Cole Credit Property Trust II Inc
Form 10-K
March 30, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009

o **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	**20-1676382**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*
2555 East Camelback Road, Suite 400 Phoenix, Arizona, 85016	**(602) 778-8700**
(Address of principal executive offices; zip code)	*(Registrant s telephone number, including area code)*

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

Title of Each Class	**Name of Exchange on Which Registered**
None	None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value $0.01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Annual Report on Form 10-K or any amendment to this Annual Report on Form 10-K. þ

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 file in Rule 12b-2 of the Exchange Act. (Check one.)

Large accelerated filer o Accelerated filer o Non-accelerated filer þ

Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The aggregate market value of the voting stock held by nonaffiliates as of June 30, 2009: approximately $2.0 billion assuming a market value of $10.00 per share based on our offering price. No established market exists for the Registrant s common stock.

The number of shares of common stock outstanding as of March 29, 2010 was 206,005,935.

Documents Incorporated by Reference:

The Registrant incorporates by reference portions of the Cole Credit Property Trust II, Inc. Definitive Proxy Statement for the 2010 Annual Meeting of Stockholders (into Items 10, 11, 12, 13 and 14 of Part III).

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report on Form 10-K of Cole Credit Property Trust II, Inc., other than historical facts may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). We intend for all such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act and Section 21E of the Exchange Act, as applicable by law. Such statements include, in particular, statements about our plans, strategies, and prospects and are subject to certain risks and uncertainties, as well as known and unknown risks, which could cause actual results to differ materially from those projected or anticipated. Therefore, such statements are not intended to be a guarantee of our performance in future periods. Such forward-looking statements can generally be identified by our use of forward-looking terminology such as may, will, would, could, should, expect, intend, anticipate, estin continue, or other similar words. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date this report is filed with the Securities and Exchange Commission (SEC). We make no representation or warranty (express or implied) about the accuracy of any such forward-looking statements contained in this Annual Report on Form 10-K, and we do not intend to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Forward-looking statements that were true at the time made may ultimately prove to be incorrect or false. We caution investors not to place undue reliance on forward-looking statements, which reflect our management s view only as of the date of this Annual Report on Form 10-K. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results. The forward-looking statements should be read in light of the risk factors identified in the Item 1A - Risk Factors section of this Annual Report on Form 10-K.

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PART I

ITEM 1. *BUSINESS*

Formation

Cole Credit Property Trust II, Inc. (the Company, we, our, or us) is a Maryland corporation formed on September 2 2004, that has elected to be taxed, and currently qualifies, as a real estate investment trust (REIT). We were organized to acquire and operate commercial real estate primarily consisting of freestanding, single-tenant, retail properties net leased to investment grade and other creditworthy tenants located throughout the United States. As of December 31, 2009, we owned 693 properties comprising approximately 19.5 million rentable square feet of single and multi-tenant retail and commercial space located in 45 states and the U.S. Virgin Islands. As of December 31, 2009, the rentable space at these properties was approximately 94% leased. As of December 31, 2009, we also owned 69 mortgage notes receivable, with an aggregate carrying value of approximately $82.5 million, secured by 43 restaurant properties and 26 single-tenant retail properties, each of which is subject to a net lease. Through two joint ventures, we had an 85.48% indirect interest in an approximately 386,000 square foot multi-tenant retail building in Independence, Missouri and a 70% indirect interest in a ten-property storage facility portfolio as of December 31, 2009. In addition, we owned six commercial mortgage-backed securities (CMBS) bonds, with an aggregate fair value of approximately $56.4 million as of December 31, 2009.

Substantially all of our business is conducted through our operating partnership, Cole Operating Partnership II, LP (Cole OP II), a Delaware limited partnership organized in 2004. The Company is the sole general partner of and owns an approximately 99.99% interest in Cole OP II. Cole REIT Advisors II, LLC (Cole Advisors II), the advisor to the Company, is the sole limited partner and owns an insignificant noncontrolling partnership interest of less than 0.01% of Cole OP II.

Cole Advisors II, pursuant to a contractual arrangement, is responsible for managing our affairs on a day-to-day basis and for identifying and making acquisitions and investments on our behalf. The agreement with Cole Advisors II is for a one-year term and is reconsidered on an annual basis by our board of directors.

On June 27, 2005, we commenced an initial public offering on a best efforts basis of up to 45,000,000 shares of common stock offered at a price of $10.00 per share, subject to certain volume and other discounts, pursuant to a Registration Statement on Form S-11 filed with the SEC under the Securities Act (the Initial Offering). The Registration Statement also covered up to 5,000,000 shares available pursuant to a distribution reinvestment plan (the DRIP) under which our stockholders may elect to have their distributions reinvested in additional shares of our common stock at the greater of $9.50 per share or 95% of the estimated value of a share of common stock. On November 13, 2006, we increased the aggregate amount of the Initial Offering to 49,390,000 shares for the primary offering and 5,952,000 shares pursuant to the DRIP in a related Registration Statement on Form S-11. Subsequently, we reallocated the shares of common stock available such that a maximum of 54,140,000 shares of common stock was available under the primary offering for an aggregate offering price of approximately $541.4 million and a maximum of 1,202,000 shares was available under the DRIP for an aggregate offering price of approximately $11.4 million.

We commenced our principal operations on September 23, 2005, when we issued the initial 486,000 shares of our common stock in the Initial Offering. Prior to such date, we were considered a development stage company. We terminated the Initial Offering on May 22, 2007. As of the close of business on May 22, 2007, we had issued a total of 54,838,315 shares in the Initial Offering, including 53,909,877 shares sold in the primary offering and 928,438 shares sold pursuant to the DRIP, resulting in gross offering proceeds to us of approximately $547.4 million. At the completion of the Initial Offering, a total of 503,685 shares of common stock remained unsold, including 230,123 shares that remained unsold in the primary offering and 273,562 shares of common stock that remained unsold pursuant to the DRIP. All unsold shares in the Initial Offering were deregistered.

On May 23, 2007, we commenced our follow-on public offering of up to 150,000,000 shares of common stock (the Follow-on Offering). We terminated the Follow-on Offering on January 2, 2009. As of the close of business on January 2, 2009, we had issued a total of 147,454,259 shares in the Follow-on Offering, including 141,520,572 shares sold in the primary offering and 5,933,687 shares sold pursuant to the DRIP, resulting in gross offering proceeds of approximately $1.5 billion. At the completion of the Follow-on Offering, a total of 1,595,741 shares of common stock remained unsold, including 1,529,428 shares that remained unsold in the primary offering and 66,313 shares of

common stock that remained unsold pursuant to the DRIP. Unsold shares in the Follow-on Offering were deregistered.

On September 18, 2008, we registered 30,000,000 additional shares to be offered pursuant to the DRIP in a Registration Statement on Form S-3 (the DRIP Offering) (collectively with the Initial Offering and Follow-on Offering, the Offerings). As of December 31, 2009, we had issued 8,753,832 shares of our common stock in the DRIP Offering, resulting in gross proceeds of approximately $83.2 million. Combined with the gross proceeds from the Initial Offering and Follow-on Offering, the Company had aggregate gross proceeds from the Offerings of approximately $2.1 billion (including shares sold pursuant to the DRIP) as of December 31, 2009, before offering costs, selling commissions, and dealer management fees of approximately $188.3 million and before share redemptions of approximately $60.6 million.

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Our stock is not currently listed on a national securities exchange. We may seek to list our stock for trading on a national securities exchange only if a majority of our independent directors believe listing would be in the best interest of our stockholders. We do not intend to list our shares at this time. We do not anticipate that there would be any market for our common stock until our shares are listed on a national securities exchange. In the event we do not obtain listing prior to May 22, 2017, our charter requires that we 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.

Investment Objectives and Policies

Our objective is to invest primarily in freestanding, single-tenant, retail properties net leased to investment grade and other creditworthy tenants. We may also invest in mortgage loans, CMBS or other investments related to real property or entities or joint ventures that make similar investments. Our primary investment objectives are:

- to provide current income to our stockholders through the payment of cash distributions; and
- to preserve and return our stockholders capital contributions.

We also seek capital gains from our investments. We cannot assure investors that we will attain these objectives or that our capital will not decrease.

Decisions relating to the purchase or sale of our investments are made by our advisor, Cole Advisors II, subject to approval by our board of directors, including a majority of our independent directors. Our board of directors may revise our investment policies without the concurrence of our stockholders. Our independent directors will review our investment policies at least annually to determine that our policies are in the best interest of our stockholders.

Acquisition and Investment Policies

Primary Investments

We invest primarily in freestanding, single-tenant, retail properties net leased to investment grade and other creditworthy tenants. Our investments may be direct investments in such properties or in other entities that own or invest in, directly or indirectly, interests in such properties. Currently, our portfolio consists primarily of freestanding, single-tenant properties net leased for use as retail establishments. A portion of our portfolio also includes multi-tenant retail properties and single-tenant properties leased to office and industrial tenants. In addition, we have acquired, and may continue to acquire, mortgage loans secured by similar types of commercial properties in our portfolio. Although we expect our portfolio will continue to consist primarily of freestanding, single-tenant properties, we expect to continue to invest in other property types, including office and industrial properties, leased to one or more tenants. In addition, we expect to further diversify our portfolio by investing in multi-tenant properties that compliment our overall investment objectives and additional mortgage loans.

Many of our properties are leased to single-tenants of large national retail chains or franchises, including big box retailers, which operate stores in the home improvement, drug, sporting goods, specialty, convenience and restaurant industries. Other properties are so-called power centers, which are comprised of big box retailers and smaller retail establishments, and other multi-tenant properties that compliment our overall investment objectives. Our advisor monitors industry trends and seeks to identify properties on our behalf that will provide a favorable return balanced with risk. Our management primarily targets retail businesses with established track records. This industry is highly property dependent, therefore our advisor believes it offers highly competitive sale-leaseback investment opportunities.

We believe that our general focus on the acquisition of freestanding, single-tenant, retail properties net leased to investment grade and other creditworthy tenants presents lower investment risks and greater stability than other sectors of today s commercial real estate market. Unlike funds that invest solely in multi-tenant properties, we have acquired a diversified portfolio comprised primarily of single-tenant properties and a smaller number of multi-tenant properties that compliment our overall investment objectives. By primarily acquiring single-tenant properties, we believe that lower than expected results of operations from one or a few investments will not necessarily preclude our ability to realize our investment objectives of cash flow and preservation of capital from our overall portfolio. In addition, we believe that freestanding retail properties, as compared to shopping centers, malls and other traditional retail complexes, offer a distinct investment advantage since these properties generally require less management and operating capital, have less recurring tenant turnover and generally offer superior locations that are less dependent on the financial stability of adjoining tenants. In addition, since we acquired properties that are geographically diverse,

we believe we have minimized the potential adverse impact of economic downturns in local markets. Our management believes that a portfolio consisting primarily of freestanding, single-tenant, retail properties net leased to creditworthy tenants diversified geographically and by the industry and brand of tenants enhances our liquidity opportunities for investors by making the sale of individual properties, multiple properties or our investment portfolio as a whole attractive to institutional investors, and by making a possible listing of our shares attractive to the public investment community.

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

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

There is no limitation on the number, size or type of properties that we have acquired, or may continue to acquire, or on the percentage of net proceeds of the Offerings that have been or may be invested in a single property. The number and mix of properties we will hold at any given time depends primarily upon real estate market conditions and other circumstances existing at that time.

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

Investment Grade and Other Creditworthy Tenants

In evaluating potential property and mortgage loan acquisitions consistent with our investment objectives, we apply credit underwriting criteria to the tenants of existing properties. Similarly, we will apply credit underwriting criteria to possible new tenants when we are re-leasing properties in our portfolio. Tenants of our properties frequently are national or super-regional retail chains that are investment grade or otherwise creditworthy entities having high net worth and operating income. Generally, these tenants must be experienced multi-unit operators with a proven track record in order to meet the credit tests applied by our advisor.

A tenant will be considered investment grade when the tenant has a debt rating by Moody s Investors Service (Moody s) of Baa3 or better or a credit rating by Standard & Poor s Financial Services, LLC (Standard & Poor s) of BBB- or better, or its payments are guaranteed by a company with such rating. Changes in tenant credit ratings, coupled with future acquisition and disposition activity, may increase or decrease our concentration of investment grade tenants in the future.

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

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

Standard & Poor s assigns a credit rating to both companies as a whole and to each issuance or class of a company s debt. A Standard & Poor s credit rating of BBB-, which is the lowest investment grade rating given by Standard & Poor s, is assigned to companies that exhibit adequate protection parameters. However, adverse economic conditions

or changing circumstances are more likely to lead to a weakened capacity of the company to meet its financial commitments. A Standard & Poor s credit rating of AAA+, which is the highest investment grade rating given by Standard & Poor s, is assigned to companies or issuances with extremely strong capacities to meet their financial commitments. Thus, investment grade tenants will be judged by Standard & Poor s to have at least adequate protection parameters, and will in some cases have extremely strong financial positions.

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

Description of Leases

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

The majority of our properties had lease terms of ten years or more at the time we acquired them. We may acquire in the future, properties under which the lease term has partially expired. We also may acquire properties with shorter lease terms if the property is in an attractive location, if the property is difficult to replace, or if the property has other significant favorable real estate attributes. Under most commercial leases, tenants are obligated to pay a predetermined annual base rent. Some of the leases for our properties also may contain provisions that increase the amount of base rent payable at points during the lease term and/or percentage rent that can be calculated by a number of factors. Under triple net and double net leases, the tenants are generally required to pay the real estate taxes, insurance, utilities and common area maintenance charges associated with the properties. Generally, the leases require each tenant to procure, at its own expense, commercial general liability insurance, as well as property insurance covering the building for the full replacement value and naming the ownership entity and the lender, if applicable, as the additional insured on the policy. As a precautionary measure, our advisor has obtained and may obtain in the future, to the extent available, secondary liability insurance, as well as loss of rents insurance that covers one year of annual rent in the event of a rental loss. The secondary insurance coverage names the ownership entity as the named insured on the policy.

Some leases require that we procure insurance for both commercial general liability and property damage insurance; however, the premiums are fully reimbursable from the tenant. When we procure such insurance, the policy lists us as the named insured on the policy and the tenant as the additional insured. Tenants are required to provide proof of insurance by furnishing a certificate of insurance to our advisor on an annual basis. The insurance certificates are carefully tracked and reviewed for compliance by our advisor s property management department. In general, leases may not be assigned or subleased without our prior written consent. If we do consent to an assignment or sublease, the original tenant generally will remain fully liable under the lease unless we release the tenant from its obligations under the lease.

Other Possible Investments

Although we expect that most of our additional property acquisitions will be of the type described above, we may make other investments. For example, we are not limited to investments in single-tenant, freestanding retail properties or properties leased to investment grade and other creditworthy tenants and complimentary multi-tenant properties. We may invest in other commercial properties such as business and industrial parks, manufacturing facilities, office buildings and warehouse and distribution facilities, or in other entities that make such investments or own such properties, in order to reduce overall portfolio risks or enhance overall portfolio returns if our advisor and board of

directors determine that it would be advantageous to do so. Further, to the extent that our advisor and board of directors determine it is in our best interest, due to the state of the real estate market, in order to diversify our investment portfolio or otherwise, we have invested, and may continue to invest, in CMBS and mortgage loans generally secured by the same types of commercial properties that we generally acquire. We also have invested, and may continue to invest, in other investments related to real property or entities or joint ventures that make similar investments.

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

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Investment Decisions

Cole Advisors II has substantial discretion with respect to the selection of specific investments and the purchase and sale of our properties, subject to the approval of our board of directors. In pursuing our investment objectives and making investment decisions for us, Cole Advisors II evaluates the proposed terms of the purchase against all aspects of the transaction, including the condition and financial performance of the property, the terms of existing leases and the creditworthiness of the tenant, and property and location characteristics. Because the factors considered, including the specific weight we place on each factor, will vary for each potential investment, we do not, and are not able to, assign a specific weight or level of importance to any particular factor.

In addition to procuring and reviewing an independent valuation estimate and property condition report, our advisor also, to the extent such information is available, considers the following:

- unit level store performance;
- property location, visibility and access;
- age of the property, physical condition and curb appeal;
- neighboring property uses;
- local market conditions including vacancy rates;
- area demographics, including trade area population and average household income;
- neighborhood growth patterns and economic conditions;
- presence of nearby properties that may positively impact store sales at the subject property; and
- lease terms, including length of lease term, scope of landlord responsibilities, presence and frequency of contractual rental increases, renewal option provisions, exclusive and permitted use provisions, co-tenancy requirements and termination options.

Our advisor considers whether properties are leased by, or have leases guaranteed by, companies that maintain an investment grade rating by either Standard and Poor s or Moody s Investor Services. Our advisor also will consider non-rated and non-investment grade rated tenants that we consider creditworthy, as described in - Investment Grade and Other Creditworthy Tenants above.

Our advisor reviews the terms of each existing lease by considering various factors, including:

- rent escalations;
- remaining lease term;
- renewal option terms;
- tenant purchase options;
- termination options;
- scope of the landlord s maintenance, repair and replacement requirements;
- projected net cash flow yield; and
- projected internal rates of return.

Conditions to Closing Our Acquisitions

Generally, we condition our obligation to close the purchase of any investment on the delivery and verification of certain documents from the seller or developer, including, where appropriate:

- plans and specifications;
- surveys;
- evidence of marketable title, subject to such liens and encumbrances as are acceptable to Cole Advisors II;
- financial statements covering recent operations of properties having operating histories;
- title and liability insurance policies; and
- tenant estoppel certificates.

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We generally will not purchase any property unless and until we also obtain what is generally referred to as a Phase I environmental site assessment and are generally satisfied with the environmental status of the property. However, we may purchase a property without obtaining such assessment if our advisor determines it is not warranted. A Phase I environmental site assessment basically consists of a visual survey of the building and the property in an attempt to identify areas of potential environmental concerns, visually observing neighboring properties to assess surface conditions or activities that may have an adverse environmental impact on the property, and contacting local governmental agency personnel who perform a regulatory agency file search in an attempt to determine any known environmental concerns in the immediate vicinity of the property. A Phase I environmental site assessment does not generally include any sampling or testing of soil, ground water or building materials from the property and may not reveal all environmental hazards on a property.

We may enter into purchase and sale arrangements with a seller or developer of a suitable property under development or construction. In such cases, we will be obligated to purchase the property at the completion of construction, provided that the construction substantially conforms to definitive plans, specifications, and costs approved by us in advance. In such cases, prior to our acquiring the property, we generally would receive a certificate of an architect, engineer or other appropriate party, stating that the property substantially complies with all plans and specifications. If renovation or remodeling is required prior to the purchase of a property, we expect to pay a negotiated maximum amount to the seller upon completion. We do not currently intend to construct or develop properties or to render any services in connection with such development or construction.

In determining whether to purchase a particular property, we may, in accordance with customary practices, obtain an option on such property. The amount paid for an option, if any, normally is surrendered if the property is not purchased and normally is credited against the purchase price if the property is purchased.

In purchasing, leasing and developing properties, we will be subject to risks generally incident to the ownership of real estate. See Risk Factors General Risks Related to Investments in Real Estate.

Ownership Structure

Our investment in real estate generally takes the form of holding fee title or a long-term leasehold estate. In addition, we invest in mortgages acquired in the secondary market and secured by commercial properties. We acquire such assets either directly through our operating partnership, or indirectly through limited liability companies, limited partnerships, or through investments in joint ventures, partnerships, co-tenancies or other co-ownership arrangements with the developers of the properties, affiliates of Cole Advisors II or other persons. See the - Joint Venture Investments section below. In addition, we have purchased, and may continue to purchase, properties and lease them back to the sellers of such properties. While we use our best efforts to structure any such sale-leaseback transaction so that the lease will be characterized as a true lease and so that we will be treated as the owner of the property for federal income tax purposes, the Internal Revenue Service could challenge this characterization. In the event that any sale-leaseback transaction is re-characterized as a financing transaction for federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed.

Joint Venture Investments

We have entered, and may continue to enter, into arrangements such as joint ventures, partnerships, co-tenancies and other co-ownership arrangements with third parties as well as affiliated entities, including other real estate programs sponsored by affiliates of our advisor for the acquisition, development or improvement of properties with affiliates of our advisor, including other real estate programs sponsored by affiliates of our advisor. Additionally, we may enter into such arrangements with real estate developers, owners and other unaffiliated third parties for the purpose of developing, owning and operating real properties. In determining whether to invest in a particular joint venture, Cole Advisors II evaluates the real property that such joint venture owns or is being formed to own under the same criteria described above in - Investment Decisions for the selection of our real estate property investments. We entered into one joint venture during the year ended December 31, 2009. As of December 31, 2009, we had interests in two unconsolidated joint ventures.

Our general policy is to invest in joint ventures only when we would have substantial decision-making rights and a right of first refusal to purchase the co-venturer s interest in the joint venture if the co-venturer elects to sell such interest. In the event that the co-venturer elects to sell property held in any such joint venture, however, we may not have sufficient funds to exercise our right of first refusal to buy the other co-venturer s interest in the property held by

the joint venture. In the event that any joint venture with an affiliated entity holds interests in more than one property, the interest in each such property may be specially allocated based upon the respective proportion of funds invested by each co-venturer in each such property.

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

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We may enter into joint ventures with other Cole real estate programs only if a majority of our directors not otherwise interested in the transaction and a majority of our independent directors approve the transaction as being fair and reasonable to us and on substantially the same terms and conditions as those received by other joint venturers.

Borrowing Policies

Our advisor believes that utilizing borrowing is consistent with our investment objective of maximizing the return to investors. By operating on a leveraged basis, we have more funds available for investment in properties. This allows us to make more investments than would otherwise be possible, resulting in a more diversified portfolio. There is no limitation on the amount we may borrow against any single improved property. However, under our charter, we are required to limit our borrowings to 60% of the greater of cost (before deducting depreciation or other non-cash reserves) or fair market value of our gross assets, unless excess borrowing is approved by a majority of the independent directors and disclosed to our stockholders in the next quarterly report along with the justification for such excess borrowing. In the event that we issue preferred stock that is entitled to a preference over the common stock in respect of distributions or liquidation or is treated as debt under accounting principles generally accepted in the United States (GAAP), we will include it in the leverage restriction calculations, unless the issuance of the preferred stock is approved or ratified by our stockholders.

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

Our ability to increase our diversification through borrowing may be adversely impacted if banks and other lending institutions continue to reduce the amount of funds available for loans secured by real estate. When interest rates on mortgage loans are high or financing is otherwise unavailable on a timely basis, we may purchase properties for cash with the intention of obtaining a mortgage loan for a portion of the purchase price at a later time. To the extent that we do not obtain mortgage loans on our properties, our ability to acquire additional properties will be restricted and we may not be able to adequately diversify our portfolio.

Although there are signs of recovery, the current mortgage lending and interest rate environment for real estate in general continues to be disrupted and the overall economic fundamentals remain uncertain. We have experienced, and may continue to experience, more stringent lending criteria, which may affect our ability to finance certain property acquisitions or to place or refinance debt on properties within our portfolio. Additionally, for properties in which we are able to obtain acquisition or post-acquisition financing, the interest rates and other terms on such loans may be unacceptable. We expect to manage the current mortgage lending environment by utilizing fixed rate loans if the terms are acceptable, borrowing on our existing $135.0 million line of credit (the Credit Facility), obtaining short-term variable rate loans, assuming existing mortgage loans in connection with property acquisitions, or entering into interest rate lock, cap or swap agreements, or any combination of the foregoing. We have acquired, and may continue to acquire, our properties for cash without financing. If we are unable to obtain suitable financing for future acquisitions or we acquire a larger percentage of our properties for cash without financing, we will acquire and own fewer properties, which may adversely affect our results of operations. Additionally, if we are unable to identify suitable properties at appropriate prices in the current credit environment, we may have a larger amount of uninvested cash, which may adversely affect our results of operations since any interest we may earn on uninvested cash, or returns on short-term investments we may make with cash pending investment in properties, is likely to be significantly less than rental income would be. We will continue to evaluate alternatives in the current market, including purchasing or originating debt backed by real estate, which could produce attractive yields in the current market environment.

We may not borrow money from any of our directors or from our advisor or its affiliates unless such loan is approved by a majority of the directors not otherwise interested in the transaction (including a majority of the independent directors) as fair, competitive and commercially reasonable and no less favorable to us than a comparable loan between unaffiliated parties. During the year ended December 31, 2009, we did not borrow any funds from our advisor s affiliates. During the year ended December 31, 2008, we borrowed and subsequently repaid an aggregate of approximately $32.0 million from our advisor s affiliates. Our board of directors, including a majority of our independent directors, not otherwise interested in the transaction approved each of these loans as being fair, competitive, and commercially reasonable to us and no less favorable to us than between unaffiliated parties under the same circumstances.

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Acquisition of Properties from Affiliates

We may acquire properties or interests in properties from or in co-ownership arrangements with entities affiliated with our advisor, including properties acquired from affiliates of our advisor engaged in construction and development of commercial real properties. We will not acquire any property from an affiliate unless a majority of our directors not otherwise interested in the transaction and a majority of our independent directors determine that the transaction is fair and reasonable to us. The purchase price that we will pay for any property we acquire from affiliates of our advisor, including property developed by an affiliate as well as property held by an affiliate that has already been developed, will not exceed the current appraised value of the property. In addition, the price of the property we acquire from an affiliate may not exceed the cost of the property to the affiliate, unless a majority of our directors and a majority of our independent directors determine that substantial justification for the excess exists and the excess is reasonable. During the year ended December 31, 2009, we did not purchase any properties from our advisor s affiliates. During the year ended December 31, 2008, we purchased 22 properties or investments therein for approximately $121.3 million from our advisor s affiliates. Our board of directors, including all of the independent directors, not otherwise interested in the transaction, approved these purchases as being fair and reasonable to the Company, at a price in excess of the cost to Cole Credit Property Fund, LP and Cole Credit Property Fund II, LP, the respective affiliates. Substantial justification existed for such excess, as such excess was determined by the board to be reasonable and the cost to the Company did not exceed the properties then-current fair market value as determined by an independent appraiser approved by our independent directors. See Conflicts of Interest below.

Conflicts of Interest

We are subject to various conflicts of interest arising out of our relationship with Cole Advisors II and its affiliates, including conflicts related to the arrangements pursuant to which Cole Advisors II and its affiliates will be compensated by us. The agreements and compensation arrangements between us and our advisor and its affiliates were not determined by arm s-length negotiations. Some of the conflicts of interest in our transactions with our advisor and its affiliates, and the limitations on our advisor adopted to address these conflicts, are described below. Additionally, one of our directors and all of our executive officers are affiliates of Cole Advisors II, as well as other Cole-sponsored real estate programs.

Our advisor and its affiliates try to balance our interests with their duties to other Cole-sponsored programs. However, to the extent that our advisor or its affiliates take actions that are more favorable to other entities than to us, these actions could have a negative impact on our financial performance and, consequently, on distributions to our stockholders and the value of our stock. In addition, our directors, officers and certain of our stockholders may engage for their own account in business activities of the types conducted or to be conducted by our subsidiaries and us. Our independent directors have an obligation to function on our behalf in all situations in which a conflict of interest may arise, and all of our directors have a fiduciary obligation to act on behalf of our stockholders.

Interests in Other Real Estate Programs

Affiliates of our advisor act as an advisor to, and our executive officers and two of our directors act as officers and/or directors of Cole Credit Property Trust, Inc. (CCPT), and/or Cole Credit Property Trust III, Inc. (CCPT III), each a real estate investment trust that has investment objectives and targeted assets similar to ours. CCPT is no longer offering shares for investment, and currently is not pursuing acquisitions of additional properties. CCPT III is offering up to a maximum of 230,000,000 shares of common stock in a primary offering and up to 20,000,000 additional shares pursuant to a distribution reinvestment plan, and is currently pursuing acquisitions of properties. In addition, CCPT III has an offering in registration to offer up to an additional 250,000,000 shares of common stock in a primary offering and up to an additional 25,000,000 shares pursuant to a distribution reinvestment plan. In the event that CCPT sells one or more of its assets, it may seek to acquire additional properties, which may be similar to properties in which we invest. Affiliates of our officers and entities owned or managed by such affiliates also may acquire or develop real estate for their own accounts, and have done so in the past. Furthermore, affiliates of our officers and entities owned or managed by such affiliates intend to form additional real estate investment entities in the future, whether public or private, which can be expected to have the same investment objectives and policies as we do. Our advisor, its affiliates and affiliates of our officers are not obligated to present to us any particular investment opportunity that comes to their attention, even if such opportunity is of a character that might be suitable for

investment by us. Our advisor and its affiliates likely will experience conflicts of interest as they simultaneously perform services for us and other affiliated real estate programs.

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

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

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Other Activities of Cole Advisors II and its Affiliates

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

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

We may purchase properties or interests in properties from affiliates of Cole Advisors II. The prices we pay to affiliates of our advisor for these properties will not be the subject of arm s-length negotiations, which could mean that the acquisitions may be on terms less favorable to us than those negotiated with unaffiliated parties. However, our charter provides that the purchase price of any property we acquire from an affiliate may not exceed its fair market value as determined by a competent independent appraiser. In addition, the price must be approved by a majority of our directors who have no financial interest in the transaction, including a majority of our independent directors. If the price to us exceeds the cost paid by our affiliate, our board of directors must determine that there is substantial justification for the excess cost. During the year ended December 31, 2009, we did not purchase any properties from our advisor s affiliates. During the year ended December 31, 2008, we purchased 22 properties or investments therein for approximately $121.3 million from our advisor s affiliates. Our board of directors, including all of the independent directors, not otherwise interested in the transaction, approved these purchases as being fair and reasonable to the Company, at a price in excess of the cost to Cole Credit Property Fund, LP and Cole Credit Property Fund II, LP, the respective affiliates. Substantial justification existed for such excess, as such excess was determined by the board to be reasonable and the cost to the Company did not exceed the properties then-current fair market value as determined by an independent appraiser approved by our independent directors.

Competition in Acquiring, Leasing and Operating of Properties

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

Affiliated Dealer Manager

Since Cole Capital Corporation (Cole Capital), our dealer manager, is an affiliate of Cole Advisors II, we did not have the benefit of an independent due diligence review and investigation of the type normally performed by an unaffiliated, independent underwriter in connection with our Offerings.

Affiliated Property Manager

Our properties are, and we anticipate that properties we acquire will be, managed and leased by our affiliated property manager, Cole Realty Advisors, Inc. (Cole Realty Advisors), pursuant to a property management and leasing agreement. Our agreement with Cole Realty Advisors has a one year term. We expect Cole Realty Advisors to also serve as property manager for properties owned by affiliated real estate programs, some of which may be in

competition with our properties. Management fees to be paid to our property manager are based on a percentage of the gross revenue received by the managed properties.

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Lack of Separate Representation

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

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

A transaction involving the purchase and sale of properties or joint venture interests may result in the receipt of commissions, fees and other compensation by Cole Advisors II and its affiliates, including acquisition and advisory fees, financing coordination fees, property management and leasing fees, asset management fees, selling commissions, real estate commissions, acquisition expenses, operating expenses and subordinated participation in net sale proceeds. However, the fees, compensation and expenses payable or reimbursable to Cole Advisors II or its affiliates relating to the net sale proceeds from the sale of properties will only be payable after the return to the stockholders of their capital contributions plus cumulative returns on such capital. Subject to oversight by our board of directors, Cole Advisors II will have considerable discretion with respect to all decisions relating to the terms and timing of all transactions. Therefore, Cole Advisors II may have conflicts of interest concerning certain actions taken on our behalf, particularly due to the fact that such fees will generally be payable to Cole Advisors II or its affiliates regardless of the quality of the properties acquired or the services provided to us.

Certain Conflict Resolution Procedures

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

In order to reduce or to eliminate certain potential conflicts of interest, our charter contains a number of restrictions relating to (1) transactions we enter into with Cole Advisors II and its affiliates, (2) certain future offerings, and (3) allocation of investment opportunities among affiliated entities. These restrictions include, among others, the following:

- We will not purchase or lease properties in which Cole Advisors II, any of our directors or any of their respective affiliates has an interest without a determination by a majority of the directors, including a majority of the independent directors not otherwise interested in such transaction, that such transaction is fair and reasonable to us and at a price to us no greater than the cost of the property to the seller or lessor unless there is substantial justification for any amount that exceeds such cost and such excess amount is determined to be reasonable. In no event will we acquire any such property at an amount in excess of its appraised value.
- We will not sell or lease properties to Cole Advisors II, any of our directors or any of their respective affiliates unless a majority of the directors, including a majority of the independent directors not otherwise interested in the transaction, determines that the transaction is fair and reasonable to us.
- We will not make any loans to Cole Advisors II, any of our directors or any of their respective affiliates, except that we may make or invest in mortgage loans involving Cole Advisors II, our directors or their respective affiliates, provided that an appraisal of the underlying property is obtained from an independent appraiser and the transaction is approved as fair and reasonable to us and on terms no less favorable to us than those available from third parties. In addition, Cole Advisors II, any of our directors and any of their respective affiliates will not make loans to us or to joint ventures in which we are a joint venture partner unless approved by a majority of the directors, including a majority of the independent directors not otherwise interested in the transaction, as fair, competitive and commercially reasonable, and no less favorable to us than comparable loans between unaffiliated parties.
- Cole Advisors II and its affiliates will be entitled to reimbursement, at cost, for actual expenses incurred by them on behalf of us or joint ventures in which we are a joint venture partner; provided, however, Cole Advisors II must reimburse us for the amount, if any, by which our total operating expenses, including the

advisor asset management fee, paid during the previous fiscal year exceeded the greater of: (i) 2.0% of our average invested assets for that fiscal year, or (ii) 25.0% of our net income, before any additions to reserves for depreciation, bad debts or other similar non-cash reserves and before any gain from the sale of our assets, for that fiscal year.

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

- the anticipated cash flow of the property to be acquired and the cash requirements of each program;
- the effect of the acquisition on diversification of each program s investments by type of property, geographic area and tenant concentration;
- the policy of each program relating to leverage of properties;
- the income tax effects of the purchase to each program;
- the size of the investment; and
- the amount of funds available to each program and the length of time such funds have been available for investment.

If a subsequent development, such as a delay in the closing of a property or a delay in the construction of a property, causes any such investment, in the opinion of Cole Advisors II, to be more appropriate for a program other than the program that committed to make the investment, Cole Advisors II may determine that another program affiliated with Cole Advisors II or its affiliates will make the investment.

We will not accept goods or services from Cole Advisors II or its affiliates or enter into any other transaction with Cole Advisors II or its affiliates unless a majority of our directors, including a majority of the independent directors, not otherwise interested in the transaction approve such transaction as fair and reasonable to us and on terms and conditions not less favorable to us than those available from unaffiliated third parties.

Employees

We have no direct employees. The employees of Cole Advisors II and other affiliates of our advisor provide services for us related to acquisition and disposition, property management, asset management, financing, accounting, investor relations, and all other administrative services. The employees of Cole Capital, our affiliated dealer manager, provide wholesale brokerage services.

We are dependent on our advisor and its affiliates for services that are essential to us, including the sale of shares of our common stock, asset acquisition decisions, property management and other general administrative responsibilities. In the event that these companies were unable to provide these services to us, we would be required to obtain such services from other sources.

We reimburse Cole Advisors II and its affiliates for expenses incurred in connection with its provision of administrative services to us, including personnel costs, subject to certain limitations. During the years ended December 31, 2009 and 2008, approximately $525,000 and approximately $3.7 million, respectively, was reimbursed to Cole Advisors II or its affiliates for personnel costs and third-party costs allocated in connection with the issuance of shares pursuant to our Follow-on Offering.

Insurance

See the section captioned Description of Leases above.

Reportable Segments

We operate on a consolidated basis in our commercial properties segment. See Note 2 to our consolidated financial statements in this Annual Report on Form 10-K.

Competition

As we purchase properties, we are in competition with other potential buyers for the same properties and may have to pay more to purchase the property than if there were no other potential acquirers or we may have to locate another property that meets our investment criteria. In addition, the leasing of real estate is highly competitive in the current market, and we may continue to experience competition for tenants from owners and managers of competing projects. As a result, we may have to provide free rent, incur charges for tenant improvements, or offer other inducements, or

we might not be able to timely lease the space, all of which may have an adverse impact on our results of operations. At the time we elect to dispose of our properties, we may also be in competition with sellers of similar properties to locate suitable purchasers for its properties.

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Concentration of Credit Risk

As of December 31, 2009, we had cash on deposit in five financial institutions, three of which had deposits in excess of current federally insured levels, totaling approximately $27.7 million; however, we have not experienced any losses in such accounts. We limit investment of cash investments to financial institutions with high credit standing; therefore, we believe we are not exposed to any significant credit risk on cash.

No single tenant accounted for greater than 10% of our gross annualized base rental revenues for the year ended December 31, 2009 and 2008. Tenants in the specialty retail, drugstore and restaurant industries comprised approximately 18%, approximately 16% and approximately 13%, respectively, of our 2009 gross annualized base rental revenues for the year ended December 31, 2009. Tenants in the specialty retail, drugstore, and restaurant industries comprised approximately 19%, approximately 13%, and approximately 13%, respectively, of our 2008 gross annualized base rental revenues for the year ended December 31, 2008. Additionally, we have certain geographic concentrations in our property holdings. In particular, as of December 31, 2009, 158 of our properties were located in Texas and 22 of our properties were located in Florida, accounting for approximately 16% and approximately 11% of our 2009 gross annualized base rental revenues, respectively. As of December 31, 2008, 156 of our properties were located in Texas and 22 of our properties were located in Florida, accounting for approximately 15% and approximately 12% of our 2008 gross annualized base rental revenues, respectively.

