FORM 10-12G

Initial general form for registration of a class of securities pursuant to Section 12(g)

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

Form 10

GENERAL FORM FOR REGISTRATION OF SECURITIES PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

NNN 2003 Value Fund, LLC
(Exact name of registrant as specified in its charter)

Delaware *(State of Organization)*	**20-0122092** *(I.R.S. Employer Identification Number)*
1551 N. Tustin Avenue, Suite 200 **Santa Ana, California** *(Address of principal executive offices)*	**92705** *(Zip Code)*

Registrant' s telephone number, including area code:
(877) 888-7348

Securities to be registered pursuant to Section 12(b) of the Act:
None

Securities to be registered pursuant to Section 12(g) of the Act:

Class A LLC Membership Interests
Class B LLC Membership Interests
Class C LLC Membership Interests

NNN 2003 VALUE FUND, LLC

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Item 1. ***Business***

General

NNN 2003 Value Fund, LLC is filing this General Form for Registration of Securities on Form 10, or the Registration Statement, to register our Class A, B and C membership interests, or Units, pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. We sold 10,000 Units to 785 investors in a private placement offering, or the Private Placement, beginning on July 11, 2003 and ending on October 14, 2004. We are registering three classes of Units sold in the Private Placement. The first $20,000,000 Units sold in the Private Placement are Class A Units; the second $16,000,000 Units sold in the Private Placement are Class B Units; and the last $14,000,000 Units sold in the Private Placement are Class C Units. Each of the Class A, Class B and Class C Units has different rights with respect to distributions: the Class A Units have a 10% priority return; the Class B Units have a 9% priority return; and the Class C Units have an 8% priority return. NNN Capital Corp., which was solely owned during the offering period by Anthony W. Thompson, the chairman and chief executive officer of Triple Net Properties, LLC, our Manager, served as the managing broker dealer of the Private Placement.

We are subject to the registration requirements of Section 12(g) because at December 31, 2004 the aggregate value of our assets exceeded applicable thresholds and the Units of record were held by 500 or more persons. As a result of our obligation to register our securities with the Securities and Exchange Commission, or the SEC, under the Exchange Act, we will be subject to the requirements of the Exchange Act Rules. In particular, we will be required to file Quarterly Reports on Form 10-Q, Annual Reports on Form 10-K, and Current Reports on Form 8-K and otherwise comply with the disclosure obligations of the Exchange Act applicable to issuers filing registration statements pursuant to Section 12(g).

We are a Delaware limited liability company which was formed on June 19, 2003 to purchase, own, operate and subsequently sell all or a portion of a number of unspecified "value added" properties. At the time of formation, our principal objectives were to: (1) have the potential within approximately three to five years, subject to market conditions, to realize income on the sale of our properties; (2) realize income through the acquisition, operation and sale of our interests in our properties; and (3) make monthly distributions to our Unit holders from cash generated from operations.

We are not a registered investment company under the Federal securities laws and the use of the word "Fund" in our name does not imply, and should not be interpreted to mean, that we are a registered investment company. In addition, our Unit holders are not entitled to any protections offered to investors under the Investment Company Act of 1940, as amended, nor are we making any claim or representation that we comply with or are subject to that Act.

Our Manager, Triple Net Properties, LLC, a Virginia limited liability company, manages us pursuant to the terms of an operating agreement, or the Operating Agreement, between us and our Manager. While we have no employees, certain employees of our Manager provide services to us in connection with the Operating Agreement. In addition, Triple Net Properties Realty, Inc., a California corporation, or Realty, which was solely owned through December 31, 2004 by Anthony W. Thompson, our Manager' s chairman and chief executive officer (effective January 1, 2005, Mr. Thompson owned 88% of Realty), serves as our property manager pursuant to the terms of the Operating Agreement and a property management agreement, or the Management Agreement, between us and Realty. The Operating Agreement terminates upon our dissolution. The Unit holders may not vote to terminate our Manager prior to the termination of the Operating Agreement or our dissolution except for cause. The Management Agreement terminates with respect to each of our properties upon the earlier of the sale of each respective property or December 31, 2013. Realty may be terminated with respect to any of our properties without cause prior to the termination of the Management Agreement or our dissolution, subject to certain conditions, including the payment by us to Realty of a termination fee as provided in the Management Agreement.

Our Manager' s principal executive offices are located at 1551 N. Tustin Avenue, Suite 200, Santa Ana, California 92705. Our Manager' s website is www.1031nnn.com. We do not maintain our own website or have an address separate from our Manager. This registration statement and the exhibits forming a part of this registration statement filed by us with the SEC can be inspected and copies obtained from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website that contains reports, proxies and information statements and other information regarding us and other registrants that have been filed electronically with the SEC. The address of such site is www.sec.gov.

SEC Investigation

On September 16, 2004, our Manager advised us that it learned that the SEC is conducting an investigation referred to as *"In the matter of Triple Net Properties, LLC."* The SEC requested information from our Manager relating to disclosure in securities offerings (including offerings by G REIT, Inc., T REIT, Inc. and A REIT, Inc.) and the exemption from the registration requirements of the Securities Act for the private offerings in which our Manager and its affiliated entities were involved and exemptions from the registration requirements of the Exchange Act for several entities. The SEC has requested financial and other information regarding these entities as well as the limited liability companies advised by our Manager, including us. Our Manager has advised us that it intends to cooperate fully with the SEC' s investigation. This investigation could involve us and fines, penalties or administrative remedies could be asserted against us.

Prior Performance Tables

In connection with our offering of the sale of our Units from July 11, 2003 through October 14, 2004, we disclosed the prior performance of all public and non-public investment programs sponsored by our Manager. Our Manager has now determined that there were certain errors in those prior performance tables. In particular, the financial information in the tables was stated to be presented in accordance with accounting principles generally accepted in the United States of America, or GAAP. Generally, the tables for the public programs were not presented on a GAAP basis and the tables for the non-public programs were prepared and presented on a tax or cash accounting basis. Moreover, a number of the prior performance data figures were themselves erroneous, even as presented on a tax or cash basis. In particular, certain programs sponsored by our Manager have invested either along side or in other programs sponsored by our Manager. The nature and results of these investments were not fully and accurately disclosed in the tables. In general, the resulting effect is an overstatement of our Manager' s program and aggregate portfolio operating results. Our Manager' s board of managers, or the Board of Managers, is considering alternatives to address the errors in the prior performance tables.

Acquisition Standards

We believe, based on our Manager' s prior real estate experience, that our Manager has the ability to identify properties capable of meeting our current investment objectives. In evaluating potential acquisitions, the primary factor we consider is the "value-added" investment potential of a property. We define "value-added" investing as investing in properties with a higher than average potential for capital appreciation by:

- targeting real estate in markets in an early stage of economic recovery;
- targeting unstabilized assets with significant lease-up opportunity;
- targeting assets in mature markets with existing rents below-market and significant near-term lease rollover; and
- targeting assets with solvable property-specific issues or development opportunities.

In addition, we consider a number of other factors relating to a property, including, without limitation, the following:

- current and projected cash flow;
- geographic location and type;
- construction quality and condition;
- ability of tenants to pay scheduled rent;
- lease terms and rent roll, including the potential for rent increases;
- potential for economic growth in the tax and regulatory environment of the community in which the property is located;
- potential for expanding the physical layout of the property;
- occupancy and demand by tenants for properties of a similar type in the same geographic vicinity;
- prospects for liquidity through sale, financing or refinancing of the property;
- competition from existing properties and the potential for the construction of new properties in the area; and
- treatment under applicable federal, state and local tax and other laws and regulations.

Our Manager has total discretion with respect to the selection of properties for acquisition, the percent of ownership we acquire and the type of ownership interest we purchase in a given property.

We will not close the purchase of any property unless and until we obtain at least a Phase I environmental assessment for that property and we are generally satisfied with the environmental status of the property.

In purchasing properties, we will be 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 competing properties in an area;
- changes in interest rates and availability of permanent mortgage funds which may render the sale of a property difficult or unattractive;
- changes in tax, real estate, environmental and zoning laws;
- periods of high interest rates and tight money supply which may make the sale of properties more difficult;
- tenant turnover; and
- general overbuilding or excess supply in the market area.

Disposition Strategies

We consider various factors when evaluating potential property dispositions. These factors include, without limitation, the following:

- the ability to sell the property at a price we believe would provide an attractive return to our Unit holders;
- our ability to recycle capital into other properties consistent with our business strategy;
- our desire to exit non-performing markets;
- whether the property is strategically located;

tenant composition and lease rollover for the property;

general economic conditions and outlook, including job growth in the local market; and

the general quality of the asset.

Our Manager has total discretion with respect to the disposition of our properties.

Operating Strategies

Our primary operating strategy is to acquire suitable properties that meet our acquisition standards and to enhance the performance and value of those properties through management strategies designed to address the needs of current and prospective tenants. Our management strategies include:

aggressively leasing available space through targeted marketing, augmented where possible by the personnel in our Manager' s local asset and property management offices;

re-positioning our properties to include, for example, shifting from single to multi-tenant use in order to maximize desirability and utility for prospective tenants;

controlling operating expenses by centralization of asset and property management, leasing, marketing, financing, accounting, renovation and data processing activities;

emphasizing regular maintenance and periodic renovation to meet the needs of tenants and to maximize long-term returns; and

financing acquisitions and refinancing properties when favorable terms are available to increase cash flow.

Government Regulations

Many laws and government regulations are applicable to our properties and changes to these laws and regulations, or their interpretation by agencies and the courts, occur frequently.

Costs of Compliance with the Americans with Disabilities Act. Under the Americans with Disabilities Act of 1990, or ADA, all public accommodations must meet federal requirements for access and use by disabled persons. Although we believe that we are in substantial compliance with present requirements of the ADA, none of our properties have been audited, nor have investigations of our properties been conducted to determine compliance. We may incur additional costs in connection with the ADA. Additional federal, state and local laws also may require modifications to our properties or restrict our ability to renovate our properties. We cannot predict the cost of compliance with the ADA or other legislation. If we incur substantial costs to comply with the ADA or any other legislation, our financial condition, results of operations, cash flow and ability to satisfy our debt service obligations and pay distributions could be adversely affected.

Costs of Government Environmental Regulation and Private Litigation. Environmental laws and regulations hold us liable for the costs of removal or remediation of certain hazardous or toxic substances on our properties. These laws could impose liability without regard to whether we are responsible for the presence or release of the hazardous materials. Government investigations and remediation actions may have substantial costs and the presence of hazardous substances on a property could result in personal injury or similar claims by private plaintiffs. Various laws also impose liability on persons who arrange for the disposal or treatment of hazardous or toxic substances for the cost of removal or remediation of hazardous substances at the disposal or treatment facility. These laws often impose liability whether or not the person arranging for the disposal ever owned or operated the disposal facility. As the owner and operator of our properties, we may be deemed to have arranged for the disposal or treatment of hazardous or toxic substances.

Use of Hazardous Substances by Some of Our Tenants. Some of our tenants routinely handle hazardous substances and wastes on our properties as part of their routine operations. Environmental laws and regulations subject these tenants, and potentially us, to liability resulting from such activities. We require the tenants, in their leases, to comply with these environmental laws and regulations and to indemnify us for any related liabilities. We are unaware of any material noncompliance, liability or claim relating to hazardous or toxic substances or petroleum products in connection with any of our properties.

Other Federal, State and Local Regulations. Our properties are subject to various federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these various requirements, we may incur governmental fines or private damage awards. While we believe that our properties are currently in material compliance with all of these regulatory requirements, we do not know whether existing requirements will change or whether future requirements will require us to make significant unanticipated expenditures that will adversely affect our ability to make distributions to our Unit holders. We believe, based in part on engineering reports which are generally obtained at the time our properties are acquired, that all of our properties comply in all material respects with current regulations. However, if we were required to make significant expenditures under applicable regulations, our financial condition, results of operations, cash flow and ability to satisfy our debt service obligations and to pay distributions to our Unit holders could be adversely affected.

Properties

The following is a summary of the properties in which we owned an interest as of December 31, 2004. For additional information, see Item 3. Properties.

Property Name	Property Location	Date Acquired	% Owned	GLA Sq Ft	Annual Rent(1)	% Leased Space	Annual Rent Per Sq Ft(2)
Consolidated Properties:							
Executive Center I	Dallas, TX	12/30/2003	100.0%	208,000	$ 539,000	15.7%	$ 16.51
Financial Plaza	Omaha, NE	10/29/2004	100.0	86,000	1,343,000	83.4	18.73
Oakey Building	Las Vegas, NV	04/02/2004	75.4	98,000	3,014,000	85.7	35.80
Satellite Place	Atlanta, GA	11/29/2004	100.0	178,000	2,081,000	88.4	13.22
Southwood Tower	Houston, TX	10/27/2004	100.0	79,000	1,008,000	75.2	16.96
Total				649,000	$ 7,985,000	62.4%(3)	$ 19.70(4)
Unconsolidated Properties:							
801K Street	Sacramento, CA	03/31/2004	18.3 %	336,000	$ 7,101,000	76.4%	$ 27.66
Emerald Plaza	San Diego, CA	06/14/2004	4.6	355,000	9,081,000	81.3	31.48
Enterprise Technology Center	Scotts Valley, CA	05/07/2004	8.5	370,000	8,960,000	78.6	30.80
Executive Center II & III	Dallas, TX	08/01/2003	38.1	381,000	4,973,000	73.5	17.77

(1) Annualized rental income based on contractual base rent from leases in effect at December 31, 2004.

(2) Average effective annual rent per square foot at December 31, 2004.

(3) Weighted-average leased space at December 31, 2004.

(4) Weighted-average annual rent per square foot at December 31, 2004.

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Our investments in unconsolidated real estate consist of certain investments where we have purchased a membership interest in a limited liability company that has invested in a property. The following table presents our investment in each unconsolidated property at December 31, 2004:

Property:	Location:	Owned	Our Investment
801 K Street	Sacramento, CA	18.3%	$ 5,103,000
Emerald Plaza	San Diego, CA	4.6	1,529,000
Enterprise Technology Center	Scotts Valley, CA	8.5	2,808,000
Executive Center II & III	Dallas, TX	38.1	2,042,000
Total			$ 11,482,000

The following information generally applies to our properties:

we believe all of our properties are adequately covered by insurance and are suitable for their intended purposes;

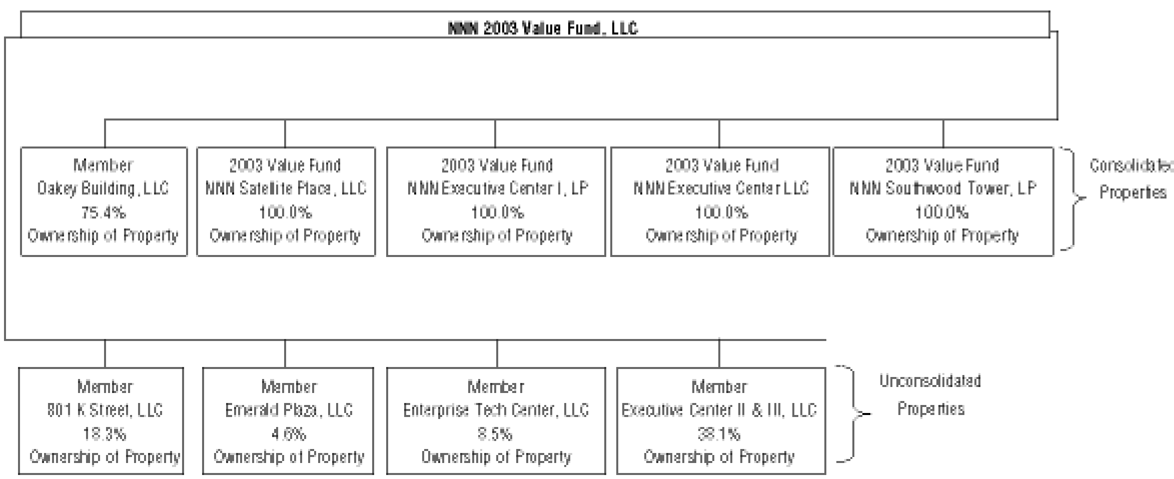
we have no plans for any material renovations, improvements or development of our properties, except in accordance with planned budgets;

our properties are located in markets where we are subject to competition in attracting new tenants and retaining current tenants; and

depreciation is provided on a straight-line basis over the estimated useful lives of the buildings, ranging primarily from 15 to 39 years and over the shorter of the lease term or useful lives of the tenant improvements.

The following is a summary of certain of our relationships and those of our affiliates at December 31, 2004:

NNN 2003 Value Fund, LLC



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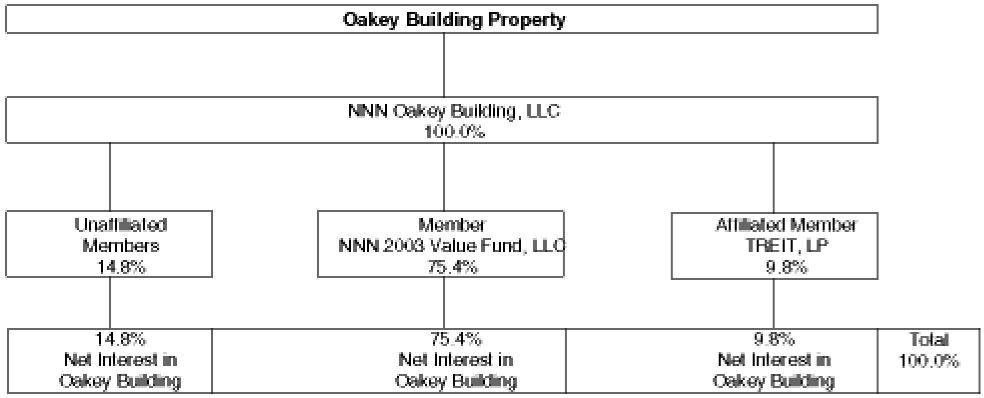
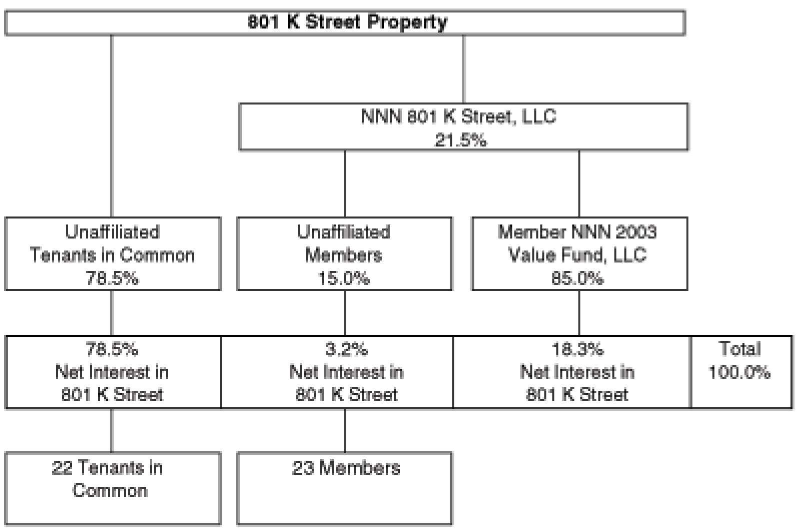
Oakey Building

The following is a summary of our relationships with the entities with ownership interests in the Oakey Building property.



801 K Street Ownership

The following is a summary of our relationships with the entities with ownership interests in the 801 K Street property.



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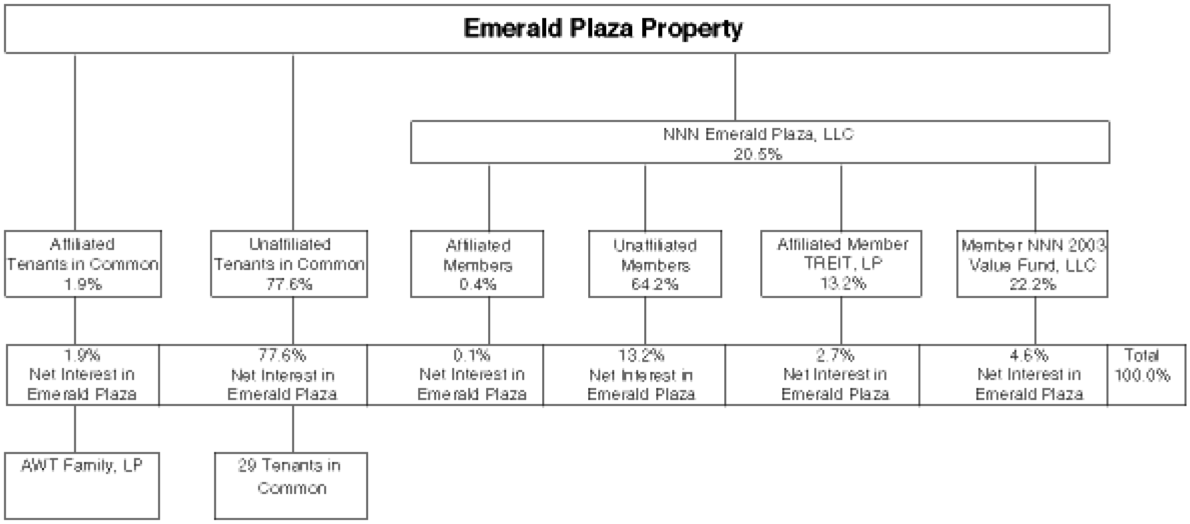
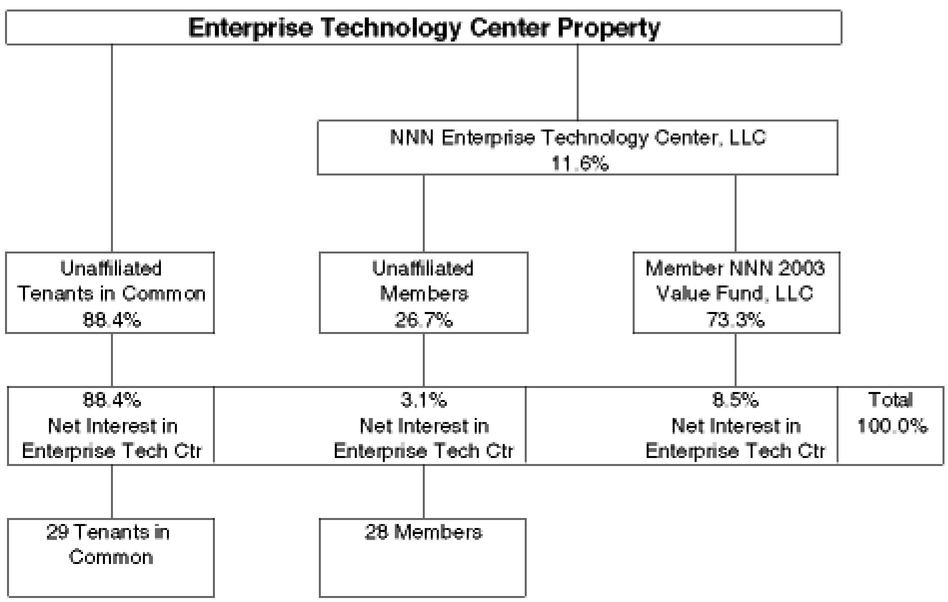
Emerald Plaza

The following is a summary of our relationship with entities with ownership interests in the Emerald Plaza property.



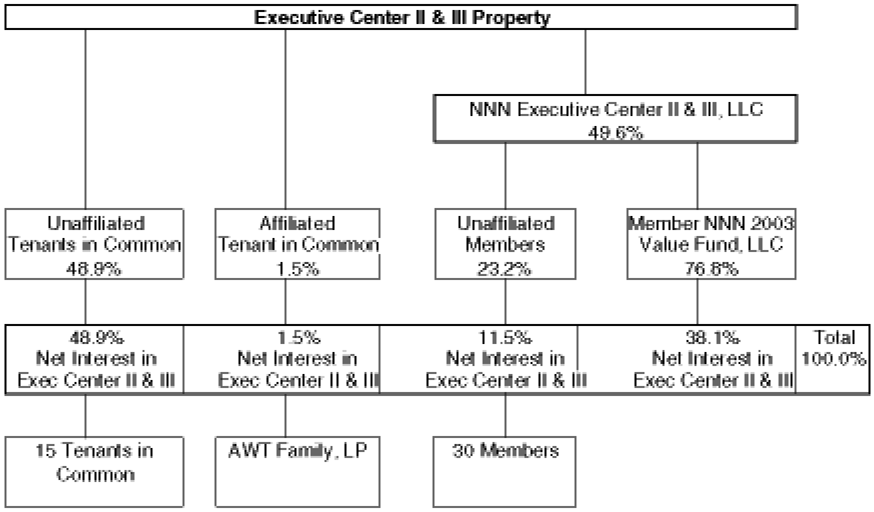
Enterprise Technology Center

The following is a summary of our relationship with entities with ownership interests in the Enterprise Technology Center property.



Executive Center II & III

The following is a summary of our relationship with entities with ownership interests in the Executive Center II & III property.



Affiliated Companies

The following is a summary of the relationships that Anthony W. Thompson has with Triple Net Properties, LLC, NNN Capital Corp. and Realty at December 31, 2004.

Competition

We compete with a considerable number of other real estate companies to lease office space, many of which have greater marketing and financial resources than we do. Principal factors of competition in our business are the quality of properties (including the design and condition of improvements), leasing terms (including rent and other charges and allowances for tenant improvements), attractiveness and convenience of location, the quality and breadth of tenant services provided, and reputation as an owner and operator of quality office properties in the relevant market. Our ability to compete also depends upon, among other factors, trends in the national and local economies, financial condition and operating results of current and prospective tenants, availability and cost of capital, including capital raised by incurring debt, construction and renovation costs, taxes, governmental regulations, legislation and population trends.

At the time our Manager elects to dispose of one or more of our properties, we will be in competition with sellers of similar properties to locate suitable purchasers, which may result in us receiving lower proceeds from the sale or result in us not being able to dispose of the property due to the lack of an acceptable return.

At December 31, 2004, we held interests in properties located in: Dallas, TX; Omaha, NE; Atlanta, GA; Las Vegas, NV; Houston, TX; Sacramento CA; San Diego, CA; and Scotts Valley, CA. Other entities managed by our Manager also own interests in the Las Vegas, NV, Dallas, TX and the San Diego, CA properties in which we own an interest. Entities managed by our Manager or its affiliates own properties located in Texas, Nebraska, Georgia, Nevada, and California. Our properties may face competition in these geographic regions from such other properties owned, operated or managed by our Manager or its affiliates. Our Manager or its affiliates have interests that may vary from our interests in such geographic markets.

Item 2. *Financial Information*

Selected Financial Data

The following table presents selected historical financial data pertaining to us. Our summary historical balance sheets data as of December 31, 2004 and 2003, and the summary statements of operations data for the year ended December 31, 2004, and the period from June 19, 2003 (date of inception) to December 31, 2003 have been derived from our audited consolidated financial statements. We did not commence operations until July 2003. The selected financial data should be read in conjunction with Management' s Discussion and Analysis of Financial Condition and Results of Operation and the audited financial statements and related notes appearing elsewhere in this registration statement.

SELECTED FINANCIAL DATA
NNN 2003 Value Fund, LLC

	Years Ended December 31, 2004	Years Ended December 31, 2003
Selected Financial Data		
BALANCE SHEET DATA:		
Total assets	$ 69,471,000	$ 14,114,000
Mortgages payable, including property held for sale	23,625,000	4,500,000
Members' equity	37,102,000	7,628,000
Book value per unit	$ 3,710.20	$ 4,042.40

	Year Ended December 31, 2004	For the Period from June 19, 2003 (Date of Inception) through December 31, 2003
OPERATING DATA:		
Rental revenues	$ 2,660,000	$ –
Rental expenses	1,924,000	11,000
Interest expense	957,000	–
Loss from continuing operations	(2,261,000)	(116,000)
Loss from discontinued operations	(41,000)	–
Net loss	$ (2,302,000)	$ (116,000)
Net loss per member unit:		
Continuing operations − basic and diluted	$ (367.16)	$ (178.74)
Discontinued operations − basic and diluted	(6.66)	–
Total net loss per member unit − basic and diluted	$ (373.82)	$ (178.74)
OTHER DATA:		
Cash flows provided by operating activities	$ 4,613,000	$ 174,000
Cash flows used in investing activities	(45,158,000)	(9,932,000)
Cash flows provided by financing activities	49,953,000	12,383,000
Distributions declared	1,908,000	35,000
Distributions declared per share	$ 309.84	$ 53.93

Management' s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Historical results and trends should not be taken as indicative of future operations. Management' s statements contained in this report that are not historical facts are forward-looking statements. Actual results may differ materially from those included in the forward-looking statements. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations, are generally identifiable by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," "prospects," or similar expressions. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations and our future prospects on a consolidated basis include, without limitation, the following: changes in economic conditions generally and the real estate market specifically, legislative/regulatory changes, availability of capital, interest rates, competition, supply and demand for operating properties in our current and proposed market areas and generally accepted accounting principles. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Additional information concerning us and our business, including additional factors that could materially affect our financial results, is included herein.

Overview

We are a Delaware limited liability company which was formed on June 19, 2003 to purchase, own, operate and subsequently sell all or a portion of a number of unspecified "value added" properties. At the time of formation, our principal objectives were to: (1) have the potential within approximately three to five years, subject to market conditions, to realize income on the sale of our properties; (2) realize income through the acquisition, operation and sale of our interests in our properties; and (3) make monthly distributions to the members from cash generated from operations.

Triple Net Properties, LLC, or our Manager, manages us pursuant to the terms of an operating agreement, or the Operating Agreement. Triple Net Properties Realty, Inc., or Realty, which was solely owned through December 31, 2004 by Anthony W. Thompson, our Manager' s chairman and chief executive officer (effective January 1, 2005, Mr. Thompson owned 88% of Realty), serves as our property manager pursuant to the terms of the Operating Agreement and a property management agreement, or the Management Agreement.

Critical Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, or GAAP, requires our Manager to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We believe that our critical accounting policies are those that require significant judgments and estimates. These estimates are made and evaluated on an ongoing basis using information that is currently available as well as various other assumptions believed to be reasonable under the circumstances. Actual results could vary from those estimates, perhaps in material adverse ways, and those estimates could be different under different assumptions or conditions.

Property Held for Sale

In accordance with Statement of Financial Accounting Standards, or SFAS, No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets,* at such time as a property is held for sale, such property is carried at the lower of (1) its carrying amount, or (2) fair value less costs to sell. In addition, a property being held for sale ceases to be depreciated. We classify operating properties as property held for sale in the period in which all of the following criteria are met:

our Manager commits to a plan to sell the asset;

the asset is available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such assets;

an active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated;

the sale of the asset is probable and the transfer of the asset is expected to qualify for recognition as a completed sale within one year;

the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and

given the actions required to complete the plan, it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Revenue Recognition and Allowance for Doubtful Accounts

Base rental income is recognized on a straight-line basis over the terms of the respective lease agreements at our properties. Differences between rental income recognized and amounts contractually due under the lease agreements are credited or charged, as applicable, to rent receivable. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of tenants to make required payments under lease agreements. We also maintain an allowance for deferred rent receivables arising from the straight-lining of rents. We will determine the adequacy of this allowance by continually evaluating individual tenant receivables considering the tenant’ s financial condition, security deposits, letters of credit, lease guarantees and current economic conditions.

Purchase Price Allocation

In accordance with SFAS No. 141, *Business Combinations*, we, with the assistance of independent valuation specialists, allocate the purchase price of acquired properties to tangible and identified intangible assets based on their respective fair values. The allocation to tangible assets (building and land) is based upon our Manager’ s determination of the value of the property as if it were vacant using discounted cash flow models similar to those used by independent appraisers. Factors considered by management include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. Additionally, the purchase price of the applicable property is allocated to the above or below market value of in-place leases and the value of in-place leases and related tenant relationships.

The value allocable to the above or below market component of the acquired in-place leases is determined based upon the present value (using a discount rate which reflects the risks associated with the acquired leases) of the difference between (1) the contractual amounts to be paid pursuant to the lease over its remaining term, and (2) our Manager’ s estimate of the amounts that would be paid using fair market rates over the remaining term of the lease. The amounts allocated to above market leases are included in the intangible in-place lease asset and below market lease values are included in intangible lease liability in the accompanying condensed consolidated financial statements and are amortized to rental income over the weighted average remaining term of the acquired leases with each property.

The total amount of other intangible assets acquired is further allocated to in-place lease costs and the value of tenant relationships based on our Manager' s evaluation of the specific characteristics of each tenant' s lease and our overall relationship with that respective tenant. Characteristics considered by us allocating these values include the nature and extent of the credit quality and expectations of lease renewals, among other factors.

These allocations are subject to change based on continuing valuation analysis or other evidence, until the allocations are finalized or the stipulated time of one year from the date of acquisition.

Impairment

Our properties are stated at depreciated cost. We assess the impairment of a real estate asset when events or changes in circumstances indicate that the net book value may not be recoverable. Indicators we consider important which could trigger an impairment review include the following:

significant negative industry or economic trend;

a significant underperformance relative to historical or projected future operating results; and

a significant change in the manner in which the asset is used.

In the event that the carrying amount of a property exceeds the sum of the undiscounted cash flows (excluding interest) that are expected to result from the use and eventual disposition of the property, we would recognize an impairment loss to the extent the carrying amount exceeded the estimated fair value of the property. The estimation of expected future net cash flows is inherently uncertain and relies on subjective assumptions dependent upon future and current market conditions and events that affect the ultimate value of the property. It requires us to make assumptions related to future rental rates, tenant allowances, operating expenditures, property taxes, capital improvements, occupancy levels, and the estimated proceeds generated from the future sale of the property.

We have not recorded any impairment losses at December 31, 2004 or 2003, respectively.

Factors Which May Influence Results of Operations

Rental Income

The amount of rental income generated by our properties depends principally on our ability to maintain the occupancy rates of currently leased space and our ability to lease currently available space and space available from unscheduled lease terminations at levels not less than the existing rental rates. Negative trends in one or more of these factors could adversely affect our rental income in future periods.

Scheduled Lease Expirations

As of December 31, 2004, our consolidated properties were 63.1% leased to 50 tenants; 29.1% of such leased square footage expires during 2005. Our leasing strategy for 2005 focuses on negotiating renewals for leases scheduled to expire during the year and identifying new tenants or existing tenants seeking additional space to occupy the square footage for which we are unable to negotiate such renewals. Of the leases expiring in 2005, we anticipate, but cannot assure, that approximately 80% of the expiring square footage will be renewed for another term.

Sarbanes-Oxley Act

The Sarbanes-Oxley Act and related laws, regulations and standards relating to corporate governance and disclosure requirements applicable to public companies have increased the costs of compliance with corporate governance, reporting and disclosure practices which are now required of us. These costs were unanticipated at the time of our formation and may have a material impact on our results of operations due to our relatively small size. Furthermore, we expect that these costs will increase in the future due to our continuing implementation of compliance programs mandated by these requirements. Any increased costs may affect our ability to distribute funds to our Unit holders.

In addition, these laws, rules and regulations create new legal bases for administrative enforcement, civil and criminal proceedings against us in case of non-compliance, thereby increasing our risks of liability and potential for sanctions. We expect that our efforts to comply with these laws and regulations will continue to involve significant, and potentially increasing costs, and any failure to comply could result in fees, fines, penalties or administrative remedies against us.

Expenses

Our expenses could increase due to the costs incurred in order to comply with the requirements of being a public company, among other things.

Private Placement Memorandum; Use of Proceeds

Pursuant to the private placement memorandum dated July 11, 2003, as amended, or the Memorandum, we offered for sale a minimum of 1,000 and a maximum of 10,000 units, or Units, at a price of $5,000 per Unit. We relied on the exemption from registration provided by Rule 506 under Regulation D and Section 4(2) of the Securities Act of 1933, as amended, in connection with the closing of the offering. As discussed in the Memorandum, we used the net offering proceeds from the sale of Units primarily to acquire ownership interests in Executive Center II & III and a number of unspecified real estate properties to be determined. We financed these property acquisitions with a combination of net offering proceeds and debt secured by the acquired properties.

As of December 31, 2004 and 2003, we sold 10,000 and 1,887 Units, respectively, resulting in aggregate gross proceeds of $50,000,000 and $9,436,000, respectively. No Units were sold subsequent to October 14, 2004.

In connection with the sale of Units, we incurred $6,880,000 and $1,657,000 of costs related to the issuance and distribution of Units through December 31, 2004 and 2003, respectively. Such amounts include a total of $4,099,000 and $1,050,000 as of December 31, 2004 and 2003, respectively, incurred to NNN Capital Corp., the dealer manager of our offering, which was wholly-owned during the offering period by Anthony W. Thompson, our Manager’ s chairman and chief executive officer. These costs are principally comprised of selling commissions of 8.0% and 2.5% of marketing and due diligence costs. The dealer manager reallowed all of the commissions and up to 1.5% of the marketing and due diligence costs to participating broker dealers. In addition, $2,781,000 and $607,000 was incurred by our Manager for offering expenses as of December 31, 2004 and 2003, respectively.

2004 Acquisitions

We acquired the following properties during 2004 (for further discussion on these properties, see Item 3. Properties):

Consolidated Properties:

Oakey Building − Las Vegas, Nevada − April 2, 2004 − we own 75.4%;

Southwood Tower − Houston, Texas − October 27, 2004 − we own 100%;

Financial Plaza − Omaha, Nebraska − October 29, 2004 − we own 100%; and

Satellite Place − Atlanta, Georgia − November 29, 2004 − we own 100%.

Unconsolidated Properties:

801K Street − Sacramento, CA − March 31, 2004 − we own 18.3%;

Enterprise Technology Center − Scotts Valley, CA − May 7, 2004 − we own 8.5%; and

Emerald Plaza − San Diego, CA − June 14, 2004 − we own 4.6%.

During the year ended December 31, 2004, we completed the acquisition of four consolidated properties, thereby adding a total of 441,000 square feet of gross leaseable area, or GLA, to our property portfolio. The aggregate purchase price was $37,558,000, of which $19,125,000 was financed with mortgage debt. The sellers paid $912,000 in commissions to Realty in connection with these acquisitions, of which 75% was passed through to our Manager pursuant to an agreement between Realty and our Manager, or the Realty-Triple Net Agreement. In accordance with Statement of Accounting Financial Standard, or SFAS, No. 141, we allocated the purchase price 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. During 2004, we allocated and recorded $4,591,000 of intangible assets associated with in-place lease origination costs and tenant relationships, as well as above market leases. Such intangible assets are being amortized over the term of each of the underlying tenant leases ranging from one to 95 months. Total amortization of the lease intangible assets for 2004 was $1,679,000.

2004 Property Held for Sale

Satellite Place − Atlanta, Georgia

On December 17, 2004, we entered into an agreement to sell our wholly-owned property, Satellite Place, located in Atlanta, Georgia, to NNN Satellite 1100 & 2000, LLC for a sales price of $19,410,000. Because the property was purchased by tenant-in-common, or TIC, entities also managed by our Manager, our Manager’ s board of managers, or the Board of Managers, engaged an independent third party to provide an opinion as to the fairness of the transaction to us. This opinion was received by us prior to the consummation of the transaction. This property was classified as property held for sale and discontinued operations on our 2004 financial statements. The property was sold on February 24, 2005. In connection with the sale, the first mortgage note of $11,000,000, plus accrued interest, was repaid to LaSalle Bank National Association, or LaSalle. Our net proceeds from this sale were $7,727,000 after closing costs. The sale resulted in a net gain of approximately $70,000. Realty did not receive a disposition fee upon the sale of the property.

2003 Acquisitions

We acquired the following consolidated properties during 2003 (for further discussion on these properties, see Item 3. Properties):

Consolidated Properties:

Executive Center I − Dallas, TX − December 30, 2003 − we own 100%.

Unconsolidated Properties:

Executive Center II & III − Dallas, TX − August 1, 2003 − we own 38.1%.

During the year ended December 31, 2003, we completed the acquisition of one consolidated property, thereby adding a total of 208,000 square feet of GLA to our property portfolio. The purchase price was $8,178,000, of which $4,500,000 was financed with mortgage debt. The seller paid $223,000 in commissions to Realty in connection with this acquisition of which 75% was passed through to our Manager pursuant to the Realty-Triple Net Agreement. In accordance with SFAS No. 141, we allocated the purchase price 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. During 2003, we have allocated and recorded $1,699,000 of intangible assets associated with in-place lease origination costs, as well as above market leases. Such intangible assets are being amortized over the term of each of the underlying tenant leases.

Results of Operations

Operating results are primarily comprised of income derived from our portfolio of properties, as described below. Because of the significant property acquisitions during the year ended December 31, 2004, the comparability of financial data from period to period is limited.

Year Ended December 31, 2004 Compared to the Period From June 19, 2003 (Date of Inception) Through December 31, 2003

	Year Ended December 31, 2004	June 19, 2003 (Date of Inception) to December 31, 2003	Change	Percent Change
Revenues:				
Rental income	$ 2,660,000	$ –	$ 2,660,000	–
Expenses:				
Rental expenses	1,924,000	11,000	1,913,000	17390.9%
General and administrative	414,000	7,000	407,000	5814.3 %
Depreciation and amortization	1,212,000	–	1,212,000	–
	3,550,000	18,000	3,532,000	19622.2%
Loss before other income (expense), discontinued operations and minority interests	(890,000)	(18,000)	(872,000)	4844.4 %
Other (expense) income:				
Interest expense (including amortization of deferred financing costs)	(957,000)	–	(957,000)	–
Interest income	86,000	3,000	83,000	2766.7 %
Equity in earnings (loss) of unconsolidated real estate	(682,000)	(132,000)	(550,000)	416.7 %
Loss from continuing operations before discontinued operations and minority interests	(2,443,000)	(147,000)	(2,296,000)	1561.9 %
Minority interests	182,000	31,000	151,000	487.1 %
Loss from continuing operations	(2,261,000)	(116,000)	(2,145,000)	(1849.1)%
Loss from discontinued operations	(41,000)	–	(41,000)	–
Net loss	$ (2,302,000)	$ (116,000)	$ (2,186,000)	1884.5 %

Rental income increased from $0 to $2,660,000 during the year ended December 31, 2004 compared with the period from June 19, 2003 (date of inception) to December 31, 2003. The increase was due to the one property purchased on December 30, 2003 and the four properties purchased during 2004. Rental revenue is net of $828,000 of above and below market lease amortization.

Rental expenses increased by $1,913,000, or 17,390.98%, to $1,924,000 during the year ended December 31, 2004 compared with the period from June 19, 2003 (date of inception) to December 31, 2003. The increase in rental expenses is attributable to the one property purchased on December 30, 2003 and the four properties purchased during 2004.

General and administrative expenses increased by $407,000, or 5,814.3%, to $414,000 during the year ended December 31, 2004 compared with the period from June 19, 2003 (date of inception) to December 31, 2003. Our operations were limited to investments in unconsolidated real estate until December 30, 2003 and, as a result, we experienced nominal general and administrative expenses during the period from June 19, 2003 (date of inception) to December 31, 2003. General and operating expenses in 2004 included $282,000, or 68.4%, for consulting fees and $59,000, or 14.3%, for bad debt expense.

Interest expense increased from $0 to $957,000 during the year ended December 31, 2004 compared with the period from June 19, 2003 (date of inception) to December 31, 2003. The increase was due to the one property purchased on December 30, 2003 and three of four properties purchased during 2004.

Depreciation and amortization expense increased from $0 to $1,212,000 during the year ended December 31, 2003 compared with the period from June 19, 2003 (date of inception) to December 31, 2003. The increase was due to the one property purchased on December 30, 2003 and the four properties purchased during 2004.

Interest income increased $83,000, or 2,766.7%, to $86,000 during the year ended December 31, 2004 compared with the period from June 19, 2003 (date of inception) to December 31, 2003. The increase was largely due to interest earned in money market accounts due to the funds from the equity raise until such funds were used to acquire properties.

Equity in earnings of unconsolidated real estate decreased by $550,000, or 416.7%, to a loss of $682,000 during the year ended December 31, 2004, compared with the period from June 19, 2003 (date of inception) to December 31, 2003. $153,000, or 27.8%, of the decrease was attributable to the three investments that were acquired during 2004. $503,000, or 55.1%, of the decrease was attributable to a full year of ownership of our investment acquired during 2003.

Minority interests increased by $151,000, or 487.1%, to $182,000, during the year ended December 31, 2004 compared with the period from June 19, 2003 (date of inception) to December 31, 2003. At December 31, 2003, we owned one investment with a minority interest, Executive Center LLC. During the year ended December 31, 2004 we acquired the following entities with minority members: 801K Street, LLC, Enterprise Technology Center, LLC and Oakey Building, LLC.

Loss from continuing operations was ($2,443,000), or ($367.16) per basic and diluted unit, for the year ended December 31, 2004 compared to ($147,000), or ($178.74) per basic and diluted unit, for the period from June 19, 2003 (date of inception) to December 31, 2003.

Loss from discontinued operations was ($41,000), or ($6.66) per basic and diluted unit, for the year ended December 31, 2004 compared to $0 for the period from June 19, 2003 (date of inception) to December 31, 2003. One property, Satellite Place, was classified as held for sale at December 31, 2004.

Net loss was ($2,302,000), or ($373.82), per basic and diluted unit and ($116,000), or ($178.74) per basic and diluted unit, for the years ended December 31, 2004 and the period from June 19, 2003 (date of inception) to December 31, 2003, respectively.

Liquidity and Capital Resources

Cash Flows

Year Ended December 31, 2004 Compared to the Period From June 19, 2003 (Date of Inception) Through December 31, 2003

Net cash provided by operating activities increased $4,439,000 to $4,613,000 for the year ended December 31, 2004 compared to the period from June 19, 2003 (date of inception) to December 31, 2003. Our net loss for the year ended December 31, 2004 increased $2,186,000. Our operating cash flow was further decreased by an increase in accounts receivable of $557,000. These decreases were offset by increases in depreciation and amortization expense of $2,307,000, the distributions received in excess of earnings from unconsolidated operations of $1,490,000 and an increase in accounts payable and security deposits of $3,314,000 and $578,000, respectively.

Net cash used in investing activities increased $35,226,000 to $45,158,000 for the year ended December 31, 2004 compared to the period from June 19, 2003 (date of inception) to December 31, 2003. This increase was primarily due to the purchase of consolidated and unconsolidated properties.

Net cash provided by financing activities increased $37,570,000 to $49,953,000 for the year ended December 31, 2004 compared to the period from June 19, 2003 (date of inception) to December 31, 2003.

This increase was primarily due to borrowings on mortgages payable and the issuance of members' Units, net of offering costs.

As a result of the above, cash and cash equivalents increased by $9,408,000 for the year ended December 31, 2004 to $12,033,000.

Capital Resources

General

Our primary sources of capital are our real estate operations, ability to leverage the increased market value in the real estate assets we own and our ability to obtain debt financing from third parties, including, without limitation, Cunningham Lending Group, LLC, or Cunningham, which is solely owned by Anthony W. Thompson, the chairman and chief executive officer of our Manager. We derive substantially all of our revenues from tenants under leases at our properties. Our operating cash flow therefore depends materially on the rents that we are able to charge our tenants and the ability of these tenants to make their rental payments to us.

