

Cole Credit Property Trust II Inc
Form 10-Q
August 14, 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 June 30, 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 000-51963

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

20-1676382
*(I.R.S. Employer
Identification No.)*

(602) 778-8700

Edgar Filing: Cole Credit Property Trust II Inc - Form 10-Q

Phoenix, Arizona 85016
(Address of principal executive offices)

(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 August 10, 2006, there were 14,700,777 shares of common stock, par value \$0.01, of Cole Credit Property Trust II, Inc. outstanding.

COLE CREDIT PROPERTY TRUST II, INC.

INDEX

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheets as of June 30, 2006 and December 31, 2005 (Unaudited) 4

Condensed Consolidated Statements of Operations for the three months and six months ended June 30, 2006 and 2005 (Unaudited) 5

Condensed Consolidated Statements of Stockholders' Equity for the six months ended June 30, 2006 (Unaudited) 6

Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2006 and 2005 (Unaudited) 7

Notes to Condensed Consolidated Financial Statements (Unaudited) 8

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 16

Item 3. Quantitative and Qualitative Disclosures About Market Risk 22

Item 4. Controls and Procedures 23

PART II OTHER INFORMATION

Item 1. Legal Proceedings 24

Item 1A. Risk Factors 24

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 24

Item 3. Defaults Upon Senior Securities 24

Item 4. Submission of Matters to a Vote of Security Holders 24

Item 5. Other Information 24

Item 6. Exhibits 24

Signatures 25

PART I

FINANCIAL INFORMATION

The accompanying unaudited condensed interim financial statements as of and for the three months and six months ended June 30, 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 and six months ended June 30, 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)**

	June 30, 2006	December 31, 2005
Assets:		
Real estate assets, at cost:		
Land	\$ 58,061,773	\$ 23,854,308
Buildings and improvements, less accumulated depreciation of \$1,597,056 and \$151,472, at June 30, 2006 and December 31, 2005, respectively	141,977,524	57,338,359
Acquired intangible lease assets, less accumulated amortization of \$770,802 and \$71,881 at June 30, 2006 and December 31, 2005, respectively	26,491,408	10,425,618
Total real estate assets	226,530,705	91,618,285
Cash and cash equivalents	3,344,877	4,575,144
Restricted cash	5,083,390	1,813,804
Rents and tenant receivables	649,183	36,001
Prepaid expenses and other assets	193,202	11,928
Deferred financing costs, less accumulated amortization of \$193,545 and \$17,964 at June 30, 2006 and December 31, 2005, respectively	1,867,331	754,676
Total assets	\$ 237,668,688	\$ 98,809,838
Liabilities and Stockholders' Equity:		
Mortgage notes payable	\$ 129,987,739	\$ 66,804,041
Notes payable to affiliates		4,453,000
Accounts payable and accrued expenses	1,035,422	282,797
Escrowed investor proceeds	5,083,390	1,813,804
Due to affiliates	16,847	41,384
Acquired below market lease intangibles, less accumulated amortization of \$19,560 and \$52 at June 30, 2006 and December 31, 2005, respectively	1,193,809	14,637
Distributions payable	536,858	195,209
Total liabilities	137,854,065	73,604,872
Redeemable Common Stock	782,538	
Stockholders' Equity:		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized, none issued and outstanding at June 30, 2006 and December 31, 2005		
Common stock, \$.01 par value; 90,000,000 shares authorized, 11,375,420 and 2,832,387 shares issued and outstanding at June 30, 2006 and December 31, 2005, respectively	113,754	28,324
Capital in excess of par value	101,580,706	25,486,442
Accumulated distributions in excess of earnings	(2,662,375)	(309,800)
Total stockholders' equity	99,032,085	25,204,966
Total liabilities and stockholders' equity	\$ 237,668,688	\$ 98,809,838