Litigation

In the ordinary course of business, we may become subject to litigation or claims. There are no material pending legal proceedings or proceedings known to be contemplated against us.

Environmental Matters

In connection with the ownership and operation of real estate, we may be potentially liable for costs and damages related to environmental matters. During the years ended December 31, 2009 and 2008, we acquired certain properties that are subject to environmental remediation. In each case, the seller, the tenant and/or another third party has been identified as the responsible party for environmental remediation costs related to the property. Additionally, in connection with the purchase of certain of the properties, the respective sellers and/or tenants have indemnified us against future remediation costs. We do not believe that the environmental matters identified at such properties will have a material adverse effect on our consolidated results of operations, nor are we aware of any environmental matters at other properties which we believe will have a material adverse effect on our consolidated results of operations.

Available Information

We electronically file our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports with the SEC. We have also filed registration statements, amendments to our registration statements, and supplements to our prospectus in connection with our Offerings with the SEC. Copies of our filings with the SEC may be obtained from the SEC s website, at http://www.sec.gov. Access to these filings is free of charge.

ITEM 1A. ***RISK FACTORS***

Set forth below are investment risks that we believe are material to our investors.

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

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

There currently is no public market for our shares and there may never be one. In addition, we do not have a fixed liquidation date. If you are able to find a buyer for your shares, you may not sell your shares unless the buyer meets applicable suitability and minimum purchase standards. Our charter also prohibits the ownership of more than 9.8% of our stock, or more than 9.8% in value or number of shares (whichever is more restrictive) of our common stock, by a single investor, unless exempted by our board of directors, which may inhibit large investors from desiring to purchase your shares. Moreover, our share redemption program includes numerous restrictions that would limit your ability to sell your shares to us. Our board of directors may reject any request for redemption of shares, or amend, suspend or terminate our share redemption program upon 30 days notice. Our board of directors suspended our share redemption program on November 10, 2009. Therefore, it will be difficult for you to sell your shares promptly or at

all. If you are able to sell your shares, you will likely have to sell them at a substantial discount to the price you paid for the shares. It also is likely that your shares would not be accepted as the primary collateral for a loan. You should purchase the shares only as a long-term investment because of the illiquid nature of the shares.

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

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

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

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

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

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

If we pay distributions from sources other than our cash flow from operations, we will have fewer funds available for the acquisition of properties, and your overall return may be reduced.

Our organizational documents permit us to make distributions from any source. If we fund distributions from financings or the net proceeds from the Offerings, we will have fewer funds available for acquiring properties and other investments, and your overall value of your investment may be reduced. Further, to the extent distributions exceed cash flow from operations, a stockholder s basis in our stock will be reduced and, to the extent distributions exceed a stockholder s basis, the stockholder may recognize capital gain.

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If we internalize our management functions, your interest in us could be diluted, and we could incur other significant costs associated with being self-managed.

Our strategy may involve internalizing our management functions. If we internalize our management functions, we may elect to negotiate to acquire our advisor s assets and personnel. At this time, we cannot be sure of the form or amount of consideration or other terms relating to any such acquisition. Such consideration could take many forms, including cash payments, promissory notes and shares of our stock. The payment of such consideration could result in dilution of your interests as a stockholder and could reduce the net income per share and funds from operations per share attributable to your investment.

In addition, while we would no longer bear the costs of the various fees and expenses we expect to pay to our advisor under the advisory agreement, our direct expenses would include general and administrative costs, including legal, accounting, and other expenses related to corporate governance, Securities and Exchange Commission reporting and compliance. We would also incur the compensation and benefits costs of our officers and other employees and consultants that we now expect will be paid by our advisor or its affiliates. In addition, we may issue equity awards to officers, employees and consultants, which awards would decrease net income and funds from operations and may further dilute your investment. We cannot reasonably estimate the amount of fees to our advisor we would save and the costs we would incur if we became self-managed. If the expenses we assume as a result of an internalization are higher than the expenses we avoid paying to our advisor, our net income per share and funds from operations per share would be lower as a result of the internalization than it otherwise would have been, potentially decreasing the amount of funds available to distribute to you and the value of our shares.

As currently organized, we will not directly have any employees. If we elect to internalize our operations, we would employ personnel and would be subject to potential liabilities commonly faced by employers, such as worker s disability and compensation claims, potential labor disputes and other employee-related liabilities and grievances. Upon any internalization of our advisor, certain key personnel of our advisor may not be employed by us, but instead may remain employees of our sponsor or its affiliates.

If we internalize our management functions, we could have difficulty integrating these functions as a stand-alone entity. Currently, our advisor and its affiliates perform asset management and general and administrative functions, including accounting and financial reporting, for multiple entities. They have a great deal of know-how and can experience economies of scale. We may fail to properly identify the appropriate mix of personnel and capital needs to operate as a stand-alone entity. An inability to manage an internalization transaction effectively could thus result in our incurring excess costs and/or suffering deficiencies in our disclosure controls and procedures or our internal control over financial reporting. Such deficiencies could cause us to incur additional costs, and our management s attention could be diverted from most effectively managing our properties.

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

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

Risks Related to Conflicts of Interest

We will be subject to conflicts of interest arising out of our relationships with our advisor and its affiliates, including the material conflicts discussed below. The Conflicts of Interest section of Part I, Item 1 of this Annual Report on Form 10-K provides a more detailed discussion of the conflicts of interest between us and our advisor and its affiliates, and our policies to reduce or eliminate certain potential conflicts.

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A number of Cole real estate programs use investment strategies that are similar to ours, therefore our advisor and its and our executive officers will face conflicts of interest relating to the purchase and leasing of properties, and such conflicts may not be resolved in our favor.

Our sponsor may have simultaneous offerings of funds that have a substantially similar mix of fund characteristics, including targeted investment types, investment objectives and criteria, and anticipated fund terms. As a result, we may be buying properties and other real estate-related investments at the same time as one or more of the other Cole-sponsored programs managed by officers and key personnel of our advisor and/or its affiliates, and these other Cole-sponsored programs may use investment strategies and have investment objectives that are similar to ours. In particular, CCPT III currently is offering shares of its common stock pursuant to an effective registration statement and pursuing acquisitions of assets that may be suitable for us to acquire. Our executive officers and the executive officers of our advisor also are the executive officers of other Cole-sponsored REITs and their advisors, the general partners of Cole-sponsored partnerships and/or the advisors or fiduciaries of other Cole-sponsored programs. There is a risk that our advisor will choose a property that provides lower returns to us than a property purchased by another Cole-sponsored program. In the event these conflicts arise, our best interests may not be met when officers and key persons acting on behalf of our advisor and on behalf of advisors and managers of other Cole-sponsored programs decide whether to allocate any particular property to us or to another Cole-sponsored program or affiliate that has an investment strategy similar to ours. In addition, we may acquire properties in geographic areas where other Cole-sponsored programs own properties. If one of the other Cole-sponsored programs attracts a tenant that we are competing for, we could suffer a loss of revenue due to delays in locating another suitable tenant. Similar conflicts of interest may arise if we acquire properties from or sell properties to other Cole-sponsored programs, or if our advisor recommends that we make or purchase mortgage loans or participations in mortgage loans, since other Cole-sponsored programs may be competing with us for these investments.

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

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

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

Cole Capital Partners, LLC (Cole Capital Partners), an affiliate of our advisor, has developed programs to facilitate the acquisition of real estate properties in co-ownership arrangements with persons who are looking to invest proceeds from a sale of real estate in order to qualify for like-kind exchange treatment under Section 1031 of the Internal Revenue Code (a Section 1031 Program). Section 1031 Programs are structured as co-ownership arrangements with other investors in the property (Section 1031 Participants) who are seeking to defer taxes under Section 1031 of the Internal Revenue Code. These programs are structured either as a tenant-in-common program or by use of a Delaware Statutory Trust. When Cole Capital Partners develops such a program, it generally organizes a new entity (a Cole Exchange Entity) to acquire all or part of a property. We may participate in the program by either co-investing in the property with the Cole Exchange Entity or purchasing a co-ownership interest from the Cole Exchange Entity, generally at the Cole Exchange Entity s cost. In that event, as a co-owner of properties, we will be subject to the risks inherent in the co-ownership arrangements with unrelated third parties. Our purchase of co-ownership interests will present conflicts of interest between us and affiliates of our advisor. The business interests of Cole Capital Partners

and the Cole Exchange Entity may be adverse to, or to the detriment of, our interests. Further, any agreement that we enter into with a Cole Exchange Entity will not be negotiated in an arm s-length transaction and, as a result of the affiliation between our advisor, Cole Capital Partners and the Cole Exchange Entity, our advisor may be reluctant to enforce the agreements against such entities.

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

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

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

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

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

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

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

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

Risks Related to Our Corporate Structure

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

Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of directors, no person may own more than 9.8%

in value of our outstanding stock, or more than 9.8% in value or number of shares (whichever is more restrictive) of our outstanding common stock. This restriction may have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price for holders of our common stock.

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

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

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

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

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

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

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

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

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

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

Maryland law provides a second anti-takeover statute, its Control Share Acquisition Act, which provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by the corporation s disinterested stockholders by a vote of two-thirds of the votes entitled to be cast on the matter. Shares of stock owned by interested stockholders, that is, by the acquirer, by officers or by directors who are employees of the corporation, are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock that would entitle the acquirer to exercise voting power in electing directors within specified ranges of voting power. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares. The control share acquisition statute does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the articles of incorporation or bylaws of the corporation. Our bylaws contain a provision exempting from the Control Share Acquisition Act any and all acquisitions of our common stock by Cole Advisors II or any affiliate of Cole Advisors II. This statute could have the effect of discouraging offers from third parties to acquire us and increasing the difficulty of successfully completing this type of offer by anyone other than our affiliates or any of their affiliates.

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

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

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

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

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

Our board of directors determines our major policies, including our policies regarding investments, financing, growth, debt capitalization, REIT qualification and distributions. Our board of directors may amend or revise these and other policies without a vote of the stockholders. Under the Maryland General Corporation Law and our charter, our stockholders have a right to vote only on the following:

- the election or removal of directors;
- any amendment of our charter (including a change in our investment objectives), except that our board of directors may amend our charter without stockholder approval, to increase or decrease the aggregate number of our shares, to increase or decrease the number of our shares of any class or series that we have the authority to issue, or to classify or reclassify any unissued shares by setting or changing the preferences, conversion or other rights, restrictions, limitations as to distributions, qualifications or terms and conditions of redemption of such shares, provided however, that any such amendment does not adversely affect the rights, preferences and privileges of the stockholders;
- our liquidation or dissolution;
- a reorganization of our company, as provided in our charter; and
- any merger, consolidation or sale or other disposition of substantially all of our assets.

All other matters are subject to the discretion of our board of directors.

Our board of directors may change certain of our investment policies without stockholder approval, which could alter the nature of your investment.

Our charter requires that our independent directors review our investment policies at least annually to determine that the policies we are following are in the best interest of the stockholders. These policies may change over time. The methods of implementing our investment policies may also vary, as new real estate development trends emerge and new investment techniques are developed. Our investment policies, the methods for their implementation, and our other objectives, policies and procedures may be altered by our board of directors without the approval of our

stockholders. As a result, the nature of your investment could change without your consent.

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You are limited in your ability to sell your shares pursuant to our share redemption program and may have to hold your shares for an indefinite period of time.

Our board of directors may amend the terms of our share redemption program without stockholder approval. Our board also is free to suspend or terminate the program upon 30 days notice or to reject any request for redemption. Our board of directors suspended our share redemption program on November 10, 2009. In addition, the share redemption program includes numerous restrictions that would limit your ability to sell your shares. Generally, you must have held your shares for at least one year in order to participate in our share redemption program. Subject to funds being available, we will limit the number of shares redeemed pursuant to our share redemption program as follows: (1) during any calendar year, we will not redeem in excess of 3% of the weighted average number of shares outstanding during the prior calendar year; and (2) funding for the redemption of shares will be limited to the net proceeds we receive from the sale of shares under our distribution reinvestment plan. These limits might prevent us from accommodating all redemption requests made in any year. These restrictions severely limit your ability to sell your shares should you require liquidity, and limit your ability to recover the value you invested or the fair market value of your shares.

Your interest in Cole REIT II will be diluted if we issue additional shares.

Existing stockholders and potential investors in our offering do not have preemptive rights to any shares issued by us in the future. Our charter currently has authorized 250,000,000 shares of stock, of which 240,000,000 shares are designated as common stock and 10,000,000 are designated as preferred stock. Subject to any limitations set forth under Maryland law, our board of directors may increase the number of authorized shares of stock, increase or decrease the number of shares of any class or series of stock designated, or reclassify any unissued shares without the necessity of obtaining stockholder approval. All of such shares may be issued in the discretion of our board of directors. Existing stockholders and investors purchasing shares in our offering likely will suffer dilution of their equity investment in us, in the event that we (1) sell shares in our offering or sell additional shares in the future, including those issued pursuant to our distribution reinvestment plan, (2) sell securities that are convertible into shares of our common stock, (3) issue shares of our common stock in a private offering of securities to institutional investors, (4) issue shares of our common stock upon the exercise of the options granted to our independent directors, (5) issue shares to our advisor, its successors or assigns, in payment of an outstanding fee obligation as set forth under our advisory agreement, or (6) issue shares of our common stock to sellers of properties acquired by us in connection with an exchange of limited partnership interests of Cole OP II, existing stockholders and investors purchasing shares in our offering will likely experience dilution of their equity investment in us. In addition, the partnership agreement for Cole OP II contains provisions that would allow, under certain circumstances, other entities, including other Cole-sponsored programs, to merge into or cause the exchange or conversion of their interest for interests of Cole OP II. Because the limited partnership interests of Cole OP II may, in the discretion of our board of directors, be exchanged for shares of our common stock, any merger, exchange or conversion between Cole OP II and another entity ultimately could result in the issuance of a substantial number of shares of our common stock, thereby diluting the percentage ownership interest of other stockholders. Because of these and other reasons described in this Risk Factors section, you should not expect to be able to own a significant percentage of our shares.

Payment of fees to Cole Advisors II and its affiliates reduces cash available for investment and distribution.

Cole Advisors II and its affiliates perform services for us in connection with our offer and sale of our shares, the selection and acquisition of our investments, and the management and leasing of our properties, the servicing of our mortgage loans, if any, and the administration of our other investments. They are paid substantial fees for these services, which reduces the amount of cash available for investment in properties or distribution to stockholders.

We may be unable to pay or maintain cash distributions or increase distributions over time.

There are many factors that can affect the availability and timing of cash distributions to stockholders. Distributions will be based principally on cash available from our operations. The amount of cash available for distributions is affected by many factors, such as our ability to buy properties as offering proceeds become available, rental income from such properties, and our operating expense levels, as well as many other variables. Actual cash available for distributions may vary substantially from estimates. We may not be able to pay or maintain our current level of distributions or increase distributions over time. Rents from the properties may not increase, or may decrease, we may

experience increased vacancies, the securities we buy may not increase in value or provide constant or increased distributions over time, and future acquisitions of real properties, mortgage loans and any investments in securities may not increase our cash available for distributions to stockholders. Our actual results may differ significantly from the assumptions used by our board of directors in establishing the distribution rate to stockholders. We may not have sufficient cash from operations to make a distribution required to maintain our REIT status.

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General Risks Related to Investments in Real Estate

Our operating results will be affected by economic and regulatory changes that have an adverse impact on the real estate market in general, which may prevent us from being profitable or from realizing growth in the value of our real estate properties.

Our operating results are subject to risks generally incident to the ownership of real estate, including:

changes in general economic or local conditions;

changes in supply of or demand for similar or competing properties in an area;

changes in interest rates and availability of permanent mortgage funds that may render the sale of a property difficult or unattractive;

the illiquidity of real estate investments generally;

changes in tax, real estate, environmental and zoning laws; and

periods of high interest rates and tight money supply.

These risk and other factors may prevent us from being profitable, or from maintaining or growing the value of our real estate properties.

Many of our retail properties depend upon a single tenant, or a limited number of major tenants, for all or a majority of its rental income; therefore, our financial condition and ability to make distributions to you may be adversely affected by the bankruptcy or insolvency, a downturn in the business, or a lease termination of a single tenant.

Many of our properties are occupied by only one tenant or derive a majority of its rental income from a limited number of major tenants and, therefore, the success of those properties are materially dependent on the financial stability of such tenants. Lease payment defaults by tenants could cause us to reduce the amount of distributions we pay. A default of a tenant on its lease payments to us would cause us to lose revenue from the property and force us to find an alternative source of revenue to meet any expenses associated with the property and prevent a foreclosure if the property is subject to a mortgage. In the event of a default by a single or major tenant, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and re-letting the property. If a lease is terminated, we may not be able to lease the property for the rent previously received or sell the property without incurring a loss. A default by a tenant, the failure of a guarantor to fulfill its obligations or other premature termination of a lease, or a tenant s election not to extend a lease upon its expiration, could have an adverse effect on our financial condition and our ability to pay distributions to you.

A high concentration of our properties in a particular geographic area, or with tenants in a similar industry, would magnify the effects of downturns in that geographic area or industry.

We expect that our properties will continue to be diverse according to geographic area and industry of our tenants. However, in the event that we have a concentration of properties in any particular geographic area, any adverse situation that disproportionately effects that geographic area would have a magnified adverse effect on our portfolio. Similarly, if tenants of our properties become concentrated in a certain industry or industries, any adverse effect to that industry generally would have a disproportionately adverse effect on our portfolio.

If a tenant declares bankruptcy, we may be unable to collect balances due under relevant leases.

Any of our tenants, or any guarantor of one of our tenant s lease obligations, could be subject to a bankruptcy proceeding pursuant to Title 11 of the bankruptcy laws of the United States. Such a bankruptcy filing would bar us from attempting to collect pre-bankruptcy debts from the bankrupt tenant or its properties unless we receive an enabling order from the bankruptcy court. Post-bankruptcy debts would be paid currently. If we assume a lease, all pre-bankruptcy balances owing under it must be paid in full. If a lease is rejected by a tenant in bankruptcy, we would have a general unsecured claim for damages. If a lease is rejected, it is unlikely we would receive any payments from the tenant because our claim would be capped at the rent reserved under the lease, without acceleration, for the greater

of one year or 15% of the remaining term of the lease, but not greater than three years, plus rent already due but unpaid. This claim could be paid only in the event funds were available, and then only in the same percentage as that realized on other unsecured claims.

The bankruptcy of a tenant or lease guarantor could delay our efforts to collect past due balances under the relevant lease, and could ultimately preclude full collection of these sums. Such an event also could cause a decrease or cessation of current rental payments, reducing our cash flow and the amount available for distributions to you. In the event a tenant or lease guarantor declares bankruptcy, the tenant or its trustee may not assume our lease or its guaranty. If a given lease or guaranty is not assumed, our cash flow and the amounts available for distributions to you may be adversely affected.

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

We have entered, and may continue to enter, into sale-leaseback transactions, whereby we would purchase a property and then lease the same property back to the person from whom we purchased it. In the event of the bankruptcy of a tenant, a transaction structured as a sale-leaseback may be re-characterized as either a financing or a joint venture, either of which outcomes could adversely affect our financial condition, cash flow and the amount available for distributions to you.

If the sale-leaseback were re-characterized as a financing, we might not be considered the owner of the property, and as a result would have the status of a creditor in relation to the tenant. In that event, we would no longer have the right to sell or encumber our ownership interest in the property. Instead, we would have a claim against the tenant for the amounts owed under the lease, with the claim arguably secured by the property. The tenant/debtor might have the ability to propose a plan restructuring the term, interest rate and amortization schedule of its outstanding balance. If confirmed by the bankruptcy court, we could be bound by the new terms, and prevented from foreclosing our lien on the property. If the sale-leaseback were re-characterized as a joint venture, our lessee and we could be treated as co-venturers with regard to the property. As a result, we could be held liable, under some circumstances, for debts incurred by the lessee relating to the property.

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

A property may incur vacancies either by the continued default of a tenant under its leases, the expiration of a tenant lease or early termination of a lease by a tenant. If vacancies continue for a long period of time, we may suffer reduced revenues resulting in less cash to be distributed to you. In addition, because a property s market value depends principally upon the value of the property s leases, the resale value of a property with prolonged vacancies could decline, which could further reduce your return.

We may be unable to secure funds for future tenant improvements or capital needs, which could adversely impact our ability to pay cash distributions to you.

When tenants do not renew their leases or otherwise vacate their space, it is usual that, in order to attract replacement tenants, we will be required to expend substantial funds for tenant improvements and tenant refurbishments to the vacated space. In addition, although we expect that our leases with tenants will require tenants to pay routine property maintenance costs, we will likely be responsible for any major structural repairs, such as repairs to the foundation, exterior walls and rooftops. We will use substantially all of the gross proceeds from our Offerings to buy real estate and real estate-related investments and to pay various fees and expenses. We reserve only approximately 0.1% of the gross proceeds from our Offerings for future capital needs. Accordingly, if we need additional capital in the future to improve or maintain our properties or for any other reason, we will have to obtain financing from other sources, such as cash flow from operations, borrowings, property sales or future equity offerings. These sources of funding may not be available on attractive terms or at all. If we cannot procure additional funding for capital improvements, our investments may generate lower cash flows or decline in value, or both.

We may obtain only limited warranties when we purchase a property and would have only limited recourse in the event our due diligence did not identify any issues that lower the value of our property.

The seller of a property often sells such property in its as is condition on a where is basis and with all faults, without any warranties of merchantability or fitness for a particular use or purpose. In addition, purchase agreements may contain only limited warranties, representations and indemnifications that will only survive for a limited period after the closing. The purchase of properties with limited warranties increases the risk that we may lose some or all of our invested capital in the property, as well as the loss of rental income from that property.

Our inability to sell a property when we desire to do so could adversely impact our ability to pay cash distributions to you.

The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates, supply and demand, and other factors that are beyond our control. We cannot predict whether we will be able to sell any property for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We may be required to expend funds to correct defects or to make

improvements before a property can be sold. We may not have adequate funds available to correct such defects or to make such improvements. Moreover, in acquiring a property, we may agree to restrictions that prohibit the sale of that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. We cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. Our inability to sell a property when we desire to do so may cause us to reduce our selling price for the property. Any delay in our receipt of proceeds, or diminishment of proceeds, from the sale of a property could adversely impact our ability to pay distributions to you.

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We may not be able to sell our properties at a price equal to, or greater than, the price for which we purchased such property, which may lead to a decrease in the value of our assets.

Many of our leases will not contain rental increases over time. When that is the case, the value of the leased property to a potential purchaser may not increase over time, which may restrict our ability to sell that property, or if we are able to sell that property, may result in a sale price less than the price that we paid to purchase the property.

We may acquire or finance properties with lock-out provisions, which may prohibit us from selling a property, or may require us to maintain specified debt levels for a period of years on some properties.

A lock-out provision is a provision that prohibits the prepayment of a loan during a specified period of time. Lock-out provisions may include terms that provide strong financial disincentives for borrowers to prepay their outstanding loan balance and exist in order to protect the yield expectations of investors. We expect that many of our properties will be subject to lock-out provisions. Lock-out provisions could materially restrict us from selling or otherwise disposing of or refinancing properties when we may desire to do so. Lock-out provisions may prohibit us from reducing the outstanding indebtedness with respect to any properties, refinancing such indebtedness on a non-recourse basis at maturity, or increasing the amount of indebtedness with respect to such properties. Lock-out provisions could impair our ability to take other actions during the lock-out period that could be in the best interests of our stockholders and, therefore, may have an adverse impact on the value of our shares relative to the value that would result if the lock-out provisions did not exist. In particular, lock-out provisions could preclude us from participating in major transactions that could result in a disposition of our assets or a change in control even though that disposition or change in control might be in the best interests of our stockholders.

Increased operating expenses could reduce cash flow from operations and funds available to acquire investments or make distributions.

Our properties, including those that we acquire in the future, are and will be, subject to operating risks common to real estate in general, any or all of which may negatively affect us. If any property is not fully occupied or if rents are being paid in an amount that is insufficient to cover operating expenses, we could be required to expend funds with respect to that property for operating expenses. The properties will be subject to increases in tax rates, utility costs, insurance costs, repairs and maintenance costs, administrative costs and other operating expenses. While many of our property leases require the tenants to pay all or a portion of these expenses, some of our leases or future leases may not be negotiated on that basis, in which event we may have to pay these costs. If we are unable to lease properties on terms that require the tenants to pay all or some of the properties operating expenses, if our tenants fail to pay these expenses as required or if expenses we are required to pay exceed our expectations, we could have less funds available for future acquisitions or cash available for distributions to you.

The current market environment may materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

The global financial markets have undergone pervasive and fundamental disruptions since mid-2007. The disruptions in the global financial markets had an adverse impact on the availability of credit to businesses generally. To the extent that the global economic recession continues and/or, intensifies, it has the potential to materially adversely affect the value of our properties and other investments we make, the availability or the terms of financing that we may anticipate utilizing, and our ability to make principal and interest payments on, or refinance, any outstanding debt when due, and/or the ability of our tenants/operators to enter into new leasing transactions or satisfy rental payments under existing leases. The current market environment also could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders as follows:

Debt Market Although there are signs of recovery, the real estate debt markets are currently experiencing volatility as a result of certain factors, including the tightening of underwriting standards by lenders and credit rating agencies. Should overall borrowing costs increase, either by increases in the index rates or by increases in lender spreads, our operations may generate lower returns. In addition, the recent dislocations in the debt markets have reduced the amount of capital that is available to finance real estate, which, in turn: (1) limits the ability of real estate investors to make new acquisitions and to potentially benefit from reduced real estate values or to realize enhanced returns on real estate investments; (2) has slowed real estate transaction activity; and (3) may result in an inability to refinance debt as it becomes due. In addition, the

state of the debt markets could have a material adverse impact on the overall amount of capital being invested in real estate, which may result in price or value decreases of real estate assets and impact our ability to raise equity capital.

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Commercial Real Estate Market The recent global economic recession has caused commercial real estate values to decline substantially. As a result, there may be uncertainty in the valuation, or in the stability of the value, of the properties we acquire that could result in a substantial decrease in the value of our properties after we purchase them. Consequently, we may not be able to recover the carrying amount of our properties, which may require us to recognize an impairment charge in earnings.

Government Intervention The disruptions in the global financial markets have led to extensive and unprecedented government intervention. Although the government intervention is intended to stimulate the flow of capital and to strengthen the U.S. economy in the short term, it is impossible to predict the actual effect of the government intervention and what effect, if any, additional interim or permanent governmental intervention may have on the financial markets and/or the effect of such intervention on us.

Adverse economic and geopolitical conditions may negatively affect our returns and profitability.

Our operating results may be affected by market and economic challenges, which may result from a continued or exacerbated general economic downturn experienced by the nation as a whole, by the local economies where our properties may be located, or by the real estate industry including the following:

poor economic conditions may result in tenant defaults under leases;

poor economic conditions may result in lower revenue to us from retailers who pay us a percentage of their revenues under percentage rent leases;

re-leasing may require concessions or reduced rental rates under the new leases;

constricted access to credit may result in tenant defaults or non-renewals under leases; and

increased insurance premiums may reduce funds available for distribution or, to the extent such increases are passed through to tenants, may lead to tenant defaults. Increased insurance premiums may make it difficult to increase rents to tenants on turnover, which may adversely affect our ability to increase our returns.

The length and severity of any economic slow down or downturn cannot be predicted. Our operations could be negatively affected to the extent that an economic slow down or downturn is prolonged or becomes more severe. The United States armed conflict in various parts of the world could have a further impact on our tenants. The consequences of any armed conflict are unpredictable, and we may not be able to foresee events that could have an adverse effect on our business or your investment. More generally, any of these events could result in increased volatility in or damage to the United States and worldwide financial markets and economy. They also could result in higher energy costs and increased economic uncertainty in the United States or abroad. Our revenues will be dependent upon payment of rent by retailers, which may be particularly vulnerable to uncertainty in the local economy. Adverse economic conditions could affect the ability of our tenants to pay rent, which could have a material adverse effect on our operating results and financial condition, as well as our ability to pay distributions to you.

The failure of any bank in which we deposit our funds could reduce the amount of cash we have available to pay distributions and make additional investments.

We diversify our cash and cash equivalents, and will continue to do so, among several banking institutions in an attempt to minimize exposure to any one of these entities. However, the Federal Deposit Insurance Corporation, or FDIC, only insures amounts up to $250,000 per depositor per insured bank. As of December 31, 2009, we had cash and cash equivalents and restricted cash deposited in certain financial institutions in excess of federally insured levels. If any of the banking institutions in which we have deposited funds ultimately fails, we may lose our deposits over the federally insured level. The loss of our deposits could reduce the amount of cash we have available to distribute or invest and could result in a decline in the value of your investment.

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If we suffer losses that are not covered by insurance or that are in excess of insurance coverage, we could lose invested capital and anticipated profits.

Generally, each of our tenants is, and we expect will be, responsible for insuring its goods and premises and, in some circumstances, may be required to reimburse us for a share of the cost of acquiring comprehensive insurance for the property, including casualty, liability, fire and extended coverage customarily obtained for similar properties in amounts that our advisor determines are sufficient to cover reasonably foreseeable losses. Tenants of single-user properties leased on a triple-net-lease basis typically are required to pay all insurance costs associated with those properties. Material losses may occur in excess of insurance proceeds with respect to any property, as insurance may not be sufficient to fund the losses. However, there are types of losses, generally of a catastrophic nature, such as losses due to wars, acts of terrorism, earthquakes, floods, hurricanes, pollution or environmental matters, which are either uninsurable or not economically insurable, or may be insured subject to limitations, such as large deductibles or co-payments. Insurance risks associated with potential terrorism acts could sharply increase the premiums we pay for coverage against property and casualty claims. Additionally, mortgage lenders in some cases insist that commercial property owners purchase specific coverage against terrorism as a condition for providing mortgage loans. It is uncertain whether such insurance policies will be available, or available at reasonable cost, which could inhibit our ability to finance or refinance our potential properties. In these instances, we may be required to provide other financial support, either through financial assurances or self-insurance, to cover potential losses. We may not have adequate, or any, coverage for such losses. The Terrorism Risk Insurance Act of 2002 is designed for a sharing of terrorism losses between insurance companies and the federal government. We cannot be certain how this act will impact us or what additional cost to us, if any, could result. If such an event damaged or destroyed one or more of our properties, we could lose both our invested capital and anticipated profits from such property.

Real estate related taxes may increase, and if these increases are not passed on to tenants, our income will be reduced.

Local real property tax assessors may reassess our properties, which may result in increased taxes. Generally, property taxes increase as property values or assessment rates change, or for other reasons deemed relevant by property tax assessors. An increase in the assessed valuation of a property for real estate tax purposes will result in an increase in the related real estate taxes on that property. Although some tenant leases may permit us to pass through such tax increases to the tenants for payment, renewal leases or future leases may not be negotiated on the same basis. Tax increases not passed through to tenants may adversely affect our income, cash available for distributions, and the amount of distributions to you.

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

Some of our properties are, and we expect certain additional properties will be, contiguous to other parcels of real property, comprising part of the same retail center. In connection with such properties, we are subject to significant covenants, conditions and restrictions, known as CC&Rs, restricting the operation of such properties and any improvements on such properties, and related to granting easements on such properties. Moreover, the operation and management of the contiguous properties may impact such properties. Compliance with CC&Rs may adversely affect our operating costs and reduce the amount of funds that we have available to pay distributions to you.

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

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

projections and estimates of the fair market value of property upon completion of construction when agreeing upon a price at the time we acquire the property. If our projections are inaccurate, we may pay too much for a property, and our return on our investment could suffer.

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

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If we contract with a development company for newly developed property, our earnest money deposit made to the development company may not be fully refunded.

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

the development company fails to develop the property;

all or a specified portion of the pre-leased tenants fail to take possession under their leases for any reason; or

we are unable to raise sufficient proceeds from our Offerings to pay the purchase price at closing.

The obligation of the development company to refund our earnest money will be unsecured, and we may not be able to obtain a refund of such earnest money deposit from it under these circumstances since the development company may be an entity without substantial assets or operations. However, if the development company is an affiliate of our advisor, its obligation to refund our earnest money deposit may be guaranteed by Cole Realty Advisors, our property manager, which will enter into contracts to provide property management and leasing services to various Cole-sponsored programs, including us, for substantial monthly fees. As of the time Cole Realty Advisors may be required to perform under any guaranty, Cole Realty Advisors may not have sufficient assets to refund all of our earnest money deposit in a lump sum payment. If we were forced to collect our earnest money deposit by enforcing the guaranty of Cole Realty Advisors, we would likely be required to accept installment payments over time payable out of the revenues of Cole Realty Advisors operations. We may not be able to collect the entire amount of our earnest money deposit under such circumstances.

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

We compete with many other entities engaged in real estate investment activities, including individuals, corporations, bank and insurance company investment accounts, other REITs, real estate limited partnerships, and other entities engaged in real estate investment activities, many of which have greater resources than we do. Larger competitors may enjoy significant advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. In addition, the number of entities and the amount of funds competing for suitable investments may increase. Any such increase could result in increased demand for these assets and therefore increased prices paid for them. If we pay higher prices for properties and other investments as a result of competition with third parties without a corresponding increase in tenant lease rates, our profitability will be reduced, and you may experience a lower return on your investment.

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

We typically acquire properties located in developed areas. Therefore, there are and will be numerous other retail properties within the market area of each of our properties that will compete with us for tenants. The number of competitive properties could have a material effect on our ability to rent space at our properties and the amount of rents charged. We could be adversely affected if additional competitive properties are built in close proximity to our

properties, causing increased competition for customer traffic and creditworthy tenants. This could result in decreased cash flow from tenants and may require us to make capital improvements to properties that we would not have otherwise made, thus affecting cash available for distributions to you and the amount of distributions we pay.

Acquiring or attempting to acquire multiple properties in a single transaction may adversely affect our operations. From time to time, we acquire multiple properties in a single transaction. Portfolio acquisitions are more complex and expensive than single property acquisitions, and the risk that a multiple-property acquisition does not close may be greater than in a single-property acquisition. Portfolio acquisitions may also result in us owning investments in geographically dispersed markets, placing additional demands on our ability to manage the properties in the portfolio. In addition, a seller may require that a group of properties be purchased as a package even though we may not want to purchase one or more properties in the portfolio. In these situations, if we are unable to identify another person or entity to acquire the unwanted properties, we may be required to operate or attempt to dispose of these properties. To acquire multiple properties in a single transaction we may be required to accumulate a large amount of cash. We would expect the returns that we earn on such cash to be less than the ultimate returns on real property, therefore accumulating such cash could reduce our funds available for distributions to you. Any of the foregoing events may have an adverse effect on our operations.

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If we set aside insufficient capital reserves, we may be required to defer necessary capital improvements.

If we do not have enough reserves for capital to supply needed funds for capital improvements throughout the life of the investment in a property and there is insufficient cash available from our operations, we may be required to defer necessary improvements to a property, which may cause that property to suffer from a greater risk of obsolescence or a decline in value, or a greater risk of decreased cash flow as a result of fewer potential tenants being attracted to the property. If this happens, we may not be able to maintain projected rental rates for affected properties, and our results of operations may be negatively impacted.

Costs of complying with environmental laws and regulations may adversely affect our income and the cash available for any distributions.

All real property and the operations conducted on real property are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. These laws and regulations generally govern wastewater discharges, air emissions, the operation and removal of underground and above-ground storage tanks, the use, storage, treatment, transportation and disposal of solid hazardous materials, and the remediation of contamination associated with disposals. Some of these laws and regulations may impose joint and several liability on tenants, owners or operators for the costs of investigation or remediation of contaminated properties, regardless of fault or whether the acts causing the contamination were legal. This liability could be substantial. In addition, the presence of hazardous substances, or the failure to properly remediate these substances, may adversely affect our ability to sell or rent such property or to use such property as collateral for future borrowing.

Compliance with new or more stringent laws or regulations or stricter interpretation of existing laws may require material expenditures by us. Future laws, ordinances or regulations may impose material environmental liability. Additionally, our properties may be affected by our tenants operations, the existing condition of land when we buy it, operations in the vicinity of our properties, such as the presence of underground storage tanks, or activities of unrelated third parties. In addition, there are various local, state and federal fire, health, life-safety and similar regulations that we may be required to comply with, and that may subject us to liability in the form of fines or damages for noncompliance. Any material expenditures, fines, or damages we must pay will reduce our ability to make distributions to you and may reduce the value of your investment.

We may not obtain an independent third-party environmental assessment for every property we acquire. In addition, any such assessment that we do obtain may not reveal all environmental liabilities. The cost of defending against claims of liability, of compliance with environmental regulatory requirements, of remediating any contaminated property, or of paying personal injury claims would materially adversely affect our business, assets or results of operations and, consequently, amounts available for distribution to you.

