

Cole Credit Property Trust II Inc  
Form 10-Q  
May 12, 2006

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended March 31, 2006

Or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 333-121094 (1933 Act)

**COLE CREDIT PROPERTY TRUST II, INC.**

*(Exact name of registrant as specified in its charter)*

**Maryland**  
*(State or other jurisdiction of*

*incorporation or organization)*

**2555 East Camelback Road, Suite 400**  
**Phoenix, Arizona 85016**  
*(Address of principal executive offices)*

**20-1676382**  
*(I.R.S. Employer*

*Identification No.)*

**(602) 778-8700**  
*(Registrant's telephone number, including area code)*

**Not Applicable**

*(Former name, former address and former fiscal year, if changed since last report)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of May 10, 2006, there were 8,451,568 shares of common stock, par value \$0.01, of Cole Credit Property Trust II, Inc. outstanding.

**COLE CREDIT PROPERTY TRUST II, INC.**

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**PART I**

**FINANCIAL INFORMATION**

The accompanying unaudited condensed interim financial statements as of and for the fiscal quarter ended March 31, 2006 have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements and should be read in conjunction with the audited financial statements and related notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2005. The financial statements herein should also be read in conjunction with the notes to the financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this report. The results of operations for the three months ended March 31, 2006 are not necessarily indicative of the operating results expected for the full year. The information furnished in our accompanying condensed consolidated balance sheets and condensed consolidated statements of operations, stockholders' equity, and cash flows reflects all adjustments that are, in our opinion, necessary for a fair presentation of the aforementioned financial statements.

**COLE CREDIT PROPERTY TRUST II, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	<b>March 31, 2006</b>	<b>December 31, 2005</b>
<b>Assets:</b>		
Real estate assets, at cost:		
Land	\$ 42,040,613	\$ 23,854,308
Buildings and improvements, less accumulated depreciation of \$730,609 and \$151,472 at March 31, 2006 and December 31, 2005, respectively	104,950,394	57,338,359
Acquired intangible lease assets, less accumulated amortization of \$337,035 and \$71,881 at March 31, 2006 and December 31, 2005, respectively	22,039,074	10,425,618
Total real estate assets	169,030,081	91,618,285
Cash and cash equivalents	5,094,383	4,575,144
Restricted cash	3,995,986	1,813,804
Rents and tenant receivables	341,075	36,001
Prepaid expenses and other assets	149,166	11,928
Deferred financing costs, less accumulated amortization of \$91,334 and \$17,964 at March 31, 2006 and December 31, 2005, respectively	1,380,073	754,676
Total assets	\$ 179,990,764	\$ 98,809,838
<b>Liabilities and Stockholders' Equity:</b>		
Mortgage notes payable	\$ 107,114,415	\$ 66,804,041
Notes payable to affiliates	11,418,400	4,453,000
Accounts payable and accrued expenses	686,773	282,797
Escrowed investor proceeds	3,995,986	1,813,804
Due to affiliates	36,199	41,384
Acquired below market lease intangibles, less accumulated amortization of \$5,053 and \$52 at March 31, 2006 and December 31, 2005, respectively	686,629	14,637
Distributions payable	621,070	195,209
Total liabilities	124,559,472	73,604,872
<b>Redeemable Common Stock</b>	<b>78,966</b>	
<b>Stockholders' Equity:</b>		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized, none issued and outstanding at March 31, 2006 and December 31, 2005		
Common stock, \$0.01 par value; 90,000,000 shares authorized, 6,276,587 and 2,832,387 shares issued and outstanding at March 31, 2006 and December 31, 2005, respectively	62,766	28,324
Capital in excess of par value	56,403,018	25,486,442
Accumulated distributions in excess of earnings	(1,113,458)	(309,800)
Total stockholders' equity	55,352,326	25,204,966
Total liabilities and stockholders' equity	\$ 179,990,764	\$ 98,809,838

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



**COLE CREDIT PROPERTY TRUST II, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	<b>Three Months</b>	<b>Three Months</b>
	<b>Ended</b>	<b>Ended</b>
	<b>March 31, 2006</b>	<b>March 31, 2005</b>
		<b>(Development Stage)</b>
<b>Revenues:</b>		\$
Rental and other income	\$ 2,448,252	
Tenant reimbursement income	123,534	
Total revenue	2,571,786	
<b>Expenses:</b>		
General and administrative	210,573	
Property operating expenses	140,165	
Property and asset management fees	125,854	
Depreciation	578,996	
Amortization	253,499	
Total operating expenses	1,309,087	
<b>Real estate operating income</b>	<b>1,262,699</b>	
<b>Other income (expense):</b>		
Interest income	45,555	
Interest expense	(1,490,842)	
Total other expense	(1,445,287)	
<b>Net loss</b>	<b>\$ (182,588)</b>	<b>\$</b>
<b>Weighted average number of common shares outstanding</b>		
Basic and diluted	4,367,120	20,000
<b>Net loss per common share</b>		
Basic and diluted	\$ (0.04)	\$

