sale of one or more properties prior to the date of determination of net asset value, in which case we will use the offering price less the per share amount of the special distribution). Beginning two years after the last offering of our shares, our board of directors will determine the value of the properties and our other assets based on such information as our board determines appropriate, which may include independent valuations of our properties or of our enterprise as a whole.

We anticipate that we will provide annual reports of our determination of value (1) to IRA trustees and custodians not later than January 15 of each year, and (2) to other Plan fiduciaries within 75 days after the end of each calendar year. Each determination may be based upon valuation information available as of October 31 of the preceding year, updated, however, for any material changes occurring between October 31 and December 31.

There can be no assurance, however, with respect to any estimate of value that we prepare, that:

- the estimated value per share would actually be realized by our stockholders upon liquidation, because these estimates do not necessarily indicate the price at which properties can be sold;

- our stockholders would be able to realize estimated net asset values if they were to attempt to sell their shares, because no public market for our shares exists or is likely to develop; or that the value, or method used to establish value, would comply with ERISA or Internal Revenue Code requirements described above.

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Fiduciary Obligations Prohibited Transactions

Any person identified as a fiduciary with respect to a Plan incurs duties and obligations under ERISA as discussed herein. For purposes of ERISA, any person who exercises any authority or control with respect to the management or disposition of the assets of a Plan is considered to be a fiduciary of such Plan. Further, many transactions between Plans or IRAs and parties-in-interest or disqualified persons are prohibited by ERISA and/or the Internal Revenue Code. ERISA also requires generally that the assets of Plans be held in trust and that the trustee, or a duly authorized investment manager, have exclusive authority and discretion to manage and control the assets of the Plan.

In the event that our properties and other assets were deemed to be assets of a Plan or IRA, referred to herein as plan assets, our directors would, and employees of our affiliates might be deemed fiduciaries of any Plans or IRAs investing as stockholders. If this were to occur, certain contemplated transactions between us and our directors and employees of our affiliates could be deemed to be prohibited transactions. Additionally, ERISA s fiduciary standards applicable to investments by Plans would extend to our directors and possibly employees of our affiliates as Plan fiduciaries with respect to investments made by us, and the requirement that Plan Assets be held in trust could be deemed to be violated.

Plan Assets Definition

Prior to the passage of the Pension Protection Act of 2006 (the PPA), Neither ERISA nor the Internal Revenue Code contained a definition of Plan Assets. After the passage of the PPA, new section 3(42) of ERISA now defines plan assets in accordance with Department of Labor regulations with certain express exceptions. A Department of Labor regulation, referred to in this discussion as the Plan Asset Regulation, as modified by the express exceptions noted in the PPA, provides guidelines as to whether, and under what circumstances, the underlying assets of an entity will be deemed to constitute Plan Assets. Under the Plan Asset Regulation, the assets of an entity in which a Plan or IRA makes an equity investment will generally be deemed to be assets of such Plan or IRA unless the entity satisfies one of the exceptions to this general rule. Generally, the exceptions require that the investment in the entity be one of the following:

- in securities issued by an investment company registered under the Investment Company Act;
- in publicly offered securities, defined generally as interests that are freely transferable, widely held and registered with the Securities and Exchange Commission;
- in an operating company, which includes venture capital operating companies and real estate operating companies; or
- in which equity participation by benefit plan investors is not significant.

Plan Assets Registered Investment Company Exception

The shares we are offering will not be issued by a registered investment company. Therefore we do not anticipate that we will qualify for the exception for investments issued by a registered investment company.

Publicly Offered Securities Exemption

As noted above, if a Plan acquires publicly offered securities, the assets of the issuer of the securities will not be deemed to be Plan Assets under the Plan Asset Regulation. The definition of publicly offered securities requires that such securities be widely held, freely transferable and satisfy registration requirements under federal securities laws.

Under the Plan Asset Regulation, a class of securities will meet the registration requirements under federal securities laws if they are (i) part of a class of securities registered under section 12(b) or 12(g) of the Exchange Act, or (ii) part of an offering of securities to the public pursuant to an effective registration statement under the Securities Act and the class of securities of which such security is a part is registered under the Exchange Act within 120 days (or such later time as may be allowed by the Securities and Exchange Commission) after the end of the fiscal year of the issuer during which the offering of such securities to the public occurred. We anticipate that we will meet the registration requirements under the Plan Asset Regulation. Also under the Plan Asset Regulation, a class of securities will be widely held if it is held by 100 or more persons independent of the issuer. We anticipate that this requirement will be easily met. Although our shares are intended to satisfy the registration requirements under this definition, and we expect that our securities will be widely-held , the freely transferable requirement must also be satisfied in order for us to qualify for the publicly offered securities exception.

The Plan Asset Regulation provides that whether a security is freely transferable is a factual question to be determined on the basis of all relevant facts and circumstances. Our shares are subject to certain restrictions on transferability typically found in REITs, and are intended to ensure that we continue to qualify for federal income tax treatment as a REIT. The Plan Asset Regulation provides, however, that where the minimum investment in a public offering of securities is $10,000 or less, the presence of a restriction on transferability intended to prohibit transfers that would result in a termination or reclassification of the entity for state or federal tax purposes will not ordinarily affect a determination that such securities are freely transferable. The minimum investment in our shares is less than $10,000. Thus, the restrictions imposed in order to maintain our status as a REIT should not prevent the shares from being deemed freely transferable. Therefore, we anticipate that we will meet the publicly offered securities exception, although there are no assurances that we will qualify for this exception.

Plan Assets Operating Company Exception

If we are deemed not to qualify for the publicly offered securities exemption, the Plan Asset Regulation also provides an exception with respect to securities issued by an operating company, which includes venture capital operating companies and real estate operating companies. To constitute a venture capital operating company, 50% of more of the assets of the entity must be invested in venture capital investments. A venture capital investment is an investment in an operating company (other than a venture capital operating company) as to which the entity has or obtains direct management rights. To constitute a real estate operating company, 50% or more of the assets of an entity must be invested in real estate which is managed or developed and with respect to which such entity has the right to substantially participate directly in the management or development activities.

While the Plan Asset Regulation and relevant opinions issued by the Department of Labor regarding real estate operating companies are not entirely clear as to whether an investment in real estate must be direct , it is common practice to insure that an investment is made either (i) directly into real estate, (ii) through wholly-owned subsidiaries, or (iii) through entities in which all but a de minimis interest is separately held by an affiliate solely to comply with the minimum safe harbor requirements established by the Internal Revenue Service for classification as a partnership for federal tax purposes. We have structured ourselves, and our operating partnership, in this manner in order to enable us to meet the real estate operating company exception. To the extent interests in our operating partnership are obtained by third-party investors, it is possible that the real estate operating company exception will cease to apply to us. However, in such an event we believe that we are structured in a manner which would allow us to meet the venture capital operating company exception because our investment in our operating partnership, an entity investing directly in real estate over which we maintain substantially all of the control over the management and development activities, would constitute a venture capital investment.

Notwithstanding the foregoing, 50% of our, or our operating partnership s investment, as the case may be, must be in real estate over which we maintain the right to substantially participate in the management and development activities. An example in the Plan Asset Regulation indicates that if 50% or more of an entity s properties are subject to long-term leases under which substantially all management and maintenance activities with respect to the properties are the responsibility of the lessee, such that the entity merely assumes the risk of ownership of income-producing real property, then the entity may not be eligible for the real estate operating company exception. By contrast, a second example in the Plan Asset Regulation indicates that if 50% or more of an entity s investments are in shopping centers in which individual stores are leased for relatively short periods to various merchants, as opposed to long-term leases where substantially all management and maintenance activities are the responsibility of the lessee, then the entity will likely qualify as a real estate operating company. The second example further provides that the entity may retain contractors, including affiliates, to conduct the management of the properties so long as the entity has the responsibility to supervise and the authority to terminate the contractors. We intend to use contractors over which we have the right to supervise and the authority to terminate. Due to the uncertainty of the application of the standards set forth in the Plan Asset Regulation, there can be no assurance as to our ability to structure our operations, or the operations of our operating partnership, as the case may be, to qualify for the real estate operating company exception.

Plan Assets Not Significant Investment Exception

The Plan Asset Regulation provides that equity participation in an entity by benefit plan investors is significant if at any time 25% or more of the value of any class of equity interests is held by benefit plan investors. As modified by the PPA, a benefit plan investor is now defined to mean an employee benefit plan subject to Part 4 of Title I of ERISA, any plan to which Section 4975 of the Internal Revenue Code applies and any entity whose underlying assets include plan assets by reason of a plan s investment in such entity. In the event we determine that we fail to meet the publicly offered securities exception, as a result of a failure to sell an adequate number of shares or otherwise, and we cannot ultimately establish that we are an operating company, we intend to restrict ownership of each class of equity interests held by benefit plan investors to an aggregate value of less than 25% and thus qualify for the exception for investments in which equity participation by benefit plan investors is not significant.

Consequences of Holding Plan Assets

In the event that our underlying assets were treated by the Department of Labor as Plan Assets, our management would be treated as fiduciaries with respect to each Plan or IRA stockholder, and an investment in our shares might expose the fiduciaries of the Plan or IRA to co-fiduciary liability under ERISA for any breach by our management of the fiduciary duties mandated under ERISA. Further, if our assets are deemed to be Plan Assets, an investment by a Plan or IRA in our shares might be deemed to result in an impermissible commingling of Plan Assets with other property.

If our management or affiliates were treated as fiduciaries with respect to Plan or IRA stockholders, the prohibited transaction restrictions of ERISA would apply to any transaction involving our assets. These restrictions could, for example, require that we avoid transactions with entities that are affiliated with our affiliates or us or restructure our activities in order to obtain an administrative exemption from the prohibited transaction restrictions. Alternatively, we might have to provide Plan or IRA stockholders with the opportunity to sell their shares to us or we might dissolve or terminate.

Prohibited Transactions

Generally, both ERISA and the Internal Revenue Code prohibit Plans and IRAs from engaging in certain transactions involving Plan Assets with specified parties, such as sales or exchanges or leasing of property, loans or other extensions of credit, furnishing goods or services, or transfers to, or use of, Plan Assets. The specified parties are referred to as parties-in-interest under ERISA and as disqualified persons under the Internal Revenue Code. These definitions generally include both parties owning threshold percentage interests in an investment entity and persons providing services to the Plan or IRA, as well as employer sponsors of the Plan or IRA, fiduciaries and other individuals or entities affiliated with the foregoing.

A person generally is a fiduciary with respect to a Plan or IRA for these purposes if, among other things, the person has discretionary authority or control with respect to Plan Assets or provides investment advice for a fee with respect to Plan Assets. Under Department of Labor regulations, a person will be deemed to be providing investment advice if that person renders advice as to the advisability of investing in our shares, and that person regularly provides investment advice to the Plan or IRA pursuant to a mutual agreement or understanding that such advice will serve as the primary basis for investment decisions, and that the advice will be individualized for the Plan or IRA based on its particular needs. Thus, if we are deemed to hold Plan Assets, our management could be characterized as fiduciaries with respect to such assets, and each would be

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deemed to be a party-in-interest under ERISA and a disqualified person under the Internal Revenue Code with respect to investing Plans and IRAs. Whether or not we are deemed to hold Plan Assets, if we or our affiliates are affiliated with a Plan or IRA investor, we might be a disqualified person or party-in-interest with respect to such Plan or IRA investor, resulting in a prohibited transaction merely upon investment by such Plan or IRA in our shares.

Prohibited Transactions Consequences

ERISA forbids Plans from engaging in prohibited transactions. Fiduciaries of a Plan that allow a prohibited transaction to occur will breach their fiduciary responsibilities under ERISA, and may be liable for any damage sustained by the Plan, as well as civil (and criminal, if the violation was willful) penalties. If it is determined by the Department of Labor or the Internal Revenue Service that a prohibited transaction has occurred, any disqualified person or party-in-interest involved with the prohibited transaction would be required to reverse or unwind the transaction and, for a Plan, compensate the Plan for any loss resulting therefrom. Additionally, the Internal Revenue Code requires that a disqualified person involved with a prohibited transaction must pay an excise tax equal to a percentage of the amount involved in the transaction for each year in which the transaction remains uncorrected. The percentage is generally 15%, but is increased to 100% if the prohibited transaction is not corrected promptly. For IRAs, if an IRA engages in a prohibited transaction, the tax-exempt status of the IRA may be lost.

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DESCRIPTION OF SHARES

We were formed under the laws of the state of Maryland. The rights of our stockholders are governed by Maryland law as well as our charter and bylaws. The following summary of the terms of our common stock is only a summary, and you should refer to the Maryland General Corporation Law and our charter and bylaws for a full description. The following summary is qualified in its entirety by the more detailed information contained in our charter and bylaws. Copies of our charter and bylaws are available upon request.

Our charter authorizes us to issue up to 250,000,000 shares of stock, of which 240,000,000 shares are designated as common stock at $0.01 par value per share and 10,000,000 shares are designated as preferred stock at $0.01 par value per share. As of September 30, 2006, 19 million shares of our common stock were issued and outstanding and no shares of preferred stock were issued and outstanding. Our board of directors may amend our charter to increase or decrease the aggregate number of our authorized shares or the number of shares of any class or series that we have authority to issue without any action by our stockholders.

Our charter also contains a provision permitting our board of directors, including at least a majority of the independent directors who do not have an interest in the transaction and without any action by our stockholders, to classify or reclassify any unissued common stock or preferred stock into one or more classes or series by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions or other distributions, qualifications, or terms or conditions of redemption of any new class or series of stock, subject to certain restrictions, including the express terms of any class or series of stock outstanding at the time. We believe that the power to classify or reclassify unissued shares of stock and thereafter issue the classified or reclassified shares provides us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs that might arise.

Our charter and bylaws contain certain provisions that could make it more difficult to acquire control of our company by means of a tender offer, a proxy contest or otherwise. These provisions are expected to discourage certain types of coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of our company to negotiate first with our board of directors. We believe that these provisions increase the likelihood that proposals initially will be on more attractive terms than would be the case in their absence and facilitate negotiations that may result in improvement of the terms of an initial offer that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders. See Risk Factors Risks Related to an Investment in Cole REIT II.

Common Stock

Subject to any preferential rights of any other class or series of stock and to the provisions of our charter regarding the restriction on the transfer of common stock, the holders of common stock are entitled to such distributions as may be authorized from time to time by our board of directors out of legally available funds and declared by us and, upon our liquidation, are entitled to receive all assets available for distribution to our stockholders. Upon issuance for full payment in accordance with the terms of this offering, all common stock issued in the offering will be fully paid and non-assessable. Holders of common stock will not have preemptive rights, which means that they will not have an automatic option to purchase any new shares that we issue, or preference, conversion, exchange, sinking fund, redemption or appraisal rights. Shares of our common stock have equal distribution, liquidation and other rights.

Preferred Stock

Our charter authorizes our board of directors to designate and issue one or more classes or series of preferred stock without stockholder approval and to fix the voting rights, liquidation preferences, distribution rates, conversion rights, redemption rights and terms, including sinking fund provisions, and certain other rights and preferences with respect to such preferred stock. Because our board of directors has the power to establish the preferences and rights of each class or series of preferred stock, it may afford the holders of any series or class of preferred stock preferences, powers, and rights senior to the rights of holders of common stock. If we ever created and issued preferred stock with a distribution preference over common stock, payment of any distribution preferences of outstanding preferred stock would reduce the amount of funds available for the payment of distributions on the common stock. Further, holders of preferred stock are normally entitled to receive a preference payment in the event we liquidate, dissolve, or wind up before any payment is made to the common stockholders, likely reducing the amount common stockholders would otherwise receive upon such an occurrence. In addition, under certain circumstances, the issuance of preferred stock may delay, prevent, render more difficult or tend to discourage the following:

- a merger, offer, or proxy contest;
- the assumption of control by a holder of a large block of our securities; or
- the removal of incumbent management.

Also, our board of directors, without stockholder approval, may issue preferred stock with voting and conversion rights that could adversely affect the holders of common stock.

We currently have no preferred stock issued or outstanding. Our board of directors has no present plans to issue shares of preferred stock, but it may do so at any time in the future without stockholder approval.

Meetings and Special Voting Requirements

Subject to our charter restrictions on transfer of our stock, each holder of common stock is entitled at each meeting of stockholders to one vote per share owned by such stockholder on all matters submitted to a vote of stockholders, including the election of directors. There is no cumulative voting in the election of our board of directors, which means that the holders of a majority of shares of our outstanding common stock can elect all of the directors then standing for election and the holders of the remaining shares of common stock will not be able to elect any directors.

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders holding at least two-thirds of the shares entitled to vote on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter provides for approval of these matters by the affirmative vote of a majority of the votes entitled to be cast.

However, under the Maryland General Corporation Law and our charter, the following events do not require stockholder approval:

- stock exchanges in which we are the successor;
- mergers with or into a 90% or more owned subsidiary, provided that the charter of the successor is not amended and that the contract rights of any stock issued in the merger are identical to those of the stock that was exchanged;
- mergers in which we do not:
  - reclassify or change the terms of any of shares that are outstanding immediately before the effective time of the merger;
  - amend our charter; and

result in the issuance of more than 20% of the number of shares of any class or series of shares outstanding immediately before the merger; and

transfers of less than substantially all of our assets.

Also, because our operating assets are held by our subsidiaries, these subsidiaries may be able to merge or sell all or substantially all of their assets without the approval of our stockholders.

An annual meeting of our stockholders will be held each year, at least 30 days after delivery of our annual report to our stockholders. Special meetings of stockholders may be called only upon the request of a majority of our directors, a majority of the independent directors, the president, the chief executive officer or upon the written request of stockholders holding at least ten percent of our outstanding shares. Upon receipt of a written request of stockholders holding at least ten percent of our outstanding shares stating the purpose of the special meeting, our secretary will provide all of our stockholders written notice of the meeting and the purpose of such meeting. The meeting must be held not less than 15 nor more than 60 days after the distribution of the notice of meeting. The presence of holders of a majority of our outstanding shares, either in person or by proxy, will constitute a quorum.

Our stockholders are entitled to receive a copy of our stockholder list upon request. The list provided by us will include each stockholder s name, address and telephone number, if available, and the number of shares owned by each stockholder and will be sent within ten days of the receipt by us of the request. A stockholder requesting a list will be required to pay reasonable costs of postage and duplication. Stockholders and their representatives shall also be given access to our corporate records at reasonable times. We have the right to request that a requesting stockholder represent to us that the list and records will not be used to pursue commercial interests.

If we do not list our shares of common stock on a national securities exchange or on The Nasdaq National Market by the tenth anniversary of the completion or termination of this offering, our charter requires that we either (i) seek stockholder approval of an extension or amendment of this listing deadline, or (ii) seek stockholder approval of the liquidation of the corporation. If we sought and did not obtain stockholder approval of an extension or amendment to the listing deadline, we would then be required to seek stockholder approval of our liquidation. If we sought and failed to obtain stockholder approval of our liquidation, our charter would not require us to list or liquidate and we could continue to operate as before. In such event, there will be no public market for shares of our common stock and you may be required to hold the shares indefinitely. If we sought and obtained stockholder approval of our liquidation, we would begin an orderly sale of our properties and distribute our net proceeds to you. In the event that the listing of our stock on a national securities exchange or on The Nasdaq National Market occurs on or before the tenth anniversary of the commencement of this public offering, the corporation shall continue perpetually unless dissolved pursuant to any applicable provision of the Maryland General Corporation Law.

Restrictions on Ownership and Transfer

In order for us to qualify as a REIT under the Internal Revenue Code, we must meet the following criteria regarding our stockholders ownership of our shares:

- five or fewer individuals (as defined in the Internal Revenue Code to include certain tax exempt organizations and trusts) may not own, directly or indirectly, more than 50% in value of our outstanding shares during the last half of a taxable year; and

- 100 or more persons must beneficially own our shares during at least 335 days of a taxable year of twelve months or during a proportionate part of a shorter taxable year.

See Federal Income Tax Considerations for further discussion of this topic. We may prohibit certain acquisitions and transfers of shares so as to ensure our initial and continued qualification as a REIT under the Internal Revenue Code. However, there can be no assurance that this prohibition will be effective. Because we believe it is essential for us to qualify as a REIT, and, once qualified, to continue to qualify, our charter provides (subject to certain exceptions) that no stockholder may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code, more than 9.8% in value of our outstanding shares of stock or more than 9.8% of the number or value (in either case as determined in good faith by our board of directors) of any class or series of our outstanding shares of common stock. The 9.8% ownership limit must be measured in terms of the more restrictive of value or number of shares.

Our board of directors, in its sole discretion, may waive this ownership limit if evidence satisfactory to our directors is presented that such ownership will not then or in the future jeopardize our status as a REIT. Also, these restrictions on transferability and ownership will not apply if our directors determine that it is no longer in our best interests to continue to qualify as a REIT.

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Additionally, our charter further prohibits the transfer or issuance of our stock if such transfer or issuance:

- with respect to transfers only, results in our common stock being owned by fewer than 100 persons;
- results in our being closely held within the meaning of Section 856(h) of the Internal Revenue Code;
- results in our owning, directly or indirectly, more than 9.8% of the ownership interests in any tenant or subtenant; or
- otherwise results in our disqualification as a REIT.

Any attempted transfer of our stock which, if effective, would result in our stock being owned by fewer than 100 persons will be null and void. In the event of any attempted transfer of our stock which, if effective, would result in (i) violation of the ownership limit discussed above, (ii) in our being closely held under Section 856(h) of the Internal Revenue Code, (iii) our owning (directly or indirectly) more than 9.8% of the ownership interests in any tenant or subtenant or (iv) our otherwise failing to qualify as a REIT, then the number of shares causing the violation (rounded to the nearest whole share) will be automatically transferred to a trust for the exclusive benefit of one or more charitable beneficiaries, and the proposed transferee will not acquire any rights in the shares. To avoid confusion, these shares so transferred to a beneficial trust will be referred to in this prospectus as Excess Securities. Excess Securities will remain issued and outstanding shares and will be entitled to the same rights and privileges as all other shares of the same class or series. The trustee of the beneficial trust, as holder of the Excess Securities, will be entitled to receive all distributions authorized by the board of directors on such securities for the benefit of the charitable beneficiary. Our charter further entitles the trustee of the beneficial trust to vote all Excess Securities.

The trustee of the beneficial trust may select a transferee to whom the Excess Securities may be sold as long as such sale does not violate the 9.8% ownership limit or the other restrictions on transfer. Upon sale of the Excess Securities, the intended transferee (the transferee of the Excess Securities whose ownership would violate the 9.8% ownership limit or the other restrictions on transfer) will receive from the trustee of the beneficial trust the lesser of such sale proceeds, or the price per share the intended transferee paid for the Excess Securities (or, in the case of a gift or devise to the intended transferee, the price per share equal to the market value per share on the date of the transfer to the intended transferee). The trustee of the beneficial trust will distribute to the charitable beneficiary any amount the trustee receives in excess of the amount to be paid to the intended transferee.

In addition, we have the right to purchase any Excess Securities at the lesser of (i) the price per share paid in the transfer that created the Excess Securities, or (ii) the current market price, until the Excess Securities are sold by the trustee of the beneficial trust. An intended transferee must pay, upon demand, to the trustee of the beneficial trust (for the benefit of the beneficial trust) the amount of any distribution we pay to an intended transferee on Excess Securities prior to our discovery that such Excess Securities have been transferred in violation of the provisions of the charter. If any legal decision, statute, rule, or regulation deems or declares the transfer restrictions included in our charter to be void or invalid, then we may, at our option, deem the intended transferee of any Excess Securities to have acted as an agent on our behalf in acquiring such Excess Securities and to hold such Excess Securities on our behalf.

Any person who (i) acquires or attempts to acquire shares in violation of the foregoing ownership restriction, transfers or receives shares subject to such limitations, or would have owned shares that resulted in a transfer to a charitable trust, or (ii) proposes or attempts any of the transactions in clause (i), is required to give us 15 days written notice prior to such transaction. In both cases, such persons must provide to us such other information as we may request in order to determine the effect, if any, of such transfer on our status as a REIT. The foregoing restrictions will continue to apply until our board of directors determines it is no longer in our best interest to continue to qualify as a REIT.

The ownership restriction does not apply to the underwriter in a public offering of shares or to a person or persons so exempted from the ownership limit by our board of directors based upon appropriate assurances that our qualification as a REIT is not jeopardized. Any person who owns 5% or more of the outstanding shares during any taxable year will be asked to deliver a statement or affidavit setting forth the number of shares beneficially owned, directly or indirectly.

Distribution Policy

We currently pay distributions to our stockholders and we intend to continue to pay regular distributions to our stockholders. We currently calculate our monthly distributions on a daily record and declaration date. Therefore, new investors will be entitled to distributions immediately upon the purchase of their shares. Because substantially all of our operations will be performed indirectly through Cole OP II, our operating partnership, our ability to pay distributions depends in large part on Cole OP II s ability to pay distributions to its partners, including to us. In the event we do not have enough cash from operations to fund the distribution, we may borrow, issue additional securities or sell assets in order to fund the distributions or make the distributions out of net proceeds from this offering.