Discovery of previously undetected environmentally hazardous conditions may adversely affect our operating results.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the cost of removal or remediation of hazardous or toxic substances on, under or in such property. The costs of removal or remediation could be substantial. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures. Environmental laws provide for sanctions in the event of noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. Certain environmental laws and common law principles could be used to impose liability for release of and exposure to hazardous substances, including asbestos-containing materials into the air, and third parties may seek recovery from owners or operators of real properties for personal injury or property damage associated with exposure to released hazardous substances. The cost of defending against claims of liability, of compliance with environmental regulatory requirements, of remediating any contaminated property, or of paying personal injury claims could materially adversely affect our business, assets or results of operations and, consequently, amounts available for distribution to you.

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

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

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

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

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Our costs associated with complying with the Americans with Disabilities Act of 1990, as amended, may affect cash available for distributions.

Our properties generally are subject to the Americans with Disabilities Act of 1990, as amended (the Disabilities Act). Under the Disabilities Act, all places of public accommodation are required to comply with federal requirements related to access and use by disabled persons. The Disabilities Act has separate compliance requirements for public accommodations and commercial facilities that generally require that buildings and services be made accessible and available to people with disabilities. The Disabilities Act s requirements could require removal of access barriers and could result in the imposition of injunctive relief, monetary penalties, or, in some cases, an award of damages. We will attempt to acquire properties that comply with the Disabilities Act or place the burden on the seller or other third party, such as a tenant, to ensure compliance with the Disabilities Act. However, we cannot assure you that we will be able to acquire properties or allocate responsibilities in this manner. If we cannot, our funds used for Disabilities Act compliance may affect cash available for distributions and the amount of distributions to you.

Risks Associated with Debt Financing

We have incurred, and expect to continue to incur, mortgage indebtedness and other borrowings, which may increase our business risks, hinder our ability to make distributions, and decrease the value of your investment.

We expect to incur additional indebtedness even if we raise significant proceeds in our Offerings. We expect that in most instances, we will acquire real properties by using either existing financing or borrowing new funds. In addition, we may incur mortgage debt and pledge all or some of our real properties as security for that debt to obtain funds to acquire additional real properties. We may borrow if we need funds to satisfy the REIT tax qualification requirement that we distribute at least 90% of our annual taxable income to our stockholders. We may also borrow if we otherwise deem it necessary or advisable to assure that we maintain our qualification as a REIT for federal income tax purposes. Our advisor believes that utilizing borrowing is consistent with our investment objective of maximizing the return to investors. There is no limitation on the amount we may borrow against any single improved property. However, under our charter, we are required to limit our borrowings to 60% of the greater of cost (before deducting depreciation or other non-cash reserves) or fair market value of our gross assets, unless excess borrowing is approved by a majority of the independent directors. This level of borrowing is less than, and our borrowings will not exceed, 300% of our net assets, as set forth in the NASAA REIT Guidelines.

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

High interest rates may make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire and the amount of cash distributions we can make to you.

We run the risk of being unable to finance or refinance our properties on favorable terms or at all. If interest rates are higher when we desire to mortgage our properties or when existing loans come due and the properties need to be refinanced, we may not be able to finance the properties and we would be required to use cash to purchase or repay outstanding obligations. Our inability to use debt to finance or refinance our properties could reduce the number of properties we can acquire, which could reduce our operating income and the amount of cash distributions we can

make to you. Higher costs of capital also could negatively impact operating income and returns on our investments.

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Lenders may require us to enter into restrictive covenants relating to our operations, which could limit our ability to make distributions to our stockholders.

In connection with providing us financing, a lender could impose restrictions on us that affect our distribution and operating policies and our ability to incur additional debt. Loan documents we enter into may contain covenants that limit our ability to further mortgage the property, discontinue insurance coverage or replace Cole Advisors II as our advisor. These or other limitations may adversely affect our flexibility and our ability to achieve our investment and operating objectives.

Increases in interest rates could increase the amount of our debt payments and adversely affect our ability to pay distributions to our stockholders.

To the extent that we incur variable rate debt, increases in interest rates would increase our interest costs, which could reduce our cash flows and our ability to pay distributions to our stockholders. In addition, if we need to repay existing debt during periods of rising interest rates, we could be required to liquidate one or more of our investments in properties at times that may not permit realization of the maximum return on such investments.

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

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

Interest-only indebtedness may increase our risk of default and ultimately may reduce our funds available for distribution to you.

We have financed, and may continue to finance, our property acquisitions using interest-only mortgage indebtedness. During the interest-only period, the amount of each scheduled payment will be less than that of a traditional amortizing mortgage loan. The principal balance of the mortgage loan will not be reduced (except in the case of prepayments) because there are no scheduled monthly payments of principal during this period. After the interest-only period, we will be required either to make scheduled payments of amortized principal and interest or to make a lump-sum or balloon payment at maturity. These required principal or balloon payments will increase the amount of our scheduled payments and may increase our risk of default under the related mortgage loan. If the mortgage loan has an adjustable interest rate, the amount of our scheduled payments also may increase at a time of rising interest rates. Increased payments and substantial principal or balloon maturity payments will reduce the funds available for distribution to our stockholders because cash otherwise available for distribution will be required to pay principal and interest associated with these mortgage loans.

To hedge against exchange rate and interest rate fluctuations, we may use derivative financial instruments that may be costly and ineffective and may reduce the overall returns on your investment.

We have used, and may continue to use, derivative financial instruments to hedge our exposure to changes in exchange rates and interest rates on loans secured by our assets and investments in CMBS. Derivative instruments may include interest rate swap contracts, interest rate cap or floor contracts, futures or forward contracts, options or repurchase agreements. Our actual hedging decisions will be determined in light of the facts and circumstances existing at the time of the hedge and may differ from time to time.

To the extent that we use derivative financial instruments to hedge against exchange rate and interest rate fluctuations, we will be exposed to credit risk, basis risk and legal enforceability risks. In this context, credit risk is the failure of the counterparty to perform under the terms of the derivative contract. If the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk for us. We intend to manage credit risk by dealing only with major financial institutions that have high credit ratings. Basis risk occurs when the index upon which the

contract is based is more or less variable than the index upon which the hedged asset or liability is based, thereby making the hedge less effective. We intend to manage basis risk by matching, to a reasonable extent, the contract index to the index upon which the hedged asset or liability is based. Finally, legal enforceability risks encompass general contractual risks, including the risk that the counterparty will breach the terms of, or fail to perform its obligations under, the derivative contract. We intend to manage legal enforceability risks by ensuring, to the best of our ability, that we contract with reputable counterparties and that each counterparty complies with the terms and conditions of the derivative contract. If we are unable to manage these risks effectively, our results of operations, financial condition and ability to pay distributions to you will be adversely affected.

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If we enter into financing arrangements involving balloon payment obligations, it may adversely affect our ability to make distributions to you.

Some of our financing arrangements may require us to make a lump-sum or balloon payment at maturity. Our ability to make a balloon payment at maturity is uncertain and may depend upon our ability to obtain additional financing or our ability to sell the property. At the time the balloon payment is due, we may or may not be able to refinance the balloon payment on terms as favorable as the original loan, or at all, or sell the property at a price sufficient to make the balloon payment. The effect of a refinancing or sale could affect the rate of return to stockholders and the projected time of disposition of our assets. In addition, payments of principal and interest made to service our debts may leave us with insufficient cash to pay the distributions that we are required to pay to maintain our qualification as a REIT. Any of these results would have a significant, negative impact on your investment.

Risks Associated with Co-Ownership Transactions

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

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

- the risk that a co-owner may at any time have economic or business interests or goals that are or become inconsistent with our business interests or goals;
- the risk that a co-owner may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives;
- the possibility that an individual co-owner might become insolvent or bankrupt, or otherwise default under the applicable mortgage loan financing documents, which may constitute an event of default under all of the applicable mortgage loan financing documents or allow the bankruptcy court to reject the agreements entered into by the co-owners owning interests in the property;
- the possibility that a co-owner might not have adequate liquid assets to make cash advances that may be required in order to fund operations, maintenance and other expenses related to the property, which could result in the loss of current or prospective tenants and may otherwise adversely affect the operation and maintenance of the property, and could cause a default under the mortgage loan financing documents applicable to the property and may result in late charges, penalties and interest, and may lead to the exercise of foreclosure and other remedies by the lender;
- the risk that a co-owner could breach agreements related to the property, which may cause a default, or result in personal liability for, the applicable mortgage loan financing documents, violate applicable securities law, result in a foreclosure or otherwise adversely affect the property and the co-ownership arrangement;
- we could have limited control and rights, with management decisions made entirely by a third-party; or
- the possibility that we will not have the right to sell the property at a time that otherwise could result in the property being sold for its maximum value.

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

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

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

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Risks Associated with Investments in Mortgage, Bridge and Mezzanine Loans and Real Estate-Related Securities

We do not have substantial experience investing in mortgage, bridge or mezzanine loans, which could adversely affect our return on our loan investments.

We may make or acquire mortgage, bridge or mezzanine loans, or participations in such loans, to the extent our advisor and board of directors determine that it is advantageous for us to do so. However, neither our advisor nor any of its affiliates has any substantial experience investing in mortgage, bridge or mezzanine loans. If we make or acquire mortgage, bridge or mezzanine loans or participations in them, we may not have the expertise necessary to maximize the return on our investment in these types of loans. If we make or invest in mortgage, bridge or mezzanine loans, we will be at risk of defaults on those loans caused by many conditions beyond our control, including local and other economic conditions affecting real estate values, interest rate changes, rezoning, and failure by the borrower to maintain the property. If there are defaults under these loans, we may not be able to repossess and sell quickly any properties securing such loans. An action to foreclose on a property securing a loan is regulated by state statutes and regulations and is subject to many of the delays and expenses of any lawsuit brought in connection with the foreclosure if the defendant raises defenses or counterclaims. In the event of default by a mortgagor, these restrictions, among other things, may impede our ability to foreclose on or sell the mortgaged property or to obtain proceeds sufficient to repay all amounts due to us on the loan, which could reduce the value of our investment in the defaulted loan. In addition, investments in mezzanine loans involve a higher degree of risk than long-term senior mortgage lending secured by income-producing real property because the investment may become unsecured as a result of foreclosure on the underlying real property by the senior lender.

We may invest in various types of real estate-related securities.

Aside from investments in real estate, we are permitted to invest in real estate-related securities, including securities issued by other real estate companies, CMBS, mortgage, bridge, mezzanine or other loans and Section 1031 tenant-in-common interests, and we may invest in real estate-related securities of both publicly traded and private real estate companies. We are focused, however, on acquiring interests in retail and other income-producing properties. We may not have the expertise necessary to maximize the return on our investment in real estate-related securities. If our advisor determines that it is advantageous to us to make the types of investments in which our advisor or its affiliates do not have experience, our advisor intends to employ persons, engage consultants or partner with third parties that have, in our advisor s opinion, the relevant expertise necessary to assist our advisor in evaluating, making and administering such investments.

Investments in real estate-related securities are subject to specific risks relating to the particular issuer of the securities and may be subject to the general risks of investing in subordinated real estate securities, which may result in losses to us.

Our investments in real estate-related securities will involve special risks relating to the particular issuer of the securities, including the financial condition and business outlook of the issuer. Issuers of real estate-related equity securities generally invest in real estate or real estate-related assets and are subject to the inherent risks associated with real estate-related investments discussed in this prospectus, including risks relating to rising interest rates.

Real estate-related securities are often unsecured and also may be subordinated to other obligations of the issuer. As a result, investments in real estate-related securities are subject to risks of (1) limited liquidity in the secondary trading market in the case of unlisted or thinly traded securities, (2) substantial market price volatility resulting from changes in prevailing interest rates in the case of traded equity securities, (3) subordination to the prior claims of banks and other senior lenders to the issuer, (4) the operation of mandatory sinking fund or call/redemption provisions during periods of declining interest rates that could cause the issuer to reinvest redemption proceeds in lower yielding assets, (5) the possibility that earnings of the issuer may be insufficient to meet its debt service and distribution obligations and (6) the declining creditworthiness and potential for insolvency of the issuer during periods of rising interest rates and economic slow down or downturn. These risks may adversely affect the value of outstanding real estate-related securities and the ability of the issuers thereof to repay principal and interest or make distribution payments.

The CMBS in which we have invested, and may continue to invest, are subject to all of the risks of the underlying mortgage loans, the risks of the securitization process and dislocations in the mortgage-backed securities market in

general.

CMBS are securities that evidence interests in, or are secured by, a single commercial mortgage loan or a pool of commercial mortgage loans. Accordingly, these securities are subject to all of the risks of the underlying mortgage loans. In a rising interest rate environment, the value of CMBS may be adversely affected when payments on underlying mortgages do not occur as anticipated, resulting in the extension of the security s effective maturity and the related increase in interest rate sensitivity of a longer-term instrument. The value of CMBS may also change due to shifts in the market s perception of issuers and regulatory or tax changes adversely affecting the mortgage securities market as a whole. In addition, CMBS are subject to the credit risk associated with the performance of the underlying mortgage properties. CMBS are issued by investment banks, not financial institutions, and are not insured or guaranteed by the U.S. government.

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CMBS are also subject to several risks created through the securitization process. Subordinate CMBS are paid interest only to the extent that there are funds available to make payments. To the extent the collateral pool includes delinquent loans, there is a risk that interest payments on subordinate CMBS will not be fully paid. Subordinate CMBS are also subject to greater credit risk than those CMBS that are more highly rated. In certain instances, third-party guarantees or other forms of credit support can reduce the credit risk.

Although we intend to invest only in mortgage-backed securities collateralized by commercial loans, the value of such CMBS can be negatively impacted by any dislocation in the mortgage-backed securities market in general. Currently, the mortgage-backed securities market is suffering from a severe dislocation created by mortgage pools that include sub-prime mortgages secured by residential real estate. Sub-prime loans often have high interest rates and are often made to borrowers with credit scores that would not qualify them for prime conventional loans. In recent years, banks made a great number of the sub-prime residential mortgage loans with high interest rates, floating interest rates, interest rates that reset from time to time, and/or interest-only payment features that expire over time. These terms, coupled with rising interest rates, have caused an increasing number of homeowners to default on their mortgages. Purchasers of mortgage-backed securities collateralized by mortgage pools that include risky sub-prime residential mortgages have experienced severe losses as a result of the defaults and such losses have had a negative impact on the CMBS market.

Federal Income Tax Risks

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

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

Re-characterization of the Section 1031 programs may result in a 100% tax on income from a prohibited transaction, which would diminish our cash distributions to our stockholders.

The Internal Revenue Service could re-characterize transactions under the Section 1031 program such that Cole OP II, rather than the co-owner in the program (Section 1031 Participant), is treated as the bona fide owner, for tax purposes, of properties acquired and resold by a Section 1031 Participant in connection with the Section 1031 program. Such characterization could result in the fees paid to Cole OP II by a Section 1031 Participant as being deemed income from a prohibited transaction, in which event the fee income paid to us in connection with the Section 1031 programs would be subject to a 100% penalty tax. If this occurs, our ability to pay cash distributions to our stockholders will be adversely affected. We expect to obtain a legal opinion in connection with each co-ownership program to the effect that the program will qualify as a like-kind exchange under Section 1031 of the Internal Revenue Code. However, the Internal Revenue Service may take a position contrary to such an opinion.

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

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

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

If you participate in our distribution reinvestment plan, you will be deemed to have received, and for income tax purposes will be taxed on, the amount reinvested in common stock to the extent the amount reinvested was not a

tax-free return of capital. As a result, unless you are a tax-exempt entity, you may have to use funds from other sources to pay your tax liability on the value of the common stock received.

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If our operating partnership fails to maintain its status as a partnership, its income may be subject to taxation, which would reduce the cash available to us for distribution to you.

We intend to maintain the status of Cole OP II, our operating partnership, as a partnership for federal income tax purposes. However, if the Internal Revenue Service were to successfully challenge the status of our operating partnership as an entity taxable as a partnership, Cole OP II would be taxable as a corporation. In such event, this would reduce the amount of distributions that the operating partnership could make to us. This could also result in our losing REIT status, and becoming subject to a corporate level tax on our income. This would substantially reduce the cash available to us to make distributions to you and the return on your investment. In addition, if any of the partnerships or limited liability companies through which Cole OP II owns its properties, in whole or in part, loses its characterization as a partnership for federal income tax purposes, it would be subject to taxation as a corporation, thereby reducing distributions to our operating partnership. Such a re-characterization of an underlying property owner also could threaten our ability to maintain REIT status.

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

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

Legislative or regulatory action could adversely affect investors.

Changes to the tax laws are likely to occur, and such changes may adversely affect the taxation of a stockholder. Any such changes could have an adverse effect on an investment in our shares or on the market value or the resale potential of our assets. You are urged to consult with your own tax advisor with respect to the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our shares.

Congress passed major federal tax legislation in 2003, with modifications to that legislation in 2005. One of the changes affected by that legislation generally reduced the tax rate on dividends paid by corporations to individuals to a maximum of 15% prior to 2011. REIT distributions generally do not qualify for this reduced rate. The tax changes did not, however, reduce the corporate tax rates. Therefore, the maximum corporate tax rate of 35% has not been affected. However, as a REIT, we generally would not be subject to federal or state corporate income taxes on that portion of our ordinary income or capital gain that we distribute currently to our stockholders, and we thus expect to avoid the double taxation that other corporations are typically subject to.

Although REITs continue to receive substantially better tax treatment than entities taxed as corporations, it is possible that future legislation would result in a REIT having fewer tax advantages, and it could become more advantageous for a company that invests in real estate to elect to be taxed, for federal income tax purposes, as a corporation. As a result, our charter provides our board of directors with the power, under certain circumstances, to revoke or otherwise terminate our REIT election and cause us to be taxed as a corporation, without the vote of our stockholders. Our board of directors has fiduciary duties to us and our stockholders and could only cause such changes in our tax treatment if it determines in good faith that such changes are in the best interest of our stockholders.

Foreign holders of our common stock may be subject to FIRPTA tax upon the sale of their shares.

A foreign person disposing of a U.S. real property interest, including shares of a U.S. corporation whose assets consist principally of U.S. real property interests, is generally subject to a tax, known as FIRPTA tax, on the gain recognized on the disposition. Such FIRPTA tax does not apply, however, to the disposition of stock in a REIT if the REIT is domestically controlled. A REIT is domestically controlled if less than 50% of the REIT s stock, by value, has been owned directly or indirectly by persons who are not qualifying U.S. persons during a continuous five-year period

ending on the date of disposition or, if shorter, during the entire period of the REIT s existence. We cannot assure you that we will qualify as a domestically controlled REIT. If we were to fail to so qualify, gain realized by foreign investors on a sale of our shares would be subject to FIRPTA tax, unless our shares were traded on an established securities market and the foreign investor did not at any time during a specified testing period directly or indirectly own more than 5% of the value of our outstanding common stock.

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

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

your investment is consistent with your fiduciary obligations under ERISA and the Internal Revenue Code;

your investment is made in accordance with the documents and instruments governing your plan or IRA, including your plan s investment policy;

your investment satisfies the prudence and diversification requirements of ERISA and other applicable provisions of ERISA and the Internal Revenue Code;

your investment will not impair the liquidity of the plan or IRA;

your investment will not produce UBTI for the plan or IRA;

you will be able to value the assets of the plan annually in accordance with ERISA requirements and applicable provisions of the plan or IRA; and

your investment will not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the Internal Revenue Code.

Failure to satisfy the fiduciary standards of conduct and other applicable requirements of ERISA and the Internal Revenue Code may result in the imposition of civil and criminal penalties and could subject the fiduciary to equitable remedies. In addition, if an investment in our shares constitutes a prohibited transaction under ERISA or the Internal Revenue Code, the fiduciary who authorized or directed the investment may be subject to the imposition of excise taxes with respect to the amount invested.

ITEM 1B. ***UNRESOLVED STAFF COMMENTS***

None.

ITEM 2. ***PROPERTIES***

As of December 31, 2009, we owned 693 properties comprising approximately 19.5 million rentable square feet of single and multi-tenant retail and commercial space located in 45 states and the U.S. Virgin Islands. As of December 31, 2009, 397 of the properties were freestanding, single-tenant retail properties, 275 of the properties were freestanding, single-tenant commercial properties and 21 of the properties were multi-tenant retail properties. Of the leases related to these properties, 13 were classified as direct financing leases, as discussed in Note 4 to our consolidated financial statements. As of December 31, 2009, approximately 94% of the rentable square feet of these properties was leased, with an average remaining lease term of approximately 11.5 years. As of December 31, 2009, we had outstanding debt of approximately $1.6 billion, secured by properties in our portfolio and the related tenant leases. Through two joint ventures, we had an 85.48% indirect interest in an approximately 386,000 square foot multi-tenant retail building in Independence, Missouri and a 70% indirect interest in a ten-property storage facility portfolio as of December 31, 2009. As of December 31, 2009, the total assets held within the unconsolidated joint ventures was approximately $152.3 million and the face value of the non-recourse mortgage notes payable was approximately $113.5 million.

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Property Statistics

The following table shows the tenant diversification of our consolidated real estate assets, based on gross annualized base rent, as of December 31, 2009:

Tenant	Total Number of Leases	Leased Square Feet (1)	2009 Gross Annualized Base Rent (in thousands)	Percentage of 2009 Gross Annualized Base Rent
Walgreens drug store	57	824,683	$ 19,091	8%
Church s Chicken restaurant	1	244,067	13,210	6%
Academy Sports sporting goods	9	1,915,155	11,586	5%
Circle K convenience store	83	263,162	11,550	5%
CVS drug store	32	347,232	7,986	3%
Ferguson Enterprises specialty retail	8	1,111,843	6,940	3%
Petsmart specialty retail	8	1,035,471	6,146	3%
Lowe s home improvement	8	1,061,679	6,067	3%
Station Casinos gaming	1	138,558	5,922	3%
Pep Boys automotive parts	2	380,363	5,478	2%
Other	471	11,015,918	134,587	59%
	680	18,338,131	$ 228,563	100%

(1) Including square feet of the buildings on land that is subject to ground leases.

The following table shows the tenant industry diversification of our consolidated real estate assets, based on gross annualized base rent, as of December 31, 2009:

Industry	Total Number of Leases	Leased Square Feet (1)	2009 Gross Annualized Base Rent (in thousands)	Percentage of 2009 Gross Annualized Base Rent
Specialty retail	193	4,569,864	$ 41,188	18%
Drugstore	121	1,596,687	36,338	16%
Restaurant	90	720,008	29,425	13%
Sporting goods	16	2,190,386	15,258	7%
Home improvement	13	1,616,082	12,813	6%
Convenience stores	84	277,478	12,563	5%

Automotive parts	23	631,879	8,700	4%
Consumer electronics	14	541,138	6,945	3%
Fitness and health	15	404,542	6,811	3%
Warehouse club	6	635,875	6,705	3%
Other	105	5,154,192	51,817	22%
	680	18,338,131	$ 228,563	100%

(1) Including square feet of the buildings on land that is subject to ground leases.

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The following table shows the geographic diversification of our consolidated real estate assets, based on gross annualized base rent, as of December 31, 2009:

Location	Total Number of Properties	Rentable Square Feet (1)	2009 Gross Annualized Base Rents (in thousands)	Percentage of 2009 Gross Annualized Base Rent
Texas	158	3,476,292	$ 35,639	16%
Florida	22	2,078,050	24,039	11%
Illinois	21	1,683,522	17,787	8%
Georgia	57	1,010,900	15,870	7%
Ohio	61	609,863	12,122	5%
Nevada	2	1,009,278	9,747	4%
Missouri	24	668,733	8,971	4%
Tennessee	38	510,358	7,970	3%
Virginia	12	992,590	6,810	3%
North Carolina	17	780,175	6,433	3%
Other	281	6,713,993	83,175	36%
	693	19,533,754	$ 228,563	100%

(1) Including square feet of the buildings on land that is subject to ground leases.

Leases

Although there are variations in the specific terms of the leases of our properties, the following is a summary of the general structure of our leases. Generally, the leases of the properties owned provide for initial terms of 10 to 20 years. As of December 31, 2009, the weighted average remaining lease term was approximately 11.5 years. The properties are generally leased under net leases pursuant to which the tenant bears responsibility for substantially all property costs and expenses associated with ongoing maintenance and operation, including utilities, property taxes and insurance. Certain of the leases require us to maintain the roof and structure. The leases of the properties provide for annual base rental payments (payable in monthly installments) ranging from approximately $3,000 to approximately $8.1 million (average of approximately $246,000). Certain leases provide for limited increases in rent as a result of fixed increases, increases in the consumer price index, and/or increases in the tenant s sales volume.

Generally, the property leases provide the tenant with one or more multi-year renewal options, subject to generally the same terms and conditions as the initial lease term. Certain leases also provide that in the event we wish to sell the property subject to that lease, we first must offer the lessee the right to purchase the property on the same terms and conditions as any offer which we intend to accept for the sale of the property.

The following table shows lease expirations of our consolidated real estate assets as of December 31, 2009, during each of the next ten years and thereafter, assuming no exercise of renewal options or termination rights:

Year of Lease Expiration	Total Number of Leases	Leased Square Feet Expiring (1)	2009 Gross Annualized Base Rent (in thousands)	Percentage of 2009 Gross Annualized Base Rent
2010	28	329,477	$ 1,483	1%
2011	15	61,155	962	<1%
2012	48	301,055	4,738	2%
2013	58	526,731	6,703	3%
2014	20	309,814	3,710	2%
2015	29	1,369,097	11,041	5%
2016	38	1,696,667	17,049	7%
2017	56	1,615,584	16,896	7%
2018	68	1,337,168	18,367	8%
2019	17	470,607	7,067	3%
Thereafter	303	10,320,776	140,547	61%
	680	18,338,131	$ 228,563	100%

(1) Including square feet of the buildings on land that is subject to ground leases.

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Mortgage Information

As of December 31, 2009, we had approximately $1.6 billion of debt outstanding, consisting of approximately $1.5 billion in fixed rate mortgage loans (the Fixed Rate Debt), approximately $123.0 million of variable rate mortgage loans (the Variable Rate Debt) and approximately $33.0 million outstanding under the Credit Facility. The Fixed Rate Debt has interest rates ranging from 4.46% to 7.23%, with a weighted average interest rate of approximately 5.88%, and matures on various dates from November 2010 through August 2031. The Variable Rate Debt has interest rates that range from LIBO rate plus 200 to 325 basis points, with certain notes containing LIBO rate floors ranging from 4.50% to 5.00%, and matures on various dates from April 2010 through September 2011. See Note 10 to our consolidated financial statements in this Annual Report on Form 10-K for terms of the Credit Facility. As of December 31, 2009, approximately $101.5 million was available under the Credit Facility. Each of the notes payable is secured by the respective properties on which the debt was placed. The mortgage notes are generally non-recourse to us and Cole OP II, but both are liable for customary non-recourse carve-outs.

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

Generally, in the event that a mortgage note is not paid off on the respective maturity date, most mortgage notes include hyper-amortization provisions. Under the hyper-amortization provisions, the individual mortgage note maturity date will be extended by 20 years. During such period, the lender will apply 100% of the rents collected to the following items in the order indicated: (i) payment of accrued interest at the original fixed interest rate, (ii) all payments for escrow or reserve accounts, (iii) any operating expenses of the property pursuant to an approved annual budget, (iv) any extraordinary expenses and (v) the balance of the rents collected will be applied to the following in such order as the lender may determine: (1) any other amounts due in accordance with the loan documents, (2) the reduction of the principal balance of the mortgage note, and (3) capitalized interest at an interest rate equal to the greater of (A) the initial fixed interest rate as stated on the respective mortgage note agreement plus 2.0% per annum or (B) the then current Treasury Constant Maturity Yield Index plus 2.0% per annum.

ITEM 3. ***LEGAL PROCEEDINGS***

In the ordinary course of business, we may become subject to litigation or claims. There are no material pending legal proceedings or proceedings known to be contemplated against us or any of our subsidiaries, or which any of our properties is the subject.

ITEM 4. ***REMOVED AND RESERVED***

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PART II

ITEM 5. *MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES*

Market Information

As of March 29, 2010, we had approximately 206.0 million shares of common stock outstanding, held by a total of 41,350 stockholders of record. The number of stockholders is based on the records of DST Systems, Inc., who serves as our registrar and transfer agent.

There is no established trading market for our common stock. Therefore, there is a risk that a stockholder may not be able to sell our stock at a time or price acceptable to the stockholder, or at all. Pursuant to the Initial Offering and Follow-on Offering, we sold shares of our common stock to the public at a price of $10.00 per share and at a price of $9.50 per share pursuant to our distribution reinvestment plan. Pursuant to the DRIP Offering, we are issuing shares of our common stock to our stockholders at a price of $9.50 per share pursuant to our DRIP. Additionally, we provided discounts in our Initial Offering and Follow-on Offering for certain categories of purchasers, including based on volume discounts. Pursuant to the terms of our charter, certain restrictions are imposed on the ownership and transfer of shares.

Unless and until our shares are listed on a national securities exchange, we do not expect that a public market for the shares will develop. To assist fiduciaries of tax-qualified pension, stock bonus or profit-sharing plans, employee benefit plans and annuities described in Section 403(a) or (b) of the Internal Revenue Code or an individual retirement account or annuity described in Section 408 of the Internal Revenue Code subject to the annual reporting requirements of ERISA and IRA trustees or custodians in preparation of reports relating to an investment in the shares, we intend to provide reports of the quarterly and annual determinations of the current value of the net assets per outstanding share to those fiduciaries who request such reports. In addition, in order for FINRA members and their associated persons to participate in the offering and sale of our shares of common stock, we are required pursuant to FINRA Rule 5110(f)(2)(M) to disclose in each annual report distributed to investors a per share estimated value of the shares, the method by which is was developed and the date of the data used to develop the estimated value. For these purposes, the deemed value of our common stock is $10.00 per share as of December 31, 2009. However, as set forth above, there is no public trading market for the shares at this time and stockholders may not receive $10.00 per share if a market did exist. Until 18 months after the termination of the Follow-on Offering, which will be in June 2010, we intend to use the offering price of shares in the most recent offering as the per share net asset value. Beginning in June 2010, the value of the properties and other assets will be based on valuations of either our properties or us as a whole, whichever valuation method our board of directors determines to be appropriate, which may include independent valuations of our properties or of our company as a whole.

Share Redemption Program

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

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

During any calendar year, we will not redeem in excess of 3.0% of the weighted average number of shares outstanding during the prior calendar year. The cash available for redemption will be limited to the proceeds from the sale of shares pursuant to our distribution reinvestment plan. We will determine whether we have sufficient funds available as soon as practicable after the end of each quarter, but in any event prior to the applicable payment date.

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During the term of the Follow-on Offering, the redemption price per share depended on the length of time a redeeming stockholder held such shares as follows: after one year from the purchase date 92.5% of the amount paid for each share; after two years from the purchase date 95.0% of the amount paid for each share, after three years from the purchase date 97.5% of the amount paid for each share; and after four years from the purchase date 100.0% of the amount paid for each share (in each case, as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to our common stock). At any time we are engaged in an offering of shares, the per share price for shares purchased under our redemption plan will always be equal to, or lower, than the applicable per share offering price. Thereafter the per share redemption price will be based on the then-current net asset value of the shares (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to our common stock). Our board of directors will announce any redemption price adjustment and the time period of its effectiveness as a part of its regular communications with our stockholders. At any time the redemption price is determined by any method other than the net asset value of the shares, if we have sold property and have made one or more special distributions to our stockholders of all or a portion of the net proceeds from such sales, the per share redemption price will be reduced by the net sale proceeds per share distributed to investors prior to the redemption date as a result of the sale of such property in the special distribution. Our board of directors will, in its sole discretion, determine which distributions, if any, constitute a special distribution. While our board of directors does not have specific criteria for determining a special distribution, we expect that a special distribution will only occur upon the sale of a property and the subsequent distribution of the net sale proceeds. Upon receipt of a request for redemption, we will conduct a Uniform Commercial Code search to ensure that no liens are held against the shares. We may charge an administrative fee to the stockholder for the search and other costs, which will be deducted from the proceeds of the redemption or, if a lien exists, may be charged to the stockholder. Subject to our waiver of the one-year holding period requirement, shares required to be redeemed in connection with the death of a stockholder may be repurchased without the one-year holding period requirement, at a purchase price equal to the price actually paid for the shares.

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

If we cannot purchase all shares presented for redemption in any quarter, based upon insufficient cash available and the limit on the number of shares we may redeem during any calendar year, we would attempt to honor redemption requests on a pro rata basis. We would treat the unsatisfied portion of the redemption request as a request for redemption the following quarter. At such time, stockholders may then (1) withdraw their request for redemption at any time prior to the last day of the new quarter or (2) ask that we honor their request at such time, if any, when sufficient funds become available. Such pending requests will generally be honored on a pro rata basis.

Our board of directors may choose to amend, suspend or terminate our share redemption program upon 30 days notice at any time. Because the redemption of shares will be funded with the net proceeds we receive from the sale of shares under the distribution reinvestment plan, the discontinuance or termination of the distribution reinvestment plan would adversely affect our ability to redeem shares under the share redemption program. We would notify stockholders of such developments (i) in the annual or quarterly reports mentioned above or (ii) by means of a separate mailing to stockholders, accompanied by disclosure in a current or periodic report under the Exchange Act.

On November 10, 2009, our board of directors voted to temporarily suspend our share redemption program other than for requests made upon the death of a stockholder, which we will continue to accept. Our board of directors currently expects to make funds available for regular redemptions under the share redemption program in the second half of 2010 after we conduct a valuation of our share price, which it is required to be complete in June 2010.

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

The shares we redeem under our share redemption program are cancelled and returned to the status of authorized and unissued shares. We do not intend to resell such shares to the public unless they are first registered with the SEC

under the Securities Act and under appropriate state securities laws or otherwise sold in compliance with such laws. During the year ended December 31, 2009, we redeemed approximately 5.1 million shares under our share redemption program, at an average redemption price of $9.46 per share for an aggregate redemption price of approximately $48.3 million. During the year ended December 31, 2008, we redeemed approximately 1.0 million shares under our share redemption program, at an average redemption price of $9.66 per share for an aggregate redemption price of approximately $10.1 million. During the years ended December 31, 2009 and 2008, we issued approximately 7.5 million and approximately 5.6 million shares of common stock under the DRIP, respectively, for proceeds of approximately $71.0 million and approximately $53.5 million, respectively, which was recorded as redeemable common stock on the consolidated balance sheets, net of redeemed shares.

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During the three-month period ended December 31, 2009, we redeemed shares as follows:

	Total Number of Shares Redeemed	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 2009	249,804	$ 9.98	249,804	(1)
November 2009	17,011	$ 9.99	17,011	(1)
December 2009				(1)
Total	266,815		266,815	(1)

(1) A description of the maximum number of shares that may be purchased under our redemption program is included in the narrative preceding this table.

Distributions

We qualified as a REIT for federal income tax purposes commencing with our taxable year ended December 31, 2005. As a REIT, we have made, and intend to make, distributions each taxable year (not including a return of capital for federal income tax purposes) equal to at least 90% of our taxable income. One of our primary goals is to pay regular (monthly) distributions to our stockholders.

For income tax purposes, distributions to common stockholders are characterized as ordinary dividends, capital gain dividends, or as nontaxable distributions. To the extent that we make a distribution in excess of our current or accumulated earnings and profits, the distribution will be a non-taxable return of capital, reducing the tax basis in each U.S. stockholder s shares, and the amount of each distribution in excess of a U.S. stockholder s tax basis in its shares will be taxable as gain realized from the sale of its shares.

The following table shows the distributions we paid during the years ended December 31, 2009, 2008 and 2007 (in thousands, except per share data):

Year	Total Distributions Paid	Distributions Paid per Common Share	Return of Capital	Ordinary Income
2009	$ 134,983	$ 0.67	$ 0.41	$ 0.26
2008	$ 96,051	$ 0.66	$ 0.36	$ 0.30

2007	$ 37,727	$ 0.62	$ 0.37	$ 0.25

Use of Public Offering Proceeds

We registered 50,000,000 shares of our common stock in our Initial Offering (SEC File no. 333-121094, effective June 27, 2005), of which we registered 45,000,000 shares at $10.00 per share to be offered to the public and 5,000,000 shares offered to our investors pursuant to our DRIP at $9.50 per share. In November 2006, we filed an additional registration statement to increase the aggregate number of shares available in our primary offering to 49,390,000 and the aggregate number of shares available in our DRIP to 5,952,000. We terminated the Initial Offering on May 22, 2007. We registered 150,000,000 shares of our common stock in our Follow-on Offering (SEC File no. 333-138444, effective May 11, 2007). The Follow-on Offering included up to 143,050,000 shares to be offered for sale at $10.00 per share in the primary offering and up to 6,000,000 shares to be offered for sale pursuant to the Company s DRIP. On September 18, 2008, we registered 30,000,000 additional shares to be offered pursuant to our DRIP in our DRIP Offering. As of December 31, 2009, we were authorized to issue 10,000,000 shares of preferred stock, but had none issued or outstanding. As of December 31, 2009, we had issued an aggregate of approximately 211,041,763 shares of common stock, excluding redemptions, in our Offerings, raising gross offering proceeds of approximately $2.1 billion. From this amount, we paid approximately $65.9 million in acquisition fees to Cole Realty Advisors, approximately $135.5 million in selling commissions and dealer manager fees to Cole Capital (of which approximately $134.3 million was reallowed to third-party broker dealers), approximately $18.8 million in finance coordination fees to Cole Advisors II and approximately $16.3 million in organization and offering costs to Cole Advisors II. We paid no selling commissions and dealer manager fees to Cole Capital during the year ended December 31, 2009. With the net offering proceeds and indebtedness, we acquired approximately $3.3 billion in total gross real estate and related assets net of gross intangible lease liabilities and made the other payments reflected under Cash Flows from Financing Activities in our consolidated statements of cash flows.