Our primary uses of cash are to fund distributions to our Unit holders, to fund capital investment in the existing portfolio of operating assets, to fund new acquisitions and for debt service. We may also regularly require capital to invest in the existing portfolio of operating assets in connection with routine capital improvements, deferred maintenance on properties recently acquired and leasing activities, including funding tenant improvements, allowances and leasing commissions. The amounts of the leasing-related expenditures can vary significantly depending on negotiations with tenants and the willingness of tenants to pay higher base rents over the life of the leases.

The source for the payment of the distributions is expected be funds from operating activities, short-term and long-term debt and net proceeds from the sale of one or more of our properties. We will require up to approximately $4,275,000 for the year ended December 31, 2005, for capital expenditures, including, without limitation, tenant and/or capital improvements. We intend to incur debt at the property level where the debt is incurred in order to provide funds for expenditures at a particular property.

Other Liquidity Needs

Our distribution rate, at 7.0% per annum, has been the same among Class A, Class B and Class C Unit holders since inception. In the event that there is a shortfall in net cash available due to various factors, including, without limitation, the timing of such distributions or the timing of the collections of receivables, we may seek to obtain capital to pay distributions by means of secured or unsecured debt financing through one or more third parties, including Cunningham. We have additional unleveraged equity from our consolidated properties against which we can borrow. We may also pay distributions from cash from capital transactions, including, without limitation, the sale of one or more of our properties.

Our distribution of amounts in excess of taxable income has resulted in a return of capital to our Unit holders. The income tax treatment for distributions reportable for the years ended December 31, 2004 and the period from June 19, 2003 (date of inception) through December 31, 2003, was as follows:

	December 31, 2004		June 19, 2003 (Date of Inception) Through December 31, 2003	
Ordinary income	$ 877,000	46.0 %	$ 35,000	100.0%
Return of Capital	1,031,000	54.0	–	–
	$ 1,908,000	100.0%	$ 35,000	100.0%

If we experience lower occupancy levels, reduced rental rates, reduced revenues as a result of asset sales, increased capital expenditures and leasing costs compared to historical levels due to competitive market conditions for new and renewal leases, the effect would be a reduction of net cash provided by operating activities. If our Manager continues to declare distributions for the Unit holders at current levels, we may have a cash flow deficit in subsequent periods. In connection with such a shortfall in net cash available, we may seek to obtain capital to pay distributions by means of secured or unsecured debt financing through one or more third parties, including Cunningham. To the extent any distributions are made to the Unit holders in excess of accumulated earnings, the excess distributions are considered a return of capital to the Unit holders for federal income tax purposes.

Effective April 15, 2005 and retroactive to January 1, 2005, we reduced the rent for Trailblazer Health Enterprise, LLC, a tenant in our unconsolidated property, Executive Center II & III, of which we own a 38.1% interest, from $16.00 per square foot to $10.00 per square foot in exchange for an early renewal and an extended lease term. The lease term was extended from December 2006 to December 2015. This action will result in a reduction of our proportionate share of the rental income in 2005 from $379,000 in 2004 to $53,000 for 2005. As of December 31, 2004, Trailblazer Health Enterprises occupied 51.2% of the gross leaseable area of the Executive Center II & III property.

Our Manager has been advised that the IRS, which occupies 84,000 square feet, or 85.7%, of the Oakey Building, is exercising its 30-day early opt out provision and is terminating its lease on April 30, 2005. Our Manager has been able to lease the entire 98,000 square feet of the Oakey Building to one tenant beginning August 1, 2005. However, the lease is for a six-year term with staggered occupancy and rent commencement dates and will not be fully operational until January 1, 2007. Due to the staggered occupancy and commencement of rent of the new lease, we expect our 2005 rental income will be reduced by approximately $1,500,000.

Sale of Unregistered Securities

We sold 10,000 Units to 785 investors in a private placement offering, or Private Placement, which began on July 11, 2003 and ended on October 14, 2004. NNN Capital Corp., which was solely owned during the offering period by Anthony W. Thompson, the chairman and chief executive officer of our Manager, served as the dealer manager of the Private Placement. The aggregate offering price for the Units sold was $50,000,000 and the aggregate fees paid to NNN Capital Corp. in connection with the Private Placement were $5,149,000. Certain of the fees paid to NNN Capital Corp. were reallowed to participating broker dealers. We received net proceeds from the sale of the Units of $41,674,000.

Financing

Mortgage loans payable, including mortgage loans payable secured by property held for sale, were $23,625,000 and $4,500,000 at December 31, 2004 and 2003, respectively. Mortgages payable as a percentage of total capitalization increased to 36.5% at December 31, 2004 from 33.3% at December 31, 2003.

At December 31, 2004, $15,125,000, or 64.0%, of our total debt required interest payments based on variable rates; the remaining debt is at fixed rates.

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Unconsolidated Debt

The total mortgage debt of unconsolidated properties was $160,771,000 and $14,891,000 as of December 31, 2004 and 2003, respectively. Our share of the unconsolidated debt based on our ownership percentage was $19,366,000 and $5,672,000 as of December 31, 2004 and 2003, respectively.

Property	Ownership Percentage	Mortgage Debt Balance as of December 31, 2004	NNN 2003 Value Fund, LLC' s Portion of Debt	Mortgage Debt Balance as of December 31, 2003	NNN 2003 Value Fund, LLC' s Portion of Debt
801 K Street	18.3%	$ 41,350,000	$ 7,557,000	−	−
Emerald Plaza	4.6 %	68,500,000	3,117,000	−	−
Enterprise Technology Center	8.5 %	36,177,000	3,076,000	−	−
Executive Center II & III	38.1%	14,744,000	5,616,000	$ 14,891,000	$ 5,672,000
		$ 160,771,000	$ 19,366,000	$ 14,891,000	$ 5,672,000

Insurance Coverage

The insurance coverage provided through third-party insurance carriers is subject to coverage limitations. For each type of insurance coverage described below, should an uninsured or underinsured loss occur, we could lose all or a portion of our investment in, and anticipated cash flows from, one or more of our properties. In addition, there can be no assurance that third-party insurance carriers will be able to maintain reinsurance sufficient to cover any losses that may be incurred.

Type of Insurance Coverage	Loss Exposure/Deductible
Property damage and business interruption	$200 million annual aggregate exposure, plus $10 thousand per occurrence deductible
Earthquake	$10 million annual aggregate exposure plus 5 percent ($100,000 minimum) per occurrence deductible
Earthquake (California properties)	$90 million in excess of $10 million
Flood − named storm	$10 million annual aggregate exposure plus 5 percent ($100,000 minimum) per occurrence deductible
Flood − all other	$10 million annual aggregate exposure plus 5 percent ($25,000 minimum/$100,000 maximum) per occurrence deductible
Liability	$2 million annual aggregate exposure plus $1 million each occurrence
Umbrella (excess liability)	$100 million aggregate exposure
Acts of terrorism	$100 million annual aggregate exposure, plus $10,000 per occurrence deductible

Debt Service Requirements

Our principal liquidity needs are payments of interest and principal on outstanding indebtedness. As of December 31, 2004, some of our properties were subject to existing mortgages which had an aggregate principal amount outstanding of $23,625,000, which consisted of $8,500,000, or 36.0%, allocable to fixed rate debt at a weighted-average interest rate of 10.3% per annum and $15,125,000, or 64.0%, of variable rate debt at a weighted-average interest rate of 4.9% per annum. As of December 31, 2004, the weighted-averaged interest rate on our outstanding mortgages was 6.8% per annum. The scheduled principal payments for the next five years, as of December 31, 2004, are as follows:

Year	Amount
2005	$ 19,584,000
2006	809,000
2007	993,000
2008	2,239,000
2009	0
Total	$ 23,625,000

Contractual Obligations

The following table provides information with respect to the maturities and scheduled principle repayments of our secured debt and scheduled interest payments at December 31, 2004:

	Payments Due by Period				
	Less than 1 Year (2005)	1-3 Years (2006-2008)	4-5 Years (2009-2010)	More than 5 Years (After 2010)	Total
Principal payments − fixed rate debt	$ 8,500,000	$ −	$ −	−	$ 8,500,000
Interest payments − fixed rate debt	525,000	−	−	−	525,000
Principal payments − variable rate debt	11,084,000	1,802,000	2,239,000	−	15,125,000
Interest payments − variable rate debt (rate in effect at December 31, 2004)	740,000	296,000	9,000	−	1,045,000
Total	$ 20,849,000	$ 2,098,000	$ 2,248,000	$ −	$ 25,195,000

Off-Balance Sheet Arrangements

There are no off-balance sheet transactions, arrangements or obligations (including contingent obligations) that have, or are reasonably likely to have, a current or future material effect on our financial condition, changes in our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

SEC Investigation

On September 16, 2004, our Manager advised us that it learned that the SEC is conducting an investigation referred to as *"In the matter of Triple Net Properties, LLC."* The SEC requested information from our Manager relating to disclosure in securities offerings (including offerings by G REIT, Inc., T REIT, Inc. and A REIT, Inc.) and the exemption from the registration requirements of the Securities Act for the private offerings in which our Manager and its affiliated entities were involved and exemptions from the registration requirements of the Exchange Act for several entities. The SEC has requested financial and other information regarding these entities as well as the limited liability companies advised by our Manager, including us. Our Manager has advised us that it intends to cooperate fully with the SEC' s investigation. This investigation could involve us and fines, penalties or administrative remedies could be asserted against us.

We cannot at this time assess the outcome of the investigation by the SEC. Therefore, at this time, we have not accrued any loss contingencies in accordance with Statement of Financial Accounting Standards No. 5.

Inflation

We will be exposed to inflation risk as income from long-term leases is expected to be the primary source of cash flows from our operations. We expect that there will be provisions in the majority of our tenant leases that would protect us from the impact of inflation. These provisions include increasing rent steps, reimbursement billings for operating expense pass-through charges, real estate tax and insurance reimbursements on a per square foot allowance. However, due to the long-term nature of the leases, the leases may not re-set frequently enough to cover inflation.

Subsequent Events

Prior Performance Tables

In connection with our offering of the sale of our units from July 11, 2003 through October 14, 2004, we disclosed the prior performance of all public and non-public investment programs sponsored by our Manager. We now have determined that there were certain errors in those prior performance tables. In particular, the financial information in the tables was stated to be presented in accordance with GAAP. Generally, the tables for the public programs were not presented on a GAAP basis and the tables for the non-public programs were prepared and presented on a tax or cash accounting basis. Moreover, a number of the prior performance data figures were themselves erroneous, even as presented on a tax or cash basis. In particular, certain programs sponsored by our Manager have invested either along side or in other programs sponsored by our Manager. The nature and results of these investments were not fully and accurately disclosed in the tables. In general, the resulting effect is an overstatement of our Manager’ s program and aggregate portfolio operating results. The Board of Managers is considering alternatives to address the errors in the prior performance tables.

Acquisitions

On January 26, 2005, through our wholly-owned subsidiary NNN VF Interwood, LP, a Texas limited partnership, we purchased a 100% interest in The Offices at Interwood, a two-story office building of 80,000 square feet located in Houston, Texas. The property was purchased from an unaffiliated third party for a purchase price of $8,000,000. The seller paid Realty a sales commission of $250,000, or 3.1% of the total purchase price, of which 75% was passed through to our Manager pursuant to the Realty-Triple Net Agreement. At acquisition, we obtained a first mortgage loan from LaSalle, in the amount of $5,500,000, which bears interest at a one-month LIBOR plus 300 basis points. The initial term of the loan is two years.

Dispositions

Satellite Place, Atlanta, Georgia

On February 24, 2005, our wholly-owned property, Satellite Place in Atlanta, Georgia was sold to NNN Satellite 1100& 2000, LLC. Because the property was purchased by TIC, entities also managed by our Manager, the Board of Managers engaged an independent third party to provide an opinion as to the fairness of the transaction to us. This opinion was received by us prior to the consummation of the transaction. Realty did not receive a disposition fee upon the sale of the property.

Financial Plaza − Omaha, Nebraska

On April 13, 2005, our wholly-owned property, Financial Plaza in Omaha, Nebraska was sold to an unaffiliated third party for a total sales price of $9,500,000. In connection with the sale, the buyer assumed the first mortgage note of $4,125,000 due to American Express Certificate Company. We also received an adjustable note receivable for $2,300,000 that bears interest at a rate of 8.0% per annum and matures on April 1, 2008. Our net proceeds after closing costs and the note receivable were $2,327,000. The sale resulted in a net gain to us of $2,910,000. We paid Realty a disposition fee of $475,000, or 5.0% of the purchase price, of which 75% was passed through to our Manager pursuant to the Realty-Triple Net Agreement. This property was not listed for sale at the time of the sale; we were approached in January 2005 with an unsolicited offer to buy the property.

Property Management Fee

Effective May 1, 2005, the Board of Managers and Realty renegotiated and amended the terms of the Management Agreement to reduce the property management fee paid by us to Realty to 5% of the gross receipts revenue from our properties. In connection with the amendment, Realty will provide us with a property management fee allowance of $78,000 to be used against future management fees.

Controls

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and that such information is accumulated and communicated to us, including our Manager's principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, we recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and we necessarily were required to apply our judgment in evaluating whether the benefits of the controls and procedures that we adopt outweigh their costs.

During the period covered by this Registration Statement, we commenced an evaluation under the supervision and with the participation of our Manager, including our Manager's chief executive officer, chief financial officer, chief accounting officer and vice president-internal audit, and third-party consultants, together with our Manager's Board of Managers which is acting in the capacity of our audit committee, or the Evaluation, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended).

In connection with the audit for the year ended December 31, 2004, Deloitte & Touche, LLP, or Deloitte, our independent registered public accounting firm, notified us and the Board of Managers of the existence of "reportable conditions." "Reportable conditions" is an accounting term used to refer to internal control deficiencies that, in the judgment of our independent registered public accounting firm, are significant and which could adversely affect our ability to record, process, summarize and report financial information. Deloitte concluded at that time that certain of the reportable conditions were believed to constitute "material weaknesses" in our internal controls. A material weakness, as defined under the applicable auditing standards of the Public Company Accounting Oversight Board, is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The material weaknesses identified by Deloitte related to, among other things, our need to formalize and follow policies and procedures for accounting for real estate properties and improvements to such properties, and performing and reviewing certain account reconciliations in a timely and accurate manner. The other reportable conditions identified by Deloitte, which, together with the material weaknesses described above, we refer to as the Deloitte Recommendations, related to, among other things:

our need to formalize and follow policies and procedures for estimating and recording certain fees and charges;

implementation of management information systems;

our need to formalize and follow policies and procedures for the accounting for our real estate properties (including the appropriateness of useful lives of intangible assets and the recoverability of certain intangible assets that relate to existing and vacated tenants);

the need to develop a fixed asset software system to track additions and dispositions of fixed assets;

the need to perform and review reconciliations of all significant accounts in a timely manner;

the need for formal policies and procedures for estimating and recording management fees and common area maintenance charges;

the need to identify and record all accounts payable and accrued expenses in a timely manner; and

the need to develop policies regarding formalized management information systems.

We agree with Deloitte' s assessment and believe that the reportable conditions and material weaknesses identified above result from, among other things: (1) inadequate staffing and supervision leading to untimely identification and resolution of certain accounting matters; (2) failure of financial reporting controls in preventing or detecting misstatements of accounting information that resulted in certain adjustments to the financial statements; (3) incomplete or inadequate account analysis, account reconciliations and consolidation procedures; and (4) inadequate policies and procedures with respect to retention of certain accounting and other records.

As a result of the Evaluation (which is on-going) and Deloitte' s Recommendations, we have begun, and continue to undertake to: (1) design improved internal control procedures to address a number of financial reporting issues and disclosure controls through the development of formal policies and procedures; (2) devise, standardize and promulgate policies and procedures to ensure consistent and improved financial reporting, and to mitigate the possible risks of any material misstatements regarding financial reporting matters, including the development and implementation of internal testing and oversight procedures and policies; and (3) bifurcate accounting functions, including personnel responsible for each public reporting entity. The Evaluation also concluded that a significant portion of the financial reporting issues resulted from difficulty that we experienced in retaining staff and the corresponding need for training and education of new personnel.

Our Manager has also employed a new chief financial officer with considerable experience in public company financial reporting and GAAP compliance and has added employees to serve in the new positions of chief accounting officer and vice president − internal audit and has hired additional manager-level accountants. These persons have undertaken a number of initiatives consistent with improving the quality of our financial reporting.

We are assigning a high priority to our financial reporting and internal control issues. We will continue to evaluate the effectiveness of our internal controls and procedures on an on-going basis and will take further action as appropriate.

Pursuant to the Evaluation, after taking into account the above information, we have concluded that our disclosure controls and procedures need to be strengthened and are not sufficiently effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the applicable time periods specified by the SEC and in such forms. However, we have taken various steps, including those described above, to maintain and improve the accuracy of our internal controls and financial disclosures, and based on these measures and other work, our Manager' s principal executive officer and principal financial officer believe that there are no material inaccuracies or omissions of material fact in our financial statements filed in connection with this Registration Statement. However, the material weaknesses in our internal controls over financial reporting could adversely impact our ability to provide timely and accurate financial information. We believe that sufficient compensating controls are being evaluated and will be implemented to remedy these deficiencies and to minimize the risks associated with these material weaknesses. Our Manager expects to hire additional staff for us and we will evaluate and develop internal controls and corresponding procedures to ensure the controls are in place and implement monthly, quarterly and annual checklists and review-level sign-off procedures.

Risk Factors

The pending SEC investigation of our Manager could result in lawsuits or other actions against us.

On September 16, 2004, our Manager advised us that it learned that the SEC is conducting an investigation referred to as *"In the matter of Triple Net Properties, LLC."* The SEC has requested information from our Manager relating to disclosure in securities offerings (including offerings by G REIT, Inc., T REIT, Inc. and A REIT, Inc.) and the exemption from the registration requirements of the Securities Act for the private offerings in which our Manager and our affiliated entities were involved. The SEC has requested financial and other information regarding these entities as well as the limited liability companies advised by our Manager, including us. Our Manager has advised us that it intends to cooperate fully with the SEC' s investigation. This investigation could involve us and fines, penalties or administrative remedies could be asserted against us.

Erroneous disclosures in the prior performance tables in our private placement offering could result in lawsuits or other actions against us which could have a material adverse effect upon our business and results of operations.

In connection with our offering of the sale of our Units from July 11, 2003 through October 14, 2004, we disclosed the prior performance of all public and non-public investment programs sponsored by our Manager. We now have determined that there were certain errors in those prior performance tables. In particular, the financial information in the tables was stated to be presented on a GAAP basis. Generally, the tables for the public programs were not presented on a GAAP basis and the tables for the non-public programs were prepared and presented on a tax or cash accounting basis. Moreover, a number of the prior performance data figures were themselves erroneous, even as presented on a tax or cash basis. In particular, certain programs sponsored by our Manager have invested either along side or in other programs sponsored by our Manager. The nature and results of these investments were not fully and accurately disclosed in the tables. In general, the resulting effect is an overstatement of our Manager' s program and aggregate portfolio operating results. The overstatement of results could result in lawsuits or other actions against us which could have a material adverse effect upon our business and results of operations.

We expect to incur significant costs in connection with Exchange Act compliance and we may become subject to liability for any failure to comply.

As a result of our obligation to register our securities with the SEC under the Exchange Act, we will be subject to Exchange Act Rules and related reporting requirements. This compliance with the reporting requirements of the Exchange Act will require timely filing of Quarterly Reports on Form 10-Q, Annual Reports on Form 10-K and Current Reports on Form 8-K, among other actions. Further, recently enacted and proposed laws, regulations and standards relating to corporate governance and disclosure requirements applicable to public companies, including the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and new SEC regulations have increased the costs of corporate governance, reporting and disclosure practices which are now required of us. Our efforts to comply with applicable laws and regulations, including requirements of the Exchange Act and the Sarbanes-Oxley Act, are expected to involve significant, and potentially increasing, costs. In addition, these laws, rules and regulations create new legal bases for administrative enforcement, civil and criminal proceedings against us in case of non-compliance, thereby increasing our risks of liability and potential sanctions.

Distributions by us have and will in the future continue to include a return of capital.

We have made distributions which constitute a return of capital to Unit holders and any future distributions payable to Unit holders will include a return of capital as well as a return in excess of capital. Distributions exceeding taxable income will constitute a return of capital for federal income tax purposes to the extent of a Unit Holder' s tax capital account. Distributions in excess of tax capital are non-taxable to the extent of tax basis. Distributions in excess of tax basis will constitute capital gain.

Due to the risks involved in the ownership of real estate, there is no guarantee of any return on your investment and you may lose some or all of your investment.

By owning Units, you will be subjected to the significant risks associated with owning real estate. The performance of your investment in us is subject to risks related to the ownership and operation of real estate, including:

changes in the general economic climate:

changes in local conditions such as an oversupply of space or reduction in demand for real estate;

changes in interest rates and the availability of financing; and

changes in laws and governmental regulations, including those governing real estate usage, zoning and taxes.

If our assets decrease in value the value, of your investment will likewise decrease and you could lose some or all of your investment.

Our acquisition of "value-added" properties increases the risk of owning real estate and could adversely affect our results of operations, our ability to make distributions to our Unit holders and our ability to dispose of properties in a timely manner.

Our acquisition strategy of purchasing "value-added" properties subjects us to even greater risks than those generally associated with investments in real estate. Value-added properties generally have some negative component, such as location in a poor economic market, significant vacancy, lower than average leasing rates or the need for capital improvements. If we are unable to take advantage of the value-added component following our acquisition of a property, we may be unable to generate adequate cash flows from that property. In addition, if we desire to sell that property, we may not be able to generate a profit or even recoup our original purchase price. As a result, our investment in value-added properties could adversely impact our results of operations, our ability to make distributions to our Unit Holders and our ability to profitably dispose of our properties.

Our properties face significant competition.

We face significant competition from other owners, operators and developers of office properties. All or substantially all of our properties face competition from similar properties in the same markets. Such competition may affect our ability to attract and retain tenants and may reduce the rents we are able to charge. These competing properties may have vacancy rates higher than our properties, which may cause their owners to rent space at lower rental rates than those charged by us or to provide greater tenant improvement allowances or other leasing concessions than we are willing to provide. This combination of circumstances could adversely affect our results of operations, liquidity and financial condition, which could reduce distributions to our Unit holders.

We depend upon our tenants to pay rent, and their inability to pay rent may substantially reduce our revenues and cash available for distribution to our Unit holders.

Our investments in office properties are subject to varying degrees of risk that generally arise from the ownership of real estate. The underlying value of our properties and the ability to make distributions to our Unit holders depend upon the ability of the tenants at our properties to generate enough income in excess of their operating expenses to make their lease payments to us. Changes beyond our control may adversely affect our tenants' ability to make lease payments to us and, consequently, would substantially reduce both our income from operations and our ability to make distributions to our Unit holders. These changes include, among others, the following:

- downturns in national, regional or local economic conditions where our properties are located, which generally will negatively impact the demand for office space and rental rates;
- changes in local market conditions such as an oversupply of office properties, including space available by sublease, or a reduction in demand for office properties, making it more difficult for us to lease space at attractive rental rates or at all;
- competition from other available office properties, which could cause us to lose current or prospective tenants or cause us to reduce rental rates;
- the ability to pay for adequate maintenance, insurance, utility, security and other operating costs, including real estate taxes and debt service payments, that are not necessarily reduced when circumstances such as market factors and competition cause a reduction in income from a property; and
- changes in federal, state or local regulations and controls affecting rents, prices of goods, interest rates, fuel and energy consumption.

Due to these changes, among others, tenants and lease guarantors, if any, may be unable to make their lease payments. A default by a tenant or the failure of a tenant's guarantor to fulfill its obligations, or other early termination of a lease could, depending upon the size of the leased premises and our Manager's ability to successfully find a substitute tenant, have a material adverse effect on our revenues and cash available for distribution to our Unit holders.

Lack of diversification and illiquidity of real estate may make it difficult for us to sell underperforming properties or recover our investment in one or more properties.

Our business is subject to risks associated with investment solely in real estate. Real estate investments are relatively illiquid. Our ability to vary our portfolio in response to changes in economic and other conditions is limited. We cannot provide assurance that we will be able to dispose of a property when we want or need to. Consequently, the sale price for any property may not recoup or exceed the amount of our investment.

Lack of geographic diversity may expose us to regional economic downturns that could adversely impact our operations or our ability to recover our investment in one or more properties.

Our portfolio lacks geographic diversity due to its limited size and the fact that, at May 2, 2005, we own properties in only three geographic regions: California, Texas and Nevada. This geographic concentration of properties exposes us to economic downturns in these markets. A regional recession in any of these regions could adversely affect our ability to generate or increase operating revenues, attract new tenants or dispose of properties. In addition, our properties may face competition in these geographic regions from other properties owned, operated or managed by our Manager or its affiliates. Our Manager or its affiliates have interests that may vary from ours in such geographic markets.

Dependence on significant tenants may have a negative impact on our financial condition and results of operations if these tenants are unable to meet their rental obligations to us or fail to renew their leases at all or renew on terms less favorable to us than their current terms.

We are dependent on the revenues generated by our significant tenants. As of December 31, 2004, our largest tenant, the IRS, at the Oakey Building, accounted for 37.7% of our aggregate annual rental income. This tenant has advised our Manager that it will exercise its 30-day early opt out provision and terminate its lease on April 30, 2005. While we have leased this space to a new tenant beginning August 1, 2005, this lease has staggered occupancy and commencement of rent dates. In addition, effective April 15, 2005 and retroactive to January 1, 2005, we reduced the rent for Trailblazer Health Enterprise, LLC, a major tenant at Executive Center II & III, of which we own a 38.1% interest, from $16.00 to $10.00 per square foot in exchange for an early rent renewal and an extended lease term. The failure of the IRS to renew its lease and the delay in releasing that space, and the reduction in revenues from the Trailblazer lease will have a negative impact on our financial condition and results of operations and may negatively impact our ability to pay distributions to our Unit Holders. In addition, any event of bankruptcy, insolvency or a general downturn in the business of a major tenant may result in the failure or delay of such tenants' rental payments which may also adversely affect the income produced at our properties.

Our use of borrowings to partially fund acquisitions and improvements at our properties could result in foreclosures and unexpected debt service expenses upon refinancing, both of which could have an adverse impact on our operations and cash flow, and restrictive covenants in our loan documents may restrict our operating or acquisition activities.

We rely on borrowings and other external sources of financing to partially fund the costs of new investments, capital expenditures and other items. As of December 31, 2004, we had $23,625,000 of debt outstanding related to our consolidated properties. Accordingly, we are subject to the risks normally associated with debt financing, including, without limitation, the risk that our cash flow may not be sufficient to cover required debt service payments. There is also a risk that, if necessary, existing indebtedness will not be able to be refinanced or that the terms of such refinancing will not be as favorable as the terms of the existing indebtedness.

In addition, if we cannot meet our required mortgage payment obligations, the property or properties subject to such mortgage indebtedness could be foreclosed upon by, or otherwise transferred to, one or more of our lenders, with a consequent loss of income and asset value to us. 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 we may not receive any cash proceeds.

The mortgages on our properties contain customary restrictive covenants such as satisfaction of certain total debt-to-asset ratios, secured debt-to-total-asset ratios, and debt service coverage ratios. The mortgages also include provisions that may limit the borrowing subsidiary' s ability, without the prior consent of the lender, to incur additional indebtedness, further mortgage or transfer the applicable property, discontinue insurance coverage, change the conduct of our business or make loans or advances to, enter into any transaction of merger or consolidation with, or acquire the business, assets or equity of, any third party. In addition, any future lines of credit or loans may contain financial covenants, further restrictive covenants and other obligations.

If we materially breach such covenants or obligations in our debt agreements, the lender may, among other things, seize our income from the property securing the loan or declare a default on the obligation, require us to repay the debt immediately and foreclose on the property securing the loan. If we were to breach such covenants or obligations, we may then have to sell properties either at a loss or at a time that prevents us from achieving a higher price. Any failure to pay our indebtedness when due or failure to cure events of default could result in higher interest rates during the period of the loan default and could ultimately result in the loss of properties through foreclosure. Additionally, if the lender were to seize our income from property securing the loan, we would no longer have any discretion over the use of the income, which may adversely impact our ability to make distributions to our Unit holders.

The pending SEC investigation of our Manager could result in defaults or alleged defaults under our loan documents or limit our ability to obtain debt financing in the future.

We rely on debt financing for our acquisition of new investments and for meeting capital expenditure obligations, among other things. The SEC investigation of our Manager described above, or any related enforcement action by government authorities against our Manager or us, could result in defaults or alleged defaults under our loan agreements or could make it more difficult for us to obtain new debt financing or prevent us from satisfying customary debt covenants or conditions required by existing loan documents.

Losses for which we either could not or did not obtain insurance will adversely affect our earnings.

We could suffer a loss due to the cost to repair any damage to properties that are not insured or are underinsured. There are types of losses, generally of a catastrophic nature, such as losses due to terrorism, wars, earthquakes, floods or acts of God that are either uninsurable or not economically insurable. If such a catastrophic event were to occur, or cause the destruction of one or more of our properties, we could lose both our invested capital and anticipated profits from such property or properties.

Our co-ownership arrangements with affiliated entities may not reflect solely our Unit holders' best interests and may subject these investments to increased risks.

We have acquired our interests in the Oakey Building, Emerald Plaza, 801 K Street, Enterprise Technology Center and Executive Center II & III through co-ownership arrangements with one or more affiliates of our Manager and/or entities that are also managed by our Manager. The terms of these co-ownership arrangements may be more favorable to the other co-owners than to our Unit holders. In addition, key decisions, such as sales, refinancing and new or amended leases, must be approved by the unanimous consent of the co-owners. Therefore, investing in properties through co-ownership arrangements subjects that investment to risks not present in a wholly-owned property, including, without limitation, the following:

- the risk that the co-owner(s) in the investment might become bankrupt;
- the risk that the co-owner(s) may at any time have economic or business interests or goals which are inconsistent with our business interests or goals;
- the risk that the co-owner(s) may be unable to make required payments on loans under which we are jointly and severally liable;
- the risk that the other co-owner(s) may breach the terms of a loan secured by a co-owned property, thereby triggering an event of default that affords the lender the right to exercise all of its remedies under the loan documents, including possible foreclosure of the entire property; or
- the risk that the co-owner(s) may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives, such as selling a property at a time when it would have adverse consequences for our Unit holders.

Actions by co-owner(s) might have the result of subjecting the applicable property to liabilities in excess of those otherwise contemplated and may have the effect of reducing our cash available for distribution to our Unit holders. The co-ownership arrangements generally limit our ability to manage properties in our sole judgment and best interests. It also may be difficult for us to sell our interest in any co-ownership arrangement at the time we deem it best for our Unit holders.

The conflicts of interest described below may mean we will not be managed solely in the best interests of our Unit holders.

Our Manager' s key executives and members of its Board of Managers have conflicts of interest relating to the management of our business and properties. Accordingly, those parties may make decisions or take actions based on factors other than the interests of our Unit holders.

Our Manager also advises G REIT, Inc., T REIT, Inc., NNN 2002 Value Fund, LLC and other private TIC and other programs that may compete with us or otherwise have similar business interests and/or investment objectives. Some of our Manager' s officers and managers also serve as officers and directors of G REIT and T REIT. Mr. Thompson and the members of the Board of Managers and key executives of our Manager collectively own approximately 40% of our Manager.

As officers, directors, managers and partial owners of entities that do business with us or that have interests in competition with our own interests, these individuals will experience conflicts between their fiduciary obligations to us and their fiduciary obligations to, and pecuniary interests in, our Manager and its affiliated entities. These conflicts of interest could:

- limit the time and services that our Manager devotes to us, because it will be providing similar services to G REIT, T REIT, NNN 2002 Value Fund, LLC and other real estate programs and properties;
- impair our ability to compete for tenants in geographic areas where other properties are advised by our Manager and its affiliates; and
- impair our ability to compete for the acquisition of properties with other real estate entities that are also advised by our Manager and its affiliates.

If our Manager or its affiliates breach their fiduciary obligations to us, we may not meet our investment objectives, which could reduce the expected cash available for distribution to our Unit holders.

Our success is dependent on the performance of our Manager as well as key employees of our Manager.

We are managed by our Manager. Thus, our ability to achieve our investment objectives and to pay distributions is dependent upon the performance of our Manager and its key employees in the acquisition and disposition of investments, the selection of tenants, the determination of any financing arrangements, the management of our assets and operation of our day-to-day activities. If our Manager suffers or is distracted by adverse financial or operational problems in connection with its operations unrelated to us, our Manager' s ability to allocate time and/or resources to our operations may be adversely affected. If our Manager is unable to allocate sufficient resources to oversee and perform our operations for any reason, our results of operations would be adversely impacted.

The absence of arm' s length bargaining may mean that our agreements are not as favorable to Unit holders as these agreements otherwise would have been.

Any existing or future agreements between us and our Manager, Realty or their affiliates were not and will not be reached through arm' s length negotiations. Thus, such agreements may not solely reflect your interests as a Unit holder. For example, the Operating Agreement and the Management Agreement were not the result of arm' s length negotiations. As a result, these agreements may be relatively more favorable to the other counterparty than to us.

Since our cash flow is not assured, we may not pay distributions in the future.

Our ability to pay distributions may be adversely affected by the risks described herein. We cannot assure you that we will be able to pay distributions in the future at the same level or at all.

Our Manager' s past performance is not a predictor of our future results.

Neither the track record of our Manager in managing us, nor its performance with entities similar to ours, shall imply or predict (directly or indirectly) any level of our future performance or the future performance of our Manager. Our Manager' s performance and our performance is dependent on future events and is, therefore, inherently uncertain. Past performance cannot be relied upon to predict future events for a variety of factors, including, without limitation, varying business strategies, different local and national economic circumstances, different supply and demand characteristics relevant to buyers and sellers of assets, varying degrees of competition and varying circumstances pertaining to the capital markets.

There is currently no public market for our Units. Therefore, it will likely be difficult for you to sell your Units and, if you are able to sell your Units, you will likely do so at a substantial discount from the price you paid.

There currently is no public market for our Units. Additionally, the Operating Agreement contains restrictions on the ownership and transfer of your Units, and these restrictions may inhibit your ability to sell your Units. It may be difficult for you to sell your Units promptly or at all. If you are able to sell your Units, you may only be able to do so at a substantial discount from the price you paid.

We do not expect to register as an investment company under the Investment Company Act of 1940 and, therefore, we will not be subject to the requirements imposed on an investment company by such Act.

We believe that we will not operate in a manner that requires us to register as an "investment company" under the Investment Company Act of 1940, or the Act. Investment companies subject to this Act are required to comply with a variety of substantive requirements such as requirements relating to:

- limitations on the capital structure of the entity;
- restrictions on certain investments;
- prohibitions on transactions with affiliated entities; and
- public reporting disclosures, record keeping, voting procedures, proxy disclosure and similar corporate governance rules and regulations.

Many of these requirements are intended to provide benefits or protections to security holders of investment companies. Because we do not expect to be subject to these requirements, you will not be entitled to these benefits or protections.

In order to maintain our exemption from regulation under the Act, we must engage primarily in the business of buying real estate. In addition, in order to operate in a manner to avoid being required to register as an investment company we may be unable to sell assets we would otherwise want to sell, and we may need to sell assets we would otherwise wish to retain. This may reduce the cash available for distribution to Unit holders and possibly lower your returns.

If we are required to register as an investment company under the Act, the additional expenses and operational limitations associated with such registration may reduce your investment return.

We do not expect that we will operate in a manner that requires us to register as an "investment company" under the Act. However, the analysis relating to whether a company qualifies as an investment company can involve technical and complex rules and regulations. If we own assets that qualify as "investment securities" as such term is defined under this Act and the value of such assets exceeds 40% of the value of our total assets, we may be deemed to be an investment company. It is possible that many, if not all, of our interests in real estate may be held through other entities and some or all of these interests in other entities may be deemed to be investment securities.

If we held investment securities and the value of these securities exceeded 40% of the value of our total assets we may be required to register as an investment company. Investment companies are subject to a variety of substantial requirements that could significantly impact our operations. The costs and expenses we would incur to register and operate as an investment company, as well as the limitations placed on our operations, could have a material adverse impact on our operations and your investment return.

If we were required to register as an investment company but failed to do so, we would be prohibited from engaging in our business, criminal and civil actions could be brought against us, 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.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to interest rate changes primarily as a result of our long-term debt used to maintain liquidity and fund capital expenditures and operations. Our Manager' s interest rate risk objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives we borrow primarily at fixed rates or variable rates with the lowest margins available and, in some cases, with the ability to convert variable rate debt to fixed rate debt. We may enter into derivative financial instruments such as interest rate swaps, caps and treasury locks in order to seek to mitigate our interest rate risk on a related financial instrument. We do not enter into derivative or interest rate transactions for speculative purposes.

Our interest rate risk is monitored using a variety of techniques. The table below presents, as of December 31, 2004, the principal amounts and weighted-average interest rates by year of expected maturity to evaluate the expected cash flows and sensitivity to interest rate changes.

	2005	2006	2007	2008	2009	Thereafter	Total	Fair Value
Fixed rate debt – principal payments	$ 8,500,000	$ –	$ –	$ –	$ –	–	$ 8,500,000	$ 8,810,000
Average interest rate on maturing debt	10.3 %	–	–	–	–	–	10.3 %	–
Variable rate debt – principal payments	$ 11,084,000	809,000	993,000	2,239,000	–	–	$ 15,125,000	$ 15,451,000
Average interest rate on maturing debt	5.0 %	4.5 %	4.5 %	4.5 %	–	–	4.9 %	–

The estimated fair value of debt was $24,261,000 at December 31, 2004.

The weighted-average interest rate of mortgage debt as of December 31, 2004 was 6.9% per annum. At December 31, 2004, our mortgage debt consisted of $8,500,000, or 36.0%, of the total debt at a weighted average fixed interest rate of 10.3% per annum.

An increase in the variable interest rate on certain mortgages payable constitutes a market risk. As of December 31, 2004, for example, a 0.25% increase in LIBOR would have increased the overall interest expense by $27,500 or less than a 1.88% increase to interest expense.

The table below presents, as of December 31, 2003, the principal amounts and weighted-average interest rates by year of expected maturity to evaluate the expected cash flows and sensitivity to interest rate changes.

	2004	2005	2006	2007	2008	Thereafter	Total	Fair Value
Fixed rate debt	$ 4,500,000	–	–	–	–	–	$ 4,500,000	$ 5,084,000
Average interest rate on maturing debt	10.5 %	–	–	–	–	–	10.5 %	–
Variable rate debt	–	–	–	–	–	–	–	–
Average interest rate on maturing debt	–		–	–		–		–

The estimated fair value of debt was $5,084,000 at December 31, 2003.

The weighted-average interest rate of mortgage debt as of December 31, 2003 was 10.5% per annum. At December 31, 2003, our mortgage debt consisted of $4,500,000, or 100% of the total debt at a weighted average fixed interest rate of 10.5% per annum.

Item 3. *Properties*

Our portfolio consists of five consolidated properties and interests in four unconsolidated properties as of December 31, 2004.

Consolidated Properties

2004 Acquisitions

Oakey Building − Las Vegas, Nevada

On April 2, 2004, we, as a member of NNN Oakey Building, LLC, purchased a 75.4% interest in the Oakey Building, a four-story, Class A office building of 98,000 square feet located in Las Vegas, Nevada. In the purchase transaction, T REIT, Inc., an affiliated party, who is also managed by our Manager, acquired a 9.8% interest in Oakey Building and unaffiliated members acquired the remaining 14.8%. The purchase price for the Oakey Building was $8,137,000. Our initial investment was $6,178,000. The purchase was financed by $4,000,000 in borrowings secured by the property. The loan is payable to the Ivan Halaj and Vilma Halaj Inter Vivos Trust. The loan requires principal and interest payments at a fixed interest rate of 10.0% per annum until the due date of April 1, 2005. On April 1, 2005, the loan was extended until October 1, 2005 and from that date bears interest at a fixed interest rate of 8.0% per annum. The seller paid Realty a sales commission of $237,000, or 2.9% of the purchase price, of which 75% was passed though to our Manager pursuant to the Realty-Triple Net Agreement.

Southwood Tower − Houston, Texas

On October 27, 2004, through our wholly-owned subsidiary NNN VF Southwood Tower, LP, we purchased a 100% interest in Southwood Tower, a Class A office building of 79,000 square feet located in Houston, Texas. The property was purchased from an unaffiliated third party for a purchase price of $5,461,000. The seller paid Realty a sales commission of $159,000, or 2.9% of the purchase price, of which 75% was passed through to our Manager pursuant to the Realty-Triple Net Agreement. There was no debt incurred on the purchase of this property.

Financial Plaza − Omaha, Nebraska

On October 29, 2004, through our wholly-owned subsidiary NNN VF Financial Plaza, LLC, we purchased a 100% interest in Financial Plaza, a four-story, Class A office building of 86,000 square feet located in Omaha, Nebraska. The property was purchased from an unaffiliated third party for a purchase price of $5,660,000. At acquisition, we obtained a first mortgage loan from American Express Certificate Company in the amount of $4,125,000, which bears interest at a 6-month LIBOR plus 180 basis points. The initial term of the loan is three years from the date of acquisition. The seller paid Realty a sales commission of $160,000, or 2.8% of the total purchase price, of which 75% was passed through to our Manager pursuant to the Realty-Triple Net Agreement.

Satellite Place − Atlanta, Georgia

On November 29, 2004, through our wholly-owned subsidiary, NNN VF Satellite Place, LLC, we purchased a 100% interest in Satellite Place, two single-story, Class A office buildings totaling 178,000 square feet located in Atlanta, Georgia. The property was purchased from an unaffiliated third party for a purchase price of $18,300,000. At acquisition, we obtained a first mortgage loan from LaSalle Bank National Association, or LaSalle, in the amount of $11,000,000, which bears interest at 30-day LIBOR plus 275 basis points. The initial term of the loan is six months from the date of acquisition with one six-month option to extend and an option to convert to fixed-rate debt with LaSalle in favor of the borrower anytime during the term. The seller paid Realty a sales commission of $356,000, or 1.9% of the total purchase price, of which 75% was passed through to our Manager pursuant to the Realty-Triple Net Agreement.

Unconsolidated Properties

801 K Street − Sacramento, California

On March 31, 2004, we, as a member of NNN 801 K Street, LLC, a Delaware limited liability company, purchased an 18.3% interest in 801 K Street, a 28-story, Class A office building of 336,000 square feet located in Sacramento, California.

As of December 31, 2004, 801 K Street is owned by the following interest holders as tenants-in-common, or TIC' s:

Tenants-in-Common	Interest Held
NNN 801 K Street, LLC	21.5%
Unaffiliated third parties (combined)	78.5%

As of December 31, 2004, NNN 801 K Street, LLC, which owns an aggregate 21.5% interest in 801 K Street, is owned by the following members, with the proportionate membership interest and interest in 801 K Street listed respectively:

Members	Membership Interest in NNN 801 K Street, LLC	Interest in 801 K Street Property
NNN 2003 Value Fund, LLC	85.0%	18.3%
Unaffiliated members (combined)	15.0%	3.2 %

The property was purchased from an unaffiliated third party for a purchase price of $65,780,000. The cash investment was $20,780,000. Our total investment consisted of $12,064,000. We use the equity method of accounting to account for this investment. At acquisition, the owners obtained a first mortgage loan from HSH Nordbank AG in the amount of $45,000,000 as follows: initial funding of $41,350,000 with a holdback of loan proceeds of $3,650,000, which will be released once the property has reached certain operational requirements. The loan bears interest at a 30-day LIBOR plus 200 basis points until the property reaches 80% leasing at which time interest is reduced to 30-day LIBOR plus 190 basis points. The first 24 months of the loan term are interest only; the last 12 months of the initial loan term are amortized with $56,250 monthly principal payments. The initial term of the loan is three years, due March 2007. The borrower has an option to extend the maturity date for two 12-month terms. The rate was 4.18% at December 31, 2004. The seller paid Realty a sales commission of $1,500,000, or 2.3% of the total purchase price, of which 75% was passed through to our Manager pursuant to the Realty-Triple Net Agreement.

Enterprise Technology Center − Scotts Valley, California

On May 7, 2004, we, as a member of NNN Enterprise Technology Center, LLC, a Delaware limited liability company, purchased an 8.5% interest in Enterprise Technology Center, a Class A office building campus of 370,000 square feet located in Scotts Valley, California.

As of December 31, 2004, Enterprise Technology Center is owned by the following interest holders as TIC' s:

Tenants-in-Common	Interest Held
NNN Enterprise Technology Center, LLC	11.6%
Unaffiliated third parties (combined)	88.4%

As of December 31, 2004, NNN Enterprise Technology Center, LLC, which owns an aggregate 11.6% interest in Enterprise Technology Center, is owned by the following members, with the proportionate membership interest and interest is Enterprise Technology Center listed respectively:

Members	Membership Interest in NNN Enterprise Technology Center, LLC	Interest in Enterprise Technology Center Property
NNN 2003 Value Fund, LLC	73.3%	8.5%
Unaffiliated members (combined)	26.7%	3.1%

The property was purchased from an unaffiliated third party for a purchase price of $61,300,000. Our total investment consisted of $5,233,000. We use the equity method of accounting to account for this investment. At acquisition, the owners obtained a first mortgage loan from UBS Investment Bank, in the amount of $36,500,000, which bears interest at a variable rate of prime plus 1% per annum with a floor of 5.5%. The note requires monthly interest only payments. The initial term of the loan is 36 months and may be extended by the borrower for an additional 24 months. The rate was 6.44% at December 31, 2004. The seller paid Realty a sales commission of $1,800,000, or 2.9% of the total purchase price, of which 75% was passed through to our Manager pursuant to the Realty-Triple Net Agreement.

Emerald Plaza – San Diego, California

On June 14, 2004, we, as a member of NNN Emerald Plaza, LLC, purchased a 4.6% interest in the Emerald Plaza Building in San Diego, CA. Emerald Plaza is a Class A office tower of 355,000 square feet located in downtown San Diego, California.

As of December 31, 2004, Emerald Plaza is owned by the following interest holders as TIC' s:

Tenants-in-Common	Interest Held
NNN Emerald Plaza, LLC	20.5%
Unaffiliated third parties (combined)	77.6%
AWT Family, LP, a limited partnership wholly owned by Anthony W. Thompson	1.9 %

As of December 31, 2004, NNN Emerald Plaza, LLC which owns an aggregate 20.5% interest in Emerald Plaza, is owned by the following members, with the proportionate membership interest and interest in Emerald Plaza listed respectively:

Members	Membership Interest in NNN Emerald Plaza, LLC	Interest in Emerald Plaza Property
NNN 2003 Value Fund, LLC	22.2%	4.6 %
Unaffiliated Members (combined)	64.2%	13.2%
T REIT, LP	13.2%	2.7 %
Affiliated Members (combined)	0.4 %	0.1 %

The LLC members include T REIT, Inc, an affiliated party that is also managed by our Manager, and affiliated members, including two members of the Board of Managers.