We expect to continue to regularly pay distributions on a monthly basis, unless our results of operations, our general financial condition, general economic conditions, or other factors inhibit us from doing so. Distributions will be authorized at the discretion of our board of directors, which will be directed, in substantial part, by its obligation to cause us to comply with the REIT requirements of the Internal Revenue Code. The funds we receive from operations that are available for distribution may be affected by a number of factors, including the following:

- the amount of time required for us to invest the funds received in the offering;
- our operating and interest expenses;
- the ability of tenants to meet their obligations under the leases associated with our properties;
- the amount of distributions or dividends received by us from our indirect real estate investments;
- our ability to keep our properties occupied;
- our ability to maintain or increase rental rates when renewing or replacing current leases;
- capital expenditures and reserves for such expenditures;
- the issuance of additional shares; and
- financings and refinancings.

We must distribute to our stockholders at least 90% of our taxable income each year in order to meet the requirements for being treated as a REIT under the Internal Revenue Code. This requirement is described in greater detail in the Federal Income Tax Considerations Requirements For Qualification as a REIT Operational Requirements Annual Distribution Requirements section of this prospectus. Our directors may authorize distributions in excess of this percentage as they deem appropriate. Because we may receive income from interest or rents at various times during our fiscal year, distributions may not reflect our income earned in that particular distribution period, but may be made in anticipation of cash flow that we expect to receive during a later period and may be made in advance of actual receipt of funds in an attempt to make distributions relatively uniform. To allow for such differences in timing between the receipt of income and the payment of expenses, and the effect of required debt payments, among other things, could require us to borrow funds from third parties on a short-term basis, issue new securities, or sell assets to meet the distribution requirements that are necessary to achieve the tax benefits associated with qualifying as a REIT. These methods of obtaining funding could affect future distributions by increasing operating costs and decreasing available cash. In addition, such distributions may constitute a return of capital. See Federal Income Tax Considerations Requirements for Qualification as a REIT.

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Stockholder Liability

The Maryland General Corporation Law provides that our stockholders:

- are not liable personally or individually in any manner whatsoever for any debt, act, omission or obligation incurred by us or our board of directors; and
- are under no obligation to us or our creditors with respect to their shares other than the obligation to pay to us the full amount of the consideration for which their shares were issued.

Business Combinations

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

- any person who beneficially owns ten percent or more of the voting power of the corporation s shares; or
- an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of ten percent 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 otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

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

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and
- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation s stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, our board of directors has exempted any business combination with Cole Advisors II or any affiliate of Cole Advisors II. Consequently, the five-year prohibition and the super-majority vote requirements will not apply to business combinations between us and Cole Advisors II or any affiliate of Cole Advisors II. As a result, Cole Advisors II or any affiliate of Cole Advisors II may be able to enter into business combinations with us that may not be in the best interest of our stockholders, without compliance with the super-majority vote requirements and the other provisions of the statute.

The business combination statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

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Control Share Acquisitions

With some exceptions, Maryland law provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of stockholders holding two-thirds of the votes entitled to be cast on the matter, excluding control shares :

owned by the acquiring person;

owned by our officers; and

owned by our employees who are also directors.

Control shares mean voting shares which, if aggregated with all other voting shares owned by an acquiring person or shares for which the acquiring person can exercise or direct the exercise of voting power, would entitle the acquiring person to exercise voting power in electing directors within one of the following ranges of voting power:

one-tenth or more but less than one-third;

one-third or more but less than a majority; or

a majority or more of all voting power.

Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition occurs when, subject to some exceptions, a person directly or indirectly acquires ownership or the power to direct the exercise of voting power (except solely by virtue of a revocable proxy) of issued and outstanding control shares. A person who has made or proposes to make a control share acquisition, upon satisfaction of some specific conditions, including an undertaking to pay expenses, may compel our board of directors to call a special meeting of our stockholders to be held within 50 days of a demand to consider the voting rights of the control shares. If no request for a meeting is made, we may present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then, subject to some conditions and limitations, we may redeem any or all of the control shares (except those for which voting rights have been previously approved) for fair value determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of such shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of such appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition. The control share acquisition statute does not apply to shares acquired in a merger, consolidation, or share exchange if we are a party to the transaction or to acquisitions approved or exempted by our charter or bylaws.

As permitted by Maryland General Corporation Law, our bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions of our common stock by Cole Advisors II or any affiliate of Cole Advisors II.

Subtitle 8

Subtitle 8 of Title 3 of the Maryland General Corporation Law permits a Maryland corporation with a class of equity securities registered under the Exchange Act and at least three independent directors to elect to be subject, by provision in its charter or bylaws or a resolution of its board of directors and notwithstanding any contrary provision in the charter or bylaws, to any or all of five provisions:

a classified board,

a two-thirds vote requirement for removing a director, a requirement that the number of directors be fixed only by vote of the directors,

a requirement that a vacancy on the board be filled only by the remaining directors and for the remainder of the full term of the class of directors in which the vacancy occurred, and

a majority requirement for the calling of a special meeting of stockholders.

Pursuant to Subtitle 8, we have elected to provide that vacancies on our board of directors may be filled only by the remaining directors and for the remainder of the full term of the directorship in which the vacancy occurred. Through provisions in our charter and bylaws unrelated to Subtitle 8, we already vest in the board the exclusive power to fix the number of directorships.

Advance Notice of Director Nominations and New Business

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of individuals for election to the board of directors and the proposal of business to be considered by stockholders may be made only (i) pursuant to our notice of the meeting, (ii) by the board of directors or (iii) by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice procedures of the bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of individuals for election to the board of directors at a special meeting may be made only (i) pursuant to our notice of the meeting, (ii) by the board of directors, or (iii) provided that the board of directors has determined that directors will be elected at the meeting, by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

Share Redemption Program

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

Our common stock is currently not listed on a national securities exchange, or included for quotation on a national securities market, and we will not seek to list our stock until such time as our independent directors believe that the listing of our stock would be in the best interest of our stockholders. In order to provide stockholders with the benefit of interim liquidity, stockholders who have held their shares for at least one year may present all or a portion consisting of at least 25%, of the holder s shares to us for redemption at any time in accordance with the procedures outlined below. At that time, we may, subject to the conditions and limitations described below, redeem the shares presented for redemption for cash to the extent that we have sufficient funds available to us to fund such redemption. We will not pay to our board of directors, advisor or its affiliates any fees to complete any transactions under our share redemption program.

During the term of this offering and any subsequent public offering of our shares, the redemption price per share will depend on the length of time you have held such shares as follows: after one year from the purchase date 92.5% of the amount you paid for each share; after two years from the purchase date 95% of the amount you paid for each share; after three years from the purchase date 97.5% of the amount you paid for each share; and after four years from the purchase date 100% of the amount you paid for each share (in each case, as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to our common stock). At any time we are engaged in an offering of shares, the per share price for shares purchased under our redemption plan will always be equal to or lower than the applicable per share offering price. Thereafter, the per share redemption price will be based on the then-current net asset value of the shares (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to our common stock). Our board of directors will announce any redemption price adjustment and the time period of its effectiveness as a part of its regular communications with our stockholders. At any time the redemption price is determined by any method other than the net asset value of the shares, if we have sold property and have made one or more special distributions to our stockholders of all or a portion of the net

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proceeds from such sales, the per share redemption price will be reduced by the net sale proceeds per share distributed to investors prior to the redemption date as a result of the sale of such property in the special distribution. Our board of directors will, in its sole discretion, determine which distributions, if any, constitute a special distribution. While our board of directors does not have specific criteria for determining a special distribution, we expect that a special distribution will only occur upon the sale of a property and the subsequent distribution of the net sale proceeds. Upon receipt of a request for redemption, we will conduct a Uniform Commercial Code search to ensure that no liens are held against the shares. 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. For example, if a stockholder wishes to redeem shares for which he paid an aggregate amount of $5,000, the administrative fee that we will charge pursuant to such redemption will be $200, which is the lesser of (i) $250 or (ii) 4% of the $5,000 aggregate purchase price paid by this stockholder. 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. Subject to our waiver of the one-year holding period requirement, shares required to be redeemed in connection with the death of a stockholder may be repurchased without the one-year activity period requirement, at a purchase price equal to the price actually paid for the shares. In addition, we may waive the holding period in the event of a stockholder s bankruptcy.

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. The cash available for redemption will be limited to the proceeds from the sale of shares pursuant to our distribution reinvestment plan.

We will redeem our shares on the last business day of the month following the end of each quarter. Requests for redemption would have to be received on or prior to the end of the quarter in order for us to repurchase the shares as of the end of the next month. You may withdraw your request to have your shares redeemed at any time prior to the last day of the applicable quarter.

If we could not purchase all shares presented for redemption in any quarter, based upon insufficient cash available and the limit on the number of shares we may redeem during any calendar year, we would attempt to honor redemption requests on a pro rata basis; provided, however, that we may give priority to the redemption of a deceased stockholder s shares. We would treat the unsatisfied portion of the redemption request as a request for redemption the following quarter. At such time, you may then (1) withdraw your request for redemption at any time prior to the last day of the new quarter or (2) ask that we honor your request at such time, if, any, when sufficient funds become available. Such pending requests will generally be honored on a pro rata basis. We will determine whether we have sufficient funds available as soon as practicable after the end of each quarter, but in any event prior to the applicable payment date.

Our board of directors may choose to amend, suspend or terminate our share redemption program upon 30 days notice at any time. Additionally we will be required to discontinue sales of shares under the distribution reinvestment plan on the earlier of , 2009, which is two years from the effective date of this offering, unless the offering is extended, or the date we sell 25,000,000 shares under the plan, unless we file a new registration statement with the Securities and Exchange Commission and applicable states. Because the redemption of shares will be funded with the net proceeds we receive from the sale of shares under the distribution reinvestment plan, the discontinuance or termination of the distribution reinvestment plan will adversely affect our ability to redeem shares under the share redemption program. We would notify you of such developments (i) in the annual or quarterly reports mentioned above or (ii) by means of a separate mailing to you, accompanied by disclosure in a current or periodic report under the Exchange Act. During this offering, we would also include this information in a prospectus supplement or post-effective amendment to the registration statement, as then required under federal securities laws.

Our share redemption program is only intended to provide interim liquidity for stockholders until a liquidity event occurs, such as the listing of the shares on a national securities exchange, inclusion of the shares for on a national market system, or our merger with a listed company. The share redemption program will be terminated if the shares become listed on a national securities exchange or included for quotation on a national market system. We cannot guarantee that a liquidity event will occur.

The shares we redeem under our share redemption program will be cancelled and return to the status of unauthorized but unissued shares. We do not intend to resell such shares to the public unless they are first registered with the Securities and Exchange Commission under the Securities Act and under appropriate state securities laws or otherwise sold in compliance with such laws.

Restrictions on Roll-up Transactions

A Roll-up Transaction is a transaction involving the acquisition, merger, conversion or consolidation, directly or indirectly, of us and the issuance of securities of an entity (Roll-up Entity) that is created or would survive after the successful completion of a Roll-up Transaction. This term does not include:

- a transaction involving our securities that have been listed on a national securities exchange or included for quotation on The Nasdaq National Market for at least 12 months; or

- a transaction involving our conversion to trust, or association form if, as a consequence of the transaction, there will be no significant adverse change in stockholder voting rights, the term of our existence, compensation to Cole Advisors II or our investment objectives.

In connection with any Roll-up Transaction involving the issuance of securities of a Roll-up Entity, an appraisal of all of our assets shall be obtained from a competent independent appraiser. The assets shall be appraised on a consistent basis, and the appraisal will be based on the evaluation of all relevant information and will indicate the value of the assets as of a date immediately prior to the announcement of the proposed Roll-up Transaction. The appraisal shall assume an orderly liquidation of assets over a 12-month period. The terms of the engagement of the independent appraiser shall clearly state that the engagement is for the benefit of us and our stockholders. A summary of the appraisal, indicating all material assumptions underlying the appraisal, shall be included in a report to stockholders in connection with any proposed Roll-up Transaction.

In connection with a proposed Roll-up Transaction, the sponsor of the Roll-up Transaction must offer to stockholders who vote no on the proposal the choice of:

(1) accepting the securities of the Roll-up Entity offered in the proposed Roll-up Transaction; or

(2) one of the following:

(a) remaining as holders of our common stock and preserving their interests therein on the same terms and conditions as existed previously, or

(b) receiving cash in an amount equal to the stockholder s pro rata share of the appraised value of our net assets.

We are prohibited from participating in any Roll-up Transaction:

- that includes provisions that would materially impede or frustrate the accumulation of shares by any purchaser of the securities of the Roll-up Entity, except to the minimum extent necessary to preserve the tax status of the Roll-up Entity, or which would limit the ability of an investor to exercise the voting rights of its securities of the Roll-up Entity on the basis of the number of shares held by that investor;

in which our investor s rights to access of records of the Roll-up Entity will be less than those provided in the section of this prospectus entitled Meetings and Special Voting Requirements above; or

in which any of the costs of the Roll-up Transaction would be borne by us if the Roll-up Transaction is not approved by the stockholders.

SUMMARY OF AMENDED AND RESTATED DISTRIBUTION REINVESTMENT PLAN

We have adopted an amended and restated distribution reinvestment plan. The amended and restated reinvestment plan allows you to have distributions otherwise payable to you in cash reinvested in additional shares of our common stock. We are offering up to 25,000,000 shares for sale purchase to our distribution reinvestment plan at a purchase price equal to the higher of $9.50 per share or 95% of the estimated value of a share of our common stock. Following is a summary of our distribution reinvestment plan. A complete copy of our amended and restated distribution reinvestment plan is included in this prospectus as Appendix D.

Investment of Distributions

The amended and restated distribution reinvestment plan allows our stockholders, and, subject to certain conditions set forth in the plan, any stockholder or partner of any other publicly offered limited partnership, real estate investment trust or other real estate program sponsored by our advisor or its affiliates, to elect to purchase shares of our common stock with our distributions or distributions from such other programs. We have the discretion to extend the offering period for the shares being offered pursuant to this prospectus under our distribution reinvestment plan beyond the termination of this offering until we have sold all of the shares allocated to the plan through the reinvestment of distributions. We may also offer shares pursuant to a new registration statement.

No dealer manager fees or sales commissions will be paid with respect to shares purchased pursuant to the distribution reinvestment plan, therefore, we will retain all of the proceeds from the reinvestment of distributions. Accordingly, substantially all the economic benefits resulting from distribution reinvestment purchases by stockholders from the elimination of the dealer manager fee and selling commissions will inure to the benefit of the participant through the reduced purchase price.

Pursuant to the terms of our distribution reinvestment plan the reinvestment agent, which currently is us, will act on behalf of participants to reinvest the cash distributions they receive from us. Stockholders participating in the distribution reinvestment plan may purchase fractional shares. If sufficient shares are not available for issuance under our distribution reinvestment plan, the reinvestment agent will remit excess cash distributions to the participants. Participants purchasing shares pursuant to our distribution reinvestment plan will have the same rights as stockholders with respect to shares purchased under the plan and will be treated in the same manner as if such shares were issued pursuant to our offering.

After the termination of the offering of our shares registered for sale pursuant to the distribution reinvestment plan under the this prospectus and any subsequent offering, we may determine to allow participants to reinvest cash distributions from us in shares issued by another Cole-sponsored program only if all of the following conditions are satisfied:

- prior to the time of such reinvestment, the participant has received the final prospectus and any supplements thereto offering interests in the subsequent Cole-sponsored program and such prospectus allows investments pursuant to a distribution reinvestment plan;
- a registration statement covering the interests in the subsequent Cole-sponsored program has been declared effective under the Securities Act;
- the offer and sale of such interests are qualified for sale under applicable state securities laws;

the participant executes the subscription agreement included with the prospectus for the subsequent Cole-sponsored program; and

the participant qualifies under applicable investor suitability standards as contained in the prospectus for the subsequent Cole-sponsored program.

Stockholders who invest in subsequent Cole-sponsored programs pursuant to our distribution reinvestment plan will become investors in such subsequent Cole-sponsored program and, as such, will receive the same reports as other investors in the subsequent Cole-sponsored program.

Election to Participate or Terminate Participation

A stockholder may become a participant in our distribution reinvestment plan by making a written election to participate on his or her subscription agreement at the time he or she subscribes for shares. Any stockholder who has not previously elected to participate in the distribution reinvestment plan may so elect at any time by delivering to the reinvestment agent a completed enrollment form or other written authorization required by the reinvestment agent. Participation in our distribution reinvestment plan will commence with the next distribution payable after receipt of the participant s notice, provided it is received at least ten days prior to the last day of the fiscal quarter, month or other period to which the distribution relates.

Some brokers may determine not to offer their clients the opportunity to participate in our distribution reinvestment plan. Any prospective investor who wishes to participate in our distribution reinvestment plan should consult with his or her broker as to the broker s position regarding participation in the distribution reinvestment plan.

We reserve the right to prohibit qualified retirement plans from participating in our distribution reinvestment plan if such participation would cause our underlying assets to constitute plan assets of qualified retirement plans. See Investment by Tax-Exempt Entities and ERISA Considerations.

Each stockholder electing to participate in our distribution reinvestment plan agrees that, if at any time he or she fails to meet the applicable investor suitability standards or cannot make the other investor representations or warranties set forth in the then current prospectus or subscription agreement relating to such investment, he or she will promptly notify the reinvestment agent in writing of that fact.

Subscribers should note that affirmative action in the form of written notice to the reinvestment agent must be taken to withdraw from participation in our distribution reinvestment plan. A withdrawal from participation in our distribution reinvestment plan will be effective with respect to distributions for a quarterly or monthly distribution period, as applicable, only if written notice of termination is received at least ten days prior to the end of such distribution period. In addition, a transfer of shares prior to the date our shares are listed for trading on a national securities exchange or included for quotation on The Nasdaq National Market, which we have no intent to do at this time and which may never occur will terminate participation in the distribution reinvestment plan with respect to such transferred shares as of the first day of the distribution period in which the transfer is effective, unless the transferee demonstrates to the reinvestment agent that the transferee meets the requirements for participation in the plan and affirmatively elects to participate in the plan by providing to the reinvestment agent an executed enrollment form or other written authorization required by the reinvestment agent.

Offers and sales of shares pursuant to the distribution reinvestment plan must be registered in every state in which such offers and sales are made. Generally, such registrations are for a period of one year. Thus, we may have to stop selling shares pursuant to the distribution reinvestment plan in any states in which our registration is not renewed or extended.

Reports to Participants

Within 90 days after the end of each calendar year, the reinvestment agent will mail to each participant a statement of account describing, as to such participant, the distributions received, the number of shares purchased, the purchase price for such shares and the total shares purchased on behalf of the participant during the prior year pursuant to our distribution reinvestment plan.

Excluded Distributions

Our board of directors may designate that certain cash or other distributions attributable to net sales proceeds will be excluded from distributions that may be reinvested in shares under our distribution reinvestment plan (Excluded Distributions). Accordingly, in the event that proceeds attributable to the potential sale transaction described above are distributed to stockholders as an Excluded Distribution, such amounts may not be reinvested in our shares pursuant to our distribution reinvestment plan. The determination of whether all or part of a distribution will be deemed to be an Excluded Distribution is separate and unrelated to our requirement to distribute 90% of our taxable REIT income. In its initial determination of whether to make a distribution and the amount of the distribution, our board of directors will consider, among other factors, our cash position and our distribution requirements as a REIT. Once our board of directors determines to make the distribution, it will then consider whether all or part of the distribution will be deemed to be an Excluded Distribution. In most instances, we expect that our board of directors would not deem any of the distribution to be an Excluded Distribution. In that event, the amount distributed to participants in our distribution reinvestment plan will be reinvested in additional shares of our common stock. If all or a portion of the distribution is deemed to be an Excluded Distribution, the distribution will be made to all stockholders, however, the excluded portion will not be reinvested. As a result, we would not be able to use any of the Excluded Distribution to assist in meeting future distributions and the stockholders would not be able to use the distribution to purchase additional shares of our common stock through our distribution reinvestment plan. We currently do not have any planned Excluded Distributions, which will only be made, if at all, in addition to, not in lieu of, regular distributions.

Federal Income Tax Considerations

Taxable participants will incur tax liability for partnership income allocated to them even though they have elected not to receive their distributions in cash but rather to have their distributions reinvested under our distributions reinvestment plan. See Risk Factors Federal Income Tax Risks. In addition, to the extent you purchase shares through our distribution reinvestment plan at a discount to their fair market value, you will be treated for tax purposes as receiving an additional distribution equal to the amount of the discount. At least until our offering stage is complete, we expect that (i) we will sell shares under the distribution reinvestment plan at $9.50 per share, (ii) no secondary trading market for our shares will develop and (iii) our advisor will estimate the fair market value of a share to be $10.00. Therefore, at least until our offering stage is complete, participants in our distribution reinvestment plan will be treated as having received a distribution of $10.00 for each $9.50 reinvested by them under our distribution reinvestment plan. You will be taxed on the amount of such distribution as a dividend to the extent such distribution is from current or accumulated earnings and profits, unless we have designated all or a portion of the dividend as a capital gain dividend. Tax information regarding each participant s participation in the plan will be provided to each participant at least annually.

Amendment and Termination

We reserve the right to amend any aspect of our distribution reinvestment plan with ten days notice to participants. The reinvestment agent also reserves the right to terminate a participant s individual participation in the plan, and we reserve the right to terminate our distribution reinvestment plan itself in our sole discretion at any time, by sending ten days prior written notice of termination to the terminated participant or, upon termination of the plan, to all participants.

OUR OPERATING PARTNERSHIP AGREEMENT

General

Cole OP II was formed in September, 2004 to acquire, own and operate properties on our behalf. It is an Umbrella Partnership Real Estate Investment Trust, or UPREIT, which structure is utilized generally to provide for the acquisition of real property from owners who desire to defer taxable gain that would otherwise be recognized by them upon the disposition of their property. These owners may also desire to achieve diversity in their investment and other benefits afforded to owners of stock in a REIT. For purposes of satisfying the asset and income tests for qualification as a REIT for tax purposes, the REIT s proportionate share of the assets and income of an UPREIT, such as Cole OP II, are deemed to be assets and income of the REIT.

A property owner may contribute property to an UPREIT in exchange for limited partnership units on a tax-free basis. In addition, Cole OP II is structured to make distributions with respect to limited partnership units that will be equivalent to the distributions made to holders of our common stock. Finally, a limited partner in Cole OP II may later exchange his or her limited partnership units in Cole OP II for shares of our common stock in a taxable transaction.

The partnership agreement for Cole OP II contains provisions that would allow, under certain circumstances, other entities, including other Cole-sponsored programs, to merge into or cause the exchange or conversion of their interests for interests of Cole OP II. In the event of such a merger, exchange or conversion, Cole OP II would issue additional limited partnership interests, which would be entitled to the same exchange rights as other limited partnership interests of Cole OP II. As a result, any such merger, exchange or conversion ultimately could result in the issuance of a substantial number of shares of our common stock, thereby diluting the percentage ownership interest of other stockholders.

We hold substantially all of our assets through Cole OP II. We are the sole general partner of Cole OP II, and our advisor, Cole Advisors II, is the only limited partner of Cole OP II. As the sole general partner of Cole OP II, we have the exclusive power to manage and conduct the business of Cole OP II.

The following is a summary of certain provisions of the partnership agreement of Cole OP II. This summary is not complete and is qualified by the specific language in the partnership agreement. You should refer to the partnership agreement, itself, which we have filed as an exhibit to the registration statement, for more detail.

Capital Contributions

As we accept subscriptions for shares, we will transfer substantially all of the net proceeds of the offering to Cole OP II as a capital contribution. However, we will be deemed to have made capital contributions in the amount of the gross offering proceeds received from investors. Cole OP II will be deemed to have simultaneously paid the selling commissions and other costs associated with the offering. If Cole OP II requires additional funds at any time in excess of capital contributions made by our advisor and us (which are minimal in amount), or from borrowings, we may borrow funds from a financial institution or other lender and lend such funds to Cole OP II on the same terms and conditions as are applicable to our borrowing of such funds. In addition, we are authorized to cause Cole OP II to issue partnership interests for less than fair market value if we conclude in good faith that such issuance is in the best interests of Cole OP II and us.

Operations

The partnership agreement requires that Cole OP II be operated in a manner that will enable us to (1) satisfy the requirements for being classified as a REIT for tax purposes, (2) avoid any federal income or excise tax liability, and (3) ensure that Cole OP II will not be classified as a publicly traded partnership for purposes of Section 7704 of the Internal Revenue Code, which classification could result in Cole OP II being taxed as a corporation, rather than as a partnership. See Federal Income Tax Considerations Tax Aspects of Our Operating Partnership Classification as a Partnership.