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On January 2, 2009, we terminated the Follow-on Offering. As of the close of business on January 2, 2009, we had issued a total of 147,454,259 shares of common stock in the Follow-on Offering, including 141,520,572 shares of common stock sold in the primary offering and 5,933,687 shares sold pursuant to the DRIP, resulting in gross proceeds from the Follow-on Offering of approximately $1.5 billion. At the completion of the Follow-on Offering, a total of 1,595,741 shares of common stock remained unsold, including 1,529,428 shares of common stock that remained unsold in the primary offering and 66,313 shares of common stock that remained unsold pursuant to the DRIP. All unsold shares in the Follow-on Offering were deregistered.

As of March 29, 2010, we had issued approximately 10.4 million shares in the DRIP Offering at an aggregate gross offering price of approximately $98.7 million. As of March 29, 2010, we had approximately 19.6 million shares available in the DRIP Offering.

Unregistered Sale of Securities and Issuance of Stock Options

We issued 20,000 shares of our common stock to Cole Holdings Corporation (Cole Holdings) in connection with our inception in 2004 at $10.00 per share. On each of May 2, 2005, May 23, 2006, August 15, 2007, May 29, 2008 and May 29, 2009, we issued options to purchase 10,000 shares of our common stock to our independent directors under our Independent Director Stock Option Plan. During the year ended December 31, 2009, 5,000 options to purchase shares were exercised. These shares and options were not registered under the Securities Act and were issued in reliance on Section 4(2) of the Securities Act.

The following table provides information regarding our equity compensation plan as of December 31, 2009:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders	45,000	$ 9.12	950,000
Equity compensation plans not approved by security holders		N/A	
Total	45,000	$ 9.12	950,000

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ITEM 6. ***SELECTED FINANCIAL DATA***

The following data should be read in conjunction with our consolidated financial statements and the notes thereto and Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this Annual Report on Form 10-K. The selected financial data (in thousands, except share and per share amounts) presented below was derived from our audited consolidated financial statements.

	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005
Balance Sheet Data:					
Total investment in real estate assets, net	$ 3,131,639	$ 3,127,334	$ 1,794,352	$ 446,544	$ 91,618
Investment in mortgages notes receivable, net	$ 82,500	$ 84,994	$ 87,100	$	$
Marketable securities	$ 56,366	$ 24,583	$	$	$
Investment in unconsolidated joint ventures	$ 40,206	$ 25,792	$	$	$
Cash and cash equivalents	$ 28,417	$ 106,485	$ 43,517	$ 37,566	$ 4,575
Total assets	$ 3,413,104	$ 3,432,028	$ 1,967,698	$ 500,421	$ 98,810
Mortgage notes payable	$ 1,607,473	$ 1,550,314	$ 1,055,682	$ 218,266	$ 66,804
Notes payable to affiliates	$	$	$	$	$ 4,453
Acquired below market lease intangibles, net	$ 149,832	$ 156,813	$ 80,032	$ 2,649	$ 15
Stockholders equity	$ 1,521,984	$ 1,614,976	$ 781,086	$ 266,236	$ 25,205
Operating Data:					
Total revenue	$ 275,455	$ 201,004	$ 89,842	$ 19,520	$ 742
General and administrative	$ 7,020	$ 5,632	$ 2,011	$ 953	$ 156
Property operating expenses	$ 25,821	$ 16,796	$ 6,467	$ 1,417	$
Property and asset management fees	$ 14,904	$ 9,762	$ 4,184	$ 937	$ 39
Depreciation and amortization	$ 90,750	$ 63,859	$ 30,482	$ 6,469	$ 221
Impairment of real estate assets	$ 13,500	$ 3,550	$ 5,400	$	$
Operating Income	$ 120,219	$ 101,405	$ 41,298	$ 9,744	$ 325
Interest expense	$ 98,997	$ 78,063	$ 39,076	$ 8,901	$ 467
Net income (loss)	$ 22,406	$ 25,092	$ 4,480	$ 1,346	$ (115)
Modified funds from operations (1)	$ 132,691	$ 92,566	$ 40,362	$ 7,815	$ 107
Cash Flow Data:					
Cash flows provided by operating activities	$ 116,872	$ 96,073	$ 43,366	$ 7,861	$ 398
Cash flows used in investing activities	$ (45,497)	$ (1,216,078)	$ (1,364,777)	$ (320,177)	$ (93,641)
Cash flows (used in) provided by financing activities	$ (149,443)	$ 1,182,973	$ 1,327,362	$ 345,307	$ 97,618

Per Share Data:					
Net income (loss) basic and diluted	$ 0.11	$ 0.17	$ 0.07	$ 0.10	$ (0.28)
Weighted average dividends declared	$ 0.66	$ 0.70	$ 0.68	$ 0.64	$ 0.47
Weighted average shares outstanding basic	202,686,670	146,198,235	60,929,996	13,275,635	411,909
Weighted average shares outstanding diluted	202,690,094	146,201,399	60,931,316	13,275,635	411,909

(1) See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Modified Funds from Operations for information regarding why we present modified funds from operations and for a reconciliation of this non-GAAP financial measure to net income (loss).

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ITEM 7. *MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

The following discussion and analysis should be read in conjunction with the Selected Financial Data and our accompanying consolidated financial statements and notes thereto. See also Cautionary Note Regarding Forward-Looking Statements preceding Part I.

Overview

We were formed on September 29, 2004 to acquire and operate commercial real estate primarily consisting of freestanding, single-tenant, retail properties net leased to investment grade and other creditworthy tenants located throughout the United States. We commenced our principal operations on September 23, 2005, when we issued the initial 486,000 shares of our common stock in the Initial Offering. We have no paid employees and are externally advised and managed by Cole Advisors II, an affiliate of ours. We currently qualify, and intend to continue to elect to qualify, as a REIT for federal income tax purposes.

Our operating results and cash flows are primarily influenced by rental income from our commercial properties and interest expense on our property acquisition indebtedness. Rental and other property income accounted for approximately 87% and 89% of total revenue during the years ended December 31, 2009 and 2008, respectively. As approximately 94% of our rentable square feet was under lease as of December 31, 2009, with an average remaining lease term of approximately 11.5 years, we believe our exposure to changes in commercial rental rates on our portfolio is substantially mitigated, except for vacancies caused by tenant bankruptcies or other factors. Our advisor regularly monitors the creditworthiness of our tenants by reviewing the tenant s financial results, credit rating agency reports (if any) on the tenant or guarantor, the operating history of the property with such tenant, the tenant s market share and track record within its industry segment, the general health and outlook of the tenant s industry segment, and other information for changes and possible trends. If our advisor identifies significant changes or trends that may adversely affect the creditworthiness of a tenant, it will gather a more in-depth knowledge of the tenant s financial condition and, if necessary, attempt to mitigate the tenant credit risk by evaluating the possible sale of the property, or identifying a possible replacement tenant should the current tenant fail to perform on the lease. As of December 31, 2009, the debt leverage ratio of our consolidated real estate assets, which is the ratio of debt to total gross real estate and related assets net of gross intangible lease liabilities, was approximately 48%, with approximately 9.7% of the debt, or approximately $156.0 million, including approximately $33.0 million outstanding under the Credit Facility, subject to variable interest rates. Should we acquire additional commercial real estate, we will be subject to changes in real estate prices and changes in interest rates on any new indebtedness used to acquire the properties. We may manage our risk of changes in real estate prices on future property acquisitions by entering into purchase agreements and loan commitments simultaneously so that our operating yield is determinable at the time we enter into a purchase agreement, by contracting with developers for future delivery of properties, or by entering into sale-leaseback transactions. We expect to manage our interest rate risk by monitoring the interest rate environment in connection with our planned property acquisitions to determine the appropriate acquisition financing, which may include fixed rate loans, variable rate loans or interest rate hedges. If we are unable to acquire suitable properties or obtain suitable financing for future acquisitions, our results of operations may be adversely affected.

Recent Market Conditions

Although there are signs of recovery, the current mortgage lending and interest rate environment for real estate in general continues to be disrupted and the overall economic fundamentals remain uncertain. Domestic and international financial markets experienced significant disruptions, which were brought about in large part by challenges in the world-wide banking system. These disruptions have severely impacted the availability of credit and have contributed to rising costs associated with obtaining credit. We have experienced, and may continue to experience, more stringent lending criteria, which may affect our ability to finance certain property acquisitions or refinance our debt at maturity. Additionally, for properties for which we are able to obtain financing, the interest rates and other terms on such loans may be unacceptable. We have managed, and expect to continue to manage, the current mortgage lending environment by utilizing fixed rate loans if the terms are acceptable, borrowing on our existing $135.0 million Credit Facility, short-term variable rate loans, assuming existing mortgage loans in connection with property acquisitions, or entering into interest rate lock or swap agreements, or any combination of the foregoing. We have acquired, and may

continue to acquire, our properties for cash without financing. If we are unable to obtain suitable financing for future acquisitions or we are unable to identify suitable properties at appropriate prices in the current credit environment, we may have a larger amount of uninvested cash, which may adversely affect our results of operations. We will continue to evaluate alternatives in the current market, including purchasing or originating debt backed by real estate, which could produce attractive yields in the current market environment.

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The current economic environment has lead to higher unemployment and a decline in consumer spending. These economic trends have adversely impacted the retail and real estate markets, causing higher tenant vacancies, declining rental rates, and declining property values. As of December 31, 2009, approximately 94% of our rentable square feet was under lease. During the year ended December 31, 2009, we experienced increased tenant vacancies primarily due to tenant bankruptcies, lease expirations and lease terminations. We expect that we may experience additional vacancies if the current economic conditions persist. Our advisor is actively seeking to lease all of our vacant space, however, as retailers and other tenants have been delaying or eliminating their store expansion plans, the amount of time required to re-tenant a property has been increasing. As a result of these factors, our operating results for the year ended December 31, 2009 were adversely affected. However, our operating results for the year ended December 31, 2009, benefited from the assets acquired during the year ended December 31, 2009 and the impact of owning the assets we acquired during the year ended December 31, 2008 for the full year ending December 31, 2009.

Application of Critical Accounting Policies

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

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

Investment in and Valuation of Real Estate and Related Assets

We are required to make subjective assessments as to the useful lives of our depreciable assets. We consider the period of future benefit of the asset to determine the appropriate useful life of each asset. Real estate assets are stated at cost, less accumulated depreciation and amortization. Amounts capitalized to real estate assets consist of the cost of acquisition, excluding acquisition related expenses effective January 1, 2009, construction and any tenant improvements, major improvements and betterments that extend the useful life of the related asset and leasing costs. All repairs and maintenance are expensed as incurred.

Assets, other than land, are depreciated or amortized on a straight line basis. The estimated useful lives of our assets by class are generally as follows:

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

We continually monitor events and changes in circumstances that could indicate that the carrying amounts of our real estate and related intangible assets may not be recoverable. Impairment indicators that we consider include, but are not limited to, bankruptcy of a property s major tenant, a significant decrease in a property s revenues due to circumstances, such as lease terminations, vacancies, co-tenancy clauses or reduced lease rates. When indicators of potential impairment are present, we assess the recoverability of the assets by determining whether the carrying value of the assets will be recovered through the undiscounted future operating cash flows expected from the use of the assets and their eventual disposition. In the event that such expected undiscounted future cash flows do not exceed the carrying value, we will adjust the real estate and related intangible assets to their fair value and recognize an impairment loss. We continue to monitor certain properties for which we have identified impairment indicators. As of December 31, 2009, we had eight properties with an aggregate book value of approximately $159.4 million for which we assessed the recoverability of the carrying values. For each of these properties the undiscounted future operating cash flows expected from the use of these properties and their related intangible assets and their eventual disposition continued to exceed the carrying value of these assets as of December 31, 2009. Should the conditions of any of these properties

change, the undiscounted future operating cash flows expected may change and adversely affect the recoverability of the carrying values related to these properties. During the year ended December 31, 2009, we identified one property with impairment indicators for which the undiscounted future operating cash flows expected from the use of the property and related intangible assets and their eventual disposition was less than the carrying value of the assets. As a result, we reassessed and reduced the carrying values of both the real estate assets and the related intangible assets to their estimated fair value and recorded an impairment loss of $13.5 million during the year ended December 31, 2009. During the year ended December 31, 2008, we identified one property with impairment indicators for which the undiscounted future operating cash flows expected from the use of the property and related intangible assets and their eventual disposition was less than the carrying value of the assets. As a result, we reassessed and reduced the carrying values of both the real estate and related intangible assets to their estimated fair value and recorded an impairment loss of approximately $3.6 million during the year ended December 31, 2008.

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

When a real estate asset is identified by management as held for sale, we cease depreciation of the asset and estimate the sales price, net of selling costs. If, in management s opinion, the net sales price of the asset is less than the net book value of the asset, an adjustment to the carrying value would be recorded to reflect the estimated fair value of the property. We had no assets identified as held for sale as of December 31, 2009 and 2008.

Allocation of Purchase Price of Real Estate and Related Assets

Upon the acquisition of real properties, we allocate the purchase price of such properties to acquired tangible assets, consisting of land and building, and identified intangible assets and liabilities, consisting of the value of above market and below market leases and the value of in-place leases, based in each case on their fair values. We utilize independent appraisals to assist in the determination of the fair values of the tangible assets of an acquired property (which includes land and building). We obtain an independent appraisal for each real property acquisition. The information in the appraisal, along with any additional information available to us, is used in estimating the amount of the purchase price that is allocated to land. Other information in the appraisal, such as building value and market rents, may be used by us in estimating the allocation of purchase price to the building and to lease intangibles. The appraisal firm has no involvement in management s allocation decisions other than providing this market information.

The fair values of above market and below market in-place lease values are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) an estimate of fair market lease rates for the corresponding in-place leases, which is generally obtained from independent appraisals, measured over a period equal to the non-cancelable term of the lease including any bargain renewal periods, with respect to a below market lease. The above market and below market lease values are capitalized as intangible lease assets or liabilities. Above market lease values are amortized as an adjustment of rental income over the lesser of the useful life or the remaining terms of the respective leases. Below market leases are amortized as an adjustment of rental income over the remaining terms of the respective leases, including any bargain renewal periods. If a lease were to be terminated prior to its stated expiration, all unamortized amounts of above market and below market in-place lease values relating to that lease would be recorded as an adjustment to rental income.

The fair values of in-place leases include direct costs associated with obtaining a new tenant and opportunity costs associated with lost rentals which are avoided by acquiring an in-place lease. Direct costs associated with obtaining a new tenant include commissions, tenant improvements, and other direct costs and are estimated in part by utilizing information obtained from independent appraisals and management s consideration of current market costs to execute a similar lease. These direct costs are included in intangible lease assets in the accompanying consolidated balance sheet and are amortized to expense over the lesser of the useful life or the remaining terms of the respective leases. The value of opportunity costs is calculated using the contractual amounts to be paid pursuant to the in-place leases over a market absorption period for a similar lease. These intangibles are included in intangible lease assets in the accompanying consolidated balance sheet and are amortized to expense over the lesser of the useful life or the remaining term of the respective leases. If a lease were to be terminated prior to its stated expiration, all unamortized amounts of in-place lease assets relating to that lease would be expensed.

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

Investment in Direct Financing Leases

We evaluate the leases associated with our real estate properties in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 840, *Leases*. For the real estate property leases

classified as direct financing leases, the building portion of the property leases are accounted for as direct financing leases while the land portion of these leases are accounted for as operating leases. For the direct financing leases, we record an asset (net investment) representing the aggregate future minimum lease payments, estimated residual value of the leased property and deferred incremental direct costs less unearned income. Income is recognized over the life of the lease to approximate a level rate of return on the net investment. Residual values, which are reviewed quarterly, represent the estimated amount we expect to receive at lease termination from the disposition of the leased property. Actual residual values realized could differ from these estimates. Any write-downs of estimated residual value are recognized as impairments in the current period. There were no write-downs recognized during the years ended December 31, 2009, 2008 and 2007.

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Investment in Mortgage Notes Receivable

Mortgage notes receivable consist of loans we acquired, which are secured by real estate. Mortgage notes receivable are recorded at stated principal amounts net of any discount or premium and deferred loan origination costs or fees. The related discounts or premiums on mortgage notes receivable purchased are amortized or accreted over the life of the related mortgage receivable. We defer certain loan origination and commitment fees, and amortize them as an adjustment of the mortgage notes receivable s yield over the term of the related mortgage receivable. We evaluate the collectibility of both interest and principal on each mortgage note receivable to determine whether it is collectible. A mortgage note receivable is considered to be impaired, when based upon current information and events, it is probable that we will be unable to collect all amounts due according to the existing contractual terms. When a mortgage note receivable is considered to be impaired, the amount of loss is calculated as the amount that the recorded investment exceeds the greater of the value determined by discounting the expected future cash flows at the mortgage note receivable s effective interest rate or the value of the underlying collateral if the mortgage note receivable is collateralized. Interest income on performing mortgage note receivable is accrued as earned. Interest income on impaired mortgage notes receivable is recognized on a cash basis. No impairment losses were recorded related to mortgage notes receivable for the years ended December 31, 2009, 2008 and 2007.

Investment in Marketable Securities

Investments in marketable securities consist of investments in CMBS. ASC 470, *Debt*, requires us to classify our investments in real estate securities as trading, available-for-sale or held-to-maturity. We classify our investments as available-for-sale as we intend to hold our investments until maturity, however we may sell them prior to their maturity. These investments are carried at estimated fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss). Upon the sale of a security, the realized net gain or loss is computed on a specific identification basis.

Our marketable securities are carried at fair value and are valued using Level 3 inputs. We primarily use estimated quoted market prices from third party trading desks, where available, for similar CMBS tranches that actively participate in the CMBS market, and adjusted for industry benchmarks, such as the CMBX Index, where applicable. We receive non-binding quotes from established financial institutions, where available, and estimate a fair value using the quotes received. Market conditions, such as interest rates, liquidity, trading activity and credit spreads may cause significant variability to the received quotes. If we are unable to obtain quotes from third parties or if we believe quotes received are inaccurate, we will estimate fair value using internal models that primarily consider the CMBX Index, expected cash flows, known and expected defaults and rating agency reports. Changes in market conditions, as well as changes in the assumptions or methodology used to estimate fair value, could result in a significant increase or decrease in the recorded amount of the financial asset or liability. As of December 31, 2009 and 2008, no marketable securities were valued using internal models. Significant judgment is involved in valuations and different judgments and assumptions used in our valuation could result in different valuations. If there continues to be significant disruptions to the financial markets, our estimates of fair value may have significant volatility.

We monitor our available-for-sale securities for impairments. A loss is recognized when we determine that a decline in the estimated fair value of a security below its amortized cost is other-than-temporary. We consider many factors in determining whether the impairment of a security is deemed to be other-than-temporary, including, but not limited to, any changes in expected cash flows, the length of time the security has had a decline in estimated fair value below its amortized cost, the amount of the unrealized loss, our intent and ability to hold the security for a period of time sufficient for a recovery in value, recent events specific to the issuer or industry, external credit ratings and recent changes in such ratings. The analysis of determining whether the impairment of a security is deemed to be other-than-temporary requires significant judgments and assumptions. The use of different judgments and assumptions could result in a different conclusion.

Unamortized premiums and discounts on securities available-for-sale are recognized in interest income on marketable securities over the contractual life, adjusted for actual prepayments, of the securities using the effective interest method.

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Investment in Unconsolidated Joint Ventures

Investment in unconsolidated joint ventures as of December 31, 2009, consists of our non-controlling 85.48% interest in a joint venture that owns a multi-tenant property in Independence, Missouri and a 70% interest in a joint venture that owns a ten-property storage facility portfolio. Consolidation of these investments is not required as the entities do not qualify as VIEs and do not meet the control requirements for consolidation, as defined in ASC 810, *Consolidation* (ASC 810)**.** In determining whether we have a controlling interest in a joint venture and the requirement to consolidate the accounts of that entity, we consider factors such as ownership interest, authority to make decisions and contractual and substantive participating rights of the partners/members as well as whether the entity is a VIE for which we are the primary beneficiary. Each of us and the respective joint venture partner must approve decisions about the respective entity s activities that have a significant effect on the success of the entity**.** As of December 31, 2009, the total assets held within the unconsolidated joint ventures was approximately $152.3 million and the face value of the non-recourse mortgage notes payable was approximately $113.5 million.

We account for these investments using the equity method of accounting per guidance established under ASC 323, *Investments Equity Method and Joint Ventures* (ASC 323). The equity method of accounting requires these investments to be initially recorded at cost and subsequently adjusted for our share of equity in the joint ventures earnings and distributions. We report its share of income and losses, including impairment charges, based on our ownership interest in the investment. We evaluate the carrying amount of each investment for impairment in accordance with ASC 323. The investments in unconsolidated joint ventures are reviewed for potential impairment whenever impairment indicators exist at the individual assets underlying these investments. To the extent an impairment has occurred, the excess of the carrying value of the assets over their estimated fair value is recorded as a provision for impairment of investment properties. To determine whether impairment is other-than-temporary, we consider whether we have the ability and intent to hold the investment until the carrying value is fully recovered. No impairment losses were recorded related to these investments in unconsolidated joint ventures for the years ended December 31, 2009 and 2008.

Revenue Recognition

Upon the acquisition of real estate, certain properties have leases where minimum rent payments increase during the term of the lease. We record rental revenue for the full term of each lease on a straight-line basis. When we acquire a property, the term of existing leases is considered to commence as of the acquisition date for the purposes of this calculation. We defer the recognition of contingent rental income, such as percentage rents, until the specific target that triggers the contingent rental income is achieved. Reimbursements from tenants for recoverable real estate taxes and operating expenses are included in rental income in the period the related costs are incurred.

Income Taxes

We are taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code. We generally will not be subject to federal corporate income tax to the extent we distribute our taxable income to our stockholders, and so long as we distribute at least 90% of our taxable income (excluding capital gains). REITs are subject to a number of other complex organizational and operational requirements. Even if we qualify for taxation as a REIT, we may be subject to certain state and local taxes on our income and property, and federal income and excise taxes on our undistributed income.

Derivative Instruments and Hedging Activities

ASC 815, *Derivatives and Hedging* (ASC 815), establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives are carried at fair value. Accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative instrument and the designation of the derivative instrument. The change in fair value of the effective portion of the derivative instrument that is designated as a hedge is recorded as other comprehensive income (loss). The changes in fair value for derivative instruments that are not designated as a hedge or that do not meet the hedge accounting criteria of ASC 815 are recorded as a gain or loss to operations. Considerable judgment is necessary to develop estimated fair values of financial assets and liabilities, and the determination of hedge effectiveness can involve significant estimates. If we incorrectly estimate the fair value of derivatives or hedge effectiveness, our net income could be impacted.

Results of Operations

Our results of operations are influenced by the timing of acquisitions and the operating performance of our real estate investments. The following table shows the property statistics of our consolidated real estate assets as of December 31, 2009, 2008 and 2007:

	2009	**2008**	**2007**
Number of commercial properties	693	673	333
Approximate rentable square feet (1)	19.5 million	18.9 million	11.2 million
Percentage of rentable square feet leased	94%	99%	99%

(1) Including square feet of the buildings on land that is subject to ground leases.

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The following table summarizes our consolidated real estate investment activity during the years ended December 31, 2009, 2008 and 2007:

	2009	2008	2007
Commercial properties acquired	20	340	242
Approximate purchase price of acquired properties	$ 113.8 million	$ 1.3 billion	$ 1.3 billion
Approximate rentable square feet (1)	581,000	7.7 million	8.3 million

(1) Including square feet of the buildings on land that is subject to ground leases.

Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008

Our results of operations for the year ended December 31, 2009, as compared to the year ended December 31, 2008, reflect significant increases in most categories primarily due to the ownership of the 340 properties acquired during the year ended December 31, 2008 for the full year in 2009.

Revenue. Revenue increased approximately $74.5 million, or approximately 37%, to approximately $275.5 million for the year ended December 31, 2009, compared to approximately $201.0 million for the year ended December 31, 2008. Our revenue consisted primarily of rental and other property income from net leased commercial properties, which accounted for approximately 87% and 89% of total revenues during the years ended December 31, 2009 and 2008, respectively.

Rental and other property income increased approximately $62.0 million, or approximately 35%, to approximately $240.3 million for the year ended December 31, 2009, compared to approximately $178.3 million for the year ended December 31, 2008. The increase was primarily due to the acquisition of 20 new properties during the year ended December 31, 2009, and the ownership of the 340 properties acquired during the year ended December 31, 2008 for the full year in 2009. In addition, we paid certain operating expenses related to these properties subject to reimbursement by the tenant, which resulted in approximately $19.1 million of tenant reimbursement income during the year ended December 31, 2009 compared to approximately $12.2 million during the year ended December 31, 2008.

Earned income from direct financing leases decreased approximately $271,000, or approximately 12%, to approximately $1.9 million for the year ended December 31, 2009, compared to approximately $2.2 million for the year ended December 31, 2008. During the year ended December 31, 2008, the leases on two of the 13 properties accounted for as direct financing leases were amended, resulting in lower annual rents over an extended lease term.

Interest income on mortgage notes receivable remained relatively constant, decreasing approximately $214,000, or approximately 3%, to approximately $6.9 million for the year ended December 31, 2009, compared to approximately $7.1 million for the year ended December 31, 2008, as we recorded interest income on 69 amortizing mortgage notes receivable during each of the years ended December 31, 2009 and 2008.

Interest income on marketable securities increased approximately $6.0 million, or approximately 495%, to approximately $7.2 million for the year ended December 31, 2009, compared to approximately $1.2 million for the year ended December 31, 2008. The increase was due to the additional interest income earned as a result of the acquisition of three CMBS bonds with an aggregate face amount of approximately $33.6 million, during the fourth quarter of the year ended December 31, 2008, and the acquisition of two CMBS bonds with an aggregate face amount of approximately $19.8 million, during the year ended December 31, 2009.

General and Administrative Expenses. General and administrative expenses increased approximately $1.4 million, or approximately 25%, to approximately $7.0 million for the year ended December 31, 2009, compared to approximately $5.6 million for the year ended December 31, 2008. The increase was primarily due to the recording of approximately

$906,000 of expenses incurred by our advisor in providing administrative services to us during the year ended December 31, 2009, which are reimbursable to our advisor pursuant to the advisory agreement. No expenses incurred by our advisor for such services were reimbursed, or required to be reimbursed, during the year ended December 31, 2008. In addition, administrative costs, escrow and trustee fees and service fees related to our Credit Facility increased. The primary general and administrative expense items were legal and accounting fees, escrow and trustee fees, state franchise and income taxes and operating expenses reimbursable to our advisor.

Property Operating Expenses. Property operating expenses increased approximately $9.0 million, or approximately 54%, to approximately $25.8 million for the year ended December 31, 2009, compared to approximately $16.8 million for the year ended December 31, 2008. The increase was primarily due to an increase in property taxes, repairs and maintenance and insurance expense, primarily for multi-tenant shopping centers, for which we initially pay certain operating expenses and are reimbursed by the tenant in accordance with the respective lease agreements. During the year ended December 31, 2009, we owned an average of approximately 2.9 million square feet of multi-tenant shopping center space, compared to an average of approximately 2.2 million square feet of multi-tenant shopping center space during the year ended December 31, 2008. The primary property operating expense items are property taxes, repairs and maintenance, insurance and bad debt expense.

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Property and Asset Management Expenses. Pursuant to the advisory agreement with our advisor, we are required to pay to our advisor a monthly asset management fee equal to one-twelfth of 0.25% of the aggregate asset value of our properties determined in accordance with the advisory agreement. Additionally, we reimburse costs incurred by our advisor in providing asset management services, subject to limitations as set forth in the advisory agreement. Pursuant to the property management agreement with our affiliated property manager, we are required to pay to our property manager a property management fee in an amount up to 2% of gross revenues received from each of our single-tenant properties and up to 4% of gross revenues received from each of our multi-tenant properties, less all payments to third-party management subcontractors. We reimburse Cole Realty Advisors costs of managing and leasing the properties, subject to limitations as set forth in the property management agreement.

Property and asset management expenses increased approximately $5.1 million, or approximately 53%, to approximately $14.9 million for the year ended December 31, 2009, compared to approximately $9.8 million for the year ended December 31, 2008. Property management expenses increased approximately $2.7 million to approximately $6.5 million for the year ended December 31, 2009 from approximately $3.8 million for the year ended December 31, 2008. The increase in property management expenses was primarily due to an increase in property management fees to approximately $5.5 million for the year ended December 31, 2009, compared to approximately $3.8 million for the year ended December 31, 2008. The increase in property management fees was primarily due to an increase in rental and other property income to approximately $240.3 million for the year ended December 31, 2009, from approximately $178.3 million for the year ended December 31, 2008, due to annualized operations from the 340 commercial properties acquired during the year ended December 31, 2008 as well as the acquisition of 20 additional rental income producing properties during the year ended December 31, 2009.

Asset management expenses increased approximately $2.4 million to approximately $8.4 million for the year ended December 31, 2009, from approximately $6.0 million for the year ended December 31, 2008. The increase in asset management expenses was primarily due to an increase in asset management fees to approximately $8.4 million for the year ended December 31, 2009, compared to approximately $6.0 million for the year ended December 31, 2008. The increase in asset management fees was primarily due to an increase in the average gross aggregate book value of properties to approximately $3.3 billion for the year ended December 31, 2009 from approximately $2.6 billion for the year ended December 31, 2008. The increase in the average gross aggregate book value of properties was due to the acquisition of 20 additional properties during the year ended December 31, 2009 and the ownership of 340 properties acquired during the year ended December 31, 2008 for the full year in 2009.

In addition, during the year ended December 31, 2009, we recorded approximately $1.0 million related to reimbursement of expenses incurred by our advisor in performing property and asset management services. No such expenses were required to be reimbursed during the year ended December 31, 2008, as our advisor did not elect to be reimbursed.

Acquisition Related Expenses. In accordance with ASC 805, acquisition costs are required to be expensed beginning January 1, 2009. Prior to January 1, 2009, acquisition costs were capitalized. We expensed approximately $3.2 million of acquisition expenses during the year ended December 31, 2009 in connection with the acquisition of 20 new rental income producing properties.

Depreciation and Amortization Expenses. Depreciation and amortization expenses increased approximately $26.9 million, or approximately 42%, to approximately $90.8 million for the year ended December 31, 2009, compared to approximately $63.9 million for the year ended December 31, 2008. The increase was primarily due to an increase in the average gross aggregate book value of properties we owned to approximately $3.3 billion as of December 31, 2009, from approximately $2.6 billion as of December 31, 2008, as a result of the acquisition of 20 new properties during the year ended December 31, 2009 and the ownership of 340 properties acquired during the year ended December 31, 2008 for the full year in 2009.

Impairment of Real Estate Assets. Impairment on real estate assets increased approximately $9.9 million, or approximately 280%, to $13.5 million for the year ended December 31, 2009, compared to approximately $3.6 million for the year ended December 31, 2008. Impairment losses were recorded on one property during the year ended December 31, 2009 and on one property during the year ended December 31, 2008, as discussed in Note 2 to our consolidated financial statements in this Annual Report on Form 10-K.

Equity in Income of Unconsolidated Joint Ventures. Equity in income of unconsolidated joint ventures increased approximately $141,000, or approximately 30%, to approximately $612,000 during the year ended December 31, 2009, compared to $471,000 in equity in income of unconsolidated joint ventures during the year ended December 31, 2008. The increase was primarily due to the acquisition of an indirect interest in a ten-property storage facility portfolio, through a joint venture, during the year ended December 31, 2009.

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Interest and Other Income. Interest and other income decreased approximately $707,000, or approximately 55%, to approximately $572,000 during the year ended December 31, 2009, compared to approximately $1.3 million for the year ended December 31, 2008. The decrease was primarily due to lower average uninvested cash during the year ended December 31, 2009 as compared to the year ended December 31, 2008. The average cash balance was approximately $34.8 million and approximately $61.5 million during the years ended December 31, 2009 and 2008, respectively.

Interest Expense. Interest expense increased approximately $20.9 million, or approximately 27%, to approximately $99.0 million for the year ended December 31, 2009, compared to approximately $78.1 million during the year ended December 31, 2008. The increase was primarily due to an increase in the average aggregate amount of notes payable and line of credit outstanding to approximately $1.6 billion during the year ended December 31, 2009 from approximately $1.3 billion for the year ended December 31, 2008, with weighted average interest rates of approximately 5.88% and 5.89% as of December 31, 2009 and 2008, respectively.

Our asset acquisitions during the year ended December 31, 2009 were purchased with proceeds from the Follow-on Offering, cash flows from operations, available cash, borrowings from our Credit Facility and the assumption of notes payable. We expect that our interest expense in future periods will vary based on our level of future borrowings or refinancings, which will depend on the cost of our borrowings and the opportunity to acquire real estate assets that meet our investment objectives.

Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007

As of December 31, 2008, we owned 673 commercial properties, compared to 333 commercial properties at December 31, 2007, an increase of approximately 102%. Accordingly, our results of operations for the year ended December 31, 2008, as compared to the year ended December 31, 2007, reflect significant increases in most categories.

Revenue. Revenue increased approximately $111.2 million, or approximately 124%, to approximately $201.0 million for the year ended December 31, 2008, compared to approximately $89.8 million for the year ended December 31, 2007. Our revenue primarily consists of rental and other property income from net leased commercial properties, which accounted for approximately 89% and 92% of total revenues during the years ended December 31, 2008 and 2007, respectively.

Rental and other property income increased approximately $95.8 million, or approximately 116%, to approximately $178.3 million for the year ended December 31, 2008, compared to approximately $82.5 million for the year ended December 31, 2007. The increase was primarily due to the acquisition of 340 new properties during the year ended December 31, 2008 and the ownership of the 333 properties acquired during the year ended December 31, 2007 for the full year in 2008. During the year ended December 31, 2008, we acquired additional properties for which we pay certain operating expenses subject to reimbursement by the tenant, which resulted in approximately $12.2 million of tenant reimbursement income in 2008 compared to approximately $5.2 million in 2007.

Earned income from direct financing leases increased approximately $1.1 million, or approximately 103%, to approximately $2.2 million for the year ended December 31, 2008, compared to approximately $1.1 million for the year ended December 31, 2007. The increase was due to the recording of earned income from direct financing leases on 13 properties accounted for as direct financing leases acquired during the year ended December 31, 2007 for the full year ended December 31, 2008.

Interest income on mortgages receivable increased approximately $6.0 million, or approximately 536%, to approximately $7.1 million for the year ended December 31, 2008, compared to approximately $1.1 million for the year ended December 31, 2007. The increase was due to the recording of interest income on mortgages receivable on 69 mortgage notes receivable acquired during the year ended December 31, 2007 for the full year ended December 31, 2008.

Interest income on marketable securities was approximately $1.2 million for the year ended December 31, 2008, compared to no interest income on marketable securities for the year ended December 31, 2007. The increase was due to the acquisition of four CMBS bonds with an aggregate face amount of approximately $68.8 million, during the year ended December 31, 2008.

General and Administrative Expenses. General and administrative expenses increased approximately $3.6 million, or approximately 180%, to approximately $5.6 million for the year ended December 31, 2008, compared to approximately $2.0 million for the year ended December 31, 2007. The increase was primarily due to increases in legal and accounting fees and state franchise and income taxes due to the increase in the number of properties owned from 333 properties as of December 31, 2007 to 673 properties as of December 31, 2008. The primary general and administrative expense items are legal and accounting fees, state franchise and income taxes, escrow and trustee fees, organizational costs, and other licenses and fees.

Property Operating Expenses. Property operating expenses increased approximately $10.3 million, or approximately 160%, to approximately $16.8 million for the year ended December 31, 2008, compared to approximately $6.5 million for the year ended December 31, 2007. The increase was primarily due to the ownership of more properties during the year ended December 31, 2008 than in the year ended December 31, 2007, for which we initially pay certain operating expenses and are reimbursed by the tenant in accordance with the respective lease agreements, including seven additional multi-tenant shopping centers. As of December 31, 2008, we owned 21 multi-tenant shopping centers compared to 14 as of December 31, 2007. The primary property operating expense items are property taxes, repairs and maintenance, bad debt expense and insurance.

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Property and Asset Management Fees. Pursuant to the advisory agreement with our advisor, we are required to pay to our advisor a monthly asset management fee equal to one-twelfth of 0.25% of the aggregate asset value of our properties determined in accordance with the advisory agreement as of the last day of the preceding month. Pursuant to the property management agreement with our affiliated property manager, during the year ended December 31, 2008, we paid to our property manager a property management fee in an amount equal to 2% of gross revenues received from our single-tenant properties and 2% to 4% of gross revenues received from our multi-tenant properties, less all payments to third-party management subcontractors.