Emerald Plaza was purchased from an unaffiliated third party for a purchase price of $100,940,000. Our investment consisted of $4,595,000. We use the equity method of accounting to account for this investment. The property was financed with a $68,500,000 secured loan from Citigroup Global Markets Realty Corp. The loan requires interest only payments through the maturity date of June 17, 2007 at a variable interest rate based on 30-day LIBOR plus 245 basis points. The rate in effect at December 31, 2004 was 4.93% per annum. The seller paid Realty a sales commission of $2,940,000, or 2.9% of the purchase price, of which 75% was passed through to our Manager pursuant to the Realty-Triple Net Agreement.

2004 Property Held for Sale

Satellite Place − Atlanta, Georgia

On December 17, 2004, we entered into an agreement to sell our wholly-owned property, Satellite Place, located in Atlanta, Georgia, to NNN Satellite 1100 & 2000, LLC for a sales price of $19,410,000. Because the property was purchased by TIC entities also managed by our Manager, the Board of Managers engaged an independent third party to provide an opinion as to the fairness of the transaction to us, which opinion was received prior to the consummation of the transaction. This property was classified as property held for sale and discontinued operations on our 2004 financial statements. The property was sold on February 24, 2005. In connection with the sale, the first mortgage note of $11,000,000, plus accrued interest, was repaid to LaSalle. Our net proceeds from this sale were $7,727,000 after closing costs. The sale resulted in a net gain of approximately $70,000. Realty did not receive a disposition fee for the sale of the property.

2003 Acquisitions

Consolidated Properties

Executive Center I − Dallas, Texas

On December 30, 2003, through our wholly-owned subsidiary NNN Executive Center 2003, LLC, we purchased a 100% interest in Executive Center I, a Class A office building of 208,000 square feet located in Dallas, Texas. The property was purchased from an unaffiliated third party for a purchase price of $8,178,000. At acquisition, we obtained a first mortgage loan from Vestin Mortgage, Inc. in the amount of $4,500,000 which bears interest at a fixed rate of 10.5% per annum. The initial term of the loan was one year from the date of acquisition. On November 5, 2004, for a fee of $34,000, this loan was extended until March 30, 2005. On February 15, 2005, for an additional fee of $34,000, this loan was extended until June 30, 2005. The seller paid Realty a sales commission of $223,000, or 2.7% of the total purchase price, of which 75% was passed through to our Manager pursuant to the Realty-Triple Net Agreement.

Unconsolidated Properties

Executive Center II & III, Dallas, Texas

On August 1, 2003, we, as a member of NNN Executive Center II & III, LLC, a Texas limited liability company, purchased a 38.1% interest in Executive Center II & III, two Class A office buildings, totaling 381,000 square feet located in Dallas, Texas.

As of December 31, 2004 and 2003, Executive Center II & III is owned by the following interest holders as TIC' s:

Tenants-in-Common	Interest Held
NNN Executive Center II & III, LLC	49.6%
Unaffiliated third parties (combined)	48.9%
AWT Family, LP, a limited partnership wholly owned by Anthony W. Thompson	1.5 %

As of December 31, 2004, NNN Executive Center II & III, LLC, which owns an aggregate 49.6% interest in Executive Center II & III, is owned by the following members, with the proportionate membership interest listed respectively:

Members	Membership Interest In NNN Executive Center II & III, LLC	Interest in Executive Center II & III Property
NNN 2003 Value Fund, LLC	76.8%	38.1%
Unaffiliated members (combined)	23.2%	11.5%

The property was purchased from an unaffiliated third party for a purchase price of $24,600,000. Our total investment consisted of our proportionate share of the purchase price of $9,390,000. We use the equity method of accounting to account for this investment. At acquisition, the owners obtained a first mortgage loan from LaSalle in the amount of $14,950,000, which bears interest at 30-day LIBOR plus 300 basis points, with a floor of 5.0% per annum. The interest rate at December 31, 2004 and 2003 were 5.25% per annum and 5.0% per annum, respectively. The initial term of the loan was one year and on August 1, 2004, was extended for two additional six-month terms for a fee of $148,000. The loan requires monthly principal payments of $14,730 plus interest. The seller paid Realty a sales commission of $600,000, or 2.4% of the total purchase price, of which 75% was passed through to our Manager pursuant to the Realty-Triple Net Agreement.

Lease Expiration Table

The following schedule presents the sensitivity of the annual base rent due to lease expirations for the next ten years at our properties as of December 31, 2004.

Year Ended December 31,	Number of Leases Expiring	Total Square Footage of Expiring Leases	% of Total GLA Represented by Expiring Leases	Annual Base Rent	Percent of Total Annual Base Rent Represented by Expiring Leases
2005	14	118,000	29.2 %	$ 3,494,000	43.8 %
2006	7	58,000	14.3	937,000	11.7
2007	14	53,000	13.1	820,000	10.3
2008	4	19,000	4.7	349,000	4.4
2009	8	121,000	29.9	1,771,000	22.2
2010	2	3,000	0.7	65,000	1.0
2011	–	–	–	–	–
2012	–	–	–	–	–
2013	1	33,000	8.1	539,000	6.6 %
2014	–	–	–	–	–
Thereafter	–	–	–	–	–
Total	50	405,000	100.0%	$ 7,975,000	100.0%

Significant Tenants

As of December 31, 2004, one of our tenants at our consolidated properties accounted for 10% or more of our aggregate annual rental income.

Tenant	2004 Annual Base Rent	% of 2004 Annual Base Rent	Property	Square Footage	Lease Expiration Date
General Services Administration (IRS)	$ 3,014,000	37.7%	Oakey Building	84,000	05/31/05

Our Manager has been advised that the IRS will exercise its 30-day early opt out provision and terminate its lease on April 30, 2005. The IRS currently occupies 84,000 square feet, or 85.7% of the GLA of the 84,000 square feet at the Oakey Building property. Our Manager was able to lease the entire 98,000 square foot building to one tenant beginning August 1, 2005. The new lease is for a six-year term and has staggered occupancy and rent commencement dates. The lease will be fully operational beginning January 1, 2007. Due to the staggered occupancy and commencement of rent of the new lease, we expect our 2005 rental income will be reduced by approximately $1,500,000.

Item 4. *Security Ownership of Certain Beneficial Owners and Management*

The following table shows, as of May 2, 2005, the number and percentage of Units owned by:

- each person who is known to us to hold more than a 5% interest in us
- the chief executive officer of our Manager (1)(2);
- the members of the Board of Managers(1); and
- the members of the Board of Managers and our Manager' s executive officers (1) as a group.

Name	Beneficially Owned No. of Units	Percentage of Outstanding Units
Triple Net Properties, LLC(2)	–	–
Anthony W. Thompson(2)	–	–
Members of the Board of Managers as a group(1)(2)	5	*
Members of the Board of Managers and our Manager' s executive officers as a group(1)(2)	5	*

* Less than 1%

(1) We have no directors or executive officers.

(2) The address for all persons named is 1551 N. Tustin Avenue, Suite 200, Santa Ana, California 92705.

We are not aware of any arrangements which may at a subsequent date result in a change in control of us.

Item 5. *Managers and Executive Officers*

We have no directors or executive officers. We are managed by our Manager and employees of our Manager provide services to us. The members of the Board of Managers serve for unlimited terms and our Manager' s executive officers serve at the discretion of the Board of Managers. The members of the Board of Managers and our Manager' s executive officers are as follows:

Name	Age	Position	Term of Office
Anthony W. Thompson	58	Chief Executive Officer and Chairman of the Board of Managers	Since 1998
Louis J. Rogers	48	President and Member of the Board of Managers	Since 2004
Talle A. Voorhies	57	Chief Operating Officer, Secretary and Member of the Board of Managers	Since 1998
Jack R. Maurer	61	Executive Vice President and Member of the Board of Managers	Since 1998
Daniel R. Baker	53	Member of the Board of Managers	Since 1998
Scott D. Peters	47	Chief Financial Officer, Executive Vice President and Member of the Board of Managers	Since 2004
Andrea R. Biller	54	General Counsel	Since 2003
Kelly J. Caskey	37	Chief Accounting Officer – REITs	Since 2004
Shannon Alter	51	Senior Vice President – Director of Operations	Since 2002
Richard T. Hutton, Jr.	52	Executive Vice President and Chief Investment Officer	Since 1999
Lois A. Stevens	46	Vice President – Internal Audit	Since 2004

Anthony W. "Tony" Thompson founded our Manager and has been its chief executive officer and chairman of the Board of Managers since its inception in April 1998. He is also president and until December 31, 2004, sole owner of Triple Net Properties Realty, Inc., an affiliated real estate brokerage and management company that provides certain real estate brokerage and management services to us (effective January 1, 2005, Mr. Thompson owned 88% of Realty). Prior to April of 1998, Mr. Thompson was co-founder, co-owner, director and officer of a number of real estate investment entities trading under the name The TMP Companies, including the TMP Group, Inc., a full-service real estate investment firm. Mr. Thompson is a registered securities principal with the National Association of Securities Dealers and until December 31, 2004, the president and sole owner of NNN Capital Corp., the dealer manager (effective January 1, 2005, Mr. Thompson owned 95% of NNN Capital Corp.). He is a 1969 graduate of Sterling College with a B.S. degree in economics. He is also a member of the Sterling College Board of Trustees, The Bowers Museum Committee and various other community and charitable organizations. Mr. Thompson serves as the chairman of the board of directors for each of G REIT, Inc. and T REIT, Inc.

Louis J. Rogers has served as president and a member of the Board of Managers of our Manager since August 2004 and September 2004, respectively. Mr. Rogers was a member and shareholder of the law firm of Hirschler Fleischer from 1986 and 1994, respectively, until January 1, 2005, where he specialized in structuring like-kind (Section 1031) exchanges, private placements and syndications, formation and operation of real estate investment trusts and acquisitions and financings for real estate transactions. Effective January 1, 2005, Mr. Rogers serves as senior counsel to Hirschler Fleischer. Mr. Rogers earned a B.S. degree from Northeastern University in 1979 (with highest honors), a B.A. degree (with honors) in 1981 and an M.A. degree in 1985 in Jurisprudence from Oxford University and a J.D. degree in 1984 from the University of Virginia School of Law. Mr. Rogers is a member of the Virginia State Bar.

Talle A. Voorhies has served as a member of the Board of Managers since 1998. She also served as our Manager' s executive vice president from April 1998 to December 2001, when she became chief operating officer. Ms. Voorhies served as president (April 1998-February 2005) and financial principal (April 1998-November 2004) of NNN Capital Corp., the dealer manager of our offering. From December 1987 to January 1999, Ms. Voorhies worked with the TMP Group, Inc., where she served as chief administrative officer and vice president of broker-dealer relations. Ms. Voorhies is responsible for our Manager' s investor services department and is a registered financial principal with the NASD.

Jack R. Maurer has served as the executive vice president and a member of the Board of Managers since April 1998. Mr. Maurer also served as chief financial officer of our Manager from April 1998 to December 2001 and as chief operating officer and financial principal of NNN Capital Corp. from December 2001 to the present. From 1986 to April 1988, Mr. Maurer was a General Partner and chief executive officer of Wescon Properties, a Santa Ana based real estate development company. His previous experience also includes employment at the national accounting firm of Kenneth Leventhal and Company. Mr. Maurer received a B.S. degree from California University at Northridge in 1973 and has served as president and chief executive officer of T REIT, Inc. since August 2004.

Daniel R. "Dan" Baker, has served as a member of the Board of Managers since April 1998. Mr. Baker founded SugarOak Corporation in 1984 and served as its president until 2004. SugarOak Corporation provided asset management, construction management, property management and real estate development services. Since 2004, Mr. Baker has served as chairman of the board of SugarOak Holdings, a successor to SugarOak Corporation. SugarOak Holdings has three subsidiaries whose activities include construction, asset management and syndication. Mr. Baker is also president and chairman of the Board of Union Land and Management Company and director and president of Coastal American Corporation. In addition, Mr. Baker is a founding and former director of the Bank of the Potomac, a former board member of F&M Bank and currently an advisory board member of BB&T Bank. A *cum laude* graduate of Harvard College with a degree in government, Mr. Baker participates in numerous community organizations. Mr. Baker is a former Citizen of the Year in Herndon, Virginia and a Paul Harris Fellow in Rotary.

Scott D. Peters has served as chief financial officer, executive vice president and a member of the Board of Managers since September 2004 and is responsible for all areas of finance, including accounting and financial reporting, as well as a liaison for institutional investors, lenders and investment banks. Effective September 2004, Mr. Peters also serves as the executive vice president and chief financial officer of G REIT, Inc. and T REIT, Inc. From September 2004 through January 2005, he also served as executive vice president and chief financial officer of A REIT, Inc. From July 1996, Mr. Peters has served as senior vice president, chief financial officer and a director of Golf Trust of America, Inc., a publicly traded corporation. Mr. Peters received a B.B.A. degree in accounting and finance from Kent State University.

Andrea R. Biller has served as General Counsel for our Manager since March 2003, overseeing all legal functions for our Manager and coordinating with outside counsel. Ms. Biller practiced as a private attorney specializing in securities and corporate law from 1990 to 1995 and 2000 to 2002. She practiced at the SEC from 1995 to 2000, including two years as Special Counsel for the Division of Corporation Finance. Ms. Biller earned a B.A. degree in psychology from Washington University, an M.A. degree in psychology from Glassboro State University and a J.D. degree from George Mason University School of Law in 1990, where she graduated first in her class "With Distinction." Ms. Biller is a member of the California, Virginia and the District of Columbia State Bars.

Kelly J. Caskey has served as our Manager' s chief accounting officer-REITs since May 2004. Since September 2004 she also serves as chief accounting officer for each of G REIT, Inc. and T REIT, Inc. Effective November 2004 and January 2005, Ms. Caskey served as chief accounting officer and chief financial officer, respectively, of A REIT, Inc. From April 1996 to May 2004, Ms. Caskey served as assistant controller of The First American Corporation, Inc., a publicly traded company, and vice president and assistant controller of First American Title Insurance Company, a subsidiary of The First American Corporation. Ms. Caskey is a California Certified Public Accountant and received a B.S. degree in business administration with an accounting concentration from California State University, Fullerton.

Shannon Alter has served as senior vice president-director of operations for our Manager since June 2002. Ms. Alter oversees our Manager' s portfolio, manages the property management staff and is responsible for managing third party property managers. Ms. Alter owned and managed Retail Management Services, a commercial real estate consulting firm, from 1996 to June 2002. Ms. Alter' s experience includes prior positions as manager of property management for The Vons Companies, Inc. and director of property management for Diversified Shopping Centers. She was the 2004 President of the Orange County IREM chapter and teaches IREM courses on a national and local basis. Ms. Alter was awarded the Journal of Property Management Article of the Year award for 1998 and 1999. Ms. Alter holds a B.A. degree from the University of Southern California.

Richard T. Hutton Jr. has served as an executive vice president and chief investment officer of our Manager since April 1999 and August 2003, respectively. Mr. Hutton also served as our Manager' s interim chief financial officer from October 2003 through December 2003 and April 2004 through September 2004. From April 1999 to August 2003, Mr. Hutton served as senior vice president − real estate acquisitions and vice president − property management of our Manager. Mr. Hutton' s previous experience includes serving as controller for the TMP Group from November 1997 to April 1999. Mr. Hutton also served as the interim chief financial officer of T REIT, Inc. and G REIT, Inc. from October 2003 through December 2003 and April 2004 through September 2004. Mr. Hutton has a B.A. degree in psychology from Claremont McKenna College and has been licensed as a Certified Public Accountant in California since 1984.

Lois A. Stevens has served as vice president − internal audit of our Manager since May, 2004 and oversees the internal audit function for each of our Manager, G REIT, Inc., T REIT, Inc., NNN 2002 Value Fund, LLC and us. Ms. Stevens served in various positions including Vice President − Finance, Controller and Financial Reporting and Systems Manager for McCormick and Company, Inc., a publicly traded Fortune 500 company, from 1987 until 2004. Ms. Stevens has a B.A. degree from Towson State

University and an M.B.A. degree from the University of Maryland. Ms Stevens has been licensed as a Certified Public Accountant in both California and Maryland.

Fiduciary Relationship of our Manager and Us

Our Manager is a fiduciary of us and has fiduciary duties to us and our Unit holders pursuant to the Operating Agreement and under applicable law. Our Manager' s fiduciary duties include responsibility for our control and management and exercising good faith and integrity in handling our affairs. Our Manager has a fiduciary responsibility for the safekeeping and use of all our funds and assets, whether or not in our immediate possession and control, and may not use or permit another to use such funds or assets in any manner except for our exclusive benefit.

Our funds will not be commingled with the funds of any other person or entity except for operating revenue from our properties.

Our Manager may employ persons or firms to carry out all or any portion of our business operations. Some or all such persons or entities employed may be affiliates of our Manager or Mr. Thompson. It is not clear under current law the extent, if any, to which such parties will have a fiduciary duty to us or our members. Investors who have questions concerning the fiduciary duties of our Manager should consult with their own legal counsel.

Compensation of Our Manager

For a description of the compensation received by our Manager and its affiliates see "Certain Relationships and Related Transactions."

Item 6. ***Executive Compensation***

We are managed by our Manager and we have no directors or executive officers to whom we pay compensation.

Item 7. ***Certain Relationships and Related Transactions***

The Operating Agreement

Pursuant to the Operating Agreement, our Manager, which is 36% owned by Anthony W. Thompson, our Manager' s chairman and chief executive officer, is entitled to receive the following payments and fees described below. These payments and fees were not negotiated at arm' s length and may be higher than payments and fees that would have resulted from an arm' s length transaction with an unrelated entity.

	Year Ended December 31, 2004	From June 19, 2003 (Date of Inception) through December 31, 2003
Manager' s Compensation from Us for:		
Acquisition Fees(1)	$ 1,623,000	$ 377,000
Organizational & Marketing Costs(2)	2,781,000	607,000
Expenses, Costs, or Fees(3)	–	–
Operating Expenses(4)	–	–
Distributions – Cash from Operations(5)	–	–
Distributions – Cash from Capital Transactions(6)	–	–

(1) Our Manager is entitled to receive 4% of the funds raised in our Private Placement of Units, for services rendered in connection with the due diligence investigation and acquisition of interests in real estate properties by us during the course of the investment and holding period.

(2) We have agreed to reimburse our Manager for organizational costs and marketing expenses incurred by our Manager in connection with our Private Placement of Units. We have reimbursed our Manager for the amounts incurred as set forth in the table above.

(3) We have agreed to reimburse our Manager and its affiliates certain expenses, costs and fees incurred by our Manager, including, without limitation, for the cash payments, certain closing costs, escrow deposits, loan commitment fees, project studies and travel expenses related to the analysis and acquisitions of our properties. Our Manager did not incur and, therefore, was not reimbursed for, any such expenses, costs or fees for the year ended December 31, 2004 or the period from June 19, 2003 (date of inception) to December 31, 2003.

(4) We have agreed to reimburse our Manager for reasonable and necessary expenses paid or incurred by our Manager in connection with our operation, including any legal and accounting costs and the costs incurred in connection with the acquisition of our properties, including travel, surveys, environmental and other studies and interest expense incurred on deposits or expenses. Our Manager did not incur and, therefore, was not reimbursed for, any such expenses, costs or fees for the year ended December 31, 2004 or the period from June 19, 2003 (date of inception) to December 31, 2003.

(5) Our Manager is entitled to receive from us distributions that relate to cash from operations as discussed below under “Description of Registrant’ s Securities to be Registered − Distributions − Cash from Operations.” Our Manager did not receive any such distributions for the year ended December 31, 2004 or the period from June 19, 2003 (date of inception) to December 31, 2003.

(6) Our Manager is entitled to receive from us distributions that relate to cash from Capital Transactions as discussed below under “Description of Registrant’ s Securities to be Registered − Distributions − Cash from Capital Transactions.” Our Manager did not receive any such distributions for the year ended December 31, 2004 or the period from June 19, 2003 (date of inception) to December 31, 2003.

The Management Agreement

Pursuant to the Operating Agreement and the Management Agreement, Realty, or in some cases, an affiliate of Realty, is entitled to receive the payments and fees described below. These payments and fees were not negotiated at arm’ s length and may be higher than payments and fees that would have resulted from an arm’ s length negotiation and transaction with an unrelated entity.

	Year Ended December 31, 2004	From June 19, 2003 (Date of Inception) to December 31, 2003
Realty’ s Compensation from Us for:		
Management Fees(1)	$ 272,000	$ −
Lease Commissions(2)	−	−
Project Fees(3)	−	−
Selling Commissions(4)	−	−
Loan Fees(5)	−	−
Real Estate Commissions(6)	912,000	223,000

(1) Realty is entitled to receive for its services in managing our properties, a monthly management fee of up to 6% of the gross receipts revenue of the properties. 100% of all management fees are passed through to our Manager pursuant to the terms of the Realty-Triple Net Agreement.

(2) Realty is entitled to receive, for its services in leasing our properties a leasing commission equal to 6% of the value of any lease entered into during the term of the Management Agreement and 3% with respect to any renewal. The value of the lease will be calculated by totaling the minimum monthly rent for the term of the lease. The term of the lease will not exceed five years for purposes of the computation and will not include option periods. 100% of all leasing commission received by Realty are passed through to our Manager pursuant to the terms of the Realty-Triple Net Agreement.

(3) Realty is entitled to receive for its services in supervising any construction or repair project in or about our properties a construction management fee equal to 5% of any amount up to $25,000, 4% of any amount over $25,000 but less than $50,000, and 3% of any amount over $50,000 which is expended in

any calendar year for construction or repair projects. 100% of all construction fees received by Realty are passed through to our Manager pursuant to the terms of the Realty-Triple Net Agreement

(4) Realty is entitled to receive a selling commission of up to 5% of the gross sales price of any of our properties. No properties have been sold by us in 2003 or 2004. 75% of all selling commissions received by Realty are passed through to our Manager pursuant to the terms of the Realty-Triple Net Agreement

(5) Realty is entitled to receive a loan fee in the amount of 1% of the principal amount of all loans obtained by it for our properties during the term of the Property Management Agreement. 100% of all loan fees received by Realty are passed through to our Manager pursuant to the terms of the Realty-Triple Net Agreement

(6) Realty is entitled to receive a real estate commission in connection with our real estate acquisitions. 75% of all commissions received by Realty are passed through to our Manager pursuant to the terms of the Realty-Triple Net Agreement. These fees are paid by the selling entity; therefore, the real estate commissions that were paid in connection with our acquisitions were not paid by us.

Selling Commissions

Pursuant to the Private Placement Memorandum, NNN Capital Corp., which was solely owned during the offering period by Anthony W. Thompson, our Manager' s chairman and chief executive officer, received selling commissions of up to 8.0% of the gross proceeds from the Private Placement, which were reallowed to the broker-dealer selling group. NNN Capital Corp. also received a non-accountable marketing and due diligence expense allowance in the amount of 1.5% of the gross proceeds, which it could reallow to other members of the selling group on an accountable basis. In addition, NNN Capital Corp. received a nonaccountable marketing and due diligence expense allowance for serving as the managing broker dealer in the amount of 1.0% of the gross proceeds which it did not reallow to other members of the selling group. We incurred $4,099,000 and $1,050,000 for the year ended December 31, 2004 and the period from June 19, 2003 (date of inception) to December 31, 2003, respectively, to NNN Capital Corp. for selling commissions and marketing and due diligence expenses.

Legal Counsel

Hirschler Fleisher, a Professional Corporation, acts as legal counsel to us. During the year ended December 31, 2004, Louis J. Rogers was a member and stockholder of Hirschler Fleisher. Effective August 15, 2004, Mr. Rogers was appointed president of our Manager and effective September 27, 2004, Mr. Rogers was appointed a member of our Manager' s Board of Managers. Effective January 1, 2005, Mr. Rogers serves as senior counsel to Hirschler Fleisher. Also, effective January 1, 2005, Mr. Rogers owns 2% of our Manager, 12% of Realty and 5% of NNN Capital Corp., affiliated entities of our Manager.

Manager' s Ownership Interest in Our Company

As of December 31, 2004 and 2003, a member of the Board of Managers owned five Units, or less than 1%, in us.

Item 8. *Legal Proceedings*

On September 16, 2004, our Manager advised us that it learned that the SEC is conducting an investigation referred to as *"In the matter of Triple Net Properties, LLC."* The SEC has requested information from our Manager relating to disclosure in securities offerings (including offerings by G REIT, Inc., T REIT, Inc. and A REIT, Inc.) and the exemption from the registration requirements of the Securities Act for the private offerings in which our Manager and its affiliated entities were involved. The SEC has requested financial and other information regarding these entities as well as the limited liability companies advised by our Manager, including us. Our Manager has advised us that it intends to cooperate fully with the SEC' s investigation. This investigation could involve us and fines, penalties or administrative remedies could be asserted against us.

In connection with our offering of the sale of our Units from July 11, 2003 through October 14, 2004, we disclosed the prior performance of all public and non-public investment programs sponsored by our Manager. We now have determined that there were certain errors in those prior performance tables. In particular, the financial information in the tables was stated to be presented in accordance with GAAP. Generally, the tables for the public programs were not presented on a GAAP basis and the tables for the non-public programs were prepared and presented on a tax or cash accounting basis. Moreover, a number of the prior performance data figures were themselves erroneous, even as presented on a tax or cash basis. In particular, certain programs sponsored by our Manager have invested either along side or in other programs sponsored by our Manager. The nature and results of these investments were not fully and accurately disclosed in the tables. In general, the resulting effect is an overstatement of our Manager' s program and aggregate portfolio operating results. The Board of Managers, is considering alternatives to address the errors in the prior performance tables.

We are involved in routine litigation and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance and which collectively are not expected to have a material adverse effect on our business, financial condition or results of operations.

Item 9. *Market for and Distributions on Units and Related Security Holder Matters*

There is currently no established public trading market for our Units.

As of December 31, 2004, there were no outstanding options or warrants to purchase, or securities convertible into, Units. In addition, as of December 31, 2004 and 2003, there were no Units that could be sold pursuant to Rule 144 under the Securities Act or that we have agreed to register under the Securities Act for sale by Unit holders and there were no Units that are being, or have been publicly proposed to be, publicly offered by us.

As of December 31, 2004, there were 785 holders of records of the Units, with 323, 247 and 257 holders of Class A, Class B and Class C Units, respectively. Certain of our Unit holders hold Units in more than one class of Units.

The Operating Agreement provides that Class A Unit holders receive a 10% priority return, Class B Unit holders receive a 9% priority return and Class C Unit holders receive an 8% priority return.

The distributions declared per Class A Unit in each quarter since our inception are as follows:

Quarters Ended	2004	2003
March 31	$ 88	N/A
June 30	$ 88	N/A
September 30	$ 88	N/A
December 31	$ 88	$59

The distributions declared per Class B Unit in each quarter since our inception are as follows:

Quarters Ended	2004	2003
March 31	N/A	N/A
June 30	$88	N/A
September 30	$88	N/A
December 31	$88	N/A

The distributions declared per Class C Unit in each quarter since our inception are as follows:

Quarters Ended	2004	2003
March 31	N/A	N/A
June 30	N/A	N/A
September 30	$59	N/A
December 31	$88	N/A

Our monthly distribution rate from September 30, 2003 through December 31, 2004, has been $88 per Unit or $352 per Unit on an annualized basis, or 7.0% per annum. The declaration of distributions is determined by our Manager who will determine the amount of distributions on a regular basis. The amount of distributions will depend on our actual cash flow, financial condition, capital requirements and such other factors our Manager may deem relevant.

Item 10. *Recent Sales of Unregistered Securities*

We sold 10,000 Units to 785 investors in the Private Placement, which began on July 11, 2003 and ended on October 14, 2004. NNN Capital Corp. served as the managing broker dealer manager of the Private Placement. The aggregate offering price for the Units sold was $50,000,000 and the aggregate fees paid to NNN Capital Corp. in connection with the Private Placement were $5,149,000, of which certain amounts were reallowed to participating broker dealers. The net proceeds from the sale of the Units received by us were $41,674,000. We relied on the exemption from registration provided by Rule 506 under Regulation D and Section 4(2) of the Securities Act in connection with the closing of the Private Placement. In each instance, the purchaser had access to sufficient information regarding us so as to make an informed investment decision. We had a reasonable basis to believe that each purchaser was an accredited investor, as defined in Regulation D under the Securities Act, and was acquiring the Units for investment only and not with a view to distribute, sell, or otherwise transfer the Units. The Units were issued directly by us and did not involve a public offering or general solicitation.

Item 11. *Description of Registrant's Securities to be Registered*

General

The Units represent equity interests in us and entitle their holders to participate in certain allocations and distributions by us. The parties who purchased Units from us became Unit holders in our company with the right to vote on certain company matters. Units may not be freely assigned and are subject to restrictions on transfer by law and by the Operating Agreement. There is no public trading market for the Units and it is not anticipated that a public trading market for the Units will develop.

We were formed under the laws of the State of Delaware. Our Manager is Triple Net Properties, LLC, a Virginia limited liability company. As of May 2, 2005, our consolidated properties and interests in unconsolidated properties were located in Texas, California and Nevada. We are currently qualified to transact business in each of Texas, California and Nevada.

The character and general nature of the business to be conducted by us is the ownership, operation and eventual sale of our properties.

Operating Agreement

The rights and obligations of the Unit holders are governed by the Operating Agreement. The following is a summary of the material provisions of the Operating Agreement and is qualified in its entirety by the full text thereof. The Operating Agreement provides that the purchase price of each Unit shall be paid in full, in cash, at the time of the execution of a subscription agreement, in connection with and as described in the Private Placement Memorandum. Payment of the purchase price for a Unit constitutes the member's initial capital contribution.

Transferability

A member may not sell, assign or otherwise transfer such member' s Units unless certain conditions set forth in the Operating Agreement are satisfied, including the following:

our Manager has consented in writing to the transfer;

the transferee meets the financial qualifications required of all Unit holders;

the transferee is not a minor or any person who, for any reason, lacks the capacity to contract for himself under applicable law (except such limitations shall not restrict the right of any Unit holder to transfer any one or more Units to a custodian or a trustee for a minor or other person who lacks such contractual capacity);

our Manager has determined, with the advice of counsel, that such transfer will not jeopardize the applicability of the exemptions from the registration requirements under the Securities Act of 1933, as amended, and the registration or qualification under state securities laws relied upon by us and our Manager in offering and selling the Units or otherwise violate any federal or state securities laws;

our Manager has determined, with the advice of counsel, that despite the transfer, Units will not be deemed traded on an established securities market or readily tradable on a secondary market (or a substantial equivalent thereof) under the provisions applicable to publicly traded partnership status; provided, however in no event may any Unit holder transfer any Units if such transfer would cause us to have more than 100 members or holders, who have an interest in the net income, net loss and distributions of us, but not the right to vote or to participate in the management of our company, without the express prior written consent of our Manager, which consent may be withheld in our Manager' s sole and absolute discretion;

the transfer is effected by a written instrument of assignment, the terms of which are not in contravention of any of the provisions of the Operating Agreement;

the transferring Unit holder pays a transfer fee in such amount as may be required by our Manager to cover all reasonable expenses, including attorneys' fees, connected with such assignment;

the transfer would not cause a default or otherwise accelerate any payment date on any loan obtained by us; and

the minimum interest transferred is the lesser of one Unit or the member' s entire interest in us.

Upon our Manager' s acceptance of the written instrument of assignment, the assignee shall take the Units subject to all terms of the Operating Agreement and shall become an owner of an interest in the net income, net loss and distributions of us, but shall not have the right to vote or to participate in the management of our company. If a member transfers a Unit in violation of the terms of the Operating Agreement as set forth above, the transferor' s membership interest in us, including the transferor' s entire interest in us and voting rights, will be, at our Manager' s sole option: (i) converted into an economic interest in us, which does not include any right to vote or to participate in the management of our company; or (ii) purchased by us.

Distributions

Cash from Operations

Cash from Operations shall mean the net cash realized by us from any source other than a Capital Transaction (as such term is defined below), after payment of all our cash expenditures, including, without limitation, the following:

all operating expenses including all fees payable to our Manager or its affiliates;

all payments of principal and interest on indebtedness;

expenses for repairs and maintenance, capital improvements and replacements; and

such reserves and retentions as our Manager reasonably determines to be necessary and desirable in connection with the condition of our company.

Cash from Operations is calculated as follows:

	Year Ended December 31, 2004	June 19, 2003 (Date of Inception) to December 31, 2003
Cash flows provided by operating activities (includes payments for interest, repairs and maintenance and reserves)	$ 3,957,000	$ 218,000
Less: principal payments on indebtedness	–	–
Capital improvements	517,000	–
Cash from operations	$ 3,440,000	$ 218,000
Cash distributions	$ 1,908,000	$ 35,000

Cash from Operations will be distributed as follows:

(a) first:

(1) a pro rata share to Unit holders until each has received an 8% cumulative (but not compounded) return on such Unit holder’ s unrecovered capital contributions, on an annualized basis, properly adjusted for any partial years and/or fractional interests;

(2) then, if a balance of Cash from Operations remains after the payments referenced in item (a)(1), a pro rata share to holders of Class A Units and Class B Units until each has received, pursuant to items (a)(1) and (a)(2), a 9% cumulative (but not compounded) return on such Unit holder’ s unrecovered capital contributions, on an annualized basis, properly adjusted for any partial years and/or fractional interests; and

(3) then, if a balance of Cash from Operations remains after the payments referenced in item (a)(2), a pro rata share to holders of Class A Units until each has received, pursuant to items (a)(1), (a)(2) and (a)(3), a 10% cumulative (but not compounded) return on such Unit holder’ s unrecovered capital contributions, on an annualized basis, properly adjusted for any partial years and/or fractional interests; and

(b) second, the aggregate balance, if any, of Cash from Operations that remains after the payments referenced in item (a) shall be divided by the total number of Units, with the resulting fraction being the Per Unit Allocation, and then distributed to the Unit holders and our Manager in the following ratios:

(1) with respect to each Class A Unit, 85% of the Per Unit Allocation to the Class A Unit holder and 15% to our Manager;

(2) with respect to each Class B Unit, 80% to the Per Unit Allocation to the Class B Unit holder and 20% to our Manager; and

(3) with respect to each Class C Unit, 75% to the Per Unit Allocation to the Class C Unit holder and 25% to our Manager.

Cash From Capital Transactions

Cash from Capital Transactions shall mean the net cash realized by us from certain transactions such as financings, refinancings, sales, exchanges, or other dispositions or condemnations of, or casualties to, the properties after payment of all our cash expenditures, including, without limitation, the following:

all fees payable to our Manager or its affiliates;

all payments of principal and interest on indebtedness; and

such reserves and retentions as our Manager reasonably determines to be necessary and desirable in connection with the condition of our company.

Cash from Capital Transactions will be distributed as follows:

(a) first, pro rata to the Unit holders, up to an amount equal to the amount of a Unit holder' s gross amount invested in us and equal in amount to the cash purchase price paid by the Unit holder for the Units purchased, or Unrecovered Equity, reduced, but not below zero, by the cumulative cash from Capital Transactions previously distributed to such Unit holders;

(b) second:

(1) a pro rata share to Unit holders until each has received an 8% cumulative (but not compounded) return on such Unit holder' s unrecovered capital contributions, on an annualized basis, properly adjusted for any partial years and/or fractional interests;

(2) then, if a balance of Cash from Capital Transactions remains after the payments referenced in item (b)(1), a pro rata share to holders of Class A Units and Class B Units until each has received, pursuant to items (b)(1) and (b)(2), a 9% cumulative (but not compounded) return on such Unit holder' s unrecovered capital contributions, on an annualized basis, properly adjusted for any partial years and/or fractional interests; and

(3) then, if a balance of Cash from Capital Transactions remains after the payments referenced in item (b)(2), a pro rata share to holders of Class A Units until each has received, pursuant to items (b)(1), (b)(2) and (b)(3), a 10% cumulative (but not compounded) return on such Unit holder' s unrecovered capital contributions, on an annualized basis, properly adjusted for any partial years and/or fractional interests; and

(c) third, the aggregate balance, if any, of Cash from Capital Transactions that remains after the payments referenced in item (b) shall be divided by the total number of Units, with the resulting fraction being the Per Unit Allocation, and then distributed to the Unit holders and our Manager in the following ratios:

(1) with respect to each Class A Unit, 85% of the Per Unit Allocation to the Class A Unit holder and 15% to our Manager;

(2) with respect to each Class B Unit, 80% to the Per Unit Allocation to the Class B Unit holder and 20% to our Manager; and

(3) with respect to each Class C Unit, 75% to the Per Unit Allocation to the Class C Unit holder and 25% to our Manager.

Allocations

Our taxable income and loss will generally be allocated between the members and our Manager in the same manner as gross income, net profit and net loss are allocated to the capital accounts of the members and our Manager.

Term and Dissolution

Our term will continue indefinitely unless terminated by pursuant to the terms of the Operating Agreement.

Distributions Upon Our Liquidation

Upon our dissolution and termination, each Unit holder may look solely to our assets for all distributions and its capital contributions, but upon dissolution or otherwise, such Unit holder does not have the right to pursue any recourse against our Manager or any other Unit holder.

Repurchase Reserve

Our Manager has the general authority under the Operating Agreement to (i) establish appropriate reserves from our income in an amount our Manager deems appropriate, or a Repurchase Reserve; and (ii) redeem or repurchase Units on our behalf. In addition, the Private Placement Memorandum states that after a period of one year following the termination date of the Private Placement, we may establish a Repurchase Reserve of up to 5% of Cash from Operations in any year, subject to the restrictions and limitations set forth below. The Operating Agreement does not provide specifically for the Repurchase Reserve and does not specify particular procedures with respect to any reserves, redemptions or repurchases effected by our Manager pursuant to the Operating Agreement. The establishment of the Repurchase Reserve is in the sole discretion of our Manager and, if established, the Repurchase Reserve may be terminated at any time in the sole discretion of our Manager. Under certain circumstances, we may, in the sole discretion of our Manager and upon the request of a member, repurchase the Units held by such member. Units owned by our Manager or its affiliates may not be repurchased by us. As of December 31, 2004, our Manager has not established and does not expect to establish a Repurchase Reserve. We do not expect that our Manager will permit the repurchase of any Units and believes that our Manager would only permit such a repurchase, if any, following the establishment of a Repurchase Reserve.

Authority of Our Manager

Our Manager has the exclusive management and control of all aspects of our business. In the course of its management, our Manager may, in its sole discretion, employ such persons, including, under certain circumstances, affiliates of our Manager, as it deems necessary for the efficient operation of our company.

Removal of Manager Only For Cause

Our members have the right, subject to any restrictions established in any loan documents, to remove our Manager by a majority vote only “for cause” as provided in the Operating Agreement. For this purpose, removal of our Manager “for cause” means removal due to the

- gross negligence or fraud of our Manager;
- willful misconduct or willful breach of the Operating Agreement by our Manager;
- bankruptcy, insolvency or inability of our Manager to meet its obligations as they come due; or
- conviction of a felony of Mr. Thompson, chairman of the Board of Managers of our Manager.

Our Manager or any affiliate that owns Units may not participate in any vote to remove our Manager.

Voting Rights of Members

Although they are not permitted to take part in the management or control of our business, our members have the right to vote on the following matters:

removal of our Manager as provided in the Operating Agreement;

removal of the Property Manager as provided in the Management Agreement;

admission of a manager or election to continue our business after a manager ceases to be a manager when there is no remaining manager;

amendment of the Operating Agreement;

any merger, combination or roll-up of our company;

dissolution and winding up of our company;

the sale of all or substantially all of our assets (but not the sale of one or more of our properties); and

election to continue our business in the event of a dissolution event as provided in the Operating Agreement.

All actions of the members will be taken by majority vote except (1) any amendment to the Operating Agreement, and (2) the admission of an additional or successor manager when our Manager will continue as such, which require the consent of our Manager.

Our Manager may at any time call a meeting of our members, or may call for a vote of our members without a meeting on matters on which our members are entitled to vote. In addition, a meeting of our members must be called by our Manager upon receipt of written request for such a meeting by members holding more than 10% of the Units entitled to vote.

Liabilities of Members

A member' s capital is subject to the risks of our business. Members are not permitted to take part in our management or control of our business. Assuming that we are operated in accordance with the terms of the Operating Agreement, a member generally will not be liable for our obligations in excess of his or her total investment and share of undistributed profits. However, a member may be liable for any distributions made to such member if, after such distribution, our remaining assets are not sufficient to pay our then outstanding liabilities, exclusive of liabilities to members. Except as specified therein, the Operating Agreement provides that our members will not be personally liable for our expenses, liabilities or obligations. Our members will not be subject to any liabilities that may arise on behalf of other properties owned, operated or managed by our Manager or its affiliates, except as may be imposed by law.

No Representation of Members

Under the Operating Agreement, each of our members acknowledges and agrees that counsel representing us, our Manager and their affiliates does not represent, and will not be deemed to have represented, or to be representing, any of our members, other than our Manager, in any respect whatsoever.

Books and Records

Our Manager is required to keep true and accurate books of account of all of our financial activities in accordance with accounting principles generally accepted in the United States of America.

Review of Company Information

Our members have the right, upon request of our Manager, to review and obtain certain company books and records, including copies of the following:

a current list of the name and last known business, residence or mailing address of each member and Manager together with the capital contribution and the share in profits and losses of each owner;

a copy of the Certificate of Formation and any amendments thereto;

a copy of the Operating Agreement and any amendments thereto;

copies of our Federal, state, and local income tax or information returns and reports, if any, for the six most recent taxable years;

true and full information regarding the status of our business and financial condition; and

any information required to be made available pursuant to applicable law.

Amendments

The Operating Agreement may be amended by our members with a majority vote, except that our Manager may amend the Operating Agreement without action by our members to:

(1) modify the allocations provisions of the Operating Agreement to comply with Sections 704(b) and 514(c)(9) of the Internal Revenue Code of 1986, as amended;

(2) comply with a requirement by a lender who has made a loan to us secured by a property or as required by a lender in connection with a refinancing that has been properly approved by us;

(3) add to the representations, duties, services or obligations of our Manager or its affiliates for the benefit of our members;

(4) cure any ambiguity or mistake, correct or supplement any provision in the Operating Agreement that may be inconsistent with any other provision, or make any other provision with respect to matters or questions arising under the Operating Agreement that will not be inconsistent with the provisions of the Operating Agreement;

(5) delete or add any provision of the Operating Agreement required to be so deleted or added by the staff of the SEC or by a state "Blue Sky" commissioner or similar official;

(6) amend the Operating Agreement to reflect the addition or substitution of members or the reduction of the capital accounts upon the return of capital to our members;

(7) minimize the adverse impact of, or comply with, any "plan assets" regulations involving retirement or other benefit accounts;

(8) reconstitute us under the laws of another state;

(9) execute, acknowledge and deliver any and all instruments to effectuate the foregoing, including the execution, acknowledgment and delivery of any such instrument by the attorney-in-fact for our Manager under a special or limited power of attorney and to take all such actions in connection therewith as our Manager will deem necessary or appropriate with the signature of our Manager acting alone;

(10) change our name and/or principal place of our business; or

(11) decrease the rights and powers of our Manager (so long as such decrease does not impair the ability of our Manager to manage us and conduct our business affairs).

No amendment will be adopted pursuant to (10) or (11) above without the consent of our members unless the adoption of such amendment:

- is for the benefit of and not adverse to the interests of our members;
- is not inconsistent with Section 7 of the Operating Agreement (pertaining to the management and administration of us by our Manager); and
- does not affect the limited liability of our members or our status as a partnership for federal income tax purposes.

Any amendment described herein is subject to any limitations set forth in the loan agreements.

Indemnification of Our Manager

Our Operating Agreement provides that our Manager will not be liable to us or any of our members for, and shall be indemnified and held harmless from, any loss or damage incurred by our Manager, us or our members in connection with our business, including by way of illustration, but not limitation, costs and reasonable attorneys' fees and any amounts expended in the settlement of any claims of loss or damage resulting from any act or omission performed or omitted in good faith, which shall not constitute gross negligence or willful misconduct, pursuant to the authority granted, to promote our interests. In addition, our Manager shall not be liable to us or our members because any taxing authorities disallow or adjust any deductions or credits in our income tax returns. Therefore, our members will have a more limited right of action against our Manager than they would have absent such exculpatory provisions in the Operating Agreement.

The Operating Agreement generally provides for indemnification of our Manager (and its members, affiliates, officers, partners, directors, employees, agents and assigns) by us, to the extent of our assets, for any claims, liabilities and other losses that they may suffer in dealings with third parties on behalf of us not arising out of gross negligence or willful misconduct. It is the opinion of the SEC that indemnification for liabilities arising under the Securities Act of 1933, as amended, is contrary to public policy and, therefore, unenforceable. The Operating Agreement provides that we shall not indemnify any Manager, or shareholder, director, officer or other employee thereof, for liability imposed or expenses incurred in connection with any claim arising out of a violation of the Securities Act of 1933, as amended, or any other federal or state securities law, with respect to the offer and sale of the Units. In the case of liability arising from an alleged violation of securities laws, our Manager may obtain indemnification if:

- our Manager is successful in defending the action;
- the court specifically approves the indemnification; or
- in the opinion of our counsel, the right to indemnification has been settled by controlling precedent.

Prohibitions

The Operating Agreement provides that our Manager may not receive any rebate, kick-back or give-up in connection with our operation, nor may our Manager participate in any reciprocal business arrangements that would circumvent the restrictions set forth in the Operating Agreement prohibiting certain types of dealings between our Manager or its affiliates and us. Neither a Manager nor any salesperson of Units in us or interests may directly or indirectly pay or award any finder's fees, commissions or other compensation to any person engaged by a potential investor for investment advice as an inducement to such advisor to advise the purchase of an interest in us.

Item 12. *Indemnification of Manager and Officers*

The Delaware Limited Liability Company Act permits a Delaware limited liability company to indemnify and hold harmless any member or manager or other person from and against any and all claims and demands whatsoever. Our Operating Agreement provides that our Manager will not be liable to us or any of our members for, and shall be indemnified and held harmless from (to the full extent of our assets and to the maximum extent permitted by applicable law), any loss or damage incurred by our Manager, us or members due to any act or omission performed or omitted in good faith, which shall not constitute negligence or malfeasance. In addition, our Manager shall not be liable to us or our members because any taxing authorities disallow or adjust any deductions or credits in our income tax returns. Therefore, our members will have a more limited right of action against our Manager than they would have absent such exculpatory provisions in the Operating Agreement.

The Operating Agreement generally provides for indemnification of our Manager (and its members, affiliates, officers, partners, directors, employees, agents and assigns) by us, to the extent of our assets, for any claims, liabilities and other losses that they may suffer in dealings with third parties on behalf of us not arising out of gross negligence or willful misconduct. It is the opinion of the SEC that indemnification for liabilities arising under the Securities Act of 1933, as amended, is contrary to public policy and, therefore, unenforceable. The Operating Agreement provides that we shall not indemnify any Manager, or shareholder, director, officer or other employee thereof, for liability imposed or expenses incurred in connection with any claim arising out of a violation of the Securities Act of 1933, as amended, or any other federal or state securities law, with respect to the offer and sale of the Units. In the case of liability arising from an alleged violation of securities laws, our Manager may obtain indemnification if:

our Manager is successful in defending the action;

the court specifically approves the indemnification; or

in the opinion of our counsel, the right to indemnification has been settled by controlling precedent.