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The partnership agreement provides that Cole OP II will distribute cash flow from operations as follows:

first, to us until we have received aggregate distributions with respect to the current fiscal year equal to the minimum amount necessary for us to distribute to our stockholders to enable us to maintain our status as a REIT under the Internal Revenue Code with respect to such fiscal year;

next, to the limited partners until our limited partners have received aggregate distributions equal to the amount that would have been distributed to them with respect to all prior fiscal years had all Cole OP II income for all such prior fiscal years been allocated to us, each limited partner held a number of our common shares equal to the number of Cole OP II units that it holds and the REIT had distributed all such amounts to our stockholders (including the limited partners);

next, to us and to the limited partners until each partner has received aggregate distributions with respect to the current fiscal year and all fiscal years had all Cole OP II income for the current fiscal year and all such prior fiscal years been allocated to us, our income with respect to the current fiscal year and each such prior fiscal year equaled the minimum amount necessary to maintain our status as a REIT under the Internal Revenue Code, each limited partner held a number of common shares equal to the number of Cole OP II units that we hold and we had distributed all such amounts to its stockholders (including the limited partners); and

finally, to us and the limited partners in accordance with the partners percentage interests in Cole OP II.

Similarly, the partnership agreement of Cole OP II provides that taxable income is allocated to the limited partners of Cole OP II in accordance with their relative percentage interests such that a holder of one unit of limited partnership interest in Cole OP II will be allocated taxable income for each taxable year in an amount equal to the amount of taxable income to be recognized by a holder of one of our shares, subject to compliance with the provisions of Sections 704(b) and 704(c) of the Internal Revenue Code and corresponding Treasury Regulations. Losses, if any, generally will be allocated among the partners in accordance with their respective percentage interests in Cole OP II.

Upon the liquidation of Cole OP II, after payment of debts and obligations, any remaining assets of Cole OP II will be distributed to partners with positive capital accounts in accordance with their respective positive capital account balances. If we were to have a negative balance in our capital account following a liquidation, we would be obligated to contribute cash to Cole OP II equal to such negative balance for distribution to other partners, if any, having positive balances in such capital accounts.

In addition to the administrative and operating costs and expenses incurred by Cole OP II in acquiring and operating real properties, Cole OP II will pay all of our administrative costs and expenses, and such expenses will be treated as expenses of Cole OP II. Such expenses will include:

all expenses relating to the formation and continuity of our existence;

all expenses relating to the public offering and registration of securities by us;

all expenses associated with the preparation and filing of any periodic reports by us under federal, state or local laws or regulations;

all expenses associated with compliance by us with applicable laws, rules and regulations;

all costs and expenses relating to any issuance or redemption of partnership interests or shares of our common stock; and all our other operating or administrative costs incurred in the ordinary course of our business on behalf of Cole OP II.

All claims between the partners of Cole OP II arising out of the partnership agreement are subject to binding arbitration.

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Exchange Rights

The limited partners of Cole OP II, including Cole Advisors II, have the right to cause their limited partnership units to be redeemed by Cole OP II or purchased by us for cash. In either event, the cash amount to be paid will be equal to the cash value of the number of our shares that would be issuable if the limited partnership units were exchanged for our shares on a one-for-one basis. Alternatively, we may elect to purchase the limited partnership units by issuing one share of our common stock for each limited partnership unit exchanged. As of October 30, 2006, there were 9,009 partnership units outstanding. These exchange rights may not be exercised, however, if and to the extent that the delivery of shares upon exercise would (1) result in any person owning shares in excess of our ownership limits, (2) result in shares being owned by fewer than 100 persons, (3) cause us to be closely held within the meaning of Section 856(h) of the Internal Revenue Code, (4) cause us to own 10% or more of the ownership interests in a tenant within the meaning of Section 856(d)(2)(B) of the Internal Revenue Code, or (5) cause the acquisition of shares by a redeemed limited partner to be integrated with any other distribution of our shares for purposes of complying with the Securities Act.

Subject to the foregoing, limited partners of Cole OP II may exercise their exchange rights at any time after one year following the date of issuance of their limited partnership units. However, a limited partner may not deliver more than two exchange notices each calendar year and may not exercise an exchange right for less than 1,000 limited partnership units, unless such limited partner holds less than 1,000 units, in which case, it must exercise his exchange right for all of his units. We do not expect to issue any of the shares of common stock offered hereby to limited partners of Cole OP II in exchange for their limited partnership units. Rather, in the event a limited partner of Cole OP II exercises its exchange rights, and we elect to purchase the limited partnership units with shares of our common stock, we expect to issue unregistered shares of common stock, or subsequently registered shares of common stock, in connection with such transaction.

Amendments to the Partnership Agreement

Our consent, as the general partner of Cole OP II, is required for any amendment to the partnership agreement. We, as the general partner of Cole OP II, and without the consent of any limited partner, may amend the partnership agreement in any manner, provided, however, that the consent of limited partners holding more than 50% of the interests of the limited partners is required for the following:

- any amendment affecting the conversion factor or the exchange right in a manner adverse to the limited partners;

- any amendment that would adversely affect the rights of the limited partners to receive the distributions payable to them pursuant to the partnership agreement (other than the issuance of additional limited partnership interests);

- any amendment that would alter the allocations of Cole OP II s profit and loss to the limited partners (other than the issuance of additional limited partnership interests);

- any amendment that would impose on the limited partners any obligation to make additional capital contributions to Cole OP II; and

- any amendment pursuant to a plan of merger, plan of exchange or plan of conversion, unless the partnership agreement of the surviving limited partnership does not materially differ from the partnership agreement of Cole

OP II immediately before the transaction.

Termination of the Partnership

Cole OP II will have perpetual duration, unless it is dissolved earlier upon the first to occur of the following:

- we declare for bankruptcy or withdraw from the partnership, *provided, however*, that the remaining partners may decide to continue the business;

ninety days after the sale or other disposition of all or substantially all of the assets of the partnership;

the exchange of all limited partnership interests (other than such interests we, or are affiliates, hold); or

we elect, as the general partner, to dissolve the partnership.

Transferability of Interests

We may not (1) voluntarily withdraw as the general partner of Cole OP II, (2) engage in any merger, consolidation or other business combination, or (3) transfer our general partnership interest in Cole OP II (except to a wholly-owned subsidiary), unless the transaction in which such withdrawal, business combination or transfer occurs results in the limited partners receiving or having the right to receive an amount of cash, securities or other property equal in value to the amount they would have received if they had exercised their exchange rights immediately prior to such transaction or unless, in the case of a merger or other business combination, the successor entity contributes substantially all of its assets to Cole OP II in return for an interest in Cole OP II and agrees to assume all obligations of the general partner of Cole OP II. We may also enter into a business combination or transfer our general partnership interest upon the receipt of the consent of a majority-in-interest of the limited partners of Cole OP II, other than Cole Advisors II and other affiliates of Christopher H. Cole. With certain exceptions, a limited partner may not transfer its interests in Cole OP II, in whole or in part, without our written consent as general partner.

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PLAN OF DISTRIBUTION

The Offering

We are offering a maximum of 150,000,000 shares of our common stock to the public through Cole Capital Corporation, our dealer manager, a registered broker-dealer affiliated with our advisor. Of this amount, we are offering 125,000,000 shares in our primary offering at a price of $10.00 per share, except as provided below. The shares are being offered on a best efforts basis, which means generally that the dealer manager is required to use only its best efforts to sell the shares and it has no firm commitment or obligation to purchase any of the shares. We also are offering up to 25,000,000 shares for sale pursuant to our distribution reinvestment plan. The purchase price for shares sold under our distribution reinvestment plan will be equal to the higher of 95% of the estimated value of a share of common stock, as estimated by our board of directors, and $9.50 per share. The reduced purchase price for shares purchased pursuant to our distribution reinvestment plan reflects that there will be no fees, commissions or expenses paid with respect to these shares. We reserve the right to reallocate the shares of our common stock we are offering between the primary offering and the distribution reinvestment plan. The offering of shares of our common stock will terminate on or before , 2009, which is two years after the effective date of this offering, unless the offering is extended. In addition, at the discretion of our board of directors, we may elect to extend the termination date of our offering of shares reserved for issuance pursuant to our distribution reinvestment plan until we have sold all shares allocated to such plan through the reinvestment of distributions, in which case participants in the plan will be notified. This offering must be registered in every state in which we offer or sell shares. Generally, such registrations are for a period of one year. Thus, we may have to stop selling shares in any state in which our registration is not renewed or otherwise extended annually. We reserve the right to terminate this offering at any time prior to the stated termination date.

Cole Capital Corporation

Cole Capital Corporation, our dealer manager, was organized in 1992 for the purpose of participating in and facilitating the distribution of securities in programs sponsored by Cole Capital Partners, its affiliates and its predecessors. For additional information about Cole Capital Corporation, including information relating to Cole Capital Corporation s affiliation with us, please refer to the section of this prospectus captioned Management Affiliated Companies Dealer Manager.

Compensation We Will Pay for the Sale of Our Shares

Except as provided below, we will pay our dealer manager selling commissions of 7% of the gross offering proceeds. We also will pay the dealer manager a fee in the amount of 1.5% of the gross offering proceeds as compensation for acting as the dealer manager and for expenses incurred in connection with marketing and due diligence expense reimbursement. No sales commissions or dealer manager fees will be paid with respect to shares purchased pursuant to the distribution reinvestment plan. We will not pay referral or similar fees to any accountants, attorneys or other persons in connection with the distribution of the shares. See the Summary of Amended and Restated Distribution Reinvestment Plan Investment of Distributions section of this prospectus.

We expect our dealer manager to utilize two distribution channels to sell our shares, which have different selling commissions, and consequently, a different purchase price for the shares. In the event of the sale of shares in our primary offering by other broker-dealers that are members of the NASD, the purchase price will be $10.00 per share, reflecting the 7% commission payable to our dealer manager, which it may reallow to such participating broker-dealers. In the event of the sale of shares in our primary offering to an investment advisory representative, the purchase price for such shares will be $9.30 per share, reflecting the fact that our dealer manager will waive the 7% selling commission on such shares. We will not pay selling commissions or a dealer manager fee in connection with the sale of shares under our distribution reinvestment plan. The dealer manager may reallow to each of the participating broker dealers a portion of its dealer manager fee earned on the proceeds raised by the participating broker-dealer. This reallowance would be in the form of a non-accountable marketing allowance and due diligence expense reimbursement. The amount of the reallowance

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will be determined by the dealer manager based upon 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.

The table below sets forth the nature and amount of compensation we will pay to our dealer manager and the participating broker-dealers in this offering. The amounts shown assume that all shares are sold in our primary offering through participating broker-dealers, which is the distribution channel with the highest possible selling commissions and dealer manager fees.

	Per Share	Total Maximum
Primary Offering		
Price to Public	$ 10.00	$ 1,250,000,000
Selling Commissions	0.70	87,500,000
Dealer Manager Fees	0.15	18,750,000
Proceeds to Cole REIT II	$ 9.15	$ 1,143,750,000
Distribution Reinvestment Plan		
Price to Public	$ 9.50	$ 237,500,000
Distribution Selling Commissions		
Dealer Manager Fees		
Proceeds to Cole REIT II	$ 9.50	$ 237,500,000

We may sell shares in our primary offering to retirement plans of broker-dealers participating in the offering, to broker-dealers in their individual capacities, to IRAs and qualified plans of their registered representatives or to any one of their registered representatives in their individual capacities at a discount. The purchase price for such shares shall be $9.30 per share (unless a higher price is required pursuant to Section 409A of the Internal Revenue Code), reflecting the fact that selling commissions in the amount of $0.70 per share will not be payable in connection with such sales. The net proceeds to us from such sales will not be affected by such sales of shares at a discount.

We or our affiliates also may provide non-cash incentive items for registered representatives of our dealer manager and the participating broker-dealers, which in no event shall exceed an aggregate of $100 per annum per participating salesperson. The value of such items will be considered underwriting compensation in connection with this offering.

The total amount of underwriting compensation, including commissions and reimbursement of expenses paid in connection with the offering will not exceed 10% of the gross proceeds of this offering, plus an additional 0.5% of gross proceeds for reimbursement of bona fide due diligence expenses. Underwriting compensation includes selling commissions, dealer manager fees (including due diligence and other expense reimbursements), wholesaling compensation and expense reimbursement relating to sales seminars and sales incentives.

We have agreed to indemnify the participating broker-dealers, including our dealer manager and selected registered investment advisors, against certain liabilities arising under the Securities Act. However, the Securities and Exchange Commission takes the position that indemnification against liabilities arising under the Securities Act is against public policy and is unenforceable.

Shares Purchased by Affiliates

Our executive officers and directors, as well as officers and employees of Cole Advisors II and their family members (including spouses, parents, grandparents, children and siblings) or other affiliates, may purchase shares offered in this offering at a discount. The purchase price for such shares shall be $9.15 per share (unless a higher price is required pursuant to Section 409A of the Internal Revenue Code), reflecting the fact that selling commissions in the amount of $0.70 per share and a dealer manager fee in the amount of $0.15 per share will not be payable in connection with such sales. The net offering proceeds we receive will not be affected by such sales of shares at a discount. Our executive officers, directors and other affiliates will be expected to hold their shares purchased as stockholders for investment and not with a view towards resale. In addition, shares purchased by Cole Advisors II or its affiliates will not be entitled to vote on any matter presented to the stockholders for a vote. With the exception of the 20,000 shares initially sold to Cole Holdings Corporation in connection with our organization, no director, officer, advisor or any affiliate may own more than 9.8% in value or number of our outstanding common stock.

Volume Discounts

Volume discounts based on reduced sales commissions are available for purchasers of certain minimum numbers of shares, as defined below, volume discounts resulting in reductions in selling commissions payable with respect to such sales are available. In such event, any such reduction will be credited to the investor by reducing the purchase price per share. The following table illustrates the various discount levels available:

Dollar Volume Shares Purchased	Sales Commission Percent	Per Share	Purchase Price Per Incremental Share in Volume Discount Range	Dealer Manager Fees Per Share	Net Proceeds Per Share
$250,000 or less	7.0%	$ 0.70	$ 10.00	$ 0.15	$ 9.15
$250,001-$500,000	6.0%	0.60	$ 9.90	0.15	9.15
$500,001-$1,000,000	5.0%	0.50	$ 9.80	0.15	9.15
$1,000,001-$2,000,000	4.0%	0.40	$ 9.70	0.15	9.15
$2,000,001-$5,000,000	3.0%	0.30	$ 9.60	0.15	9.15
$5,000,001-$10,000,000	2.0%	0.20	$ 9.50	0.15	9.15
Over $10,000,001	1.0%	0.10	$ 9.40	0.15	9.15

For example, if an investor purchases 60,000 shares, the investor would pay (1) $250,000 for the first 25,000 shares, (2) $247,500 for the next 25,000 shares ($9.90 per share), and (3) $98,000 for the next 10,000 shares ($9.80 per share), for a total purchase price of $595,500 (approximately $9.925 per share) rather than $600,000 for the shares. After the payment of sales commissions of $37,500 (approximately $0.625 per share) and payment of the dealer manager fee, we would receive net proceeds of $549,000 ($9.15 per share). The net proceeds to us will not be affected by volume discounts. All investors will be deemed to have contributed the same amount per share to us for purposes of declaring and paying distributions. Therefore, an investor who has received a volume discount will realize a better return on his or her investment in our shares than investors who do not qualify for a discount.

Subscriptions may be combined for the purpose of determining the volume discounts in the case of subscriptions made by any purchaser, as that term is defined below, provided all such shares are purchased through the same broker-dealer. The volume discount is prorated among the separate subscribers considered to be a single purchaser. Any request to combine more than one subscription must be made in writing, submitted simultaneously with the subscription for shares, and must set forth the basis for such request. Any request for volume discounts will be subject to our verification that all of the combined subscriptions were made by a single purchaser.

For the purposes of such volume discounts, the term purchaser includes:

an individual, his or her spouse and their children under the age of 21 who purchase the shares for his, her or their own account;

a corporation, partnership, association, joint-stock company, trust fund or any organized group of persons, whether incorporated or not;

an employees trust, pension, profit-sharing or other employee benefit plan qualified under Section 401(a) of the Internal Revenue Code; and

all commingled trust funds maintained by a given bank.

In addition, investors may request in writing to aggregate subscriptions as part of a combined order for purposes of determining the number of shares purchased, provided that any aggregate group of subscriptions must be received from the same broker-dealer, including our dealer manager.

In order to encourage purchases of 1,000,000 or more shares, a potential purchaser who proposes to purchase at least 1,000,000 shares may agree with Cole Advisors II and Cole Capital Corporation to have the dealer manager fee with respect to the sale of such shares reduced or eliminated, and, with the agreement of the participating broker, to have the selling commission payable with respect to the sale of such shares reduced or eliminated. The aggregate fees payable with respect to the sale of such shares would be reduced by as much as $0.85 per share, resulting in a purchase price of $9.15 per share, rather than $10.00 per share.

Because all investors will be deemed to have contributed the same amount per share to us for purposes of declaring and paying distributions, investors who pay a reduced or no commission will receive a higher return on their investment than investors who do not qualify for such discount.

Subscription Process

To purchase shares in this offering, you must complete and sign a subscription agreement, like the one contained in this prospectus as Appendix B, or, if you already are a stockholder, you must complete and sign an additional subscription agreement, like the one contained in this prospectus as Appendix C. You should pay for your shares by delivering a check for the full purchase price of the shares, payable to Cole Credit Property Trust II, Inc. You should exercise care to ensure that the applicable subscription agreement is filled out correctly and completely. By executing the subscription agreement, you will attest that you meet the suitability standards described in this prospectus and agree to be bound by all of the terms of the subscription agreement.

Subscriptions will be effective only upon our acceptance, and we reserve the right to reject any subscription in whole or in part. We may not accept a subscription for shares until at least five business days after the date you receive this prospectus. Subject to compliance with Rule 15c2-4 of the Exchange Act, our dealer manager and/or the broker-dealers participating in the offering will promptly submit a subscriber s check to us on the business day following receipt of the subscriber s subscription documents and check. In certain circumstances where the suitability review procedures are more lengthy than customary, a subscriber s check will be promptly deposited in compliance with Exchange Act Rule 15c2-4. The proceeds from your subscription will be deposited in a segregated escrow account and will be held in trust for your benefit, pending our acceptance of your subscription.

We accept or reject subscriptions within 35 days after we receive them. If your subscription agreement is rejected, your funds, without interest, or reductions for offering expenses, commissions or fees will be returned to you within ten business days after the date of such rejection. If your subscription is accepted, we will send you a confirmation of your purchase after you have been admitted as an investor. We admit new investors at least monthly and we may admit new investors more frequently.

Automatic Purchase Plan

We have adopted, subject to an amendment to our charter, an automatic purchase plan that allows our stockholders to make cash investments of $25.00 or more in additional shares of common stock at regular intervals through their checking, savings or other bank account. After your initial purchase of shares, you may elect to purchase additional shares of our common stock through this plan. You may elect to invest the specified amount twice monthly, monthly, quarterly, semiannually or annually. Dealer manager fees not to exceed 1.5% will be paid with respect to automatic purchases under our automatic purchase plan. Selling commissions not to exceed 7% will be paid with respect to purchases under the automatic purchase plan if the stockholder participating in the plan confirms in writing that the broker who made the initial sale of shares to the participant shall receive such commission. A stockholder participating in the plan is permitted to identify, change or eliminate the name of his account executive at a participating dealer with respect to investments pursuant to such plan. In the event that no account executive is identified, or in the event that the account executive is not employed by a broker-dealer or authorized representative having a valid selling agreement with our dealer manager, no selling commission will be paid. Stockholders participating in the automatic purchase plan may purchase fractional shares. Participants purchasing shares pursuant to our automatic purchase plan have the same rights as stockholders and are treated in the same manner as if the shares were issued pursuant to our offering. A complete copy of our form of automatic purchase plan is included in this prospectus as Appendix E.

Pursuant to the terms of our automatic purchase plan, the purchase agent (presently us) will act on behalf of participants to acquire shares of our common stock using the funds that participants designate to be deducted from their bank accounts for automatic purchases.

You may elect to participate in our automatic purchase plan by making a written election to participate on your subscription agreement at the time you subscribe for shares. If you do not elect to participate in the plan at the time of your initial investment, you may do so at any time by delivering to Cole Capital Corporation, our dealer manager, a completed authorization form or other written authorization required by Cole Capital Corporation. Participation in our automatic purchase plan will commence with the date selected by the participant for the first automatic purchase, provided that such date is at least ten days after receipt of the election notice.

Some brokers may determine not to offer their clients the opportunity to participate in our automatic purchase plan. Any prospective investor who wishes to participate in the plan should consult with his or her broker as to the broker s position regarding participation in our automatic purchase plan.

We reserve the right to prohibit qualified retirement plans from participating in our automatic purchase plan if such participation would cause our underlying assets to constitute plan assets of qualified retirement plans. See Investment by Tax Exempt Entities and ERISA Considerations.

Each stockholder electing to participate in our automatic purchase plan agrees that, if at any time he or she fails to meet the applicable investor suitability standards or cannot make the other investor representations or warranties set forth in the then current prospectus or subscription agreement relating to such investment, then he or she will promptly notify the purchase agent in writing of that fact.

To withdraw from participation in our automatic purchase plan, or to modify the amount, timing or other terms of automatic purchases under the automatic purchase plan, you must provide written notice to Cole Capital Corporation. A withdrawal from or modification of participation in the automatic purchase plan will be effective as of the date selected by the investor in the withdrawal or modification notice, provided that such date is at least ten days after receipt of such notice.

Investments by IRAs and Qualified Plans

Sterling Trust Company has agreed to act as an IRA custodian for purchasers of our common stock who desire to establish an IRA, SEP or certain other tax-deferred accounts or transfer or rollover existing accounts. Sterling Trust Company has agreed to provide this service to our stockholders with annual maintenance fees charged at a discounted rate. Further information as to custodial services is available through your broker or may be requested from us.

HOW TO SUBSCRIBE

Investors who meet the applicable suitability standards and minimum purchase requirements described in the Suitability Standards section of this prospectus may purchase shares of common stock. If you want to purchase shares, you must proceed as follows:

(1) Read the entire prospectus and the current supplement(s), if any, accompanying this prospectus.

(2) Complete the execution copy of the applicable subscription agreement. A specimen copy of the subscription agreement, including instructions for completing it, for new investors is included in this prospectus as Appendix B. A specimen copy of the subscription agreement for current stockholders is included in this prospectus as Appendix C.

(3) Deliver a check to Cole Capital Corporation for the full purchase price of the shares being subscribed for, payable to Cole Credit Property Trust II, Inc. along with the completed subscription agreement. Certain dealers who have net capital, as defined in the applicable federal securities regulations, of $250,000 or more may instruct their customers to make their checks payable directly to the dealer. In such case, the dealer will issue a check made payable to us for the purchase price of your subscription. The name of the dealer appears on the subscription agreement.

(4) By executing the subscription agreement and paying the full purchase price for the shares subscribed for, you will attest that you meet the suitability standards as provided in the Suitability Standards section of this prospectus and as stated in the subscription agreement and agree to be bound by the terms of the subscription agreement.

An approved trustee must process through us and forward us subscriptions made through IRAs, Keogh plans, 401(k) plans and other tax-deferred plans. If you want to purchase shares through an IRA, SEP or other tax-deferred account, Sterling Trust Company has agreed to serve as IRA custodian for such purpose. Sterling Trust Company has agreed to provide this service to our stockholders with annual maintenance fees charged at a discounted rate.

SUPPLEMENTAL SALES MATERIAL

In addition to this prospectus, we may utilize certain sales material in connection with the offering of the shares, although only when accompanied by or preceded by the delivery of this prospectus. The sales materials may include information relating to this offering, the past performance of Cole Advisors II, our advisor, and its affiliates, property brochures and articles and publications concerning real estate. In certain jurisdictions, some or all of our sales material may not be permitted and will not be used in those jurisdictions.

The offering of shares is made only by means of this prospectus. Although the information contained in our supplemental sales material will not conflict with any of the information contained in this prospectus, the supplemental materials do not purport to be complete, and should not be considered a part of this prospectus or the registration statement of which this prospectus is a part.

LEGAL MATTERS

Venable LLP, Baltimore, Maryland, will pass upon the legality of the common stock and Morris, Manning & Martin, LLP, Atlanta, Georgia, will pass upon legal matters in connection with our status as a REIT for federal income tax purposes. Morris, Manning & Martin, LLP will rely on the opinion of Venable LLP as to all matters of Maryland law. Neither Venable LLP nor Morris, Manning & Martin, LLP purport to represent our stockholders or potential investors, who should consult their own counsel. Morris, Manning & Martin, LLP also provides legal services to Cole Advisors II, our advisor, as well as affiliates of Cole Advisors II, and may continue to do so in the future.