Property and asset management fees increased approximately $5.6 million, or approximately 133%, to approximately $9.8 million for the year ended December 31, 2008, compared to approximately $4.2 million for the year ended December 31, 2007. Property management fees increased approximately $2.2 million to approximately $3.8 million for the year ended December 31, 2008 from approximately $1.6 million for the year ended December 31, 2007. The increase in property management fees was primarily due to an increase in rental and other property income to approximately $178.3 million for the year ended December 31, 2008, from approximately $82.5 million for the year ended December 31, 2007, due to the acquisition of 340 new properties during the year ended December 31, 2008. In addition, during the year ended December 31, 2008, we paid to our property manager 4% of gross revenues received from certain multi-tenant properties. During the year ended December 31, 2007, we paid to our property manager 2% of gross revenues received from all multi-tenant properties. Asset management fees increased approximately $3.4 million to approximately $6.0 million for the year ended December 31, 2008 from approximately $2.6 million for the year ended December 31, 2007. The increase in asset management fees was primarily due to an increase in the average aggregate book value of properties owned to approximately $2.6 billion during the year ended December 31, 2008 from approximately $1.2 billion during the year ended December 31, 2007. The increase in aggregate book value is due to the acquisition of 340 new properties during the year ended December 31, 2008.

Depreciation and Amortization Expenses. Depreciation and amortization expenses increased approximately $33.4 million, or approximately 109%, to approximately $63.9 million for the year ended December 31, 2008, compared to approximately $30.5 million for the year ended December 31, 2007. The increase was primarily due to an increase in the average aggregate book value of properties owned to approximately $2.6 billion as of December 31, 2008 from approximately $1.2 billion as of December 31, 2007. The increase in aggregate book value was primarily due to the acquisition of 340 new properties during the year ended December 31, 2008.

Impairment of Real Estate Assets. Impairment of real estate assets decreased approximately $1.9 million, or approximately 34%, to approximately $3.6 million for the year ended December 31, 2008, compared to approximately $5.4 million for the year ended December 31, 2007. Impairment losses were recorded on one property during the year ended December 31, 2008 and one property during the year ended December 31, 2007, as discussed in Note 2 to our consolidated financial statements in this Annual Report on Form 10-K.

Equity in income of unconsolidated joint venture. Equity in income of unconsolidated joint venture was approximately $471,000 during the year ended December 31, 2008, compared to no equity in income of unconsolidated joint venture during the year ended December 31, 2007. Through a joint venture that we entered into during the year ended December 31, 2008, we acquired an indirect interest in an approximately 386,000 square foot multi-tenant retail building in Independence, Missouri for approximately $53.7 million, including acquisition costs, which represents an 85.48% interest in the joint venture.

Interest and Other Income. Interest and other income decreased approximately $979,000, or approximately 43% to approximately $1.3 million during the year ended December 31, 2008, compared to approximately $2.3 million during the year ended December 31, 2007. Other income primarily consisted of the net gain on disposal of a rate lock, of approximately $478,000 for the year ended December 31, 2007, as discussed in Note 12 to our consolidated audited financial statements accompanying this Annual Report on Form 10-K. Interest income decreased approximately $501,000, or approximately 28%, to approximately $1.3 million during the year ended December 31, 2008, compared to approximately $1.8 million for the year ended December 31, 2007. The decrease was primarily due to a decline in interest rates.

Interest Expense. Interest expense increased approximately $39.0 million, or approximately 100%, to approximately $78.1 million for the year ended December 31, 2008, compared to approximately $39.1 million during the year ended

December 31, 2007. The increase was primarily due to an increase in the average notes payable and line of credit outstanding during the year ended December 31, 2008 to approximately $1.3 billion from approximately $637.0 million during the year ended December 31, 2007 and an increase of weighted average interest rate to approximately 5.89% as of December 31, 2008 from approximately 5.85% as of December 31, 2007.

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Our property acquisitions during the year ended December 31, 2008, were purchased with proceeds from the Follow-on Offering, available cash, borrowings from our Credit Facility and short-term and long-term notes payable as discussed in Note 10 to our consolidated financial statements in this Annual Report on Form 10-K. We expect that our interest expense in future periods will vary based on our level of future borrowings, which will depend on the cost of our borrowings and the opportunity to acquire real estate assets that meet our investment objectives.

Portfolio Information

Real Estate Portfolio

As of December 31, 2009, we directly owned 693 properties located in 45 states and the U.S. Virgin Islands, the gross rentable space of which was approximately 94% leased with an average lease term remaining of approximately 11.5 years. Of the leases related to these properties, 13 were classified as direct financing leases, as discussed in Note 4 to our consolidated financial statements in this Annual Report on Form 10-K.

As of December 31, 2009, our five highest tenant concentrations, based on gross annualized base rents, were as follows:

Tenant	Total Number of Leases	Leased Square Feet (1)	2009 Gross Annualized Base Rent (in thousands)	Percentage of 2009 Gross Annualized Base Rent
Walgreens drug store	57	824,683	$ 19,091	8%
Church s Chicken restaurant	1	244,067	13,210	6%
Academy Sports sporting goods	9	1,915,155	11,586	5%
Circle K convenience store	83	263,162	11,550	5%
CVS drug store	32	347,232	7,986	3%
	182	3,594,299	$ 63,423	27%

(1) Including square feet of the buildings on land that is subject to ground leases.

As of December 31, 2009, our five highest tenant industry concentrations, based on gross annualized base rents, were as follows:

Industry	Total Number of Leases	Leased Square Feet (1)	2009 Gross Annualized Base Rent (in thousands)	Percentage of 2009 Gross Annualized Base Rent
Specialty retail	193	4,569,864	$ 41,188	18%
Drugstore	121	1,596,687	36,338	16%

Restaurant	90	720,008	29,425	13%
Sporting goods	16	2,190,386	15,258	7%
Home improvement	13	1,616,082	12,813	6%
	433	10,693,027	$ 135,022	60%

(1) Including square feet of the buildings on land that is subject to ground leases.

As of December 31, 2009, our five highest geographic concentrations, based on gross annualized base rents, were as follows:

Location	Total Number of Properties	Rentable Square Feet (1)	2009 Annualized Gross Base Rents (in thousands)	Percentage of 2009 Annualized Gross Base Rent
Texas	158	3,476,292	$ 35,639	16%
Florida	22	2,078,050	24,039	11%
Illinois	21	1,683,522	17,787	8%
Georgia	57	1,010,900	15,870	7%
Ohio	61	609,863	12,122	5%
	319	8,858,627	$ 105,457	47%

(1) Including square feet of the buildings on land that is subject to ground leases.

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For more information on our portfolio diversification and statistics, see Item 2 Properties above.

Mortgage Notes Receivable Portfolio

At December 31, 2009, the Company owned two portfolios of mortgage notes receivable of approximately $82.5 million consisting of 69 mortgage notes receivable, secured by 23 restaurant properties leased to Cracker Barrel Old Country Store, 20 restaurant properties leased to KFC, and 26 retail properties leased to O Reilly Auto Parts.

Investment in Marketable Securities

At December 31, 2009, we owned six CMBS bonds, with an aggregate fair value of approximately $56.4 million.

Investment in Unconsolidated Joint Venture

Through two joint ventures, we have an 85.48% indirect interest in an approximately 386,000 square foot multi-tenant retail building in Independence, Missouri and a 70% indirect interest in a ten-property storage facility portfolio, for a net investment of approximately $40.2 million, as of December 31, 2009.

Modified Funds from Operations

Modified funds from operations (MFFO) is a non-GAAP supplemental financial performance measure that our management uses in evaluating the operating performance of our real estate investments. Similar to Funds from Operations (FFO), a non-GAAP financial performance measure defined by the National Association of Real Estate Investment Trusts (NAREIT) widely recognized as a measure of operating performance of a real estate company, MFFO, as defined by our company, excludes items such as real estate depreciation and amortization, and gains and losses on the sale of real estate assets. However, changes in the accounting and reporting rules under GAAP that have been put into effect since the establishment of NAREIT s definition of FFO have prompted a significant increase in the amount of non-cash and non-operating items included in FFO, as defined. In addition to the adjustments in FFO, MFFO, as defined by our company, also excludes real estate impairment charges and acquisition related expenses, which are required to be expensed in accordance with GAAP. We believe that MFFO, which excludes these costs, is more representative of the operating performance of our real estate portfolio. Depreciation and amortization in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Additionally, gains and losses on sale of real estate assets and impairment charges are items that management does not include in its evaluation of the current operating performance of its real estate investments, rather management believes that the impact of these items will be reflected over time through changes in rental income or other related costs. Also, management does not include acquisition related expenses in its evaluation of current operating performance as acquisition related expenses are funded with proceeds from the Offering and accordingly will not be incurred in future periods for real estate acquired during the periods presented below. We believe that MFFO reflects the overall operating performance of our real estate portfolio, which may not be immediately apparent from reported net income. As such, we believe MFFO, in addition to net income and cash flows from operating activities, as defined by GAAP, is a meaningful supplemental performance measure and is useful in understanding how our management evaluates our ongoing operating performance.

However, MFFO should not be considered as an alternative to net income or to cash flows from operating activities and is not intended to be used as a liquidity measure indicative of cash flow available to fund our cash needs.

Our calculation of MFFO, and reconciliation to net income, which is the most directly comparable GAAP financial measure, is presented in the following table for the periods as indicated (in thousands):

	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
Net income	$ 22,406	$ 25,092	$ 4,480
Depreciation of real estate assets	56,122	42,647	20,460
Amortization of lease related costs	34,628	21,212	10,022
Depreciation and amortization of real estate assets in unconsolidated joint ventures	2,655	99	
Acquisition related expenses	3,241		
Impairment on real estate assets	13,500	3,550	5,400

Loss (gain) on easement and condemnation of assets	139	(34)	
MFFO	$ 132,691	$ 92,566	$ 40,362

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Set forth below is additional information that may be helpful in assessing our operating results:

In order to recognize revenues on a straight-line basis over the terms of the respective leases, we recognized additional revenue by straight-lining rental revenue of approximately $10.7 million, approximately $9.7 million and approximately $4.4 million during the years ended December 31, 2009, 2008 and 2007, respectively. In addition, related to our unconsolidated joint ventures, straight-line revenue of approximately $123,000 and approximately $20,000 for the years ended December 31, 2009 and 2008, respectively, is included in equity in income of unconsolidated joint ventures on the consolidated statement of operations. No amount of straight-line revenue from our unconsolidated joint ventures was recorded for the year ended December 31, 2007.

Amortization of deferred financing costs and amortization of fair value adjustments of mortgage notes assumed totaled approximately $7.4 million, approximately $5.9 million and approximately $1.9 million during the years ended December 31, 2009, 2008 and 2007, respectively. In addition, related to our unconsolidated joint ventures, amortization of deferred financing costs and amortization of fair value adjustments of mortgage notes assumed totaled approximately $766,000 which is included in equity in income of unconsolidated joint ventures on the consolidated statement of operations for the year ended December 31, 2009. No amounts of amortization of deferred financing costs and amortization of fair value adjustments of mortgage notes assumed from our unconsolidated joint ventures were recorded during the years ended December 31, 2008 and 2007.

Liquidity and Capital Resources

General

Our principal demands for funds are for the payment of principal and interest on our outstanding indebtedness, operating and property maintenance expenses and distributions to our stockholders. We may also acquire additional real estate and real estate-related investments. Generally, cash needs for payments of interest, operating and property maintenance expenses and distributions to stockholders will be generated from cash flows from operations from our consolidated real estate assets. The sources of our operating cash flows are primarily driven by the rental income received from leased properties, interest income earned on mortgage notes receivable, marketable securities and on our cash balances and by distributions from our unconsolidated joint ventures. We expect to utilize the available cash from issuance of shares under the DRIP, borrowings on our Credit Facility and possible additional financings and refinancings to repay our outstanding indebtedness and complete possible future property acquisitions.

As of December 31, 2009, we had cash and cash equivalents of approximately $28.4 million and available borrowings of approximately $101.5 million under our Credit Facility. Additionally, as of December 31, 2009, we had unencumbered properties with a gross book value of approximately $433.1 million that may be used as collateral to secure additional financing in future periods or as additional collateral to facilitate the refinancing of current mortgage debt as it becomes due.

Short-term Liquidity and Capital Resources

We expect to meet our short-term liquidity requirements through net cash provided by property operations during the year ending December 31, 2010. We have approximately $101.4 million of debt maturing within the next 12 months, of which approximately $35.9 million includes extension options and approximately $16.7 million include hyper-amortization provisions that would require us to apply 100% of the rents received from the properties securing the debt to pay interest due on the loans, reserves, if any, and principal reductions until such balance is paid in full through the extended maturity dates, all of which will adversely affect our available cash for distributions should we exercise these options. If we are unable to finance or refinance the amounts maturing, we expect to pay down any remaining amounts through a combination of the use of net cash provided by property operations, available borrowings on our Credit Facility, under which approximately $101.5 million was available as of December 31, 2009 or we may elect to extend the maturity dates of the mortgage notes in accordance with the hyper-amortization provisions, if available. If we are able to refinance our existing debt as it matures it may be at rates and terms that are less favorable than our existing debt or, if we elect to extend the maturity dates of the mortgage notes in accordance with the hyper-amortization provisions, the interest rates charged to us will be higher than each respective current

interest rate, each of which may adversely affect our results of operations and the distributions we are able to pay to our investors. The Credit Facility and certain notes payable contain customary affirmative, negative and financial covenants, including requirements for minimum net worth, debt service coverage ratios and leverage ratios, in addition to variable rate debt and investment restrictions. These covenants may limit our ability to incur additional debt and available borrowings on our Credit Facility.

During the year ended December 31, 2009, we paid distributions of approximately $135.0 million, including approximately $71.0 million through the issuance of DRIP shares, which were funded by adjusted cash flows from operations of approximately $120.1 million, cash flows from operations in excess of distributions from previous periods of approximately $6.8 million and cash from proceeds from notes payable and line of credit borrowings of approximately $8.1 million. Adjusted cash flows from operations consists of cash flows from operations of approximately $116.9 million adjusted to add back approximately $3.2 million of real estate acquisition related expenses incurred during the period and expensed in accordance with ASC 805. During the year ended December 31, 2008, we paid distributions of approximately $96.1 million, including approximately $53.5 million through the issuance of DRIP shares, which were funded by cash flows from operations of approximately $96.1 million.

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Adjusted cash flows from operations is a non-GAAP financial measure and does not represent cash flows from operating activities. Cash flows from operating activities as defined by GAAP is the most relevant measure in determining our ability to generate cash from our real estate investments because adjusted cash flows from operations includes adjustments that investors may deem subjective, such as adding back acquisition related expenses. Accordingly, adjusted cash flows from operations should not be considered as an alternative to cash flows from operating activities. We consider adjusted cash flows from operations to be a meaningful measure of the source of cash used to pay distributions to investors, as it adds back real estate acquisition related expenses, which are a one-time occurrence, used for income generating investments that have a long-term benefit, to arrive at the ongoing cash flows from operating our real estate assets. We consider the real estate acquisition related expenses to have been funded by proceeds from our Offerings because the expenses were incurred to acquire our real estate investments.

On December 18, 2009, our board of directors authorized a daily distribution, based on 365 days in the calendar year, of $0.001712523 per share for stockholders of record as of the close of business on each day of the period commencing on January 1, 2010 and ending on March 31, 2010.

Our share redemption program provides that we will redeem shares of our common stock from requesting stockholders, subject to the terms and conditions of the share redemption program. In particular, during any calendar year, we will not redeem in excess of 3% of the weighted average number of shares outstanding during the prior calendar year. In addition, the cash available for redemption is limited to the proceeds from the sale of shares pursuant to our DRIP. See Note 18 to our consolidated financial statements included in this Annual Report on Form 10-K for terms of the share redemption program. During the year ended December 31, 2009, we redeemed approximately 5.1 million shares for approximately $48.3 million. Subsequent to December 31, 2009, we redeemed approximately 288,000 shares for approximately $2.9 million.

Long-term Liquidity and Capital Resources

We expect to meet our long-term liquidity requirements through proceeds from secured or unsecured financings from banks and other lenders, borrowing on our Credit Facility, available cash from issuance of shares under the DRIP, the selective and strategic sale of properties and net cash flows from operations. We expect that our primary uses of capital will be for property and other asset acquisitions and the payment of tenant improvements, operating expenses, including interest expense on any outstanding indebtedness, and distributions and redemptions to our stockholders. We expect that substantially all net cash generated from operations will be used to pay distributions to our stockholders after certain capital expenditures, including tenant improvements and leasing commissions, are paid at the properties; however, we may use other sources to fund distributions as necessary. To the extent that cash flows from operations are lower due to lower than expected returns on the properties or we elect to retain cash flows from operations to make additional real estate investments or reduce our outstanding debt, distributions paid to our stockholders may be lower. We expect that substantially all net cash resulting from equity issuance or debt financing will be used to fund acquisitions, for certain capital expenditures identified at acquisition, for repayments of outstanding debt, or for any distributions to stockholders in excess of cash flows from operations and redemption of shares from our stockholders.

As of December 31, 2009, we had received and accepted subscriptions for approximately 211.0 million shares of common stock in the Offerings for gross proceeds of approximately $2.1 billion. As of December 31, 2009, we had redeemed a total of approximately 6.4 million shares of common stock for a cost of approximately $60.6 million.

As of December 31, 2009, we had approximately $1.6 billion of debt outstanding, consisting of approximately $1.5 billion of Fixed Rate Debt, approximately $123.0 million of Variable Rate Debt and approximately $33.0 million outstanding under the Credit Facility. The Fixed Rate Debt has interest rates ranging from 4.46% to 7.23%, with a weighted average interest rate of approximately 5.88%, and matures on various dates from November 2010 through August 2031. The Variable Rate Debt has interest rates that range from LIBO rate plus 200 to 325 basis points, with certain notes containing LIBO rate floors ranging from 4.50% to 5.00%, and matures on various dates from April 2010 through September 2011. See Note 10 to our consolidated financial statements in this Annual Report on Form 10-K for terms of the Credit Facility. Additionally, the ratio of debt to total gross real estate and related assets net of gross intangible lease liabilities, as of December 31, 2009, was approximately 48% and the weighted average years to maturity was approximately 5.8 years.

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Our contractual obligations as of December 31, 2009 were as follows (in thousands):

		Payments due by period (1) (2)				
		Total	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
Principal payments	fixed rate debt (3)	$ 1,465,473	$ 20,325	$ 245,190	$ 261,173	$ 938,785
Interest payments	fixed rate debt (4)	537,943	86,655	231,731	137,890	81,667
Principal payments	variable rate debt (3)	122,991	84,741	38,250		
Interest payments	variable rate debt (5)	3,385	2,743	642		
Principal payments	line of credit	33,000		33,000		
Interest payments	line of credit (6)	1,517	1,073	444		
Total		$ 2,164,309	$ 195,537	$ 549,257	$ 399,063	$ 1,020,452

(1) The table does not include amounts due to our advisor or its affiliates pursuant to our advisory agreement because such amounts are not fixed and determinable.

(2) Principal paydown amounts are included in payments due by period.

(3) Principal payment amounts reflect actual payments based on face amount of notes payable.

(4) As of December 31, 2009, we had approximately $122.5 million

of variable rate debt fixed through the use of interest rate swaps. We used the fixed rates under the swap agreement to calculate the debt payment obligations in future periods.

(5) Rates ranging from 2.23% to 5.00% were used to calculate the variable debt payment obligations in future periods. These were the rates effective as of December 31, 2009.

(6) Based on interest rate in effect as of December 31, 2009.

Our charter prohibits us from incurring debt that would cause our borrowings to exceed the greater of 60% of our gross assets, valued at the greater of the aggregate cost (before depreciation and other non-cash reserves) or fair value of all assets owned by us, unless approved by a majority of our independent directors and disclosed to our stockholders in our next quarterly report.

Cash Flow Analysis

Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008

Operating Activities. Net cash provided by operating activities increased approximately $20.8 million, or approximately 22%, to approximately $116.9 million for the year ended December 31, 2009, compared to approximately $96.1 million for the year ended December 31, 2008. The increase was primarily due to an increase in depreciation and amortization expenses totaling approximately $19.8 million, an increase in impairment of real estate assets of approximately $9.9 million and an increase in distributions from unconsolidated joint ventures of approximately $2.6 million, partially offset by a decrease in net income of approximately $2.7 million and a decrease in the change in accounts payable and accrued expenses of approximately $11.3 million for the year ended December 31, 2009. See Results of Operations for a more complete discussion of the factors impacting our operating performance.

Investing Activities. Net cash used in investing activities decreased approximately $1.2 billion, or approximately 96%, to approximately $45.5 million for the year ended December 31, 2009 compared to approximately $1.2 billion for the year ended December 31, 2008. The decrease was primarily due to the acquisition of 20 properties, with an average purchase price of approximately $6.2 million during the year ended December 31, 2009, compared to the acquisition

of 340 properties, with an average purchase price of approximately $3.8 million during year ended December 31, 2008. In addition, we purchased two CMBS bonds at a discounted price of approximately $10.5 million, including acquisition costs, and invested in an unconsolidated joint venture for approximately $16.8 million, including acquisition costs, during the year ended December 31, 2009, as compared to the purchase of four CMBS bonds at a discounted price of approximately $50.0 million, including acquisition costs, and the acquisition of an indirect interest in a multi-tenant retail building for approximately $53.7 million, including acquisition costs, during the year ended December 31, 2008.

Financing Activities. During the year ended December 31, 2009, net cash used in financing activities was approximately $149.4 million, compared to net cash provided by financing activities of approximately $1.2 billion for the year ended December 31, 2008, resulting in a change of approximately $1.3 billion, or approximately 113%. The change was primarily due to a decrease in proceeds from issuance of common stock of approximately $1.0 billion, a decrease in the proceeds from mortgage notes payable of approximately $612.4 million and an increase in redemptions of common stock of approximately $38.2 million, offset primarily by a decrease in repayment of mortgage notes payable of approximately $257.1 million and a decrease in offering costs of approximately $99.8 million. The decrease in proceeds from issuance of common stock and in offering costs was due to the termination of the Follow-on Offering on January 2, 2009.

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Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007

Operating Activities. Net cash provided by operating activities increased approximately $52.7 million, or approximately 122%, to approximately $96.1 million for the year ended December 31, 2008, compared to approximately $43.4 million for the year ended December 31, 2007. The increase was primarily due to increases in net income of approximately $20.6 million, depreciation and amortization expenses totaling approximately $33.2 million and an increase in accounts payable and accrued expenses of approximately $7.2 million, offset primarily by a decrease in impairment of real estate assets of approximately $1.9 million and an increase in rents and tenant receivables of approximately $8.8 million for the year ended December 31, 2008. See Results of Operations for a more complete discussion of the factors impacting our operating performance.

Investing Activities. Net cash used in investing activities decreased approximately $148.7 million, or approximately 11%, to approximately $1.2 billion for the year ended December 31, 2008 compared to approximately $1.4 billion for the year ended December 31, 2007. The decrease is primarily due to the assumption of approximately $171.3 million of mortgage notes payable in conjunction with our real estate acquisitions during the year ended December 31, 2008. We assumed no mortgage notes payable during the year ended December 31, 2007. During the year ended December 31, 2008, we acquired 340 properties, with an average purchase price of approximately $3.8 million, compared to the acquisition of 242 properties, with an average purchase price of approximately $5.3 million during the year ended December 31, 2007. In addition, we purchased four CMBS bonds at a discounted price of approximately $50.0 million, including acquisition costs, during the year ended December 31, 2008 and acquired an indirect interest in a multi-tenant retail building for approximately $53.7 million, including acquisition costs.

Financing Activities. Net cash provided by financing activities decreased approximately $144.4 million, or approximately 11%, to approximately $1.2 billion for the year ended December 31, 2008, compared to approximately $1.3 billion for the year ended December 31, 2007. The decrease was primarily due to an increase in repayment of mortgage and affiliate notes payable of approximately $340.5 million, a decrease in proceeds from mortgage and affiliate notes payable of approximately $137.4 million and an increase in offering costs on issuance of common stock of approximately $42.5 million, offset primarily by an increase in proceeds from issuance of common stock of approximately $430.4 million. The decrease in proceeds from issuance of mortgage and affiliate notes payable was due to the issuance of 29 new notes payable during the year ended December 31, 2008, compared to the issuance of 105 new notes payable during the year ended December 31, 2007.

Election as a REIT

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

Inflation

We are exposed to inflation risk as income from long-term leases is the primary source of our cash flows from operations. There are provisions in certain of our tenant leases that are intended to protect us from, and mitigate the risk of, the impact of inflation. These provisions include rent steps and clauses enabling us to receive payment of additional rent calculated as a percentage of the tenants gross sales above pre-determined thresholds. In addition, most of our leases require the tenant to pay all or a majority of the operating expenses, including real estate taxes, special assessments and sales and use taxes, utilities, insurance and building repairs, related to the property. However, due to the long-term nature of the leases, the leases may not re-set frequently enough to adequately offset the effects of inflation.

Commitments and Contingencies

We are subject to certain contingencies and commitments with regard to certain transactions. Refer to Note 14 to our consolidated financial statements accompanying this Annual Report on Form 10-K for further explanations.

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Related-Party Transactions and Agreements

We have entered into agreements with Cole Advisors II and its affiliates, whereby we have paid, and may continue to pay, certain fees to, or reimburse certain expenses of, Cole Advisors II or its affiliates for acquisition and advisory fees and expenses, financing coordination fees, organization and offering costs, sales commissions, dealer manager fees, asset and property management fees and expenses, leasing fees and reimbursement of certain operating costs. See Note 15 to our consolidated financial statements included in this Annual Report on Form 10-K for a discussion of the various related-party transactions, agreements and fees.

Conflicts of Interest

Affiliates of Cole Advisors II act as sponsor, general partner or advisor to various private real estate limited partnerships and other real estate-related programs, a REIT that offered its shares pursuant to an exemption from registration, and a REIT that currently is offering its shares pursuant to a Registration Statement on Form S-11. As such, there are conflicts of interest where Cole Advisors II or its affiliates, while serving in the capacity as sponsor, general partner, key personnel or advisor for another Cole sponsored program, may be in competition with us in connection with property acquisitions, property dispositions, and property management. The compensation arrangements between affiliates of Cole Advisors II and these other Cole sponsored programs could influence its advice to us. See Item 1. Business Conflicts of Interest in this Annual Report on Form 10-K.

Subsequent Events

Certain events occurred subsequent to December 31, 2009 through the date of this Annual Report on Form 10-K. Refer to Note 22 to our consolidated financial statements included in this Annual Report on Form 10-K for further explanation. Such events include:

Issuance of shares of common stock through DRIP;

Redemption of shares of common stock; and

Declaration of distributions.

Impact of Recent Accounting Pronouncements

Reference is made to Note 2 to the consolidated financial statements included in this Annual Report on Form 10-K regarding the impact of recent accounting pronouncements. There are no new accounting pronouncements that have been issued but not yet applied by us that we believe will have a material impact on our consolidated financial statements.

Off Balance Sheet Arrangements

As of December 31, 2009 and 2008, we had no material off-balance sheet arrangements that had or are reasonably likely to have a current or future effect on our financial condition, results of operations, liquidity or capital resources.

ITEM 7A. ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

In connection with property acquisitions, we have obtained variable rate debt financing (see Note 10 to our consolidated financial statements included in this Annual Report on Form 10-K) to fund certain property acquisitions, and therefore we are exposed to changes in the LIBO rate. Our objectives in managing interest rate risk will be to limit the impact of interest rate changes on operations and cash flows, and to lower overall borrowing costs. To achieve these objectives we will borrow primarily at interest rates with the lowest margins available and, in some cases, with the ability to convert variable interest rates to fixed rates. We have entered and expect to continue to enter into derivative financial instruments such as interest rate swaps and caps in order to mitigate our interest rate risk on a given financial instrument. We have not entered, and do not intend to enter, into derivative or interest rate transactions for speculative purposes. We may enter into rate lock arrangements to lock interest rates on future borrowings.

As of December 31, 2009, approximately $156.0 million of the approximately $1.6 billion outstanding on notes payable and the Credit Facility was subject to variable interest rates, which bore interest at the one-month LIBO rate plus 200 to 325 basis points, with certain notes containing LIBO rate floors ranging from 4.50% to 5.00%. As of December 31, 2009, a 1% change in interest rates would result in a change in interest expense of approximately $1.6 million per year, assuming all of our derivatives remain effective hedges.

As of December 31, 2009, we had five interest rate swap agreements outstanding, which mature on various dates from September 2011 through March 2016, with an aggregate notional amount under the swap agreements of approximately $122.5 million and an aggregate net fair value of approximately ($2.8) million. The fair value of these interest rate swaps is dependent upon existing market interest rates and swap spreads. As of December 31, 2009, an increase of 50 basis points in interest rates would result in an increase to the fair value of these interest rate swaps of approximately $1.6 million.

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As of December 31, 2009, we had two interest rate cap agreements, which mature in August and September 2010, with an aggregate notional amount of approximately $70.0 million and an aggregate fair value of less than $1,000. The fair value of the interest rate caps is dependent upon existing market interest rates and swap spreads. As of December 31, 2009, an increase of 50 basis points in interest rates would result in an increase to the fair value of the interest rate caps of approximately $2,000. Neither of the interest rate caps were designated as hedging instruments under ASC 815. Therefore, the gain resulting from the increase in fair value of the interest rate caps of approximately $2,000 would be recorded as a gain in operations.

We do not have any foreign operations and thus we are not exposed to foreign currency fluctuations.

ITEM 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

The financial statements and supplementary data filed as part of this report are set forth beginning on page F-1 of this report.

ITEM 9. ***CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE***

There were no changes in or disagreements with our independent registered public accountants during the year ended December 31, 2009.

ITEM 9A(T). ***CONTROLS AND PROCEDURES***

As required by Rules 13a-15(b) and 15d-15(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act), we, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this Annual Report on Form 10-K. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures, as of December 31, 2009, were effective in all material respects to ensure that information required to be disclosed by us in this Annual Report on Form 10-K is recorded, processed, summarized and reported within the time periods specified by the rules and forms promulgated under the Exchange Act, and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

No change occurred in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d -15(f) of the Exchange Act) in connection with the foregoing evaluations that occurred during the three months ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Management s Report on Internal Control Over Financial Reporting

Cole Credit Property Trust II, Inc. s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a 15(f) and 15d-15(f). Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Also, projections of any evaluation of internal control effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of Cole Credit Property Trust II, Inc. s internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this evaluation, management has concluded that Cole Credit Property Trust II, Inc. s internal control over financial reporting was effective as of December 31, 2009.

This Annual Report on Form 10-K does not include an attestation report of the Company s registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by the Company s registered public accounting firm pursuant to temporary rules of the Securities and Exchange

Commission that permit the Company to provide only management s report in this Annual Report on Form 10-K.

ITEM 9B. ***OTHER INFORMATION***

None.

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PART III

ITEM 10. ***DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE***

The information required by this Item is incorporated by reference to our definitive proxy statement to be filed with the SEC with respect to our 2010 annual meeting of stockholders.

ITEM 11. ***EXECUTIVE COMPENSATION***

The information required by this Item is incorporated by reference to our definitive proxy statement to be filed with the SEC with respect to our 2010 annual meeting of stockholders.

ITEM 12. ***SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS***

The information required by this Item is incorporated by reference to our definitive proxy statement to be filed with the SEC with respect to our 2010 annual meeting of stockholders.

ITEM 13. ***CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTORS INDEPENDENCE***

The information required by this Item is incorporated by reference to our definitive proxy statement to be filed with the SEC with respect to our 2010 annual meeting of stockholders.

ITEM 14. ***PRINCIPAL ACCOUNTING FEES AND SERVICES***

The information required by this Item is incorporated by reference to our definitive proxy statement to be filed with the SEC with respect to our 2010 annual meeting of stockholders.

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PART IV

ITEM 15. ***EXHIBITS, FINANCIAL STATEMENT SCHEDULES***

(a) List of Documents Filed.

1. The list of the financial statements contained herein is set forth on page F-1 hereof.

2. Financial Statement Schedules

   Schedule II Valuation and Qualifying Accounts is set forth beginning on page S-1 hereof.

   Schedule III Real Estate Assets and Accumulated Depreciation is set forth beginning on page S-2 hereof.

   Schedule IV Mortgage Loans on Real Estate is set forth beginning on page S-20 hereof.

   All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are not applicable and therefore have been omitted.

3. The Exhibits filed in response to Item 601 of Regulation S-K are listed on the Exhibit Index attached hereto.

(b) See (a) 3 above.

(c) See (a) 2 above.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Cole Credit Property Trust II, Inc. and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Cole Credit Property Trust II, Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2009, the Company prospectively changed its method of accounting for business combinations.