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

COLE CREDIT PROPERTY TRUST II, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005 (Development Stage)	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005 (Development Stage)
Revenues:				
Rental and other income	\$ 3,544,321	\$	\$5,992,573	\$
Tenant reimbursement income	171,172		294,706	
Total revenue	3,715,493		6,287,279	
Expenses:				
General and administrative	330,283		540,856	
Property operating expenses	154,259		294,424	
Property and asset management fees	175,514		301,368	
Depreciation	866,577		1,445,573	
Amortization	409,048		662,547	
Total operating expenses	1,935,681		3,244,768	
Real estate operating income	1,779,812		3,042,511	
Other income (expense):				
Interest income	42,209		87,764	
Interest expense	(2,003,868)	)	(3,494,710))
Total other expense	(1,961,659)	)	(3,406,946))
Net loss	\$ (181,847)	) \$	\$ (364,435)) \$
Weighted average number of common shares outstanding:				
Basic and diluted	8,802,483	20,000	6,587,125	20,000
Net loss per common share:				
Basic and diluted	\$ (0.02)	) \$	\$ (0.06)) \$

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

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
Balance, December 31, 2005	2,832,387	\$28,324	\$25,486,442	\$(309,800)	)\$25,204,966
Issuance of common stock	8,543,033	85,430	85,260,447		85,345,877
Distributions				(1,988,140)	) (1,988,140)
Commissions on stock sales and related dealer manager fees			(7,143,234)	)	(7,143,234)
Other offering costs			(1,266,594)	)	(1,266,594)
Stock compensation expense			26,183		26,183
Redeemable common stock			(782,538)	)	(782,538)
Net loss				(364,435)	) (364,435)
Balance, June 30, 2006	11,375,420	\$113,754	\$101,580,706	\$(2,662,375)	)\$99,032,085

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

COLE CREDIT PROPERTY TRUST II, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005 (Development Stage)
Cash Flows from Operating Activities:		
Net loss	\$(364,435))
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	1,445,573	
Amortization	854,994	
Stock compensation expense	26,183	
Changes in assets and liabilities:		
Rents and tenant receivables	(613,182))
Prepaid expenses and other assets	(181,274))
Accounts payable and accrued expenses	752,625	
Due to affiliates	(24,537))
Net cash provided by operating activities	1,895,947	
Cash Flows from Investing Activities:		
Investment in real estate and related assets	(106,808,328))
Acquired intangible lease assets	(14,303,799))
Acquired below market lease intangibles	1,198,680	
Restricted cash	(3,269,586))
Net cash used in investing activities	(123,183,033))
Cash Flows from Financing Activities:		
Proceeds from issuance of common stock	84,563,339	
Proceeds from mortgage and affiliate notes payable	71,852,863	
Repayment of mortgage and affiliate notes payable	(29,066,952))
Escrowed investor proceeds liability	3,269,586	
Offering costs on issuance of common stock	(8,409,828))
Distributions to investors	(863,953))
Deferred financing costs paid	(1,288,236))
Net cash provided by financing activities	120,056,819	
Net decrease in cash and cash equivalents	(1,230,267))
Cash and cash equivalents, beginning of period	4,575,144	200,000
Cash and cash equivalents, end of period	\$3,344,877	\$200,000
Supplemental Disclosures of Non-Cash Investing and Financing Activities:		
Dividends declared and unpaid	\$536,858	\$
Mortgage notes assumed in real estate acquisitions	\$15,944,787	\$
Common stock issued through distribution reinvestment plan	\$782,538	\$

Supplemental Cash Flow Disclosures:

Interest paid	\$3,164,582	\$
---------------	-------------	----

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

7

COLE CREDIT PROPERTY TRUST II, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

(Unaudited)

Note 1 Organization

Cole Credit Property Trust II, Inc. (the Company) was formed on September 29, 2004 and is a Maryland corporation that 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 99.99% partnership interest in Cole OP II. Cole REIT Advisors II, LLC (the Advisor), the affiliated advisor to the Company, is the sole limited partner and owner of 0.01% of the partnership interests of Cole OP II.

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

On September 23, 2005, the Company issued the initial 486,000 shares of its common stock under the Offering and commenced its principal operations. Prior to such date, the Company was considered a development stage company. As of June 30, 2006, the Company had issued approximately 11.4 million shares of its common stock in the Offering for aggregate gross proceeds of approximately \$113.7 million before offering costs and selling commissions of approximately \$11.2 million. As disclosed in the Registration Statement, the Company expects to use substantially all of the net proceeds from the Offering to acquire and operate commercial real estate primarily consisting of freestanding, single-tenant commercial properties net-leased to investment grade or otherwise creditworthy tenants located throughout the United States.