PART IV

Item 13. ***Financial Statements and Supplementary Data***

(1) *Financial Statements.*

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

(2) *Financial Statement Schedule.*

The following financial statement schedule for the year ended December 31, 2004 are submitted herewith:

All schedules other than the ones listed above have been omitted as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Members
NNN 2003 Value Fund, LLC
Santa Ana, California

We have audited the accompanying consolidated balance sheets of NNN 2003 Value Fund, LLC (the "Company"), as of December 31, 2004 and 2003, and the related consolidated statements of operations, members' equity and cash flows for the year ended December 31, 2004 and the period from June 19, 2003 (date of inception) to December 31, 2003. Our audits also included the financial statement schedule listed in the index at Item 15. These consolidated financial statements and the consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the consolidated 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 consolidated 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 referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the year ended December 31, 2004 and the period from June 19, 2003 (date of inception) to December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

/s/ Deloitte & Touche, LLP

Los Angeles, California
May 2, 2005

NNN 2003 VALUE FUND, LLC

CONSOLIDATED BALANCE SHEETS
December 31, 2004 and 2003

	December 31, 2004	December 31, 2003
ASSETS		
Real estate investments:		
Operating properties, net	$ 21,366,000	$ 6,403,000
Property held for sale	15,368,000	−
Investments in unconsolidated real estate	11,482,000	3,053,000
	48,216,000	9,456,000
Cash and cash equivalents	12,033,000	2,625,000
Accounts receivable, net	498,000	−
Due from related parties	180,000	21,000
Restricted cash	274,000	204,000
Identified intangible assets, net	4,611,000	1,699,000
Other assets − discontinued operations	3,326,000	−
Other assets, net	333,000	109,000
Total assets	$ 69,471,000	$ 14,114,000
LIABILITIES, MINORITY INTERESTS AND MEMBER' S EQUITY		
Liabilities:		
Mortgage loans payable	$ 12,625,000	$ 4,500,000
Mortgage loans payable secured by property held for sale	11,000,000	−
Accounts payable and accrued liabilities	3,848,000	248,000
Due to related parties	233,000	288,000
Security deposits and prepaid rent	695,000	62,000
Total liabilities	28,401,000	5,098,000
Minority interests	3,968,000	1,388,000
Commitments and contingencies (Note 11)		
Total members' equity	37,102,000	7,628,000
Total liabilities, minority interests and members' equity	$ 69,471,000	$ 14,114,000

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

NNN 2003 VALUE FUND, LLC

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Year Ended December 31, 2004 and the Period From June 19, 2003 (Date of Inception) through December 31, 2003

	Year Ended December 31, 2004	From June 19, 2003 (Date of Inception) through December 31, 2003
Revenues:		
Rental income	$ 2,660,000	$ –
Expenses:		
Rental expenses	1,924,000	11,000
General and administrative	414,000	7,000
Depreciation and amortization	1,212,000	–
	3,550,000	18,000
Loss before other income (expense), discontinued operations, and minority interests	(890,000)	(18,000)
Other (expense) income:		
Interest expense (including amortization of deferred financing costs)	(957,000)	–
Interest income	86,000	3,000
Equity in earnings (loss) of unconsolidated real estate	(682,000)	(132,000)
Loss from continuing operations before discontinued operations and minority interests	(2,443,000)	(147,000)
Minority interests	182,000	31,000
Loss from continuing operations	(2,261,000)	(116,000)
Loss from discontinued operations	(41,000)	–
Net loss	$ (2,302,000)	$ (116,000)
Net loss per member unit:		
Continuing operations − basic and diluted	$ (367.16)	$ (178.74)
Discontinued operations − basic and diluted	$ (6.66)	–
Total net loss per member unit − basic and diluted	$ (373.82)	$ (178.74)
Weighted average number of member units outstanding − basic and diluted	6,158	649

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

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NNN 2003 VALUE FUND, LLC

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
For the Year Ended December 31, 2004 and the Period From
June 19, 2003 (Date of Inception) through December 31, 2003

	Number of Units	Total
BALANCE − June 19, 2003 (date of inception)	−	−
Capital Contributions, net of offering costs	1,887	$ 7,779,000
Distributions	−	(35,000)
Net loss	−	(116,000)
BALANCE − December 31, 2003	1,887	7,628,000
Capital Contributions, net of offering costs	8,113	33,684,000
Distributions	−	(1,908,000)
Net loss	−	(2,302,000)
BALANCE − December 31, 2004	10,000	$ 37,102,000

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

NNN 2003 VALUE FUND, LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2004 and the Period From June 19, 2003 (Date of Inception) through December 31, 2003

	Year Ended December 31, 2004	From June 19, 2003 (Date of Inception) through December 31, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (2,302,000)	$ (116,000)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization, amortization of deferred financing costs and amortization of above market leases − continued and discontinued operations	2,307,000	−
Distributions received in excess of equity in earnings (loss) of unconsolidated properties	1,738,000	248,000
Minority interests	(182,000)	(31,000)
Provision for doubtful accounts	59,000	−
Change in operating assets and liabilities:		
Accounts receivable	(557,000)	−
Other assets	(415,000)	−
Accounts payable and accrued liabilities	3,387,000	73,000
Security deposits and prepaid rent	578,000	−
Net cash provided by (used in) operating activities	4,613,000	174,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of real estate operating properties	(35,966,000)	(8,069,000)
Capital expenditures	(420,000)	−
Acquisition of investments in unconsolidated real estate	(8,772,000)	(1,863,000)
Net cash used in investing activities	(45,158,000)	(9,932,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on mortgages payable	19,125,000	4,500,000
Due to/from related parties, net	(214,000)	267,000
Distributions	(1,908,000)	(35,000)
Minority interests distributions	(408,000)	(19,000)
Payment of deferred financing costs	(326,000)	(109,000)
Issuance of members units, net of offering costs	33,684,000	7,779,000
Net cash provided by financing activities	49,953,000	12,383,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,408,000	2,625,000
CASH AND CASH EQUIVALENTS − beginning of period	2,625,000	−
CASH AND CASH EQUIVALENTS − end of period	$ 12,033,000	$ 2,625,000

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

NNN 2003 VALUE FUND, LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2004 and the Period From June 19, 2003 (Date of Inception) through December 31, 2003

	Year Ended December 31, 2004	For the Period from June 19, 2003 (Date of Inception) through December 31, 2003
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 807,000	$ –
NONCASH INVESTING ACTIVITIES:		
The following represents certain assets acquired and liabilities assumed in connection with our acquisitions of operating properties and investments in unconsolidated real estate:		
Security deposits and prepaid rent	$ 55,000	$ 62,000
Restricted cash	$ 70,000	$ 204,000
Other assets	$ 123,000	$ –
Accrued expenses	$ 211,000	$ 175,000
Minority interests contributions	$ 3,170,000	$ 1,438,000

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

NNN 2003 VALUE FUND, LLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2004 and the Period From June 19, 2003 (Date of Inception) to December 31, 2003

1. Organization

NNN 2003 Value Fund, LLC was formed as a Delaware limited liability company. The use of the words “we”, “us” or “our” refers to NNN 2003 Value Fund, LLC and its subsidiaries. We were organized on June 19, 2003 for the purpose of purchasing, owning, operating and subsequently selling all or a portion of a number of unspecified properties with a higher than average potential for capital appreciation, or value added, from unaffiliated sellers in accordance with the Private Placement Memorandum dated July 11, 2003, as amended, or the Private Placement Memorandum. At the time of our formation, we expected to own our interests in the properties we acquire for approximately three to five years from the date of acquisition of each asset. Our principal objectives at the time of our formation, were to: (i) have the potential within approximately three to five years, subject to market conditions, to realize income on sale of our properties; (ii) realize income through the acquisition, operation and sale of our interests in our properties; (iii) make monthly distributions to our members from cash generated from operations.

As of December 31, 2004, we owned five consolidated office properties and interests in four unconsolidated office properties. We account for unconsolidated properties under the equity method of accounting.

We are externally managed by Triple Net Properties, LLC, a Virginia limited liability corporation, or our Manager, which is responsible for managing our day-to-day operations and assets. In addition, Triple Net Properties Realty, Inc., a California corporation, or Realty, which was solely owned through December 31, 2004 by Anthony W. Thompson, our Manager’ s chairman and chief executive officer (effective January 1, 2005, Mr. Thompson owns 88% of Realty) serves as our property manager (Note 10).

2. Summary of Significant Accounting Policies

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

Basis of Presentation

The accompanying consolidated financial statements include our accounts, our wholly-owned subsidiaries and any majority-owned subsidiaries where we have financial and operating control are included in the consolidated financial statements. All significant intercompany balances and transactions have been eliminated in consolidation. We account for all unconsolidated real estate investments using the equity method of accounting. Accordingly, our share of the earnings of these joint ventures and companies is included in consolidated net income (loss). All references to us include our subsidiaries.

Statement of Financial Accounting Standards, or SFAS, No. 144, *Accounting for Impairment of Disposal of Long-Lived Assets*, addresses financial accounting and reporting for the impairment or disposal of long-lived assets and requires that, in a period in which a component of an entity either has been disposed of or is classified as held for sale, the income statements for current and prior periods shall report the results of operations of the component as discontinued operations. We have reclassified amounts related to Satellite Place in the consolidated financial statements to reflect the reclassification required by SFAS No. 144. Accordingly, revenues, operating costs and expenses, and other non-operating results for

NNN 2003 VALUE FUND, LLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS − (Continued)

the discontinued operations of Satellite Place have been excluded from our results from continuing operations for all periods presented herein. The financial results for Satellite Place are presented in our Consolidated Statements of Operations in a single line item entitled "Loss from discontinued operations" and the related assets and liabilities are presented in the Consolidated Balance Sheets in line items entitled "Property held for sale," and "Mortgage loans payable secured by property held for sale."

Cash and Cash Equivalents

Cash and cash equivalents consist of all highly liquid investments with a maturity of three months or less when purchased.

Restricted Cash

Restricted cash is comprised of impound reserve accounts for property taxes, insurance and tenant improvements.

Allowance for Uncollectible Accounts

Tenant receivables and unbilled deferred rent receivables are carried net of the allowances for uncollectible current tenant receivables and unbilled deferred rent. Our Manager' s determination of the adequacy of these allowances is based primarily upon evaluations of historical loss experience, individual tenant receivables considering the tenant' s financial condition, security deposits, letters of credit, lease guarantees and current economic conditions and other relevant factors. Our Manager has established an allowance for uncollectible accounts of $59,000 and $0 as of December 31, 2004 and 2003, respectively, to reduce receivables to our Manager' s estimate of the amount recoverable.

Purchase Price Allocation

In accordance with Statement of Financial Accounting Standard, or "SFAS" No. 141, *Business Combinations*, we, with the assistance from independent valuation specialists, allocate the purchase price of acquired properties to tangible and identified intangible assets based on their respective fair values. The allocation to tangible assets (building and land) is based upon management' s determination of the value of the property as if it were vacant using discounted cash flow models similar to those used by independent appraisers. Factors considered by our Manager include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. Additionally, the purchase price of the applicable property is allocated to the above or below market value of in-place leases and the value of in-place leases and related tenant relationships.

The value allocable to the above or below market component of the acquired in-place leases is determined based upon the present value (using a discount rate which reflects the risks associated with the acquired leases) of the difference between (i) the contractual amounts to be paid pursuant to the lease over its remaining term, and (ii) management' s estimate of the amounts that would be paid using fair market rates over the remaining term of the lease. The amounts allocated to above market leases are included in the intangible in-place lease asset and below market lease values are included in intangible lease liability in the accompanying consolidated financial statements and are amortized to rental income over the weighted average remaining term of the acquired leases with each property.

The total amount of other intangible assets acquired is further allocated to in-place lease costs and the value of tenant relationships based on our Manager' s evaluation of the specific characteristics of each tenant' s lease and the overall relationship with that respective tenant. Characteristics considered by our Manager in allocating these values include the nature and extent of the credit quality and expectations of lease renewals, among other factors.

These allocations are subject to change based on continuing valuation analysis or other evidence, until the allocations are finalized or the stipulated time of one year from the date of acquisition.

Operating Properties

Operating properties are carried at the lower of historical cost less accumulated depreciation. The cost of the operating properties includes the cost of land and completed buildings and related improvements. Expenditures that increase the service life of properties are capitalized and the cost of maintenance and repairs is charged to expense as incurred. The cost of building and improvements are depreciated on a straight-line basis over the estimated useful lives of the buildings ranging primarily from 15 to 39 years and the shorter of the lease term or useful life, ranging from one to nine years for tenant improvements. When depreciable property is retired or disposed of, the related costs and accumulated depreciation are removed from the accounts and any gain or loss reflected in operations.

Impairment losses are recorded on long-lived assets used in operations. Impairment losses are recorded on an operating property when indicators of impairment are present and the carrying amount of the asset is greater than the sum of the future undiscounted cash flows predicted to be generated by that asset. We have not recorded any impairment losses for the year ended December 31, 2004, and the period from June 19, 2003 (date of inception) to December 31, 2003.

Property Held for Sale

In accordance with SFAS 144, *Accounting for Impairment or Disposal of Long-Lived Assets*, at such time as a property is held for sale, such property is carried at the lower of (i) its carrying amount or (ii) fair value less costs to sell. In addition, a property being held for sale ceases to be depreciated. We classify operating properties as property held for sale in the period in which all of the following criteria are met:

our Manager, having the authority to approve the action, commits to a plan to sell the asset;

the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets;

an active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated;

the sale of the asset is probable and the transfer of the asset is expected to qualify for recognition as a completed sale within one year;

the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and

given the actions required to complete the plan, it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Other Assets

Other assets consist primarily of deferred financing costs, deferred rent receivables, leasing commissions and other assets. Deferred financing costs consist of loan fees and other loan costs and are amortized over the respective loan term using a method that approximates the effective interest method.

Revenue Recognition

In accordance with SFAS No. 13, “Accounting for Leases,” minimum annual rental revenue is recognized on a straight-line basis over the term of the related lease (including rent holidays). Tenant

NNN 2003 VALUE FUND, LLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS − (Continued)

reimbursement revenue, which is comprised of additional amounts recoverable from tenants for common area maintenance expenses and certain other recoverable expenses, is recognized as revenue in the period in which the related expenses are incurred.

Concentration of Credit Risk

Financial instruments that potentially subject us to a concentration of credit risk are primarily cash investments and accounts receivable from tenants. Cash is generally invested in investment-grade short-term instruments and the amount of credit exposure to any one commercial issuer is limited. We have cash in financial institutions which is insured by the Federal Deposit Insurance Corporation, or the FDIC, up to $100,000 per institution. At December 31, 2004 and 2003, we have cash accounts in excess of FDIC insured limits. Concentration of credit risk with respect to accounts receivable from tenants is limited. We perform credit evaluations of prospective tenants and security deposits are obtained.

As of December 31, 2004, we have interests in five consolidated properties located in the states of Texas, Nebraska and Georgia.

As of December 31, 2004, one of our tenants at our consolidated properties accounted for 10% or more of our aggregate annual rental income. Information about this tenant is provided in the table below:

Tenant	2004 Annual Base Rent(*)	Percentage of 2004 Annual Consolidated Base Rent (*)	Property	Square Footage	Lease Expiration Date
General Services Administration (IRS)	$ 3,014,000	37.72%	Oakey Building	84,000	5/31/05

(*) Annualized rental income based on contractual base rent from leases in effect at December 31, 2004.

Our Manager has been advised that the IRS will exercise its 30-day early opt out provision and terminate its lease on April 30, 2005. The IRS currently occupies 84,000 square feet, or 85.7% of the GLA of the 98,000 square feet at the Oakey Building property. Our Manager was able to lease the entire 98,000 square foot building to one tenant beginning August 1, 2005. The new lease is for a six-year term beginning August 1, 2005, and has staggered occupancy and rent commencement dates. The lease will be fully operational beginning January 1, 2007. Due to the staggered occupancy and commencement of rent of the new lease, we expect our 2005 rental income will be reduced by approximately $1,500,000.

Fair Value of Financial Instruments

The SFAS No. 107, *Disclosures About Fair Value of Financial Instruments,* requires disclosure of fair value of financial instruments, whether or not recognized on the face of the balance sheet, for which it is practical to estimate that value. SFAS 107 defines fair value as the quoted market prices for those instruments that are actively traded in financial markets. In cases where quoted market prices are not available, fair values are estimated using present value or other valuation techniques such as discounted cash flow analysis. The fair value estimates are made at the end of each year based on available market information and judgments about the financial instrument, such as estimates of timing and amount of expected future cash flows. Such estimates do not reflect any premium or discount that could result from offering for sale at one time our entire holdings of a particular financial instrument, nor do they consider that tax impact of the realization of unrealized gains or losses. In many cases, the fair value estimates cannot be substantiated by comparison to independent markets, nor can the disclosed value be realized in immediate settlement of the instrument.

NNN 2003 VALUE FUND, LLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS − (Continued)

Our consolidated balance sheets include the following financial instruments: cash and cash equivalents, tenant rent and other receivables, accounts payable and accrued expenses and notes payable. We consider carrying values of cash and cash equivalents, tenant rent and other receivables and accounts payable and accrued expenses to approximate fair value for these financial instruments because of the short period of time between origination of the instruments and their expected realization. The fair value of due to and from related parties is not determinable due to its related party nature. Based on borrowing rates available to us at December 31, 2004 and 2003, the fair value of the mortgage loans payable was $24,261,000 and $5,084,000 compared to a carrying value of $23,265,000 and $4,500,000, respectively.

Income Taxes

We are a pass-through entity for income tax purposes and taxable income is reported by our members on their individual tax returns. Accordingly, no provision has been made for income taxes in the accompanying consolidated statements of operations except for insignificant amounts related to state franchise and income taxes.

Per Unit Data

We report earnings per Unit pursuant to SFAS No. 128, “Earnings Per Share.” Basic earnings per Unit attributable for all periods presented is computed by dividing the net income (loss) by the weighted average number of Units outstanding during the period. Diluted earnings per Unit are computed based on the weighted average number of Units and all potentially dilutive securities, if any. We do not have any dilutive securities as of December 31 2004, and 2003.

Net loss per unit is calculated as follows:

	Year Ended December 31, 2004	From June 19, 2003 (Date of Inception) through December 31, 2003
Loss from continuing operations	$ (2,261,000)	$ (116,000)
Loss from discontinued operations	(41,000)	−
Net loss	$ (2,302,000)	$ (116,000)
Net loss per member unit:		
Continuing operations − basic and diluted	$ (367.16)	$ (178.74)
Discontinued operations − basic and diluted	$ (6.66)	−
Total net loss per unit − basic and diluted	$ (373.82)	$ (178.74)
Weighted average number of member units outstanding − basic and diluted	6,158	649

Use of Estimates

The preparation of our financial statements in conformity with GAAP requires our Manager to make estimates and assumptions that affect the reported amounts of the assets and liabilities as of December 31, 2004 and 2003, and the revenues and expenses for the year ended December 31, 2004 and the period from June 19, 2003 (date of inception) until December 31, 2003. Actual results could differ from those estimates.

NNN 2003 VALUE FUND, LLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS − (Continued)

Segment

We internally evaluate all properties as one reportable segment and, accordingly, do not report segment information.

Minority Interests

Minority interests relate to the interests in the consolidated entities that are not owned by us.

Recently Issued Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board, or FASB, revised FASB Interpretation No. 46, or FIN 46, *Consolidation of Variable Interest Entities,* issued in January 2003, an interpretation of Accounting Research Bulletin No. 51, *Consolidated Financial Statements* (FIN 46R). FIN 46R requires that variable interest entities be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity' s activities or is entitled to receive a majority of the entity' s residual returns or both. FIN 46R also requires disclosures about variable interest entities that companies are not required to consolidate but in which a company has a significant variable interest. The consolidation requirements of FIN 46R apply immediately to variable interest entities created after December 31, 2003. The consolidation requirements will apply to entities established prior to December 31, 2003, in the first fiscal year or in the interim period beginning after December 15, 2004. We do not believe the adoption of such interpretation will have a material impact on our results of operations or financial condition.

3. Real Estate Investments

Operating Properties

Our investment in consolidated properties consisted of the following as of the dates set forth below:

	December 31, 2004	December 31, 2003
Buildings and tenant improvements	$ 16,086,000	$ 4,213,000
Land	5,638,000	2,190,000
	21,724,000	6,403,000
Less: accumulated depreciation and amortization	(358,000)	−
	$ 21,366,000	$ 6,403,000

Depreciation expense on the buildings and tenant improvements was $358,000 and $0 for the year ended December 31, 2004 and the period from June 19, 2003 (date of inception) through December 31, 2003.

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Acquisitions of Consolidated Properties

Our 2004 acquisitions are as follows:

Property Description	Location	Purchase Date	Ownership Percentage	Purchase Price	Borrowing Incurred at Acquisition(*)	Commission to Realty
Financial Plaza	Omaha, NE	10/29/2004	100.0%	$ 5,660,000	$ 4,125,000	$ 160,000
Oakey Building, LLC	Las Vegas, NV	04/02/2004	75.4 %	8,137,000	4,000,000	237,000
Satellite Place	Atlanta, GA	11/29/2004	100.0%	18,300,000	11,000,000	356,000
Southwood Tower	Houston, TX	10/27/2004	100.0%	5,461,000	−	159,000
Total				$ 37,558,000	$ 19,125,000	$ 912,000

(*) Represents the amount of the mortgage loan assumed by us upon the closing of the acquisition or newly placed on the property at closing.

During the year ended December 31, 2004, we completed the acquisitions of four consolidated properties, thereby adding a total of 441,000 square feet of gross leaseable area, or GLA, to our property portfolio. The aggregate purchase price of these properties was $37,558,000, of which $19,125,000 was financed with mortgage debt. The sellers paid $912,000 in commissions to Realty in connection with these acquisitions, of which 75% was passed through to our Manager pursuant to an agreement between Realty and our Manager, or the Realty-Triple Net Agreement. In accordance with SFAS, No. 141, we 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. During 2004, we allocated and recorded $7,508,000 of intangible assets associated with in-place lease origination costs and tenant relationships, as well as above market leases. Such intangible assets are being amortized over the term of each of the underlying tenant leases.

Our 2003 acquisition is as follows:

Property Description	Location	Purchase Date	Ownership Percentage	Purchase Price	Borrowing Incurred at Acquisition(*)	Commission to Realty
Executive Center I	Dallas, TX	12/30/2003	100.0%	$ 8,178,000	$ 4,500,000	$ 223,000

(*) Represents the amount of the mortgage loan assumed by us upon the closing of the acquisition.

During the year ended December 31, 2003, we completed the acquisition of one consolidated property, thereby adding a total of 208,000 square feet of GLA to our property portfolio. The purchase price of the property was $8,178,000, of which $4,500,000 was financed with mortgage debt. The seller paid Realty $223,000 in sales commissions in connection with this acquisition, of which 75% was passed through to our Manager pursuant to the Realty-Triple Net Agreement. In accordance with SFAS No. 141, we allocated the purchase price of this property 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. During 2003, we allocated and recorded $1,699,000 of intangible assets associated with in-place lease origination costs, as well as above market leases. Such intangible assets are being amortized over the term of each of the underlying tenant leases.

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Investments in Unconsolidated Real Estate

Investments in unconsolidated real estate consist of our investments where we purchase a membership interest in a limited liability company. We had the following investments in unconsolidated real estate at December 31:

Description	Location	Percentage Owned	December 31, 2004	December 31, 2003
801 K Street	Sacramento, CA	18.3%	$ 5,103,000	$ 3,053,000
Emerald Plaza	San Diego, CA	4.6	1,529,000	−
Enterprise Technology Center	Scotts Valley, CA	8.5	2,808,000	−
Executive Center II & III	Dallas, TX	38.1	2,042,000	−
Total			$ 11,482,000	$ 3,053,000

The summarized condensed combined financial information about our unconsolidated real estate is as follows:

	December 31, 2004	December 31, 2003
Balance Sheet Data:		
Assets (primarily real estate)	$ 260,296,000	$ 25,343,000
Mortgage loans payable	$ 160,771,000	$ 14,891,000
Other liabilities	10,603,000	1,288,000
Equity	88,922,000	9,164,000
Total liabilities and equity	$ 260,296,000	$ 25,343,000
Company' s investment	$ 11,482,000	$ 3,053,000

	For the Year Ended December 31, 2004	For the Period from June 19, 2003 (Date of Inception) through December 31, 2003
Statement of operations:		
Revenues	$ 23,117,000	$ 2,049,000
Rental and other expenses	26,767,000	2,316,000
Net loss	$ (3,650,000)	$ (267,000)
Company' s equity in losses of unconsolidated real estate	$ (682,000)	$ (132,000)

4. Identified Intangible Assets

Identified intangible assets consisted of the following:

	December 31, 2004	December 31, 2003
In-place leases, above market leases and tenant relationships, net of accumulated amortization of $1,679,000 and $0 for the year ended December 31, 2004 and 2003, respectively (with a weighted-average life of 70 months.)	$ 4,611,000	$ 1,699,000

NNN 2003 VALUE FUND, LLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS − (Continued)

Amortization expense recorded on the identified intangible assets, for each of fiscal years ended December 31, 2004 and for the period from June 19, 2003 (date of inception) through December 31, 2003 was $1,679,000 and $0, respectively.

Estimated amortization expense of the identified intangible assets as of December 31, 2004 for each of the five succeeding fiscal years is as follows:

Year	Amount
2005	$ 1,563,000
2006	$ 720,000
2007	$ 586,000
2008	$ 471,000
2009	$ 396,000

5. Other Assets

Other assets consisted of the following:

	December 31,	
	2004	2003
Deferred rents receivable	$ 49,000	$ −
Deferred financing costs, net of accumulated amortization of $110,000 and $0, at December 31, 2004 and 2003, respectively	118,000	109,000
Lease commissions, net of accumulated amortization of $3,000 at December 31, 2004	151,000	−
Prepaid expenses, deposits and other	15,000	−
Total other assets	$ 333,000	$ 109,000

6. Mortgage Loans Payable

In connection with the acquisition of the Oakey Building, an office building located in Las Vegas, Nevada, in April 2004, we borrowed $4,000,000 from an unaffiliated lender secured by the property. The loan is payable to the Ivan Halaj and Vilma Halaj Inter Vivos Trust. The loan requires monthly interest only payments at a fixed interest rate of 10.0% per annum until the due date of April 1, 2005 at which time the loan must be paid in full. On April 1, 2005, the loan was extended until October 1, 2005 and from and after the extension date bears interest at a fixed rate interest rate of 8.0% per annum.

In connection with the acquisition of the Financial Plaza, an office building located in Omaha, Nebraska, in October 2004, we obtained a first mortgage loan from American Express Certificate Company, in the amount of $4,125,000, which bears interest at a 6-month LIBOR plus 180 basis points. The interest rate was 4.49% at December 31, 2004. The note calls for monthly interest payments. The initial term of the loan is three years from the date of acquisition.

In connection with the acquisition of Executive Center I, an office building located in Dallas, Texas, in December 2003, we obtained a first mortgage loan from Vestin Mortgage, Inc., in the amount of $4,500,000, which bears interest at fixed rate of 10.5% annum. The initial term of the loan was one year from the date of acquisition. On November 5, 2004, for a fee of $34,000, this loan was extended until March 30, 2005. On February 15, 2005, for an additional fee of $34,000, this loan was extended until June 30, 2005.

NNN 2003 VALUE FUND, LLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS − (Continued)

The principal payments due on notes payable, including mortgage loans payable secured by property held for sale for each of the next five years ending December 31, 2004 and thereafter are summarized as follows:

Year	Amount
2005	$ 19,584,000
2006	809,000
2007	993,000
2008	2,239,000
2009	0
Total	$ 23,625,000

The fair value of total mortgage debt, including mortgage loans payable secured by property held for sale, at December 31, 2004 and 2003 was $24,261,000 and $5,084,000, respectively.

Mortgages loans payable secured by property held for sale

In connection with the acquisition of the Satellite Place, two office buildings located in Atlanta, Georgia, in November 2004, we obtained a first mortgage loan from LaSalle Bank National Association, or LaSalle, in the amount of $11,000,000, which bears interest at 30-day LIBOR plus 275 basis points. The rate at December 31, 2004 was 5.0% per annum. The initial term of the loan is six months from the date of acquisition with one six month option to extend, and an option to convert to a fixed rate note with LaSalle in favor of the borrower anytime during the term. The note calls for monthly interest payments.

7. Minority Interests

Minority interests related to the interests in the following consolidated entities that are not owned by us:

NNN Oakey Building, LLC − 24.5%, of which 14.8% is owned by unaffiliated members and 9.8% is owned by T REIT, LP, an affiliated member;

NNN 801 K Street, LLC − 15% owned by unaffiliated members;

NNN Enterprise Technology Center, LLC − 26.7% owned by unaffiliated members; and

NNN Executive Center II & III, LP − 23.2% owned by unaffiliated members.

8. Members Equity

Pursuant to the private placement memorandum dated July 11, 2003, as amended, or the Private Placement Memorandum, we offered for sale a minimum of 1,000 and a maximum of 10,000 Units at a price of $5,000 per Unit. We relied on the exemption from registration provided by Rule 506 under Regulation D and Section 4(2) of the Securities Act of 1933, as amended in connection with the closing of the offering. As discussed in the Private Placement Memorandum, we used the net offering proceeds from the sale of Units primarily to acquire ownership interests in Executive Center II & III and a number of unspecified real estate properties. We financed these property acquisitions with a combination of net offering proceeds and debt secured by the acquired properties.

There are three classes of Units with different rights with respect to distributions. As of December 31, 2004 and 2003, 4,000 and 1,887 Class A Units were issued, with aggregate gross proceeds of $20,000,000 and $9,436,000, respectively. As of December 31, 2004, 3,200 Class B Units were issued with aggregate gross proceeds of $16,000,000. As of December 31, 2004, 2,800 Class C Units were issued with aggregate gross proceeds of $14,000,000. No Class B or Class C Units were issued as of December 31, 2003. The rights and obligations of all members are governed by the Operating Agreement.

Cash from Operations, as defined in the Operating Agreement, is first distributed to all members pro rata until all Class A Unit holders, Class B Unit holders and Class C Unit holders have received a 10%, 9% and 8% cumulative (but not compounded) annual return on their contributed and unrecovered capital, respectively. In the event that any distribution of Cash from Operations is not sufficient to pay the return described above, all Unit holders receive identical pro rata distributions, except that Class C Unit holders do not receive more than an 8% return on their Class C Units and Class B Unit holders do not receive more than a 9% return on their Class B Units. Excess Cash from Operations is then allocated pro rata to all members on a per outstanding unit basis and further distributed to the members and our Manager based on predetermined ratios providing our Manager with a share of 15%, 20% and 25% of the distributions available to Class A Units, Class B Units and Class C Units, respectively, of such excess Cash from Operations.

Cash from Capital Transactions, as defined in the Operating Agreement, is first used to satisfy our debt and liability obligations; second, pro rata to all members in accordance with their membership interests until all capital contributions are reduced to zero; and third, in accordance with the distributions as outlined above in the Cash from Operations.

During the year ended December 31, 2004 and the period from June 19, 2003 (date of inception) to December 31, 2003, distributions of $88 and $88 per unit, were declared, aggregating approximately $1,908,000 and $35,000 in distributions, respectively. Class A Units, Class B Units and Class C Units have received identical per-Unit distributions; however, distributions may vary among the three classes of Units in the future.

In connection with the sale of Units, we incurred $6,880,000 and $1,657,000 of costs related to the issuance and distribution of Units through December 31, 2004 and 2003, respectively. Such amounts include a total of $4,099,000 and $1,050,000 as of December 31, 2004 and 2003, respectively, incurred to NNN Capital Corp., the dealer manager of our offering, which was wholly owned during the offering period by Anthony W. Thompson, our Manager' s chairman and chief executive officer. These costs are comprised of selling commissions and marketing and due diligence expenses. The dealer manager reallowed all of the commissions and some of the marketing and due diligence expenses to participating broker dealers. In addition, $2,781,000 and $607,000 was incurred to our Manager for offering expenses as of December 31, 2004 and 2003, respectively.

9. Future Minimum Rent

Rental Income

We have leases with tenants that expire at various dates through 2013 and are either subject to scheduled fixed increases or adjustments based on the consumer price index. Generally, the leases grant tenants renewal options. Leases also provide for additional rents based on certain operating expenses. Future minimum rent under leases, excluding tenant reimbursements of certain costs, as of December 31, 2004, are summarized as follows:

Year Ending December 31,		Amount
2005	$	6,076,000
2006	$	4,083,000
2007	$	3,322,000
2008	$	2,468,000
2009	$	1,225,000
Thereafter	$	1,304,000

A certain amount of our rental income is from tenants with leases which are subject to contingent rent provisions. These contingent rents are subject to the tenant achieving periodic revenues in excess of specified levels. For the year ended December 31, 2004 and the period from June 19, 2003 (date of inception) through December 31,2003, the amount of contingent rent earned by us was not significant.

10. Related Party Transactions

Offering expenses

For the years ended December 31, 2004, and the period from June 19, 2003 (date of inception) to December 31, 2003, offering expenses paid by us include $4,099,000, and $1,050,000 respectively, paid to the dealer manager and $2,781,000, and $607,000, respectively, in reimbursements to our Manager for legal, accounting and other expenses of the offering.

Real estate commissions

As discussed in Note 3, Realty received real estate sales commissions in connection with the purchase of our consolidated properties in the amount of $912,000, and $223,000 for the years ended December 31, 2004, and the period from June 19, 2003 (date of inception) to December 31, 2003, respectively, which commissions were paid by the sellers of the properties. 75% of these commissions are passed through to our Manager pursuant to the Realty-Triple Net Agreement.

Property management fees

We pay Realty a property management fee equal to up to 6% of the gross receipts revenue from our properties. For the year ended December 31, 2004, and the period from June 19, 2003 (date of inception) to December 31, 2003, Realty incurred and was paid management fees from our consolidated properties of $272,000 and $0 respectively. 100% of the property management fees are passed through to our Manager pursuant to the Realty-Triple Net Agreement.

Lease commissions

We pay Realty a leasing commission for its services in leasing any of our properties equal to 6% of the value of any lease entered into during the term of the Management Agreement and 3% with respect to any renewals. For the years ended December 31, 2004, and the period from June 19, 2003 (date of inception) to December 31, 2003, we did not incur or pay any lease fees. 100% of the leasing fees are passed through to our Manager pursuant to the Realty-Triple Net Agreement.

Construction Fees

We pay Realty a construction fee for its services in supervising any construction or repair project in or about our properties equal to 5% of any amount up to $25,000, 4% of any amount over $25,000 but less than $50,000, and 3% of any amount over $50,000 which is expended in any calendar year for construction or repair projects. For the years ended December 31, 2004, and the period from June 19, 2003 (date of inception) to December 31, 2003, we did not incur or pay any construction fees. 100% of the net construction fees are passed through to our Manager pursuant to the Realty-Triple Net Agreement.

Loan Fees

We pay Realty a loan fee for its services in obtaining all loans obtained by it for our properties during the term of the Property Management agreement of 1% of the principal amount. For the years ended December 31, 2004, and the period from June 19, 2003 (date of inception) to December 31, 2003, we did not incur or pay any loan fees. 100% of the loan fees are passed through to our Manager pursuant to the Realty-Triple Net Agreement.

Acquisition Fees

We pay our Manager an acquisition fee for its services in connection with the due diligence investigation and acquisition of interests in real estate properties by us during the course of the investment and holding period of 4% of the funds raised in our Private Placement of Units. For the years ended December 31, 2004, and the period from June 19, 2003 (date of inception) to December 31, 2003, we incurred acquisition fees of $1,623,000 and $377,000, respectively, of which we paid $1,406,000 and $377,000, respectively.

Related party accounts receivable/payable

Related party accounts receivable/payable consists primarily of amounts due from/to us for operating expenses incurred by us and paid by our Manager or agreed to be absorbed by our Manager as discussed below.

11. Commitments and Contingencies

SEC Investigation

On September 16, 2004, our Manager advised us that it learned that the SEC is conducting an investigation referred to as *"In the matter of Triple Net Properties, LLC."* The SEC has requested information from our Manager relating to disclosure in securities offerings (including offerings by G REIT, Inc., T REIT, Inc. and A REIT, Inc.) and the exemption from the registration requirements of the Securities Act for the private offerings in which our Manager and its affiliated entities were involved and exemptions from the registration requirements of the Exchange Act for several entities. The SEC has requested financial and other information regarding these entities as well as the limited liability companies advised by our Manager, including us. Our Manager has advised us that it intends to cooperate fully with the SEC' s investigation. This investigation could focus on or involve us and fines, penalties or administrative remedies could be asserted against us.

We can not at this time assess the outcome of the investigation by the SEC. Therefore, at this time, we have not accrued any loss contingencies in accordance with SFAS No. 5.

Prior Performance Tables

In connection with our offering of the sale of our units from July 11, 2003 through October 14, 2004, we disclosed the prior performance of all public and non-public investment programs sponsored by our Manager. We now have determined that there were certain errors in those prior performance tables. In particular, the financial information in the tables was stated to be presented on a GAAP basis. Generally the tables for the public programs were not presented on a GAAP basis and the tables for the non-public programs were prepared and presented on a tax or cash accounting basis. Moreover, a number of the prior performance data figures were themselves erroneous, even as presented on a tax or cash basis. In particular, certain programs sponsored by our Manager have invested either along side or in other programs sponsored by our Manager. The nature and results of these investments were not fully and accurately disclosed in the tables. In general, the resulting effect is an overstatement of our Manager' s program and aggregate portfolio operating results. The Board of Managers is considering alternatives to address the errors in the prior performance tables.

Unconsolidated debt

Our share of unconsolidated debt based on our ownership percentage was $19,366,000 and $5,672,000 at December 31, 2004 and December 31, 2003, respectively.

On March 31, 2004, through NNN 801K Street, LLC, we purchased an 18.3% interest in 801 K Street, a 28-story Class A office building of 336,000 square feet located in Sacramento, California. At acquisition, the owners obtained a first mortgage loan from HSH Nordbank AG, in the amount of $45,000,000 as follows: initial funding of $41,350,000 plus additional proceeds of $3,650,000, which bear interest at a 30-day LIBOR plus 200 basis points until the property reaches 80% leasing, at which time the interest rate is reduced to 30-day LIBOR plus 190 basis points. The first 24 months of the loan term are interest only; the last 12 months of the initial loan term are amortized with $56,250 monthly principal payments. The initial term of the loan is three years, due March 2007, with two 12-month extensions in favor of the borrower.

On May 7, 2004, we, as a member of NNN Enterprise Technology Center, LLC, purchased an 8.5% interest in Enterprise Technology Center, a Class A office building campus of 370,000 square feet located in Scotts Valley, California. At acquisition, the owners obtained a first mortgage loan from UBS Investment Bank, in the amount of $36,500,000, which bears interest at a fixed rate of 6.44%. The initial term of the loan is seven years from the date of acquisition.

On July 26, 2004, we, as a member of NNN Emerald Plaza, LLC, purchased a 4.6% interest in the Emerald Plaza Building in San Diego, CA. Emerald Plaza is a Class A office building of 355,000 square feet located in downtown San Diego. At acquisition, the owners obtained a first mortgage loan of $68,500,000 from Citigroup Global Markets Realty Corp. The loan requires interest only payments through the maturity date of June 17, 2007 at a variable interest rate of 4.85% per annum.

On August 1, 2003, we, as a member of NNN Executive Center II & III, LP, we purchased a 38.1% interest in Executive Center II & III, two Class A office buildings of 381,000 square feet located in Dallas, Texas. At acquisition, the owners obtained a first mortgage loan from LaSalle in the amount of $14,950,000, which bore interest at 30-day LIBOR plus 300 basis points, with an option in favor of the borrower to convert to permanent loan at anytime. The initial term of the loan was one year from the date of acquisition and was extended for two additional six-month terms for a fee of $148,000.

Litigation

Neither us nor any of our properties are presently subject to any other material litigation nor, to our knowledge, is any material litigation threatened against us or any of its properties which if determined unfavorably to us would have a material adverse effect on our cash flows, financial condition or results of operations. We are party to litigation arising in the ordinary course of business, none of which if determined unfavorably to us, individually or in the aggregate, is expected to have a material adverse effect on our cash flows, financial condition or results of operations.

Environmental matters

We follow the policy of monitoring our properties for the presence of hazardous or toxic substances. While there can be no assurance that a material environmental liability does not exist, we are not currently aware of any environmental liability with respect to the properties that would have a material effect on our financial condition, results of operations and cash flows. Further, we are not aware of any material environmental liability or any unasserted claim or assessment with respect to an environmental liability that we believe would require additional disclosure or the recording of a loss contingency.

Other

Our commitments and contingencies include the usual obligations of real estate owners and operators in the normal course of business. In the opinion of our Manager, these matters are not expected to have a material impact on our consolidated financial position and results of operations.

12. Discontinued Operations − Property Held for Sale

As of December 31, 2004, Satellite Place was listed for sale and a summary of the Satellite Place income statement information as of that date is as follows:

	Year Ended December 31, 2004
Rental income	$ 208,000
Rental expenses	(60,000)
Depreciation and amortization	(99,000)
Income before other expense	49,000
Interest expense	(90,000)
Loss from discontinued operations	$ (41,000)

A summary of the Satellite Place balance sheet information as of December 31, 2004 is as follows:

	December 31, 2004
Operating property	$ 15,368,000
Intangible assets	2,803,000
Other assets	523,000
Mortgage loans payable	11,000,000
Other liabilities	113,000
Total equity	7,581,000

NNN 2003 VALUE FUND, LLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS − (Continued)

13. Tax Treatment of Distributions

The income tax treatment for distributions reportable for the year ended December 31, 2004, and the period from June 19, 2003 (date of inception) through December 31, 2003 was as follows:

	December 31, 2004	December 31, 2003
Ordinary income	$ 877,000	$ 35,000
Return of Capital	1,031,000	−
Total	$ 1,908,000	$ 35,000

14. Selected Quarterly Data (unaudited)

Set forth below is certain unaudited quarterly financial information. We believe 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 generally accepted accounting principles, the selected quarterly information.

	Year Ended December 31, 2004			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Total revenues	$ 1,229,000	$ 713,000	$ 679,000	$ 125,000
Total expenses	1,519,000	1,289,000	1,155,000	544,000
Loss before other (expense) income and minority interests	(290,000)	(576,000)	(476,000)	(419,000)
Equity in loss of unconsolidated real estate	(231,000)	(120,000)	(163,000)	(168,000)
Loss before minority interests and discontinued operations	(521,000)	(696,000)	(639,000)	(587,000)
Minority interests	47,000	55,000	40,000	40,000
Discontinued operations	(41,000)	−	−	−
Net loss	$ (515,000)	$ (641,000)	$ (599,000)	$ (547,000)
Net loss per member unit − basic and diluted	$ (51.50)	$ (81.89)	$ (138.37)	$ (224.36)
Weighted average units outstanding	10,000	7,828	4,329	2,438

NNN 2003 VALUE FUND, LLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS − (Continued)

	For the Period from June 19, 2003 (Date of Inception) through December 31, 2003			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Loss before other (expense) income and minority interest	$ (18,000)	$ −	$ −	$ −
Other income	3,000	−	−	−
Equity in loss of unconsolidated real estate	(93,000)	(39,000)	−	−
Loss before minority interests and discontinued operations	(108,000)	(39,000)	−	−
Minority interests	19,000	12,000	−	−
Net loss	$ (89,000)	$ (27,000)	$ −	$ −
Loss per member unit − basic and diluted	$ (76.92)	$ (2,454.55)	$ −	$ −
Weighted average units outstanding	1,257	11	−	−

15. Business Combinations

During the year ended December 31, 2004, we completed the acquisition of three wholly-owned properties and a 75.4% interest in a limited liability company, or LLC, that owns one property adding a total of 41,000 square feet of GLA to our consolidated property portfolio. We also acquired interests in three LLCs: an 85.0% interest in NNN 801K, LLC, which owns a 21.5% interest in a property; a 73.3% interest in NNN Enterprise Technology, LLC, which owns a 11.6% interest in a property; and a 22.2% interest NNN Emerald Plaza, LLC, which owns a 20.5% interest in a property. The properties are equity basis investments for these LLCs. The LLCs, with the exception of NNN Emerald Plaza, LLC, are consolidated for financial reporting purposes; NNN Emerald Plaza, LLC is an equity basis investment. The aggregate purchase price of our consolidated property acquisitions was $37,558,000, of which $19,125,000 was financed with mortgage debt. In accordance with SFAS, No. 141, we allocated the purchase price 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. During 2004, we have allocated and recorded $4,742,000 of intangible assets associated with in-place lease origination costs and tenant relationships, as well as above market leases.

During the year ended December 31, 2003, we completed the acquisition of one wholly-owned property, and an 76.8% interest in a LLC which owns a 49.6% equity basis investment in a property. The property acquisition added a total of 205,000 square feet of GLA to our property portfolio. The purchase price of the consolidated property was $8,178,000, of which $4,500,000 was financed with mortgage debt. In accordance with SFAS No. 141, we 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. During 2003, we allocated and recorded $1,699,000 of intangible assets associated with in-place lease origination costs and tenant relationships, as well as above market leases.

Assuming all of the 2004 and 2003 acquisitions had occurred on June 19, 2003, pro forma revenues, net loss and net loss per diluted unit would have been $5,499,000, $(2,090,000) and $(209.00), respectively, for the year ended December 31, 2004; and $2,266,000, $(1,293,000) and $(129.30), respectively, for the period from June 19, 2003 (date of inception) through December 31, 2003. The pro forma results are not necessarily indicative of the operating results that would have been obtained had the acquisitions occurred at the beginning of the periods presented, nor are they necessarily indicative of future operating results.

16. Subsequent Events

Acquisitions

Interwood − Houston, Texas

On January 26, 2005, through its wholly-owned subsidiary NNN VF Interwood, LP, a Texas limited partnership, we purchased a 100% interest in The Offices at Interwood, a two-story office building of 80,000 square feet located in Houston, Texas. The property was purchased from an unaffiliated third party for a purchase price of $8,000,000. The seller paid Realty a sales commission of $250,000, or 3.1% of the total purchase price of which 75% was passed through to our Manager pursuant to the Realty-Triple Net Agreement. At acquisition, we obtained a first mortgage loan from La Salle Bank National Association, in the amount of $5,500,000, which bore interest at a one month LIBOR plus 300 basis points. The initial term of the loan was two years from the date of acquisition.

Dispositions

Satellite Plaza − Atlanta, Georgia

On February 24, 2005, our wholly-owned property, Satellite Place in Atlanta, Georgia was sold to NNN Satellite 1100 & 2000, LLC for a sales price of $19,410,000. The sale resulted in a net gain of approximately $70,000. Because the property was purchased by TIC entities also managed by our Manager, our Board of Managers engaged an independent third party to provide an opinion as to the fairness of the transaction to us. The opinion was received by us prior to the consummation of the transaction. Realty did not receive a disposition fee for the sale of this property.