/s/ DELOITTE & TOUCHE LLP

Phoenix, Arizona
March 29, 2010

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COLE CREDIT PROPERTY TRUST II, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands except share and per share amounts)

	December 31, 2009	December 31, 2008
ASSETS		
Investment in real estate assets:		
Land	$ 808,109	$ 774,901
Buildings and improvements, less accumulated depreciation of $122,887 and $67,326, respectively	1,928,786	1,929,829
Real estate assets under direct financing leases, less unearned income of $16,794 and $19,888, respectively	37,736	38,612
Acquired intangible lease assets, less accumulated amortization of $67,253 and $37,578, respectively	357,008	383,992
Total real estate assets, net	3,131,639	3,127,334
Investment in mortgage notes receivable, less accumulated amortization of $1,385 and $714, respectively	82,500	84,994
Total real estate and mortgage assets, net	3,214,139	3,212,328
Cash and cash equivalents	28,417	106,485
Restricted cash	9,536	8,565
Marketable securities	56,366	24,583
Investment in unconsolidated joint ventures	40,206	25,792
Rents and tenant receivables, less allowance for doubtful accounts of $1,648 and $922, respectively	33,544	22,212
Prepaid expenses, derivative and other assets	4,253	4,032
Deferred financing costs, less accumulated amortization of $11,713 and $6,512, respectively	26,643	28,031
Total assets	$ 3,413,104	$ 3,432,028
LIABILITIES AND STOCKHOLDERS EQUITY		
Notes payable and line of credit	$ 1,607,473	$ 1,550,314
Accounts payable and accrued expenses	20,023	20,723
Due to affiliates	509	123
Acquired below market lease intangibles, less accumulated amortization of $21,470 and $10,897, respectively	149,832	156,813
Distributions payable	10,851	11,877
Deferred rent, derivative and other liabilities	14,672	12,156
Total liabilities	1,803,360	1,752,006
Redeemable common stock	87,760	65,046
STOCKHOLDERS EQUITY:		

Preferred stock, $0.01 par value; 10,000,000 shares authorized, none issued and outstanding		
Common stock, $0.01 par value; 240,000,000 shares authorized, 204,662,620 and 202,296,748 shares issued and outstanding, respectively	2,047	2,023
Capital in excess of par value	1,762,904	1,763,432
Accumulated distributions in excess of earnings	(233,480)	(121,929)
Accumulated other comprehensive loss	(9,487)	(28,550)
Total stockholders equity	1,521,984	1,614,976
Total liabilities and stockholders equity	$ 3,413,104	$ 3,432,028

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

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COLE CREDIT PROPERTY TRUST II, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands except share and per share amounts)

	Year Ended December 31,		
	2009	**2008**	**2007**
Revenues:			
Rental and other property income	$ 240,303	$ 178,297	$ 82,492
Tenant reimbursement income	19,124	12,225	5,161
Earned income from direct financing leases	1,912	2,183	1,075
Interest income on mortgage notes receivable	6,867	7,081	1,114
Interest income on marketable securities	7,249	1,218	
Total revenue	275,455	201,004	89,842
Expenses:			
General and administrative expenses	7,020	5,632	2,011
Property operating expenses	25,821	16,796	6,467
Property and asset management expenses	14,904	9,762	4,184
Acquisition related expenses	3,241		
Depreciation	56,122	42,647	20,460
Amortization	34,628	21,212	10,022
Impairment of real estate assets	13,500	3,550	5,400
Total operating expenses	155,236	99,599	48,544
Operating income	120,219	101,405	41,298
Other income (expense):			
Equity in income of unconsolidated joint ventures	612	471	
Interest and other income	572	1,279	2,258
Interest expense	(98,997)	(78,063)	(39,076)
Total other expense	(97,813)	(76,313)	(36,818)
Net income	$ 22,406	$ 25,092	$ 4,480
Weighted average number of common shares outstanding:			
Basic	202,686,670	146,198,235	60,929,996
Diluted	202,690,094	146,201,399	60,931,316
Net income per common share:			
Basic and diluted	$ 0.11	$ 0.17	$ 0.07

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

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COLE CREDIT PROPERTY TRUST II, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(in thousands, except share amounts)

	Common Stock Number of Shares	Common Stock Par Value	Capital in Excess of Par Value	Accumulated Distributions in Excess of Earnings	Accumulated Other Comprehensive Loss	Total Stockholders Equity
Balance, January 1, 2007	30,691,204	$ 307	$ 273,386	$ (7,456)	$	$ 266,237
Issuance of common stock	63,156,834	631	629,526			630,157
Distributions				(41,550)		(41,550)
Commissions on stock sales and related dealer manager fees			(53,346)			(53,346)
Other offering costs			(4,600)			(4,600)
Redemptions of common stock	(226,944)	(2)	(2,176)			(2,178)
Stock compensation expense			25			25
Redeemable common stock			(18,139)			(18,139)
Net income and comprehensive income				4,480		4,480
Balance, December 31, 2007	93,621,094	936	824,676	(44,526)		781,086
Issuance of common stock	109,719,921	1,097	1,092,615			1,093,712
Distributions				(102,495)		(102,495)
Commissions on stock sales and related dealer manager fees			(93,004)			(93,004)
Other offering costs			(7,397)			(7,397)
Redemptions of common stock	(1,044,267)	(10)	(10,080)			(10,090)
Stock compensation expense			8			8
Redeemable common stock			(43,386)			(43,386)
Comprehensive loss:						
Net income				25,092		25,092
Unrealized loss on marketable securities					(25,756)	(25,756)
					(2,794)	(2,794)

Unrealized loss on interest rate swaps						
Total comprehensive loss						(3,458)
Balance, December 31, 2008	202,296,748	2,023	1,763,432	(121,929)	(28,550)	1,614,976
Issuance of common stock	7,473,804	75	70,988			71,063
Distributions				(133,957)		(133,957)
Other offering costs			(563)			(563)
Redemptions of common stock	(5,107,932)	(51)	(48,252)			(48,303)
Stock compensation expense			13			13
Redeemable common stock			(22,714)			(22,714)
Comprehensive income:						
Net income				22,406		22,406
Unrealized gain on marketable securities					19,072	19,072
Unrealized loss on interest rate swaps					(9)	(9)
Total comprehensive income						41,469
Balance, December 31, 2009	204,662,620	$ 2,047	$ 1,762,904	$ (233,480)	$ (9,487)	$ 1,521,984

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

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COLE CREDIT PROPERTY TRUST II, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year ended December 31,		
	2009	2008	2007
Cash flows from operating activities:			
Net income	$ 22,406	$ 25,092	$ 4,480
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	56,122	42,647	20,460
Amortization of intangible lease assets and below market lease intangibles, net	22,606	15,893	9,143
Amortization of deferred financing costs	5,969	5,814	1,858
Amortization of premiums on mortgage notes receivable	671	635	79
Amortization of discount on marketable securities	(2,216)	(310)	
Amortization of fair value adjustments of mortgage notes assumed	1,421	78	
Allowance for doubtful accounts	1,993	1,933	447
Stock compensation expense	13	8	25
Impairment of real estate assets	13,500	3,550	5,400
Equity in income of unconsolidated joint ventures	(612)	(471)	
Distributions from unconsolidated joint ventures	2,957	376	
Net gain on disposal of rate lock deposits			(478)
Property condemnation and easement loss (gain)	139	(34)	
Changes in assets and liabilities:			
Decrease in investment in real estate under direct financing leases	876	649	267
Rents and tenant receivables	(13,325)	(16,047)	(6,113)
Prepaid expenses and other assets	(105)	(2,864)	(843)
Accounts payable and accrued expenses	1,687	12,945	5,761
Due to affiliates, deferred rent and other liabilities	2,770	6,179	2,880
Net cash provided by operating activities	116,872	96,073	43,366
Cash flows from investing activities:			
Investment in real estate and related assets	(19,122)	(1,147,765)	(1,266,169)
Investment in real estate under direct financing leases			(39,527)
Investment in marketable securities	(10,495)	(50,029)	
Investment in unconsolidated joint ventures	(16,759)	(53,744)	
Return of capital from joint venture		28,046	
Investment in mortgage notes receivable and related acquisition costs		(102)	(51,120)
Proceeds from mortgage notes receivable	1,823	1,573	232
Proceeds from easement and condemnation of assets	27	475	
Change in restricted cash	(971)	5,468	(8,193)
Net cash used in investing activities	(45,497)	(1,216,078)	(1,364,777)
Cash flows from financing activities:			
Proceeds from issuance of common stock	46	1,040,237	609,841

Offering costs on issuance of common stock	(563)	(100,402)	(57,946)
Redemptions of common stock	(48,303)	(10,090)	(2,179)
Distributions to investors	(63,966)	(42,575)	(17,410)
Proceeds from notes payable and line of credit	105,242	717,604	855,019
Repayment of notes payable and line of credit	(137,325)	(394,390)	(53,894)
Refund of loan deposits	795	5,169	16,333
Payment of loan deposits	(770)	(5,194)	(12,386)
Proceeds from rate lock breakage gain			2,162
Escrowed investor proceeds liability	(18)	(12,720)	7,027
Deferred financing costs paid	(4,581)	(14,666)	(19,205)
Net cash (used in) provided by financing activities	(149,443)	1,182,973	1,327,362
Net (decrease) increase in cash and cash equivalents	(78,068)	62,968	5,951
Cash and cash equivalents, beginning of year	106,485	43,517	37,566
Cash and cash equivalents, end of year	$ 28,417	$ 106,485	$ 43,517

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

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND BUSINESS

Cole Credit Property Trust II, Inc. (the Company) is a Maryland corporation formed on September 29, 2004, that has elected to be taxed, and currently qualifies, as a real estate investment trust (REIT). 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 an approximately 99.99% partnership interest in Cole OP II. Cole REIT Advisors II, LLC (Cole Advisors II), the affiliate advisor to the Company, is the sole limited partner and owner of an insignificant noncontrolling partnership interest of less than 0.01% of Cole OP II.

As of December 31, 2009, we owned 693 properties comprising approximately 19.5 million rentable square feet of single and multi-tenant retail and commercial space located in 45 states and the U.S. Virgin Islands. As of December 31, 2009, the rentable space at these properties was approximately 94% leased. As of December 31, 2009, the Company also owned 69 mortgage notes receivable, with an aggregate carrying value of approximately $82.5 million, secured by 43 restaurant properties and 26 single-tenant retail properties, each of which is subject to a net lease. Through two joint ventures, the Company had an 85.48% indirect interest in an approximately 386,000 square foot multi-tenant retail building in Independence, Missouri and a 70% indirect interest in a ten-property storage facility portfolio as of December 31, 2009. In addition, the Company owned six commercial mortgage-backed securities (CMBS) bonds, with an aggregate fair value of approximately $56.4 million as of December 31, 2009.

On June 27, 2005, the Company commenced an initial public offering on a best efforts basis of up to 45,000,000 shares of common stock offered at a price of $10.00 per share, subject to certain volume and other discounts, pursuant to a Registration Statement on Form S-11 filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended (the Initial Offering). The Registration Statement also covered up to 5,000,000 shares available pursuant to a distribution reinvestment plan (the DRIP) under which our stockholders may elect to have their distributions reinvested in additional shares of the Company s common stock at the greater of $9.50 per share or 95% of the estimated value of a share of common stock. On November 13, 2006, the Company increased the aggregate amount of the Initial Offering to 49,390,000 shares for the primary offering and 5,952,000 shares pursuant to the DRIP in a related Registration Statement on Form S-11. Subsequently, the Company reallocated the shares of common stock available such that a maximum of 54,140,000 shares of common stock was available under the primary offering for an aggregate offering price of approximately $541.4 million and a maximum of 1,202,000 shares was available under the DRIP for an aggregate offering price of approximately $11.4 million.

The Company commenced its principal operations on September 23, 2005, when it issued the initial 486,000 shares of its common stock in the Initial Offering. The Company terminated the Initial Offering on May 22, 2007. As of the close of business on May 22, 2007, the Company had issued a total of 54,838,315 shares in the Initial Offering, including 53,909,877 shares sold in the primary offering and 928,438 shares sold pursuant to the DRIP, resulting in gross offering proceeds to the Company of approximately $547.4 million. At the completion of the Initial Offering, a total of 503,685 shares of common stock remained unsold, including 230,123 shares that remained unsold in the primary offering and 273,562 shares of common stock that remained unsold pursuant to the DRIP. Unsold shares in the Initial Offering have been deregistered.

On May 23, 2007, the Company commenced its follow-on public offering of up to 150,000,000 shares of its common stock (the Follow-on Offering). The Company terminated the Follow-on Offering on January 2, 2009. As of the close of business on January 2, 2009, the Company had issued a total of 147,454,259 shares in the Follow-on Offering, including 141,520,572 shares sold in the primary offering and 5,933,687 shares sold pursuant to the DRIP, resulting in gross offering proceeds of approximately $1.5 billion. At the completion of the Follow-on Offering, a total of 1,595,741 shares of common stock remained unsold, including 1,529,428 shares that remained unsold in the primary offering and 66,313 shares of common stock that remained unsold pursuant to the DRIP. Unsold shares in the Follow-on Offering were deregistered.

On September 18, 2008, the Company registered 30,000,000 additional shares to be offered pursuant to its DRIP in a Registration Statement on Form S-3 (the DRIP Offering) (collectively with the Initial Offering and Follow-on Offering, the Offerings). As of December 31, 2009, the Company had issued 8,753,832 shares of common stock in the

DRIP Offering, resulting in gross proceeds of approximately $83.2 million. Combined with the gross proceeds from the Initial Offering and Follow-on Offering, the Company had aggregate gross proceeds from the Offerings of approximately $2.1 billion (including shares sold pursuant to the DRIP) as of December 31, 2009, before offering costs, selling commissions, and dealer management fees of approximately $188.3 million and before share redemptions of approximately $60.6 million.

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company s stock is not currently listed on a national securities exchange. The Company may seek to list its common stock for trading on a national securities exchange only if a majority of its independent directors believes 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 on a national securities exchange. In the event it does not obtain listing prior to May 22, 2017, 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies presented below is designed to assist in understanding the Company s consolidated financial statements. These accounting policies conform to accounting principles generally accepted in the United States (GAAP), in all material respects, and have been consistently applied in preparing the accompanying consolidated financial statements.

Principles of Consolidation and Basis of Presentation

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

The Company evaluates the need to consolidate joint ventures based on standards set forth in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, *Consolidation* (ASC 810). In determining whether the Company has a controlling interest in a joint venture and the requirement to consolidate the accounts of that entity, management considers factors such as ownership interest, authority to make decisions and contractual and substantive participating rights of the partners/members as well as whether the entity is a variable interest entity (VIE) for which it is the primary beneficiary.

Certain reclassifications to separately present the Company s amortization of deferred financing costs and amortization of fair value adjustments of mortgage notes assumed have been made to prior years Consolidated Statement of Cash Flows in order to conform to the current year presentation.

Use of Estimates

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

Investment in and Valuation of Real Estate and Related Assets

Real estate assets are stated at cost, less accumulated depreciation and amortization. Amounts capitalized to real estate assets consist of the cost of acquisition, excluding acquisition related expenses effective January 1, 2009, construction and any tenant improvements, major improvements and betterments that extend the useful life of the related asset and leasing costs. All repairs and maintenance are expensed as incurred.

Assets, other than land, are depreciated or amortized on a straight line basis. The estimated useful lives of our assets by class are generally as follows:

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

The Company continually monitors events and changes in circumstances that could indicate that the carrying amounts of its real estate and related intangible assets may not be recoverable. Impairment indicators that the Company considers include, but are not limited to, bankruptcy of a property s major tenant, a significant decrease in a property s revenues due to lease terminations, vacancies, co-tenancy clauses, reduced lease rates or other circumstances. When indicators of potential impairment are present, the Company assesses the recoverability of the assets by determining whether the carrying value of the assets will be recovered through the undiscounted future operating cash flows expected from the use of the assets and their eventual disposition. In the event that such expected undiscounted future

cash flows do not exceed the carrying value, the Company will adjust the real estate and related intangible assets to their fair value and recognize an impairment loss.

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company continues to monitor certain properties for which it has identified impairment indicators. As of December 31, 2009, the Company had eight properties with an aggregate book value of approximately $159.4 million for which it assessed the recoverability of the carrying values. For each of these properties the undiscounted future operating cash flows expected from the use of these properties and their related intangible assets and their eventual disposition continued to exceed the carrying value of these assets as of December 31, 2009. Should the conditions of any of these properties change, the undiscounted future operating cash flows expected may change and adversely affect the recoverability of the carrying values related to these properties. During the year ended December 31, 2009, the Company identified one property with impairment indicators for which the undiscounted future operating cash flows expected from the use of the property and related intangible assets and their eventual disposition was less than the carrying value of the assets. As a result, the Company reassessed and reduced the carrying values of both the real estate assets and the related intangible assets to their estimated fair value and recorded an impairment loss of $13.5 million during the year ended December 31, 2009. The Company identified one property during each of the years ended December 31, 2008 and 2007 with impairment indicators for which the undiscounted future operating cash flows expected from the use of the respective property and related intangible assets and their eventual dispositions were less than the carrying value of the respective assets. As a result, the Company reassessed and reduced the carrying values of both the real estate and related intangible assets to their estimated fair values and recorded an impairment loss of approximately $3.6 million and approximately $5.4 million during the years ended December 31, 2008 and 2007, respectively.

Projections of expected future cash flows require the Company to use estimates such as future market rental income amounts subsequent to the expiration of current lease agreements, property operating expenses, terminal capitalization and discount rates, the number of months it takes to release the property, required tenant improvements and the number of years the property is held for investment. The use of inappropriate assumptions in the future cash flow analysis would result in an incorrect assessment of the property s future cash flow and fair value and could result in the misstatement of the carrying value of our real estate and related intangible assets and net income.

When a real estate asset is identified as held for sale, the Company will cease depreciation of the asset and estimate the sales price, net of selling costs. If, in the Company s opinion, the net sales price of the asset is less than the net book value of the asset, an adjustment to the carrying value would be recorded to reflect the estimated fair value of the property. There were no assets identified as held for sale as of December 31, 2009 and 2008.

Allocation of Purchase Price of Real Estate and Related Assets

Upon the acquisition of real properties, the Company allocates the purchase price to acquired tangible assets, consisting of land, buildings and improvements, and identified intangible assets and liabilities, consisting of the value of above market and below market leases and the value of in-place leases, based in each case on their fair values. Effective January 1, 2009, acquisition related expenses are expensed as incurred. The Company utilizes independent appraisals to assist in the determination of the fair values of the tangible assets of an acquired property (which includes land and building). The Company obtains an independent appraisal for each real property acquisition. The information in the appraisal, along with any additional information available to the Company s management, is used by management in estimating the amount of the purchase price that is allocated to land. Other information in the appraisal, such as building value and market rents, may be used by the Company s management in estimating the allocation of purchase price to the building and to lease intangibles. The appraisal firm has no involvement in management s allocation decisions other than providing this market information.

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

remaining terms of the respective leases. Below market leases are amortized as an adjustment of rental income over the remaining terms of the respective leases, including any bargain renewal periods. If a lease is terminated prior to its stated expiration, all unamortized amounts of above market and below market in-place lease values relating to that lease would be recorded as an adjustment to rental income.

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The fair values of in-place leases include direct costs associated with obtaining a new tenant and opportunity costs associated with lost rentals which are avoided by acquiring an in-place lease. Direct costs associated with obtaining a new tenant include commissions, tenant improvements, and other direct costs and are estimated in part by utilizing information obtained from independent appraisals and management s consideration of current market costs to execute a similar lease. The value of the opportunity costs is calculated using the contractual amounts to be paid pursuant to the in-place leases over a market absorption period for a similar lease. These costs are capitalized as intangible lease assets and are amortized to expense over the lesser of the useful life or the remaining term of the respective leases. If a lease is terminated prior to its stated expiration, all unamortized amounts of in-place lease assets relating to that lease would be expensed.

The Company estimates the fair value of assumed mortgage notes payable based upon indications of current market pricing for similar types of debt with similar maturities. Assumed mortgage notes payable are initially recorded at their estimated fair value as of the assumption date, and the difference between such estimated fair value and the respective note s outstanding principal balance is amortized to interest expense over the term of the mortgage note payable.

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

Investment in Direct Financing Leases

The Company evaluates the leases associated with its real estate properties in accordance with ASC 840, *Leases*. For the real estate property leases classified as direct financing leases, the building portion of the property leases are accounted for as direct financing leases while the land portion of these leases are accounted for as operating leases. For the direct financing leases, the Company records an asset (net investment) representing the aggregate future minimum lease payments, estimated residual value of the leased property and deferred incremental direct costs less unearned income. Income is recognized over the life of the lease to approximate a level rate of return on the net investment. Residual values, which are reviewed quarterly, represent the estimated amount we expect to receive at lease termination from the disposition of leased property. Actual residual values realized could differ from these estimates. Any write-downs of estimated residual value are recognized as impairments in the current period. There were no write-downs recognized during the years ended December 31, 2009, 2008, and 2007.

Investment in Mortgage Notes Receivable

Mortgage notes receivable consist of loans acquired by the Company, which are secured by real estate properties. Mortgage notes receivable are recorded at stated principal amounts net of any discount or premium or deferred loan origination costs or fees. The related discounts or premiums on mortgage notes receivable purchased are amortized or accreted over the life of the related mortgage receivable. The Company defers certain loan origination and commitment fees, net of certain origination costs, and amortizes them as an adjustment of the mortgage notes receivable s yield over the term of the related mortgage receivable. The Company evaluates the collectibility of both interest and principal on each mortgage note receivable to determine whether it is collectible. A mortgage note receivable is considered to be impaired, when based upon current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. If a mortgage note receivable is considered to be impaired, the amount of loss is calculated by comparing the recorded investment to the value determined by discounting the expected future cash flows at the mortgage note receivable s effective interest rate or to the value of the underlying collateral if the mortgage note receivable is collateralized. Interest income on performing mortgage note receivable is accrued as earned. Interest income on impaired mortgage notes receivable is recognized on a cash basis. No impairment losses or allowances were recorded related to mortgage notes receivable for the years ended December 31, 2009, 2008 and 2007.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with maturities when purchased of three months or less to be cash equivalents. The Company considers investments in highly liquid money market accounts to be cash equivalents.

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restricted Cash and Escrows

During the year ended December 31, 2009, the Company terminated the Follow-on Offering. The Company had no escrowed investor proceeds as of December 31, 2009. As of December 31, 2008, restricted cash included escrowed investor proceeds of approximately $380,000 for which shares of common stock had not yet been issued as of December 31, 2008. Additionally, restricted cash included approximately $1.2 million and approximately $2.2 million, as of December 31, 2009 and December 31, 2008, respectively, for the contractual obligations related to the earnout agreements discussed in Note 5 below. Restricted cash also included approximately $8.3 million and approximately $6.0 million as of December 31, 2009 and December 31, 2008, respectively, held by lenders in escrow accounts for tenant and capital improvements, leasing commissions, repairs and maintenance and other lender reserves for certain properties, in accordance with the respective lender s loan agreement.

Investment in Marketable Securities

Investments in marketable securities consist of investments in CMBS. ASC 470, *Debt*, requires the Company to classify its investments in real estate securities as trading , available-for-sale or held-to-maturity . The Company classifies its investments as available-for-sale as the Company intends to hold its investments until maturity, however the Company may sell them prior to their maturity. These investments are carried at estimated fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss). Estimated fair values are based on estimated quoted market prices from third party trading desks, where available. Upon the sale of a security, the realized net gain or loss is computed on a specific identification basis.

The Company monitors its available-for-sale securities for impairments. A loss is recognized when the Company determines that a decline in the estimated fair value of a security below its amortized cost is other-than-temporary. The Company considers many factors in determining whether the impairment of a security is deemed to be other-than-temporary, including, but not limited to, the length of time the security has had a decline in estimated fair value below its amortized cost, the amount of the unrealized loss, the intent and ability of the Company to hold the security for a period of time sufficient for a recovery in value, recent events specific to the issuer or industry, external credit ratings and recent changes in such ratings. The analysis of determining whether the impairment of a security is deemed to be other-than-temporary requires significant judgments and assumptions. The use of different judgments and assumptions could result in a different conclusion.

Unamortized premiums and discounts on securities available-for-sale are recognized in interest income on marketable securities over the contractual life, adjusted for actual prepayments, of the securities using the effective interest method.

Investment in Unconsolidated Joint Ventures

Investment in unconsolidated joint ventures as of December 31, 2009, consists of the Company s non-controlling 85.48% interest in a joint venture that owns a multi-tenant property in Independence, Missouri and a 70% interest in a joint venture that owns a ten-property storage facility portfolio. Consolidation of these investments is not required as the entities do not qualify as VIEs and do not meet the control requirements for consolidation, as defined in ASC 810**.** Both the Company and the respective joint venture partner must approve decisions about the respective entity s activities that have a significant effect on the success of the entity**.** As of December 31, 2009, the total assets held within the unconsolidated joint ventures was approximately $152.3 million and the face value of the non-recourse mortgage notes payable was approximately $113.5 million.

The Company accounts for these investments using the equity method of accounting per guidance established under ASC 323, *Investments Equity Method and Joint Ventures* (ASC 323). The equity method of accounting requires these investments to be initially recorded at cost and subsequently adjusted for the Company s share of equity in the joint ventures earnings and distributions. The Company reports its share of income and losses, including impairment charges, based on the Company s ownership interest in the investment. The Company evaluates the carrying amount of each investment for impairment in accordance with ASC 323. The investments in unconsolidated joint ventures are reviewed for potential impairment whenever impairment indicators exist at the individual assets underlying these investments. To the extent an impairment has occurred, the excess of the carrying value of the assets over their

estimated fair value is recorded as a provision for impairment of investment properties. To determine whether impairment is other-than-temporary, the Company considers whether it has the ability and intent to hold the investment until the carrying value is fully recovered. No impairment losses were recorded related to these investments in unconsolidated joint ventures for the years ended December 31, 2009 and 2008.

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Rents and Tenant Receivables

Rents and tenant receivables primarily includes amounts to be collected in future periods related to the recognition of rental income on a straight-line basis over the lease term and cost recoveries due from tenants. See Revenue Recognition below. The Company makes estimates of the uncollectability of its accounts receivable related to base rents, expense reimbursements and other revenues. The Company analyzes accounts receivable and historical bad debt levels, customer credit worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. In addition, tenants in bankruptcy are analyzed and estimates are made in connection with the expected recovery of pre-petition and post-petition claims. The Company s reported net income is directly affected by management s estimate of the collectability of accounts receivable. The Company records allowances for those balances that the Company deems to be uncollectible, including any amounts relating to straight-line rent receivables.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets includes expenses incurred as of the balance sheet date that relate to future periods and will be expensed or reclassified to another account during the period to which the costs relate. Any amounts with no future economic benefit are charged to earnings when identified.

Derivative Instruments and Hedging Activities

ASC 815, *Derivatives and Hedging* (ASC 815), establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives are carried at fair value. Accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative instrument and the designation of the derivative instrument. The change in fair value of the effective portion of the derivative instrument that is designated as a hedge is recorded as other comprehensive income (loss). The changes in fair value for derivative instruments that are not designated as a hedge or that do not meet the hedge accounting criteria of ASC 815 are recorded as a gain or loss to operations.

Deferred Financing Costs

Deferred financing costs are capitalized and amortized on a straight-line basis over the term of the related financing arrangement, which approximates the effective interest method. Amortization of deferred financing costs for the years ended December 31, 2009, 2008 and 2007, was approximately $6.0 million, approximately $5.8 million and approximately $1.9 million, respectively, and was recorded in interest expense in the consolidated statements of operations.

Revenue Recognition

Upon the acquisition of real estate, certain properties have leases where minimum rent payments increase during the term of the lease. The Company records rental revenue for the full term of each lease on a straight-line basis. When the Company acquires a property, the term of existing leases is considered to commence as of the acquisition date for the purposes of this calculation. The Company defers the recognition of contingent rental income, such as percentage rents, until the specific target that triggers the contingent rental income is achieved. Expected reimbursements from tenants for recoverable real estate taxes and operating expenses are included in tenant reimbursement income in the period the related costs are incurred.

Income Taxes

The Company is taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code. The Company generally will not be subject to federal corporate income tax to the extent it distributes its taxable income to its stockholders, and so long as it distributes at least 90% of its taxable income (excluding capital gains). REITs are subject to a number of other organizational and operational requirements. Even if the Company qualifies for taxation as a REIT, it may be subject to certain state and local taxes on its income and property, and federal income and excise taxes on its undistributed income.

Concentration of Credit Risk

As of December 31, 2009, the Company had cash on deposit in five financial institutions, three of which had deposits in excess of federally insured levels, totaling approximately $27.7 million; however, the Company has not experienced any losses in such accounts. The Company limits cash investments to financial institutions with high

credit standing; therefore, the Company believes it is not exposed to any significant credit risk on cash.

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2009, no single tenant accounted for more than 10% of the Company s gross annualized base rental revenues. Tenants in the specialty retail, drugstore and restaurant industries comprised approximately 18%, approximately 16%, and approximately 13%, respectively, of the Company s gross annualized base rental revenues for the year ended December 31, 2009. As of December 31, 2008, no single tenant accounted for more than 10% of the Company s gross annualized base rental revenues. Tenants in the specialty retail, drugstore and restaurant industries comprised approximately 19%, approximately 13%, and approximately 13%, respectively, of the Company s gross annualized base rental revenues for the year ended December 31, 2008. Additionally, the Company has certain geographic concentration in its property holdings. In particular, as of December 31, 2009, 158 of the Company s properties were located in Texas and 22 of the Company s properties were located in Florida, accounting for approximately 16% and approximately 11% of the Company s 2009 gross annualized base rental revenues, respectively. As of December 31, 2008, 156 of the Company s properties were located in Texas and 22 of the Company s properties were located in Florida, accounting for approximately 15% and approximately 12% of the Company s 2008 gross annualized base rental revenues, respectively.

Offering and Related Costs

Cole Advisors II funds all of the organization and offering costs on the Company s behalf and is reimbursed for such costs up to 1.5% of gross proceeds from the Offerings, excluding selling commissions and the dealer-manager fee. During the years ended December 31, 2009 and 2008, Cole Advisors II incurred organization and offering costs of approximately $525,000 and approximately $7.4 million, respectively, on behalf of the Company, of which, all were reimbursable by the Company. The organization and offering costs, which include items such as legal and accounting fees, marketing, and promotional printing costs, are recorded as a reduction of capital in excess of par value along with sales commissions and dealer manager fees of 7% and 2%, respectively. Organization costs are expensed as incurred. No organization costs were expensed during the years ended December 31, 2009, 2008 and 2007.

Due to Affiliates

As of December 31, 2009, the amount due to affiliates primarily consisted of approximately $509,000 due to Cole Realty Advisors for the reimbursement of general and administrative and property management expenses incurred. As of December 31, 2008, the amount due to affiliates primarily consisted of approximately $123,000 due to Cole Realty Advisors for acquisition fees incurred.

Stockholders Equity

As of each of December 31, 2009 and 2008, the Company was authorized to issue 240,000,000 shares of common stock and 10,000,000 shares of preferred stock. All shares of such stock have a par value of $.01 per share. The Company s board of directors may authorize additional shares of capital stock and amend the terms without obtaining stockholder approval. The par value of investor proceeds raised from the Offerings is classified as common stock, with the remainder allocated to capital in excess of par value.

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 DRIP. In accordance with ASC 480, *Distinguishing Liabilities from Equity* (ASC 480), the Company accounts for proceeds received from its DRIP as redeemable common stock, outside of permanent equity. As of December 31, 2009 and December 31, 2008, the Company had issued approximately 15.6 million shares and approximately 8.1 million shares of common stock under the DRIP, respectively, for cumulative proceeds of approximately $148.4 million and approximately $77.3 million, respectively, which are recorded as redeemable common stock, net of redemptions, in the respective consolidated balance sheets. As of December 31, 2009, the Company had redeemed a total of approximately 6.4 million shares of common stock for an aggregate price of approximately $60.6 million. As of December 31, 2008, the Company had redeemed a total of approximately 1.3 million shares of common stock for an aggregate price of approximately $12.3 million.

Earnings Per Share

Earnings per share are calculated based on the weighted average number of common shares outstanding during each period. Diluted income per share considers the effect of all potentially dilutive share equivalents, including outstanding employee stock options. See Note 17 below.

Stock Options

On January 1, 2006, the Company adopted ASC 718, *Compensation Stock Compensation* (ASC 718), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including stock options related to the 2004 Independent Directors Stock Option Plan (IDSOP) (see Note 17), based on estimated fair values. The Company adopted ASC 718 using the modified prospective application. Accordingly, prior period amounts were not restated. As of December 31, 2009, there were 45,000 stock options outstanding under the IDSOP at a weighted average exercise price of approximately $9.12 per share. As of December 31, 2008, there were 40,000 stock options outstanding under the IDSOP at a weighted average exercise price of approximately $9.13 per share.

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reportable Segments

ASC 280, *Segment Reporting* (ASC 280), establishes standards for reporting financial and descriptive information about an enterprise s reportable segments. The Company s operating segments consist of commercial properties, which include activities related to investing in real estate including retail, office and distribution properties and other real estate related assets. The commercial properties are geographically diversified throughout the United States, and the Company s chief operating decision maker evaluates operating performance on an overall portfolio level. These commercial properties have similar economic characteristics, therefore the Company s properties have been aggregated into one reportable segment.

Interest

Interest is charged to interest expense as it accrues. No interest costs were capitalized during the years ended December 31, 2009, 2008 and 2007.

Distributions Payable and Distribution Policy

In order to maintain its status as a REIT, the Company is required to make distributions each taxable year equal to at least 90% of its taxable income excluding capital gains. To the extent funds are available, the Company intends to pay regular distributions to stockholders. Distributions are paid to those stockholders who are stockholders of record as of applicable record dates.

During September 2009, the Company s board of directors declared a daily distribution of $0.001712329 per share for stockholders of record as of the close of business on each day of the period commencing on October 1, 2009 and ending on December 31, 2009. As of December 31, 2009, the Company had distributions payable of approximately $10.9 million. The distributions were paid in January 2010, of which approximately $5.4 million was reinvested in shares through the DRIP.

Recent Accounting Pronouncements

In December 2007, the FASB issued Statements of Financial Accounting Standards (SFAS) No. 141(revised 2007), *Business Combinations*, codified primarily in ASC 805, *Business Combinations* (ASC 805). ASC 805 clarifies and amends the accounting guidance for how an acquirer in a business combination recognizes and measures the assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree. The provisions of ASC 805 became effective for the Company for any business combinations occurring on or after January 1, 2009. The adoption of ASC 805 has had a material impact on the Company s consolidated financial statements due to the expensing of acquisition costs, which previously would have been capitalized under ASC 805. The Company expensed approximately $3.2 million of acquisition expenses during the year ended December 31, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB* 51, codified primarily in ASC 810. This statement amends ARB 51 and revises accounting and reporting requirements for noncontrolling interest (formerly minority interest) in a subsidiary and for the deconsolidation of a subsidiary. ASC 810 was effective for the Company on January 1, 2009. The provisions of this standard are applied retrospectively upon adoption. The adoption of ASC 810 has not had a material impact on the Company s consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment to FASB Statement No. 133*, codified primarily in ASC 815, which requires additional disclosures about an entity s derivative and hedging activities including, descriptions of how and why the entity uses derivative instruments, how such instruments are accounted for under ASC 815 and how derivative instruments affect the entity s financial position, operations, and cash flow. The adoption of ASC 815 has not had a material impact on the Company s consolidated financial statement disclosures.

In November 2008, the FASB issued EITF Issue No. 08-6, *Equity Method Investment Accounting Considerations*, codified primarily in ASC 323. ASC 323 clarifies the accounting for certain transactions and impairment considerations involving equity method investments. ASC 323 was effective for the Company on January 1, 2009. The adoption of ASC 323 has not had a material impact on the Company s consolidated financial statements.

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In April 2009, the FASB issued FSP SFAS 115-2 and SFAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, codified primarily in ASC 320, *Investments Debt and Equity Securities* (ASC 320), which addresses other-than-temporary impairments for debt securities. The Company elected to early adopt ASC 320 beginning January 1, 2009. The adoption of ASC 320 has not had a material impact on the Company s consolidated financial statements.

In May 2009, the FASB issued ASC 855-10, *Subsequent Events*, to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The new disclosure requirement is effective for interim reporting periods ending after June 15, 2009. The Company adopted ASC 855-10 on April 1, 2009 and provided the required disclosures. In February 2010, FASB issued ASU 2010-09, *Subsequent Events (Topic 855) Amendments to Certain Recognition and Disclosure Requirements*, (ASU 2010-09), which removes the requirement for an SEC filer to disclose a date in both issued and revised financial statements. The Company adopted ASU 2010-09 in February 2010 and did not disclose the date the financial statements are available to be issued.

In June 2009, the FASB issued ASU 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* (ASU 2009-17). ASU 2009-17 amends the FASB ASC for the issuance of SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, primarily codified to ASC 810. The amendments in ASU 2009-17 replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in ASU 2009-17 also require additional disclosures about a reporting entity s involvement in variable interest entities, which will enhance the information provided to users of financial statements. The adoption of ASC 810 has not had a material impact on the Company s consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification* and the Hierarchy of Generally Accepted Accounting Principles. The FASB *Accounting Standards Codification* (the Codification) will become the source of authoritative GAAP. Rules and interpretive releases of the Securities and Exchange Commission under authority of federal securities laws are also sources of authoritative GAAP for Securities and Exchange Commission registrants. The Codification became effective on July 1, 2009 and superseded all then-existing non-Securities and Exchange Commission accounting and reporting standards. All other non-grandfathered non-Securities and Exchange Commission accounting literature not included in the Codification is nonauthoritative. The Company adopted the Codification beginning on July 1, 2009. Because the Codification is not intended to change GAAP, it did not have a material impact on the Company s consolidated financial statements.

In August 2009, the FASB issued ASU 2009-05, *Fair Value Measurements and Disclosures* (ASU 2009-05), which provides alternatives to measuring the fair value of liabilities when a quoted price for an identical liability traded in an active market does not exist. The alternatives include using either (1) a valuation technique that uses quoted prices for identical or similar liabilities or (2) another valuation technique, such as a present value technique or a technique that is based on the amount paid or received by the reporting entity to transfer an identical liability. The amended guidance was effective for the Company beginning October 1, 2009. The adoption of ASU 2009-05 has not had a material impact on the Company s consolidated financial statements.

In January 2010, the FASB issued Accounting Standard Update (ASU) 2010-06, *Fair Value Measurements and Disclosures (Topic 820)*, (ASU 2010-06), which amends ASC 820 to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. ASU 2010-06 also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. Further, ASU 2010-06 amends guidance on employers disclosures about postretirement benefit plan assets under ASC 715, *Compensation Retirement*

Benefits, to require that disclosures be provided by classes of assets instead of by major categories of assets. ASU 2010-06 is effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company does not expect the adoption of the requirement to provide Level 3 activity of purchases, sales, issuances and settlements on a gross basis of ASU 2009-06 to have a material impact on the consolidated financial statement disclosures.

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 FAIR VALUE MEASUREMENTS

ASC 820 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. ASC 820 emphasizes that fair value is intended to be a market-based measurement, as opposed to a transaction-specific measurement and most of the provisions were effective for the Company beginning January 1, 2008.

Fair value is defined by ASC 820 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Depending on the nature of the asset or liability, various techniques and assumptions can be used to estimate the fair value. Assets and liabilities are measured using inputs from three levels of the fair value hierarchy, as follows:

Level 1 Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. An active market is defined as a market in which transactions for the assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active (markets with few transactions), inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data correlation or other means (market corroborated inputs).

Level 3 Unobservable inputs, only used to the extent that observable inputs are not available, reflect the Company s assumptions about the pricing of an asset or liability.

A summary of our real estate assets measured at fair value basis during the year ended December 31, 2009 is as follows (in thousands):

		Fair Value Measurements of Reporting Date Using		
Description:	**Re-measured Balance**	**Level 1**	**Level 2**	**Level 3**
Investment in real estate assets	$ 9,560	$	$	$ 9,560

During the year ended December 31, 2009, real estate assets with an initial basis of approximately $23.1 million were deemed to be impaired and their carrying values were reduced to their estimated fair value of approximately $9.6 million, resulting in an impairment charge of approximately $13.5 million, which is included in impairment on real estate assets on the consolidated statement of operations for the year ended December 31, 2009.

A summary of our real estate assets measured at fair value basis during the year ended December 31, 2008 is as follows (in thousands):

		Fair Value Measurements of Reporting Date Using		
Description:	**Re-measured Balance**	**Level 1**	**Level 2**	**Level 3**
Investment in real estate assets	$ 19,028	$	$	$ 19,028

During the year ended December 31, 2008, real estate assets with an initial basis of approximately $22.6 million were deemed to be impaired and their carrying values were reduced to their estimated fair value of approximately $19.0 million, resulting in an impairment charge of approximately $3.6 million, which is included in impairment on real estate assets on the consolidated statement of operations for the year ended December 31, 2008.

The following describes the methods the Company uses to estimate the fair value of the Company s financial assets and liabilities:

Cash and cash equivalents, restricted cash, rents and tenant receivables and accounts payable and accrued expenses - The Company considers the carrying values of these financial instruments to approximate fair value because of the short period of time between origination of the instruments and their expected realization.

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Mortgage notes receivable The fair value is estimated by discounting the expected cash flows on the notes at current rates at which management believes similar loans would be made. The fair value of these notes was approximately $86.6 million and approximately $83.8 million as of December 31, 2009 and December 31, 2008, respectively, as compared to the carrying values of approximately $82.5 million and approximately $85.0 million as of December 31, 2009 and December 31, 2008, respectively.