EXPERTS

The financial statements as of December 31, 2005 and 2004, and the year ended December 31, 2005 and the period from inception (September 2004) to December 31, 2004, included in this prospectus have been audited by Deloitte & Touche LLP, an independent registered accounting firm, as stated in their report appearing herein (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the completion of development activities and commencement of planned principal operations), and have been included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

Also, the statements of revenues and certain operating expenses for the AM Peoria property, the GG O Fallon property, the ST Crossville property, the MT Denver property, the MT Spring property and the MF Chandler property, for the year ended December 31, 2005 and for the WT Arnold property for the year ended October 31, 2005, included in this prospectus have been audited by Deloitte & Touche LLP, independent

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auditors, as stated in their reports appearing herein (which reports on the statements of revenues and certain operating expenses express unqualified opinions and include explanatory paragraphs referring to the purpose of the statements), and are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form S-11 with the Securities and Exchange Commission in connection with our initial public offering. We are required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission.

You may request and obtain a copy of these filings, at no cost to you, by writing or telephoning us at the following address:

Cole Credit Property Trust II, Inc.
Attn: Investor Relations
2555 East Camelback Road, Suite 400
Phoenix, Arizona 85016
(866) 341-2653

One of our affiliates maintains an Internet site at *http://www.colecapital.com*, at which there is additional information about us. The contents of that site are not incorporated by reference in, or otherwise a part of, this prospectus.

This prospectus does not contain all of the information set forth in the registration statement and the exhibits related thereto as filed with the Securities and Exchange Commission, reference to which is hereby made.

You can read our registration statement and the exhibits thereto and our future Securities and Exchange Commission filings over the Internet at *www.sec.gov*. You may also read and copy any document we file with the Securities and Exchange Commission at its Public Reference Room at 100 F Street, N.W., Washington, D.C. 20549. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the Securities and Exchange Commission at 100 F Street, N.W., Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 or e-mail at *publicinfo@sec.gov* for further information on the operation of the public reference facilities.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Cole Credit Property Trust II, Inc.
Phoenix, Arizona

We have audited the accompanying consolidated balance sheets of Cole Credit Property Trust II, Inc. and subsidiaries (the Company) as of December 31, 2005 and 2004 and the related consolidated statements of operations, stockholders equity, and cash flows for the year ended December 31, 2005 and for the period from September 29, 2004 (date of inception) to December 31, 2004. Our audits also included the financial statement schedule listed in the index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements presents fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004 and the results of its operations and its cash flows for the year ended December 31, 2005 and for the period from September 29, 2004 (date of inception) to December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

The Company was in the development stage at December 31, 2004; during the year ended December 31, 2005, the Company completed its development activities and commenced its planned principal operations.

/s/ Deloitte & Touche, LLP

Phoenix, Arizona
March 23, 2006

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COLE CREDIT PROPERTY TRUST II, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2005	December 31, 2004
ASSETS:		
Real estate assets, at cost:		
Land	$ 23,854,308	$
Buildings and improvements, less accumulated depreciation of $151,472	57,338,359	
Acquired intangible lease assets, less accumulated amortization of $71,881	10,425,618	
Total real estate assets	91,618,285	
Cash and cash equivalents	4,575,144	200,000
Restricted cash	1,813,804	
Rents and tenant receivables	36,001	
Prepaid expenses and other assets	11,928	
Deferred financing costs, less accumulated amortization of $17,964	754,676	
Total assets	$ 98,809,838	$ 200,000
LIABILITIES AND STOCKHOLDERS EQUITY:		
Mortgage notes payable	$ 66,804,041	$
Notes payable to affiliates	4,453,000	
Accounts payable and accrued expenses	282,797	
Escrowed investor proceeds	1,813,804	
Due to affiliates	41,384	
Acquired below market lease intangibles, less accumulated amortization of $52	14,637	
Distributions payable	195,209	
Total liabilities	73,604,872	
STOCKHOLDERS EQUITY:		
Preferred stock, $0.01 par value; 10,000,000 shares authorized, none issued and outstanding		
Common stock, $.01 par value; 90,000,000 shares authorized, 2,832,387 and 20,000 shares issued and outstanding at December 31, 2005 and 2004, respectively	28,324	200
Capital in excess of par value	25,486,442	199,800
Accumulated distributions in excess of earnings	(309,800)	
Total stockholders equity	25,204,966	200,000
Total liabilities and stockholders equity	$ 98,809,838	$ 200,000

The accompanying notes are an integral part of these consolidated financial statements.

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COLE CREDIT PROPERTY TRUST II, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

		Year Ended December 31, 2005		Period from Inception (September 29, 2004) to December 31, 2004
Revenues:				
Rental income	$	741,669	$	
Expenses:				
General and administrative		156,252		
Property and asset management fees		38,768		
Depreciation		151,472		
Amortization		69,939		
Total operating expenses		416,431		
Real estate operating income		325,238		
Other income (expense):				
Interest income		27,557		
Interest expense		(467,386)		
Total other expense		(439,829)		
Net loss	$	(114,591)	$	
Weighted average number of common shares outstanding:				
Basic and diluted		411,909		
Net loss per common share:				
Basic and diluted	$	(0.28)	$	

The accompanying notes are an integral part of these consolidated financial statements.

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COLE CREDIT PROPERTY TRUST II, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
For the Period From Inception (September 29, 2004) to December 31, 2004 and for the Year Ended December 31, 2005

	Common Stock Number of Shares	Common Stock Par Value	Capital in Excess of Par Value	Accumulated Distributions in Excess of Earnings	Total Shareholders Equity
Balance, September 29, 2004 (Date of Inception)		$	$	$	$
Issuance of common stock to Cole Holdings Corporation	20,000	200	199,800		200,000
Balance, December 31, 2004	20,000	200	199,800		200,000
Issuance of common stock	2,812,387	28,124	28,080,997		28,109,121
Distributions				(195,209)	(195,209)
Commissions on stock sales and related dealer manager fees			(2,375,780)		(2,375,780)
Other offering costs			(418,575)		(418,575)
Net loss				(114,591)	(114,591)
Balance, December 31, 2005	2,832,387	$ 28,324	$ 25,486,442	$ (309,800)	$ 25,204,966

The accompanying notes are an integral part of these consolidated financial statements.

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COLE CREDIT PROPERTY TRUST II, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Period September 29, 2004 (Date of Inception) to December 31, 2004
and for the Period Ended December 31, 2005

	Year Ended December 31, 2005	Period from Inception (September 29, 2004) to December 31, 2004
Cash Flows from Operating Activities:		
Net loss	$ (114,591)	$
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	151,472	
Amortization	89,793	
Changes in assets and liabilities:		
Rents and tenant receivables	(36,001)	
Prepaid expenses and other assets	(11,928)	
Accounts payable and accrued expenses	282,797	
Due to affiliates	36,199	
Total adjustments	512,332	
Net cash provided by operating activities	397,741	
Cash Flows from Investment Activities:		
Investment in real estate and related assets	(81,344,139)	
Acquired intangible lease assets	(10,497,499)	
Acquired below market lease intangibles	14,689	
Restricted cash	(1,813,804)	
Net cash used in investing activities	(93,640,753)	
Cash Flows from Financing Activities:		
Proceeds from issuance of common stock	28,109,121	200,000
Proceeds from mortgage notes payable	67,631,404	
Repayment of mortgage note payable	(827,363)	
Proceeds from notes payable to affiliate	4,453,000	
Escrowed investor proceeds liability	1,813,804	
Offering costs on issuance of common stock	(2,789,170)	
Deferred financing costs paid	(772,640)	
Net cash provided by financing activities	97,618,156	200,000
Net increase in cash and cash equivalents	4,375,144	200,000
Cash and cash equivalents, beginning of period	200,000	

Cash and cash equivalents, end of period	$	4,575,144	$	200,000
Supplemental Disclosures of Non-Cash Investing and Financing Activities:				
Distributions declared and unpaid	$	195,209	$	
Commissions and dealer manager fees due to affiliate	$	5,185	$	
Interest paid	$	223,183	$	

The accompanying notes are an integral part of these consolidated financial statements.

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COLE CREDIT PROPERTY TRUST II, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

Note 1 Organization and Business

Cole Credit Property Trust II, Inc. (the Company) was formed on September 29, 2004 and is a Maryland corporation that is organized and operating in order to qualify as a real estate investment trust (REIT) by electing to be taxed as a REIT beginning with the taxable year ended December 31, 2005. Substantially all of the Company s business is conducted through Cole Operating Partnership II, LP (Cole OP II), a Delaware limited partnership. The Company is the sole general partner of and owns a 99.9% partnership interest in Cole OP II. Cole REIT Advisors II, LLC (Cole Advisors) the affiliate advisor to the Company, is the sole limited partner and owner of 0.1% (minority interest) of the partnership interests of Cole OP II.

At December 31, 2005, the Company owned 14 properties comprising approximately 455,000 square feet of single-tenant commercial space located in ten states. At December 31, 2005, these properties were 100% leased.

Pursuant to a Registration Statement on Form S-11 under the Securities Act of 1933, as amended (the Registration Statement), the Company is offering for sale to the public on a best efforts basis a minimum of 250,000 and a maximum of 45,000,000 shares of its common stock at a price of $10.00 per share, subject to certain volume and other discounts (the Offering), and up to 5,000,000 additional shares pursuant to a distribution reinvestment plan under which its stockholders may elect to have distributions reinvested in additional shares of the Company s common stock at $9.50 per share. The Registration Statement was declared effective on June 27, 2005.

On September 23, 2005, the Company issued the initial 486,000 shares under the Offering and commenced its principal operations. Prior to such date, the Company was considered a development stage company. As of December 31, 2005, the Company had issued approximately 2.83 million shares of its common stock in the Offering for aggregate gross proceeds of approximately $28.3 million before offering costs, selling commissions and dealer manager fees of approximately $2.8 million. As disclosed in the Registration Statement, the Company expects to use substantially all of the net proceeds from the Offering to acquire and operate commercial real estate primarily consisting of high quality, freestanding, single-tenant commercial properties net-leased to investment grade and other creditworthy tenants located throughout the United States.

The Company s stock is not currently listed on a national exchange. The Company may seek to list its stock for trading on a national securities exchange or for quotation on The Nasdaq National Market only if a majority of its independent directors believe listing would be in the best interest of its stockholders. The Company does not intend to list its shares at this time. The Company does not anticipate that there would be any market for its common stock until its shares are listed or quoted. In the event it does not obtain listing prior to the tenth anniversary of the completion or termination of the Offering, its charter requires that it either: (1) seek stockholder approval of an extension or amendment of this listing deadline; or (2) seek stockholder approval to adopt a plan of liquidation of the corporation.

Note 2 Summary of Significant Accounting Policies

The summary of significant accounting policies presented below is designed to assist in understanding the Company s consolidated financial statements. Such financial statements and accompanying notes are the representations of its management, who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles in the United States (GAAP), in all material respects, and have been consistently applied in preparing the accompanying consolidated financial statements.

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COLE CREDIT PROPERTY TRUST II, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America necessarily requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investment in Real Estate Assets

Real estate assets are stated at cost, less accumulated depreciation. Amounts capitalized to real estate assets consist of the cost of acquisition or construction and any tenant improvements or major improvements and betterments that extend the useful life of the related asset. All repairs and maintenance are expensed as incurred.

All assets are depreciated on a straight line basis. The estimate useful lives of our assets by class are generally as follows:

Building	40 years
Tenant improvements	Lease term
Intangible lease assets	Lesser of useful life or lease term

Impairment losses are recorded on long-lived assets used in operations, which includes the operating property, when indicators of impairment are present and the assets carrying amount is greater than the sum of the future undiscounted cash flows, excluding interest, estimated to be generated by those assets. As of December 31, 2005, no indicators of impairment existed and no losses had been recorded.

Allocation of Purchase Price of Acquired Assets

Upon the acquisition of real properties, the Company allocates the purchase price of such properties to acquired tangible assets, consisting of land and building, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases and the value of in-place leases, based in each case on their fair values.

The Company utilizes independent appraisals to determine the fair values of the tangible assets of an acquired property (which includes land and building). Factors considered by management in performing these analyses include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases, including leasing commissions and other related costs. In estimating carrying costs, management includes real estate taxes, insurance, and other operating expenses during the expected lease-up periods based on current market demand.

The fair values of above-market and below-market in-place leases are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) an estimate of fair market lease rates for the corresponding in-place leases, which is generally obtained from independent appraisals, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market and below-market lease values are capitalized as intangible lease assets or liabilities and amortized as an adjustment to rental income over the remaining terms of the respective leases.

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The fair values of in-place leases include direct costs associated with obtaining a new tenant, opportunity costs associated with lost rentals which are avoided by acquiring an in-place lease, and tenant relationships. Direct costs associated with obtaining a new tenant include commissions, tenant improvements and other direct costs and are estimated based on independent appraisals and management s consideration of current market costs to execute a similar lease. These direct costs are included in intangible lease assets in the accompanying consolidated balance sheets and are amortized to expense over the remaining terms of the respective leases. The value of opportunity costs is calculated using the contractual amounts to be paid pursuant to the in-place leases over a market absorption period for a similar lease. Customer relationships are valued based on expected renewal of a lease or the likelihood of obtaining a particular tenant for other locations. These lease intangibles are included in intangible lease assets in the accompanying consolidated balance sheets and are amortized to rental income over the remaining term of the respective leases.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with maturities when purchased of three months or less to be cash equivalents.

Restricted Cash and Escrowed Investor Proceeds

The Company is currently engaged in a public offering of its common stock. Included in restricted cash and escrowed investor proceeds is approximately $1.8 million of offering proceeds for which shares of common stock had not been issued as of December 31, 2005.

Rents and Tenant Receivables

Rents and tenant receivables primarily includes amounts to be collected in future periods related to the recognition of rental income on a straight-line basis over the lease term and cost recoveries from tenants. See Revenue Recognition.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets includes expenses incurred as of the balance sheet date that relate to future periods and will be expensed or reclassified to another account during the period to which the costs relate. Any amounts with no future economic benefit are charged to earnings when identified.

Deferred Financing Costs

Deferred financing costs are capitalized and amortized on a straight-line basis over the term of the related financing arrangement. Amortization of deferred financing costs for the year ended December 31, 2005 was approximately $18,000 and was recorded in interest expense in the consolidated statements of operations.

Revenue Recognition

Upon the acquisition of real estate, certain properties have leases where minimum rent payments increase during the term of the lease. The Company records rental revenue for the full term of each lease on a straight-line basis.

Accordingly, the Company records a receivable from tenants that the Company expects to collect over the remaining lease term rather than currently, which is recorded as rents receivable. When the Company acquires a property, the term of existing leases is considered to commence as of the acquisition date for the purposes of this calculation. In accordance with Staff Accounting Bulletin 101, *Revenue Recognition in Financial Statements*, the Company defers the recognition of contingent rental income, such as percentage

COLE CREDIT PROPERTY TRUST II, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005

rents, until the specific target that triggers the contingent rental income is achieved. Cost recoveries from tenants are included in rental income in the period the related costs are incurred.

Income Taxes

The Company intends to elect to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code commencing with its taxable year ended December 31, 2005. If the Company qualifies for taxation as a REIT, the Company generally will not be subject to federal corporate income tax to the extent it distributes its REIT taxable income to its stockholders, and so long as it distributes at least 90% of its REIT taxable income. REITs are subject to a number of other organizational and operational requirements. Even if the Company qualifies for taxation as a REIT, it may be subject to certain state and local taxes on its income and property, and federal income and excise taxes on its undistributed income. The Company believes it is organized and operating in such a manner as to qualify to be taxed as a REIT for the taxable year ended December 31, 2005.

Concentration of Credit Risk

At December 31, 2005 and December 31, 2004, the Company had cash on deposit in one financial institution in excess of federally insured levels; however, the Company has not experienced any losses in such account. The Company limits investment of cash investments to financial institutions with high credit standing; therefore, the Company believes it is not exposed to any significant credit risk on cash.

The Company s tenants are generally of investment grade quality. One tenant in the drugstore industry and one tenant in the automotive supply industry account for approximately 34% and 31% of the Company s gross annualized base rental revenues, respectively. Tenants in the drugstore, and automotive supply industries comprise approximately 44% and 31%, respectively, of the Company s gross annualized base rental revenues.

Offering and Related Costs

Cole Advisors funds all of the organization and offering costs on the Company s behalf and may be reimbursed for such costs up to 1.5% of the cumulative capital raised by the Company in the Offering. As of December 31, 2005 and 2004, Cole Advisors had incurred organization and offering costs of approximately $1,425,000 and $463,000, respectively, on behalf of the Company. Of these amounts, the Company was responsible for approximately $421,000 and $0 at December 31, 2005 and 2004, respectively. The offering costs, which include items such as legal and accounting fees, marketing, and promotional printing costs, are recorded as a reduction of capital in excess of par value along with sales commissions and dealer manager fees of 7% and 1.5%, respectively. Organization costs are expensed as incurred, of which approximately $2,000 was expensed during the year ended December 31, 2005.

Due to Affiliates

Due to affiliates consists of approximately $36,000 due to Cole Advisors for reimbursement of legal fees and approximately $5,000 due to Cole Capital Corporation (Cole Capital), the Company s affiliated dealer manager, for commissions and dealer manager fees payable on stock issuances.

Stockholders Equity

At December 31, 2005 and 2004, the Company was authorized to issue 90,000,000 shares of common stock and 10,000,000 shares of preferred stock. All shares of such stock have a par value of $.01 per share. The Company s board of directors may authorize additional shares of capital stock and amend their terms without obtaining stockholder approval.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005

The par value of investor proceeds raised from the Offering is classified as common stock, with the remainder allocated to capital in excess of par value. The Company s share redemption program provides that all redemptions during any calendar year, including those upon death or qualifying disability, are limited to those that can be funded with proceeds raised from the Company s distribution reinvestment plan. In accordance with Accounting Series Release No. 268, *Presentation in Financial Statements of Redeemable Preferred Stock,* the Company will account for the proceeds received from its distribution reinvestment plan outside of permanent equity for future redemption of shares. No proceeds were received from the distribution reinvestment plan during the year ended December 31, 2005.

Earnings Per Share

Earnings per share are calculated based on the weighted average number of common shares outstanding during each period. The weighted average number of common shares outstanding is identical for basic and fully diluted earnings per share. The effect of all the outstanding stock options was anti-dilutive to earnings per share for the year ended December 31, 2005.

Stock Options

As permitted by Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, and SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, the Company elected to follow Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for its stock options under the 2004 Independent Directors Stock Option Plan (IDSOP) (see Note 10). Under APB No. 25, compensation expense is recorded when the exercise price of stock options is less than the fair value of the underlying stock on the date of grant. The Company has implemented the disclosure-only provisions of SFAS No. 123 and SFAS No. 148. As of December 31, 2005, there were 10,000 stock options outstanding under the IDSOP at an average exercise price of $9.15 per share. If the Company elected to adopt the expense recognition provisions of SFAS No. 123, the impact on net loss would have been an additional approximately $30,000 of general and administrative expenses for the year ended December 31, 2005 or an additional loss of $0.07 per dilutive share.

Reportable Segments

The Financial Accounting Standards Board (FASB) issued SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information,* which establishes standards for reporting financial and descriptive information about an enterprise s reportable segments. We have determined that we have one reportable segment, with activities related to investing in real estate. Our investments in real estate generate rental revenue and other income through the leasing of single-tenant properties, which comprised 100% of our total consolidated revenues for the year ended December 31, 2005. Although our investments in real estate are geographically diversified throughout the United States, management evaluates operating performance on an individual property level. However, as each of our single-tenant properties has similar economic characteristics, tenants, and products and services, our single-tenant properties have been aggregated into one reportable segment.

Interest

Interest is charged to interest expense as it accrues. No interest costs were capitalized during the year ended December 31, 2005.

COLE CREDIT PROPERTY TRUST II, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005

Distributions Payable and Distribution Policy

In order to maintain its status as a REIT, the Company is required to make distributions each taxable year equal to at least 90% of its REIT taxable income excluding capital gains. To the extent funds are available, the Company intends to pay regular quarterly distributions to stockholders. Distributions are paid to those stockholders who are stockholders of record as of applicable record dates.

On October 4, 2005, the Company s board of directors declared a distribution of $0.05 per share for stockholders of record on each of October 7, 2005, November 7, 2005 and December 7, 2005. The monthly distributions were calculated to be equivalent to an annualized distribution of six percent (6%) per share, assuming a purchase price of $10.00 per share. As of December 31, 2005, the Company had distributions payable of approximately $195,000. The distributions were paid in January 2006, of which approximately $79,000 was reinvested in shares through our distribution reinvestment program.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment . SFAS No. 123 (revised 2004) is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation . This statement supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees , and its related implementation guidance.

SFAS No. 123 (revised 2004) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award. We expect to adopt the provisions of SFAS 123 (revised 2004) using a modified prospective application. The modified prospective method requires companies to recognize compensation cost for unvested awards that are outstanding on the effective date based on the fair value that we had originally estimated for purposes of preparing its SFAS 123 pro forma disclosures. For all new awards that are granted or modified after the effective date, a company would use SFAS 123R s measurement model. This statement is effective for us on January 1, 2006. As of December 31, 2005, the amount of unrecognized compensation expense to be recognized in future periods, in accordance with SFAS 123R, is approximately $30,000. Had SFAS No. 123R been implemented in 2005, the Company would have experienced an approximately $30,000 reduction in net income and a $0.07 per share decrease in both basic earnings per share and diluted earnings per share.

In July 2005, the FASB issued Staff Position (FSP) Statement of Position (SOP) 78-9-1, *Interaction of American Institute of Certified Public Accountants* (AICPA) SOP 78-9 and Emerging Issues Task Force (EITF) Issue No. 04-5. The EITF reached a consensus on EITF Issue No. 04-5, *Determining Whether a General Partner or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* stating that a general partner is presumed to control a limited partnership and should consolidate the limited partnership unless the limited partners possess substantive kick-out rights or the limited partners possess substantive participating rights. This FSP eliminates the concept of important rights of SOP 78-9 and replaces it with the concepts of kick-out rights and substantive participating rights as defined in Issue 04-5. This EITF and FSP are effective after June 29, 2005 for general partners of all new partnerships formed and for existing partnerships for which the partnership agreements are modified. For general partners in all other partnerships, this guidance is effective no later than January 1, 2006. The Company believes the FSP does not have a material impact to the consolidated financial statements.

In March 2005, the FASB issued Interpretation No. 47 Accounting for Conditional Asset Retirement Obligations to clarify that the term *conditional asset retirement obligation* as used in FASB Statement No. 143 is a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement

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are conditional on a future event that the enterprise may or may not have control over. This Interpretation requires recognition of a liability for the fair value of a conditional asset retirement obligation when incurred if the liability s fair value can be reasonably determined. This Interpretation is effective no later than the end of fiscal years ending after December 15, 2005 (December 31, 2005, for calendar-year enterprises). The Interpretation No. 47 did not have a material impact to the consolidated financial statements.

Note 3 Real Estate Acquisitions

During the year ended December 31, 2005, the Company acquired the following properties:

Property	Acquisition Date	Location	Square Feet	Purchase Price	2005 Annualized Gross Base Rent	Percentage of 2005 Annualized Gross Base Rent
Tractor Supply specialty retail	September 26, 2005	Parkersburg, WV	21,688	$ 3,353,243	$ 251,980	4%
Walgreens drugstore	October 5, 2005	Brainerd, MN	15,120	4,434,440	303,000	4%
Rite Aid drugstore	October 20, 2005	Alliance, OH	11,348	2,153,871	189,023	3%
La-Z-Boy furnishings store	October 25, 2005	Glendale, AZ	23,000	5,823,871	459,522	7%
Walgreens drugstore	November 2, 2005	Florissant, MO	15,120	5,280,483	344,000	5%
Walgreens drugstore	November 2, 2005	Saint Louis, MO	15,120	5,150,225	335,500	5%
Walgreens drugstore	November 2, 2005	Saint Louis, MO	15,120	6,261,239	408,000	6%
Walgreens drugstore	November 22, 2005	Columbia, MO	13,973	6,419,530	439,000	6%
Walgreens drugstore	November 22, 2005	Olivette, MO	15,030	7,997,138	528,000	8%
CVS drugstore	December 1, 2005	Alpharetta, GA	10,125	3,188,803	222,244	3%
Lowe s home improvement	December 1, 2005	Enterprise, AL	95,173	7,632,658	500,000	7%
CVS drugstore	December 8, 2005	Richland Hills, TX	10,908	3,773,637	272,593	4%
FedEx Ground distribution center	December 9, 2005	Rockford, IL	67,925	6,279,083	445,632	7%
Plastech automotive supply	December 15, 2005	Auburn Hills, MI	111,881	24,093,417	2,138,878	31%
Total			441,531	$ 91,841,638	$ 6,837,372	100%

In accordance with SFAS, No. 141, the Company allocated the purchase price of these properties to the fair value of the assets acquired and the liabilities assumed, including the allocation of the intangibles associated with the in-place leases considering the following factors: lease origination costs, tenant relationships, and above or below market leases. See Notes 4 and 6.