Financial Plaza − Omaha, Nebraska

On April 13, 2005, our wholly-owned property, Financial Plaza in Omaha, Nebraska was sold to an unaffiliated third party for a total sales price of $9,500,000. In connection with the sale, the buyer assumed the first mortgage note of $4,125,000 due to American Express Certificate Company. We also received an adjustable note receivable for $2,300,000 that bears interest at a rate of 8.0% per annum and matures on April 1, 2008. Our net proceeds after closing costs and the note receivable were $2,327,000. The sale resulted in a net gain to us of $2,910,000. We paid Realty a disposition fee of $475,000, or 5.0% of the purchase price, of which 75% was passed through to our Manager pursuant to the Realty-Triple Net Agreement. This property was not listed for sale at December 31, 2004.

Property Management Fee

Effective May 1, 2005, the Board of Managers and Realty renegotiated and amended the terms of the Management Agreement to reduce the property management fee paid by us to Realty to 5% of the gross receipts revenue from our properties. In connection with the amendment, Realty will provide us with a property management fee allowance of $78,000 to be used against future management fees.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Owners
Executive Center II & III

We have audited the accompanying balance sheets of Executive Center II & III Property (collectively, the "Company") as of December 31, 2004 and 2003, and the related statement of operations, owners' equity, and cash flows for the year ended December 31, 2004 and the period from August 1, 2003 (date of acquisition) through December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 2004 financial statements present fairly, in all material respects, the financial position of the Executive Center II & III, Property, as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the year ended December 31, 2004 and the period from August 1, 2003 through December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche, LLP

Los Angeles, California
May 2, 2005

EXECUTIVE CENTER II & III PROPERTY

BALANCE SHEETS
December 31, 2004 and 2003

	December 31, 2004	December 31, 2003
ASSETS		
Real estate investments:		
Operating property, net	$ 15,922,000	$ 16,505,000
Cash and cash equivalents	189,000	442,000
Tenant receivables	259,000	–
Restricted cash	134,000	497,000
Identified intangible assets, net	5,774,000	7,280,000
Other assets, net	464,000	347,000
Total assets	$ 22,742,000	$ 25,071,000
LIABILITIES, AND OWNERS' EQUITY		
Mortgages payable	$ 14,744,000	$ 14,891,000
Accounts payable and accrued liabilities	810,000	899,000
Security deposits and prepaid rent	119,000	117,000
Total liabilities	15,671,000	15,907,000
Commitments and contingencies (Note 9)		
Total owners' equity	7,069,000	9,164,000
Total liabilities and owners' equity	$ 22,742,000	$ 25,071,000

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

EXECUTIVE CENTER II & III PROPERTY

STATEMENTS OF OPERATIONS
For the Year Ended December 31, 2004 and the Period from August 1, 2003 (Date of Acquisition) through December 31, 2003

	Year Ended December 31, 2004	For the Period from August 1, 2003 (Date of Acquisition) through December 31, 2003
Revenues:		
Rental income	$ 4,949,000	$ 2,008,000
Expenses:		
Rental expenses	3,539,000	1,269,000
General and administrative	50,000	21,000
Depreciation and amortization	1,476,000	609,000
	5,065,000	1,899,000
Operating (loss) income	(116,000)	109,000
Other income (expense):		
Miscellaneous income	5,000	41,000
Interest expense (including amortization of deferred financing costs)	(956,000)	(417,000)
Net loss	$ (1,067,000)	$ (267,000)

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

EXECUTIVE CENTER II & III PROPERTY

STATEMENTS OF OWNERS' EQUITY
For the Year Ended December 31, 2004 and the Period from August 1, 2003 (Date of Acquisition) through December 31, 2003

	Total
BALANCE − August 1, 2003 (date of acquisition)	
Capital contributions, net of offering costs	$ 9,792,000
Distributions	(361,000)
Net loss	(267,000)
BALANCE − December 31, 2003	9,164,000
Distributions	(1,028,000)
Net loss	(1,067,000)
BALANCE − December 31, 2004	$ 7,069,000

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

Executive Center II & III

STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2004 and the Period From August 1, 2003 (Date of Acquistion) to December 31, 2003

	Year Ended December 31, 2004	From August 1, 2003 (Date of Acquisition) through December 31, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,067,000)	$ (267,000)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization, amortization of deferred financing costs and amortization of above market leases	2,434,000	982,000
Provision for doubtful accounts	2,000	–
Change in operating assets and liabilities:		
Tenant receivables	(261,000)	–
Other assets	(274,000)	(206,000)
Accounts payable and accrued liabilities	(89,000)	711,000
Scecurity deposits and prepaid rent	2,000	56,000
Net cash provided by operating activities	747,000	1,276,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of and additions to real estate operating properties	–	(24,721,000)
Capital improvements	(39,000)	(31,000)
Restricted cash	363,000	(163,000)
Net cash provided by (used in) investing activities	324,000	(24,915,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on mortgages payable	–	14,950,000
Repayments on mortgages payable	(147,000)	(59,000)
Distributions	(1,028,000)	(361,000)
Payment of deferred financing costs	(149,000)	(241,000)
Equity contributions	–	9,792,000
Net cash (used in) provided by financing activities	(1,324,000)	24,081,000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(253,000)	442,000
CASH AND CASH EQUIVALENTS − beginning of period	442,000	–
CASH AND CASH EQUIVALENTS − end of period	$ 189,000	$ 442,000
Non Cash Investing Activities:		
Security deposits and prepaid rent	$ –	$ 61,000
Restricted cash	$ –	$ 334,000

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

EXECUTIVE CENTER II & III PROPERTY

STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2004 and the Period from August 1, 2003 (Date of Acquisition) through December 31, 2003

	Year Ended December 31, 2004	For the Period from August 1, 2003 (Date of Acquisition) through December 31, 2003
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$ 753,000	$ 255,000

EXECUTIVE CENTER II & III PROPERTY

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004 and the Period from August 1, 2003
(Date of Acquisition) through December 31, 2003

1. Organization and Description of Business

NNN Executive Center II & III, LLC, was formed as a Texas limited liability company on July 11, 2003 for the purpose of acquiring a tenant-in-common interest in Executive Center II & III, an office building located in Dallas, Texas, in accordance with the Private Placement Memorandum for the purchase of Executive Center II & III dated July 29, 2003, as amended.

Executive Center II & III, which was acquired on August 1, 2003, are two Class A office buildings with a total of 205,000 square feet of gross leaseable area, or GLA. The use of the words "we", "us" or "ours" refers to the Executive Center II & III property, or Executive Center II & III.

As of December 31, 2004, Executive Center II & III is owned by the following interest holders as tenants-in-common, or TICs,:

Tenants-in-Common	Interest Held
NNN Executive Center II & III, LLC	49.6%
Unaffiliated third parties (combined)	48.9%
Affiliated third parties (combined)	1.5 %

As of December 31, 2004, NNN Executive Center II & III, LLC, which owns an aggregate 49.6% interest in Executive Center II & III, is owned by the following members, with the proportionate membership interest listed respectively:

Members	Membership Interest in NNN Executive Center II & III, LLC	Interest in Executive Center II & III Property
NNN 2003 Value Fund, LLC	76.8%	38.1%
Unaffiliated members (combined)	23.2%	11.5%

We are externally managed by Triple Net Properties, LLC, or our Manager, pursuant to the terms of an operating agreement, or the Operating Agreement. Triple Net Properties Realty, Inc., or Realty, an affiliate of Triple Net Properties, LLC, which was solely owned through December 31, 2004, by Anthony W. Thompson, our Manager' s chief executive officer and chairman, (effective January 1, 2005, Mr. Thompson owns 88% of Realty), serves as our property manager pursuant to the terms of the Operating Agreement and a property management agreement, or the Management Agreement.

The property was purchased from an unaffiliated third party for a purchase price of $24,600,000. The seller paid Realty a sales commission of $600,000, or 2.4% of the total purchase price, of which 75% was passed through to our Manager pursuant to an agreement between Realty and our Manager, or the Realty-Triple Net Agreement.

2. Summary of Significant Accounting Policies

The summary of significant accounting policies presented below is designed to assist in understanding our combined financial statements. Such financial statements and accompanying notes are the representations of our Manager, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America, or GAAP, in all material respects, and have been consistently applied in preparing the accompanying combined financial statements.

EXECUTIVE CENTER II & III PROPERTY

NOTES TO FINANCIAL STATEMENTS − (Continued)

Real Estate Investments

Operating Property

The operating property is carried at the lower of historical cost less accumulated depreciation or estimated fair value. The cost of the operating property includes the cost of land and completed building and related improvements. Expenditures that increase the service life of property are capitalized; the cost of maintenance and repairs is charged to expense as incurred. The cost of building and improvements are depreciated on a straight-line basis over the estimated useful lives of the building and improvements, ranging primarily from 15 to 39 years for the building and the shorter of the lease term or useful life, ranging from one to 10 years for tenant improvements. When depreciable property is retired or disposed of, the related costs and accumulated depreciation are removed from the accounts and any gain or loss reflected in operations.

An operating property is evaluated for potential impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Impairment losses are recorded on long-lived assets used in operations. Impairment losses are recorded on the operating property when indicators of impairment are present and the carrying amount of the asset is greater than the sum of the future undiscounted cash flows expected to be generated by that asset. We would recognize an impairment loss to the extent the carrying amount exceeded the fair value of the property. We recorded no impairment losses for the year ended December 31, 2004 and the period from August 1, 2003 (date of acquisition) through December 31, 2003.

Cash and Cash Equivalents

Certificates of deposit and short-term investments with remaining maturities of three months or less when acquired are considered cash equivalents.

Restricted Cash

Restricted cash is comprised of impound reserves accounts for property taxes, insurance, and tenant improvements.

Purchase Price Allocation

In accordance with Statement of Financial Accounting Standard, or SFAS, No. 141, *Business Combinations*, we, allocate the purchase price of acquired properties to tangible and identified intangible assets based on their respective fair values. The allocation to tangible assets (building and land) is based upon our determination of the value of the property as if it were vacant using discounted cash flow models similar to those used by independent appraisers. Factors considered by us include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. Additionally, the purchase price of the applicable property is allocated to the above or below market value of in-place leases and the value of in-place leases and related tenant relationships.

The value allocable to the above or below market component of the acquired in-place leases is determined based upon the present value (using a discount rate which reflects the risks associated with the acquired leases) of the difference between (i) the contractual amounts to be paid pursuant to the lease over its remaining term, and (ii) our Manager' s estimate of the amounts that would be paid using fair market rates over the remaining term of the lease. The amounts allocated to above market leases are included in the intangible in-place lease asset and below market lease values are included in intangible lease liability in the accompanying combined financial statements and are amortized to rental income over the weighted average remaining term of the acquired leases with each property.

EXECUTIVE CENTER II & III PROPERTY

NOTES TO FINANCIAL STATEMENTS − (Continued)

The total amount of other intangible assets acquired is further allocated to in-place lease costs and the value of tenant relationships based on our Manager' s evaluation of the specific characteristics of each tenant' s lease and the Company' s overall relationship with that respective tenant. Characteristics considered by management in allocating these values include the nature and extent of the credit quality and expectations of lease renewals, among other factors.

These allocations are subject to change based on continuing valuation analysis, or other evidence, until the allocations are finalized or the stipulated time of one year from the date of acquisition.

Allowance for Uncollectible Accounts

Tenant receivables and unbilled deferred rent receivables are carried net of the allowances for uncollectible current tenant receivables and unbilled deferred rent. Our determination of the adequacy of these allowances is based primarily upon evaluations of historical loss experience, individual tenant receivables considering the tenant' s financial condition, security deposits, letters of credit, lease guarantees and current economic conditions and other relevant factors. At December 31, 2004 and 2003, the allowance for uncollectible accounts was $2,000 and $0, respectively.

Concentration of Credit Risk

Financial instruments that potentially subject us to a concentration of credit risk are primarily cash and accounts receivable from tenants. Cash is generally placed in money market accounts and the amount of credit exposure to any one party is limited. We have cash in financial institutions which are insured by the Federal Deposit Insurance Corporation, or FDIC, up to $100,000 per institution. At December 31, 2004 and 2003, we had cash accounts in excess of FDIC insured limits. Concentration of credit risk with respect to accounts receivable from tenants is limited. We perform credit evaluations of prospective tenants and security deposits are obtained.

As of December 31, 2004, two of our tenants, individually, accounted for 10% or more of our aggregate annual rental income.

Tenants	2004 Annual Base Rent(*)	Percentage of 2004 Annual Base Rent	Square Footage (Approximately)	Lease Expiration Date
Trinity University	$ 1,379,000	27.8%	84,000	06/30/2013
Trailblazer Health Enterprises	$ 3,490,000	70.2%	189,000	12/31/2006

As of December 31, 2003, two of our tenants, individually, accounted for 10% or more of our aggregate annual rental income.

Tenants	2003 Annual Base Rent(*)	Percentage of 2003 Annual Base Rent	Square Footage (Approximately)	Lease Expiration Date
Trinity University	$ 1,350,000	27.3%	84,000	06/30/2013
Trailblazer Health Enterprises	$ 3,490,000	70.1%	189,000	12/31/2006

(*) Annualized rental income based on contractual base rent set forth in leases in effect at December 31, 2004 and 2003, respectively.

Fair Value of Financial Instruments

The Statement of Financial Accounting Standards No. 107, *Disclosures About Fair Value of Financial Instruments*, requires disclosure of fair value of financial instruments, whether or not recognized

EXECUTIVE CENTER II & III PROPERTY

NOTES TO FINANCIAL STATEMENTS − (Continued)

on the face of the balance sheet, for which it is practical to estimate that value. SFAS 107 defines fair value as the quoted market prices for those instruments that are actively traded in financial markets. In cases where quoted market prices are not available, fair values are estimated using present value or other valuation techniques. The fair value estimates are made at the end of each year based on available market information and judgments about the financial instrument, such as estimates of timing and amount of expected future cash flows. Such estimates do not reflect any premium or discount that could result from offering for sale at one time our entire holdings of a particular financial instrument, nor do they consider that tax impact of the realization of unrealized gains or losses. In many cases, the fair value estimates cannot be substantiated by comparison to independent markets, nor can the disclosed value be realized in immediate settlement of the instrument.

Our combined balance sheets include the following financial instruments: cash and cash equivalents, tenant rent and other receivables, accounts payable and accrued expenses and mortgages payable. We consider the carrying values of cash and cash equivalents, tenant rent and other receivables and accounts payable and accrued expenses to approximate fair value for these financial instruments because of the short period of time between origination of the instruments and their expected realization. The fair value of payable to and receivable from related parties is not determinable due to its related party nature. At December 31, 2004 and 2003, the estimated fair value of our debt approximates $15,116,000 and $15,398,000, respectively.

Revenue Recognition

In accordance with Statement of Financial Accounting Standards No. 13, "Accounting for Leases," minimum annual rental revenue is recognized on a straight-line basis over the term of the related lease (including rent holidays). Tenant reimbursement revenue, which is comprised of additional amounts recoverable from tenants for common area maintenance expenses and certain other recoverable expenses, is recognized as revenue in the period in which the related expenses are incurred.

Other Assets

Other assets consist primarily of deferred rent receivables, loan fees, and prepaid expenses. Loan fees and other loan costs are amortized over the term of the respective loan using a method that approximate the effective interest method.

Income Taxes

We are a pass-through entity for income tax purposes and taxable income is reported by our owners on their individual tax returns. Accordingly, no provision has been made for income taxes in the accompanying statements of operations.

Use of Estimates

The preparation of our financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities as of December 31, 2004 and 2003, and the revenues and expenses for the year ended December 31, 2004 and for the period from August 1, 2003 (date of acquisition) to December 31, 2003. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In December 2003, FASB revised FIN 46, *Consolidation of Variable Interest Entities*, issued in January 2003, an interpretation of Accounting Research Bulletin No. 51, *Consolidated Financial*

EXECUTIVE CENTER II & III PROPERTY

NOTES TO FINANCIAL STATEMENTS − (Continued)

Statements (FIN 46R). FIN 46R requires that variable interest entities be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity' s activities or is entitled to receive a majority of the entity' s residual returns or both. FIN 46R also requires disclosures about variable interest entities that companies are not required to consolidate but in which a company has a significant variable interest. The consolidation requirements of FIN 46R apply immediately to variable interest entities created after December 31, 2003. The consolidation requirements will apply to entities established prior to December 31, 2003, in the first fiscal year or in the interim period beginning after December 15, 2004. We do not believe the adoption of such interpretation will have a material impact on our results of operations or financial condition.

3. Real Estate Investments

Our operating property, Executive Center II & III, located in Dallas, Texas, consists of the following at December 31, 2004 and 2003:

	December 31, 2004	December 31, 2003
Buildings and tenant improvements	$ 14,390,000	$ 14,351,000
Land	2,409,000	2,409,000
	16,799,000	16,760,000
Less: accumulated depreciation	877,000	255,000
	$ 15,922,000	$ 16,505,000

Depreciation expense on the buildings and tenant improvements was $622,000 and $255,000 for the year ended December 31, 2004 and the period from August 1, 2003 (date of acquisition) through December 31, 2003.

4. Identified Intangible Assets

Identified intangible assets consisted of the following:

	December 31, 2004	December 31, 2003
In-place leases and tenant relationships and above market leases, net of accumulated amortization of $2,133,000 and $627,000, respectively, for the years ended December 31, 2004 and 2003, respectively (with a weighted-average life of 92 months.)	$ 5,774,000	$ 7,280,000

Amortization expense recorded on the identified intangible assets for the fiscal year ended December 31, 2004 and for the period from August 1, 2003 (date of acquisition) through December 31, 2003 was $1,506,000 and $627,000, respectively.

Estimated amortization expense of identified intangible assets as of December 31, 2004 for each of the five succeeding fiscal years is as follows:

Year	Amount
2005	$ 1,506,000
2006	$ 1,506,000
2007	$ 510,000
2008	$ 502,000
2009	$ 502,000

EXECUTIVE CENTER II & III PROPERTY

NOTES TO FINANCIAL STATEMENTS − (Continued)

5. Other Assets

Other assets consist of the following at December 31:

	2004	2003
Deferred rent receivable	$ 309,000	$ 105,000
Deferred financing costs, net of accumulated amortization of $303,000 and $100,000 at December 31, 2004 and 2003, respectively	87,000	141,000
Prepaid expenses and other	68,000	101,000
Total other assets	$ 464,000	$ 347,000

6. Mortgages Payable

Mortgages payable consisted of the following at December 31:

	December 31, 2004	December 31, 2003
Note payable to a mortgage company, secured by a deed of trust, interest at the 30-day LIBOR rate plus 300 basis points. Principal payments of $14,730 plus interest are payable monthly, with the note due in full 7/31/2005	$ 14,744,000	$ 14,891,000

At acquisition, the owners obtained a first mortgage loan from LaSalle in the amount of $14,950,000, which bears interest at 30-day LIBOR plus 300 basis points, with a floor of 5.0% per annum. The interest rate at December 31, 2004 and 2003 were 5.25% per annum and 5.0% per annum, respectively. The initial term of the loan was one year and on August 1, 2004, was extended for two additional six-month terms for a fee of $148,000.

At December 31, 2004 and 2003, the fair estimated value of our debt approximates $15,116,000 and $15,398,000, respectively.

7. Future Minimum Rent

Rental Income

We have operating leases with tenants that expire at various dates through 2013 and are either subject to scheduled fixed increases or adjustments based on the Consumer Price Index. Generally, the leases grant tenants renewal options. Leases also provide for additional rents based on certain operating expenses. Future minimum rent contractually due under operating leases, excluding tenant reimbursements of certain costs, as of December 31, 2004, are summarized as follows:

Year Ending December 31,	Amount
2004	$ 5,092,000
2005	$ 5,258,000
2006	$ 1,556,000
2007	$ 1,519,000
2008	$ 1,527,000
Thereafter	$ 4,706,000

A certain amount of our rental income is from tenants with leases which are subject to contingent rent provisions. These contingent rents are subject to the tenant achieving periodic revenues in excess of

EXECUTIVE CENTER II & III PROPERTY

NOTES TO FINANCIAL STATEMENTS − (Continued)

specified levels. For the year ended December 31, 2004, and the period from August 1, 2003 (date of acquisition) though December 31, 2003 the amount of contingent rent earned by us was not significant.

8. Related Party Transactions

Property management fees

We pay Realty property management fees equal to 6% of the gross income of the property. Realty earned $564,000 and $123,000 for services provided during the year ended December 31, 2004 and the period from August 1, 2003 (date of acquisition) through December 31, 2003, respectively of which 100% was passed through to our Manager pursuant to the Realty-Triple Net Agreement.

Real estate commissions

Realty earns sales commissions from acquisitions and dispositions of our property. For the year ended December 31, 2004 and the period from August 1, 2003 (date of acquisition) through December 31, 2003, we paid no sales commissions to Realty. For the year ended December 31, 2004, and the period from August 1, 2003 (date of acquisition) through December 31, 2003, unaffiliated sellers paid sales commissions to Realty of $0 and $600,000, respectively, related to property purchased of which 75% was passed through to our Manager pursuant to the Realty-Triple Net Agreement.

Debt due to related parties

We may obtain secured or unsecured debt financing through one or more third parties, including Cunningham Lending Group, LLC, or Cunningham, an entity wholly owned by Anthony W. Thompson, and 2004 Notes Program LLC, or 2004 Notes Program, a subsidiary of our Manager. For the years ended December 31, 2003 and 2004, there was no debt due to related parties.

9. Commitments and Contingencies

SEC Investigation

On September 16, 2004, our Manager advised us that it learned that the SEC is conducting an investigation referred to as *"In the matter of Triple Net Properties, LLC."* The SEC has requested information from our Manager relating to disclosure in securities offerings (including offerings by G REIT, T REIT, Inc. and A REIT, Inc.) and the exemption from the registration requirements of the Securities Act for the private offerings in which our Manager and its affiliated entities were involved and exemptions from the registration requirements of the Exchange Act for several entities. The SEC has requested financial and other information regarding these entities as well as the limited liability companies advised by our Manager. Our Manager has advised us that it intends to cooperate fully with the SEC' s investigation.

Litigation

To the best of our knowledge there are no material pending legal proceedings, other than routine litigation incidental to the business, to which we are a party or of which any of our properties are subject.

Environmental Matters

We follow the policy of monitoring our properties for the presence of hazardous or toxic substances. While there can be no assurance that a material environmental liability does not exist, we are not currently aware of any environmental liability with respect to our properties that would have a material effect on our financial condition, results of operations and cash flows. Further, we are not aware of any environmental

EXECUTIVE CENTER II & III PROPERTY

NOTES TO FINANCIAL STATEMENTS − (Continued)

liability or any unasserted claim or assessment with respect to an environmental liability that we believe would require additional disclosure or the recording of a loss contingency.

Other

Our other commitments and contingencies include the usual obligations of a real estate company in the normal course of business. In the opinion of our Manager, these matters are not expected to have a material adverse effect on our financial position and/or results of operations.

10. Subsequent Event

Effective April 15, 2005 and retroactive to January 1, 2005, we reduced the rent for our tenant, Trailblazer Health Enterprises, LLC from $16.00 per square foot to $10.00 per square foot in exchange for an early renewal and an extended lease term. The lease term extended from December 2006 to December 2015. This action will result in a reduction of rental income in 2005 of $856,000 to us. As of December 31, 2004, Trailblazer Health Enterprises occupied 51.2% of the GLA of the property.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Members
NNN 2003 Value Fund, LLC

We have audited the accompanying statements of revenues and certain expenses of Satellite Place, Financial Plaza and Southwood Tower (the "Properties") for the year ended December 31, 2003. These statements is the responsibility of management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit 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 audit 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 audit provides a reasonable basis for our opinion.

The accompanying statements of revenues and certain expenses were prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission, as described in Note 1 to the statements of revenues and certain expenses. It is not intended to be a complete presentation of the Properties' revenues and expenses.

In our opinion, the statements referred to above present fairly, in all material respects, the revenues and certain expenses, as described in Note 1, of the Properties for the year ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche, LLP

Los Angeles, California
May 2, 2005

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The Properties

Statements of Revenues and Certain Expenses
For the year ended December 31, 2003

	Satellite Place	Financial Plaza	Southwood Tower
REVENUES:			
Lease rentals	$ 2,033,000	$ 1,150,000	$ 788,000
Tenant reimbursements and other income	260,000	54,000	8,000
Total revenues	2,293,000	1,204,000	796,000
CERTAIN EXPENSES:			
Operations and maintenance	85,000	377,000	205,000
Real estate taxes	186,000	161,000	69,000
Electricity, water and gas utilities	145,000	131,000	155,000
Management fees	69,000	56,000	35,000
General and administrative	69,000	60,000	83,000
Total certain expenses	554,000	785,000	547,000
REVENUES IN EXCESS OF CERTAIN EXPENSES	$ 1,739,000	$ 419,000	$ 249,000

See accompanying notes to statement of revenues and certain expenses.

NOTES TO STATEMENT OF REVENUES AND CERTAIN EXPENSES
Year Ended December 31, 2003

Note 1. Basis of Presentation

Southwood Tower − Houston, Texas

On October 27, 2004, through our wholly-owned subsidiary NNN VF Southwood Tower, LP, we purchased a 100% interest in Southwood Tower, a Class A office building of 79,000 square feet located in Houston, Texas. The property was purchased from an unaffiliated third party for a purchase price of $5,461,000. The seller paid Realty a sales commission of $159,000, or 2.9% of the purchase price, of which 75% was passed through to our Manager pursuant to the Realty-Triple Net Agreement. There was no debt incurred on the purchase of this property.

Financial Plaza − Omaha, Nebraska

On October 29, 2004, through our wholly-owned subsidiary NNN VF Financial Plaza, LLC, we purchased a 100% interest in Financial Plaza, a four-story, Class A office building of 86,000 square feet located in Omaha, Nebraska. The property was purchased from an unaffiliated third party for a purchase price of $5,660,000. At acquisition, we obtained a first mortgage loan from American Express Certificate Company in the amount of $4,125,000, which bears interest at a 6-month LIBOR plus 180 basis points. The initial term of the loan is three years from the date of acquisition. The seller paid Realty a sales commission of $160,000, or 2.8% of the total purchase price, of which 75% was passed through to our Manager pursuant to the Realty-Triple Net Agreement.

Satellite Place − Atlanta, Georgia

On November 29, 2004, through our wholly owned subsidiary, NNN VF Satellite Place, LLC, we purchased a 100% interest in Satellite Place, two single-story, Class A office buildings totaling 178,000 square feet located in Atlanta, Georgia. The property was purchased from an unaffiliated third party for a purchase price of $18,300,000. At acquisition, we obtained a first mortgage loan from LaSalle Bank National Association, or LaSalle, in the amount of $11,000,000, which bears interest at 30-day LIBOR plus 275 basis points. The initial term of the loan is six months from the date of acquisition, with one six-month option to extend and an option to convert to fixed-rate debt with LaSalle at anytime during the term by the borrower. The seller paid Realty a sales commission of $356,000, or 1.9% of the total purchase price, of which 75% was passed through to our Manager pursuant to the Realty-Triple Net Agreement.

The accompanying statement of revenues and certain expenses has been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and, accordingly, is not representative of the actual results of operations of Southwood Tower, Financial Plaza and Satellite Place, or the Properties, for the year ended December 31, 2003 due to the exclusion of interest, depreciation and amortization expense, which may not be comparable to the proposed future operations of the Properties.

Note 2. Summary of Significant Accounting Policies and Practices

(a) Revenue Recognition

All leases are classified as operating leases and minimum rents are recognized on a straight-line basis over the terms of the leases (including rent holidays). Tenant reimbursements for real estate taxes, common area maintenance, and other recoverable costs are recognized in the period that the expenses are incurred.

(b) Use of Estimates

Our Manager has made a number of estimates and assumptions relating to the reporting and disclosure of revenues and certain expenses during the reporting period to prepare the statement of revenues and certain expenses in conformity with accounting principles generally accepted in the United States of America. Actual results could differ in material adverse ways from those estimates.

Note 3. Minimum Future Lease Rentals

The Properties have entered into various lease agreements with tenants to lease space in the Properties. As of December 31, 2003, the minimum future cash rents receivable under noncancelable operating leases in each of the next five years and thereafter are as follows:

Year Ending December 31:	Satellite Place	Financial Plaza	Southwood Tower
2004	$ 1,935,000	$ 1,267,000	$ 828,000
2005	2,019,000	1,196,000	690,000
2006	1,539,000	1,172,000	631,000
2007	1,435,000	588,000	548,000
2008	1,247,000	297,000	175,000
Thereafter	446,000	42,000	56,000
	$ 8,621,000	$ 4,562,000	$ 2,928,000

The leases also require reimbursement of the tenant' s proportional share of common area, real estate taxes and other operating expenses, which are not included in the amounts above.

Note 4. Tenant Concentrations

For the year ended December 31, 2003, the following tenants generated rental income in excess of 10% for individual property included in the Properties:

Tenant Name	Date of Lease Expiration	Aggregate Annual Rental Income	% Aggregate Annual Rental Income
Financial Plaza:			
Godfather' s Pizza, Inc.	11/30/2006	$ 480,000	46.0%
MCI Worldcom	9/30/2007	$ 185,000	17.7%
Satellite Place:			
Sarcom, Incorporated	1/31/2006	$ 315,000	14.6%
American Security Insurance Company	1/31/2009	$ 797,000	37.0%
Compu Credit Corporation	8/31/2009	$ 375,000	17.4%
Ricoh Corporation	8/31/2007	$ 290,000	13.4%
Southwood Tower:			
Woodforest National Bank	9/30/2008	$ 78,000	10.4%
Lipar Group Development, Inc.	2/29/2008	$ 131,000	17.6%
Invocon, Incv.	10/31/2004	$ 168,000	21.1%

If any of these tenants were to default on their leases, future revenues of the related property could be materially and adversely impacted.

Note 5. Commitments and Contingencies

Litigation

The Properties are subject to legal claims in the ordinary course of business as a property owner. Our Manager believes that the ultimate settlement of any potential claims will not have a material impact on the properties' results of operations.

Environmental Matters

In connection with the ownership and operation of the real estate property, the Properties may be potentially liable for costs and damages related to environmental matters. The Properties have not been notified by any governmental authority of any non-compliance, liability or other claim, and the Properties are not aware of any other environmental condition that the Manager believes will have a material adverse effect on the Properties' results of operations.

NNN 2003 VALUE FUND, LLC

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2004

The following unaudited pro forma consolidated statement of operations, or the pro forma financial statements, give effect to our 2004 acquisitions and are presented for illustrative purposes only. This pro forma statement of operations is not necessarily indicative of the results of operations of future periods or the results that would have been realized had our six acquisitions, including the purchase of Financial Plaza and Southwood Tower been acquired by us as of January 1, 2004, and excluding Satellite Place, which is classified as discontinued operations as of December 31, 2004. The pro forma financial statements are qualified in their entirety by reference to and should be read in conjunction with our historical consolidated financial statements of us and the statements of revenues and certain expenses of Satellite Place, Financial Plaza and Southwood Tower, including the notes thereto, incorporated herein by reference or included herein.

The accompanying unaudited pro forma consolidated statement of operations for the year ended December 31, 2004 is based on our audited historical consolidated statement of operations for the same period and gives effect to the 2004 acquisitions as if they had occurred as of the beginning of the period presented. The accompanying pro forma financial statements are unaudited and are subject to a number of estimates, assumptions and other uncertainties, and do not purport to be indicative of the actual results of operations that would have occurred had the acquisitions reflected therein in fact occurred on the dates specified, nor do such financial statements purport to be indicative of the results of operations that may be achieved in the future.

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	As of and for the Year Ended December 31, 2004				
	Company Historical(A)	Adjustments(B)	Financial Plaza - Pro Forma(C)	Southwood Tower Pro Forma(C)	Company Pro Forma
Rental income	$ 2,660,000	$ 620,000	$ 1,124,000	$ 1,095,000	$ 5,499,000
Rental expenses	1,275,000	129,000	333,000	370,000	2,107,000
Property taxes and assessments	403,000	28,000	122,000	67,000	620,000
Insurance	46,000	5,000	12,000	4,000	67,000
Management fees	200,000	46,000	80,000	52,000	378,000
General and administrative	414,000	7,000	9,000	8,000	438,000
Interest expense	957,000	103,000	30,000	–	1,090,000
Depreciation and amortization	1,212,000	248,000	401,000	523,000	2,384,000
	4,507,000	566,000	987,000	1,024,000	7,084,000
Net income (loss) before other income (expense) and minority interests	(1,847,000)	54,000	137,000	71,000	(1,585,000)
Other Income:					
Interest income	86,000	–	2,000	–	88,000
Equity in earnings (loss) of unconsolidated real estate	(682,000)	(125,000)	–	–	(807,000)
Income (loss) before minority interests	(2,443,000)	(71,000)	139,000	71,000	(2,304,000)
Minority interests	(182,000)	(32,000)	–	–	(214,000)
Net income (loss) from continuing operations	$ (2,261,000)	$ (39,000)	$ 139,000	$ 71,000	$ (2,090,000)

(A) Amounts as reported in our audited December 31, 2004 financial statements

(B) Adjustments required to report the pro-forma performance of our additional acquisitions for the period from January 1 through the acquisition date:

NNN Oakey Building, LLC (date of acquisition April 2, 2004);

NNN 801 K Street, LLC (date of acquisition March 31, 2004);

NNN Emerald Plaza, LLC (date of acquisition July 26, 2004); and

NNN Enterprise Technology, LLC (date of acquisition May 7, 2004).

Rental income includes the effect of amortizing the capitalized deferred revenue intangible associated with in-place leases over the term of such leases. Interest is based on borrowings at date of acquisition and includes amortization of deferred financing costs. Depreciation is calculated based on the Properties' depreciable basis using the straight line method over the Properties' estimated useful lives. General and administrative expenses include the straight line effect of amortizing acquired intangibles resulting from purchase accounting over the remaining term of the in-place leases.

(C) Adjustments required to report the pro-forma performance of the acquisition for the period January 1 through the acquisition date:

Financial Plaza (date of acquisition October 29, 2004); and

Southwood Tower (date of acquisition October 27, 2004).

Rental income includes the effect of amortizing the capitalized deferred revenue intangible associated with in-place leases over the term of such leases. Interest is based on borrowings at date of acquisition and includes amortization of deferred financing costs. Depreciation is calculated based on the Properties' depreciable basis using the straight line method over the properties' estimated useful lives. General and administrative expenses include the straight line effect of amortizing acquired intangibles resulting from purchase accounting over the remaining term of the in-place leases.

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NNN 2003 Value Fund, LLC

SCHEDULE III − REAL ESTATE AND ACCUMULATED DEPRECIATION
As of December 31, 2004

	Initial Costs to Company			Gross Amount at Which Carried at Close of Period				
Properties	Encumbrance	Land	Buildings and Improvements	Land	Buildings and Improvements	Total	Accumulated Depreciation	Date Constructed
Southwood Tower	$ −	$ 839,000	$ 3,636,000	$ 839,000	$ 3,727,000	$ 4,566,000	$ 31,000	1984
Executive Center I	4,500,000	2,190,000	4,213,000	2,190,000	4,517,000	6,707,000	182,000	1983
Financial Plaza	4,125,000	1,070,000	3,198,000	1,070,000	3,225,000	4,295,000	26,000	1982
Oakey Building	4,000,000	1,539,000	4,618,000	1,539,000	4,617,000	6,156,000	119,000	1988
Total	$ 12,625,000	$ 5,638,000	$ 15,665,000	$ 5,638,000	$ 16,086,000	$ 21,724,000	$ 358,000	

(a) The Changes in wholly-owned real estate for the year ended December 31, 2004 are as follows:

Balance at beginning of year	$ 6,403,000
Acquisitions	14,900,000
Additions	421,000
Balance at end of year	$ 21,724,000

(b) The changes in accumulated depreciation for the year ended December 31, 2004 are as follows:

Balance at beginning of year	$ −
Additions	358,000
Balance at end of year	$ 358,000

Item 14. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

Not applicable.

Item 15. ***Financial Statements and Exhibits***

(a) *Financial Statements*

See Index to Financial Statements on Page

(b) *Exhibits*

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NNN 2003 VALUE FUND, LLC

By: Triple Net Properties, LLC, its Manager

By: /s/ ANTHONY W. THOMPSON

Name: Anthony W. Thompson
Title: Chief Executive Officer

Date: May 2, 2005

EXHIBIT INDEX

Exhibit Number	Description
3 .1	Articles of Organization of NNN 2203 Value Fund, LLC, dated June 19, 2003.
10.1	Operating Agreement of NNN 2003 Value Fund, LLC, by and between Triple net Properties, LLC, as the Manager, and Anthony W. Thompson, as the Initial Member.
10.2	Management Agreement between NNN 2003 Value Fund, LLC and Triple Net Properties Realty, Inc.
21.1	Subsidiaries of the registrant.

EXHIBIT 3.1

CERTIFICATE OF FORMATION

OF

NNN 2003 VALUE FUND, LLC.

This Certificate of Formation of NNN 2003 Value Fund, LLC (the "LLC"), dated as of June 19, 2003, has baen executed and is being filed by Lara D. Coleman, as an authorized person, to form a limited liability company under the Delaware Limited Liability .Company Act (6 Del, C. Section 18-101, et seq.).

FIRST. The name of the limited liability company formed hereby Is NNN 2003 Value Fund, LLC.

SECOND. The address of the registered office of the LLC in the State of Delaware Is c/o LexfsNexis Document Solutions Inc., 30 Old Rudnick Lane, Dover, Delaware 19901.

THIRD. The name and address of the registered agent for service of process on the LLC in the State of Delaware is LexisNexis Document Solutions Inc., 30 Old Rudnick Lane, Dover (Kent County), Delaware 19901.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Formation as of the date first above written.

/s/ Lara D. Coleman

Lara D. Coleman
Authorized Person

State of Dalaware
Secretary of State
Division of Corporations
Delivered 03:53 PM 06/19/2003
FILED 03:51 PM 06/19/2003
SRV 030406572 - 3672112 FILE

EXHIBIT 10.1

OPERATING AGREEMENT OF
NNN 2003 VALUE FUND, LLC

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR BY THE SECURITIES REGULATORY AUTHORITY OF ANY STATE, NOR HAS ANY COMMISSION OR AUTHORITY PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ACCURACY OR ADEQUACY OF ANY DISCLOSURE MADE IN CONNECTION THEREWITH. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. THE SECURITIES OFFERED HEREBY MAY NOT BE RESOLD WITHOUT REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND APPLICABLE STATE SECURITIES LAWS OR EXEMPTION THEREFROM.

OPERATING AGREEMENT
OF
NNN 2003 VALUE FUND, LLC

This Operating Agreement is entered into by and among Triple Net Properties, LLC, a Virginia limited liability company, as the Manager, Triple Net Properties, LLC, as the Initial Member, and Triple Net Properties Realty, Inc, a California corporation, as the Special Member (the "Special Member") pursuant to the Act on the following terms and conditions.

1. Organization.

1.1 Formation. The Certificate of Formation has been filed with the Secretary of State in accordance with and pursuant to the Act. Lara D. Coleman is hereby designated as an "authorized person" within the meaning of the Act, and has executed, delivered and filed the Certificate of Formation with the Secretary of State. Upon the filing of the Certificate with the Secretary of State, the powers of Lara D Coleman as an "authorized person" shall automatically cease, and the Manager thereupon shall become the sole "authorized person" within the meaning of the Act.

1.2 Name and Place of 'Business. The name of the Company shall be NNN 2003 Value Fund, LLC, and its principal place of business shall be 1551 N. Tustin Avenue, Suite 200, Santa Ana, California 92705. The Manager may change such name, place of business or establish additional places of business for the Company as the Manager, in its sole and absolute discretion, may determine to be necessary or desirable

1.3 Business and Purpose of the Company. The sole purpose of the Company is to acquire, own, hold, operate whole or undivided tenant in common interests in, dispose of, and manage the Company's Interests in the Properties, together with such other activities as may be necessary, incidental, or appropriate in connection therewith as determined by the Manager, in its sole and absolute. The Company shall not hold or acquire, directly or indirectly, any ownership interest (legal or equitable) in any real or personal property other than the Interests, or become a shareholder of, or member or partner in, any entity which acquires or holds any property other than the Interests.

1.4 Term. This Agreement shall remain in full force and effect until the Company is terminated in accordance with Section 13 of this Agreement.

1.5 Required Filings. The Manager shall execute, acknowledge, file, record and/or publish such certificates and documents as may be required by this Agreement or by law in connection with the formation and operation of the Company.

1.6 Registered Office and Registered Agent. The Company's initial registered office and initial registered agent shall be as provided in the Certificate of Formation. The registered office and registered agent may be changed from time to time by the Manager, it its sole and absolute discretion, as provided by the Act.

1.7 Certain Transactions. Notwithstanding any other duty existing at law or in equity, any Manager, Member, Economic Interest Owner, or any Affiliate, or any shareholder, officer, director, employee, partner, member, manager or any person owning an interest therein, may engage in or possess an interest in any other business or venture of any nature or description, whether or not competitive with the Company, including, but not limited to, the acquisition, syndication, ownership, financing, leasing, operation, maintenance, management, brokerage, construction and development of property similar to the

Properties and no Manager, Member or other person or entity shall have any interest in such other business or venture as a result of their ownership of Investor Units in the Company.

1.8 Prohibition Against Dissolution. Notwithstanding anything to the contrary contained in this Agreement, the Company, Manager and Members, to the fullest extent permitted by law, hereby waive their right to dissolve or terminate (and waive their right to consent to the dissolution or termination of) the Company or this Agreement, and shall not take any action towards that end, so long as any obligation exists under any Loan, except upon the express prior written consent of each Lender which has prohibited such activities in the Loan Documents without obtaining the Lender's prior consent. Any amendments to this Section 1.8, Section 1.3 ("Business and Purpose of the Company"), Article 13 ("Termination and Dissolution of the Company"), or the Certificate of Formation of the Company (other than as required by law) shall require the prior written consent of each Lender which has prohibited such activities in the Loan Documents without obtaining the Lender's prior consent. This paragraph shall cease to be of further force or effect if the Company has no outstanding indebtedness or other obligation of any kind whatsoever owing or due any Lender.

2. Definitions. Definitions for this Agreement are set forth on Exhibit A and are incorporated herein.

3. Capitalization and Financing.

3.1 Members' Capital Contributions.

3.1.1 Initial Member. The Initial Member shall contribute the sum of $100 in cash to the Company, but shall not receive any Investor Units therefor. On the first business day following the admission of additional Members, the Initial Member's $100 Capital Contribution shall be returned, and it shall cease to be a Member. The Members hereby consent to the Initial Member's withdrawal of its Capital Contribution and waive any right, claim or action they may have against the Manager by reason of its having been a Member.

3.1.2 Investor Units. The Company is hereby authorized to sell and issue not more than 10,000 Investor Units pursuant to the Memorandum at a purchase price of $5,000 per Investor Unit, which number of Units may be adjusted by the Manager, in its sole and absolute discretion, and to admit as Members each Person who acquires Investor Units, provided that the Manager has accepted at least $5,000,000 of aggregate subscriptions for Investor Units. The Offering shall terminate on the Offering Termination Date.

3.1.3 Payment of Purchase Price. The purchase price of each Investor Unit shall be paid in full, in cash, at the time of execution of the Subscription Agreement. Payment of the purchase price for an Investor Unit shall constitute the Member's Capital Contribution.

3.1.4 Subscription Agreement. Each person desiring to acquire Investor Units and become a Member shall tender to the Company a Subscription Agreement for the number of Investor Units desired, together with the full Subscription Payment for the Investor Units so subscribed. The Company shall accept or reject each Subscription Agreement within 30 days of receipt (and the failure by the Company to accept a Subscription Agreement within said 30 days shall constitute a rejection thereof). Acceptance of a Subscription Agreement shall be evidenced by written confirmation from the Manager. Upon the acceptance of a Subscription Agreement, the accompanying Subscription Payment shall become a Capital Contribution by such subscriber. The Company may accept subscriptions from "benefit plans" (as defined by ERISA); provided, however, that at all times benefit plans must own, in the aggregate, less than twenty-five (25%) of the total value of the Investor Units then outstanding.

3.1.5 Depository Account. Upon acceptance by the Company of each Subscription Agreement, the accompanying Subscription Payment shall be placed in an interest-bearing escrow account ("Depository Account") at a bank or financial institution selected by the Manager, in its sole and absolute discretion, and held there until such time ("Impound Release Date") as $5,000,000 in the aggregate of collected Subscription Payments have been deposited. Upon receipt of at least $5,000,000 of collected funds from accepted Subscription Agreements, funds in the Depository Account shall be released to the Company. After the Impound Release Date, any additional Subscription Payments received for Investor Units shall be sent directly to, and retained by, the Company. Each Subscriber Investor Unit shall be admitted to the Company on the first day of the calendar month following the month in which the Company accepts such subscriber's Subscription Agreement, unless admitted earlier by the Manager, in its sole and absolute discretion. All subscriptions shall be accepted or rejected by the Company within 30 days of their actual receipt by the Company. If rejected, all Subscription Payments shall be returned to the subscriber.

3.1.6 Cancellation of Offering If the Company has not accepted Subscription Payments for a sufficient number of Investor Units on or before the Offering Termination Date, the Offering shall be canceled and all Subscription Payments received shall be promptly refunded to the subscribers.

3.1.7 Interest from Depository Account. Within 45 days after any Subscription Payment for Investor Units is released from the Depository Account or upon cancellation of the Offering as provided in Section 3.1.6, an allocable share of the interest earned by the Depository Account while the Subscription Payment was deposited therein shall be paid to each subscriber, based on the actual number of days such Subscription Payment was deposited in the Depository Account and the actual amount of interest earned during such period on funds in the Depository Account,

3.1.8 Manager as Member. The Manager and/or Affiliates may purchase Investor Units for the same price and upon the same terms and conditions, as all other purchasers thereof, net of selling commissions and expenses and certain other items as described in the Memorandum. As a result, the Manager or Affiliates shall be admitted to the Company as Members with respect to such Investor Units and shall be entitled to all rights as Members appurtenant thereto, including but not limited to, the right to vote on certain Company matters as provided for in this Agreement, and to receive Distributions and allocations attributable to the Investor Units so purchased.

3.1.9 Admission of a Member. To the extent required by law, the Manager shall amend this Agreement and take such other action as the Manager deems necessary or appropriate promptly after receipt of the Members' Capital Contributions to reflect the admission of those persons as Members of the Company.

3.1.10 Liabilities of Members. Except as specifically provided in this Agreement or as required by law, neither the Manager nor any Member shall be required to make any additional Capital Contributions to the Company and no Manager or Member shall be liable for the debts, liabilities, contracts, or any other obligations of the Company solely by reason of being a Manager or Member of the Company, nor shall the Manager or the Members be required to lend any funds to the Company or to repay to the Company, any Member, any creditor of the Company or any other person, any portion or all of any deficit balance in a Member's Capital Account.