Notes payable and line of credit The fair value is estimated using a discounted cash flow technique based on estimated borrowing rates available to the Company as of December 31, 2009 and December 31, 2008. The fair value of the notes payable and line of credit was approximately $1.5 billion as of December 31, 2009 and December 31, 2008, as compared to the carrying value of approximately $1.6 billion as of December 31, 2009 and December 31, 2008.

Marketable securities The Company s marketable securities are carried at fair value and are valued using Level 3 inputs. The Company primarily uses estimated quoted market prices from third party trading desks, where available, for similar CMBS tranches that actively participate in the CMBS market, adjusted for industry benchmarks, such as the CMBX Index, where applicable. The Company receives non-binding quotes from established financial institutions, where available, and estimates a fair value using the quotes received. Market conditions, such as interest rates, liquidity, trading activity and credit spreads may cause significant variability to the received quotes. If the Company is unable to obtain quotes from third parties or if the Company believes quotes received are inaccurate, the Company estimates fair value using internal models that primarily consider the CMBX Index, expected cash flows, known and expected defaults and rating agency reports. Changes in market conditions, as well as changes in the assumptions or methodology used to estimate fair value, could result in a significant increase or decrease in the recorded amount of the financial asset or liability. As of December 31, 2009 and 2008, no marketable securities were valued using internal models. Significant judgment is involved in valuations and different judgments and assumptions used in management s valuation could result in different valuations. If there continues to be significant disruptions to the financial markets, the Company s estimates of fair value may have significant volatility.

Derivative Instruments The Company s derivative financial assets represent interest rate caps and interest rate swaps and the Company s derivative liabilities, included in deferred rent, derivative and other liabilities on its consolidated balance sheets, represent interest rate swaps. All derivative instruments are carried at fair value and are valued using Level 2 inputs. The fair value of these instruments is determined using interest rate market pricing models. The Company includes the impact of credit valuation adjustments on derivative instruments measured at fair value. Considerable judgment is necessary to develop estimated fair values of financial instruments. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize on disposition of the financial instruments.

In accordance with the fair value hierarchy described above, the following table shows the fair value of the Company s financial assets and liabilities that are required to be measured at fair value on a recurring basis as of December 31, 2009 and 2008 (in thousands):

	Balance as of December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Marketable securities	$ 56,366	$	$	$ 56,366
Interest rate cap agreements (1)				

Interest rate swaps		141			141	
Total Assets	$	56,507	$	$	141	$ 56,366
Liabilities:						
Interest rate swaps	$	2,944	$	$	2,944	$

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Balance as of December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Marketable securities	$ 24,583	$	$	$ 24,583
Interest rate cap agreements (1)				
Total Assets	$ 24,583	$	$	$ 24,583
Liabilities:				
Interest rate swaps	$ 2,794	$	$ 2,794	$

(1) The fair value of the interest rate cap agreements was less than $1,000 at December 31, 2009 and 2008.

The following table shows a reconciliation of the change in fair value of the Company s financial assets and liabilities with significant unobservable inputs (Level 3) (in thousands) for the years ended December 31, 2009 and 2008:

	Balance as of December 31, 2008	Net realized/ unrealized gains (losses) included in earnings	Net unrealized gain	Purchases, issuances, settlements and amortization	Transfers in and out of Level 3	Balance as of December 31, 2009
Marketable securities	$ 24,583	$	$ 19,072	$ 12,711	$	$ 56,366

	Balance as of January 1, 2008	Net realized/ unrealized gains (losses) included in earnings	Net unrealized gain	Purchases, issuances, settlements and amortization	Transfers in and out of Level 3	Balance as of December 31, 2008
Marketable securities	$	$	$ (25,756)	$ 50,339	$	$ 24,583

NOTE 4 INVESTMENT IN DIRECT FINANCING LEASES

The Company evaluates the leases associated with its real estate properties in accordance with ASC 840. For the real estate property leases classified as direct financing leases, the building portion of the property leases are accounted for as direct financing leases while the land portion of these leases are accounted for as operating leases. For the direct financing leases, the Company records an asset (net investment) representing the aggregate future minimum lease payments, estimated residual value of the leased property and deferred incremental direct costs less unearned income. Income is recognized over the life of the lease to approximate a level rate of return on the net investment. Residual values, which are reviewed quarterly, represent the estimated amount the Company expects to receive at lease termination from the disposition of leased property. Actual residual values realized could differ from these estimates. Write-downs of estimated residual value are recognized as permanent impairments in the current period. There were no write-downs recognized during the years ended December 31, 2009, 2008 and 2007.

The components of investment in direct financing leases as of December 31, 2009 and 2008 were as follows (in thousands):

	December 31, 2009	December 31, 2008
Minimum lease payments receivable	$ 26,676	$ 30,646
Estimated residual value of leased assets	27,854	27,854
Deferred incremental direct costs		
Unearned income	(16,794)	(19,888)
Total	$ 37,736	$ 38,612

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of minimum future lease rentals, exclusive of any renewals, under the non-cancelable direct financing leases as of December 31, 2009 is as follows (in thousands):

	Amount
Year ending December 31:	
2010	$ 2,825
2011	2,857
2012	2,890
2013	2,899
2014	2,749
Thereafter	12,456
Total	$ 26,676

NOTE 5 REAL ESTATE ACQUISITIONS

Property Acquisitions

During the year ended December 31, 2009, the Company acquired a 100% interest in 20 commercial properties for an aggregate purchase price of approximately $113.8 million (the 2009 Acquisitions). In addition to available cash, the Company financed the acquisitions with the assumption of mortgage loans, with a face amount totaling approximately $100.8 million and a fair value totaling approximately $87.8 million. The mortgage loans generally are secured by the individual property on which the loan was made. The Company allocated the purchase price of these properties to the fair value of the assets acquired and liabilities assumed. The Company allocated approximately $38.1 million to land, approximately $58.5 million to building and improvements, approximately $14.5 million to acquired in-place leases, approximately $10.4 million to acquired below-market leases, and approximately $63,000 to acquired above-market leases. The Company expensed approximately $3.2 million of acquisition costs related to the 2009 Acquisitions.

The Company recorded revenue for the year ended December 31, 2009 of approximately $6.7 million, and a net loss for the year ended December 31, 2009 of approximately $4.8 million related to the 2009 Acquisitions.

The following information summarizes selected financial information from the combined results of operations of the Company, as if the 2009 Acquisitions were completed at the beginning of each period presented.

The Company estimated that revenues and net income, on a pro forma basis, for the year ended December 31, 2009, would have been approximately $277.5 million and approximately $21.9 million, respectively.

The Company estimated that revenues and net income, on a pro forma basis, for the year ended December 31, 2008, would have been approximately $203.1 million and approximately $24.6 million, respectively.

This pro forma information is presented for informational purposes only and may not be indicative of what actual results of operations would have been had the transactions occurred at the beginning of each year, nor does it purport to represent the results of future operations.

Earnout Agreements

As of December 31, 2009, the Company owned two properties subject to earnout provisions obligating the Company to pay additional consideration to the respective seller contingent on the future leasing and occupancy of vacant space at the properties. These earnout payments are based on a predetermined formula. Each earnout agreement has a set time period regarding the obligation to make these payments. If, at the end of the time period, certain space has not been leased and occupied, the Company will have no further obligation. Assuming all the conditions are satisfied under the earnout agreements, the Company would be obligated to pay an estimated aggregate of approximately $7.7 million, of which approximately $3.5 million was paid as of December 31, 2009, including a net settlement payment of approximately $414,000 negotiated with the seller of one of the properties, during the year ended December 31, 2009, related to earnout provisions on certain vacant space. This settlement eliminated approximately $1.3 million of earnout obligations on the vacant space. In addition, the Company reduced the estimated obligation by

approximately $153,000 due to current market conditions, resulting in a remaining liability of approximately $2.7 million, which was recorded in accounts payable and accrued expenses in the accompanying consolidated balance sheet as of December 31, 2009. The Company recorded the approximately $1.3 million of eliminated earnout obligation and the approximately $153,000 of market condition adjustment as a reduction of the cost of the respective assets associated with the property acquired and a reduction to the earnout liability in the accompanying consolidated balance sheet during the year ended December 31, 2009. Of the remaining estimated earnout obligation of approximately $2.7 million, approximately $1.2 million was held in escrow and recorded in restricted cash as of December 31, 2009. As of December 31, 2008, the estimated earnout obligation was approximately $6.2 million.

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Investment in Unconsolidated Joint Ventures

During the year ended December 31, 2009, the Company acquired a 70% interest in a joint venture that acquired a ten-property storage facility portfolio for approximately $101.0 million. The acquisition was financed with the assumption of mortgage notes payable secured by nine of the properties with a face amount totaling approximately $80.7 million and a fair value totaling approximately $70.1 million.

NOTE 6 ACQUIRED INTANGIBLE LEASE ASSETS

Acquired intangible lease assets consisted of the following (in thousands):

	As of December 31,	
	2009	2008
Acquired in place leases, net of accumulated amortization of $58,563 and $33,168, respectively (with a weighted average life of 155 and 156 months, respectively)	$ 304,405	$ 325,894
Acquired above market leases, net of accumulated amortization of $8,690 and $4,410, respectively (with a weighted average life of 159 and 174 months, respectively)	52,603	58,098
	$ 357,008	$ 383,992

Amortization expense recorded on the intangible lease assets, for each of the years ended December 31, 2009, 2008 and 2007, was approximately $40.0 million, approximately $24.4 million and approximately $11.0 million, respectively.

Estimated amortization expense to be recorded on the respective intangible lease assets as of December 31, 2009 for each of the five succeeding years is as follows (in thousands):

Year	Amount Leases In-Place	Amount Above Market Leases
2010	$ 26,430	$ 4,368
2011	$ 26,190	$ 4,332
2012	$ 25,884	$ 4,292
2013	$ 24,914	$ 4,192
2014	$ 24,293	$ 4,150

NOTE 7 INVESTMENT IN MORTGAGE NOTES RECEIVABLE

As of December 31, 2009, the Company owned 69 mortgage notes receivable, which were secured by 43 restaurant properties and 26 single-tenant retail properties (collectively, the Mortgage Notes). The Mortgage Notes balance of approximately $82.5 million as of December 31, 2009 consisted of the face amount of the Mortgage Notes of approximately $75.0 million, an approximately $6.9 million premium, and approximately $2.0 million of acquisition costs, net of accumulated amortization of approximately $1.4 million. The Mortgage Notes balance of approximately $85.0 million as of December 31, 2008 consisted of the face amount of the Mortgage Notes of approximately $76.8 million, an approximately $6.9 million premium, and approximately $2.0 million of acquisition costs, net of accumulated amortization of approximately $714,000. The premium and acquisition costs are amortized over the terms of each respective Mortgage Note using the effective interest rate method. The Mortgage Notes mature on various dates from August 1, 2020 to January 1, 2021. Interest and principal are due each month at interest rates ranging from 8.60% to 10.47% per annum.

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8 MARKETABLE SECURITIES

As of December 31, 2009, the Company owned six CMBS bonds, with an aggregate fair value of approximately $56.4 million. As of December 31, 2008, the Company owned four CMBS bonds, with an aggregate fair value of approximately $24.6 million. The following provides additional details regarding the CMBS bonds as of December 31, 2009 (in thousands):

	Amortized Cost Basis	Unrealized (Loss) Gain	Total
Marketable securities as of December 31, 2008	$ 50,339	$ (25,756)	$ 24,583
Face amount of marketable securities acquired	19,790		19,790
Discounts on purchases of marketable securities	(9,295)		(9,295)
Increase in fair value of marketable securities		19,072	19,072
Accretion of discounts on marketable securities	2,216		2,216
Marketable securities as of December 31, 2009	$ 63,050	$ (6,684)	$ 56,366

The Company recognized an unrealized gain of approximately $19.1 million related to these investments for the year ended December 31, 2009 and an unrealized loss of approximately $25.8 million for the year ended December 31, 2008, which are included in accumulated other comprehensive loss on the accompanying statements of stockholders equity as of December 31, 2009 and 2008 and consolidated balance sheet for the year ended December 31, 2009. The Company did not own any of these investments as of December 31, 2007.

The cumulative unrealized loss as of December 31, 2009 and 2008 was deemed to be a temporary impairment based upon (i) the Company having no intent to sell these securities, (ii) it is more likely than not that the Company will not be required to sell the securities before recovery and (iii) the Company s expectation to recover the entire amortized cost basis of these securities. The Company determined that the cumulative unrealized loss resulted from volatility in interest rates and credit spreads and other qualitative factors relating to macro-credit conditions in the mortgage market. Additionally, as of December 31, 2009 and 2008, the Company had determined that the subordinate CMBS tranches below the Company s CMBS investment adequately protected the Company s ability to recover its investment and that the Company s estimates of anticipated future cash flows from the CMBS investment had not been adversely impacted by any deterioration in the creditworthiness of the specific CMBS issuers.

The following table shows the fair value and gross unrealized gains and losses of the Company s CMBS bonds and their holding period as of December 31, 2009 (in thousands).

	Holding Period of Gross Unrealized Gains (Losses) of Marketable Securities								
	Less than 12 months			12 Months or More			Total		
Description of Securities	Fair Value	Unrealized Losses	Unrealized Gains	Fair Value	Unrealized Losses	Unrealized Gains	Fair Value	Unrealized Losses	Unrealized Gains
Commercial mortgage-backed securities	$ 15,706	$	$ 4,489	$ 40,660	$ (14,565)	$ 3,392	$ 56,366	$ (14,565)	$ 7,881

Two CMBS bonds were in a continuous unrealized loss position as of December 31, 2009. The remaining four CMBS bonds were in an unrealized gain position as of December 31, 2009.

The scheduled maturities of the marketable securities as of December 31, 2009 are presented as follows (in thousands):

	Available-for-sale	
	Amortized Cost	Estimated Fair Value
Due within one year	$	$
Due after one year through five years	15,900	18,190
Due after five years through ten years	47,150	38,176
Due after ten years		
	$ 63,050	$ 56,366

Actual maturities of marketable securities can differ from contractual maturities because borrowers may have the right to prepay obligations. In addition, factors such as prepayments and interest rates may affect the yields on the marketable securities.

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In the normal course of business, the Company uses certain types of derivative instruments for the purpose of managing or hedging its interest rate risks. The following table summarizes the notional amount and fair value of the Company s derivative instruments (in thousands). Additional disclosures related to the fair value of the Company s derivative instruments are included in Note 3 above. The notional amount under the swap agreement is an indication of the extent of the Company s involvement in each instrument at the time, but does not represent exposure to credit, interest rate or market risks.

Derivatives not designated as hedging instruments	Balance Sheet Location	Notional Amount	Interest Rate	Effective Date	Maturity Date	Fair Value of Asset December 31, 2009 (1)	Fair Value of Asset December 31, 2008 (1)
Interest Rate Cap	Prepaid expenses, derivative and other assets	$ 36,000	7.0%	8/5/2008	8/5/2010	$	$
Interest Rate Cap	Prepaid expenses, derivative and other assets	34,000	7.0%	10/1/2008	9/1/2010		
		$ 70,000				$	$

(1) The fair value of the rate caps was less than $1,000.

Derivatives designated as hedging instruments	Balance Sheet Location	Notional Amount	Interest Rate	Effective Date	Maturity Date	Fair Value of (Liability) Asset December 31, 2009	Fair Value of (Liability) Asset December 31, 2008
Interest Rate Swap	Deferred rent, derivative and other liabilities	$ 32,000	6.2%	11/4/2008	10/31/2012	$ (1,663)	$ (2,090)
Interest Rate Swap	Deferred rent, derivative and other liabilities	38,250	5.6%	12/10/2008	9/26/2011	(778)	(704)
Interest Rate Swap	Deferred rent, derivative and other liabilities	15,043	6.2%	6/12/2009	6/11/2012	(503)	
Interest Rate Swap	Prepaid expenses, derivative and other assets	7,200	5.8%	2/20/2009	3/1/2016	100	

Interest Rate Swap	Prepaid expenses, derivative and other assets	30,000	6.0%	11/24/2009	10/16/2012	41	
		$ 122,493				$ (2,803)	$ (2,794)

Accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative instrument and the designation of the derivative instrument. The change in fair value of the effective portion of the derivative instrument that is designated as a hedge is recorded as other comprehensive income or loss. The Company designated the interest rate swaps as cash flow hedges, to hedge the variability of the anticipated cash flows on its variable rate notes payable. The changes in fair value for derivative instruments that are not designated as a hedge or that do not meet the hedge accounting criteria of ASC 815, *Derivatives and Hedging* (ASC 815), are recorded as a gain or loss in earnings. The interest rate cap agreements were not designated as hedges.

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables summarize the gains and losses on the Company s derivative instruments and hedging activities (in thousands):

Derivatives not designated as hedging instruments	Location of Gain Recognized in Income on Derivative	Amount of Gain Recognized in Income on Derivative Year Ended December 31, 2009	Year Ended December 31, 2008
Interest Rate Caps (1)	Interest expense	$	$

Derivatives in Cash Flow Hedging Relationships	Amount of (Loss) Recognized in Other Comprehensive Income on Derivative Year Ended December 31, 2009	Year Ended December 31, 2008
Interest Rate Swaps (2)	$ (9)	$ (2,794)

(1) The gain recognized on the rate caps was less than $1,000.

(2) There were no portions relating to the change in the fair value of the interest rate swap agreements that were considered ineffective during the years ended December 31, 2009 and 2008. No previously effective portion of gains or losses that were recorded in accumulated other comprehensive

income during the term of the hedging relationship was reclassified into earnings during the years ended December 31, 2009 and 2008.

The Company has agreements with each of its derivative counterparties that contain a provision whereby if the Company defaults on certain of its unsecured indebtedness, then the Company could also be declared in default on its derivative obligations resulting in an acceleration of payment. In addition, the Company is exposed to credit risk in the event of non-performance by its derivative counterparties. The Company believes it mitigates its credit risk by entering into agreements with credit-worthy counterparties. The Company records counterparty credit risk valuation adjustments on its interest rate swap derivative asset in order to properly reflect the credit quality of the counterparty. In addition, the Company s fair value of interest rate swap derivative liabilities is adjusted to reflect the impact of the Company s credit quality. As of December 31, 2009 and 2008, there have been no termination events or events of default related to the interest rate swaps.

NOTE 10 NOTES PAYABLE AND LINE OF CREDIT

As of December 31, 2009, the Company had approximately $1.6 billion of debt outstanding, consisting of approximately $1.5 billion in fixed rate mortgage loans (the Fixed Rate Debt), approximately $123.0 million in variable rate mortgage loans (the Variable Rate Debt) and approximately $33.0 million outstanding under a line of credit (the Credit Facility). The Fixed Rate Debt has interest rates ranging from 4.46% to 7.23%, with a weighted average interest rate of approximately 5.88%, and matures on various dates from November 2010 through August 2031. The Variable Rate Debt has interest rates that range from LIBO rate plus 200 to 325 basis points, with certain notes containing LIBO rate floors ranging from 4.50% to 5.00%, and matures on various dates from April 2010 through September 2011. Each of the notes payable is secured by the respective properties on which the debt was placed. The aggregate balance of gross real estate assets, net of gross intangible lease liabilities, securing the debt was approximately $2.9 billion as of December 31, 2009. The terms of the Credit Facility are described below. The Credit Facility, a revolving credit facility entered into on May 23, 2008 with a syndication of banks, provides up to $135.0 million of secured borrowing. As of December 31, 2009, the borrowing base of the underlying collateral pool was $135.0 million. The amount of the Credit Facility may be increased up to a maximum of $235.0 million, with each increase being no less than $25.0 million. Loans under the Credit Facility bear interest at variable rates depending on the type of loan used. The variable rates are generally equal to the one-month, two-month, three-month, or six-month LIBO rate plus 180 to 210 basis points, determined by the aggregate amount borrowed in accordance with the agreement, or 0.25% plus the greater of (i) the federal funds rate plus 0.50% or (ii) Bank of America s prime rate. The Credit Facility matures in May 2011, with the option to extend to May 2012. The Company has established a letter of credit in the amount of $476,000 from the Credit Facility lenders to support an escrow agreement between a certain property and that property s lender. This letter of credit reduces the amount of borrowings available under the Credit Facility by $476,000. As of December 31, 2009, the Company had an outstanding balance of approximately $33.0 million and approximately $101.5 million was available under the Credit Facility. The amounts drawn on the Credit Facility are secured by an assignment of 100% of Cole OP II s equity interests in the assets of certain of its subsidiary limited liability companies in a designated collateral pool.

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the year ended December 31, 2009, the Company issued approximately $52.2 million of notes payable, which bear fixed interest rates ranging from 5.75% to 6.21%, with a weighted average interest rate of 6.00%, and mature on various dates from June 2012 through March 2016. In addition, during the year ended December 31, 2009, the Company assumed notes payable with an aggregate face amount of approximately $100.8 million (the Assumed Notes), which bear fixed interest rates ranging from 5.45% to 6.40%, with a weighted average interest rate of 5.86%, and mature on various dates from September 2012 through April 2017. The Company recorded the Assumed Notes at fair value of approximately $87.8 million. During the year ended December 31, 2009, the Company refinanced approximately $55.0 million of the mortgage notes payable, which have a variable interest rate of LIBO rate plus 250 basis points, with a LIBO rate floor of 5.00%, and mature in April 2010. In addition, during the year ended December 31, 2009, the Company repaid approximately $27.7 million of fixed rate debt, including monthly principal payments on amortizing loans, and approximately $23.6 million of variable rate debt. During the year ended December 31, 2009, the Company borrowed approximately $53.0 million and repaid approximately $86.0 million from the Credit Facility. In connection with the acquisition of two CMBS bonds, JP Morgan Chase Bank, N.A. provided repurchase financing during the year ended December 31, 2008. The Company repaid the repurchase financing during the year ended December 31, 2008. As of December 31, 2009, up to approximately $34.0 million was available for borrowing under the repurchase financings subject to lender approval.

As of December 31, 2008, the Company had approximately $1.6 billion of debt outstanding, consisting of approximately $1.3 billion in fixed rate mortgage loans with interest rates ranging from 4.46% to 7.23%, with a weighted average interest rate of approximately 5.89%. The Company also had approximately $142.4 million in variable rate mortgage loans with variable rates ranging from LIBO plus 180 to 250 basis points, with a note containing a LIBO rate floor of 4.50%, and approximately $66.0 million outstanding under a line of credit with variable rates ranging from LIBO plus 180 to 210 basis points.

In general, the Credit Facility and notes payable are non-recourse to the Company and Cole OP II, but both are liable for customary non-recourse carveouts. The Credit Facility and certain notes payable contain customary affirmative, negative and financial covenants, including requirements for minimum net worth and debt service coverage ratios, in addition to limits on leverage ratios and variable rate debt. The Company believes it was in compliance with the financial covenants as of December 31, 2009.

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

In the event that a mortgage note is not paid off on the respective maturity date, certain mortgage notes include hyper-amortization provisions. The interest rate during the hyper-amortization period shall be the fixed interest rate as stated on the respective mortgage note agreement plus two percent (2.0%). The individual mortgage note maturity date, under the hyper-amortization provisions, will be extended by 20 years. During such period, the lender will apply 100% of the rents collected to (i) all payments for escrow or reserve accounts, (ii) payment of interest at the original fixed interest rate, (iii) payments for the replacement reserve account, (iv) any other amounts due in accordance with the mortgage note agreement other than any additional interest expense, (v) any operating expenses of the property pursuant to an approved annual budget, (vi) any extraordinary expenses, (vii) payments to be applied to the reduction of the principal balance of the mortgage note, and (viii) any additional interest expense, which is not paid will be added to the principal balance of the mortgage note.

The following table summarizes the scheduled aggregate principal repayments for the five years and thereafter subsequent to December 31, 2009 (in thousands):

For the year ending December 31:	Principal Repayments (1)
2010	$ 105,066
2011	176,091
2012	134,832
2013	5,517
2014	7,289
Thereafter	1,192,669
Total	$ 1,621,464

(1) Principal payment amounts reflect actual payments based on face amount of notes payable.

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On March 25, 2008, Cole OP II borrowed approximately $16.0 million from Series B, LLC and approximately $16.0 million from Series C, LLC, each of which are affiliates of the Company s advisor, by executing two promissory notes that were secured by the membership interest held by Cole OP II in certain of its wholly-owned subsidiaries. The loan proceeds were used to acquire properties with a purchase price of approximately $63.6 million, exclusive of closing costs. The loans bore interest at variable rates equal to the one-month LIBO rate plus 200 basis points with monthly interest-only payments. The Company repaid these loans in May 2008. The Company s board of directors, including all of the independent directors, approved the loans as fair, competitive and commercially reasonable, and determined that their terms were no less favorable to the Company than loans between unaffiliated third parties under the same circumstances.

During the year ended December 31, 2009, no interest expense was incurred for related party loans. During the year ended December 31, 2008, Cole OP II incurred approximately $278,000 in interest expense to affiliates under the aforementioned loans. During the year ended December 31, 2007, no interest expense was incurred for related party loans.

NOTE 11 ACQUIRED BELOW MARKET LEASE INTANGIBLES

Acquired below market lease intangibles relating to the real estate acquisitions discussed in Note 5 consisted of the following (in thousands):

	December 31,	
	2009	2008
Acquired below-market leases, net of accumulated amortization of $21,470 and $10,897, respectively (with a weighted average life of 161 and 172 months, respectively)	$ 149,832	$ 156,813

Amortization income recorded on the intangible lease liability for the years ended December 31, 2009, 2008 and 2007 was approximately $17.4 million, approximately $8.8 million and approximately $2.0 million, respectively.

Estimated amortization income of the intangible lease liability as of December 31, 2009 for each of the five succeeding fiscal years is as follows (in thousands):

Year	Amount Below Market Leases
2010	$ 11,053
2011	$ 10,986
2012	$ 10,926
2013	$ 10,754
2014	$ 10,638

NOTE 12 EXTENDED RATE LOCK AGREEMENTS

During the years ended December 31, 2009 and 2008, the Company entered into no extended rate lock agreements. During the year ended December 31, 2007, the Company entered into extended rate lock agreements with Bear Stearns Commercial Mortgage, Inc. (Bear Stearns), JP Morgan Chase Bank, N.A. (JP Morgan), Wachovia Bank, N.A. (Wachovia), and Wells Fargo Bank, N.A. (Wells Fargo) (the Rate Locks) to lock interest rates ranging from 5.49% to 6.69% for up to approximately $647.8 million in borrowings. Under the terms of Rate Locks, the Company made rate lock deposits totaling approximately $12.4 million to Bear Stearns, JP Morgan, Wachovia and Wells Fargo.

On August 10, 2007, the Company terminated its rate lock agreement with Bear Stearns, which fixed interest rates for the remaining unallocated borrowings of up to approximately $275.8 million. As a result, approximately $5.7 million in rate lock deposits was refunded to the Company. In accordance with the terms of the rate lock agreements, the Company earned a rate lock breakage gain of approximately $2.2 million. In addition, the Company expensed previously deferred financing costs of approximately $1.7 million relating to the remaining unallocated borrowings. The net gain of approximately $478,000 is included in interest and other income on the consolidated statements of

operations. As of December 31, 2009, 2008 and 2007, the Company had no available borrowings under the Rate Locks and no rate lock deposits outstanding.

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 13 SUPPLEMENTAL CASH FLOW DISCLOSURES

Supplemental cash flow disclosures for the years ended December 31, 2009, 2008 and 2007 are as follows (in thousands):

	Year ended December 31,		
	2009	2008	2007
Supplemental Disclosures of Non-Cash Investing and Financing Activities:			
Dividends declared and unpaid	$ 10,851	$ 11,877	$ 5,434
Fair value of mortgage notes assumed in real estate acquisitions at date of assumption	$ 87,821	$ 171,340	$
Mortgage notes payable from seller of mortgage notes receivable	$	$	$ 36,290
Common stock issued through distribution reinvestment plan	$ 71,017	$ 53,476	$ 20,317
Net unrealized gain (loss) on marketable securities	$ 19,072	$ (25,756)	$
Net unrealized loss on interest rate swaps	$ (9)	$ (2,794)	$
Supplemental Cash Flow Disclosures:			
Interest paid	$ 90,628	$ 68,919	$ 34,320

NOTE 14 COMMITMENTS AND CONTINGENCIES

Litigation

In the ordinary course of business, the Company may become subject to litigation or claims. There are no material legal proceedings, pending, or known to be contemplated, against us.

Environmental Matters

In connection with the ownership and operation of real estate, the Company potentially may be liable for costs and damages related to environmental matters. The Company owns certain properties that are subject to environmental remediation. In each case, the seller of the property, the tenant of the property and/or another third party has been identified as the responsible party for environmental remediation costs related to the property. Additionally, in connection with the purchase of certain of the properties, the respective sellers and/or tenants have indemnified the Company against future remediation costs. The Company does not believe that the environmental matters identified at such properties will have a material adverse effect on its consolidated financial statements, nor is it aware of any environmental matters at other properties which it believes will have a material adverse effect on its consolidated financial statements.

NOTE 15 RELATED-PARTY TRANSACTIONS AND ARRANGEMENTS

Certain affiliates of the Company received fees and compensation in connection with the Offerings, and received, and will continue to receive, fees and compensation in connection with the acquisition, management and sale of the assets of the Company. Cole Capital Corporation (Cole Capital), the affiliated dealer manager, received a selling commission of up to 7.0% of gross offering proceeds, before reallowance of commissions earned by participating broker-dealers, in connection with the Offerings. Cole Capital reallowed 100% of the selling commissions earned to participating broker-dealers. In addition, Cole Capital received 2.0% of gross offering proceeds, before reallowance to participating broker-dealers, as a dealer-manager fee, in connection with the Follow-on Offering. Cole Capital, in its sole discretion, reallowed a portion of its dealer-manager fee to such participating broker-dealers as a marketing and due diligence expense reimbursement, based on factors such as the volume of shares sold by such participating broker-dealers and the amount of marketing support provided by such participating broker-dealers. No selling commissions or dealer-manager fees are paid to Cole Capital or other broker-dealers in respect to shares sold under the DRIP. During the year ended December 31, 2009, the Company did not pay any amounts to Cole Capital for selling commissions or dealer manager fees. During the years ended December 31, 2008 and 2007, the Company paid approximately $92.8 million and approximately $53.3 million, respectively, to Cole Capital for selling commissions and dealer manager fees, of which approximately $77.5 million and approximately $45.4 million, respectively, was

reallowed to participating broker-dealers.

All organization and offering expenses associated with the sale of the Company s common stock (excluding selling commissions and the dealer-manager fee) are paid for by Cole Advisors II or its affiliates and are reimbursed by the Company up to 1.5% of gross offering proceeds. During the years ended December 31, 2009, 2008 and 2007, the Company reimbursed Cole Advisors II approximately $525,000, approximately $7.4 million and approximately $4.6 million, respectively, for organization and offering expenses of the Offerings.

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Cole Advisors II or its affiliates also receive acquisition and advisory fees of up to 2.0% of the contract purchase price of each asset for the acquisition, development or construction of properties and will be reimbursed for acquisition expenses incurred in the process of acquiring properties, so long as the total acquisition fees and expenses relating to the transaction does not exceed 4.0% of the contract purchase price. The Company expects acquisition expenses to be approximately 0.5% of the purchase price of each property. The Company will not reimburse Cole Advisors II for personnel costs in connection with services for which Cole Advisors II receives acquisition fees. During the year ended December 31, 2009, the Company recorded approximately $4.0 million for acquisition and advisory fees related to the 2009 Acquisitions and the investment in an unconsolidated joint venture. During the years ended December 31, 2008 and 2007, the Company recorded approximately $27.6 million and approximately $27.6 million, respectively, for acquisition and advisory fees. As of December 31, 2009 and 2008, the Company had approximately $54,000, related to an earnout obligation discussed in Note 5, and $123,000, respectively, due to Cole Realty Advisors for acquisition fees and is included in due to affiliates on the consolidated financial statements. No amounts were paid, or required to be paid, to Cole Advisors II during the years ended December 31, 2009, 2008 and 2007 for acquisition costs incurred in the process of acquiring properties.

If Cole Advisors II provides services in connection with the origination or refinancing of any debt financing obtained by the Company that is used to acquire properties or to make other permitted investments, or that is assumed, directly or indirectly, in connection with the acquisition of properties, the Company will pay Cole Advisors II or its affiliates a financing coordination fee equal to 1% of the amount available under such financing; provided however, that Cole Advisors II or its affiliates shall not be entitled to a financing coordination fee in connection with the refinancing of any loan secured by any particular property that was previously subject to a refinancing in which Cole Advisors II or its affiliates received such a fee. Financing coordination fees payable from loan proceeds from permanent financing are paid to Cole Advisors II or its affiliates as the Company acquires such permanent financing. However, no financing coordination fees are paid on loan proceeds from any line of credit until such time as all net offering proceeds have been invested by the Company. During the years ended December 31, 2009, 2008 and 2007, the Company paid Cole Advisors II approximately $2.1 million, approximately $6.5 million and approximately $8.0 million, respectively, for financing coordination fees. As of December 31, 2009, no amounts were payable to Cole Advisors II for financing coordination fees.

The Company paid, and expects to continue to pay, to Cole Realty Advisors, Inc. (Cole Realty Advisors), its affiliated property manager, fees for the management and leasing of the Company s properties. Property management fees equaled 2.0% of gross revenues received for single-tenant properties and 2.0% to 4.0% of gross revenues received for multi-tenant properties during the years ended December 31, 2009, 2008 and 2007. In accordance with the property management agreement, the Company may pay Cole Realty Advisors up to (i) 2.0% of gross revenues received from the Company s single tenant properties and (ii) 4.0% of gross revenues received from the Company s multi-tenant properties, plus leasing commissions at prevailing market rates; provided however, that the aggregate of all property management and leasing fees paid to affiliates plus all payments to third parties will not exceed the amount that other nonaffiliated management and leasing companies generally charge for similar services in the same geographic location. Cole Realty Advisors may subcontract certain of its duties for a fee that may be less than the fee provided for in the property management agreement. The Company will also reimburse Cole Realty Advisors costs of managing and leasing the properties. The Company does not reimburse Cole Realty Advisors for personnel costs in connection with services for which Cole Realty Advisors receives real estate commissions. During the years ended December 31, 2009, 2008 and 2007, the Company recorded approximately $4.9 million, approximately $2.8 million and approximately $1.6 million, respectively, for property management fees. The Company recorded approximately $970,000 for costs of managing the properties incurred by Cole Realty Advisors during the year ended December 31, 2009. No such costs were reimbursed, or required to be reimbursed, to Cole Realty Advisors during the years ended December 31, 2008 and 2007. As of December 31, 2009, approximately $24,000 of property management fees had not been paid and approximately $165,000 of property management costs had been incurred by Cole Realty Advisors but had not yet been reimbursed by the Company, both of which are included in due to affiliates on the consolidated

financial statements.

The Company paid, and expects to continue to pay, to Cole Advisors II an annualized asset management fee of 0.25% of the aggregate asset value of the Company s aggregate assets (the Asset Management Fee). The Company reimburses costs and expenses incurred by Cole Advisors II in providing asset management services. The fee is payable monthly in an amount equal to 0.02083% of aggregate asset value as of the last day of the immediately preceding month, plus costs and expenses incurred. During the years ended December 31, 2009, 2008 and 2007, the Company recorded approximately $8.4 million, approximately $6.0 million and approximately $2.6 million, respectively, for asset management fees. During the year ended December 31, 2009, the Company recorded approximately $64,000 for costs incurred by Cole Advisors II in providing asset management services. No such costs were reimbursed, or required to be reimbursed, to Cole Advisors II during the years ended December 31, 2008 and 2007. As of December 31, 2009, approximately $108,000 of asset management fees and approximately $11,000 of asset management expenses had been incurred by Cole Realty Advisors but had not yet been reimbursed by the Company, both of which are included in due to affiliates on the consolidated financial statements.

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

If Cole Advisors II or its affiliates provides a substantial amount of services, as determined by the Company s independent directors, in connection with the sale of one or more properties, the Company will pay Cole Advisors II up to one-half of the brokerage commission paid, but in no event to exceed an amount equal to 2% of the sales price of each property sold. In no event will the combined real estate commission paid to Cole Advisors II, its affiliates and unaffiliated third parties exceed 6% of the contract sales price. In addition, after investors have received a return of their net capital contributions and an 8% annual cumulative, non-compounded return, then Cole Advisors II is entitled to receive 10% of the remaining net sale proceeds. The Company will not reimburse Cole Advisors II or its affiliates for personnel costs in connection with services for with Cole Advisors II or its affiliates receive real estate commissions. During the years ended December 31, 2009, 2008 and 2007, the Company did not pay any fees or amounts to Cole Advisors II relating to the sale of properties.

Upon listing of the Company s common stock on a national securities exchange, a fee equal to 10% of the amount by which the market value of the Company s outstanding stock plus all distributions paid by the Company prior to listing, exceeds the sum of the total amount of capital raised from investors and the amount of cash flow necessary to generate an 8% annual cumulative, non-compounded return to investors will be paid to Cole Advisors II (the Subordinated Incentive Listing Fee).

Upon termination of the advisory agreement with Cole Advisors II, other than termination by the Company because of a material breach of the advisory agreement by Cole Advisors II, a performance fee of 10% of the amount, if any, by which (i) the appraised asset value at the time of such termination plus total distributions paid to stockholders through the termination date exceeds (ii) the aggregate capital contribution contributed by investors less distributions from sale proceeds plus payment to investors of an 8% annual, cumulative, non-compounded return on capital. No subordinated performance fee will be paid to the extent that the Company has already paid or become obligated to pay Cole Advisors II a subordinated participation in net sale proceeds or the Subordinated Incentive Listing Fee.