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

Note 2 Summary of Significant Accounting Policies

Basis of Presentation

Edgar Filing: Cole Credit Property Trust II Inc - Form 10-Q

The condensed consolidated financial statements of the Company have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission, including the instructions to Form 10-Q and Article 10 of Regulation S-X, and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, the statements for the unaudited interim periods presented include all adjustments, which are of a normal and recurring nature, necessary to present a fair presentation of the results for such periods. Results for these interim periods are not necessarily indicative of full year results. During the three months and six months ended June 30, 2005, the Company was in the development stage and did not have any operations during that period. The information included in this Form 10-Q should be read in conjunction with the Company's audited consolidated financial statements as of December 31, 2005, and related notes thereto.

Principles of Consolidation and Basis of Presentation

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

Restricted Cash and Escrowed Investor Proceeds

The Company is currently engaged in a public offering of its common stock. Included in restricted cash and escrowed investor proceeds is approximately \$5.1 million of offering proceeds for which shares of common stock had not been issued as of June 30, 2006.

Redeemable Common Stock

The Company's share redemption program provides that all redemptions during any calendar year, including those upon death or qualifying disability, are limited to those that can be funded with proceeds from the Company's distribution reinvestment plan (the "DRIP"). In accordance with Accounting Series Release No. 268, *Presentation in Financial Statements of Redeemable Preferred Stock*, the Company accounts for proceeds received from its DRIP as redeemable common stock, outside of permanent equity. As of June 30, 2006 and December 31, 2005, the Company had issued approximately 82,400 and 0 shares of common stock under the DRIP, respectively, for proceeds of approximately \$783,000 and \$0 under its DRIP, respectively, which have been recorded as redeemable common stock in the respective condensed consolidated balance sheets. As of June 30, 2006 and December 31, 2005, no shares had been redeemed under the Company's share redemption program.

Reportable Segments

The Financial Accounting Standards Board ("FASB") issued SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, which establishes standards for reporting financial and descriptive information about an enterprise's reportable segments. The Company has determined that it has one reportable segment, with activities related to investing in real estate. The Company's investments in real estate generate rental revenue and other income through the leasing of single-tenant properties, which comprised 100% of our total consolidated revenues for the three and six months ended June 30, 2006. Although the Company's investments in real estate are geographically diversified throughout the United States, management evaluates operating performance on an individual property level. However, as each of its single-tenant properties have similar economic characteristics, tenants, and products and services, our single-tenant properties have been aggregated into one reportable segment.

Recent Accounting Pronouncements

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

Note 3 Real Estate Acquisitions

During the six months ended June 30, 2006, the Company acquired the following properties:

Property	Acquisition Date	Location	Square Feet	Purchase Price
Academy Sports sporting goods	January 6, 2006	Macon, GA	74,532	\$5,600,000
David's Bridal specialty retail	January 11, 2006	Lenexa, KS	12,083	3,270,000
Rite Aid drugstore	January 26, 2006	Enterprise, AL	14,564	3,714,000
Rite Aid drugstore	January 26, 2006	Wauseon, OH	14,564	3,893,679
Staples office supply	January 26, 2006	Crossville, TN	23,942	2,900,000
Rite Aid drugstore	January 27, 2006	Saco, ME	11,180	2,500,000
Wadsworth Boulevard marketplace	February 6, 2006	Denver, CO	198,477	18,500,000
Mountainside Fitness center	February 9, 2006	Chandler, AZ	31,063	5,863,000