Identified intangible assets relating to the real estate acquisitions discussed in Note 3 consisted of the following:

	December 31, 2005	2004
Acquired in place leases and tenant relationships, net of accumulated amortization of \$69,939 and \$0 at December 31, 2005 and 2004, respectively (with a weighted average life of 172 and 0 months for in-place leases and tenant relationships, respectively)	\$ 9,970,272	\$
Acquired above market leases, net of accumulated amortization of \$1,942 and \$0 at December 31, 2005 and 2004, respectively (with a weighted average life of 118 months)	\$ 455,346	\$
Total	\$ 10,425,618	\$

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Amortization expense recorded on the identified intangible assets, for each of fiscal years ended December 31, 2005 and 2004 was approximately $72,000 and $0, respectively.

Estimated amortization expense of the respective intangible lease assets as of December 31, 2005 for each of the five succeeding fiscal years is as follows:

	Amount	
Year	**Leases In-Place**	**Above Market Leases**
2006	$ 716,504	$ 46,610
2007	$ 716,504	$ 46,610
2008	$ 716,504	$ 46,610
2009	$ 716,504	$ 46,610
2010	$ 716,504	$ 46,610

Note 5 Mortgage Notes Payable

As of December 31, 2005, the Company had the following indebtedness outstanding:

rty	Location	Fixed Rate Loan Amount	Fixed Interest Rate	Maturity Date	Variable Rate Loan Amount	Maturity Date	Total L Outstan
ch mortgage	Auburn Hills, MI	$	N/A	N/A	$ 17,700,000	December 14, 2006	$ 17,70
s mortgage	Enterprise, AL	4,859,000	5.52%	December 11, 2010	1,121,000	March 1, 2006	5,98
eens ge note	Olivette, MO	5,379,146	5.15%	July 11, 2008		N/A	5,37
eens (Gravois mortgage note	Saint Louis, MO	3,999,000	5.48%	November 11, 2015	923,000	February 2, 2006	4,92
Ground ution Center ge note	Rockford, IL	3,998,000	5.61%	December 11, 2010	922,000	March 10, 2006	4,92
Boy ge note	Glendale, AZ	3,415,000	5.76%	November 11, 2010	1,138,000	January 25, 2006	4,55
eens ge note	Columbia, MO	4,487,895	5.15%	July 11, 2008		N/A	4,48
d Party Note	N/A		N/A	N/A	4,453,000	June 30, 2006	4,45
	Florissant, MO	3,372,000	5.48%	November 11, 2015	778,000	February 2, 2006	4,15

eens ge note							
eens raph Rd) ge note	St. Louis, MO	3,289,000	5.48%	November 11, 2015	759,000	February 2, 2006	4,048
eens ge note	Brainerd, MN	2,814,000	5.44%	October 11, 2015	649,000	January 4, 2006	3,463
mortgage	Richland Hills, TX	2,379,000	5.52%	December 11,, 2010	549,000	March 8, 2006	2,928
mortgage	Alpharetta, GA	2,015,000	5.52%	December 11, 2010	465,000	March 1, 2006	2,480
r Supply ge note	Parkersburg, WV	1,793,000	5.57%	October 11, 2015		N/A	1,793
ndebtedness		$ 41,800,041			$ 29,457,000		$ 71,257

The fixed rate debt mortgage notes require monthly interest-only payments with the principal balance due July 2008 through December 2015. The variable rate debt mortgage notes bear interest at the one-month LIBOR rate plus 200 basis points and require monthly interest-only payments. Each of the mortgage notes are secured by the respective property. The mortgage notes are generally non-recourse to the Company and Cole Op II, but both are liable for customary non-recourse carveouts.

The mortgage notes may not be prepaid, in whole or in part, except under the following circumstances: (i) full prepayment may be made on any of the three (3) monthly payment dates occurring immediately prior to the maturity date, and (ii) partial prepayments resulting from the application of insurance or condemnation

COLE CREDIT PROPERTY TRUST II, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005

proceeds to reduce the outstanding principal balance of the mortgage notes. Notwithstanding the prepayment limitations, the Company may sell the properties to a buyer that assumes the respective mortgage loan. The transfer would be subject to the conditions set forth in the individual property s mortgage note document, including without limitation, the lender s approval of the proposed buyer and the payment of the lender s fees, costs and expenses associated with the sale of the property and the assumption of the loan.

In the event that a mortgage note is not paid off on the respective maturity date, each mortgage note includes hyperamortization provisions. The interest rate during the hyperamortization period shall be the fixed interest rate as stated on the respective mortgage note agreement plus two percent (2%). The individual mortgage note maturity date, under the hyperamortization provisions, will be extended by twenty (20) years. During such period, the lender will apply 100% of the rents collected to (i) all payments for escrow or reserve accounts, (ii) payment of interest at the original fixed interest rate, (iii) payments for the replacement reserve account, (iv) any other amounts due in accordance with the mortgage note agreement other than any additional interest expense, (v) any operating expenses of the property pursuant to an approved annual budget, (vi) any extraordinary expenses, (vii) payments to be applied to the reduction of the principal balance of the mortgage note, and (viii) any additional interest expense, which is not paid will be added to the principal balance of the mortgage note.

The Company s weighted average interest rate relating to the fixed rate debt mortgage at December 31, 2005 was approximately 5.47%.

Related party notes

On December 15, 2005, Cole OP II borrowed $2,458,000 and $1,995,000 from Series C, LLC, which is an affiliate of the Company and the Company s advisor, by executing two promissory notes which are secured by the membership interests held by Cole OP II in Cole WG St. Louis MO, LLC and Cole RA Alliance OH, LLC, respectively. Each of the loans has a variable interest rate based on the one-month LIBOR rate plus 200 basis points with monthly interest-only payments, and the outstanding principal and accrued and unpaid interest payable in full on June 30, 2006. Each of the loans is generally non recourse to Cole OP II and may be prepaid at any time without penalty or premium. The Company s board of directors, including a majority of its independent directors, approved the loans and determined that the terms of the loans are no less favorable to the Company than loans between unaffiliated third parties under the same circumstances.

The following table summarizes the scheduled aggregate principal repayments for the five years subsequent to December 31, 2005:

For the Year Ending December 31:	**Principal Repayments**
2006	$ 29,614,755
2007	166,193
2008	9,543,093
2009	

2010	16,666,000
Thereafter	15,267,000
Total	$ 71,257,041

The variable rate mortgages approximate fair market value. The fair value of our fixed rate mortgage notes payable at December 31, 2005 approximates $41,400,000.

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December 31, 2005

Note 6 Intangible Lease Liability

Identified intangible liability relating to the real estate acquisitions discussed in Note 3 consisted of the following:

	December 31,	
	2005	2004
Acquired below market leases, net of accumulated amortization of $52 and $0 at December 31, 2005 and 2004, respectively (with a weighted average life of 141 months)	$ 14,637	$

Amortization income recorded on the identified intangible liability, for each of fiscal years ended December 31, 2005 and 2004 was $52 and $0, respectively.

Estimated amortization income of the respective intangible lease liability as of December 31, 2005 for each of the five succeeding fiscal years is as follows:

Year	Amount Below Market Lease
2006	$ 1,253
2007	$ 1,253
2008	$ 1,253
2009	$ 1,253
2010	$ 1,253

Note 7 Commitments and Contingencies

Litigation

In the ordinary course of business, the Company may become subject to litigation or claims. There are no material pending legal proceedings known to be contemplated against us.

Environmental Matters

In connection with the ownership and operation of real estate, the Company may be potentially liable for costs and damages related to environmental matters. The Company has not been notified by any governmental authority of any non-compliance, liability or other claim, and the Company is not aware of any other environmental condition that it believes will have a material adverse effect on the consolidated results of operations.

Note 8 Related Party Transactions and Arrangements

Certain affiliates of the Company will receive fees and compensation in connection with the Offering, and the acquisition, management and sale of the assets of the Company. Cole Capital will receive a selling commission of up to 7% of gross offering proceeds before reallowance of commissions earned by participating broker-dealers. Cole Capital intends to reallow 100% of commissions earned to participating broker-dealers. In addition, Cole Capital will receive up to 1.5% of gross proceeds, before reallowance to participating broker-dealers, as a dealer-manager fee. Cole Capital, in its sole discretion, may reallow all or a portion of its dealer-manager fee to such participating broker-dealers as a marketing and due diligence expense reimbursement, based on such factors as the volume of shares sold by such participating broker-dealers and marketing support incurred as compared to those of other participating broker-dealers. During the year ended December 31,

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December 31, 2005

2005, the Company paid approximately $2,376,000 to Cole Capital for commissions and dealer manager fees, of which approximately $1,954,000 was reallowed to participating broker-dealers.

All organization and offering expenses (excluding selling commissions and the dealer-manager fee) are being paid for by Cole Advisors or its affiliates and will be reimbursed by the Company up to 1.5% of gross offering proceeds. During the year ended December 31, 2005, the Company reimbursed the Advisor approximately $421,000 for organizational and offering expenses, of which approximately $2,000 was expensed as organization costs.

If Cole Advisors provides services, as determined by the independent directors, in connection with the origination or refinancing of any debt financing obtained by the Company that is used to acquire properties or to make other permitted investments, the Company will pay Cole Advisors a financing coordination fee equal to 1% of the amount available under such financing; provided however, that Cole Advisors shall not be entitled to a financing coordination fee in connection with the refinancing of any loan secured by any particular property that was previously subject to a refinancing in which Cole Advisors received such a fee. Financing coordination fees payable from loan proceeds from permanent financing will be paid to Cole Advisors as the Company acquires such permanent financing. However, no acquisition fees will be paid on loan proceeds from any line of credit until such time as all net offering proceeds have been invested by the Company. All organization and offering expenses (excluding selling commissions and the dealer-manager fee) are being paid for by Cole Advisors or its affiliates and will be reimbursed by the Company up to 1.5% of gross offering proceeds. During the year ended December 31, 2005, the Company paid Cole Advisors approximately $320,000 for finance coordination fees.

The Company pays Cole Realty, its affiliated property manager, fees for the management and leasing of the Company s properties. Such fees are equal to 2% of gross revenues, plus leasing commissions at prevailing market rates; provided however, that the aggregate of all property management and leasing fees paid to affiliates plus all payments to third parties will not exceed the amount that other nonaffiliated management and leasing companies generally charge for similar services in the same geographic location. Cole Realty may subcontract its duties for a fee that may be less than the fee provided for in the property management agreement. Cole Realty or its affiliates also receive acquisition and advisory fees of up to 2% of the contract purchase price of each asset for the acquisition, development or construction of real property and will be reimbursed for acquisition costs incurred in the process of acquiring properties, but not to exceed 2% of the contract purchase price. The Company expects the acquisition expenses to be approximately 0.5% of the purchase price of each property. During the year ended December 31, 2005, the Company paid property management fees and acquisition fees to Cole Realty of approximately $14,000 and approximately $1.7 million, respectively.

The Company pays Cole Advisors an annualized asset management fee of 0.25% of the aggregate asset value of the Company s assets (the Asset Management Fee). The fee will be payable monthly in an amount equal to 0.02083% of aggregate asset value as of the last day of the immediately preceding month. During the year ended December 31, 2005, the Company paid asset management fees to Cole Advisors of approximately $25,000.

If Cole Advisors or its affiliates provides a substantial amount of services, as determined by the Company s independent directors, in connection with the sale of one or more properties, the Company will pay Cole Advisors up to one-half of the brokerage commission paid, but in no event to exceed an amount equal to 2% of the sales price of each property sold. In no event will the combined real estate commission paid to Cole Advisors, its affiliates and unaffiliated third parties exceed 6% of the contract sales price. In addition, after investors have received a return of their net capital contributions and an 8% annual cumulative, non-compounded return, then Cole Advisors is entitled to receive 10% of the remaining net sale proceeds.

COLE CREDIT PROPERTY TRUST II, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005

During the year ended December 31, 2005, the Company did not pay any fees or amounts to Cole Advisors relating to the sale of properties.

Upon listing of the Company s common stock on a national securities exchange or included for quotation on The Nasdaq National Market, a fee equal to 10% of the amount by which the market value of the Company s outstanding stock plus all distributions paid by the Company prior to listing, exceeds the sum of the total amount of capital raised from investors and the amount of cash flow necessary to generate an 8% annual cumulative, non-compounded return to investors will be paid to Cole Advisors (the Subordinated Incentive Listing Fee).

Upon termination of the advisory agreement with Cole Advisors, other than termination by the Company because of a material breach of the advisory agreement by Cole Advisors, a performance fee of 10% of the amount, if any, by which (i) the appraised asset value at the time of such termination plus total distributions paid to stockholders through the termination date exceeds (ii) the aggregate capital contribution contributed by investors less distributions from sale proceeds plus payment to investors of an 8% annual, cumulative, non-compounded return on capital. No subordinated performance fee will be paid if the Company has already paid or become obligated to pay Cole Advisors a Subordinated Incentive Listing Fee.

The Company will reimburse Cole Advisors for all expenses it paid or incurred in connection with the services provided to the Company, subject to the limitation that the Company will not reimburse for any amount by which it s operating expenses (including the Asset Management Fee) at the end of the four preceding fiscal quarters exceeds the greater of (i) 2% of average invested assets, or (ii) 25% of net income other than any additions to reserves for depreciation, bad debts or other similar non-cash reserves and excluding any gain from the sale of assets for that period. The Company will not reimburse for personnel costs in connection with services for which Cole Advisors receives acquisition fees or real estate commissions. During the year ended December 31, 2005, the Company did not reimburse Cole Advisors for any such costs.

On December 15, 2005, Cole OP II borrowed $2,458,000 and $1,995,000 from Series C, LLC, which is an affiliate of the Company and the Company s advisor, by executing two promissory notes which are secured by the membership interests held by Cole OP II in Cole WG St. Louis MO, LLC and Cole RA Alliance OH, LLC, respectively. Each of the loans has a variable interest rate based on the one-month LIBOR rate plus 200 basis points with monthly interest-only payments, and the outstanding principal and accrued and unpaid interest payable in full on June 30, 2006. Each of the loans is generally non recourse to Cole OP II and may be prepaid at any time without penalty or premium. The Company s board of directors, including a majority of its independent directors, approved the loans and determined that the terms of the loans are no less favorable to the Company than loans between unaffiliated third parties under the same circumstances.

Note 9 Economic Dependency

Under various agreements, the Company has engaged or will engage Cole Advisors and its affiliates to provide certain services that are essential to the Company, including asset management services, supervision of the management and leasing of properties owned by the Company, asset acquisition and disposition decisions, the sale of shares of the Company s common stock available for issue, as well as other administrative responsibilities for the Company including accounting services and investor relations. As a result of these relationships, the Company is dependent upon Cole Advisors and its affiliates. In the event that these companies were unable to provide the Company with the respective services, the Company would be required to find alternative providers of these services.

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COLE CREDIT PROPERTY TRUST II, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005

Note 10 Independent Director s Stock Option Plan

The Company has a stock option plan, IDSOP, which authorizes the grant of non-qualified stock options to the Company s independent directors, subject to the absolute discretion of the board and the applicable limitations of the plan. The Company intends to grant options under the IDSOP to each qualifying director annually. The exercise price for the options granted under the IDSOP initially will be $9.15 per share (or greater, if such higher price as is necessary so that such options shall not be considered a nonqualified deferred compensation plan under Section 409A of the Internal Revenue Code of 1986, as amended). It is intended that the exercise price for future options granted under the IDSOP will be at least 100% of the fair market value of the Company s common stock as of the date that the option is granted. A total of 1,000,000 shares have been authorized and reserved for issuance under the IDSOP.

No grants were made under the Independent Director Plan in 2004. A summary of the Company s stock option activity under its Independent Director Plan during the year ended December 31, 2005 is as follows:

	Number	Exercise Price	Exercisable
Outstanding at December 31, 2004			
Granted in 2005	10,000	$ 9.15	
Outstanding at December 31, 2005	10,000	$ 9.15	10,000

In accordance with Statement 123, the fair value of each stock option granted in 2005 has been estimated as of the date of the grant using the Black-Scholes minimum value method. The weighted average risk-free interest rate assumed for 2005 was 4.19%, and the projected future dividend yield was estimated to be 6% for the options granted in 2005. The expected life of an option was assumed to be 10 years for the year ended December 31, 2005. Based on these assumptions, the fair value of the options granted during the year ended December 31, 2005 is approximately $60,000. The weighted average contractual remaining life for options that were exercisable at December 31, 2005 was approximately nine years.

Note 11 Stockholders Equity

Distribution Reinvestment Plan

The Company maintains a distribution reinvestment plan that allows common stockholders (the Stockholders) to elect to have the distributions the Stockholders receive reinvested in additional shares of the Company s common stock. The purchase price per share under the distribution reinvestment plan will be the higher of 95% of the fair market value per share as determined by the Company s board of directors and $9.50 per share. No sales commissions or dealer manager fees will be paid on shares sold under the distribution reinvestment plan. The Company may terminate the distribution reinvestment plan at the Company s discretion at any time upon ten days prior written notice to the Stockholders. Additionally, the Company will be required to discontinue sales of shares under the distribution reinvestment plan on the earlier of June 27, 2007, which is two years from the effective date of the Offering, unless the Offering is extended, or the date the Company sells 5,000,000 shares under the Offering, unless the Company files a new registration statement with the Securities and Exchange Commission and applicable states. No shares were purchased under the distribution reinvestment plan during the year ended December 31, 2005.

Share Redemption Program

The Company s share redemption program permits the Stockholders to sell their shares back to the Company after they have held them for at least one year, subject to the significant conditions and limitations described below.

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COLE CREDIT PROPERTY TRUST II, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005

There are several restrictions on the Stockholder s ability to sell their shares to the Company under the program. The Stockholders generally have to hold their shares for one year before selling the shares to the Company under the plan; however, the Company may waive the one-year holding period in the event of the death or bankruptcy of a Stockholder. In addition, the Company will limit the number of shares redeemed pursuant to the Company s share redemption program as follows: (1) during any calendar year, the Company will not redeem in excess of 3% of the weighted average number of shares outstanding during the prior calendar year; and (2) funding for the redemption of shares will be limited to the amount of net proceeds the Company receives from the sale of shares under the Company s distribution reinvestment plan. These limits may prevent the Company from accommodating all requests made in any year. During the term of the Offering, and subject to certain provisions the redemption price per share will depend on the length of time the Stockholder has held such shares as follows: after one year from the purchase date 92.5% of the amount the Stockholder paid for each share; after two years from the purchase date 95% of the amount the Stockholder paid for each share; after three years from the purchase date 97.5% of the amount the Stockholder paid for each share; and after four years from the purchase date 100% of the amount the Stockholder paid for each share.

Upon receipt of a request for redemption, the Company will conduct a Uniform Commercial Code search to ensure that no liens are held against the shares. The Company will charge an administrative fee to the Stockholder for the search and other costs, which will be deducted from the proceeds of the redemption or, if a lien exists, will be charged to the Stockholder. Repurchases will be made quarterly. If funds are not available to redeem all requested redemptions at the end of each quarter, the shares will be purchased on a pro rata basis and the unfulfilled requests will be held until the next quarter, unless withdrawn. The Company s board of directors may amend, suspend or terminate the share redemption program at any time upon 30 days prior written notice to the Stockholders. No shares were redeemed under the share redemption program during the year ended December 31, 2005.

Note 12 Income Taxes

For income tax purposes, dividends to common stockholders are characterized as ordinary income, capital gains, or as a return of a stockholder s invested capital. As the Company incurred a loss for income tax purposes during the year ended December 31, 2005, none of the distributions declared was taxable to the stockholders as ordinary income. Additionally, as the distributions were paid during 2006, the character of such distributions will be determined based on future taxable earnings and distributions which may be declared. During the period ended December 31, 2004, the Company was a development stage company and had no operations and made no distributions.

At December 31, 2005, the tax basis carrying value of the Company s total assets were approximately $98.8 million.

Note 13 Operating Leases

All of the Company s real estate assets are leased to tenants under operating leases for which the terms and expirations vary. The leases frequently have provisions to extend the lease agreement and other terms and conditions as negotiated. The Company retains substantially all of the risks and benefits of ownership of the real estate assets leased to tenants.

COLE CREDIT PROPERTY TRUST II, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005

The future minimum rental income from the Company s investment in real estate assets under non-cancelable operating leases, at December 31, 2005 is as follows:

Year Ending December 31:	**Amount**
2006	$ 6,918,514
2007	6,937,978
2008	6,937,978
2009	6,937,978
2010	6,937,978
Thereafter	66,182,219
Total	$ 100,852,645

Note 14 Quarterly Results (unaudited)

Presented below is a summary of the unaudited quarterly financial information for the year ended December 31, 2005. The Company believes that all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly, and in accordance with GAAP, the selected quarterly information.

	2005(1)	
	Third	**Fourth**
Revenues(2)	$ 2,761	$ 738,908
Net loss	(29,543)	(85,048)
Basic and diluted net loss per share(2)	(0.46)	(0.05)
Dividends per share		

(1) No quarterly financial information is presented for 2004 and the first two quarters of 2005 as the Company was a development stage company during those quarters and had no operations.

(2) The total of the two quarterly amounts for the year ended December 31, 2005, does not equal the total for the year then ended. This difference results from the increase in shares outstanding over the year.

Note 15 Subsequent Events

Sale of Shares of Common Stock

As of March 22, 2006, the Company had raised approximately $56.2 million in offering proceeds through the issuance of approximately 5.6 million shares of the Company s common stock. As of March 22, 2006 approximately $393.8 million (representing approximately 39.4 million shares) remained available for sale to the public under the Offering, exclusive of shares available under the Company s distribution reinvestment plan.

Property Acquisition and Borrowings

During the period from January 1, 2006 through March 22, 2006, the Company has acquired 11 commercial real estate buildings in separate transactions for an aggregate acquisition cost of approximately

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COLE CREDIT PROPERTY TRUST II, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2005

$62.6 million and issued mortgage notes payable totaling approximately $45.1 million to finance the transactions (see details on borrowings below). These acquisitions are as follows:

Property	Location	Acquisition Date	Square Feet	Purchase Price(1)
Academy Sports	Macon, GA	January 6, 2006	74,532	$ 5,600,000
David s Bridal	Lenexa, KS	January 11, 2006	12,083	3,270,000
Rite Aid	Enterprise, AL	January 26, 2006	14,564	3,714,000
Rite Aid	Wauseon, OH	January 26, 2006	14,564	3,893,679
Staples	Crossville, TN	January 26, 2006	23,942	2,900,000
Rite Aid	Saco, ME	January 27, 2006	11,180	2,500,000
Wadsworth Blvd	Denver, CO	February 6, 2006	198,477	18,500,000
Mountainside Fitness	Chandler, AZ	February 9, 2006	31,063	5,863,000
Drexel Heritage	Hickory, NC	February 24, 2006	261,057	4,250,000
Rayford Square	Spring, TX	March 2, 2006	79,968	9,900,000
CVS	Portsmouth, OH	March 8, 2006	10,170	2,166,000
Total			731,855	$ 62,556,679

(1) Purchase price excludes related closing and acquisition costs.

The following mortgage notes require monthly interest-only payments and relate to the aforementioned acquisitions:

rty	Location	Fixed Rate Loan Amount	Fixed Interest Rate	Maturity Date	Variable Rate Loan Amount(1)	Maturity Date	Total L Outstanc
my Sports	Macon, GA	$ 3,478,000	5.69%	January 11, 2016	$ 802,000	April 6, 2006	$ 4,280
s Bridal	Lenexa, KS	1,799,000	5.86%	January 11, 2011	817,000	April 11, 2006	2,616
id	Enterprise, AL	2,043,000	5.80%	February 11, 2016	928,000	April 26, 2006	2,971
id	Wauseon, OH	2,142,000	5.80%	February 11, 2016	973,000	April 26, 2006	3,115
s	Crossville, TN	1,885,000	5.71%	February 11, 2011	435,000	April 26, 2006	2,320
id	Saco, ME	1,375,000	5.82%	February 11, 2011	625,000	April 27, 2006	2,000
worth Blvd	Denver, CO	12,025,000	5.57%	March 1, 2011	2,275,000	December 31, 2006	12,025
tainside Fitness	Chandler, AZ			N/A	4,690,400	December 31, 2006	4,690
l Heritage	Hickory, NC	2,763,000	5.80%	March 11, 2011	637,000	May 24, 2006	3,400
rd Square	Spring, TX	5,940,000	5.64%	April 1, 2006		N/A	5,940
	Portsmouth, OH	1,424,000	5.67%	March 11, 2011	329,000	June 8, 2006	1,753

$ 34,874,000	$ 12,511,400	$ 47,385

(1) The variable rate debt mortgage notes bear interest at the one-month LIBOR rate plus 200 basis points with interest paid monthly.