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



## COLE CREDIT PROPERTY TRUST II, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited)

	Common Stock Number of Shares	Par Value	Capital in Excess of Par Value	Accumulated Distributions in Excess of Earnings	Total Stockholders Equity
<b>Balance, December 31, 2004</b>	20,000	\$ 200	\$ 199,800	\$	\$ 200,000
Issuance of common stock	2,812,387	28,124	28,080,997		28,109,121
Distributions				(195,209)	(195,209)
Commissions on stock sales and related dealer manager fees			(2,375,780)		(2,375,780)
Other offering costs			(418,575)		(418,575)
Net loss				(114,591)	(114,591)
<b>Balance, December 31, 2005</b>	2,832,387	28,324	25,486,442	(309,800)	25,204,966
Issuance of common stock	3,444,200	34,442	34,389,517		34,423,959
Distributions				(621,070)	(621,070)
Commissions on stock sales and related dealer manager fees			(2,894,355)		(2,894,355)
Other offering costs			(514,730)		(514,730)
Stock compensation expense			15,110		15,110
Redeemable common stock			(78,966)		(78,966)
Net loss				(182,588)	(182,588)
<b>Balance, March 31, 2006</b>	6,276,587	\$ 62,766	\$ 56,403,018	\$ (1,113,458)	\$ 55,352,326

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



## COLE CREDIT PROPERTY TRUST II, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months	Three Months
	Ended	Ended
	March 31, 2006	March 31, 2005
		(Development Stage)
<b>Cash Flows from Operating Activities:</b>		
Net loss	\$ (182,588)	\$
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation	578,996	
Amortization	333,519	
Stock compensation expense	15,110	
Changes in assets and liabilities:		
Rents and tenant receivables	(305,074)	
Prepaid expenses and other assets	(137,238)	
Accounts payable and accrued expenses	403,976	
Due to affiliates	(5,185)	
Total adjustments	884,104	
Net cash provided by operating activities	701,516	
<b>Cash Flows from Investing Activities:</b>		
Investment in real estate and related assets	(60,462,032)	
Acquired intangible lease assets	(10,559,125)	
Acquired below market lease intangibles	676,994	
Restricted cash	(2,182,182)	
Net cash used in investing activities	(72,526,345)	
<b>Cash Flows from Financing Activities:</b>		
Proceeds from issuance of common stock	34,423,959	
Proceeds from mortgage and affiliate notes payable	47,385,400	
Repayment of mortgage notes payable	(7,344,413)	
Escrowed investor proceeds liability, net	2,182,182	
Offering costs on issuance of common stock	(3,409,085)	
Distributions to investors	(195,209)	
Deferred financing costs paid	(698,766)	
Net cash provided by financing activities	72,344,068	
<b>Net increase in cash and cash equivalents</b>	<b>519,239</b>	
<b>Cash and cash equivalents, beginning of period</b>	<b>4,575,144</b>	<b>200,000</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 5,094,383</b>	<b>\$ 200,000</b>
<b>Supplemental Cash Flow Disclosures:</b>		
Interest paid	\$ 1,500,595	\$

**Supplemental Disclosures of Non-Cash Investing and Financing**

**Activities:**

Dividends declared and unpaid	\$	621,070	\$
Mortgage notes assumed in real estate acquisitions	\$	7,234,787	\$

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

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**COLE CREDIT PROPERTY TRUST II, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2006**

**(Unaudited)**

**Note 1 Organization**

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

Pursuant to a Registration Statement on Form S-11 under the Securities Act of 1933, as amended (the Registration Statement), the Company is offering for sale to the public on a best efforts basis a minimum of 250,000 and a maximum of 45,000,000 shares of its common stock at a price of \$10 per share (the Offering), subject to discounts in certain circumstances, and up to 5,000,000 additional shares pursuant to a distribution reinvestment plan under which its stockholders may elect to have distributions reinvested in additional shares of the Company's common stock at \$9.50 per share. The Registration Statement was declared effective on June 27, 2005.

On September 23, 2005, the Company issued the initial 486,000 shares of its common stock under the Offering and commenced its principal operations. Prior to such date, the Company was considered a development stage company. As of March 31, 2006, the Company had issued approximately 6.2 million shares of its common stock in the Offering for aggregate gross proceeds of approximately \$62.5 million before offering costs and selling commissions of approximately \$6.2 million. As disclosed in the Registration Statement, the Company expects to use substantially all of the net proceeds from the Offering to acquire and operate commercial real estate primarily consisting of high quality, freestanding, single-tenant commercial properties net-leased to investment grade and other creditworthy tenants located throughout the United States.