3.2 Affiliate Loans. Cunningham Lending Group, LLC, an Affiliate of the Initial Member, may, but will have no obligation to, make loans to the Company to acquire the Properties, pay operating expenses or for any other business purpose. Notwithstanding the foregoing, for so long as the Mortgage

Lien exists on all or any of the Properties, the Company shall not incur, assume, or guaranty any indebtedness, including but not limited to any Affiliate loans as otherwise permitted under this Section 3.2, other than any Loan and trade payables relating to the operation of the Properties as permitted by the Loan Documents.

3.3 Company Loans. The Company shall have no authority to borrow money or incur indebtedness on behalf of the Company (other than normal trade accounts payable, lease obligations in the ordinary course of business, or loans from the Manager, Affiliates of the Manager or Cunningham Lending Group, LLC or otherwise permitted by the Loan Documents) or grant consensual liens on the Company's property; provided, however, that notwithstanding anything herein to the contrary, the Company is authorized to borrow pursuant to each Loan, and the Manager is hereby authorized to execute and deliver the Loan Documents and the Tenants in Common Agreement but may not incur any other indebtedness except as expressly permitted in this Section 33.

3.4 Third Party Beneficiaries. The parties to this Agreement shall be entitled to all of the privileges, benefits and rights contained herein; no other party shall be a third party beneficiary or have any rights hereunder or be able to enforce any provision contained herein.

4. Allocation of Tax Items.

4.1 Generally. After giving effect to the special allocations contained in Section 4.2, Net Income and Net Loss shall be allocated to the Members' Capital Accounts in such manner as to cause each Member's Capital Account to equal the amount that such Member would receive from the Company pursuant to Section 5.2 hereof if on the last day of such year (a) all of the Company's assets that are then secured by nonrecourse debt were sold for an amount equal to such debt, (b) all of the Company's other assets were sold for an amount equal to their Book Value, (c) all of the Company's liabilities were satisfied and (d) all remaining sale proceeds were distributed to the Members in accordance with Section 5.2 hereof To the extent necessary to produce target Capital Account balances provided above, items of gross income and gain or deduction shall consist of a proportionate amount of each item of Company gross income and gain or deduction, as the case may be, for such year.

4.2 Special Allocations.

(a) Qualified Income Offset. Except as provided in Section 4.2(c), in the event any Member unexpectedly receives any adjustments, allocations, or distributions described in Treasury Regulations Sections 1.704-l(b)(2)(ii)(d)(4), 1.704-1 (b)(2)(ii)(d)(5), or 1.704-l(b)(2)(ii)(d)(6), items of Company income and gain shall be specially allocated to such Member in an amount and manner sufficient to eliminate, to the extent required by the Treasury Regulations, the Adjusted Capital Account Deficit created by such adjustment, allocation or distribution as quickly as possible.

(b) Gross Income Allocation. Net Loss shall not be allocated to any Member to the extent such allocation would cause any Member to have an Adjusted Capital Account Deficit at the end of a fiscal year. In the event any Member has an Adjusted Capital Account Deficit at the end of any fiscal year, each such Member shall be specially allocated items of Company gross income and gain in the amount of such Adjusted Capital Account Deficit as quickly as possible.

(c) Company Minimum Gain Chargeback. Notwithstanding any other provision of this Section 4, if there is a net decrease in Company Minimum Gain during any Company fiscal year, each Member shall be specially allocated items of Company income and gain for such year (and, if necessary, subsequent years) in an amount equal to such Member's share of the net decrease in Company Minimum Gain, determined in accordance with Treasury Regulations Section 1.704-2(g)(2)

This Section 4.2(c) is intended to comply with the partnership minimum gain chargeback requirement in the Treasury Regulations and shall be interpreted consistently therewith. This provision shall not apply to the extent the Member's share of net decrease in Company Minimum Gain is caused by a guaranty, refinancing, or other change in the debt instrument causing it to become partially or wholly recourse debt or Member Nonrecourse Debt, and such Member bears the economic risk of loss (within the meaning of Treasury Regulations Section 1.752-2 for the newly guaranteed, refinanced or otherwise changed debt or to the extent the Member contributes cash to the capital of the Company that is used to repay the Nonrecourse Debt, and the Member's share of the net decrease in Company Minimum Gain results from the repayment.

(d) Member Minimum Gain Chargeback. Notwithstanding any other provision of this Section 4, except Section 4.2(c), if there is a net decrease in Member Minimum Gain, any Member with a share of that Member Minimum Gain (as determined under Treasury Regulations Section 1.704-2(i)(5)) as of the beginning of the year shall be allocated items of Company income and gain for such year (and, if necessary, subsequent years) in an amount equal to such Member's share of the net decrease in Member Minimum Gain, determined in accordance with Treasury Regulations Section 1.704-2(g)(2). This Section shall not apply to the extent the net decrease in Member Minimum Gain arises because the liability ceases to be Member Nonrecourse Debt due to conversion, refinancing or other change in a debt instrument that causes it to become partially or wholly a Nonrecourse Debt. This Section is intended to comply with the partner minimum gain chargeback requirements in the Treasury Regulations and shall be interpreted consistently therewith and applied with the restrictions attributable thereto.

(e) Nonrecourse Deductions. Nonrecourse Deductions for any fiscal year or other period shall be allocated 100% to the Investor Units.

(f) Member Nonrecourse Deductions. Member Nonrecourse Deductions for any fiscal year shall be allocated to the Member who bears the economic risk of loss as set forth in Treasury Regulations Section 1.752-2 with respect to the Member Nonrecourse Debt. If more than one Member bears the economic risk of loss for a Member Nonrecourse Debt, any Member Nonrecourse Deductions attributable to that Member Nonrecourse Debt shall be allocated among the Members according to the ratio in which they bear the economic risk of loss.

(g) Code Section 754 Adjustments. To the extent an adjustment to the adjusted tax basis of any Company asset pursuant to Code Section 734(b) or Code Section 743(b) is required, pursuant to Treasury Regulations Section 1.704-1(b)(2)(iv)(m), to be taken into account in determining Capital Accounts, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis), and such gain or loss shall be specially allocated to the Members in a manner consistent with the manner in which their Capital Accounts are required to be adjusted pursuant to such section of the Treasury Regulations.

4.3 Curative Allocations. Notwithstanding any other provision of this Agreement, the Regulatory Allocations shall be taken into account in allocating items of income, gain, loss and deduction among the Members so that, to the extent possible, the net amount of such allocations of other items and the Regulatory Allocations to each Member shall be equal to the net amount that would have been allocated to each such Member if the Regulatory Allocations had not occurred.

4.4 Contributed Properties. Notwithstanding any other provision of this Agreement, the Members shall cause depreciation and/or cost recovery deductions and gain or loss attributable to property contributed by a Member or revalued by the Company to be allocated among the Members for

income tax purposes in accordance with Section 704(c) of the Code and the Treasury Regulations promulgated thereunder.

4.5 Recapture Income. The portion of each Member's distributive share of Company Net Income that is characterized as ordinary income pursuant to Section 1245 or 1250 of the Code shall be proportionate to the amount of Net Income or Net Loss which included the corresponding depreciation deductions that were allocated to such Member as compared with the amount of depreciation deductions allocated to all Members.

4.6 Allocation Among Investor Units. Except as otherwise provided in this Agreement, all Distributions and allocations made to the Investor Units shall be in the ratio of the number of Investor Units held by each such Member on the date of such allocation (which allocation date shall be deemed to be the last day of each month) to the total outstanding Investor Units as of such date, and, except as otherwise provided in this Agreement without regard to the number of days during such month that the Investor Units were held by each Member. For purposes of this Section 4, an Economic Interest Owner shall be treated as a Member. Members who purchase Investor Units at different times during the Company tax year shall be allocated Net Income and Net Loss using the monthly convention set forth in Section 4.7.

4.7 Allocation of Company Items. Except as otherwise provided herein, whenever a proportionate part of Net Income or Net Loss is allocated to a Member, every item of income, gain, loss or deduction entering into the computation of such Net Income or Net Loss, and every item of credit or tax preference related to such allocation and applicable to the period during which such Net Income or Net Loss was realized shall be allocated to the Owner in the same proportion.

4.8 Assignment.

4.8.1 In the event of the assignment of an Investor Unit, the Net Income and Net Loss shall be apportioned as between the Member and his assignee based upon the number of months of their respective ownership during the year in which the assignment occurs, without regard to the results of the Company's operations during the period before or after such assignment. Distributions shall be made to the holder of record of the Investor Units as of the date of the Distribution. An assignee who receives Investor Units during the first 15 days of a month will receive any allocations relative to such month. An assignee who acquires Investor Units on or after the sixteenth day of a month will be treated as acquiring his Investor Units on the first day of the following month.

4.8.2 In the event of the assignment of the Manager's interest, the allocations of Net Income or Net Loss shall be as agreed between the Manager and its assignee. In the absence of an agreement, the Net Income, Net Loss and Distributions shall be allocated in a manner similar to that provided in Section 4.7.

4.9 Power of Manager to Vary Allocations. It is the intent of the Members that each Member's share of Net Income and Net Loss be determined and allocated in accordance with Section 704(b) and Section 514(c)(9) of the Code, and the provisions of this Agreement shall be so interpreted.
Therefore, if the Company is advised by the Company's legal counsel that the allocations provided in this Section 4 are unlikely to be respected for federal income tax purposes, the Manager is hereby granted the power to amend the allocation provisions of this Agreement to the minimum extent necessary to comply with Section 704(b) and Section 514(c)(9) of the Code and effect the plan of allocations and distributions provided for in this Agreement.

4.10 Consent of Members. The allocation methods of Net Income and Net Loss are hereby expressly approved to by each Member as a condition of becoming a Member.

4.11 Withholding Obligations.

4.11.1 If the Company is required (as determined in good faith by the Manager) to make a payment ("Tax Payment") with respect to any Member to discharge any legal obligation of the Company or the Manager to make payments to any governmental authority with respect to any federal, foreign, state or local tax liability of such Member arising as a result of such Member's interest in the Company, then, notwithstanding any other provision of this Agreement to the contrary, the amount of any such Tax Payment shall be deemed to be a loan by the Company to such Member, which loan shall bear interest at the Prime Rate and be payable upon demand or by offset to any Distribution which otherwise would be made to such Member.

4.11.2 If and to the extent the Company is required to make any Tax Payment with respect to any Member, or elects to make payment on any loan described in Section 4.11.1 by offset to a Distribution to a Member, either (a) such Member's proportionate share of such Distribution shall be reduced by the amount of such Tax Payment, or (b) such Member shall pay to the Company prior to such Distribution an amount of cash equal to such Tax Payment. In the event a portion of a Distribution in kind is retained by the Company pursuant to clause (a) above, such retained property may, in the discretion of the Manager, either (i) be distributed to the other Members, or (ii) be sold by the Company to generate the cash necessary to satisfy such Tax Payment. If interests in the Properties are sold, then for purposes of income tax allocations only under this Agreement, any gain or loss from such sale or exchange shall be allocated to the Member to whom the Tax Payment relates. If the interest in the Properties is sold at a gain, and the Company is required to make any Tax Payment on such gain, the Member to whom the gain is allocated shall pay the Company prior to the due date of Tax Payment an amount of cash equal to such Tax Payment.

4.11.3 The Manager shall be entitled to hold back any Distribution to any Member to the extent the Manager believes in good faith that a Tax Payment will be requited with respect to such Member in the future and the Manager believes that there will not be sufficient subsequent Distributions to make such Tax Payment.

5. Distributions.

5.1 Cash from Operations. Cash from Operations will be distributed as follows: (i) 100% to the Members until the Members have received their Priority Return; and (ii) the balance, to be shared by the Members and the Manager in proportion to the Residuary Sharing Ratio.

5.2 Cash from Capital Transactions. Cash from Capital Transactions will be distributed as follows: (i) first, to the Members, an amount equal to their Unrecovered Equity; (ii) second, to the Members, an amount equal to their

Priority Return; and (iii) the balance, to be shared by the Members and the Manager in proportion to the Residuary Sharing Ratio.

5.3 Restrictions. The Company intends to make periodic distributions of substantially all cash determined by the Manager to be distributable, subject to the following: (a) Distributions may be restricted or suspended for periods when the Manager determines in its reasonable discretion that it is in the best interest of the Company to do so; and (b) all Distributions are subject to the payment, and the maintenance of reasonable reserves for payment, of Company obligations. Notwithstanding any provision to the contrary contained herein, the Company shall not be required to make a distribution to

any Member on account of his interest in the Company if such distribution would violate Section 18-607 of the Act or any other applicable law.

6. Compensation to the Manager and Affiliates.

6.1 Manager's and Affiliates' Compensation. The Manager and its Affiliates shall receive compensation from the Company for services rendered or to be rendered only as specified in this Agreement and the Management Agreement, a copy of which is attached as Exhibit B. If any provision of the Management Agreement is inconsistent with any provision contained in this Agreement, then the provision contained in the Management Agreement shall control and the inconsistent provision herein shall be of no force or effect.

6.1.1 Property Management Fee. The Management Agreement provides that the Property Manager or an Affiliate will receive a monthly property management fee ("Property Management Fee") for managing the Properties equal to 6% of Gross Revenues (as defined in the Management Agreement).

6.1.2 Leasing Commission. The Management Agreement provides that the Property Manager or an Affiliate will receive a leasing commission ("Leasing Commission") equal to six percent (6%) of the value of any lease entered into during the term of this Agreement and three percent (3%) with respect to any renewals. Any leasing fees due outside leasing agents or brokers will be paid by the Manager from these commissions. The value of the lease shall be calculated by totaling the minimum monthly rent (or similar rent) for the term of the lease. The term of the lease shall not exceed five (5) years for purposes of the foregoing computation and shall be exclusive of option periods. If another broker represents the tenant, then the Property Manager may cooperate with that broker on terms and conditions acceptable to the Property Manager with commissions to the other broker to be paid by the Tenants in Common. The Manager may use outside leasing agents, provided that the Manager pays any commissions that may be due.

6.1.3 Construction Management Fee. The Management Agreement provides that the Property Manager or an Affiliate will receive a construction management fee ("Construction Management Fee") equal to 5% of any amount (including professional services) up to $25,000, 4% of any amount over $25,000 but less than $50,000 and 3% of any amount in excess of $50,000, which is expended in any calendar year for construction, tenant improvements or repair of the Properties; provided, however, that this fee shall only be applicable in the event outside contractors are used.

6.1.4 Selling Commission. The Management Agreement provides that the Property Manager or an Affiliate will receive to a selling commission (the "Selling Commission") of up to 5% of the gross sales price of the Properties in a sale to a third party. In addition, third party brokers or selling agents may be entitled to up to 4% of the gross sales price with the balance retained by the Property Manager; provided, however, that the aggregate Properties Selling Commission payable shall not exceed 5% of the gross sales price of the Properties. The Properties Selling Commission will not be paid if the Property Manager is terminated for cause pursuant to Section 10.2 of the Management Agreement.

6.1.5 Loan Fee. The Management Agreement provides that the Property Manager or an Affiliate will receive a loan fee ("Loan Fee") equal to up to 1% of the principal amount of any loan obtained for the Company at any time; provided, however, that the fee paid to the Property Manager or an Affiliate and any loan fee paid to any other person (other than a Lender) as a result of each loan shall not exceed 1%.

6.1.6 Set Up Fee. The Management Agreement provides that if the Property Manager is terminated without cause (as defined in Section 10.1 of the Management Agreement), then the Manager will receive the set up fee described therein.

6.1.7 Commissions and Due Diligence Reimbursement. The Memorandum provides that certain broker-dealers ("Broker-Dealers," collectively the "Selling Group") who are members of the National Association of Securities Dealers, Inc. ("NASD") will receive commissions of up to 8% of the gross proceeds ("Gross Proceeds") of the Offering ("Selling Commissions"). NNN Capital Corp., an Affiliate of the Initial Member, will receive a nonaccountable marketing and due diligence allowance in the amount of 1.5% of the Gross Proceeds, which it may reallow to other members of the Selling Group. In addition, NNN Capital Corp. will receive a nonaccountable marketing due diligence expense allowance in the amount of 1% of the Gross Proceeds, which it will not reallow to other members of the Selling Group on an accountable basis. The total aggregate amount of commissions, marketing and due diligence expense reimbursements (collectively, "Selling Commissions and Expenses") will not exceed 10.5% of the Gross Proceeds.

6.2 Company Expenses.

6.2.1 Operating Expenses. Subject to the limitations set forth in Section 6.2.2, the Company shall pay directly, or reimburse the Manager, as the case may be, for all of the costs and expenses of the Company's operations, including, without limitation, the following costs and expenses: (a) all Organization and Offering Expenses advanced or otherwise paid by the Manager; (b) all costs of personnel employed by the Company and directly involved in the Company's business; (c) all compensation due to the Manager or its Affiliates; (d) all costs of personnel employed by the Manager or its Affiliates and directly involved in the business of the Company; (e) all costs of borrowed money, taxes and assessments on its Interests in the Properties and other taxes applicable to the Company; (f) legal, accounting, audit, brokerage, and other fees; (g) fees and expenses paid to independent contractors, mortgage bankers, real estate brokers, and other agents; (h) costs of acquiring, owning, developing, improving, operating, and disposing of its Interests in the Properties; (i) expenses incurred in connection with the alteration, maintenance, repair, remodeling, refurbishment, leasing and operation of its Interests in the Properties; (j) all expenses incurred in connection with the maintenance of Company books and records, the preparation and dissemination of reports, tax returns or other information to Members and the making of Distributions to the Members; (k) expenses incurred in preparation and filing reports or other information with appropriate regulatory agencies; (1) expenses of insurance as required in connection with the business of the Company, other than any insurance insuring the Manager against losses for which it is not entitled to be indemnified under Section 7.8; (m) to the fullest extent permitted by law, costs incurred in connection with any litigation in which the Company may become involved, or any examination, investigation, or other proceedings conducted by any regulatory agency, including legal and accounting fees; (n) the actual costs of goods and materials used by or for the Company; (o) the costs of services that could be performed directly for the Company by independent parties such as legal, accounting, secretarial or clerical, reporting, transfer agent, data processing and duplicating services but which are in fact performed by the Manager or its Affiliates, but not in excess of the lesser of: (i) the actual costs to the Manager or its Affiliates of providing such services; or (ii) the amounts which the Company would otherwise be required to pay to independent parties for comparable services in the same geographic locale; (p) expenses of Company administration, accounting, documentation and reporting; (q) expenses of revising, amending, modifying, or terminating this Agreement, the Certificate of formation or similar filings; (r) all travel expenses incurred in connection with the Company's business, including travel to and from the Properties on a pro rata basis with other tenants in common owners of the Properties; and (s) all other costs and expenses incurred in connection with the business of the Company exclusive of those set forth in Section 6.2.2.

6.2.2 Manager Overhead. The Manager and its Affiliates shall not be reimbursed for overhead expenses incurred in connection with the Company, including, but not limited to: (1) rent, depreciation, utilities, capital equipment, other administrative items, and (2) the following items paid to any officer of the Manager or any Affiliate: salaries, fringe benefits, travel expenses and other administrative items not expressly provided in Section 6.2.1.

6.2.3 Acquisition Expenses. Notwithstanding Section 6.2.2, the Manager will be reimbursed for all costs and expenses of any kind or description advanced or otherwise pad by the Manager in connection with conducting due diligence on prospective Properties and acquisition of the Properties on a pro rata basis with any other Tenant in Common owners of the Properties, including by way of illustration, but not limitation, down payments, closing costs, travel expenses, legal, environmental and other studies, surveys, escrow deposits and costs, plus interest at the Manager's cost of funds to borrow funds for the above purposes.

7. Authority and Responsibilities of the Manager.

7.1 Number. Tenure and Qualifications. The Company shall have one Manager, which shall be Triple Net Properties, LLC. The Manager shall hold office until it is removed, withdraws or resigns.

7.2 Management. The business and affairs of the Company shall be managed solely by the Manager. Except as otherwise set forth in this Agreement, the Manager shall have full and complete authority, power and discretion to manage and control the business, affairs and all property of the Company, to make all decisions regarding those matters and to perform any and all other acts or activities customary or incident to the management of the Company's business, The Company shall have no other managers or officers.

7.3 Manager Authority. The Manager shall have all authority, rights and powers conferred by law (subject only to Section 7.4) and those required for or appropriate to the management of the Company's business, which include, by way of illustration, but not limitation, the right, authority and power to cause the Company to:

7.3.1 Acquire, hold, develop, lease, rent, operate, sell, exchange, subdivide and otherwise dispose of all property, including its Interest in one or more of the Properties;

7.3.2 Borrow money, and, if security is required therefor, to pledge or mortgage or subject the Interests and or Properties to any security device, to obtain replacements of any mortgage or other security device and to prepay, in whole or in part, refinance, increase, modify, consolidate, or extend any mortgage or other security device. All of the foregoing shall be on such terms and in such amounts as the Manager, in its sole and absolute discretion, deems to be in the best interest of the Company;

7.3.3 Place record title to, or the right to use its interest in the Properties in the name or names of a nominee or nominees for any purpose convenient or beneficial to the Company;

7.3.4 Enter into such contracts and agreements as the Manager determines to be reasonably necessary or appropriate in connection with the Company's business and purpose (including contracts with Affiliates of the Manager), and any contract of insurance that the Manager deems necessary or appropriate for the protection of the Company and the Manager, including errors and omissions insurance, for the conservation of Company assets, or for any purpose convenient or beneficial to the Company;

7.3.5 Employ persons, who may be Affiliates of the Manager, in the operation and management of the business of the Company;

7.3.6 Prepare or cause to be prepared reports, statements, and other relevant information for distribution to the Members.

7.3.7 Open accounts and deposits and maintain funds in the name of the Company in banks, savings and loan associations, "money market," mutual funds and other as the Manager, in its sole and absolute discretion may deem to be necessary or desirable;

7.3.8 Cause the Company to make or revoke any of the elections referred to in the Code, provided that the Manager shall have no obligation to make any such elections;

7.3.9 Select as its accounting year a calendar or fiscal year as may be approved by the Internal Revenue Service, provided that the Company initially intends to adopt the calendar year;

7.3.10 Determine the appropriate accounting method or methods to be used by the Company;

7.3.11 In addition to any amendments otherwise authorized herein, amend this Agreement without any action on the part of the Members:

(a) To add to the representations, duties, services or obligations of the Manager or its Affiliates, for the benefit of the Members;

(b) To cure any ambiguity or mistake, to correct or supplement any provision herein that may be inconsistent with any other provision herein, or to make any other provision with respect to matters or questions arising under this Agreement that will not be inconsistent with the provisions of this Agreement;

(c) To delete or add any provision of this Agreement required to be so deleted or added for the benefit of the Members by the staff of the Securities and Exchange Commission or by any state "Blue Sky" Commissioner or similar official;

(d) To amend this Agreement to reflect the addition or substitution of Members or the reduction of the Capital Accounts upon the return of capital to the Members;

(e) To minimize the adverse impact of, or comply with, any final regulation of the United States Department of Labor, or other federal agency having jurisdiction, defining "plan assets" for ERISA purposes;

(f) To reconstitute the Company under the laws of another state if beneficial for tax or other purposes;

(g) As required by any lender who has made a Loan secured by any of the Properties or as required by a lender in connection with a refinancing that has been properly approved by the Company; and

(h) To execute, acknowledge and deliver any and all instruments to effectuate the foregoing, including by way of illustration, but not limitation, the execution, acknowledgment and delivery of any such instrument by the attorney-in-fact for the Manager

under a special or limited power of attorney, and to take all such actions in connection therewith as the Manager, in its sole and absolute discretion, shall deem necessary or appropriate with the signature of the Manager acting alone.

7.3.12 Require in any Company contract that the Manager shall not have any personal liability, but that the person or entity contracting with the Company is to look solely to the Company and its assets for satisfaction;

7.3.13 Lease personal property for use by the Company;

7.3.14 Establish reserves from income in such amounts as the Manager may deem appropriate;

7.3.15 Temporarily invest the proceeds from sale of Investor Units in short-term, highly-liquid investments;

7.3.16 Make secured or unsecured loans to the Company and receive interest at the rates set forth herein;

7.3.17 the right (but not the obligation) to represent the Company and the Members as "tax matters partner" within the meaning of the Code in discussions with the Internal Revenue Service regarding the tax treatment of items of Company income, loss, deduction or credit, or any other matter reflected in the Company's returns, and, if deemed in the best interest of the Members, to agree to final Company administrative adjustments or file a petition for a readjustment of the Company items in question with the applicable court;

7.3.18 Redeem or repurchase Investor Units on behalf of the Company;

7.3.19 Hold an election for a successor Manager before the resignation, expulsion or dissolution of the Manager;

7.3.20 Initiate legal actions, settle legal actions and defend legal actions on behalf of the Company;

7.3.21 Admit itself as a Member;

7.3.22 Take all actions and make any decision on behalf of the Company under the Management Agreement;

7.3.23 Execute and amend the Management Agreement on behalf of the Company;

7.3.24 Enter into any transaction with any partnership or venture;

7.3.25 Place all or a portion of its Interests in the Properties in a single purpose or bankruptcy remote entity, or otherwise structure or restructure the Company to accommodate any financing for its Interests in the Properties and for other good business purposes such as limiting liability;

7.3.26 Perform any and all other acts which the Manager is obligated to perform hereunder;

7.3.27 Subcontract with Affiliates and third parties, in the Manager's sole and absolute discretion, to perform some or all management functions set forth herein; and

7.3.28 Execute, acknowledge and deliver any and all instruments to effectuate the foregoing and take all such actions in connection therewith as the Manager may deem necessary or appropriate. Notwithstanding any other provision of the Agreement, any and all documents or instruments may be executed on behalf and in the name of the Company by the Manager.

7.4 Restrictions on Manager's Authority. Neither the Manager nor any Affiliates shall have authority to:

7.4.1 Enter into contracts with the Company that would bind the Company after the expulsion, Event of Insolvency, or other cessation to exist of the Manager.

7.4.2 Use or permit any other person to use Company funds or assets in any manner except for the exclusive benefit of the Company;

7.4.3 Alter the primary purpose of the Company;

7.4.4 Receive from the Company any rebate, kick-back or give-up or participate in connection with the operation of the Company any reciprocal business arrangements which would enable it or any Affiliate to do so, excluding the fees and other items set forth in the Management Agreement or described in the Memorandum;

7.4.5 Except for its Interests in the Properties, sell or lease to the Company any real property in which the Manager or any Affiliate has any interest without a Majority Vote of the Members;

7.4.6 Admit another person or entity as the Manager, except with a Majority Vote of the Members as provided in this Agreement;

7.4.7 Reinvest Cash from Operations in any additional properties other than the Properties;

7.4.8 Confess a judgment against the Company in connection with any threatened or pending legal action;

7.4.9 Commingle the Company funds with those of any other Person, except for (i) the temporary deposit of funds in a bank checking account for the sole purpose of making Distributions immediately thereafter to the Members and the Manager or (ii) funds attributable to the Properties and held for use in the management of the operations of the Properties;

7.4.10 Directly or indirectly pay or award any finder's fees, commissions or other compensation to any person engaged by a potential investor for investment advice as an inducement to such advisor to advise the purchaser regarding the purchase of Investor Units;

7.4.11 Merge, combine or "roll-up" the Company into a partnership, limited liability company or other entity or participate in an UPREIT, DOWNKEIT or similar transaction with a real estate investment trust or other entity; or

7.4.12 Vote, or permit to be voted, any Membership Interest owned by the Manager or any Affiliate to remove the Manager in accordance with Section 9.2.

7.5 Responsibilities of the Manager. The Manager shall:

7.5.1 Have a fiduciary responsibility similar to that of a corporate director for the safekeeping and use of all the funds and assets of the Company;

7.5.2 Devote such of its time and efforts to the business of the Company as the Manager in its discretion, exercised in good faith, shall determine to be necessary to conduct the business of the Company;

7.5.3 File and publish all certificates, statements, or other instruments required by law for formation, qualification and operation of the Company and for the conduct of its business in all appropriate jurisdictions;

7.5.4 Cause the Company to be protected by public liability, property damage and other insurance determined by the Manager in its discretion to be appropriate to the business of the Company;

7.5.5 At all times use its best efforts to meet applicable requirements for the Company to be taxed as a partnership and not as an association taxable as a corporation; and

7.5.6 Amend this Agreement as necessary to reflect the admission of Members not later than 90 days after the date of admission or substitution of Members.

7.6 Administration of the Company. So long as it is the Manager and the provisions of this Agreement for compensation and reimbursement of expenses of the Manager are observed, the Manager shall have the responsibility of providing continuing administrative and executive support, advice, consultation, analysis and supervision with respect to the functions of the Company, including decisions regarding the sale or refinancing or other disposition of Properties, and compliance with federal, state and local regulatory requirements and procedures. In this regard, the Manager may retain the services of such Affiliates or unaffiliated parties as the Manager may deem appropriate to provide management and financial consultation and advice, and may enter into agreements for the management and operation of Company assets.

7.7 Tax Matters Partner. The Members hereby appoint the Manager to act as the "tax matters partner."

7.8 Indemnification of Manager.

7.8.1 The Manager, its members, managers, affiliates, officers, directors, partners, employees, agents and assigns, shall not be liable for, and shall be indemnified and held harmless (to the full extent of the Company's assets and to the maximum extent permitted by applicable law) from, any loss or damage incurred by them, the Company or the Members in connection with the business of the Company, including by way of illustration, but not limitation, costs and reasonable attorneys' fees and any amounts expended in the settlement of any claims of loss or damage resulting from any act or omission performed or omitted in good faith, which shall not constitute gross negligence or willful misconduct, pursuant to the authority granted, to promote the interests of the Company. Moreover, the Manager shall not be liable to the Company or the Members because any taxing authorities disallow or adjust any deductions or credits in the Company income tax returns.

7.8.2 Notwithstanding Section 7.8.1, the Company shall not indemnify any Manager, or shareholder, director, officer or other employee thereof, for liability imposed or expenses incurred in connection with any claim arising out of a violation of the Securities Act of 1933, as amended, or any other federal or state securities law, with respect to the offer and sale of the Investor Units. Indemnification will be allowed for settlements and related expenses in lawsuits alleging securities law violations, and for expenses incurred in successfully defending such lawsuits, provided that (i) the Manager is successful in defending the action; (ii) the indemnification is specifically approved by the court of law which shall have been advised as to the current position of the Securities and Exchange Commission (as to any claim involving allegations that the Securities Act of 1933, as amended, was violated) or1 the applicable state authority (as to any claim involving allegations that the applicable state's securities laws were violated); or (iii) in the opinion of counsel for the Company, the right to indemnification has been settled by controlling precedent.

7.8.3 Notwithstanding any provision hereof to the contrary, any indemnification shall be fully subordinated to any obligations respecting the Properties and shall not constitute a claim against the Company in the event that cash flow is insufficient to pay such obligations.

7.9 No Personal Liability for Return of Capital. The Manager shall not be personally liable or responsible for the return or repayment of all or any portion of the Capital Contribution of any Member or any loan made by any Member to the Company solely by reason of being the Manager of the Company, it being expressly understood that any such return of capital or repayment of any loan shall be made solely from the assets (which shall not include any right of contribution from any Member) of the Company.

7.10 Authority as to Third Persons.

7.10.1 Notwithstanding any other provision of this Agreement, no third party dealing with the Company shall be required to investigate the authority of the Manager or secure the approval or confirmation by any Member of any act of the Manager in connection with the Company business. No purchaser of any property or interest owned by the Company shall be required to determine the right to sell or the authority of the Manager to sign and deliver any instrument of transfer on behalf of the Company, or to see to the application or distribution of revenues or proceeds paid or credited in connection therewith.

7.10.2 The Manager shall have full authority to execute on behalf of the Company any and all agreements, contracts, conveyances, deeds, mortgages and other instruments, and the execution thereof by one or more officers of the Manager, executing on behalf of the Company shall be the only execution necessary to bind the Company thereto. No signature of any Member shall be required.

7.10.3 The Manager shall have the right by separate instrument or document to authorize one or more individuals or entities to execute leases and lease-related documents on behalf of the Company and any leases and documents executed by such agent shall be binding upon the Company as if executed by the Manager.

7.11 Authorization. The Company is authorized to borrow the Loan from the Lender, and from time to time refinance the Loan. In addition, the Manager, on behalf of the Company, may enter into, deliver and perform the Loan Documents and all other documents, agreements, certificates or financing statements contemplated thereby or related thereto, all without any further act, vote or approval of any Member or other Person, notwithstanding any other provision in this Agreement, the Act or applicable law, rule or regulation. The foregoing authorization shall not be deeded a restriction on the powers of the Manager to enter into other agreements on behalf of the Company.

8. Rights, Authority and Voting of the Members.

8.1 Members Are Not Agents. Pursuant to Section 7, the management of the Company is vested exclusively in the Manager. No Member, acting solely in the capacity of a Member, is an agent of the Company nor can any Member in such capacity bind or execute any instrument on behalf of the Company.

8.2 Voting by a Member. Members who own Investor Units shall be entitled to cast one vote for each Investor Unit they own. Except as otherwise specifically provided in this Agreement or any mandatory provision of the Act, Members who own Investor Units (but not Economic Interest Owners) shall have the right to vote only upon the following matters:

8.2.1 Removal of the Manager as provided in this Agreement;

8.2.2 Amendment of this Agreement;

8.2.3 Any merger, combination or "roll-up" of the Company;

8.2.4 Dissolution and winding up of the Company as set forth in Section 13.1;

8.2.5 The sale of all of the assets of the Company (but not the sale of one or more of the Properties); and

8.2.6 Election to obtain audited financial statements as set forth in Section 12.3.2.

8.2.7 Admission of a Manager or election to continue the business of the Company after a Manager ceases to be a Manager when there is no remaining Manager.

8.2.8 Removal of the Property Manager.

Notwithstanding any provision hereof to the contrary, the following shall govern: When acting on matters subject to the vote of the Members, notwithstanding that the Company is not then insolvent, all of the Members shall, to the fullest extent permitted by law (including Section 18 - 1101(c) of the Act), take into account the interest of the Company's creditors, as well as those of the Members.

8.3 Member Vote; Consent of Manager. Except as expressly provided in this Agreement, matters upon which the Members may vote shall require a Majority Vote of the Members to pass and become effective, The following matters shall also require the consent of the Manager to pass and become effective:

8.3.1 Any amendment to this Agreement; and

8.3.2 The admission of an additional or successor Manager when the current Manager will continue as such.

8.4 Meetings of the Members.. The Manager1 may at any time call for a meeting of the Members, or for a vote without a meeting, on matters on which the Members are entitled to vote. In addition, the Manager shall call for such a meeting following receipt of a written request therefor of Members holding more than 10% of the Investor Units entitled to vote as of the record date. Within 20 days after receipt of such request, the Manager shall notify all Members of record on the record date of

the Company meeting. The Manager shall give notice of all such meetings by sending the Members written notice by certified U.S. Mail, with return receipt, by Federal Express or other guaranteed overnight delivery service.

8.4.1 Notice. Written notice of each meeting shall be given to each Member entitled to vote, either personally by certified U.S. mail, with return receipt requested or other comparable means of written communication, charges prepaid, addressed to such Member at his address appearing on the books of the Company or given by him to the Company for the purpose of notice or, if no such address appears or is given, at the principal executive office of the Company, or by publication of notice at least once in a newspaper of general circulation in the city or county in which such office is located. All such notices shall be sent not less than 10, nor more than 60, days before such meeting. The notice shall specify the place, date and hour of the meeting and the general nature of business to be transacted, and no other business shall be transacted at the meeting.

8.4.2 Adjourned Meeting and Notice Thereof. When a Members' meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the Company may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 45 days or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each Member of record entitled to vote at the meeting.

8.4.3 Quorum. The presence in person or by proxy of the persons entitled to vote a majority of the Investor Units shall constitute a quorum for the transaction of business. The Members present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment notwithstanding the withdrawal of enough Members to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a Majority Vote or such greater vote as may be required by this Agreement or by law. In the absence of a quorum, any meeting of Members may be adjourned from time to time by the vote of a majority of the Investor Units represented either in person or by proxy, but no other business may be transacted, except as provided above.

8.4.4 Consent of Absentees. The transactions of any meeting of Members, however called and noticed and wherever held, are as valid as though they occurred at a meeting duly held after regular call and notice, if a quorum is present either in person or by proxy, and if, either before or after the meeting, each of the persons entitled to vote, not present in person or by proxy, signs a written waiver of notice, or a consent to the holding of the meeting or an approval of the minutes thereof. All waivers, consents and approvals shall be filed with the Company records or made a part of the minutes of the meeting.

8.4.5 Action Without Meeting. Except as otherwise provided in this Agreement, any action which may be taken at any meeting of the Members may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by Members having not less than the minimum number of votes that would be necessary to authorize or take that action at a meeting at which all entitled to vote thereon were present and voted. In the event the Members are requested to consent on a matter without a meeting, each Member shall be given not less than 10, nor more than 60, days notice. In the event the Manager or Members representing more than 10% of the Investor Units, request a meeting for the purpose of discussing or voting on the matter, the notice of a meeting shall be given in the same manner as required by Section 8.4.1 and no action shall be taken until the meeting is held. Unless delayed as a result of the preceding sentence, any action taken without a meeting will be effective 5 days after the required minimum number of voters have signed the consent; however, the action will be effective immediately if the Manager and Members representing at least 90% of the Investor Units have signed the consent.

8.4.6 Record Dates. For purposes of determining the Members entitled to notice of any meeting or to vote or entitled to receive any Distributions or to exercise any rights in respect of any other lawful matter, the Manager (or Members representing more than 10% of the Investor Units if the meeting is being called at their request) may fix in advance a record date, which is not more than 60 nor less than 10 days prior to the date of the meeting nor more than 60 days prior to any other action. If no record date is fixed:

(a) The record date for determining Members entitled to notice of, or to vote at, a meeting of Members shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held;

(b) The record date for determining Members entitled to give consent to Company action in writing without a meeting shall be the day on which the first written consent is given;

(c) The record date for determining Members for any other purpose shall be at the close of business on the day on which the Manager adopts it, or the 60th day prior to the date of the other action, whichever is later; and

(d) A determination of Members of record entitled to notice of, or to vote at, a meeting of Members shall apply to any adjournment of the meeting unless the Manager, or the Members who requested the meeting fix a new record date for the adjourned meeting, but the Manager, or such Members, shall fix a new record date if the meeting is adjourned for more than 45 days from the date set for the original meeting.

8.4.7 Proxies. Every person entitled to vote or execute consents shall have the right to do so either in person or by one or more agents authorized by a written proxy executed by such person or his duly authorized agent and filed with the Manager. No proxy shall be valid after the expiration of 11 months from the date thereof unless otherwise provided in the proxy. Every proxy continues in full force and effect until revoked or unless it states that it is irrevocable. A proxy which states that it is irrevocable is irrevocable for the period specified therein.

8.4.8 Chairman of Meeting. The Manager may select any person to preside as Chairman of any meeting of the Members, and if such person shall be absent from the meeting, or fail or be unable to preside, the Manager may name any other person in substitution therefor as Chairman. In the absence of an express selection by the Manager of a Chairman or substitute therefor, the President, Vice President, Secretary, or Chief Financial Officer of the Manager shall preside as Chairman, in that order. The Chairman of the meeting shall designate a secretary for such meeting, who shall take and keep or cause to be taken and kept minutes of the proceedings thereof. The conduct of all Members' meetings shall at all times be within the discretion of the Chairman of the meeting and shall be conducted under such rules as he may prescribe. The Chairman shall have the right and power to adjourn any meeting at any time, without a vote of the Investor Units present in person or represented by proxy, if the Chairman shall determine such action to be in the best interests of the Company.

8.4.9 Inspectors of Election. In advance of any meeting of Members, the Manager may appoint any persons other than nominees for Manager or other office as the inspector of election to act at the meeting and any adjournment thereof. If an inspector of election is not so appointed, or if any such person fails to appear or refuses to act, the Chairman of any such meeting may, and on the request of any Member or his proxy shall, make such appointment at the meeting. The inspector of election shall

determine the number of Investor Units outstanding and the voting power of each, the Investor Units represented at the meeting, the existence of a quorum, the authenticity, validity and effect of proxies, receive votes, ballots or consents, hear and determine all challenges and questions in any way arising in connection with the right to vote, count and tabulate all votes or consents, determine when the polls shall close, determine the result and do such acts as may be proper to conduct the election or vote with fairness to all Members.

8.4.10 Record Date and Closing Company Books. When a record date is fixed, only Members of record on that date are entitled to notice of and to vote at the meeting or to receive a Distribution, or allotment of rights, or to exercise the rights, as the case may be, notwithstanding any transfer of any Investor Units on the books of the Company after the record date.

8.5 Rights of Members. No Member or Owner shall have the right or power to: (i) withdraw or reduce his contribution to the capital of the Company, except as a result of the dissolution of the Company or as otherwise provided in this Agreement or by law; (ii) to the fullest extent permitted by law bring an action for partition against the Company; or (iii) demand or receive property other than cash in return for his Capital Contribution. Except as provided in this Agreement, no Member or Owner shall have priority over any other Member or Owner either as to the return of Capital Contributions or as to allocations of the Net Income, Net Loss or Distributions of the Company. Other than upon the termination and dissolution of the Company as provided by this Agreement, there has been no time agreed upon when the contribution of each Member (other than the Initial Member) or Owner is to be returned.

8.6 Restrictions on the Member. No Member shall:

8.6.1 Except as required by law, disclose to any non-Member other than their lawyers, accountants or consultants and/or commercially exploit any of the Company's business practices, trade secrets or any other information not generally known to the business community, including the identity of suppliers utilized by the Company;

8.6.2 Do any other act or deed with the intention of harming the business operations of the Company; or

8.6.3 Do any act contrary to the Agreement.

8.7 Return of Capital of Member. In accordance with the Act, an Owner may, under certain circumstances, be required to return to the Company, for the benefit of the Company's creditors, amounts previously distributed to the Owner. If any court of competent jurisdiction holds that any Owner is obligated to make any such payment, such obligation shall be the obligation of such Owner and not of the Company, the Manager or any other Owner.

8.8 Special Member. Upon the occurrence of any event that causes the last remaining Member to cease to be a member of the Company (other than upon continuation of the Company without dissolution upon (i) an assignment by the Member of all of its limited liability company interest in the Company and the admission of the Substituted Member pursuant to Section 11.2, or (ii) the resignation of the Member and the admission of an additional member of the Company pursuant to Section 13.3), the Person executing this Agreement as the Special Member shall, without any action of such Person and simultaneously with the last remaining Member ceasing to be a member of the Company, automatically be admitted to the Company as a Special Member and shall continue the Company without dissolution. The Special Member may not resign from the Company or transfer its rights as Special Member unless a successor Special Member has been admitted to the Company as Special Member by executing a

counterpart to this Agreement; provided, however, the Special Member shall automatically cease to be a member of the Company upon the admission to the Company of a substitute Member. The Special Member shall be a member of the Company that has no interest in the profits, losses and capital of the Company and has no right to receive any distributions of Company assets. Pursuant to Section 18-301 of the Act, a Special Member shall not be required to make any capital contribution to the Company and shall not receive a limited liability company interest in the Company. A Special Member, in its capacity as Special Member, may not bind the Company. Except as required by any mandatory provision of the Act, the Special Member, in its capacity as Special Member, shall have no right to vote on, approve or otherwise consent to any action by, or matter relating to, the Company, including, without limitation, the merger, consolidation or conversion of the Company. In order to implement the admission to the Company of each Special Member, the person acting as the Special Member shall execute a counterpart to this Agreement. Prior to admission to the Company as Special Member, the Person executing this Agreement as the Special Member shall not be a member of the Company.

9. Resignation and Termination.

9.1 Resignation or Withdrawal of Manager. Subject to Section 10, the Manager shall not resign or withdraw as the Manager or do any act that would require its resignation or withdrawal.

9.2 Removal for Cause. The Members by Majority Vote shall have the right to remove the Manager at any time solely "for cause." For purposes of this

Agreement, removal of the Manager "for cause" shall mean removal due to the (a) gross negligence or fraud of the Manager, (b) willful misconduct or willful breach of this Agreement by the Manager, (c) bankruptcy, insolvency or inability of the Manager to meet its obligations as the same come due, or (d) a conviction of a felony by Anthony W. Thompson, President of the Manager. If the Manager or an Affiliate owns any Investor Units, the Manager or the Affiliate, as the case may be, shall not participate in any vote to remove the Manager.

9.3 Purchase of Manager's Interest. Upon the removal of the Manager pursuant to Section 9.2 or resignation of the Manager pursuant to Section 10, the Manager shall be paid by the Company all fees that have been earned and all other compensation remaining to be paid under this Agreement.

10. Assignment of the Manager's Interest.

10.1 Permitted Assignments. Except as otherwise provided in this Agreement, the Manager may not sell, assign, hypothecate, encumber or otherwise transfer any part or all of its interest in the Company except with the consent of the Members, which consent may be withheld by such Members in their sole and absolute discretion and without reason or for any reason whatsoever. If the Members consent to the transfer, the interest may only be sold to the proposed transferee within the time period approved by the Members, or within 90 days of such consent on the proposed terms and price, if later. All costs of the transfer, including reasonable attorneys' fees (if any), shall be borne by the transferring Manager.

10.1.1 Any assignment or transfer of the Manager's interest provided for by this Agreement can be an assignment or transfer of all of its interest or any portion or part of its interest.

10.1.2 Any transfer of all or a part of any Manager's interest may be made only pursuant to the terms and conditions contained in this Section 10.

10.1.3 Any such assignment shall be by a written instrument of assignment, the terms of which are not in contravention of any of the provisions of this Agreement, and which has been duly

executed by the assignor of such Manager's interest and accepted by the Members pursuant to a Majority Vote.

10.1.4 The assignor and assignee shall have executed, acknowledged, and delivered such other instruments as the Members pursuant to a Majority Vote, may deem necessary or desirable to effect such substitution, which may include an opinion of counsel regarding the effect and legality of any such proposed transfer, and which shall include the written acceptance and adoption by the assignee of the provisions of this Agreement.

10.1.5 Notwithstanding the foregoing Sections 10.1.1 - 10,1.4, and anything to the contrary in this Agreement, the Manager or its Affiliates may sell, assign, hypothecate, encumber or otherwise transfer any part or all of its interest in the Company received in consideration for funds advanced to the Company in accordance with Section 3.3, provided that: (a) the Manager, its Affiliates and/or the transferee are responsible for all transfer costs including the Company's legal fees and costs; (b) such transferee agrees to be bound by this Agreement; (c) such transfer complies with all requirements pursuant to the Act, and all applicable federal and state securities laws; and (d) such transferee is an Affiliate of the Manager.

10.2 Substitute Manager. Upon acceptance by the Members of an assignment by the Manager, any assignee of such Manager's interest in compliance with this Section 10 shall be substituted as the Manager.

10.3 Transfer in Violation Not Recognized. Any assignment, sale, exchange or other transfer in contravention of the provisions of this Section 10 shall, to the fullest extent permitted by law, be void and ineffectual and shall not bind or be recognized by the Company.