Declaration of Distributions

On January 3, 2006, the Company s board of directors authorized a distribution of $0.05 per share for stockholders of record on each of January 7, 2006 and February 7, 2006 and a distribution of $0.0521 per share for stockholders of record on March 7, 2006. The payment date for each of the distributions will be in April 2006, but not later than April 6, 2006. The January and February monthly distributions are calculated to be equivalent to an annualized distribution of six percent (6%) per share, assuming a purchase price of $10.00 per share. The March distribution is calculated to be equivalent to an annualized distribution of six and one-quarter percent (6.25%) per share, assuming a purchase price of $10.00 per share.

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COLE CREDIT PROPERTY TRUST II, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2006 (Unaudited)	December 31, 2005
ASSETS:		
Real estate assets, at cost:		
Land	$ 58,061,773	$ 23,854,308
Buildings and improvements, less accumulated depreciation of $1,597,056 and $151,472, at June 30, 2006 and December 31, 2005, respectively	141,977,524	57,338,359
Acquired intangible lease assets, less accumulated amortization of $770,802 and $71,881 at June 30, 2006 and December 31, 2005, respectively	26,491,408	10,425,618
Total real estate assets	226,530,705	91,618,285
Cash and cash equivalents	3,344,877	4,575,144
Restricted cash	5,083,390	1,813,804
Rents and tenant receivables	649,183	36,001
Prepaid expenses and other assets	193,202	11,928
Deferred financing costs, less accumulated amortization of $193,545 and $17,964 at June 30, 2006 and December 31, 2005, respectively	1,867,331	754,676
Total assets	$ 237,668,688	$ 98,809,838
LIABILITIES AND STOCKHOLDERS EQUITY:		
Mortgage notes payable	$ 129,987,739	$ 66,804,041
Notes payable to affiliates		4,453,000
Accounts payable and accrued expenses	1,035,422	282,797
Escrowed investor proceeds	5,083,390	1,813,804
Due to affiliates	16,847	41,384
Acquired below market lease intangibles, less accumulated amortization of $19,560 and $52 at June 30, 2006 and December 31, 2005, respectively	1,193,809	14,637
Distributions payable	536,858	195,209
Total liabilities	137,854,065	73,604,872
Redeemable Common Stock	782,538	
Stockholders Equity:		
Preferred stock, $0.01 par value; 10,000,000 shares authorized, none issued and outstanding at June 30, 2006 and December 31, 2005		
Common stock, $.01 par value; 90,000,000 shares authorized, 11,375,420 and 2,832,387 shares issued and outstanding at June 30, 2006 and December 31, 2005, respectively	113,754	28,324
Capital in excess of par value	101,580,706	25,486,442

Accumulated distributions in excess of earnings	(2,662,375)	(309,800)
Total stockholders equity	99,032,085	25,204,966
Total liabilities and stockholders equity	$ 237,668,688	$ 98,809,838

The accompanying notes are an integral part of these condensed consolidated financial statements.

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COLE CREDIT PROPERTY TRUST II, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005 (Development Stage)	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005 (Development Stage)
Revenues:				
Rental and other income	$ 3,544,321	$	$ 5,992,573	$
Tenant reimbursement income	171,172		294,706	
Total revenue	3,715,493		6,287,279	
Expenses:				
General and administrative	330,283		540,856	
Property operating expenses	154,259		294,424	
Property and asset management fees	175,514		301,368	
Depreciation	866,577		1,445,573	
Amortization	409,048		662,547	
Total operating expenses	1,935,681		3,244,768	
Real estate operating income	1,779,812		3,042,511	
Other income (expense):				
Interest income	42,209		87,764	
Interest expense	(2,003,868)		(3,494,710)	
Total other expense	(1,961,659)		(3,406,946)	
Net loss	$ (181,847)	$	$ (364,435)	$
Weighted average number of common shares outstanding:				
Basic and diluted	8,802,483	20,000	6,587,125	20,000
Net loss per common share:				
Basic and diluted	$ (0.02)	$	$ (0.06)	$

The accompanying notes are an integral part of these condensed consolidated financial statements.

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COLE CREDIT PROPERTY TRUST II, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
(Unaudited)

	Common Stock		Capital in Excess of	Accumulated Distributions in Excess	Total Stockholders
	Number of Shares	Par Value	Par Value	of Earnings	Equity
Balance, December 31, 2005	2,832,387	$ 28,324	$ 25,486,442	$ (309,800)	$ 25,204,966
Issuance of common stock	8,543,033	85,430	85,260,447		85,345,877
Distributions				(1,988,140)	(1,988,140)
Commissions on stock sales and related dealer manager fees			(7,143,234)		(7,143,234
Other offering costs			(1,266,594)		(1,266,594)
Stock compensation expense			26,183		26,183
Redeemable common stock			(782,538)		(782,538)
Net loss				(364,435)	(364,435)
Balance, June 30, 2006	11,375,420	$ 113,754	$ 101,580,706	$ (2,662,375)	$ 99,032,085

The accompanying notes are an integral part of these condensed consolidated financial statements.

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COLE CREDIT PROPERTY TRUST II, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005 (Development Stage)
Cash Flows from Operating Activities:		
Net loss	$ (364,435)	$
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	1,445,573	
Amortization	854,994	
Stock compensation expense	26,183	
Changes in assets and liabilities:		
Rents and tenant receivables	(613,182)	
Prepaid expenses and other assets	(181,274)	
Accounts payable and accrued expenses	752,625	
Due to affiliates	(24,537)	
Net cash provided by operating activities	1,895,947	
Cash Flows from Investing Activities:		
Investment in real estate and related assets	(106,808,328)	
Acquired intangible lease assets	(14,303,799)	
Acquired below market lease intangibles	1,198,680	
Restricted cash	(3,269,586)	
Net cash used in investing activities	(123,183,033)	
Cash Flows from Financing Activities:		
Proceeds from issuance of common stock	84,563,339	
Proceeds from mortgage and affiliate notes payable	71,852,863	
Repayment of mortgage and affiliate notes payable	(29,066,952)	
Escrowed investor proceeds liability	3,269,586	
Offering costs on issuance of common stock	(8,409,828)	
Distributions to investors	(863,953)	
Deferred financing costs paid	(1,288,236)	
Net cash provided by financing activities	120,056,819	
Net decrease in cash and cash equivalents	(1,230,267)	
Cash and cash equivalents, beginning of period	4,575,144	200,000

Cash and cash equivalents, end of period	$	3,344,877	$	200,000
Supplemental Disclosures of Non-Cash Investing and Financing Activities:				
Dividends declared and unpaid	$	536,858	$	
Mortgage notes assumed in real estate acquisitions	$	15,944,787	$	
Common stock issued through distribution reinvestment plan	$	782,538	$	
Supplemental Cash Flow Disclosures:				
Interest paid	$	3,164,582	$	

The accompanying notes are an integral part of these condensed consolidated financial statements.

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COLE CREDIT PROPERTY TRUST II, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2006
(Unaudited)

Note 1 Organization

Cole Credit Property Trust II, Inc. (the Company) was formed on September 29, 2004 and is a Maryland corporation that operates as a real estate investment trust (REIT) beginning with the taxable year ended December 31, 2005. Substantially all of the Company s business is conducted through Cole Operating Partnership II, LP (Cole OP II), a Delaware limited partnership. The Company is the sole general partner of and owns a 99.99% partnership interest in Cole OP II. Cole REIT Advisors II, LLC (the Advisor), the affiliated advisor to the Company, is the sole limited partner and owner of 0.01% of the partnership interests of Cole OP II.

Pursuant to a Registration Statement on Form S-11 under the Securities Act of 1933, as amended (the Registration Statement), the Company is offering for sale to the public on a best efforts basis a minimum of 250,000 and a maximum of 45,000,000 shares of its common stock at a price of $10 per share (the Offering), subject to discounts in certain circumstances, and up to 5,000,000 additional shares pursuant to a distribution reinvestment plan under which its stockholders may elect to have distributions reinvested in additional shares of the Company s common stock at $9.50 per share. The Registration Statement was declared effective on June 27, 2005.

On September 23, 2005, the Company issued the initial 486,000 shares of its common stock under the Offering and commenced its principal operations. Prior to such date, the Company was considered a development stage company. As of June 30, 2006, the Company had issued approximately 11.4 million shares of its common stock in the Offering for aggregate gross proceeds of approximately $113.7 million before offering costs and selling commissions of approximately $11.2 million. As disclosed in the Registration Statement, the Company expects to use substantially all of the net proceeds from the Offering to acquire and operate commercial real estate primarily consisting of freestanding, single-tenant commercial properties net-leased to investment grade or otherwise creditworthy tenants located throughout the United States.

The Company s stock is not currently listed on a national exchange. The Company may seek to list its stock for trading on a national securities exchange or for quotation on The Nasdaq National Market only if a majority of its independent directors believe listing would be in the best interest of its stockholders. The Company does not intend to list its shares at this time. The Company does not anticipate that there would be any market for its common stock until its shares are listed or quoted. In the event it does not obtain listing prior to the tenth anniversary of the completion or termination of the Offering, its charter requires that it either: (1) seek stockholder approval of an extension or amendment of this listing deadline, or (2) seek stockholder approval to adopt a plan of liquidation of the corporation.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements of the Company have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission, including the instructions to Form 10-Q and Article 10 of Regulation S-X, and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, the statements for the unaudited interim periods presented include all adjustments, which are of a normal and recurring nature, necessary to present a fair presentation of the results for such periods. Results for these interim periods are not necessarily indicative of full year results. During the three months and six months ended June 30, 2005, the Company was in the development stage and did not have any operations during that period. The information included in this Form 10-Q should be read in conjunction with the Company s audited consolidated financial statements as of December 31, 2005, and related notes thereto.

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COLE CREDIT PROPERTY TRUST II, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2006
(Unaudited)

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Restricted Cash and Escrowed Investor Proceeds

The Company is currently engaged in a public offering of its common stock. Included in restricted cash and escrowed investor proceeds is approximately $5.1 million of offering proceeds for which shares of common stock had not been issued as of June 30, 2006.

Redeemable Common Stock

The Company s share redemption program provides that all redemptions during any calendar year, including those upon death or qualifying disability, are limited to those that can be funded with proceeds from the Company s distribution reinvestment plan (the DRIP). In accordance with Accounting Series Release No. 268, *Presentation in Financial Statements of Redeemable Preferred Stock,* the Company accounts for proceeds received from its DRIP as redeemable common stock, outside of permanent equity. As of June 30, 2006 and December 31, 2005, the Company had issued approximately 82,400 and 0 shares of common stock under the DRIP, respectively, for proceeds of approximately $783,000 and $0 under its DRIP, respectively, which have been recorded as redeemable common stock in the respective condensed consolidated balance sheets. As of June 30, 2006 and December 31, 2005, no shares had been redeemed under the Company s share redemption program.

Reportable Segments

The Financial Accounting Standards Board (FASB) issued SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information,* which establishes standards for reporting financial and descriptive information about an enterprise s reportable segments. The Company has determined that it has one reportable segment, with activities related to investing in real estate. The Company s investments in real estate generate rental revenue and other income through the leasing of single-tenant properties, which comprised 100% of our total consolidated revenues for the three and six months ended June 30, 2006. Although the Company s investments in real estate are geographically diversified throughout the United States, management evaluates operating performance on an individual property level. However, as each of its single-tenant properties have similar economic characteristics, tenants, and products and services, our single-tenant properties have been aggregated into one reportable segment.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment,* (SFAS 123R) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. SFAS No. 123R is effective for fiscal years beginning after June 15, 2005. The Company adopted the new standard on January 1, 2006. See Note 8.

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Note 3 Real Estate Acquisitions

During the six months ended June 30, 2006, the Company acquired the following properties:

Property	Acquisition Date	Location	Square Feet	Purchase Price
Academy Sports sporting goods	January 6, 2006	Macon, GA	74,532	$ 5,600,000
David s Bridal specialty retail	January 11, 2006	Lenexa, KS	12,083	3,270,000
Rite Aid drugstore	January 26, 2006	Enterprise, AL	14,564	3,714,000
Rite Aid drugstore	January 26, 2006	Wauseon, OH	14,564	3,893,679
Staples office supply	January 26, 2006	Crossville, TN	23,942	2,900,000
Rite Aid drugstore	January 27, 2006	Saco, ME	11,180	2,500,000
Wadsworth Boulevard marketplace	February 6, 2006	Denver, CO	198,477	18,500,000
Mountainside Fitness center	February 9, 2006	Chandler, AZ	31,063	5,863,000
Drexel Heritage furniture retail	February 24, 2006	Hickory, NC	261,057	4,250,000
Rayford Square retail center	March 2, 2006	Spring, TX	79,968	9,900,000
CVS drugstore	March 8, 2006	Portsmouth, OH	10,170	2,166,000
Wawa convenience store	March 29, 2006	Hockessin, DE	5,160	4,830,000
Wawa convenience store	March 29, 2006	Manahawkin, NJ	4,695	4,414,000
Wawa convenience store	March 29, 2006	Narbeth, PA	4,461	4,206,000
CVS drugstore	April 20, 2006	Lakewood, OH	12,800	2,450,000
Rite Aid drugstore	April 27, 2006	Cleveland, OH	11,325	2,568,700
Rite Aid drugstore	April 27, 2006	Fremont, OH	11,325	2,524,500
Walgreens drugstore	May 8, 2006	Knoxville, TN	15,120	4,750,000
CVS drugstore	May 26, 2006	Madison, MS	13,824	4,463,088
Rite Aid drugstore	May 26, 2006	Defiance, OH	14,564	4,326,165
Conns appliance retailer	May 26, 2006	San Antonio, TX	25,230	4,624,619
Dollar General specialty retailer	June 2, 2006	Crossville, TN	24,341	3,000,000
Dollar General specialty retailer	June 9, 2006	Ardmore, TN	24,341	2,775,000
Dollar General specialty retailer	June 12, 2006	Livingston, TN	24,341	2,856,000
Wehrenberg movie theatre	June 14, 2006	Arnold, MO	50,000	8,200,000
Sportmans Warehouse specialty retailer	June 27, 2006	Wichita, KS	50,003	8,231,000
CVS drugstore	June 28, 2006	Portsmouth, OH	10,650	2,101,708
Advance Auto specialty retailer	June 29, 2006	Greenfield, IN	7,000	1,375,500
Advance Auto specialty retailer	June 29, 2006	Trenton, OH	7,000	1,060,000
Rite Aid drugstore	June 29, 2006	Lansing, MI	11,680	1,735,000
Total			1,059,460	$ 133,047,959

In accordance with SFAS, No. 141, *Business Combinations*, the Company allocated the purchase price of these properties, including aggregate acquisition costs of $2,808,000 to the fair value of the assets acquired and liabilities assumed. The Company allocated $34,204,000 to land, $85,918,000 to building and improvements, $16,775,000 to acquired in-place leases, ($1,204,000) to acquired below-market leases and $15,944,000 related to debt assumed related to properties acquired during the six months ended June 30, 2006.

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Note 4 Notes Payable

As of June 30, 2006, the Company had total mortgage notes payable of approximately $130.0 million. During the six months ended June 30, 2006, the Company incurred, or assumed, the following mortgage notes payable in connection with the real estate acquisitions described in Note 3 above:

ty	Location	Fixed Rate Loan Amount	Fixed Interest Rate	Maturity Date	Variable Rate Loan Amount(1)	Maturity Date	Tot Loan Acquis
ny Sports g goods	Macon, GA	$ 3,478,000	5.69%	January 11, 2016	$ 802,000(2)	April 6, 2006	$ 4,28
s Bridal y retail	Lenexa, KS	1,799,000	5.86%	January 11, 2011	817,000(2)	April 11, 2006	2,61
d drugstore	Enterprise, AL	2,043,000	5.80%	February 11, 2016	928,000(2)	April 26, 2006	2,97
d drugstore	Wauseon, OH	2,142,000	5.80%	February 11, 2016	973,000(2)	April 26, 2006	3,11
office supply	Crossville, TN	1,885,000	5.71%	February 11, 2011	435,000(2)	April 26, 2006	2,32
d drugstore	Saco, ME	1,375,000	5.82%	February 11, 2011	625,000(2)	April 27, 2006	2,00
orth ard place	Denver, CO	12,025,000	5.57%	March 1, 2011	2,275,000(2)	December 31, 2006	14,30
inside Fitness	Chandler, AZ		N/A	N/A	4,690,400(2)	December 31, 2006	4,69
Heritage e retail	Hickory, NC	2,763,000	5.80%	March 11, 2011	637,000(2)	May 24, 2006	3,40
d Square retail	Spring, TX	5,940,000	5.64%	April 1, 2016		N/A	5,94
ugstore	Portsmouth, OH	1,424,000	5.67%	March 11, 2011	329,000(2)	June 8, 2006	1,75
convenience	Various		N/A	N/A	7,234,787(3)	February 26, 2010	7,23
ugstore	Lakewood, OH	1,348,000	5.77%	May 11, 2011	612,000	July 20, 2006	1,96
d drugstore	Cleveland, OH	1,413,000	6.05%	May 11, 2011	642,000	July 27, 2006	2,05
d drugstore	Fremont, OH	1,388,000	6.05%	May 11, 2011	632,000	July 27, 2006	2,02
ens drugstore	Knoxville, TN	3,088,000	5.80%	May 11, 2011	712,000	August 8, 2006	3,80
ugstore	Madison, MS	2,809,000	5.60%	February 11, 2016		N/A	2,80
d drugstore	Defiance, OH	2,321,000	5.76%	January 11, 2016		N/A	2,32
appliance	San Antonio, TX	2,461,000	5.86%	May 11, 2011	1,119,000	July 25, 2006	3,58
General y retailer	Crossville, TN	1,950,000	5.75%	June 11, 2016	450,000	September 2, 2006	2,40

General y retailer	Ardmore, TN	1,804,000	5.79%	June 11, 2016	416,000	September 9, 2006	2,22
General y retailer	Livingston, TN	1,856,000	5.79%	July 11, 2016	429,000	October 12, 2006	2,28
ans use specialty	Wichita, KS		N/A	N/A	6,173,250(4)	December 27, 2006	6,17
d drugstore	Lansing, MI	1,041,000	5.90%	July 1, 2016		N/A	1,04
debtedness		$ 56,353,000			$ 30,931,437		$ 87,28

(1) The variable rate mortgage notes bear interest at the one-month LIBOR rate plus 200 basis points with interest only paid monthly.

(2) The respective variable rate loan amounts were repaid prior to June 30, 2006.

(3) The respective variable rate loan was refinanced on June 9, 2006 to a $7,748,000 term mortgage loan with a fixed interest rate of 6.56% maturing on June 11, 2006.

(4) The loan is a revolving credit facility secured by the respective property.

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Note 5 Commitments and Contingencies

Litigation

In the ordinary course of business, the Company may become subject to litigation or claims. There are no material legal proceedings pending or known to be contemplated against us.

Environmental Matters

In connection with the ownership and operation of real estate, the Company may potentially be liable for costs and damages related to environmental matters. The Company has not been notified by any governmental authority of any non-compliance, liability or other claim, and the Company is not aware of any other environmental condition that it believes will have a material adverse effect on the consolidated results of operations.

Note 6 Related-Party Transactions and Arrangements

Certain affiliates of the Company receive, and will continue to receive fees and compensation in connection with the Offering, and the acquisition, management and sale of the assets of the Company. Cole Capital Corporation (Cole Capital), the affiliated dealer-manager, receives, and will continue to receive a selling commission of up to 7% of gross offering proceeds before reallowance of commissions earned by participating broker-dealers. Cole Capital reallows, and intends to continue to reallow 100% of commissions earned to participating broker-dealers. In addition, Cole Capital will receive up to 1.5% of the gross proceeds from the Offering, before reallowance to participating broker-dealers, as a dealer-manager fee. Cole Capital, in its sole discretion, may reallow all or a portion of its dealer-manager fee to such participating broker-dealers as a marketing and due diligence expense reimbursement, based on such factors as the volume of shares sold by such participating broker-dealers and marketing support incurred as compared to those of other participating broker-dealers. During the three months and six months ended June 30, 2006, the Company paid approximately $4.2 million and $7.1 million, respectively, to Cole Capital for commissions and dealer manager fees, of which approximately $3.6 million and $6.0 million, respectively, was reallowed to participating broker-dealers.

All organization and offering expenses (excluding selling commissions and the dealer-manager fee) are paid for by the Advisor or its affiliates and are reimbursed by the Company up to 1.5% of gross offering proceeds. The Advisor or its affiliates also receive acquisition and advisory fees of up to 2% of the contract purchase price of each asset for the acquisition, development or construction of real property and will be reimbursed for acquisition costs incurred in the process of acquiring properties, but not to exceed 2% of the contract purchase price. The Company expects the acquisition expenses to be approximately 0.5% of the purchase price of each property. During the six months ended June 30, 2006, the Company reimbursed the Advisor approximately $1.4 million for organizational and offering expenses. At June 30, 2006, approximately $782,000 of such costs had been incurred by the Advisor but had not been reimbursed by the Company. During the three months and six months ended June 30, 2006, the Company paid the Advisor approximately $830,000 and approximately $2.1 million for acquisition fees, respectively.

If the Advisor provides substantial services, as determined by the Company s independent directors, in connection with the origination or refinancing of any debt financing obtained by the Company that is used to acquire properties or to make other permitted investments, or that is assumed, directly or indirectly, in connection with the acquisition of properties, the Company will pay the Advisor a financing coordination fee equal to 1% of the amount available under such financing; provided, however, that the Advisor shall not be entitled to a financing coordination fee in connection with the refinancing of any loan secured by any

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particular property that was previously subject to a refinancing in which the Advisor received such a fee. Financing coordination fees payable from loan proceeds from permanent financing will be paid to the Advisor as the Company acquires such permanent financing. However, no acquisition fees will be paid on loan proceeds from any line of credit until such time as all net offering proceeds have been invested by the Company. During the three months and six months ended June 30, 2006, the Company paid the Advisor approximately $306,000 and approximately $728,000 for finance coordination fees, respectively.

The Company pays, and expects to continue to pay, Cole Realty Advisors, Inc., f/k/a Fund Realty Advisors, Inc., (Cole Realty), its affiliated property manager, fees for the management and leasing of the Company s properties. Such fees currently equal, and are expected to continue to equal 2% of gross revenues, plus leasing commissions at prevailing market rates; provided however, that the aggregate of all property management and leasing fees paid to affiliates plus all payments to third parties will not exceed the amount that other nonaffiliated management and leasing companies generally charge for similar services in the same geographic location. Cole Realty may subcontract its duties for a fee that may be less than the fee provided for in the property management agreement. During the three months and six months ended June 30, 2006, the Company paid Cole Realty approximately $68,000 and approximately $113,000 for property management fees, respectively.

The Company pays the Advisor an annualized asset management fee of 0.25% of the aggregate asset value of the Company s assets. The fee is payable monthly in an amount equal to 0.02083% of aggregate asset value as of the last day of the immediately preceding month. During the three months and six months ended June 30, 2006, the Company paid the Advisor approximately $108,000 and approximately $189,000 for asset management fees, respectively.

If the Advisor or its affiliates provides a substantial amount of services, as determined by the Company s independent directors, in connection with the sale of one or more properties, the Company pays the Advisor up to one-half of the brokerage commission paid, but in no event to exceed an amount equal to 2% of the sales price of each property sold. In no event will the combined real estate commission paid to the Advisor, its affiliates and unaffiliated third parties exceed 6% of the contract sales price. In addition, after investors have received a return of their net capital contributions and an 8% annual cumulative, non-compounded return, then the Advisor is entitled to receive 10% of remaining net sale proceeds. During the six months ended June 30, 2006, the Company did not pay any fees or amounts to the Advisor relating to the sale of properties.

In the event the Company s common stock is listed in the future on a national securities exchange or included for quotation on The Nasdaq National Market, a fee equal to 10% of the amount by which the market value of the Company s outstanding stock plus all distributions paid by the Company prior to listing, exceeds the sum of the total amount of capital raised from investors and the amount of cash flow necessary to generate an 8% annual cumulative, non-compounded return to investors will be paid to the Advisor (the Subordinated Incentive Listing Fee).

In the event that the advisory agreement with the Advisor is terminated, other than termination by the Company because of a material breach of the advisory agreement by the Advisor, a performance fee of 10% of the amount, if any, by which (i) the appraised asset value of the Company at the time of such termination plus total distributions paid to stockholders through the termination date exceeds (ii) the aggregate capital contribution contributed by investors less distributions from sale proceeds plus payment to investors of an 8% annual, cumulative, non-compounded return on capital. No subordinated performance fee will be paid if the Company has already paid or become obligated to pay the Advisor a Subordinated Incentive Listing Fee.