Edgar Filing: Cole Credit Property Trust II Inc - Form 10-Q

Drexel Heritage furniture retail	February 24, 2006	Hickory, NC	261,057	4,250,000
Rayford Square retail center	March 2, 2006	Spring, TX	79,968	9,900,000
CVS drugstore	March 8, 2006	Portsmouth, OH	10,170	2,166,000
Wawa convenience store	March 29, 2006	Hockessin, DE	5,160	4,830,000
Wawa convenience store	March 29, 2006	Manahawkin, NJ	4,695	4,414,000
Wawa convenience store	March 29, 2006	Narbeth, PA	4,461	4,206,000
CVS drugstore	April 20, 2006	Lakewood, OH	12,800	2,450,000
Rite Aid drugstore	April 27, 2006	Cleveland, OH	11,325	2,568,700
Rite Aid drugstore	April 27, 2006	Fremont, OH	11,325	2,524,500
Walgreens drugstore	May 8, 2006	Knoxville, TN	15,120	4,750,000
CVS drugstore	May 26, 2006	Madison, MS	13,824	4,463,088
Rite Aid drugstore	May 26, 2006	Defiance, OH	14,564	4,326,165
Conns appliance retailer	May 26, 2006	San Antonio, TX	25,230	4,624,619
Dollar General specialty retailer	June 2, 2006	Crossville, TN	24,341	3,000,000
Dollar General specialty retailer	June 9, 2006	Ardmore, TN	24,341	2,775,000
Dollar General specialty retailer	June 12, 2006	Livingston, TN	24,341	2,856,000
Wehrenberg movie theatre	June 14, 2006	Arnold, MO	50,000	8,200,000

Edgar Filing: Cole Credit Property Trust II Inc - Form 10-Q

Property	Acquisition Date	Location	Square Feet	Purchase Price
Sportmans Warehouse specialty retailer	June 27, 2006	Wichita, KS	50,003	\$8,231,000
CVS drugstore	June 28, 2006	Portsmouth, OH	10,650	2,101,708
Advance Auto specialty retailer	June 29, 2006	Greenfield, IN	7,000	1,375,500
Advance Auto specialty retailer	June 29, 2006	Trenton, OH	7,000	1,060,000
Rite Aid drugstore	June 29, 2006	Lansing, MI	11,680	1,735,000
Total			1,059,460	\$133,047,959

In accordance with SFAS, No. 141, *Business Combinations*, the Company allocated the purchase price of these properties, including aggregate acquisition costs of \$2,808,000 to the fair value of the assets acquired and liabilities assumed. The Company allocated \$34,204,000 to land, \$85,918,000 to building and improvements, \$16,775,000 to acquired in-place leases, (\$1,204,000) to acquired below-market leases and \$15,944,000 related to debt assumed related to properties acquired during the six months ended June 30, 2006.

Note 4 Notes Payable

As of June 30, 2006, the Company had total mortgage notes payable of approximately \$130.0 million. During the six months ended June 30, 2006, the Company incurred, or assumed, the following mortgage notes payable in connection with the real estate acquisitions described in Note 3 above:

Property	Location	Fixed Rate Loan		Maturity Date	Variable Rate Loan Amount		Total Loan at Acquisition
		Amount	Fixed Interest Rate		(1)	Maturity Date	
Academy Sports sporting goods	Macon, GA	\$3,478,000	5.69%	January 11, 2016	\$802,000	(2) April 6, 2006	\$4,280,000
David's Bridal specialty retail	Lenexa, KS	1,799,000	5.86%	January 11, 2011	817,000	(2) April 11, 2006	2,616,000
Rite Aid drugstore	Enterprise, AL	2,043,000	5.80%	February 11, 2016	928,000	(2) April 26, 2006	2,971,000
Rite Aid drugstore	Wauseon, OH	2,142,000	5.80%	February 11, 2016	973,000	(2) April 26, 2006	3,115,000
Staples office supply	Crossville, TN	1,885,000	5.71%	February 11, 2011	435,000	(2) April 26, 2006	2,320,000
Rite Aid drugstore	Saco, ME	1,375,000	5.82%	February 11, 2011	625,000	(2) April 27, 2006	2,000,000
Wadsworth Boulevard marketplace	Denver, CO	12,025,000	5.57%	March 1, 2011	2,275,000	(2) December 31, 2006	14,300,000
Mountainside Fitness center	Chandler, AZ		N/A	N/A	4,690,400	(2) December 31, 2006	4,690,400
Drexel Heritage furniture retail	Hickory, NC	2,763,000	5.80%	March 11, 2011	637,000	(2) May 24, 2006	3,400,000
Rayford Square retail center	Spring, TX	5,940,000	5.64%	April 1, 2016		N/A	5,940,000
CVS drugstore	Portsmouth, OH	1,424,000	5.67%	March 11, 2011			