11. Assignment of Investor Units.

11.1 Permitted Assignments. A Member may only sell, assign, hypothecate, encumber or otherwise transfer all of his or her interest in the Company if the following requirements are satisfied:

11.1.1 The Manager consents in writing to the transfer;

11.1.2 No Member shall transfer, assign or convey or offer to transfer, assign or convey all or any portion of an Investor Unit to any person who does not possess the financial qualifications required of all persons who become Members;

11.1.3 No Member shall have the right to transfer any Investor Unit to any minor or to any person who, for any reason, lacks the capacity to contract for himself under applicable law. Such limitations shall not, however, restrict the right of any Member to transfer any one or more Investor Units to a custodian or a trustee for a minor or other person who lacks such contractual capacity;

11.1.4 The Manager, with advice of counsel, must determine that such transfer will not jeopardize the applicability of the exemptions from the registration requirements under the Securities Act of 1933, as amended, and registration or qualification under state securities laws relied upon by the Company and Manager in offering and selling the Investor Units or otherwise violate any federal or state securities laws;

11.1.5 The Manager, with advice of counsel, must determine that, despite such transfer, Investor Units will not be deemed traded on an established securities market or readily tradable on a secondary market (or the substantial equivalent thereof) under the provisions applicable to publicly traded partnership status; provided, however, in no event may any Member transfer any Investor Units if such transfer would cause the Company to have more than 100 Owners without the express prior written consent of the Manager, which consent may be withheld in the Manager's sole and absolute discretion;

11.1.6 Any such transfer shall be by a written instrument of assignment, the terms of which are not in contravention of any of the provisions of this Agreement, and which has been duly executed by the assignor of such Investor Units and accepted by the Manager in writing. Upon such acceptance by the Manager, such an assignee shall take subject to all terms of this Agreement and shall become an Economic Interest Owner; and

11.1.7 A transfer fee shall be paid by the transferring Member in such amount as may be required by the Manager to cover all reasonable expenses, including attorneys' fees, connected with such assignment.

11.1.8 The transfer would not cause a default or otherwise accelerate any payment date on any loan obtained by the Company.

11.1.9 The minimum interest that may be transferred is the lesser of one Investor Unit or the Member's entire interest in the Company.

11.2 Substituted Member.

11.2.1 Conditions to be Satisfied. No Economic Interest Owner shall have the right to become a Substituted Member unless the Manager shall consent thereto in accordance with Section 11.2.2 and all of the following conditions are satisfied:

(a) A duly executed and acknowledged written instrument of assignment shall have been filed with the Company, which instrument shall specify the number of Investor Units being assigned and set forth the intention of the assignor that the assignee succeed to the assignor's interest as a Substituted Member in his place;

(b) The assignor and assignee shall have executed, acknowledged and delivered such other instruments as the Manager may deem necessary or desirable to effect such substitution, which may include an opinion of counsel regarding the effect and legality of any such proposed transfer, and which shall include: (i) the written acceptance and adoption by the Economic Interest Owner of the provisions of this Agreement; and (ii)the execution, acknowledgment and delivery to the Manager of a special power of attorney, the form and content of which are more fully described herein; and

(c) A transfer fee sufficient to cover all reasonable expenses connected with such substitution shall have been paid to the

Company.

Notwithstanding the foregoing, so long as any obligation pursuant to the Loan Documents remains outstanding, no additional or Substituted Member may be admitted unless approved by the mortgagee holding the Mortgage Lien.

11.2.2 Consent of Manager. The consent of the Manager shall be required to admit an Economic Interest Owner as a Substituted Member. The granting or withholding of such consent shall be within the sole and absolute discretion of the Manager.

11.2.3 Consent of Member. By executing or adopting this Agreement, each Member hereby consents to the admission of additional or Substituted Members, and to any Economic Interest Owner becoming a Substituted Member upon consent of the Manager and in compliance with this Agreement.

11.3 Rights of Economic Interest Owner. An Economic Interest Owner shall be entitled to receive Distributions from the Company attributable to the interest acquired by reason of such assignment from and after the effective date of the assignment; provided, however, that notwithstanding anything herein to the contrary, the Company shall be entitled to treat the assignor of such interest as the absolute owner thereof in all respects, and shall incur no liability for allocations of Net Income and Net Loss or Distributions, or for the transmittal of reports or accounting until the written instrument of assignment has been received by the Company and recorded on its books. The effective date of such assignment shall be the date on which all of the requirements of this Section have been complied with, subject to Section 4.8

11.4 Right to Inspect Books. Economic Interest Owners shall have no right to inspect the Company's books or records, to vote on Company matters, or to exercise any other right or privilege as Members, until they are admitted to the Company as Substituted Members, except as provided in the Act.

11.5 Assignment of 50% or More of Investor Units. No assignment of any Investor Units may be made if the Investor Units to be assigned, when added to the total of all other Investor Units and Manager interests assigned within the 13 immediately preceding months, would, in the opinion of counsel for the Company, result in the termination of the Company under the Code.

11.6 Transfer Subject to Law. No assignment, sale, transfer, exchange or other disposition of any Investor Units may be made except in compliance with the applicable governmental laws and regulations, including state and federal securities laws.

11.7 Termination of Membership Interest. Upon the transfer of an Investor Unit in violation of this Agreement or the occurrence of a Dissolution Event as to such Member which does not result in the dissolution of the Company, the

Membership Interest of a Member shall be converted into an Economic Interest or purchased by the Company as provided herein.

12. Books, Records, Accounting and Reports.

12.1 Records, Audits and Reports. The Company shall maintain at its principal office the Company's records and accounts of all operations and expenditures of the Company including the following:

12.1.1 A current list in alphabetical order of the full name and last known business or resident address of each Owner and Manager, together with the Capital Contribution and the share in profits and losses of each Owner;

12.1.2 A copy of the Certificate of Formation and all amendments thereto, together with any powers of attorney pursuant to this Agreement;

12.1.3 Copies of the Company's Federal, state, and local income tax or information returns and reports, if any, for the six most recent taxable years;

12.1.4 Copies of this Agreement and any amendments thereto together with any powers of attorney pursuant to which any written accounting or any amendments thereto were executed;

12.1.5 Copies of any financial statements of the Company, if any, for the six most recent years; and

12.1.6 The Company's books and records as they relate to the internal affairs of the Company for at least the current and past four fiscal years.

12.2 Delivery to Members and Inspection. Each Member has the right, upon reasonable written request for purposes related to the interest of that person as a Member, to receive from the Company:

(a) True and full information regarding the status of the business and financial condition of the Company;

(b) Promptly after becoming available, a copy of the Company's federal, state and local income tax returns for each year;

(c) A current list of the name and last known business, residence or mailing address of each Member and Manager;

(d) A copy of this Agreement and the Certificate of Formation and all amendments thereto, together with executed copies of any written powers of attorney pursuant to which this Agreement and any certificate and all amendments thereto have been executed; and

(e) True and full information regarding the amount of cash and description and statement of the agreed value of any property or services contributed by each Member and which each Member has agreed to contribute in the future, and the date on which each became a Member.

(f) Any information required to be made available to a Member pursuant to Section 18-305 of the Act or any other applicable law.

12.3 Annual Report.

12.3.1 The Manager will cause the Company, at the Company's expense, to prepare an unaudited annual report containing a year end balance sheet, income statement and a statement of changes in financial position. Copies of such statements shall be distributed to each Member within 75 days after the close of each fiscal year of the Company.

12.3.2 Upon the vote of Members who own thirty percent (30%) or more of the Investor Units (including Investor Units owned or controlled by the Manager or its Affiliates), the Manager will use its best efforts to obtain in the future audited financial statements for the Properties' operations. Such audited financial statements shall be at the Company's sole cost and expense.

12.4 Tax Information. The Manager' shall cause the Company, at the Company's expense, to prepare and timely file income tax returns for the Company with the appropriate authorities, and shall cause all Company information necessary in the preparation of the Owners' individual income tax returns to be distributed to the Owners not later than 75 days after the end of the Company's fiscal year.

13. Termination and Dissolution of the Company.

13.1 Dissolution of the Company. The Company shall be dissolved, and its affairs wound up upon the earliest to occur of the following (each a "Dissolution Event"):

13.1.1 A determination by the Manager, with a Majority Vote, to terminate the Company;

13.1.2 The sale of the Properties or the receipt of the final payment on any seller financing provided by the Company on the sale of the Properties, if later, unless the Company holds securities of another company which cannot be distributed, in which case the Company will be dissolved as soon as possible upon such distribution; or

13.1.3 The termination of the legal existence of the last remaining member of the Company or the occurrence of any other event which terminates the continued membership of the last remaining member of the Company in the Company unless the Company is continued without dissolution in a manner permitted by this Agreement or the Act; or

13.1.4 The entry of a decree of judicial dissolution under Section 18-802 of the Act. Upon the occurrence of any event that causes the last remaining member of the Company to cease to be a member of the Company or that causes the last remaining Member of the Company to cease to be a member of the Company (other than upon continuation of the Company without dissolution upon (i) an assignment by such Member of all of its limited liability company interest in the Company and the admission of the transferee pursuant to Section 11.2, or (ii) the resignation of such Member and the admission of an additional member of the Company pursuant to Section 13.3), to the fullest extent permitted by law, the personal representative of such Member is hereby authorized to, and shall, within 90 days after the occurrence of the event that terminated the continued membership of such member in the Company, agree in writing (i) to continue the Company and (ii) to the admission of the personal representative or its nominee or designee, as the case may be, as a substitute member of the Company, effective as of the occurrence of the event that terminated the continued membership of the last remaining member of the Company or the last remaining Member in the Company.

13.2 Events of Dissolution. Notwithstanding any provision hereof to the contrary to the extent permissible under applicable federal and state tax and other applicable law, a Majority Vote of the remaining Members is sufficient to continue the existence of the Company upon the occurrence of either of the events set forth in Sections 13.1.3 or 13.1.4. If such vote is not obtained, for so long as the Mortgage Lien exists on the Properties, to the fullest extent permitted by law, the Company shall not liquidate its interest in the Properties without first obtaining approval of the Lender. In any event, such holder may, to the fullest extent provided by law, continue to exercise all of its rights under the existing security agreements or mortgages until the Loan has been paid in full or otherwise completely discharged.

13.3 Restriction on Termination. Notwithstanding any other provision of this Agreement, the Bankruptcy of a Member or Special Member shall not cause the dissolution of the Company and upon the occurrence of such an event the Company shall continue without dissolution. So long as any obligation pursuant to any Loan is outstanding, the Member may not resign without the prior written approval of the Lender. If a Member is permitted to resign pursuant to this Section 13.3, an additional member of the Company shall be admitted to the Company, subject to the approval of the mortgagee holding the Mortgage Lien, upon the additional Member's execution of an instrument signifying its agreement to be bound by the terms and conditions of this Agreement, which instrument may be a counterpart signature page to this Agreement. Such admission shall be deemed effective immediately prior to the resignation and, immediately following such admission, the resigning Member shall cease to be a member of the Company.

13.4 Termination. The Company shall terminate when (i) all of the assets of the Company, after payment of or due provision for all debts, liabilities and obligations of the Company shall have been distributed to the Members in the manner provided for in this Agreement and (ii) the Certificate of Formation shall have been canceled in the manner required by the Act. The existence of the Company as a separate legal entity shall continue until cancellation of the Certificate of Formation as provided in the Act.

13.5 Liquidation of Assets. Upon a dissolution of the Company, the Manager (or in case there is no Manager, the Members or person designated by a Majority Vote) shall take full account of the Company assets and liabilities, shall liquidate the assets as promptly as is consistent with obtaining the fair market value thereof, and shall apply and distribute the proceeds therefrom in the following order:

13.5.1 To creditors in satisfaction of the liabilities of the Company (whether by payment or the making of reasonable provision for payment thereof); and

13.5.2 To the Members in accordance with Section 5.2 hereof.

13.6 Distributions Upon Dissolution. Each Member shall look solely to the assets of the Company for all Distributions and its Capital Contributions, and shall have no recourse therefor (upon dissolution or otherwise) against any Manager or any Member.

13.7 Liquidation of Member's Interest. If there is a Liquidation of a Member's interest in the Company, any liquidating Distribution pursuant to such Liquidation shall be made only to the extent of the positive Capital Account balance, if any, of such Member for the taxable year during which such Liquidation occurs after proper adjustments for allocations and Distributions for such taxable year up to the time of Liquidation. Such Distributions shall be made by the end of the taxable year of the Company during which such Liquidation occurs, or if later, within 90 days after such Liquidation.

14. Special and Limited Power of Attorney.

14.1 Power of Attorney. Triple Net Properties, LLC shall at all times during its term as the Manager have a special and limited power of attorney as the attomey-in-fact for each Member, with power and authority to act in the name and on behalf of each such Member to execute, acknowledge, and swear to in the execution, acknowledgment and filing of documents which are not inconsistent with the provisions of this Agreement and which may include, by way of illustration but not by limitation, the following:

14.1.1 This Agreement, as well as any amendments to the foregoing which, under the laws of the state of Delaware or the laws of any other state, are required to be filed or which the Manager shall deem it advisable to file;

14.1.2 Any other instrument or document that may be required to be filed by the Company under the laws of any state or by any governmental agency or which the Manager shall deem it advisable to file;

14.1.3 Any instrument or document that may be required to effect the continuation of the Company, the admission of Substituted Members, or the dissolution and termination of the Company (provided such continuation, admission or dissolution and termination are in accordance with the terms of this Agreement);

14.1.4 Any contract for purchase or sale of real estate, and any deed, deed of trust, mortgage, or other instrument of conveyance or encumbrance, with respect to Properties; and

14.1.5 Any and all other instruments as the Manager may deem necessary or desirable to effect the purposes of this Agreement and carry out fully its provisions.

14.2 Provision of Power of Attorney. The special and limited power of attorney granted to Triple Net Properties, LLC, as Manager:

14.2.1 A special power of attorney coupled with an interest, is irrevocable, shall survive the death, incapacity, termination or dissolution of the granting Member, and is limited to those matters herein set forth;

14.2.2 May be exercised by Triple Net Properties, LLC in its capacity as Manager by and through one or more of the officers of Triple Net Properties, LLC, for each of the Members by the signature of Triple Net Properties, LLC acting as attorney-in-fact for all of the Members, together with a list of all Members executing such instrument by their attorney-in-fact or by such other method as may be required or requested in connection with the recording or filing of any instrument or other document so executed; and

14.2.3 Shall survive an assignment by a Member of all or any portion of his Investor Units except that, where the assignee of the Investor Units owned by the Member has been approved by the Manager for admission to the Company as a Substituted Member, the special power of attorney shall survive such assignment for the sole purpose of enabling Triple Net Properties, LLC, as Manager, to execute, acknowledge and file any instrument or document necessary to effect such substitution.

14.3 Notice to Members. The Manager shall promptly furnish to a Member a copy of any amendment to the Agreement executed by Triple Net Properties, LLC pursuant to a power of attorney from the Member.

15. Relationship of This Agreement to the Act. Many of the terms of this Agreement are intended to alter or extend provisions of the Act as they may apply to the Company or the Members. Any failure of this Agreement to mention or specify the relationship of such terms to provisions of the Act that may affect the scope or application of such terms shall not be construed to mean that any of such terms is not intended to be an operating agreement provision authorized

or permitted by the Act or which in whole or in part alters, extends or supplants provisions of the Act as may be allowed thereby.

16. Amendment of Agreement.

16.1 Admission of Member. Amendments to this Agreement for the admission of any Member or Substitute Member shall not, if in accordance with the terms of this Agreement, require the consent of any Member.

16.2 Amendments with Consent of Member. In addition to any amendments otherwise authorized herein, this Agreement may be amended by the Manager with a Majority Vote of the Members.

16.3 Amendments Without Consent of the Members. In addition to the amendments authorized pursuant to Section 4.9 and Section 7,3.11 or otherwise authorized herein, the Manager may amend this Agreement, without the consent of any of the Members, to (i) change the name and/or principal place of business of the Company, or (ii) decrease the rights and powers of the Manager (so long

as such decrease does not impair the ability of the Manager to manage the Company and conduct its business and affairs); provided, however, that no amendment shall be adopted pursuant to this Section 16.3 unless the adoption thereof (A) is for the benefit of or not adverse to the interests of the Members, (B) is not inconsistent with Section 7, and (C) does not affect the limited liability of the Members or the status of the Company as a partnership for federal income tax purposes.

16.4 Execution and Recording of Amendments. Any amendment to this Agreement shall be executed by the Manager and by Triple Net Properties, LLC, as attorney-in-fact for the Members, pursuant to the power of attorney contained in Section 14. After the execution of such amendment, the Manager shall also prepare and record or file any certificate or other document which may be required to be recorded or filed with respect to such amendment, either under the Act or under the laws of any other jurisdiction in which the Company holds any Properties or otherwise does business.

17. Miscellaneous.

17.1 Counterparts. This Agreement may be executed in several counterparts, and all so executed shall constitute one Agreement, binding on all of the parties hereto, notwithstanding that all of the parties are not signatory to the original or the same counterpart.

17.2 Successors and Assigns. The terms and provisions of this Agreement shall be binding upon and shall inure to the benefit of the successors and assigns of the respective Members.

17.3 Severability. In the event any sentence or Section of this Agreement is declared by a court of competent jurisdiction to be void, such sentence or Section shall be deemed severed from the remainder of this Agreement and the balance of this Agreement shall remain in full force and effect.

17.4 Notices. All notices under this Agreement shall be in writing and shall be given to the Member or Economic Interest Owner entitled thereto, by personal service or by mail, posted to the address maintained by the Company for such person or at such other address as he may specify in writing.

17.5 Manager's Address. The name and address of the Manager is as follows:

Triple Net Properties, LLC
1551 N. Tustin Avenue, Suite 200
Santa Ana, California 92705
Attn: Anthony W. Thompson, President

17.6 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the state of Delaware (without regard to conflict of laws principles), where this Agreement is made and entered into.

17.7 Captions. Section titles or captions contained in this Agreement are inserted only as a matter of convenience and reference. Such titles and captions in no way define, limit, extend or describe the scope of this Agreement nor the intent of any provisions hereof.

17.8 Gender. Whenever required by the context hereof, the singular shall include the plural, and vice versa, the masculine gender shall include the feminine and neuter genders, and vice versa.

17.9 Time. Time is of the essence with respect to this Agreement.

17.10 Additional Documents. Each Member, upon the request of the Manager, shall perform any further acts and execute and deliver any documents which may be reasonably necessary to carry out the provisions of this Agreement, including, but not limited to, providing acknowledgment before a Notary Public of any signature made by a Member.

17.11 Descriptions. All descriptions referred to in this Agreement are expressly incorporated herein by reference as if set forth in full, whether or not attached hereto.

17.12 Binding Arbitration. Any controversy arising out of or related to this Agreement or the breach thereof or an investment in the Investor Units shall be settled by arbitration in Orange County, California, in accordance with the rules of The American Arbitration Association, and judgment entered upon the award rendered may be enforced by appropriate judicial action. The arbitration panel shall consist of one member, which shall be the mediator if mediation has occurred or shall be a person agreed to by each party to the dispute within 30 days following notice by one party that he desires that a matter be arbitrated. If there was no mediation and the parties are unable within such 30 day period to agree upon an arbitrator, then the panel shall be one arbitrator selected by the Orange County California office of The American Arbitration Association, which arbitrator shall be experienced in the area of real estate and limited liability companies and who shall be knowledgeable with respect to the subject matter area of the dispute. The losing party shall bear any fees and expenses of the arbitrator, other tribunal fees and expenses, reasonable attorney's fees of both parties, any costs of producing witnesses and any other reasonable costs or expenses incurred by him or the prevailing party or such costs shall be allocated by the arbitrator. The arbitration panel shall render a decision within 30 days following the close of presentation by the parties of their cases and any rebuttal. The parties shall agree within 30 days following selection of the arbitrator to any prehearing procedures or further procedures necessary for the arbitration to proceed, including interrogatories or other discovery; provided, in any event each Member shall be entitled to discovery. This Section 17.12 shall be construed to the maximum extent possible to comply with the laws of the state of Delaware, including the Uniform Arbitration Act (10 Del. C. Section 5701 et seq.) (the "Delaware Arbitration Act"). If, nevertheless, it shall be determined by a court of competent jurisdiction that any provision or wording of this Section 17.12, including any rules of the AAA shall be invalid or unenforceable under the Delaware Arbitration Act or other applicable law, such invalidity shall not invalidate all of this Section 17.12, In that case, this Section 17.12 shall be construed so as to limit any term or provision so as to make it valid or enforceable within the requirements of the Delaware Arbitration Act or other applicable law, and, in the event such term or provision cannot be so limited, this Section 17.12 shall be construed to omit such invalid or unenforceable provision.

17.13 Venue. Any action relating to or arising out of this Agreement may be brought in a court of competent jurisdiction located in Orange County, California.

17.14 Partition. The Members agree that the assets of the Company are not and will not be suitable for partition. Accordingly, each of the Members hereby irrevocably waives (to the fullest extent permitted by law) any and all rights that he may have, or may obtain, to maintain any action for partition of any of the assets of the Company.

17.15 Integrated and Binding Agreement. This Agreement contains the entire understanding and agreement among the Members with respect to the subject matter hereof, and there are no other agreements, understandings, representations or warranties among the Members other than those set forth herein except the Subscription Documents. This Agreement may be amended only as provided in this Agreement. Notwithstanding any other provision of this Agreement, the Members agree that this Agreement constitutes a legal, valid and binding agreement of the Members, and is enforceable against the Members by the Manager, in accordance with its terms. In addition, the Manager shall be an intended beneficiary of this Agreement.

17.16 Legal Counsel. Each Member acknowledges and agrees that counsel representing the Company, the Manager and its Affiliates does not represent and shall not be deemed under the applicable codes of professional responsibility to have represented or to be representing any or all of the Members, other than the Manager, in any respect. In addition, each Member consents to the Manager hiring counsel for the Company which is also counsel to one or more of the Managers.

17.17 Effective Date. Pursuant to Section 18-201(d) of the Act, this Agreement shall be effective as of the time of the filing of the Certificate of Formation with the Office of the Delaware Secretary of State.

18. Separateness Covenants. Notwithstanding any provision hereof to the contrary, for so long as any Mortgage Lien exists on the Properties, in order to preserve and ensure its separate and distinct identity, in addition to the other provisions set forth in this Agreement, the Company shall:

(a) maintain books and records and bank accounts separate from those of any other Person;

(b) maintain its assets in such a manner that it is not costly or difficult to segregate, identify or ascertain such assets;

(c) hold regular meetings, as appropriate, to conduct its business and observe all other Company formalities;

(d) hold itself out to creditors and the public as a legal entity separate and distinct from any other Person;

(e) prepare separate tax returns and financial statements, or if part of a consolidated group, then the Company will be shown as a separate member of such group;

(f) allocate and charge fairly and reasonably the costs of any common employee or overhead shared with Affiliates;

(g) transact all business with Affiliates on an arm's-length basis and pursuant to enforceable agreements;

(h) conduct business in its own name and use separate stationery, invoices and checks;

(i) not commingle its funds or assets with those of any other Person;

(j) not assume, guarantee or pay the debts of any other Person or hold out its credit as being available to satisfy the obligations of others;

(k) timely pay all of its tax obligations;

(l) pay its own liabilities only out of its own funds;

(m) not pledge its assets for the benefit of any other Person;

(n) pay the salaries of its own employees, if any, and maintain a sufficient number of employees in light of its contemplated business operations;

(o) correct any known misunderstanding regarding its separate identity;

(p) other than redeeming Investor Units in the Company as allowed herein, not acquire any obligations or securities of its Members or any Affiliate;

(q) cause the Manager and other representatives of the Company to act at all times with respect to the Company consistent and in furtherance of the foregoing and in the best interests of the Company; and

(r) maintain adequate capital in light of its contemplated business purpose, transactions and liabilities.

Failure of the Company, or any Member on behalf of the Company, to comply with any of the foregoing covenants or any other covenants in this Agreement shall not effect the status of the company as a separate legal entity or the limited liability of the Member.

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IN WITNESS WHEREOF, the undersigned have set their hands to this Agreement effective as of the filing of the Certificate of Formation on June 19th, 2003.

MANAGER:

TRIPLE NET PROPERTIES, LLC,
a Virginia limited liability company.

By: /s/ Anthony W. Thompson
____
Anthony W. Thompson, President

INITIAL MEMBER:

TRIPLE NET PROPERTIES, LLC,
a Virginia limited liability company

By: /s/ Anthony W. Thompson
____

Anthony W. Thompson, President

SPECIAL MEMBER:

TRIPLE NET PROPERTIES REALTY, INC.,
a California corporation

By: /s/ Anthony W. Thompson
____
Anthony W. Thompson, President

EXHIBIT A
DEFINITIONS

"Act" shall mean the Delaware Limited Liability Company Act, as the same may be amended from time to time.

"Adjusted Capital Account Deficit" shall mean, with respect to any Member, the deficit balance, if any, in such Member's Capital Account as of the end of the relevant fiscal year, after giving effect to the following adjustments:

(i) Credit to such Capital Account any amounts which the Member is obligated to restore and the Member's share of Member Minimum Gain and Company Minimum Gain and;

(ii) Debit to such Capital Account the items described in Treasury Regulations Sections 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5), and 1.704-1(b)(2)(ii)(d)(6).

"Affiliate" shall mean (i) any person directly or indirectly controlling, controlled by or under common control with another person; (ii) a person owning or controlling 10% or more of the outstanding voting securities of such other person; (iii) any officer, director or partner of such other person; and (iv) if such other person is an officer, director or partner, any company for which such person acts in any capacity. The term "person" shall include any natural person, corporation, partnership, trust, unincorporated association or other legal entity.

"Agreement" shall mean this Operating Agreement, as amended from time to time. This Operating Agreement shall constitute a limited liability company agreement within the meaning of 18-101(7) of the Act.

"Bankruptcy" means, with respect to any Person, if such Person (i) makes an assignment for the benefit of creditors, (ii) files a voluntary petition in bankruptcy, (iii) is adjudged as bankrupt or insolvent, or has entered against it an order for relief, in any bankruptcy or insolvency proceedings, (iv) files a petition or answer seeking for itself any reorganization, arrangement, composition, readjustment, liquidation or similar relief under any statute, law or regulation, (v) files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against it in any proceeding of this nature, (vi) seeks, consents to or acquiesces in the appointment of a trustee, receiver or liquidator of the Person or of all or any substantial part of its properties, or (vii) if 120 days after the commencement of any proceeding against the Person seeking reorganization, arrangement, composition, readjustment, liquidation or similar relief under any statute, law or regulation, if the proceeding has not been dismissed, or if within 90 days after the appointment without such Person's consent or acquiescence of a trustee, receiver or liquidator of such Person or of all or any substantial part of its properties, the appointment is not vacated or stayed, or within 90 days after the expiration of any such stay, the appointment is not vacated,. The foregoing definition of "Bankruptcy" is intended to replace and shall supersede and replace the definition of "Bankruptcy" set forth in Sections 18-101(1) and 18-304 of the Act.

"Book Gain" shall mean the excess, if any, of the fair market value of property over its adjusted basis for federal income tax purposes at the time a valuation of property is required under this Agreement or Treasury Regulations Section 1.704-1(b) for purposes of making adjustments to the Capital Accounts.

"Book Loss" shall mean the excess, if any, of the adjusted basis of property for federal income tax purposes over its fair market value at the time a valuation of property is required under this

Agreement or Treasury Regulations Section 1.704-1(b) for purposes of making adjustments to the Capital Accounts.

"Book Value" shall mean the adjusted basis of property for federal income tax purposes increased or decreased by Book Gain, Book Loss, Built-In Gain and Built-In Loss as reduced by depreciation, amortization or other cost recovery deductions, or otherwise, based on such Book Value.

"Built-In Gain (or Loss)" shall mean the amount, if any, by which the agreed value of contributed property exceeds (or is lesser than) the adjusted basis of property contributed to the Company by a Member immediately after its contribution by the Member to the capital of the Company.

"Capital Account" with respect to any Member (or such Member's assignee) shall mean such Member's initial Capital Contribution adjusted as follows:

(i) A Member's Capital Account shall be increased by:

(a) such Member's share of Net Income;

(b) any income or gain specially allocated to a Member and not included in Net Income or Net Loss;

(c) any additional cash Capital Contribution made by such

Member to the Company; and

(d) the fair market value of any additional Capital Contribution consisting of property contributed by such Member to the capital of the Company reduced by any liabilities assumed by the Company in connection with such contribution or to which the property is subject.

(ii) A Member's Capital Account shall be reduced by:

(a) such Member's share of Net Loss;

(b) any deduction specially allocated to a Member and not included in Net Income or Net Loss;

(c) any cash Distribution made to such Member; and

(d) the fair market value, as agreed to by the Manager and the Members pursuant to a Majority Vote, of any property (reduced by any liabilities assumed by the Member in connection with the Distribution or to which the distributed property is subject) distributed to such Member; provided that, upon liquidation and winding up of the Company, unsold property will be valued for Distribution at its fair market value and the Capital Account of each Member before such Distribution shall be adjusted to reflect the allocation of gain or loss that would have been realized had the Company then sold the property for its fair market value. Such fair market value shall not be less than the amount of any nonrecourse indebtedness that is secured by the property.

Properties other than money may not be contributed to the Company except as specifically provided in this Agreement. Properties of the Company may not be revalued for purposes of calculating Capital Accounts unless the Manager and the Members pursuant to a Majority Vote agree on the fair

market value of the property and the Company complies with the requirements of Treasury Regulations Section 1.704-1(b)(2)(iv)(f) and (g); provided, however, for purposes of calculating Book Gain or Book Loss (but not for purposes of adjusting Capital Accounts to reflect the contribution and distribution of such property), the fair market value of property shall be deemed to be no less than the outstanding balance of any nonrecourse indebtedness secured by such Properties.

The Capital Account of a Substituted Member shall include the Capital Account of his transferor. Notwithstanding anything to the contrary in this Agreement, the Capital Accounts shall be maintained in accordance with Treasury Regulations Section 1.704-1(b), References in this Agreement to the Treasury Regulations shall include corresponding subsequent provisions.

"Capital Contribution" shall mean the gross amount invested in the Company by a Member and shall be equal in amount to the cash purchase price paid by such Member for the Investor Units sold to him by the Company. In the plural, "Capital Contributions" shall mean the aggregate amount invested by all of the Members in the Company and shall equal, in total, the sum of the amount attributable to the purchase of Investor Units and the contributions of the Initial Member.

"Capital Transaction" shall mean any financing, refinancing, sale, exchange, or other disposition or condemnation of, or casualty to, the Properties.

"Cash from Capital Transactions" shall mean the net cash realized by the Company from any Capital Transaction after payment of all cash expenditures of the Company, including, but not limited to, all fees payable to the Manager or Affiliates, all payments of principal and interest on indebtedness, and such reserves and retentions as the Manager reasonably determines to be necessary and desirable in connection therewith.

"Cash from Operations" shall mean the net cash realized by the Company from any source other than a Capital Transaction, after payment of all cash expenditures of the Company, including, but not limited to, all operating expenses including all fees payable to the Manager or Affiliates, all payments of principal and interest on indebtedness, expenses for repairs and maintenance, capital improvements and replacements, and such reserves and retentions as the Manager reasonably determines to be necessary and desirable in connection with Company operations with its then existing assets and any anticipated acquisitions.

"Certificate of Formation" shall mean the Certificate of Formation of the Company as filed with the Secretary of State of the state of Delaware as the same may be amended or restated from time to time.

"Class A Investor Unit" shall mean an Investor Unit that is subscribed to in the first $20,000,000 raised in the Offering.

"Class B Investor Unit" shall mean an Investor Unit that is subscribed to in the next $16,000,000 raised in the Offering after the fust $20,000,000 has been raised.

"Class C Investor Unit" shall mean an Investor Unit that is subscribed to in the next $24,000,000 raised in the Offering after the first $36,000,000 has been raised.

"Code" shall mean the Internal Revenue Code of 1986, as amended, or corresponding provisions of subsequently enacted federal revenue laws.

"Company" shall refer to NNN 2003 Value Fund, LLC.

"Company Minimum Gain" shall mean "partnership minimum gain" as set forth in Treasury Regulations Section 1.704-2(d).

"Cunningham Loan" shall mean loans to the Company to acquire its interest in the Properties, pay operating expenses or for any other business purpose made by Cunningham Lending Group, LLC, an Affiliate of the Initial Member. Any such loan shall bear interest at Cunningham Lending Group, LLC's cost of funds not to exceed 12% per annum (or, if less, the maximum rate allowed by law).

"Depository Account" shall have the meaning set forth in Section 3.1.5.

"Distributable Cash" shall mean Cash from Operations, and Capital Contributions determined by the Manager to be available for Distribution to the Members.

"Distribution" shall refer to any money or other property transferred without consideration (other than repurchased Investor Units) to Members or Owners with respect to their Investor Units in the Company, but shall not include any payments to the Manager pursuant to Section 6.

"Economic Interest" shall mean an interest in the Net Income, Net Loss and Distributions of the Company but shall not include any right to vote or to participate in the management of the Company.

"Economic Interest Owner" shall mean the owner of an Economic Interest who is not a Member.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"Impound Release Date" shall have the meaning set forth in Section 3.1.5.

"Initial Member" shall refer to Triple Net Properties, LLC, in its capacity as a member of the Company.

"Interest" or "Interests" shall mean the Company's undivided tenant-in-common interest in the Properties,

"Investor Unit" shall represent an interest in the Company entitling the owner of the Investor Unit if admitted as a Member to the respective voting and other rights afforded to a Member holding an Investor Unit, and affording to such Member a share in Net Income, Net Loss and Distributions as provided for in this Agreement.

"Lender" means any holder of a Mortgage Lien.

"Liquidation" means in respect to the Company the earlier of the date upon which the Company is terminated under Section 708(b)(l) of the Code or the date upon which the Company ceases to be a going concern (even though it may exist for purposes of winding up its affairs, paying its debts and distributing any remaining balance to its Members), and in respect to a Member where the Company is not in Liquidation means the date upon which occurs the termination of the Member's entire interest in the Company by means of a distribution or the making of the last of a series of Distributions (whether or not made in more than one year) to the Member by the Company.

"Loan" or "Loans" means the mortgage loans, if any, used to finance from time to time all or part of the Company's Interests.

"Loan Documents" means the promissory note, mortgage, guaranty, management agreement, security agreement, assignment, indemnity agreement, escrow agreement, deed or the functional equivalent of any of the foregoing, and any and all other documents evidencing or securing any Loan and any and all documents related thereto.

"Majority Vote" shall mean the vote of more than 50% of the Investor Units entitled to vote. Members shall be entitled to cast one vote for each Investor Unit they own, and a fractional vote for each fractional Unit they own.

"Management Agreement" shall refer to the Management Agreement between Property Manager, as property manager, and the Company and other Tenants in Common, with respect to the management and operation of the Properties, a true copy of which is attached as Exhibit B.

"Manager" means the persons designated as managers of the Company from time to time. The initial manager of the Company is Triple Net Properties, LLC, a Virginia limited liability company. A Manager is hereby designated as a "manager" of the Company within the meaning of Section 18-101(10) of the Act.

"Member" shall mean any holder of an Investor Unit who is admitted to the Company as a Member, in such Person's capacity as a member of the Company.

"Member Minimum Gain" shall mean "partner nonrecourse debt minimum gain" as determined under Treasury Regulations Section 1.704-2(i)(3).

"Member Nonrecourse Debt" shall mean "partner nonrecourse debt" as set forth in Treasury Regulations Section 1.704-2(b)(4).

"Member Nonrecourse Deductions" shall mean "partner nonrecourse deductions," as set forth in Treasury Regulations Section 1.704-2(i), and the amount thereof shall be determined as set forth in Treasury Regulations Section 1.704-2(i).

"Membership Interest" shall mean a Member's entire limited liability company interest in the Company including such Member's Economic Interest and such voting and other rights and privileges that the Member may enjoy by being a Member.

"Memorandum" shall mean the Company's Confidential Private Placement Memorandum dated July 11, 200.3, for the sale of the Investor Units, as amended or supplemented from time to time.

"Mortgage Lien" shall mean the lien created by that certain deed of trust/mortgage, executed by Company for the benefit of any Lender, securing any Loan.

"Net Capital Contribution" of any Member shall be equal to the excess, if any, of (i) the aggregate Capital Contributions of such Member based on $5,000 per Unit over (ii) the aggregate Distributions to such Member.

"Net Income" or "Net Loss" shall mean, respectively, for each taxable year of the Company the taxable income and taxable loss (exclusive of Built-in Gain or Loss) of the Company as determined for federal income tax purposes in accordance with Section 703(a) or the Code (including all items of income, gain, loss, or deduction required to be separately stated pursuant to Section 703(a)(1) of the Code) (other than any specific item of income, gain (exclusive of Built-In Gain), loss (exclusive of Built-

In Loss), deduction or credit subject to special allocation under this Agreement), with the following modifications:

(i) The amount determined above shall be increased by any income exempt from federal income tax;

(ii) The amount determined above shall be reduced by any expenditures described in Section 705(a)(2)(B) of the Code or expenditures treated as such pursuant to Treasury Regulations Section 1.704-l(b)(2)(iv)(i);

(iii) Depreciation, amortization and other cost recovery deductions shall be computed based on Book Value instead of on the amount determined in computing taxable income or loss. Any item of deduction, amortization or cost recovery specially allocated to a Member and not included in Net Income or Net Loss shall be determined for Capital Account purposes in a similar manner; and

(iv) For purposes of this Agreement, Book Gain and Book Loss attributable to a revaluation of property attributable to unrealized gain or loss in such property shall be treated as Net Income and Net Loss.

"Nonrecourse Debt" shall have the meaning set forth in Treasury Regulations Section 1.704-2(b)(3).

"Nonrecourse Deductions" shall have the meaning, and the amount thereof shall be, as set forth in Treasury Regulations Section l.704-2(c).

"Note" means any promissory note evidencing a Loan.

"Offering" shall mean the offering and sale of the Investor Units made in accordance with the provisions of Section 3.1.2.

"Offering Termination Date" shall mean the date the Offering of Investor Units will terminate pursuant to the Memorandum, which is the earliest of (i) the date all Investor Units are sold or (ii) July 31, 2004, which date can be extended to July 31, 2005, in the sole and absolute discretion of the Manager.

"Organization and Offering Expenses" shall mean all expenses incurred in connection with the organization and formation of the Company, the preparation of the offering materials, and the marketing and sale of the Investor Units, including but not limited to legal, accounting, tax planning fees, promotional fees or expenses, filing and recording fees, market research and surveys, property inspections and research, engineering services, printing costs, securities sales commissions, travel expenses and other costs or expenses incurred in connection therewith.

"Owner" shall mean a Member or the holder of an Economic Interest.

"Person" shall mean any natural person or entity, and the heirs, executors, administrators, legal representatives, successors, and assigns of such Person where the context so admits.

"Prime Rate" shall mean the reference rate announced from time-to-time by the Wall Street Journal, and changes in the Prime Rate shall be deemed to occur on the date that changes in such rate are announced.

"Priority Return" shall mean: (a) for the holders of Class A Investor Units, a 10% per annum cumulative (but not compounded) return on their Unrecovered Equity, on an annualized basis, properly adjusted for any partial years and/or fractional interests; (b) for the holders of Class B Investor Units, a 9% per annum cumulative (but not compounded) return on their Unrecovered Equity, on an annualized basis, properly adjusted for any partial years and/or fractional interests; and (c) for the holders of Class C Investor Units, an 8% per annum cumulative (but not compounded) return on their Unrecovered Equity, on an annualized basis, properly adjusted for any partial years and/or fractional interests.

"Property" or "Properties" shall refer to the properties acquired by NNN 2003 Value Fund, LLC, or by special purpose entity of which it is a member, as described in the Memorandum.

"Property Manager" shall mean Triple Net Properties Realty, Inc., a California corporation.

"Regulatory Allocations" shall mean the allocations set forth in Sections

4,2(a) through (g).

"Residuary Sharing Ratio" shall mean the sharing ratio with respect to any amount available as a tier (ii) distribution of Cash from Operations or a tier (iii) distribution of Cash from Capital Transactions (the "Residue"). Such sharing ratio shall be determined by first tentatively dividing the Residue equally among all of the Investor Units so as to establish a per Investor Unit allocation (the "Per Investor Unit Allocation"); second the Members shall receive: 85% of the Per Investor Unit Allocation for each Class A Investor Unit owned; 80% of the Per Investor Unit Allocation for each Class B Investor Unit owned; 75% for each Class C Investor Unit Owned; and the Manager shall receive the balance, that is, 15% of the Per Investor Unit Allocation for each Class A Investor Unit, 20% of the Per Investor Unit Allocation for each Class B Investor Unit, and 25% of the Per Investor Unit Allocation for each Class C Investor Unit.

"Secretary of State" shall mean the Secretary of State of Delaware.

"Special Member" shall mean, upon such Person's admission to the Company as a member of the Company, the Person bound by this Agreement as Special Member in such Person's capacity as a member of the Company. A Special Member shall only have the rights and duties expressly set forth in this Agreement.

"Subscription Agreement" means the agreement, in the form as may be attached to the Memorandum, by which each person desiring to become a Member shall evidence (i) the number of Investor Units which such person wishes to acquire and (ii) such person's agreement to become a party to, and be bound by the provisions of, this Agreement and (iii) certain representations regarding the person's finances and investment intent.

"Subscription Payment" shall mean the cash payment that must accompany each subscription for Investor Units sold through the Offering.

"Substituted Member" shall mean any person admitted as a substituted Member pursuant to this Agreement.

"Tax Payment" shall have the meaning set forth in Section 4.11.1.

"Tenants in Common" shall mean the Company and the purchasers of tenant-in-common interests in the Properties.

"Tenants in Common Agreement" shall mean that certain Tenants in Common Agreement in the form attached to the Memorandum executed or to be executed by the Tenants in Common.

"Unrecovered Equity" of a Member as of any date means the amount of a Member's Capital Contributions to the Company, reduced, but not below zero, by the cumulative Cash from Capital Transactions amounts distributed to such Member under Section 5.2 hereof.

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EXHIBIT 10.2

MANAGEMENT AGREEMENT

This MANAGEMENT AGREEMENT (the "Agreement") is dated as of this _________day of ________, 2003, between the Tenants in Common whose signatures appear at the end hereof (collectively, the "Tenants in Common"), and Triple Net Properties Realty, Inc., a California corporation ("Property Manager").

The Tenants in Common own certain real property and improvements in _______________, commonly known as ______________________, as more particularly described in Exhibit "A" attached hereto and incorporated herein (the "Property"). The Tenants in Common have entered into a Tenants in Common Agreement (the "Tenants in Common Agreement") concurrently herewith to provide for the orderly ownership and operation of the Property. The Tenants in Common desire to engage Property Manager to manage, lease, operate, and maintain the Property. It is intended by the parties hereto that this Agreement comply in all material respects with the requirements for an advance ruling set forth in Revenue Procedure 2002-22,2002-14IRB (the "Revenue Procedure").

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. COMMENCEMENT AND TERMINATION DATES; AUTHORITY OF TENANTS IN COMMON.

1.1 Commencement and Termination. Property Manager's duties and responsibilities under this Agreement shall begin on the date of this Agreement (the "Start Date") and shall terminate on the earlier of (a) the sale of the Property or any portion thereof, as to such portion of the Property sold only (other than any sale of an undivided interest held by a Tenant in Common to a party that will acquire such interest subject to the Tenants in Common Agreement), (b) termination as provided in Sections 10.1 and 10.2 or (c) December 31,2013.

1.2 Approval of the Tenants in Common. Whenever in this Agreement the approval, consent or other action by the Tenants in Common is required or otherwise appropriate, the unanimous approval, consent or other action of the Tenants in Common shall be required to approve: (a) this Agreement and all amendments and renewals hereof in accordance with Section 10.1; (b) all leases and amendments thereof in accordance with Sections 2.5 and 2.6; (c) all financing and refinancing of the Property; and (d) sale of the Property (other than a sale pursuant to the Purchase Option described in Section 11 of the Tenants in Common Agreement) All other actions in this Agreement requiring approval of the Tenants in Common may be taken by the Tenants in Common holding more than fifty percent (50%) of the undivided interests in the Property. Whenever in this Agreement the consent or approval of the Tenants in Common is required or otherwise requested, each Tenant in Common generally shall have thirty (30) days after the date on which the request for consent or approval is submitted to it by Property Manager in which to approve or disapprove of the matter in writing (unless a longer or shorter period for response is expressly provided for herein, for example, the seventy-two(72) hour period to review and approve leasing matters). A Tenant in Common who does not disapprove of the matter in writing within such thirty (30) day period (or such longer or shorter period expressly provided for herein) shall be deemed to have approved the matter. Property Manager shall have no obligation hereunder to comply with any requests or direction made by less than all of the appropriate percentage of the Tenants in Common pursuant to Section 1.2 of this Agreement.

2. PROPERTY MANAGER'S RESPONSIBILITIES.

2.1 Status of Property Manager. The Tenants in Common and Property Manager do not intend to form a joint venture, partnership or similar relationship. Instead, the parties intend that Property Manager shall act solely in the capacity of an independent contractor for the Tenants in Common. Nothing in this Agreement shall cause Property Manager and the Tenants in Common to be joint venturers or partners of each other, and neither shall have the power to bind or obligate the other party by virtue of this Agreement, except as expressly provided in

this Agreement, Nothing in this Agreement shall deprive or otherwise affect the right of either party to own, invest in, manage, or operate, or to conduct business activities which compete with, the Property.

2.2 Management. Property Manager shall manage, operate and maintain the Property in an efficient, economic, and satisfactory manner and shall manage the performance of everything reasonably necessary for the proper operation of the Property for the tenants thereof, subject to (a) applicable governmental requirements, and (b) the terms and provisions of this Agreement. At the expense of each of the Tenants in Common, based on their undivided interests in the Property, Property Manager shall keep the Property clean and in good repair, shall order and supervise the completion of such repairs as may be required and shall generally do and perform, or cause to be done or performed, all things necessary, required or desirable for the proper and efficient management, operation, and maintenance of the Property, provided each of the Tenants in Common, based on their undivided interests in the Property, in a manner reasonably satisfactory to Property Manager, makes available to Property Manager sufficient sums to pay the costs thereof. Property Manager shall perform all services in a diligent and professional manner.

2.3 Employees/Independent Contractors of Property Manager. Property Manager shall employ, directly or through third party contractors (for example, an employee leasing company or on-site property manager), at all times, a sufficient number of capable employees and/or independent contractors to enable Property Manager to properly, adequately, safely and economically manage, operate and maintain the Property. All matters pertaining to the supervision of such employees shall be the responsibility of Property Manager. All salaries and benefits and positions of employees who perform work in connection with the

Property shall be consistent with the Budget (as defined in Section 2.5)

2.4 Compliance with Laws, Mortgages and Other Matters

2.4.1 Property Manager shall use reasonable efforts to comply, and cause the Property to be in compliance, with any deed of trust, mortgage or other loan documents, and all applicable governmental requirements, including by way of illustration, but not limitation, Board of Fire Underwriters or other similar body, relative to the performance of its duties hereunder, ordinances, rules, regulations, and requirements. Property Manager may implement such procedures with respect to the Property as Property Manager may deem advisable for the more efficient and economic management and operation thereof. Property Manager shall pay from the Operating Account (defined in Section 6.2) expenses incurred to remedy violations of laws. However, Property Manager shall not be obligated to remedy violations of law if sufficient funds are not available in the Operating Account or if the Tenants in Common do not provide sufficient additional funds to do so.