The Company may reimburse the Advisor for all expenses it paid or incurred in connection with the services provided to the Company, subject to the limitation that the Company does not reimburse for any

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amount by which its operating expenses (including the Asset Management Fee) at the end of the four preceding fiscal quarters exceeds the greater of (i) 2% of average invested assets, or (ii) 25% of net income other than any additions to reserves for depreciation, bad debts or other similar non-cash reserves and excluding any gain from the sale of assets for that period. The Company will not reimburse for personnel costs in connection with services for which the Advisor receives acquisition fees or real estate commissions. During the six months ended June 30, 2006, the Company did not reimburse the Advisor for any such costs.

On February 6, 2006, Cole OP II borrowed $2,275,000 from Series C, LLC (Series C), an affiliate of the Company and the Company s advisor, by executing a promissory note which was secured by the membership interest held by Cole OP II in a wholly-owned subsidiary. The loan proceeds were used to acquire a property with a purchase price of approximately $18.5 million, exclusive of closing costs. The loan had a variable interest rate based on the one-month LIBOR rate plus 200 basis points with monthly interest-only payments, and the outstanding principal and accrued and unpaid interest was payable in full on December 31, 2006. The loan was generally non recourse to Cole OP II and could be prepaid at any time without penalty or premium. The Company s board of directors, including all of the independent directors, approved the loan and determined that its terms were no less favorable to the Company than loans between unaffiliated third parties under the same circumstances. Cole OP II repaid the note in full on April 26, 2006.

On February 10, 2006, Cole OP II borrowed $4,690,400 from Series B, LLC (Series B), an affiliate of the Company and the Company s advisor, by executing a promissory note which was secured by the membership interest held by Cole OP II in a wholly-owned subsidiary. The loan proceeds were used to acquire a property with a purchase price of approximately $5.9 million, exclusive of closing costs. The loan had a variable interest rate based on the one-month LIBOR rate plus 200 basis points with monthly interest-only payments, and the outstanding principal and accrued and unpaid interest was payable in full on December 31, 2006. The loan was generally non-recourse to Cole OP II and could be prepaid at any time without penalty or premium. The Company s board of directors, including all of the independent directors, approved the loan and determined that its terms were no less favorable to the Company than loans between unaffiliated third parties under the same circumstances. Cole OP II repaid the note in full in May 2006.

On March 29, 2006, Cole OP II acquired 100% of the membership interest in Cole WW II, LLC (WW II) from Series A, LLC, an affiliate of the Company and the Company s advisor, for a purchase price of approximately $13.5 million. WW II, through its wholly-owned subsidiaries, owns three single tenant retail buildings 100% leased to Wawa, Inc. The acquisition was funded by net proceeds from the Company s Offering and the assumption of an approximately $7.2 million loan secured by the properties. The Company s board of director s, including all of the independent directors, approved the transaction as being fair and reasonable to the Company, at a price in excess of the cost to WW II, but substantial justification exists for such excess, such excess is reasonable and the costs of the interest did not exceed its current fair market value as determined by an independent expert selected by the Company s independent directors.

On April 26, 2006, Cole OP II repaid a $2,458,000 promissory note and a $1,995,000 promissory note to Series C. The notes were issued on December 15, 2005.

During the three months and six months ended June 30, 2006, Cole OP II paid approximately $70,000 and approximately $224,000 to affiliates under the aforementioned loans.

On May 26, 2006, Cole OP II, directly and through a wholly-owned subsidiary, acquired 100% of the partnership interests in Cole CO San Antonio TX, LP (CO San Antonio) from Series D, LLC and Cole GP San Antonio TX, LLC, both an affiliate of the Company and the Company s advisor, for a purchase price of approximately $4.6 million. CO San Antonio owns a single tenant retail building 100% leased to a wholly-owned subsidiary of Conn s, Inc., which guarantees the lease. The acquisition was funded by net proceeds

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from the Company s Offering and the assumption of an approximately $3.6 million loan secured by the property. The Company s board of director s, including all of the independent directors, approved the transaction as being fair and reasonable to the Company, at a price no greater than the cost to Series D, LLC, and at a cost that did not exceed its current fair market value as determined by an independent expert.

On May 26, 2006, Cole OP II acquired 100% of the membership interests in Cole RA Defiance OH, LLC (RA Defiance) from Cole Acquisitions I, LLC, f/k/a Cole Takedown, LLC (Cole Acquisitions), an affiliate of the Company and the Company s advisor, for a purchase price of approximately $4.3 million. RA Defiance owns a single tenant retail building 100% leased to a wholly-owned subsidiary of Rite Aid Corporation, which guarantees the lease. The acquisition was funded by net proceeds from the Company s Offering and the assumption of an approximately $2.3 million loan secured by the property. The Company s board of director s, including all of the independent directors, approved the transaction as being fair and reasonable to the Company, at a price no greater than the cost to Cole Acquisitions, and at a cost that did not exceed its current fair market value as determined by an independent expert.

On May 26, 2006, Cole OP II acquired 100% of the membership interests in Cole CV Madison MS, LLC (CV Madison) from Cole Acquisitions, an affiliate of the Company and the Company s advisor, for a purchase price of approximately $4.5 million. CV Madison owns a single tenant retail building 100% leased to a wholly-owned subsidiary of CVS Pharmacy, Inc. (CVS), which guarantees the lease. The acquisition was funded by net proceeds from the Company s Offering and the assumption of an approximately $2.8 million loan secured by the property. The Company s board of director s, including all of the independent directors, approved the transaction as being fair and reasonable to the Company, at a price no greater than the cost to Cole Acquisitions, and at a cost that did not exceed its current fair market value as determined by an independent expert.

On June 28, 2006, Cole OP II acquired 100% of the membership interests in Cole CV Portsmouth OH, LLC (CV Portsmouth) from Cole Acquisitions I, LLC, an affiliate of the Company and the Company s advisor, for a purchase price of approximately $2.1 million. CV Portsmouth owns a single tenant retail building 100% leased to a wholly-owned subsidiary of CVS. The acquisition was funded by net proceeds from the Company s Offering. The Company s board of director s, including all of the independent directors, approved the transaction as being fair and reasonable to the Company.

At June 30, 2006, due to affiliates consisted of approximately $17,000 payable to subsidiaries of Cole Advisors for reimbursement of certain costs related to property acquisitions. At December 31, 2005, due to affiliates consisted of approximately $36,000 payable to Cole Advisors for reimbursement of legal fees and approximately $5,000 payable to Cole Capital, for commissions and dealer manager fees payable on stock issuances.

Note 7 Economic Dependency

Under various agreements, the Company has engaged or will engage the Advisor and its affiliates to provide certain services that are essential to the Company, including asset management services, supervision of the management and leasing of properties owned by the Company, asset acquisition and disposition decisions, the sale of shares of the Company s common stock available for issue, as well as other administrative responsibilities for the Company including accounting services and investor relations.

As a result of these relationships, the Company is dependent upon the Advisor and its affiliates. In the event that these companies were unable to provide the Company with the respective services, the Company would be required to find alternative providers of these services.

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Note 8 Independent Directors Stock Option Plan

The Company has a stock option plan, the Independent Director s Stock Option Plan (the IDSOP), which authorizes the grant of non-qualified stock options to the Company s independent directors, subject to the absolute discretion of the board of directors and the applicable limitations of the plan. The Company intends to grant options under the IDSOP to each qualifying director annually. The exercise price for the options granted under the IDSOP initially will be $9.15 per share (or greater, if such higher price is necessary so that such options shall not be considered a nonqualified deferred compensation plan under Section 409A of the Internal Revenue Code of 1986, as amended). It is intended that the exercise price for future options granted under the IDSOP will be at least 100% of the fair market value of the Company s common stock as of the date the option is granted. As of June 30, 2006 and December 31, 2005, the Company had granted options to purchase 20,000 and 10,000 shares at $9.15 per share, respectively, each with a one year vesting period. A total of 1,000,000 shares have been authorized and reserved for issuance under the IDSOP. On January 1, 2006, we adopted SFAS 123R which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including stock options related to the IDSOP, based on estimated fair values. The Company adopted FAS 123R using the modified prospective application. Accordingly, prior period amounts have not been restated.

During the three months and six months ended June 30, 2006, the adoption of SFAS 123R resulted in stock-based compensation charges of approximately $11,000 and approximately $26,000, respectively. Stock-based compensation expense recognized in the three months and six months ended June 30, 2006 is based on awards ultimately expected to vest, and has been reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company s calculations do not assume any forfeitures.

Prior to SFAS 123R we applied the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations, including FASB Interpretation No. 44, *Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25,* issued in March 2000, to account for our fixed-plan stock options. Under this method, compensation expense was recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. No stock-based employee compensation cost was reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of the grant. SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure,* established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, during prior periods we elected to apply the intrinsic-value-based method of accounting described above, and adopted only the disclosure requirements of SFAS No. 123.

During the three months and six months ended June 30, 2005, options to purchase 10,000 shares at $9.15 per share were granted, no options were forfeited, became vested, or were exercised. During the three months and six months ended June 30, 2006, options to purchase 10,000 shares at $9.15 per share were granted, 10,000 share options became vested, no options were forfeited or exercised. As of June 30, 2006, options to purchase 20,000 shares at $9.15 per share remained outstanding and options to purchase 10,000 shares options were unvested with a weighted average contractual remaining life of approximately nine years.

In accordance with Statement 123R, the fair value of each stock option granted has been estimated as of the date of the grant using the Black-Scholes method based on the following assumptions; a weighted average risk-free interest rate from 4.19% to 5.07%, a projected future dividend yield from 6% to 6.25%, expected

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volatility of 0%, and an expected life of an option of 10 years. Based on these assumptions, the fair value of the options granted during the six months ended June 30, 2006 and 2005 was approximately $55,000 and $60,000, respectively. As of June 30, 2006, there was approximately $50,000 of total unrecognized compensation cost related to unvested share-based compensation awards granted under the IDSOP. That cost is expected to be recognized through the quarter ended June 30, 2007.

Note 9 Subsequent Events

Sale of Shares of Common Stock

As of August 10, 2006, the Company had raised approximately $147.1 million of gross proceeds through the issuance of approximately 14.7 million shares of its common stock under the Offering. As of August 10, 2006, approximately $303.7 million (30.4 million shares) remained available for sale to the public under the Offering, exclusive of shares available under the Company s distribution reinvestment plan.

Real Estate Acquisitions

The Company acquired the following properties subsequent to June 30, 2006 and prior to August 14, 2006:

Property	Location	Acquisition Date	Square Feet	Purchase Price
Advance Auto specialty retailer	Columbia Heights, MN	July 6, 2006	7,000	$ 1,730,578
Advance Auto specialty retailer	Fergus Falls, MN	July 6, 2006	7,000	1,203,171
CVS drugstore	Okeechobee, FL	July 7, 2006	13,050	6,459,262
Office Depot specialty retailer	Dayton, OH	July 7, 2006	19,880	3,416,526
Advance Auto specialty retailer	Holland, MI	July 12, 2006	7,000	2,071,843
Advance Auto specialty retailer	Holland Township, MI	July 12, 2006	7,000	2,137,244
Advance Auto specialty retailer	Zeeland, MI	July 12, 2006	7,000	1,840,715
CVS drugstore	Orlando, FL	July 12, 2006	13,813	4,956,763
Office Depot specialty retailer	Greenville, MS	July 12, 2006	25,054	3,491,470
Office Depot specialty retailer	Warrensburg, MO	July 19, 2006	20,000	2,880,552
CVS drugstore	Gulfport, MS	August 10, 2006	10,908	4,414,117
Total			137,705	$ 34,602,241

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COLE CREDIT PROPERTY TRUST II, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2006
(Unaudited)

Mortgage Notes Payable

Subsequent to June 30, 2006, the Company incurred or assumed the following mortgage notes payable in connection with the real estate acquisitions described above:

roperty	Location	Fixed Rate Loan Amount	Fixed Interest Rate	Maturity Date	Variable Rate Loan Amount	Maturity Date	Total Loans Issued at Acquisition
dvance Auto pecialty retailer	Columbia Heights, MN	$ 1,038,000	5.83%	July 11, 2016	$ 346,000	October 6, 2006	$ 1,384,000
dvance Auto pecialty retailer	Fergus Falls, MN	722,000	5.83%	July 11, 2016	241,000	October 6, 2006	963,000
VS drugstore	Okeechobee, FL	4,076,000	5.60%	February 11, 2016		N/A	4,076,000
ffice Depot pecialty retailer	Dayton, OH	2,130,000	5.73%	January 11, 2016		N/A	2,130,000
dvance Auto pecialty retailer	Holland, MI	1,193,000	5.83%	April 11, 2016		N/A	1,193,000
dvance Auto pecialty retailer	Holland Township, MI	1,231,000	5.83%	April 11, 2016		N/A	1,231,000
dvance Auto pecialty retailer	Zeeland, MI	1,057,000	5.83%	April 11, 2016		N/A	1,057,000
VS drugstore	Orlando, FL	3,016,000	5.68%	April 11, 2016		N/A	3,016,000
ffice Depot pecialty retailer	Greenville, MS	2,192,000	5.76%	March 11, 2011		N/A	2,192,000
ffice Depot pecialty retailer	Warrensburg, MO	1,810,000	5.85%	April 11, 2011		N/A	1,810,000
VS drugstore	Gulfport, MS	2,611,000	5.28%	April 11, 2016		N/A	2,611,000
otal		$ 21,076,000			$ 587,000		$ 21,663,000

In addition, subsequent to June 30, 2006, the Company repaid an aggregate of approximately $3.0 million of variable rate short-term debt related to four loans and repaid approximately $6.2 million on its revolving credit facility.

Subsequent to June 30, 2006, the Company entered into an extended rate lock agreement to lock the interest to be used on approximately $24.0 million of future loans at 6.262%. In connection therewith, the Company has deposited approximately $690,000 with the Lender, which will be refunded to the Company upon loan closing.

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SUMMARY FINANCIAL INFORMATION RELATING TO BUSINESSES ACQUIRED

SUMMARY FINANCIAL DATA
CVS CORPORATION, INC.

CV Alpharetta Property

On December 1, 2005, we acquired an approximately 10,125 square foot single-tenant retail building on an approximately 1.19 acre site located in Alpharetta, Georgia (the CV Alpharetta Property), constructed in 1998. The CV Alpharetta Property is 100% leased to Mayfield CVS, Inc., which is a wholly-owned subsidiary of CVS Corporation (CVS), which guarantees the lease. The CV Alpharetta Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the CV Alpharetta Property was approximately $3.1 million, exclusive of closing costs. The acquisition was funded by net proceeds from the Company s ongoing public offering and an approximately $2.5 million loan from Wachovia Bank, National Association (Wachovia) secured by the CV Alpharetta Property.

CV RH Property

On December 8, 2005, we acquired an approximately 10,908 square foot single-tenant retail building on an approximately 1.41 acre site located in Richland Hills, Texas (the CV RH Property), constructed in 1997 The CV RH Property is 100% leased to CVS EGL Grapevine N Richland Hills Texas, LP, which is a wholly-owned subsidiary of CVS, which guarantees the lease. The CV RH Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the CV RH Property was approximately $3.7 million, exclusive of closing costs. The acquisition was funded by net proceeds from the Company s ongoing public offering and an approximately $2.9 million loan from Wachovia secured by the CV RH Property.

CV Scioto Trail Property

On March 8, 2006, we acquired an approximately 10,100 square foot single-tenant retail building on an approximately .82 acre site located in Portsmouth, Ohio (the CV Scioto Trail Property), which was constructed in 1997. The CV Scioto Trail Property is 100% leased to Revco Discount Drug Centers, Inc. (Revco), which is a wholly-owned subsidiary of CVS. CVS is the guarantor under the lease. The CV Scioto Trail Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the CV Scioto Trail Property was approximately $2.2 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock, and an approximately $1.8 million loan from Wachovia, secured by the CV Scioto Trail Property.

CV Madison Property

On May 26, 2006, we acquired 100% of the membership interests (the CV Madison Interests) in Cole CV Madison MS, LLC (CV Madison). CV Madison owns, as its only asset, an approximately 13,800 square foot single-tenant retail building on an approximately 1.5 acre site located in Madison, Mississippi (the CV Madison Property). The CV

Madison Property is 100% leased to CVS EGL Highland Madison MS, Inc. (CVS EGL), which is a wholly-owned subsidiary of CVS, which guarantees the lease. The CV Madison Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the CV Madison Interests was approximately $4.5 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and an approximately $2.8 million loan secured by the CV Madison Property.

CV Portsmouth Property

On June 28, 2006, we acquired 100% of the membership interests (the CV Portsmouth Interests) in Cole CV Portsmouth OH, LLC (CV Portsmouth). CV Portsmouth owns, as its only asset, an approximately 10,600 square foot single-tenant retail building on an approximately 0.44 acre site located in Portsmouth, Ohio (the CV Portsmouth Property). The CV Portsmouth Property is 100% leased to Revco Discount Drug Centers, Inc., which is a wholly-owned subsidiary of CVS, which guarantees the lease. The CV Portsmouth Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the CV Portsmouth Interests was approximately $2.1 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock.

CV Okeechobee Property

On July 7, 2006, we acquired 100% of the membership interests (the CV Okeechobee Interests) in Cole CV Okeechobee FL, LLC (CV Okeechobee). CV Okeechobee owns, as its only asset, an approximately 13,000 square foot single-tenant retail building on an approximately 1.7 acre site located in Okeechobee, Florida (the CV Okeechobee Property). The CV Okeechobee Property is 100% leased to CVS EGL Parrot Okeechobee FL, LLC, which is a wholly-owned subsidiary of CVS, which guarantees the lease. The CV Okeechobee Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the CV Okeechobee Interests was approximately $6.5 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and the assumption of an approximately $4.1 million loan from Wachovia secured by the property.

CV Orlando Property

On July 12, 2006, we acquired 100% of the membership interests (the CV Orlando Interests) in Cole CV Orlando FL, LLC (CV Orlando). CV Orlando owns, as its only asset, an approximately 14,000 square foot single-tenant retail building on an approximately 1.4 acre site located in Orlando, Florida (the CV Orlando Property). The CV Orlando Property is 100% leased to CVS EGL Lake Pickett FL, LLC, which is a wholly-owned subsidiary of CVS, which guarantees the lease. The CV Orlando Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the CV Orlando Interests was approximately $4.95 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and the assumption of an approximately $3.0 million loan from Wachovia secured by the property.

CV Gulfport Property

On August 10, 2006, we acquired 100% of the membership interests (the CV Gulfport Interests) in Cole CV Gulfport MS, LLC (CV Gulfport). CV Gulfport owns, as its only asset, an approximately 11,000 square foot single-tenant retail building on an approximately 1.2 acre site located in Gulfport, Mississippi (the CV Gulfport Property). The CV Gulfport Property is 100% leased to CVS EGL East Pass Gulfport MS, Inc., which is a wholly-owned subsidiary CVS, which guarantees the lease. The CV Gulfport Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the CV Gulfport Interests was approximately $4.4 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and the assumption of an approximately $2.6 million loan from Wachovia secured by the property.

CV Clinton Property

On August 24, 2006, we acquired 100% of the membership interests (the CV Clinton Interests) in Meadow Street Development, LLC (Meadow Street). Meadow Street owns, as its only asset, an approximately 10,000 square foot single-tenant retail building on an approximately 1.6 acre site located in Clinton,

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New York (the CV Clinton Property). The CV Clinton Property is 100% leased to CVS BDI, Inc, which is a wholly-owned subsidiary of CVS. CVS is the guarantor under the lease. The CV Clinton Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the CV Clinton Property was approximately $3.1 million, exclusive of closing costs. The acquisition was funded by net proceeds from the our public offering of common stock, and an approximately $2.4 million loan from Wachovia, secured by the CV Clinton Property.

CVS operates over 5,000 stores in 36 states. CVS has a Standard & Poor s credit rating of A− and the company s stock is publicly traded on the New York Stock Exchange under the ticker symbol CVS.

In evaluating the CV Alpharetta Property, CV RH Property, CV Scioto Trail Property, CV Madison Property, CV Portsmouth Property, CV Okeechobee Property, CV Orlando Property, CV Gulfport Property and CV Clinton Property as potential acquisitions and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators. After reasonable inquiry, we are not aware of any material factors relating to the properties, other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

Because the CV Alpharetta Property, CV RH Property, CV Scioto Trail Property, CV Madison Property, CV Portsmouth Property, CV Okeechobee Property, CV Orlando Property, CV Gulfport Property and CV Clinton Property each is 100% leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the lessee, CVS, are more relevant to investors than the financial statements of the property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the property is subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned Investment Objectives and Policies Real Property Investments beginning on page 82 of the prospectus. As a result, pursuant to guidance provided by the Securities and Exchange Commission, we have not provided audited financial statements of the properties acquired.

CVS currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding CVS are taken from its previously filed public reports:

	For the Six Months Ended 7/1/2006	**For the Fiscal Year Ended 12/31/2005**	**1/1/2005**	**1/3/2004**
			(In millions)	
Consolidated Statements of Operations				
Revenues	$ 20,540.6	$ 37,006.2	$ 30,594.3	$ 26,588.0
Operating Income	1,155.5	2,019.5	1,454.7	1,423.6
Net Income	660.5	1,224.7	918.8	847.3

	As of 7/1/2006	As of the Fiscal Year Ended 12/31/2005	1/1/2005 (In millions)	1/3/2004
Consolidated Balance Sheets				
Total Assets	$ 20,301.4	$ 15,283.4	$ 14,546.8	$ 10,543.1
Long-term Debt	1,780.2	1,594.1	1,925.9	753.1
Stockholders Equity	9,082.0	8.331.2	6,987.2	6,021.8

For more detailed financial information regarding CVS, please refer to its financial statements, which are publicly available with the Securities and Exchange Commission at http://www.sec.gov.

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SUMMARY FINANCIAL DATA
ADVANCE STORES COMPANY INCORPORATED

AA Greenfield Property

On June 29, 2006, we acquired an approximately 7,000 square foot single-tenant retail building on an approximately 1.1 acre site located in Greenfield, Indiana (the AA Greenfield Property), which was constructed in 2003. The AA Greenfield Property is 100% leased to Advance Stores Company Incorporated (Advance Auto). The AA Greenfield Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the AA Greenfield Property was approximately $1.4 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock.

AA Trenton Property

On June 29, 2006, we acquired an approximately 7,000 square foot single-tenant retail building on an approximately 1.1 acre site located in Trenton, Ohio (the AA Trenton Property), which was constructed in 2003. The AA Trenton Property is 100% leased to Advance Auto. The AA Trenton Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the AA Trenton Property was approximately $1.1 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock.

AA Columbia Heights Property

On July 6, 2006, we acquired an approximately 7,000 square foot single-tenant retail building on an approximately .79 acre site located in Columbia Heights, Minnesota (the AA Columbia Heights Property), which was constructed in 2005. The AA Columbia Heights Property is 100% leased to Advance Auto. The AA Columbia Heights Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the AA Columbia Heights Property was approximately $1.7 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and an approximately $1.4 million loan from Wachovia secured by the AA Columbia Heights Property.

AA Fergus Falls Property

On July 6, 2006, we acquired an approximately 7,000 square foot single-tenant retail building on an approximately .74 acre site located in Fergus Falls, Minnesota (the AA Fergus Falls Property), which was constructed in 2005. The AA Fergus Falls Property is 100% leased to Advance Auto. The AA Fergus Falls Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the AA Fergus Falls Property was approximately $1.2 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and an approximately $963,000 loan from Wachovia secured by the AA Fergus Falls Property.

AA Holland Property

On July 12, 2006, we acquired 100% of the membership interests (the AA Holland Interests) in Cole AA Holland MI, LLC (AA Holland). AA Holland owns, as its only asset, an approximately 7,000 square foot single-tenant retail building on an approximately 1.06 acre site located in Holland, Michigan (the AA Holland Property). The AA Holland Property is 100% leased to Advance Auto. The AA Holland Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

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The purchase price of the AA Holland Interests was approximately $2.1 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and the assumption of an approximately $1.2 million loan from Wachovia secured by the property.

AA Holland Township Property

On July 12, 2006, we acquired 100% of the membership interests (the AA Holland Township Interests) in Cole AA Holland Township MI, LLC (AA Holland Township). AA Holland Township owns, as its only asset, an approximately 7,000 square foot single-tenant retail building on an approximately 1.44 acre site located in Holland Township, Michigan (the AA Holland Township Property). The AA Holland Township Property is 100% leased to Advance Auto. The AA Holland Township Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the AA Holland Township Interests was approximately $2.1 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and the assumption of an approximately $1.2 million loan from Wachovia secured by the property.

AA Zeeland Property

On July 12, 2006, we acquired 100% of the membership interests (the AA Zeeland Interests) in Cole AA Zeeland MI, LLC (AA Zeeland). AA Zeeland owns, as its only asset, an approximately 7,000 square foot single-tenant retail building on an approximately .98 acre site located in Zeeland, Michigan (the AA Zeeland Property). The AA Zeeland Property is 100% leased to Advance Auto. The AA Zeeland Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the AA Zeeland Interests was approximately $1.8 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and the assumption of an approximately $1.1 million loan from Wachovia secured by the property.