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

**Note 2 Summary of Significant Accounting Policies**

***Basis of Presentation***

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The condensed consolidated financial statements of the Company have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission, including the instructions to Form 10-Q and Article 10 of Regulation S-X, and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, the statements for the unaudited interim period presented include all adjustments, which are of a normal and recurring nature, necessary to present a fair presentation of the results for such period. Results for this interim period are not necessarily indicative of full year results. During the three months ended March 31, 2005, the Company was in the development stage and did not have any operations during that period. The information included in this Form 10-Q should be read in conjunction with our audited consolidated financial statements as of December 31, 2005, and related notes thereto.

### ***Redeemable Common Stock***

The Company's share redemption program provides that all redemptions during any calendar year, including those upon death or qualifying disability, are limited to those that can be funded with proceeds from the Company's distribution reinvestment plan (the DRIP). In accordance with Accounting Series Release No. 268, *Presentation in Financial Statements of Redeemable Preferred Stock*, the Company accounts for proceeds received from its DRIP as redeemable common stock, outside of permanent equity. As of March 31, 2006 and December 31, 2005, the Company had issued approximately 8,300 and 0 shares of common stock under the DRIP, respectively, for proceeds of approximately \$79,000 and \$0 under its DRIP, respectively, which have been recorded as redeemable common stock in the respective condensed consolidated balance sheets. As of March 31, 2006 and December 31, 2005, no shares had been redeemed under the Company's share redemption program.

**Recent Accounting Pronouncements**

In December 2004, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 123 (revised 2004), *Share-Based Payment*, ("SFAS 123R") which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. SFAS No. 123R is effective for fiscal years beginning after June 15, 2005. The Company adopted the new standard on January 1, 2006. See Note 8.

**Note 3 Real Estate Acquisitions**

During the three months ended March 31, 2006, the Company acquired the following properties:

<b>Property</b>	<b>Acquisition Date</b>	<b>Location</b>	<b>Square Feet</b>	<b>Purchase Price</b>
Academy Sports sporting goods	January 6, 2006	Macon, GA	74,532	\$ 5,600,000
David's Bridal specialty retail	January 11, 2006	Lenexa, KS	12,083	3,270,000
Rite Aid drugstore	January 26, 2006	Enterprise, AL	14,564	3,714,000
Rite Aid drugstore	January 26, 2006	Wauseon, OH	14,564	3,893,679
Staples office supply	January 26, 2006	Crossville, TN	23,942	2,900,000
Rite Aid drugstore	January 27, 2006	Saco, ME	11,180	2,500,000
Wadsworth Boulevard marketplace	February 6, 2006	Denver, CO	198,477	18,500,000
Mountainside Fitness center	February 9, 2006	Chandler, AZ	31,063	5,863,000
Drexel Heritage furniture retail	February 24, 2006	Hickory, NC	261,057	4,250,000
Rayford Square retail center	March 2, 2006	Spring, TX	79,968	9,900,000
CVS drugstore	March 8, 2006	Portsmouth, OH	10,170	2,166,000
Wawa convenience store	March 29, 2006	Hockessin, DE	5,160	4,830,000
Wawa convenience store	March 29, 2006	Manahawkin, NJ	4,695	4,414,000
Wawa convenience store	March 29, 2006	Narbeth, PA	4,461	4,206,000
Total			745,916	\$ 76,006,679

In accordance with SFAS, No. 141, *Business Combinations*, the Company allocated the purchase price of these properties, including aggregate acquisition costs of \$1,562,564 to the fair value of the assets acquired and liabilities assumed. The Company allocated \$18,182,868 to land, \$48,176,642 to building and improvements, \$11,886,726 to acquired in-place leases, and (\$676,993) to acquired below-market leases.

**Note 4 Notes Payable**

As of March 31, 2006, the Company had total mortgage notes payable and notes payable to affiliates of approximately \$118.5 million. During the three months ended March 31, 2006, the Company incurred, or assumed, the following mortgage notes payable in connection with the real estate acquisitions described in Note 3 above:

Property	Location	Fixed Rate	Fixed	Variable Rate		Total Loan	
		Loan Amount	Interest Rate	Maturity Date	Loan Amount (1)	Maturity Date	Outstanding
Academy Sports sporting goods	Macon, GA	\$ 3,478,000	5.69	% January 11, 2016	\$ 802,000	April 6, 2006	\$ 4,280,000
David s Bridal specialty retail	Lenexa, KS	1,799,000	5.86	% January 11, 2011	817,000	April 11, 2006	