2.4.2 Property Manager shall furnish to the Tenants in Common, promptly after receipt, any notice of violation of any governmental requirement or order issued by any governmental entity, any Board of Fire Underwriters or other similar body against the Property, any notice of default from the holder of any mortgage or deed of trust encumbering the Property, or any notice of termination or cancellation of any insurance policy.

2.5 Budgets and Operating Plan.

2.5.1 Property Manager has prepared and submitted to the Tenants in Common herewith an initial capital and operating budget ("Budget") for the promotion, operation, leasing (including leasing parameters for the Property), repair, maintenance and improvement of the Property for the current calendar year. The Budget is and shall be presented on a monthly, cash basis. Property Manager shall deliver to the Tenants in Common for approval by a majority thereof each subsequent Budget for each subsequent calendar year on or about December 15th of the calendar year before the budget year. Each Tenant in Common shall be deemed to have approved the Budget and the leasing parameters contained therein unless a majority of the Tenants in Common provides written notice to Property Manager and the other Tenants in Common indicating specific objection to certain Budget items within thirty (30) days from receipt of the Budget. In the event a majority of the Tenants in Common do not approve the Budget, the disputing Tenants in Common shall negotiate in good faith with Property Manager and the other Tenants in Common for fifteen (15) days to resolve the issue. If the parties are unable to reach an agreement on any issue other than leasing matters, the issue shall be resolved by binding arbitration as set forth in Section 2.5.4 with (a) each of the disputing Tenant(s) in Common paying his pro rata share of fifty percent

(50%) of the cost of arbitration, and (b) all the other Tenants in Common paying his pro rata share of fifty percent (50%) of the costs of the arbitration. Property Manager shall provide the Tenants in Common with such information regarding the Budget as may be, from time to time, reasonably requested by the Tenants in Common. Property Manager may at any time submit a revised Budget to the Tenants in Common.

2.5.2 The Property Manager shall charge all expenses to the proper account as specified in the Budget, provided that the Property Manager may reallocate savings from one line item to other line items, for the benefit of the Tenants in Common.

2.5.3 Together with the submission of the Budget, Property Manager shall submit each year to the Tenants in Common an operating plan for the general operation of the Property, including a proposed list of improvements to the Property, general insurance plan, marketing plan and plan for the general operation and maintenance of the Property (the "Operating Plan"). Property Manager may submit a revised Operating Plan to the Tenants in Common at any time.

2.5.4 Any controversy arising out of or related to any dispute regarding the Budget as set forth in Section 2.5.1 shall be settled by binding arbitration as provided in Section 13.15.

2.6 Leasing.

2.6.1 Each Tenant in Common hereby approves all Leases (as defined in Section 2.6.2) presently in effect on the date hereof and the Property Manager's standard lease form. New leases, amendments and renewals shall be subject to the procedure and voting process described in Section 2.6.2

2.6.2 Property Manager shall use its commercially reasonable efforts to obtain tenants for all rental units in the Property and to renew leases and rental agreements (collectively, "Leases") as provided herein. In accordance with Section 6.5 of the Revenue Procedure, lease terms must be approved by a unanimous consent of the Tenants in Common unless (a) a lease is for one percent (1%) or less of the net rentable area of the Property, in which case the Property Manager can approve such lease; or (b) a lease is for more than one percent (1%) of the net rentable area of the Property but less than three percent (3%) of the net rentable area of the Property, and such lease is consistent with the most current approved Budget and/or Operating Plan is on a standard form which has been unanimously approved in advance by the Tenants in Common, in which case the Property Manager can approve such lease. Lease terms will be deemed approved {"Approved Leases") unless a Tenant in Common gives written notice of rejection to the Property Manager and the other Tenants in Common within seventy-two (72) hours of receipt of such lease terms. In addition, the Tenants in Common will grant to the Property Manager a special power of attorney to execute Approved Leases. If any Tenant in Common objects to any such leasing matters within seventy-two (72) hours as provided above, the Property Manager will not have authority to execute the rejected leases on behalf of the Tenants in Common in accordance with the Revenue Procedure.

2.6.3 Notwithstanding anything to the contrary contained herein, Property Manager shall only provide ordinary and customary services to tenants of the Property and others, and shall provide no unusual or non-customary services to the tenants or any other parties on behalf of the Tenants in Common.

2.6.4 Except as provided in the Operating Plan, Property Manager shall not, without the prior written approval of the Tenants in Common, give free rental or discounts or rental concessions to any employees, officers or shareholders of Property Manager or anyone related to such employees, officers or shareholders, unless such discounts or concessions are in lieu of salaries or other benefits to which they would be contractually entitled, Property Manager shall not lease any space in the Property to itself or to any of its affiliates or subsidiaries, except as provided in the Operating Plan, without the prior written consent of the Tenants in Common.

2.6.5 Property Manager shall reasonably investigate all prospective tenants, and shall not rent to persons not meeting credit standards reasonable for the market. Property Manager shall obtain a credit check for all prospective tenants through Equifax or a similar service. Property Manager shall retain such information for the duration of the tenancy, and shall make it available to the Tenants in Common upon reasonable

request. Property Manager does not guarantee the accuracy of any such information or the financial condition of any tenant.

2.6.6 Property Manager and the Tenants in Common agree that there shall be no discrimination against or segregation of any person or group of persons on account of age, race, color, religion, creed, handicap, sex or national origin in the leasing of the Property, nor shall the Tenants in Common or Property Manager permit any such practice or practices of discrimination or segregation with respect to the selection, location, number or occupancy of tenants.

2.6.7 Property Manager shall engage contractors, engineers, architects and other consultants on behalf of the Tenants in Common to design and construct improvements to the Property other than those required to be performed by tenants under their leases. For any contract requiring capital expenditures in excess of $50,000, Property Manager shall follow the bidding procedures specified in Section 2.9 below.

2.6.8 Notwithstanding anything to the contrary herein, Property Manager shall be obligated to disburse to each of the Tenants in Common their pro rata share of the net revenue from the Property within three (3) months from the date of receipt of such revenues.

2.7 Collection of Rents and Oilier Income. Property Manager shall bill all tenants and shall use its commercially reasonable efforts to collect all rent and other charges due and payable from any tenant or from others for services provided in connection with the Property. Property Manager shall deposit all monies so collected in the Operating Account unless otherwise required by the loan documents affecting the Property. Each of the Tenants in Common shall be entitled to the income and revenue from any Property based on their undivided interests in the Property.

2.8 Repairs and Maintenance. Property Manager shall maintain the buildings, appurtenances and grounds of the Property, other than areas which are the responsibility of tenants, including, without limitation, all repairs, cleaning, painting, decorations and alterations, for example electrical, plumbing, carpentry, masonry, elevators and such other routine repairs as are necessary or reasonably appropriate in the course of maintenance of the Property (subject to the limitations of this Agreement). Property Manager shall pay actual and reasonable expenses for materials and labor for such purposes from the Operating Account. Property Manager shall take reasonable precautions against fire, vandalism, burglary and trespass to the Property. However, Property Manager shall only provide ordinary and customary services to tenants of the Property and shall provide no other services to the tenants or others on behalf of the Tenants in Common.

2.9 Capital Expenditures. Property Manager may make any capital expenditure within any Budget approved by the Tenants in Common without any further consent, provided that Property Manager follows the bid procedures prescribed below. All other capital expenditures (other than for emergency expenditures shall be subject to submittal of a revised Budget to the Tenants in Common. Unless the Tenants in Common specifically waive such requirements, or approve a particular contract, Property Manager shall award any contract for a capital improvement exceeding $50,000 in cost on the basis of competitive bidding, solicited from a minimum of two (2) written bids. Property Manager shall accept the bid of the lowest bidder determined by Property Manager to be responsible, qualified and capable of completing such improvements on a reasonable schedule.

2.10 Service Contracts, Supplies and Equipment.

2.10.1 Property Manager may enter into or renew any customary contract for cleaning, maintenance, repairing or servicing the Property or any of the constituent parts of the Property (including contracts for fuel oil, security or other protection, extermination, landscaping, architects or engineering services) contemplated by the Budget and/or the Operating Plan with any unrelated third party without the consent of the Tenants in Common. Each such service contract shall (a) be in the name of the Tenants in Common, (b) be assignable to the transferee of the Tenants in Common, and (c) be for a term not to exceed one (1) year.

2.10.2 If this Agreement terminates pursuant to Section 10, Property Manager, at the option of the Tenants in Common, shall assign to the nominee of the Tenants in Common all of Property Manager's interest in the service agreements pertaining to the Property.

2.10.3 At the expense of the Tenants in Common, Property Manager shall purchase, provide, and pay for all needed janitorial and maintenance supplies, tools and equipment, restroom and toilet supplies, light bulbs, paints, and similar supplies necessary to the efficient and economical operation and maintenance of the Property. Such supplies and equipment shall be the property of the Tenants in Common based on their undivided interests in the Property. All such supplies, tools, and equipment generally shall be delivered to and stored in the Property and shall be used only in connection with the management, operation, and maintenance of the Property.

2.10.4 Property Manager shall use reasonable efforts to purchase all goods, supplies or services at the lowest cost reasonably available from reputable sources in the metropolitan area where the Property is located. In making any contract or purchase hereunder, Property Manager shall use reasonable efforts to obtain favorable discounts for the Tenants in Common and all discounts, rebates or commissions under any contract or purchase order made hereunder shall inure to the benefit of the Tenants in Common based on their undivided interests in such Property. Property Manager shall make payments under any such contract or purchase order to enable the Tenants in Common to take advantage of any such discount if the Tenants in Common provides sufficient funds therefor.

2.11 Taxes and Mortgages. Property Manager, unless otherwise requested, shall obtain and verify bills for real estate and personal property taxes, general and special real property assessments and other like charges (collectively "Taxes") which are, or may become, liens against the Property. Property Manager shall appeal such Taxes as Property Manager may decide, in its reasonable judgment, to be prudent. Property Manager shall report any such Taxes that materially exceed the amounts contemplated by the Budget to the Tenants in Common prior to Property Manager's payment thereof. Property Manager, if requested by the Tenants in Common, will cooperate to prepare an application for correction of the assessed valuation to be filed with the appropriate governmental agency. Property Manager shall pay, within the time required to obtain discounts, from funds provided by the Tenants in Common or from the Operating Account, all utilities, Taxes and payments due under each lease, mortgage, deed of trust or other security instrument, if any, affecting the Property. To the extent contemplated by the Budget and/or the Operating Plan (as either may be revised from time to time), Property Manager may make any such payments without the approval of the Tenants in Common.

2.12 Tenant Relations; Compliance. Property Manager will use reasonable efforts to develop and maintain good relations with the tenants in the Property. At all times during the term hereof, Property Manager shall use its reasonable efforts to retain existing tenants in the Property and, after completion of the initial leasing activity for new tenants, to retain such tenants. Property Manager shall use its reasonable efforts to secure compliance by the tenants with the terms and conditions of their respective Leases.

2.13 Miscellaneous Duties. Property Manager shall (a) maintain at Property Manager's office address as set forth in Section 12.1 and readily accessible to the Tenants in Common, orderly files containing rent records, insurance policies, leases and subleases, correspondence, receipted bills and vouchers, bank statements, canceled checks, deposit slips, debit and credit memos, and all other documents and papers pertaining to the Property or the operation thereof; (b) provide information about the Property necessary for the preparation and filing by each of the Tenants in Common of their individual income or other tax returns required by any governmental authority, including annual statements, identifying each Tenant in Common's undivided percentage of all expenses paid and income received by such Tenant in Common; (c) consider and record tenant service requests in systematic fashion showing the action taken with respect to each, and thoroughly investigate and report to die Tenants in Common in a timely fashion with appropriate recommendations all complaints of a nature which might have a material adverse effect on the Property or the Budget; (d) supervise the moving in and out of tenants and subtenants; arrange, to the extent possible, the dates thereof to minimize disturbance to the operation of the Property and inconvenience to other tenants or subtenants; and render an inspection report, an assessment for damages and a recommendation on the disposition of any deposit held as security for the performance by the tenant under its lease with respect to each premises vacated; (e) check all bills received for the services, work and supplies ordered in connection with maintaining and operating the Property and, except as otherwise provided in this Agreement, pay such bills when due and payable; and (f) not knowingly permit the use of the Property for any purpose that might void any policy of insurance held by the Tenants in Common or which might render any loss thereunder

uncollectible. All such records are the property of the Tenants in Common and will be delivered to the Tenants in Common upon request.

2.14 Right to Subcontract Property Management Functions. Property Manager reserves the right, in its sole discretion, to subcontract some or all of the property management functions described herein to local property managers and certain other parties. However, except as expressly provided herein, the fees to be paid to Property Manager under this Agreement are inclusive of fees payable to such third parties.

3. INSURANCE.

3.1 Insurance.

3.1.1 Property Manager, at the Tenants in Common's expense, based on their undivided interests in the Property, will obtain and keep in force adequate insurance against physical damage (such as fire with extended coverage endorsement, boiler and machinery) and against liability for loss, damage or injury to property or persons which might arise out of the occupancy, management, operation or maintenance of the Property, as contemplated by the Operating Plan to the extent available at commercially reasonable rates. Such insurance shall be obtained for each of the Tenants in Common and shall include each of the Tenants in Common as a named insured. Property Manager shall not be required to obtain earthquake or flood insurance unless expressly directed to do so by a specific written notice from the Tenants in Common, but may do so in Property Manager's reasonable discretion. Property Manager shall be a named insured on all property damage insurance and an additional insured on all liability insurance maintained with respect to the Property.

3.1.2 As part of the Operating Plan, Property Manager shall advise the Tenants in Common in writing and make recommendations with respect to the proper insurance coverage for the Property, taking into account the insurance requirements set forth in any mortgage on the Property, shall furnish such information as the Tenants in Common may reasonably request to obtain insurance coverage and shall reasonably aid and cooperate with respect to such insurance and any loss thereunder. The Tenants in Common acknowledge that Property Manager is not a licensed insurance agent or insurance expert. Accordingly, Property Manager shall be entitled to rely on the advice of a reputable insurance broker or consultant regarding the proper insurance for the Property.

3.1.3 Property Manager shall investigate and submit, as soon as reasonably possible, a written report to the insurance carrier and the Tenants in Common as to all accidents, claims for damage relating to the ownership, operation and maintenance of the Property, any damage to or destruction of the Property and the estimated costs of repair thereof, and prepare and file with the insurance company in a timely manner required reports in connection therewith. Notwithstanding the foregoing, Property Manager shall not be required to give such notice to the Tenants in Common if the amount of the claims, damage or destruction, as reasonably estimated by Property Manager, does not exceed $10,000 for any one occurrence. Property Manager shall settle all claims against insurance companies arising out of any policies, including the execution of proofs of loss, the adjustment of losses, signing and collection of receipts and collection of money, except that Property Manager shall not settle claims in excess of $10,000 without submitting prior notice to the Tenants in Common.

3.2 Additional Insurance. Any insurance obtained bay Property Manager for its own account, and not for the benefit of the Tenants in Common, or the Property, shall be at Property Manager's own expense and any insurance payments shall be for the Property Manager's sole benefit.

3.3 Contractor's and Subcontractor's Insurance. Property Manager shall require all contractors and subcontractors entering upon the Property to perform services to have insurance coverage at the contractor's or subcontractor's expense, in the following minimum amounts: (a) worker's compensation - statutory amount; (b) employer's liability (if required) -

$500,000; and (c) comprehensive general liability insurance, including comprehensive auto liability insurance covering the use of all owned, non-owned and hired automobiles, with bodily injury and property damage limits of $750,000 per occurrence. Property Manager may waive such requirements in its reasonable discretion. Property Manager shall obtain and keep on file a certificate of insurance which shows that each contractor and subcontractor is so insured.

3.4 Waiver of Subrogation. To the extent available at commercially reasonable rates, all property damage insurance policies required hereunder shall contain language whereby the insurance carrier thereunder waives any right of subrogation it may have with respect to the Tenants in Common or Property Manager.

4. FINANCIAL REPORTING AND RECORD KEEPING.

4.1 Books of Accounts. Property Manager shall maintain adequate and separate books and records for the Property with the entries supported by sufficient documentation to ascertain their accuracy with respect to the Property. Such books and records shall contain a separate accounting of all items of income and all items of expenses for each Tenant in Common. The Tenants in Common agree to provide to Property Manager any financial or other information reasonably requested by Property Manager to carry out its services hereunder. Property Manager shall maintain such books and records, including separate accounting records for each Tenant in Common's income and expense of the Property, at Property Manager's office set forth in Section 12.1. Property Manager shall ensure such control over accounting and financial transactions as is reasonably necessary to protect the Tenants in Common's assets from theft, error or fraudulent activity by Property Manager's employees. Property Manager shall bear losses arising from such instances, including, without limitation, the following: (a) theft of assets by Property Manager's employees, principals, or officers or those individuals associated or affiliated with Property Manager; (b) overpayment or duplicate payment of invoices arising from either fraud or gross negligence, unless credit is subsequently received by the Tenants in Common; (c) overpayment of labor costs arising from either fraud or gross negligence, unless credit is subsequently received by the Tenants in Common; (d) overpayment resulting from payment from suppliers to Property Manager's employees or associates arising from the purchase of goods or services for the Property; and (e) unauthorized use of facilities by Property Manager or Property Manager's employees or associates.

4.2 Financial Reports. On or about the twentieth (20th) day after the end of each calendar quarter, Property Manager shall furnish to the Tenants in Common a report of all significant transactions occurring during such prior quarter. These reports shall show all collections, delinquencies, uncollectible items, vacancies and other matters pertaining to the management, operation, and maintenance of the Property during the quarter. Property Manager also shall deliver to the Tenants in Common within a reasonable time after (a) the close of a calendar year and (b) the termination of this Agreement, a balance sheet for the Property. The statement of income and expenses, the balance sheet, and all other financial statements and reports shall be prepared on a cash basis and in compliance with all reporting requirements relating to the operating of the Property and required under any deed of trust or mortgage affecting the Property.

4.3 Supporting Documentation. At the expense of the Tenants in Common, Property Manager shall maintain and make available at Property Manager's office, as set forth in Section 12.1, copies of the following: (a) all bank statements, bank deposit slips, bank debit and credit memos, canceled checks, and bank reconciliations; (b) detailed cash receipts and disbursement records; (c) detailed trial balance for receivables and payables and billed and unbilled revenue items; (d) rent roll of tenants; (e) paid invoices (or copies thereof); (f) summaries of adjusting journal entries as part of the annual accounting process; (g) supporting documentation for payroll, payroll taxes and employee benefits; (h) appropriate details of accrued expenses and property records; (i) information regarding the operation of the Property necessary for preparation by each Tenant in Common of such Tenant in Common's individual tax returns; and (j) market study of competition (quarterly only). In addition, Property Manager shall deliver to the Tenants in Common with the quarterly financial statement copies of the documents described in (a) (statements and reconciliations only), (b), (c), (d), and (h) above. Property Manager shall deliver a copy of the document described in (j) to any Tenant in Common upon request. Property Manager shall maintain separate income and expense accounts for each Tenant in Common.

5. RIGHT TO AUDIT. Each of the Tenants in Common and their representatives may examine all books, records and files maintained for the Tenants in Common by Property Manager. The Tenants in Common may perform any audit or investigations relating to Property Manager's activities at any office of Property Manager if such audit or investigation relates to Property Manager's activities for the Tenants in Common. Should any of the Tenants in Common discover defects in internal control or errors in record keeping, Property Manager shall undertake with all appropriate diligence to correct such discrepancies either upon discovery or within a reasonable

period of time. Property Manager shall inform the Tenants in Common in writing of the action taken to correct any audit discrepancies.

6. BANK ACCOUNTS.

6.1 Bank Account. Property Manager shall establish and maintain, in reputable banks or financial institutions designated by Property Manager, separate bank accounts in trust for, or in the name of, the Tenants in Common (the "Bank Accounts"). All moneys collected from, or in connection with, the Property shall be deposited in the Bank Accounts. Any bank accounts maintained by a third party property manager shall be designated as a real estate trust account or shall be in trust for, or in the name of, the Tenants in Common.

6.2 Operating Account. Property Manager shall be permitted to deposit and make withdrawals from a master Bank Account. Property Manager shall maintain books and records of deposits and withdrawals credited and charged to each Tenant in Common's subaccount (such master account together with and any interest earned thereon, shall hereinafter be referred to as the "Operating Account"). The Property Manager shall maintain the Operating Account so that an amount at least as great as the budgeted expenses for such month is in the Operating Account as of the first of each month. Property Manager shall pay from the Operating Account, on behalf of each Tenant in Common with respect to their share of Property operating expenses, based on their undivided interests in the Property, the operating expenses of the Property and any other payments relating to the Property as required by this Agreement. If more than one bank account is necessary to operate the Property, each account shall have a unique name. Within three (3) months after receipt by the Property Manager, all rents and other funds collected in the Operating Account after payment of all operating expenses, debt service and such amounts as may be determined by the Property Manager to be retained for reserves or improvements, shall be paid to the Tenants in Common in proportion to their respective Interests in tire Property.

6.3 Security Deposit Account. If applicable law requires a segregated account of security deposits, Property Manager will open, on behalf of each Tenant in Common, a separate account at a reputable bank or other financial institution Property Manager shall maintain such account in accordance with applicable law. Property Manager shall use the account only to maintain security deposits on behalf of the Tenants in Common. Property Manager shall inform the bank or financial institution to hold the funds in trust for the Tenants in Common. Property Manager shall maintain detailed records of all security deposits deposited, and allow the Tenants in Common or their designees access to such records. Property Manager may return such deposits to any tenant in the ordinary course of business in accordance with the terms of the applicable lease and applicable law.

6.4 Access to Account. As authorized by signature cards, representatives of Property Manager shall have access to and may draw upon all funds in the accounts described in Sections 6.1, 6.2 and 6.3 without the approval of the Tenants in Common. The Tenants in Common may not withdraw funds from such accounts without Property Manager's prior written consent, except following the Property Manager's default after expiration of any applicable notice and cure periods or the termination of this Agreement.

7. PAYMENTS OF EXPENSES.

7.1 Costs Eligible for Payment from Operating Account. Property Manager shall pay all expenses of the operation, maintenance and repair of the Property contemplated by the Budget directly from the Operating Account or shall be reimbursed by the Tenants in Common, subject to the conditions set forth in Section 2.5, including the following: (a) costs of the gross salary and wages or proportional shares thereof, payroll taxes, worker's compensation insurance, and all other benefits of employees (for example, on-site personnel) required to manage, operate and maintain the Property properly, adequately, safely and economically, subject to this Agreement, provided that Property Manager shall not pay such employees in advance; (b) cost to correct the violation of any governmental requirement relating to the leasing, use, repair and maintenance of the Property, or relating to the rules, regulations or orders of the local Board of Fire Underwriters or other similar body, if such cost is not the result of Property Manager's gross negligence or willful misconduct; (c) actual and reasonable cost of making all repairs, decorations and alterations if such cost is not the result of Property Manager's gross negligence or willful misconduct; (d) cost incurred by Property Manager in connection with all service agreements; (e) cost of collection of delinquent rents collected by a collection agency or attorney; (f) legal fees of attorneys; (g) cost of capital expenditures subject to the restrictions in Section 2.9 and in this Section; (h) cost of printed checks for each

account required for the Property and the Tenants in Common; (i) cost of utilities; (j) cost of advertising; (k) cost of printed forms and supplies required for use at the Property; (l) management compensation set forth in Section 9; (m) the cost of tenant improvements to the Property; (n) all hiring, relocation and termination costs for any employee, including those individuals whose salaries and benefits are paid by the Tenants in Common; (o) broker's commissions; (p) debt service; (q) the cost of utilities, services, contractors and insurance; (r) reimbursement of Property Manager's out-of-pocket costs and expenses to the extent not prohibited by Section 8 below; (s) general accounting and reporting services within the reasonable scope of the Property Manager's responsibility to the Tenants in Common; (t) cost of forms, papers, ledgers, and other supplies and equipment used in connection with the Property for the preparation of reports, information and returns to be prepared by Property Manager under the terms of this Agreement; (u) all expenses of Property Manager's on-site office; (v) all other costs directly related to the Property, including, but not limited to, communication costs (telephone, postage, etc.), computer rentals or time, supplies (paper, envelopes, business forms, checks, payroll forms and record cards, forms for governmental reports, etc.), printing, insurance, fidelity bonds, taxes and license fees, and general office expenses allocable to the Property; and (w) cost of routine travel by Property Manager's employees or associates to and from Property. All other amounts not directly related to the Property or the Tenants in Common shall be payable solely by Property Manager, and shall not be paid out of the Operating Account or reimbursed by the Tenants in Common.

7.2 Operating Account Deficiency. If there are not sufficient funds in the Operating Account to make any such payment, Property Manager shall notify the Tenants in Common, if possible, at least ten (10) days prior to any delinquency so that the Tenants in Common have an opportunity, based on their interests in the Property, to deposit sufficient funds in the Operating Account to allow for such payment prior to the imposition of any penalty or late charge.

7.3 Interest on Funds Advanced or Loaned by Property Manager. Property Manager, Cunningham Lending Group, LLC, an Affiliate of Anthony W. Thompson, President of the Property Manager, may (but shall not be obligated to) loan funds to the Tenants in Common in the future, with simple interest thereon at its cost of funds not to exceed twelve percent (12%) per annum (or, if lower, the highest rate permitted by law). Such loan, if any, shall be fully recourse to each Tenant in Common and must be repaid within thirty one (31) days of funding. If the Tenant in Common is a single member limited liability company, the owner of the limited liability company will be personally liable to repay this loan.

8. PROPERTY MANAGER'S COSTS NOT TO BE REIMBURSED.

8.1 Non-reimbursable Costs. The following expenses or costs incurred by or on behalf of Property Manager in connection with the management and leasing of the Property shall be at the sole cost and expense of Property Manager and shall not be reimbursed by the Tenants in Common: (a) cost attributable to losses arising from gross negligence or fraud on the part of Property Manager, Property Manager's associates or employees; (b) cost of insurance purchased by Property Manager for its own account; and (c) Property Manager's cost of overhead, salaries and other items except as expressly provided in Section 7.1.

8.2 Litigation. Property Manager will be responsible for and hold the Tenants in Common harmless from, all fees, costs, expenses, and damages relating to disputes with employees for worker's compensation (to the extent not covered by insurance), discrimination or wrongful termination, including legal fees and other expenses.

9. COMPENSATION. Each Tenant in Common shall pay the fees set forth below based on their undivided interest in the Property.

9.1 Property Management Fee. Property Manager, or an Affiliate, shall receive, for its services in managing the Property in accordance with the terms of this Agreement, a monthly management fee (the "Property Management Fee"), of up to six percent (6%) of Gross Revenues (defined below), which Property Management Fee shall be in addition to out-of-pocket and on-site personnel costs that are reimbursable pursuant to Section 7, and the other fees provided in this Agreement. "Gross Revenues" shall be all gross billings from the operations of the Property, including rental receipts and reimbursements by tenants for common area expenses, operating expenses and taxes and similar pass-through, obligations paid by tenants, but excluding (a) security deposits received from tenants and interest accrued thereon for the benefit of the tenant until such deposits or

interest are included in the taxable income of the Tenants in Common, (b) advance rents until the month in which payments are to apply as rental income, (c) reimbursements by tenant's for work done for that particular tenant, (d) insurance proceeds received by the Tenants in Common as a result of any insured loss (except proceeds from rent insurance), (e) condemnation proceeds not attributable to rent, (f) capital contributions made by the Tenants in Common, (g) proceeds from capital, financing and any other transaction not in the ordinary course of the operation of the Property, (h) income derived from interest on investments or otherwise, (i) abatement of taxes, awards arising out of takings by eminent domain, discounts and dividends on insurance policies, (j) rental concessions not paid by third parties, and (k) proceeds from the sale or other disposition of all or any part of the Property. The Property Management Fee shall be payable monthly, following calculation thereof, upon submission of a monthly statement from the Operating Account or from other funds timely provided by the Tenants in Common Upon termination of this Agreement, the parties will prorate the Property Management Fee on a daily basis to the effective date of such cancellation or termination. If Property Manager engages local property managers or other parties to provide property management services in accordance with Section 2.14, Property Manager shall be obligated to pay such third parties, it being intended that the Property Management Fee shall be inclusive of such third party fees.

9.2 Leasing Commissions. Property Manager or an Affiliate shall receive, for its services in leasing the Property in accordance with the terms of this Agreement, a leasing commission (the "Leasing Commission") equal to six percent (6%) of the value of any lease entered into during the term of this Agreement and three percent (3%) with respect to any renewals or renegotiation entered into during the term of this Agreement. Any leasing fees due outside leasing agents or brokers, except for any who are on site will be paid by the Property Manager from these commissions. The value of the lease shall be calculated by totaling the minimum monthly rent (or similar rent) for the term of the lease. The term of the lease shall not exceed five (5) years for purposes of the foregoing computation and shall be exclusive of option periods. If another broker represents the tenant, then Property Manager may cooperate with that broker on terms and conditions acceptable to Property Manager, in its sole discretion, with commissions to the other broker to be paid by the Property Manager.

9.3 Construction Management Fee. Property Manager, or an Affiliate, shall receive, for its services in supervising any construction or repair project in or about the Property, a construction management fee (the "Construction Management Fee") equal to five percent (5%) of any amount (including related professional services) up to Twenty-Five Thousand Dollars ($25,000.00), four percent (4%) of any amount over Twenty-Five Thousand Dollars ($25,000.00) but less than Fifty Thousand Dollars ($50,000 00), and three percent (3%) of any amount over Fifty Thousand Dollars ($50,000.00) which is expended in any calendar year for construction, tenant improvement or repair projects.

9.4 Selling Commission. The Tenants in Common hereby grant Property Manager, or an Affiliate, the exclusive right to sell the Property on terms acceptable to the Tenants in Common as described herein. Property Manager shall be entitled to receive a sales commission (the "Selling Commission") from the Tenants in Common equal to up to five percent (5%) maximum of the gross sales price of the Property if the Property Manager obtains a buyer for the Property (or portion thereof) on terms approved by the Tenants in Common or if Property Manager or an Affiliate purchases the Property pursuant to the Purchase Option set forth in Section 11 of the Tenants in Common Agreement. The Property Manager or an Affiliate will be entitled to a maximum of four percent (4%) of the Selling Commission; any third party real estate agents and brokers who assist in the sale will also be paid a portion of the Selling Commission up to a maximum of five percent (5%) including the Selling Commission paid to the Property Manager. Notwithstanding anything to the contrary contained herein, if the Property Manager is terminated "for cause" pursuant to Section 10.2 of this Agreement, the Property Manager shall not thereafter have the right to sell the Property and shall not receive the Selling Commission.

9.5 Loan Fee. Property Manager or an Affiliate shall receive a loan fee (the "Loan Fee") in the amount of one percent (1%) of the principal amount of all loans obtained for the Property by the Property Manager during the term of this Agreement. Property Manager or an Affiliate shall pay out of the Loan Fee any loan brokers or other parties (other than the lender) who assist in such financings. The Loan Fee does not include any origination fees or points paid to the lender in connection with such loans. The Loan Fee will be pro rated among the Tenants in Common according to their respective Interests.

9.6 Payment of Fees. The Property Management Fee shall be paid monthly in an arrears. The Leasing Commission, Construction Management Fee and Loan Fee shall each be paid when the Lease is signed, the

construction is substantially completed and the new financing has closed escrow. The Selling Commission shall be paid upon closing escrow, after the Tenants in Common have received a return of their unrecovered investment in the Property but before any net profits are distributed to the Tenants in Common.

10. TERMINATION. Each of the Tenants in Common shall have the right to terminate this Agreement as provided below in accordance with Section 6,12 of the Revenue Procedure.

10.1 Termination by Tenants in Common not "far cause". Each of the Tenants in Common shall have the right to terminate this Agreement without cause within thirty (30) days of the end of each calendar year (and by their execution hereof hereby approve this Agreement for the calendar year in which it is executed). At the end of each calendar year subsequent to the year in which this Agreement is executed, this Agreement shall be subject to renewal or termination by the Tenants in Common as provided by Section 6.12 of the Revenue Procedure. Property Manager shall inform each of the Tenants in Common no later than thirty (30) days before the end of each calendar year of their right to terminate this Agreement. Each of the Tenants in Common shall have the right to terminate this

Agreement by giving written notice to the Property Manager and to each of the other Tenants in Common within seventy two (72) hours of receipt. Absent receipt by the Property Manager of a written demand to terminate from any Tenant in Common within such seventy two (72) hour period, this Agreement shall be deemed renewed until the end of the next calendar year. Termination of this Agreement without a prompt replacement of an acceptable property manager approved by the lender is likely to be deemed a default under the loan documents. If the Property Manager receives a written notice to terminate from a Tenant in Common as provided above, (x) the Management Agreement shall be deemed terminated effective ninety (90) days following the end of the calendar year in which the termination notice is received by the Property Manager, (y) the Tenant(s) in Common exercising their right of termination shall be subject to the Purchase Option contained in Section 11 of the Tenants in Common Agreement, and (z) each of the Tenants in Common who exercise their right to terminate this Agreement without cause as provided in this Section 10.1 shall be obligated to pay their pro rata share of a set up fee computed in the same manner as the Special Allocation (as defined in the Memorandum) as if the Property was sold based on a value equal to the greater of (i) the appraised value or (ii) the acquisition capitalization rate for the Property, times the net operating income of the Property for the 12 month period prior to the termination. The parties acknowledge that the set up fee is due on termination without cause in recognition of the substantial costs that Property Manager has incurred in set up and other expenses to be prepared to manage, and to manage, the Property.

10.2 Termination by Tenants in Common "for Cause". Each of the Tenants in Common shall have the right to terminate this Agreement "for cause" upon thirty (30) days prior written notice. For purposes of this Agreement, termination "for cause" shall mean termination due to the (a) gross negligence or fraud of Property Manager, (b) willful misconduct or willful breach of this Agreement by Property Manager, (c) bankruptcy, insolvency or inability of the Property Manager to meet its obligation as the same come due, or (d) a conviction of a felony by Anthony W Thompson, President of Property Manager. Property Manager or an affiliate of Property Manager that owns a tenant in common interest in the Property or a membership interest in NNN 2003 Value Fund, LLC hereby agrees not to participate in any vote to terminate this Agreement.

10.3 Termination by Property Manager. Property Manager shall have the right to terminate this Agreement, provided that the Tenants in Common are in default in the performance of any of its obligations hereunder, and such default remains uncured for thirty (30) days following Property Manager's giving of written notice of such default to the Tenants in Common.

10.4 Termination On Sale. This Agreement shall automatically terminate upon the sale of the entire Property without payment of any set up fee.

10.5 Final Accounting. Within thirty (30) days after termination of this Agreement for any reason, Property Manager shall deliver to each Tenant in Common based on their undivided interest in the Property, the following: (a) a final accounting, setting forth the balance of income and expenses on the Property as of the date of termination; (b) any balance or monies of the Tenants in Common or tenant security deposits held by Property Manager with respect to the Property; and (c) all materials and supplies, keys, books and records, contracts, leases, receipts for deposits, unpaid bills and other papers or documents which pertain to the Property. For a period of thirty (30) days after such expiration or cancellation for any reason other than the Tenants in Common's default, Property Manager shall be available, through its senior executives familiar with the Property, to consult with and

advise the Tenants in Common or any person or entity succeeding to the Tenants in Common as owner of the Property or such other person or persons selected by the Tenants in Common regarding the operation and maintenance of the Property. In addition, Property Manager shall cooperate with the Tenants in Common in notifying all tenants of the Property of the expiration and termination of this Agreement, and shall use reasonable efforts to cooperate with the Tenants in Common to accomplish an orderly transfer of the operation and management of the Property to a party designated by the Tenants in Common. Property Manager shall receive its monthly Property Management Fee for such services. Property Manager shall, at its cost and expense, promptly remove all signs wherever located indicating that it is the Property Manager and replace and repair any damage resulting therefrom. Termination of this Agreement shall not release either party from liability for failure to perform any of the duties or obligations as expressed herein and required to be performed by such party for the period prior to the termination

11. CONFLICTS. Property Manager shall not deal with or engage, or purchase goods or services from, any subsidiary or affiliated company of Property Manager in connection with the management of the Property for amounts above market rates.

12. NOTICES.

12.1 Notices. All notices, demands, consents, approvals, reports and other communications provided for in this Agreement shall be in writing and shall be given to the Tenants in Common or Property Manager at the address set forth below or at such other address as they may specify hereafter in writing:

Tenants in Common: At the addresses specified in the Tenants in Common Agreement

Property Manager: Triple Net Properties Realty, Inc., Property Manager
1551 N. Tustin Avenue, Suite 200
Santa Ana, California 92705
Attn: Anthony W. Thompson, President

With a copy to: Hirschler Fleischer
Mailing Address: P.O. Box 500
Richmond, VA 23218-0500

Attn: Louis J. Rogers, Esquire
Overnight Address: 701 East Byrd Street
Richmond, VA 23219
Attn: Louis J. Rogers, Esquire

Such notice or other communication may be delivered by a recognized overnight delivery service providing a receipt, facsimile transmission or mailed by United States registered or certified mail, return receipt requested, postage prepaid if deposited in a United States Post Office or depository for the receipt of mail regularly maintained by the post office. Notices sent by overnight courier shall be deemed given one (1) business day after mailing; notices sent by registered or certified mail shall be deemed given two (2) business days after mailing; and notices sent by facsimile transmission shall be deemed given as of the date sent (if sent prior to 5:00 p.m. PST and if receipt has been acknowledged by the operator of the receiving machine).

13. MISCELLANEOUS.

13.1 Assignment. Property Manager may not assign this Agreement without the prior written consent of each of the Tenants in Common, which consent may be withheld in each of the Tenants in Common's sole and absolute discretion. Subject to the Tenants in Common Agreement, a Tenant in Common may assign its rights to a party acquiring its undivided interest ("Successor Tenant in Common") and upon assignment and the assumption of this Agreement by the Successor Tenant in Common pursuant to an agreement whereby (a) the assigning Tenant in Common assigns to the Successor Tenant in Common all of its right, title and interest in and to this Agreement and (b) the Successor Tenant in Common assumes and agrees to perform faithfully and to be bound by all of the terms, covenants, conditions, provisions and agreements of this Agreement with respect to the

undivided interest to be transferred, the assigning Tenant in Common shall be relieved of all liability accruing after the effective date of the assignment and, without further action by Property Manager or the other Tenants in Common, the Successor Tenant in Common shall become a party to this Agreement.

13.2 Gender. Each gender shall include each other gender. The singular shall include the plural and vice-versa.

13.3 Amendments. Except as otherwise provided, each amendment, addition or deletion to this Agreement shall not be effective unless approved by the parties in writing.

13.4 Attorneys' Fees. In any action or proceeding between Property Manager and the Tenants in Common arising from or relating to this Agreement or the enforcement or interpretation hereof, the party prevailing in such action or proceeding shall be entitled to recover from the other party all of its reasonable attorneys' fees and other costs and expenses of the action or proceeding.

13.5 Governing Law; Venue. This Agreement shall be governed by and construed in accordance with the internal laws of the State where the Property is located without regard to any choice of law rules. Any action relating to or arising out of this Agreement shall be subject to binding arbitration in Orange County, California, as provided in Section 13.15.

13.6 Headings. All headings are only for convenience and ease of reference and are irrelevant to the construction or interpretation of any provision of this Agreement.

13.7 Representations. Property Manager represents and warrants that it is or shall be prior to entering into any transaction fully qualified and licensed, to the extent required by law, to manage and lease real estate and perform all obligations assumed by Property Manager hereunder. Property Manager shall use reasonable efforts to comply with all such laws now or hereafter in effect.

13.8 Indemnification by Property Manager. Property Manager shall indemnify, defend and hold the Tenants in Common and their shareholders, officers, directors, and employees harmless from any and all claims, demands, causes of action, losses, damages, fines, penalties, liabilities, costs and expenses, including reasonable attorneys' fees and court costs, sustained or incurred by or asserted against the Tenants in Common by reason of the acts of Property Manager which arise out of its gross negligence or fraud of Property Manager, its agents or employees or Property Manager's breach of this Agreement. If any person or entity makes a claim or institutes a suit against the Tenants in Common on a matter for which the Tenants in Common claim the benefit of the foregoing indemnification, then (a) the Tenants in Common shall give Property Manager prompt notice thereof in writing; (b) Property Manager may defend such claim or action by counsel of its own choosing provided such counsel is reasonably satisfactory to the Tenants in Common; and (c) neither the Tenants in Common nor Property Manager shall settle any claim without the other's written consent.

13.9 Indemnification by the Tenants in Common. The Tenants in Common shall indemnify, defend and hold Property Manager and its shareholders, officers, directors and employees harmless from any and all claims, demands, causes of action, losses, damages, fines, penalties, liabilities, costs and expenses, including reasonable attorney's fees and court costs, sustained or incurred by or asserted against Property Manager by reason of the operation, management, and maintenance of the Property and the performance by Property Manager of Property Manager's obligations under this Agreement but only to the extent of each Tenants in Common's interest in the Property, except those which arise from Property Manager's gross negligence or fraud. If any person or entity makes a claim or institutes a suit against Property Manager on any matter for which Property Manager claims the benefit of the foregoing indemnification, then (a) Property Manager shall give the Tenants in Common prompt notice thereof in writing; (b) the Tenants in Common may defend such claim or action by counsel of its own choosing provided such counsel is reasonably satisfactory to Property Manager; (c) neither Property Manager nor the Tenants in Common shall settle any claim without the other's written consent; and (d) this subsection shall not be so construed as to release the Tenants in Common or the Property Manager from any liability to the other for a breach of any of the covenants agreed to be performed under the terms of this Agreement.

13.10 Complete Agreement. This Agreement shall supersede and take the place of any and all previous agreements entered into between the parties with respect to the management of the Property.

13.11 Severability. If any provisions of this Agreement or application to any party or circumstances shall be determined by any court of competent jurisdiction to be invalid and unenforceable to any extent, the remainder of this Agreement, where the application of such provisions or circumstances other than those as to which it is determined to be invalid or unenforceable shall not be affected thereby, and each provision hereof shall be valid and shall be enforced to the fullest extent permitted by law.

13.12 No Waiver. The failure by any party to insist upon the strict performance of, or to seek remedy of, any one of the terms or conditions of this Agreement or to exercise any right, remedy, or election set forth herein or permitted by law shall not constitute or be construed as a waiver or relinquishment for the future of such term, condition, light, remedy or election, but such item shall continue and remain in full force and effect. All lights or remedies of the parties specified in this Agreement and all other rights or remedies that they may have at law, in equity or otherwise shall be distinct, separate and cumulative rights or remedies, and no one of them, whether exercised or not, shall be deemed to be in exclusion of any other right or remedy of the parties.

13.13 Binding Effect. This Agreement shall be binding and inure to the benefit of the parties and their respective successors and assigns.

13.14 Enforcement of Property Manager's Rights. In the enforcement of its rights under this Agreement, Property Manager shall not seek or obtain a money judgment or any other right or remedy against any shareholders or disclosed or undisclosed principals of the Tenants in Common. Property Manager shall enforce its rights and remedies solely against the estate of the Tenants in Common in the Property or the proceeds of any sale of all or any portion of the Tenants in Common's interest therein.

13.15 Binding Arbitration. Any dispute, claim or controversy arising out of or related to this Agreement, the breach hereof, the termination, enforcement, interpretation or validity hereof, or an investment in the Interests shall be settled by arbitration in Orange County, California, in accordance with the rules of The American Arbitration Association, and judgment entered upon the award rendered may be enforced by appropriate judicial action pursuant to the California Code of Civil Procedures. The arbitration panel shall consist of one (1) member, which shall be the mediator if mediation has occurred or shall be a person agreed to by each party to the dispute within thirty (30) days following notice by one party that he desires that a matter be arbitrated. If there was no mediation and the parties are unable within such thirty (30) day period to agree upon an arbitrator, then the panel shall be one (1) arbitrator selected by the Orange County office of the American Arbitration Association which arbitrator shall be experienced in the area of real estate and who shall be knowledgeable with respect to the subject matter area of the dispute. The losing party shall bear any fees and expenses of the arbitrator, other tribunal fees and expenses, reasonable attorney's fees of both parties, any costs of producing witnesses and any other reasonable costs or expenses incurred by him or the prevailing party or such costs shall be allocated by the arbitrator. The arbitration panel shall render a decision within thirty (30) days following the close of presentation by the parties of their cases and any rebuttal. The parties shall agree within thirty (30) days following selection of the arbitrator to any prehearing procedures or further procedures necessary for the arbitration to proceed, including interrogatories or other discovery.

BY EXECUTING THIS AGREEMENT YOU ARE AGREEING TO HAVE CERTAIN DISPUTES DECIDED BY NEUTRAL ARBITRATION AND YOU ARE GIVING UP ANY RIGHTS YOU MIGHT POSSESS TO HAVE SUCH DISPUTES LITIGATED IN A COURT OR JURY TRIAL BY EXECUTING THIS AGREEMENT YOU ARE GIVING UP YOUR JUDICIAL RIGHTS TO DISCOVERY AND APPEAL. IF YOU REFUSE TO SUBMIT TO ARBITRATION AFTER AGREEING TO THIS PROVISION, YOU MAY BE COMPELLED TO ARBITRATE. YOUR AGREEMENT TO THIS ARBITRATION PROVISION IS VOLUNTARY.

13.16 Interpretation. Whenever any provision set forth in this Agreement is open to interpretation, this Agreement shall be interpreted, to the maximum extent possible, to comply with all of the requirements for an advance ruling set forth in the Revenue Procedure.

13.17 Counterparts. This Agreement may be executed in counterparts, each of which, when taken together, shall be deemed one folly executed original.

IN WITNESS WHEREOF, die parties hereto have executed this Agreement the date and year first above written.

PROPERTY MANAGER:

TRIPLE NET PROPERTIES REALTY, INC.,
a California corporation

By: /s/ Anthony W. Thompson

Anthony W. Thompson, President

TENANTS IN COMMON:

NNN 2003 VALUE FUND, LLC,
a Delaware limited liability company

By: TRIPLE NET PROPERTIES, LLC,
a Virginia limited liability company
Its: Manager

By: /s/ Anthony W. Thompson

Anthony W. Thompson, President

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EXHIBIT A

LEGAL DESCRIPTION

Exhibit 21.1

Subsidiaries of the Registrant

Subsidiary Name	State of Organization	Date of Organization
NNN Satellite Place, LLC	Delaware	31/08/2004
NNN Executive Center 2003, LP	Texas	09/07/2003
NNN Financial Plaza, LLC	Nebraska	13/09/2004
NNN Southwood Tower, LP	Texas	18/10/2004