AA Grand Forks Property

On August 15, 2006, we acquired an approximately 7,000 square foot single-tenant retail building on an approximately 1.2 acre site located in Grand Forks, North Dakota (the AA Grand Forks Property), which was constructed in 2005. The AA Grand Forks Property is 100% leased to Advance Auto. The AA Grand Forks Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the AA Grand Forks Property was approximately $1.4 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and an approximately $1.1 million loan from Wachovia secured by the AA Grand Forks Property.

AA Duluth Property

On September 8, 2006, we acquired an approximately 7,000 square foot single-tenant retail building on an approximately .44 acre site located in Duluth, Minnesota (the AA Duluth Property), which was constructed in 2006. The AA Duluth Property is 100% leased to Advance Auto. The AA Duluth Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the AA Duluth Property was approximately $1.4 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and an approximately $1.1 million loan from Wachovia secured by the AA Duluth Property.

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AA Grand Bay Property

On September 29, 2006, we acquired an approximately 7,000 square foot single-tenant retail building on an approximately 1.0 acre site located in Grand Bay, Alabama (the AA Grand Bay Property), which was constructed in 2005. The AA Grand Bay Property is 100% leased to Advance Auto. The AA Grand Bay Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the AA Grand Bay Property was approximately $1.1 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock.

AA Hurley Property

On September 29, 2006, we acquired an approximately 7,000 square foot single-tenant retail building on an approximately 0.85 acre site located in Hurley, Mississippi (the AA Hurley Property), which was constructed in 2005. The AA Hurley Property is 100% leased to Advance Auto. The AA Hurley Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the AA Hurley Property was approximately $1.1 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock.

AA Rainsville Property

On September 29, 2006, we acquired an approximately 7,000 square foot single-tenant retail building on an approximately 0.88 acre site located in Rainsville, Alabama (the AA Rainsville Property), which was constructed in 2005. The AA Rainsville Property is 100% leased to Advance Auto. The AA Rainsville Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the AA Rainsville Property was approximately $1.3 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock.

Advance Auto operates over 2,800 auto parts stores in 40 states, Puerto Rico and the Virgin Islands. Advance Auto has a Standard and Poor s credit rating of BB+ and its stock is publicly traded on the New York Stock Exchange under the symbol AAP.

In evaluating the AA Greenfield Property, AA Trenton Property, AA Columbia Heights Property, AA Fergus Falls Property, AA Holland Property, AA Holland Township Property, AA Zeeland Property, AA Grand Forks Property, AA Duluth Property, AA Grand Bay Property, AA Hurley Property and AA Rainsville Property as potential acquisitions and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators. After reasonable inquiry, we are not aware of any material factors relating to the properties, other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

Because the AA Greenfield Property, AA Trenton Property, AA Columbia Heights Property, AA Fergus Falls Property, AA Holland Property, AA Holland Township Property, AA Zeeland Property, AA Grand Forks Property, AA Duluth Property, AA Grand Bay Property, AA Hurley Property and AA Rainsville Property each is 100% leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the lessee, Advance Auto, are more relevant to investors than the financial statements of the property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the property is subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned Investment Objectives and Policies Real Property Investments beginning on page 82 of the prospectus. As a result, pursuant to guidance provided by the Securities and Exchange Commission, we have not provided audited financial statements of the properties acquired.

Advance Auto currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding Advance Auto are taken from its previously filed public reports:

	For the Period Ended 7/15/2006	For the Fiscal Year Ended 12/31/2005	1/1/2005	1/3/2004
			(In thousands)	
Consolidated Statements of Operations				
Revenues	$ 2,500,867	$ 4,264,971	$ 3,770,297	$ 3,493,696
Operating Income	236,744	408,492	328,758	288,234
Net Income	137,017	234,725	187,988	124,935

	As of 7/15/2006	As of the Fiscal Year Ended 12/31/2005	1/1/2005	1/3/2004
			(In thousands)	
Consolidated Balance Sheets				
Total Assets	$ 2,622,720	$ 2,542,149	$ 2,201,962	$ 1,983,071
Long-term Debt	392,651	438,800	470,000	445,000
Stockholders Equity	933,096	919,771	722,315	631,244

For more detailed financial information regarding Advance Auto, please refer to its financial statements, which are publicly available with the Securities and Exchange Commission at http://www.sec.gov.

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SUMMARY FINANCIAL DATA
TRACTOR SUPPLY COMPANY

TS Parkersburg Property

On September 26, 2005, we acquired an approximately 21,986 square foot single-tenant retail building on an approximately 2.97 acre site located in Parkersburg, West Virginia (the TS Parkersburg Property), which was constructed in 2005. The TS Parkersburg Property is 100% leased to Tractor Supply Company (Tractor Supply). The TS Parkersburg Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the TS Parkersburg Property was approximately $3.3 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and an approximately $2.6 million loan from Wachovia secured by the TS Parkersburg Property.

In evaluating the TS Parkersburg Property as a potential acquisition and determining the appropriate amount of consideration to be paid for our interest in the TS Parkersburg Property, a variety of factors were considered, including our consideration of a property condition report; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators. After reasonable inquiry, the Company is not aware of any material factors relating to the TS Parkersburg Property, other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

Because the TS Parkersburg Property is 100% leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the tenant, Tractor Supply, are more relevant to investors than the financial statements of the property acquired. As a result, pursuant to guidance provided by the Securities and Exchange Commission (SEC), we have not provided audited financial statements of the property acquired.

Tractor Supply currently files its financial statements in reports filed with the SEC, and the following summary financial data regarding Tractor Supply are taken from its previously filed public reports:

	For the Six Months Ended	For the Fiscal Year Ended		
	7/1/2006	12/31/2005	12/25/2004	12/27/2003
			(In thousands)	
Consolidated Statements of Operations				
Revenues	$ 1,180,492	$ 2,067,979	$ 1,738,843	$ 1,472,885
Operating Income	70,673	136,444	101,546	95,673
Net Income	43,452	85,669	64,069	55,694

	As of	As of the Fiscal Year Ended		
	7/1/2006	12/31/2005	12/25/2004	12/27/2003
			(In thousands)	

Consolidated Balance Sheets				
Total Assets	$ 976,423	$ 814,795	$ 678,485	$ 538,270
Long-term Debt	2,937	10,739	34,744	21,210
Stockholders Equity	539,706	477,698	370,584	290,991

For more detailed financial information regarding Tractor Supply, please refer to its financial statements, which are publicly available with the SEC at http://www.sec.gov.

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SUMMARY FINANCIAL DATA
RITE AID CORPORATION

RA Alliance Property

On October 20, 2005, we acquired an approximately 11,325 square foot single-tenant retail building on an approximately 1.79 acre site located in Alliance, Ohio (the RA Alliance Property), which was constructed in 1996. The RA Alliance Property is 100% leased to RA Ohio, a wholly-owned subsidiary of Rite Aid Corporation (Rite Aid), which guarantees the lease. The RA Alliance Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the RA Alliance Property was approximately $2.1 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock.

RA Enterprise Property

On January 26, 2006, we acquired an approximately 14,564 square foot single-tenant retail building on an approximately 2.15 acre site located in Enterprise, Ohio (the RA Enterprise Property), which was constructed in 2005. The RA Enterprise Property is 100% leased to Harco, Inc., a wholly-owned subsidiary of Rite Aid. Rite Aid guarantees the lease. The RA Enterprise Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the RA Enterprise Property was approximately $3.7 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock.

RA Saco Property

On January 27, 2006, we acquired an approximately 11,180 square foot single-tenant retail building on an approximately 2.24 acre site located in Saco, Maine (the RA Saco Property), which was constructed in 1997. The RA Saco Property is 100% leased to Rite Aid of Maine, Inc., a wholly-owned subsidiary of Rite Aid. Rite Aid guarantees the lease. The RA Saco Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the RA Saco Property was approximately $2.5 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and an approximately $2.0 million loan from Wachovia secured by the RA Saco Property.

RA Wauseon Property

On January 26, 2006, we acquired an approximately 14,564 square foot single-tenant retail building on an approximately 2.09 acre site located in Wauseon, Ohio (the RA Wauseon Property), which was constructed in 2005. The RA Wauseon Property is 100% leased to Rite Aid of Ohio, Inc., a wholly-owned subsidiary of Rite Aid. Rite Aid guarantees the lease. The RA Wauseon Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the RA Wauseon Property was approximately $3.9 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and an approximately $3.1 million loan from Wachovia secured by the RA Wauseon Property.

RA Cleveland Property

On April 27, 2006, we acquired an approximately 11,300 square foot single-tenant retail building on an approximately .97 acre site located in Cleveland, Ohio (the RA Cleveland Property), which was constructed in 1997. The RA Cleveland Property is 100% leased to Rite Aid of Ohio, Inc. (RA Ohio), which is a wholly-owned subsidiary of Rite Aid, which guarantees the lease. The RA Cleveland Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the RA Cleveland Property was approximately $2.6 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and an approximately $2.1 million loan from Wachovia secured by the RA Cleveland Property.

RA Fremont Property

On April 27, 2006, we acquired an approximately 11,300 square foot single-tenant retail building on an approximately 2.17-acre site located in Fremont, Ohio (the RA Fremont Property), which was constructed in 1997. The RA Fremont Property is 100% leased to RA Ohio, which is a wholly-owned subsidiary of Rite Aid, which guarantees the lease. The RA Fremont Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the RA Fremont Property was approximately $2.5 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and an approximately $2.0 million loan from Wachovia secured by the RA Fremont Property.

RA Defiance Property

On May 26, 2006, we acquired 100% of the membership interests (the RA Defiance Interests) in Cole RA Defiance OH, LLC (RA Defiance). RA Defiance owns, as its only asset, an approximately 11,300 square foot single-tenant retail building on an approximately 2.17 acre site located in Defiance, Ohio (the RA Defiance Property). The RA Defiance Property is 100% leased to RA Ohio, which is a wholly-owned subsidiary of Rite Aid, which guarantees the lease. The RA Defiance Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the RA Defiance Interests was approximately $4.3 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock, and an approximately $2.3 million loan from Wachovia secured by the RA Defiance Property.

RA Lansing Property

On June 29, 2006, we acquired an approximately 12,000 square foot single-tenant retail building on an approximately .48-acre site located in Lansing, Michigan (the RA Lansing Property), which was constructed in 1950 and completely renovated in 1996 to accommodate the current tenant. The RA Lansing Property is 100% leased to Rite Aid of Michigan, Inc. (RA Michigan), which is a wholly-owned subsidiary of Rite Aid, which guarantees the lease. The RA Lansing Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the RA Lansing Property was approximately $1.7 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and an approximately $1.04 million loan from Bear Stearns secured by the RA Lansing Property.

RA Glassport Property

On October 4, 2006, we acquired an approximately 15,000 square foot single-tenant retail building on an approximately 1.8-acre site located in Glassport Borough, Pennsylvania (the RA Glassport Property), which was constructed in 2006. The RA Glassport Property is 100% leased to Rite Aid of Pennsylvania, Inc. (RA Pennsylvania), which is a wholly-owned subsidiary of Rite Aid, which guarantees the lease. The RA Glassport Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

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The purchase price of the RA Glassport Property was approximately $3.8 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and an approximately $2.3 million loan from Bear Stearns secured by the RA Glassport Property.

RA Hanover Property

On October 17, 2006, we acquired an approximately 15,000 square foot single-tenant retail building on an approximately 1.8-acre site located in Hanover Borough, Pennsylvania (the RA Hanover Property), which was constructed in 2006. The RA Hanover Property is 100% leased to RA Pennsylvania, which is a wholly-owned subsidiary of Rite Aid, which guarantees the lease. The RA Hanover Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the RA Lansing Property was approximately $6.3 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and an approximately $4.1 million loan from Bear Stearns secured by the RA Hanover Property.

Rite Aid has operates over 3,300 stores in 28 states and Washington, DC. Rite Aid has a Standard and Poor s credit rating of B+ and its stock is publicly traded on the New York Stock Exchange under the ticker symbol RAD.

In evaluating the RA Alliance Property, RA Enterprise Property, RA Saco Property, RA Wauseon Property, RA Cleveland Property, RA Fremont Property, RA Defiance Property, RA Lansing Property, RA Glassport Property and RA Hanover Property as a potential acquisition and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators. After reasonable inquiry, we are not aware of any material factors relating to these properties, other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

Because the RA Alliance Property, RA Enterprise Property, RA Saco Property, RA Wauseon Property, RA Cleveland Property, RA Fremont Property, RA Defiance Property, RA Lansing Property, RA Glassport Property and RA Hanover Property each is leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the lease guarantor, Rite Aid, are more relevant to investors than the financial statements of the property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the property is subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned Investment Objectives and Policies Real Property Investments beginning on page 82 of the prospectus. As a result, pursuant to guidance provided by the Securities and Exchange Commission, we have not provided audited financial statements of the property acquired.

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Rite Aid currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding Rite Aid has been taken from its previously filed public reports:

	For the Six Months Ended 9/2/2006	For the Fiscal Year Ended 3/4/2006	2/26/2005	2/28/2004
			(In thousands)	
Consolidated Statements of Operations				
Revenues	$ 8,625,442	$ 17,270,968	$ 16,816,439	$ 16,600,449
Operating Income	167,336	391,687	486,009	407,494
Net Income	10,625	1,273,006	302,478	83,379

	As of 9/2/2006	As of the Fiscal Year Ended 3/4/2006	2/26/2005	2/28/2004
			(In thousands)	
Consolidated Balance Sheets				
Total Assets	$ 7,035,432	$ 6,988,371	$ 5,932,583	$ 6,245,634
Long-term Debt	2,299,749	2,298,706	2,680,998	3,451,352
Stockholders Equity	1,619,633	1,606,921	322,934	(8,277)

For more detailed financial information regarding Rite Aid, please refer to its financial statements, which are publicly available with the Securities and Exchange Commission at http://www.sec.gov.

SUMMARY FINANCIAL DATA
OFFICE DEPOT, INC.

OD Dayton Property

On July 7, 2006, we acquired 100% of the membership interests (the OD Dayton Interests) in Cole OD Dayton OH, LLC (OD Dayton). OD Dayton owns, as its only asset, an approximately 20,000 square foot single-tenant retail building on an approximately 2.04 acre site located in Dayton, Ohio (the OD Dayton Property). The OD Dayton Property is 100% leased to Office Depot, Inc. (Office Depot). The OD Dayton Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the OD Dayton Interests was approximately $3.4 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and the assumption of an approximately $2.1 million loan from Wachovia secured by the property.

OD Greenville Property

On July 12, 2006, we acquired 100% of the membership interests (the OD Greenville Interests) in Cole OD Greenville MS, LLC (OD Greenville). OD Greenville owns, as its only asset, an approximately 25,000 square foot single-tenant retail building on an approximately 1.9 acre site located in Greenville, Mississippi (the OD Greenville Property). The OD Greenville Property is 100% leased to Office Depot. The OD Greenville Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the OD Greenville Interests was approximately $3.5 million, exclusive of closing costs. The acquisition was funded by net proceeds from and the assumption of an approximately $2.2 million loan from Wachovia secured by the property.

OD Warrensburg Property

On July 19, 2006, we acquired 100% of the membership interests (the OD Warrensburg Interests) in Cole OD Warrensburg MO, LLC (OD Warrensburg). OD Warrensburg owns, as its only asset, an approximately 20,000 square foot single-tenant retail building on an approximately 2.1 acre site located in Warrensburg, Missouri (the OD Warrensburg Property). The OD Warrensburg Property is 100% leased to Office Depot. The OD Warrensburg Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the OD Warrensburg Interests was approximately $2.9 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and the assumption of an approximately $1.8 million loan from Wachovia secured by the property.

Office Depot is a global supplier of office products and services. Office Depot has a Standard & Poor s credit rating of BBB− and it s stock is publicly traded on the New York Stock Exchange under the ticker symbol ODP .

In evaluating the OD Dayton Property, OD Greenville Property and the OD Warrensburg Property as potential acquisitions and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators. After reasonable inquiry, we are not aware of any material factors relating to the properties, other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

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Because the OD Dayton Property, OD Greenville Property and OD Warrensburg Property each is 100% leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the tenant, Office Depot, are more relevant to investors than the financial statements of the property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the property is subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned Investment Objectives and Policies Real Property Investments beginning on page 82 of the prospectus. As a result, pursuant to guidance provided by the Securities and Exchange Commission, we have not provided audited financial statements of the properties acquired.

Office Depot currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding Office Depot are taken from its previously filed public reports:

	For the Nine Months Ended 9/30/2006	For the Fiscal Year Ended 12/31/2005	1/1/2005	1/3/2004
		(In thousands)		
Consolidated Statements of Operations				
Revenues	$ 11,167,751	$ 14,278,944	$ 13,564,699	$ 12,358,566
Operating Income	554,726	348,042	529,977	465,985
Net Income	381,095	273,792	335,504	273,515

	As of 9/30/2006	As of the Fiscal Year Ended 12/31/2005	1/1/2005	1/3/2004
		(In thousands)		
Consolidated Balance Sheets				
Total Assets	$ 6,401,273	$ 6,098,525	$ 6,794,338	$ 6,194,679
Long-term Debt	591,455	569,098	583,680	829,302
Stockholders Equity	2,500,544	2,739,221	3,223,048	2,747,121

For more detailed financial information regarding Office Depot, please refer to its financial statements, which are publicly available with the Securities and Exchange Commission at http://www.sec.gov.

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SUMMARY FINANCIAL DATA
WALGREEN CO.

WG Brainerd Property

On October 6, 2005, we acquired an approximately 15,076-square foot single-tenant retail building on an approximately 2.07-acre site located in Brainerd, Minnesota (the WG Brainerd Property), constructed in 2000. The WG Brainerd Property is 100% leased to Walgreen Co. (Walgreens) subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the WG Brainerd Property was approximately $4.3 million, exclusive of closing costs. The acquisition was funded by net proceeds from our ongoing public offering and an approximately $3.5 million loan from Wachovia secured by the WG Brainerd Property.

WG SL Properties

On November 2, 2005, we acquired the following properties (collectively, the WG SL Properties): (i) an approximately 15,120-square foot single-tenant retail building on an approximately 2.11-acre site located in St. Louis, Missouri, constructed in 2001, (ii) an approximately 15,120-square foot single-tenant retail building on an approximately 2.13-acre site located in St. Louis, Missouri, constructed in 2001, and (iii) an approximately 15,120-square foot single-tenant retail building on an approximately 1.82-acre site located in Florissant, Missouri, constructed in 2001. The WG SL Properties are 100% leased to Walgreens subject to separate net leases pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The aggregate purchase price of the WG SL Properties was approximately $16.4 million, exclusive of closing costs. The acquisition was funded by net proceeds from the Company s ongoing public offering and an approximately $13.1 million loan from Wachovia secured by the WG SL Properties.

WG Olivette Property

On November 22, 2005, we acquired an approximately 15,030 square foot single-tenant retail building on an approximately 2.40-acre site located in Olivette, Missouri (the WG Olivette Property), constructed in 2001. The WG Olivette Property is 100% leased to Walgreens subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the WG Olivette Property was approximately $7.8 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and an approximately $5.4 million loan from Wachovia secured by the WG Olivette Property.

WG Columbia Property

On November 22, 2005, we acquired an approximately 13,970-square foot single-tenant retail building on an approximately 1.03 acre site located in Columbia, Missouri (the WG Columbia Property), constructed in 2002. The WG Columbia Property is 100% leased to Walgreens subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the WG Columbia Property was approximately $6.3 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and an approximately $4.5 million loan from Wachovia secured by the WG Columbia Property.

WG Picayune Property

On September 15, 2006, we acquired an approximately 15,000-square foot single-tenant retail building on an approximately 1.7-acre site located in Picayune, Mississippi (the WG Picayune Property), which was constructed in 2006. The WG Picayune Property is 100% leased to Walgreen, Co. (Walgreens). The WG

Picayune Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the WG Picayune Property was approximately $4.3 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and an approximately $3.4 million loan from Wachovia secured by the WG Picayune Property.

Walgreens operates over 4,900 stores in 45 states and Puerto Rico. Walgreens has a Standard & Poor s credit rating of A+ and the company s stock is publicly traded on the New York Stock Exchange under the ticker symbol WAG .

In evaluating the WG Brainerd Property, WG SL Properties, WG Olivette Property, WG Colombia Property and WG Picayune Property as a potential acquisition and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators. After reasonable inquiry, we are not aware of any material factors relating to these properties, other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

Because the WG Brainerd Property, WG SL Properties, WG Olivette Property, WG Colombia Property and WG Picayune Property each is 100% leased to a single tenant on a long-term basis under a net lease that transfers substantially all of the operating costs to the tenant, we believe that the financial condition and results of operations of the tenant, Walgreens, are more relevant to investors than the financial statements of the property acquired in order to enable investors to evaluate the credit-worthiness of the lessee. Additionally, because the property is subject to a net lease, the historical property financial statements provide limited information other than rental income, which is disclosed in the section captioned Investment Objectives and Policies Real Property Investments beginning on page 82 of the prospectus. As a result, pursuant to guidance provided by the Securities and Exchange Commission, we have not provided audited financial statements of the properties acquired.

Walgreens currently files its financial statements in reports filed with the Securities and Exchange Commission, and the following summary financial data regarding Walgreens are taken from its previously filed public reports:

	For the Nine Months Ended	For the Fiscal Year Ended		
	5/31/2006	8/31/2005	8/31/2004	8/31/2003
			(In millions)	
Consolidated Statements of Operations				
Revenues	$ 35,238.7	$ 42,201.6	$ 37,508.2	$ 32,505.4
Operating Income	2,102.7	2,455.6	2,159.7	1,871.7
Net Income	1,338.3	1,559.5	1,349.8	1,165.1

	As of	As of the Fiscal Year Ended		
	5/31/2006	8/31/2005	8/31/2004	8/31/2003
			(In millions)	

Consolidated Balance Sheets				
Total Assets	$ 16,441.7	$ 14,608.8	$ 13,342.1	$ 11,656.8
Long-term Debt	*	12.0	12.4	9.4
Stockholders Equity	9,789.3	8,889.7	8,139.7	7,117.8

** - *Comparative long-term debt balances were not available per the Walgreen Co. Quarterly report as of May 31, 2006.*

For more detailed financial information regarding Walgreens, please refer to its financial statements, which are publicly available with the Securities and Exchange Commission at http://www.sec.gov.

**SUMMARY FINANCIAL DATA
OXFORD THEATRE COMPANY, INC.**

OT Oxford Property

On August 31, 2006, we acquired an approximately 35,000-square foot single-tenant retail building on an approximately 5.76-acre site in Oxford, Mississippi (the OT Oxford Property), constructed in 2006. The OT Oxford Property is 100% leased to Oxford Theatre Company, Inc., which is a wholly-owned subsidiary of American Screen Works, Inc, which guarantees the lease. The OT Oxford Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

The purchase price of the OT Oxford Property was $9.7 million, exclusive of closing costs. The acquisition was funded by net proceeds from our public offering of common stock and a $5.2 million loan from Bear Stearns secured by the OT Oxford Property.

American Screenworks, Inc. is a wholly-owned subsidiary of Restaurant Entertainment Group (REG). REG was founded in Orlando, Florida in 1979 and owns and operates 35 American Screen Works cinema complexes. The theatres are in eighteen states throughout the US.

In evaluating the OT Oxford Property as a potential acquisition and determining the appropriate amount of consideration to be paid for our interests therein, a variety of factors were considered, including our consideration of property condition reports; unit-level store performance; property location, visibility and access; age of the property, physical condition and curb appeal; neighboring property uses; local market conditions, including vacancy rates; area demographics, including trade area population and average household income; neighborhood growth patterns and economic conditions; and the presence of demand generators. After reasonable inquiry, we are not aware of any material factors relating to the OT Oxford Property, other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

The OT Oxford Property had no significant operating history prior to our acquisition of the property on August 31, 2006. As a result, we are not required to file financial statements with respect to the acquired property. After reasonable inquiry, we are not aware of any material factors relating to the property, other than those discussed above, that would cause the reported financial information not to be necessarily indicative of future operating results.

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SUMMARY FINANCIAL DATA
SPORTSMAN S WAREHOUSE, INC.

SP Wichita Property

On June 27, 2006, we acquired an approximately 50,000 square foot single-tenant retail building on an approximately 4.9 acre site in Wichita, Kansas (the SP Wichita Property), constructed in 2006. The SP Wichita Property is 100% leased to Sportsman s Warehouse, Inc., which is a wholly-owned subsidiary of Sportsman s Warehouse Holdings, Inc., which guarantees the lease. The SP Wichita Property is subject to a net lease pursuant to which the tenant is required to pay substantially all operating expenses and capital expenditures in addition to base rent.

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