The Company will reimburse Cole Advisors II for all expenses it paid or incurred in connection with the services provided to the Company, subject to the limitation that the Company will not reimburse Cole Advisors II for any amount by which its operating expenses (including the Asset Management Fee) at the end of the four preceding fiscal quarters exceeds the greater of (i) 2% of average invested assets, or (ii) 25% of net income other than any additions to reserves for depreciation, bad debts or other similar non-cash reserves and excluding any gain from the sale of assets for that period, unless the Company s independent directors find that a higher level of expense is justified for that year based on unusual and non-recurring factors. The Company will not reimburse Cole Advisors II for personnel costs in connection with services for which Cole Advisors II receives acquisition fees or real estate commissions. During the year ended December 31, 2009, the Company recorded approximately $906,000 for general and administrative costs incurred by Cole Advisors II. No such costs were reimbursed, or required to be reimbursed, to Cole Advisors II or its affiliates during the years ended December 31, 2008 and 2007. As of December 31, 2009, approximately $147,000 of such costs had been incurred by Cole Realty Advisors but had not yet been reimbursed by the Company, and is included in due to affiliates on the consolidated financial statements.

On September 30, 2008, Cole OP II acquired a portfolio of 12 properties or investments therein from Cole Credit Property Fund, LP, an affiliate of the Company and the Company s advisor, for approximately $54.8 million, and a portfolio of ten properties from Cole Credit Property Fund II, LP, an affiliate of the Company and the Company s advisor, for approximately $66.5 million. These acquisitions were funded by net proceeds from the Follow-on Offering and the assumption of 22 loans, secured by the properties, with a face amount totaling approximately $68.6 million and a fair value totaling approximately $68.2 million. The Company s board of directors, including all of the independent directors, not otherwise interested in the transaction, approved these purchases as being fair and reasonable to the Company, at a price in excess of the cost to Cole Credit Property Fund, LP and Cole Credit Property Fund II, LP. Substantial justification existed for such excess as such excess was reasonable and the costs of the interests did not exceed its then current fair market value as determined by an independent appraiser approved by the Company s independent directors. During the year ended December 30, 2007, Cole OP II acquired no properties from affiliates of the Company or the Company s advisor. During the year ended December 31, 2006, the Company

acquired 16 properties from affiliates of the Company or the Company s advisor for approximately $60.6 million. These acquisitions were funded by the Company s Initial Offering and the assumption of 16 loans, secured by the properties, of approximately $37.0 million. The Company s board of directors, including all of the independent directors, not otherwise interested in the transactions, approved the transactions as being fair and reasonable to the Company. The purchase price of three of the properties, of approximately $13.5 million, was in excess of the cost to the affiliate of the Company or the Company s advisor. Substantial justification existed for such excess as such excess was reasonable and the costs of the interests did not exceed its then current fair market value as determined by an independent appraiser approved by the Company s independent directors. The purchase price of 13 of the properties, of approximately $47.1 million, was at a price no greater than the cost to the affiliated entity, and at a cost that did not exceed its then current fair market value as determined by an independent appraiser approved by the Company s independent directors.

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On March 25, 2008, Cole OP II borrowed approximately $16.0 million from Series B, LLC and approximately $16.0 million from Series C, LLC, each of which are affiliates of the Company and the Company s advisor, by executing two promissory notes that were secured by the membership interest held by Cole OP II in certain wholly-owned subsidiaries of Cole OP II. The loan proceeds were used to acquire properties with a purchase price of approximately $63.6 million, exclusive of closing costs. The loans bore interest at variable rates equal to the one-month LIBOR rate plus 200 basis points with monthly interest-only payments. The Company repaid approximately $32.0 million of the aforementioned loans in May 2008. The Company s board of directors, including all of the independent directors, approved the loans as fair, competitive and commercially reasonable, and determined that their terms were no less favorable to the Company than loans between unaffiliated third parties under the same circumstances.

During the year ended December 31, 2008, Cole OP II incurred approximately $278,000 in interest expense to affiliates under the aforementioned loans. During the year ended December 31, 2007, no interest expense was incurred for related party transactions.

NOTE 16 ECONOMIC DEPENDENCY

Under various agreements, the Company has engaged or will engage Cole Advisors II and its affiliates to provide certain services that are essential to the Company, including asset management services, supervision of the management and leasing of properties owned by the Company, asset acquisition and disposition decisions, the sale of shares of the Company s common stock available for issue, as well as other administrative responsibilities for the Company including accounting services and investor relations. As a result of these relationships, the Company is dependent upon Cole Advisors II and its affiliates. In the event that these companies were unable to provide the Company with the respective services, the Company would be required to find alternative providers of these services.

NOTE 17 INDEPENDENT DIRECTORS STOCK OPTION PLAN

The Company has a stock option plan, the Independent Director s Stock Option Plan (the IDSOP), which authorizes the grant of non-qualified stock options to the Company s independent directors, subject to the absolute discretion of the board of directors and the applicable limitations of the plan. The Company intends to grant options under the IDSOP to each qualifying director annually, which generally vest within one year from the date of grant. The term of the IDSOP is ten years, at which time any outstanding options will be forfeited. The exercise price for the options granted under the IDSOP was $9.15 per share for 2005 and 2006 and $9.10 per share for 2007, 2008 and 2009. It is intended that the exercise price for future options granted under the IDSOP will be at least 100% of the fair market value of the Company s common stock as of the date the option is granted. As of December 31, 2009 and 2008, the Company had granted options to purchase 50,000 shares and 40,000 shares, respectively. As of December 31, 2009, options to purchase 35,000 shares were vested and options to purchase 10,000 shares will vest during the six months ending June 30, 2010. A total of 1,000,000 shares have been authorized and reserved for issuance under the IDSOP. During the year ended December 31, 2009, the Company recorded stock-based compensation charges of approximately $13,000. During the year ended December 31, 2008, the Company recorded stock-based compensation charges of approximately $8,000. Stock-based compensation expense is based on awards ultimately expected to vest and reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company s calculations assume no forfeitures.

A summary of the Company s stock option activity under its IDSOP during the years ended December 31, 2009 and 2008 is as follows:

	Number	Weighted Average Exercise Price	Exercisable
Outstanding as of January 1, 2008	30,000	$ 9.13	20,000
Granted in 2008	10,000	$ 9.10	

Outstanding as of December 31, 2008	40,000	$	9.13	30,000
Granted in 2009	10,000	$	9.10	
Exercised in 2009	(5,000)	$	9.10	
Outstanding as of December 31, 2009	45,000	$	9.12	35,000

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2009 and 2008, options to purchase 10,000 shares were unvested with a weighted average contractual remaining life of approximately 7.3 and approximately 7.8 years, respectively. As of December 31, 2009, the number of options that were currently vested and expected to become vested was 45,000 shares which had an intrinsic value of approximately $40,000.

In accordance with ASC718, *Compensation Stock Compensation*, the fair value of each stock option granted was estimated as of the date of the grant using the Black-Scholes method based on the following assumptions: a weighted average risk-free interest rate from 3.47% to 5.07%, a projected future dividend yield from 6.25% to 7.00%, expected volatility from 0% to 36.21%, and an expected life of an option of 10 years. The Company used the calculated value method to determine volatility as calculated using the Composite REIT Index. Based on these assumptions, the aggregate fair value of the options granted during the years ended December 31, 2009 and 2008 was approximately $18,000 and approximately $8,000, respectively, or approximately $1.81 per share and approximately $0.77 per share, respectively. As of December 31, 2009, there was approximately $7,000 of total unrecognized compensation cost related to unvested share-based compensation awards granted under the IDSOP. That cost is expected to be recognized through June 30, 2010.

NOTE 18 STOCKHOLDERS EQUITY

Distribution Reinvestment Plan

The Company maintains the DRIP that allows stockholders of our common stock to elect to have the distributions the stockholders receive reinvested in additional shares of the Company s common stock. The purchase price per share under the DRIP will be the higher of 95% of the fair market value per share as determined by the Company s board of directors or $9.50 per share. No sales commissions or dealer manager fees will be paid on shares sold under the DRIP. The Company may terminate or amend the DRIP at the Company s discretion at any time upon ten days prior written notice to the stockholders. On September 18, 2008, the Company registered 30,000,000 additional shares to be offered pursuant to its DRIP in a Registration Statement on Form S-3. On January 2, 2009, the Company terminated the Follow-on Offering. As of the close of business on January 2, 2009, the Company had issued 5,933,687 shares sold pursuant to the DRIP. At the completion of the Follow-on Offering, 66,313 shares of common stock remained unsold pursuant to the DRIP. All unsold shares in the Follow-on Offering have been deregistered.

During the years ended December 31, 2009 and 2008, approximately 7.5 million and approximately 5.6 million shares were purchased under the distribution reinvestment plan, for approximately $71.0 million and approximately $53.5 million, respectively, which were recorded as redeemable common stock on the consolidated balance sheets, net of redemptions paid of approximately $48.3 million and approximately $10.1 million, respectively.

Share Redemption Program

The Company s share redemption program permits its stockholders to sell their shares back to the Company after they have held them for at least one year, subject to the significant conditions and limitations described below.

There are several restrictions on the stockholder s ability to sell their shares to the Company under the program. The stockholders generally have to hold their shares for one year before selling the shares to the Company under the program; however, the Company may waive the one-year holding period in the event of the death or bankruptcy of a stockholder. In addition, the Company will limit the number of shares redeemed pursuant to the Company s share redemption program as follows: (1) during any calendar year, the Company will not redeem in excess of 3.0% of the weighted average number of shares outstanding during the prior calendar year; and (2) funding for the redemption of shares will be limited to the amount of net proceeds the Company receives from the sale of shares under the Company s DRIP. These limits may prevent the Company from accommodating all requests made by stockholders in any year. During the term of the Offerings, and subject to certain provisions, the redemption price per share will depend on the length of time the stockholder has held such shares as follows: after one year from the purchase date 92.5% of the amount the stockholder paid for each share; after two years from the purchase date 95.0% of the amount the stockholder paid for each share; after three years from the purchase date 97.5% of the amount the stockholder paid for each share; and after four years from the purchase date 100.0% of the amount the stockholder paid for each share.

Upon receipt of a request for redemption, the Company will conduct a Uniform Commercial Code search to ensure that no liens are held against the shares. Repurchases will be made quarterly, if there are sufficient funds available. If funds are not available to redeem all requested redemptions at the end of each quarter, the shares will be purchased on a pro rata basis and the unfulfilled requests will be held until the next quarter, unless withdrawn. The Company s board of directors may amend, suspend or terminate the share redemption program at any time upon 30 days prior written notice to the stockholders. The Company redeemed approximately 5.1 million shares under the share redemption program during the year ended December 31, 2009 for approximately $48.3 million. The Company redeemed approximately 1.0 million shares under the share redemption program during the year ended December 31, 2008 for approximately $10.1 million.

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On November 10, 2009, the Company s board of directors voted to temporarily suspend the share redemption program other than for requests made upon the death of a stockholder, which the Company will continue to accept. The Company s board of directors currently expects to make funds available for regular redemptions under the share redemption program in the second half of 2010 after the Company conducts a valuation of our share price, which it is required to be complete in June 2010.

NOTE 19 INCOME TAXES

For federal income tax purposes, distributions to stockholders are characterized as dividend income, capital gain income, or as a return of a stockholder s invested capital. The following table represents the character of distributions to stockholder for the years ended December 31, 2009, 2008 and 2007:

Character of Distributions:	**2009**	**2008**	**2007**
Dividend income	39%	45%	41%
Return of capital	61%	55%	59%
Total	100%	100%	100%

As of December 31, 2009, 2008 and 2007, the tax basis carrying value of the Company s land and depreciable real estate assets was approximately $3.1 billion, approximately $3.0 billion and approximately $1.7 billion, respectively. During the years ended December 31, 2009, 2008 and 2007, the Company had state and local income and franchise taxes of approximately $1.1 million, approximately $1.3 million and approximately $469,000, respectively, which were recorded in general and administrative expenses in the consolidated statements of operations.

NOTE 20 OPERATING LEASES

The Company s operating leases terms and expirations vary. The leases frequently have provisions to extend the lease agreement and other terms and conditions as negotiated.

The future minimum rental income from the Company s investment in real estate assets under non-cancelable operating leases, as of December 31, 2009, is as follows (in thousands):

Year ending December 31:	**Amount**
2010	$ 228,563
2011	226,573
2012	224,541
2013	217,846
2014	212,761
Thereafter	1,624,784
Total	$ 2,735,068

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COLE CREDIT PROPERTY TRUST II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 21 QUARTERLY RESULTS (UNAUDITED)

Presented below is a summary of the unaudited quarterly financial information for the years ended December 31, 2009 and 2008 (in thousands, except for per share amounts). The Company believes that all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly, and in accordance with GAAP, the selected quarterly information.

	2009			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 68,408	$ 66,987	$ 72,187	$ 67,873
Operating income	32,106	20,865(2)	32,328	34,920
Net income (loss)	9,631	(3,698)	6,909	9,564
Basic and diluted net income (loss) per share (1)	0.05	(0.02)	0.03	0.05
Dividends per share	0.17	0.17	0.16	0.16

(1) Based on the weighted average number of shares outstanding as of December 31, 2009.

(2) Operating income for the second quarter 2009 includes an impairment loss of approximately $13.5 million related to one property.

	2008			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 40,680	$ 44,108	$ 51,092	$ 65,124
Operating income	18,184	23,392	26,828	33,001
Net income	587	7,047	8,961	8,497
Basic and diluted net income per share (1)	0.01	0.05	0.06	0.05
Dividends per share	0.17	0.17	0.18	0.18

(1)

Based on the weighted average number of shares outstanding as of December 31, 2008.

NOTE 22 SUBSEQUENT EVENTS

Sale of Shares of Common Stock

As of March 29, 2010, the Company had raised approximately $2.1 billion of gross proceeds through the issuance of approximately 212.7 million shares of its common stock in the Offerings (including shares sold pursuant to the DRIP). Shares issued subsequent to December 31, 2009 were issued pursuant to the DRIP Offering.

Redemption of Shares of Common Stock

Subsequent to December 31, 2009, the Company redeemed approximately 288,000 shares for approximately $2.9 million due to requests upon the deaths of stockholders.

Declaration of Distributions

Subsequent to December 31, 2009, the board of directors of the Company authorized a daily distribution, based on 365 days in the calendar year, of $0.001712523 per share (which would equate to approximately 6.25% on an annualized basis calculated at the current rate, assuming a $10.00 per share purchase price) for stockholders of record as of the close of business on each day of the period commencing on April 1, 2010 and ending on June 30, 2010.

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COLE CREDIT PROPERTY TRUST II, INC.
SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS
December 31, 2009
(in thousands)

	Balance at beginning of period	Charged to expenses	Adjustments to valuation accounts	Deductions	Balance at end of period
Year Ended December 31, 2007					
Allowance for doubtful accounts	$ 75	$ 447	$	$	$ 522
Year Ended December 31, 2008					
Allowance for doubtful accounts	$ 522	$ 1,933	$	$ 1,533	$ 922
Year Ended December 31, 2009					
Allowance for doubtful accounts	$ 922	$ 1,993	$	$ 1,267	$ 1,648

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COLE CREDIT PROPERTY TRUST II, INC.
SCHEDULE III REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION
December 31, 2009
(in thousands)

Description (1)	Encumbrances	Initial Costs to Company Land	Buildings and Improvements	Total Adjustments to Basis	Gross Amount at Which Carried at December 31, 2009 (2) (3) (5)	Accumulated Depreciation (4) (6)	Date Acquired	Date Constructed
Real Estate Held for Investment the Company has Invested in Under Operating Leases:								
24 Hour Fitness:								
Olathe, KS	4,817	1,090	5,353		6,443	326	08/24/07	2007
7500 Cottonwood Center:								
Jenison, MI	(9)	1,079	4,023	(13)	5,089	317	03/30/07	1993
Aaron Rents:								
Alamogordo, NM		273	619		892	21	09/15/08	2006
Anderson, SC		156	978		1,134	32	09/15/08	1992
Baton Rouge, LA		226	603		829	20	09/15/08	1999
Beeville, TX		80	808		888	27	09/15/08	2004
Calmut City, IL		277	992		1,269	34	09/15/08	1977
Charlotte, NC		272	424		696	14	09/15/08	1957
Chiefland, FL		380	651		1,031	24	09/15/08	2007
Clanton, AL		231	817		1,048	27	09/15/08	2007
Essex, MD		632	966		1,598	32	09/15/08	1988
Forrest City, AR		246	623		869	21	09/15/08	2002
Griffin, GA		483	599		1,082	21	09/15/08	2007
Grovetown, GA		220	799		1,019	27	09/15/08	2007
Harrisonville, MO		509	252		761	9	09/15/08	1996
Hartsville, SC		304	875		1,179	29	09/15/08	2007
Largo, FL		393	884		1,277	31	09/15/08	1999
Mansfield, TX		244	906		1,150	32	09/15/08	2007
Navasota, TX		121	866		987	30	09/15/08	2007
Okeechobee, FL		305	792		1,097	28	09/15/08	2006
Rensselaer, NY		699	1,337		2,036	47	09/15/08	1971
Rome, TX		387	1,050		1,437	37	09/15/08	1996
Sandersville, GA		153	856		1,009	29	09/15/08	2006
Shreveport, LA		267	569		836	20	09/15/08	2001
Stuart, FL		651	1,822		2,473	67	09/15/08	1995

Wichita, KS		247	627		874	21	09/15/08	2005
Wilton, NY		2,693	3,577		6,270	128	09/15/08	1987
ABX Air:								
Coventry, RI	2,454	548	3,293	16	3,857	267	02/16/07	1998
Academy Sports:								
Macon, GA	3,478	1,232	3,901		5,133	442	01/06/06	2005
Katy, TX	68,250	8,853	88,008		96,861	7,286	01/18/07	1976
Lufkin, TX	2,083	1,512	3,260		4,772	159	02/07/08	2003
Advanced Auto:								
Greenfield, IN	(9)	670	609		1,279	73	06/29/06	2003
Trenton, OH	(9)	333	651		984	78	06/29/06	2003
Columbia Heights, MN	1,038	549	1,071		1,620	111	07/06/06	2005

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COLE CREDIT PROPERTY TRUST II, INC.
SCHEDULE III REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION (Continued)
December 31, 2009
(in thousands)

Description (1)	Encumbrances	Initial Costs to Company Land	Buildings and Improvements	Total Adjustments to Basis	Gross Amount at Which Carried at December 31, 2009 (2) (3) (5)	Accumulated Depreciation (4) (6)	Date Acquired	Date Constructed
Advanced Auto (Continued):								
Fergus Falls, MN	722	187	911	(1)	1,097	105	07/06/06	2005
Holland Township, MI	1,231	647	1,134		1,781	95	07/12/06	2006
Holland, MI	1,193	614	1,118		1,732	98	07/12/06	2006
Zeeland, MI	1,057	430	1,109	(1)	1,538	123	07/12/06	2006
Grand Forks, ND	840	346	889		1,235	121	08/15/06	2005
Duluth, MN	860	284	1,050		1,334	120	09/08/06	2006
Grand Bay, AL	(9)	256	770	(1)	1,025	87	09/29/06	2005
Hurley, MS	(9)	171	811		982	82	09/29/06	2005
Rainsville, AL	(9)	383	823		1,206	86	09/29/06	2005
Ashland, KY	(9)	641	827		1,468	87	11/17/06	2006
Jackson, OH	(9)	449	755		1,204	80	11/17/06	2005
New Boston, OH	(9)	477	846		1,323	90	11/17/06	2005
Scottsburg, IN	(9)	264	844		1,108	90	11/17/06	2006
Maryland Heights, MO	(9)	736	896		1,632	89	01/12/07	2005
Allstate Insurance:								
Cross Plains, WI	(9)	864	4,488		5,352	267	12/07/07	2007
Yuma, AZ	4,687	1,426	5,885		7,311	275	05/22/08	2008
American TV & Appliance:								
Peoria, IL	6,748	2,028	8,172		10,200	726	10/23/06	2003
Applebee s:								
Albany, OR	1,923	808	1,836		2,644	133	04/26/07	2005
Augusta, GA	2,252	621	2,474		3,095	172	04/26/07	2005
Aurora (Iliff), OR	1,878	1,324	1,258		2,582	87	04/26/07	1992
Aurora, CO	1,727	1,001	1,373		2,374	95	04/26/07	1998
Clovis, NM	1,918	512	2,125		2,637	146	04/26/07	2005
Colorado Springs, CO	1,285	781	985		1,766	68	04/26/07	1998

Columbus (Airport), GA	2,176	726	2,265		2,991	158	04/26/07	2006
Columbus (Gentian), GA	2,449	1,098	2,263	6	3,367	159	04/26/07	2005
Fountain, CO	1,871	747	1,825		2,572	126	04/26/07	2005
Gallup, NM	2,165	499	2,477		2,976	170	04/26/07	2004
Garden City, GA	1,812	803	1,688		2,491	118	04/26/07	1998
Grand Junction, CO	2,136	915	2,021		2,936	140	04/26/07	1995
Littleton, CO	1,561	1,491	656		2,147	46	04/26/07	1990
Longview, WA	2,475	969	2,429	5	3,403	173	04/26/07	2004
Loveland, CO	1,441	437	1,543		1,980	106	04/26/07	1997
Macon (Eisenhower), GA	1,706	785	1,561		2,346	109	04/26/07	1998

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Applebee s (Continued):								
Macon (Riverside), GA	1,726	794	1,579		2,373	110	04/26/07	1998
Santa Fe, NM	2,783	1,637	2,184	5	3,826	151	04/26/07	1997
Savannah, GA	1,842	1,079	1,454	(156)	2,377	102	04/26/07	1993
Union Gap, WA	1,756	196	2,218		2,414	158	04/26/07	2004
Walla Walla, WA	1,642	770	1,487		2,257	110	04/26/07	2005
Warner Robins, GA	1,727	677	1,696		2,373	119	04/26/07	1994
Apria Healthcare:								
St. John, MO	4,420	1,669	4,390	132	6,191	480	03/28/07	1996
Arby s:								
New Castle, PA	625	555	810		1,365	41	01/31/08	1999
Ashley Furniture:								
Amarillo, TX	4,026	1,367	4,747		6,114	355	04/06/07	1980
Anderson, SC	(9)	677	3,240	(4)	3,913	187	09/28/07	2006
AT&T:								
Beaumont, TX	8,592	611	10,717		11,328	1,018	03/19/07	1971
Santa Clara, CA	6,032	2,455	10,876		13,331	356	09/30/08	2002
Bank of America:								
Delray Beach, FL	4,118	11,890	2,984		14,874	152	01/31/08	1975
BE Aerospace:								
Winston-Salem, NC	2,566	346	4,387		4,733	138	10/31/08	1987
Best Buy:								
Fayettville, NC	(9)	2,020	4,285	301	6,606	258	10/04/07	1999
Wichita, KS	4,853	2,192	8,319		10,511	491	02/07/08	1984
Las Cruces, NM	3,809	1,584	4,043		5,627	140	09/30/08	2002
Big 5 Center:								
Aurora, CO	2,804	1,265	2,827		4,092	206	04/11/07	2006
BJ s Wholesale:								

Ft. Lauderdale, FL		10,920	14,762	25,682	495	09/23/08	2007
Haverhill, MA	12,247	5,497	13,904	19,401	621	04/14/08	2006
Woodstock, GA	9,971	3,071	11,542	14,613	287	1/29/09	2002
Borders:							
Rapid City, SD	4,393	1,589	1,951	3,540	137	06/01/07	1999
Reading, PA	4,257	2,128	3,186	5,314	213	06/01/07	1997
Boscov s:							
Voorhees, NJ		1,889	5,012	6,901	261	02/07/08	1970
Bridgestone Tire:							
Atlanta, GA	1,176	1,623	977	2,600	49	02/07/08	1998

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Broadview Village Square:								
Broadview, IL	31,500	8,489	46,933	(3)	55,419	3,063	09/14/07	1994
Carmax:								
Greenville, SC	15,112	8,061	11,830		19,891	596	01/25/08	1998
Pineville, NC		6,980	4,014		10,994	217	01/31/08	2002
Raleigh, NC	3,922	4,000	7,669		11,669	383	01/31/08	1994
Chambers Corner:								
Wayland, MI	(9)	1,608	7,277	37	8,922	495	09/19/07	2000
Chili s:								
Paris, TX	1,790	600	1,851		2,451	153	12/28/06	1999
Fredericksburg, TX	1,504	820	1,290		2,110	95	06/05/07	1985
Tilton, NH	1,260	1,085			1,085		3/27/09	(8)
Church s Chicken:								
191 Locations	68,943	47,249	57,362		104,611	2,053	10/31/08	Various
Circle K:								
Akron (1178 Arlington), OH	706	434	834		1,268	46	12/20/07	1994
Akron (1559 Market), OH	706	539	832	8	1,379	46	12/20/07	1995
Akron (1693 West Market), OH	834	664	2,064	8	2,736	109	12/20/07	2000
Akron (940 Arlington), OH	569	362	1,062		1,424	58	12/20/07	1991
Akron (Albrecht), OH	559	400	908		1,308	49	12/20/07	1997
Akron (Brittain), OH	628	345	1,005	8	1,358	57	12/20/07	1995
Akron (Brown), OH	628	329	707		1,036	42	12/20/07	1950
	843	518	794		1,312	45	12/20/07	1998

Akron (Cuyahoga), OH								
Akron (Darrow), OH	628	544	849	8	1,401	47	12/20/07	1994
Akron (Exchange), OH	735	559	900		1,459	49	12/20/07	1996
Akron (Main), OH	588	330	1,288	8	1,626	72	12/20/07	2000
Akron (Manchester), OH	824	304	945		1,249	53	12/20/07	1994
Akron (Ridgewood), OH	628	435	386		821	23	12/20/07	1969
Akron (Waterloo), OH	618	385	1,019		1,404	56	12/20/07	2001
Albuquerque, NM	637	748	626		1,374	33	12/20/07	1994
Auburn, AL	804	693	1,045		1,738	57	12/20/07	1990
Augusta, GA	520	783	953		1,736	52	12/20/07	1985
Barberton (31st St), OH	471	389	1,519		1,908	83	12/20/07	1991

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Circle K (Continued):								
Barberton (5th St.), OH	618	283	1,067		1,350	57	12/20/07	1996
Barberton (Wooster), OH	1,118	520	1,168		1,688	64	12/20/07	2000
Baton Rouge (Burbank), LA	461	538	708		1,246	39	12/20/07	1976
Baton Rouge (Floynell), LA	657	551	686		1,237	37	12/20/07	1977
Baton Rouge (Jefferson), LA	500	770	600		1,370	33	12/20/07	1970
Beaufort, SC	814	745	663		1,408	36	12/20/07	1997
Bedford, OH	647	416	708		1,124	38	12/20/07	2000
Bluffton, SC	1,206	1,075	777		1,852	43	12/20/07	1997
Bossier City, LA	765	755	771		1,526	41	12/20/07	1987
Brookpark, OH	677	472	819		1,291	44	12/20/07	1998
Canton (12th St.), OH	544	459	878		1,337	50	12/20/07	1992
Canton (Tuscarwas), OH	1,108	730	1,339		2,069	73	12/20/07	2000
Charleston, SC	1,304	1,182	758		1,940	40	12/20/07	1987
Charlotte (Independence), NC	946	589	581		1,170	32	12/20/07	1996
Charlotte (Sharon), NC	981	663	734		1,397	39	12/20/07	1997
Charlotte (Sugar Creek), SC	1,010	623	603		1,226	33	12/20/07	1991
Cleveland, OH	794	573	1,352		1,925	74	12/20/07	2002
Columbia (Garners), SC	1,059	645	739		1,384	40	12/20/07	1993

Columbia (Hardscrabble), SC	883	587	777		1,364	41	12/20/07	1997
Columbia (Lumpkin), GA	785	526	756		1,282	42	12/20/07	1978
Columbus (Airport), GA	716	569	455		1,024	26	12/20/07	1984
Columbus (Buena Vista), GA	755	576	623		1,199	35	12/20/07	1990
Columbus (Warm Springs), GA	922	2,085	2,949		5,034	156	12/20/07	1978
Columbus (Whiteville), GA	1,569	1,394	1,039		2,433	55	12/20/07	1995
Copley, OH	579	336	692	8	1,036	40	12/20/07	1993
Cuyahoga Falls (Bath), OH	1,020	472	1,287		1,759	69	12/20/07	2002
Cuyahoga Falls (Port), OH	696	413	988		1,401	54	12/20/07	1995
Cuyahoga Falls (State), OH	481	327	613	7	947	34	12/20/07	1972
El Paso (Americas), TX	1,147	696	1,272		1,968	70	12/20/07	1999
El Paso (Mesa), TX	598	684	821		1,505	45	12/20/07	1999

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Circle K (Continued):								
El Paso (Zaragosa), TX	1,069	967	764		1,731	41	12/20/07	1998
Fairlawn, OH	785	480	818		1,298	45	12/20/07	1993
Fort Mill, SC	1,216	1,207	2,007		3,214	106	12/20/07	1999
Goose Creek, SC	657	671	578		1,249	32	12/20/07	1983
Huntersville, NC	1,010	680	716		1,396	39	12/20/07	1996
Kent, OH	490	223	678		901	37	12/20/07	1994
Lanett, AL	446	1,645	4,693		6,338	265	12/20/07	1974
Macon (Arkwright), GA	549	422	675		1,097	37	12/20/07	1993
Macon (Riverside), GA	588	588	625		1,213	36	12/20/07	1974
Maple Heights, OH	745	524	1,052		1,576	59	12/20/07	1998
Martinez, GA	618	506	702		1,208	39	12/20/07	1986
Midland (Beaver Run), GA	1,216	1,066	1,099		2,165	61	12/20/07	1995
Mobile (Airport), AL	843	516	651		1,167	38	12/20/07	1987
Mobile (Moffett), AL	642	475	374		849	22	12/20/07	1988
Mount Pleasant, SC	735	616	631		1,247	35	12/20/07	1978
North Augusta, SC	579	380	678		1,058	36	12/20/07	1999
North Monroe, LA	765	816	1,375		2,191	73	12/20/07	1986
Northfield, OH	971	829	1,564		2,393	83	12/20/07	1983
Norton, OH	716	374	1,430		1,804	78	12/20/07	2001
Opelika (2nd Avenue), AL	618	778	1,590		2,368	87	12/20/07	1989
	1,138	829	968		1,797	57	12/20/07	1988

Opelika (Columbus), AL								
Parma, OH	657	451	1,052		1,503	57	12/20/07	2002
Phenix City, AL	804	674	1,148		1,822	62	12/20/07	1999
Pine Mountain, GA	588	744	3,016		3,760	161	12/20/07	1999
Port Wentworth, GA	1,128	945	861		1,806	51	12/20/07	1991
Savannah (Johnny Mercer), GA	726	551	480		1,031	27	12/20/07	1990
Savannah (King George), GA	785	816	712		1,528	38	12/20/07	1997
Seville, OH	1,275	642	1,989	7	2,638	106	12/20/07	2003
Shreveport, LA	608	517	1,074		1,591	58	12/20/07	1988
Springdale, SC	843	368	609		977	33	12/20/07	1999
Twinsburg, OH	677	409	1,146		1,555	64	12/20/07	1984
Valley, AL	785	512	733		1,245	40	12/20/07	1974
West Monroe (1602), LA	834	538	1,127		1,665	60	12/20/07	1999

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Circle K (Continued):								
West Monroe (503), LA	735	918	660		1,578	36	12/20/07	1983
Willoughby, OH	598	390	1,001		1,391	54	12/20/07	1986
Circuit City:								
Mesquite, TX	4,305	1,094	6,687		7,781	434	06/29/07	1996
Taunton, MA	4,323	2,219	6,314		8,533	425	07/13/07	2001
Groveland, FL	20,250	4,990	24,740		29,730	1,549	07/17/07	1991
Aurora, CO	4,777	1,763	4,295	3	6,061	268	08/22/07	1995
Kennesaw, GA		2,242	18,075	569	20,886	1,068	01/31/08	1998
Conns:								
San Antonio, TX	2,461	1,026	3,055		4,081	295	05/26/06	2002
Convergys:								
Las Cruces, NM	5,031	1,740	5,785		7,525	272	06/02/08	1983
Coral Walk:								
Cape Coral, FL	12,255	7,737	20,708	7	28,452	1,060	06/12/08	2007
Cost-U-Less:								
St. Croix, USVI	4,035	706	4,472		5,178	330	03/26/07	2005
Cumming Town Center:								
Cumming, GA	33,700	13,555	48,146	(1,485)	60,216	1,869	07/11/08	2007
CVS:								
Alpharetta, GA	2,015	1,214	1,693		2,907	196	12/01/05	1998
Richland Hills, TX	2,379	1,141	2,302		3,443	248	12/08/05	1997
Portsmouth (Scioto Trail), OH	1,424	561	1,639	169	2,369	189	03/08/06	1997
Lakewood, OH	1,348	552	1,225	81	1,858	160	04/19/06	1996
Madison, MS	2,809	1,068	2,835		3,903	286	05/26/06	2004
Portsmouth, OH	(9)	328	1,862	193	2,383	209	06/28/06	1997
Okeechobee, FL	4,076	1,623	3,563		5,186	334	07/07/06	2001

Orlando, FL	3,016	2,125	2,213	4,338	214	07/12/06	2005
Gulfport, MS	2,611	1,231	2,483	3,714	227	08/10/06	2000
Clinton, NY	1,983	684	2,014	2,698	178	08/24/06	2006
Glenville Scotia, NY	3,413	1,601	2,928	4,529	241	11/16/06	2006
Florence, SC	1,706	771	1,803	2,574	129	05/17/07	1998
Indianapolis, IN	1,860	1,077	2,238	3,315	108	02/07/08	1998
Onley, VA	3,350	1,584	3,156	4,740	135	05/08/08	2007
Columbia (I), TN	1,715	1,090	1,752	2,842	65	09/30/08	1998
Columbia (II), TN	1,735	1,205	1,579	2,784	60	09/30/08	1998
Hamilton, OH	1,678	917	1,682	2,599	60	09/30/08	1999
Mechanicsville, NY	1,464	415	2,104	2,519	70	09/30/08	1997
Atlanta, GA	1,791	910	2,450	3,360	78	10/07/08	2006

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CVS (Continued):								
Carrollton, TX	980	542	1,428		1,970	41	12/23/08	1995
Kissimmee, FL	1,226	810	1,607		2,417	45	12/23/08	1995
Lake Worth, TX	882	474	1,323		1,797	38	12/23/08	1996
Richardson, TX	1,212	476	1,769		2,245	51	12/23/08	1996
River Oaks, TX	1,343	819	1,711		2,530	49	12/23/08	1996
The Colony, TX	931	460	1,422	(5)	1,877	41	12/23/08	1996
Wichita Falls (SW), TX	882	451	1,655		2,106	47	12/23/08	1996
Wichita Falls, TX	1,029	471	1,276		1,747	36	12/23/08	1995
Myrtle Beach, SC	4,788	1,565	2,564		4,129	54	3/27/09	2004
Maynard, MA	5,596	2,157	2,049		4,206	42	3/31/09	2005
Waynesville, NC	3,966	420	3,005		3,425	62	3/31/09	2005
Dave and Buster s:								
Addison, IL	5,600	5,837	6,810		12,647	458	07/19/07	2006
David s Bridal:								
Lenexa, KS	1,799	766	2,197		2,963	295	01/11/06	2005
Topeka, KS	2,000	569	2,193		2,762	240	10/13/06	2006
Dickinson Theater:								
Yukon, OK	(9)	980	3,403	2	4,385	214	07/17/07	2007
Dick s Sporting Goods:								
Amherst, NY	6,321	3,147	6,084	864	10,095	594	12/20/06	1986
Dollar General:								
Crossville, TN	1,950	647	2,088		2,735	218	06/02/06	2006
Ardmore, TN	1,804	735	1,839		2,574	190	06/09/06	2005
Livingston, TN	1,856	899	1,687		2,586	177	06/12/06	2006
Drexel Heritage:								
Hickory, NC	2,763	394	3,622		4,016	767	02/24/06	1963
Eckerd:								
Lincolnton, NC	1,538	557	2,131		2,688	150	04/03/07	1998

Easton, PA	4,060	2,308	3,411		5,719	235	04/25/07	2005
Spartanburg, SC	2,259	1,368	1,791		3,159	128	05/17/07	1998
EDS Information Systems:								
Salt Lake City, UT	18,000	2,283	19,796		22,079	1,241	07/17/07	1999
Federal Express:								
Rockford, IL	3,998	1,469	3,669		5,138	428	12/09/05	1994
Council Bluffs, IA	2,185	530	1,845		2,375	157	11/15/06	1999
Edwardsville, KS	12,880	1,693	15,439		17,132	1,296	11/15/06	1999
Peoria, IL	2,080	337	2,629		2,966	165	07/20/07	1997
Walker, MI	4,669	1,387	4,424	4	5,815	270	08/08/07	2001

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Federal Express (Continued):								
Mishawaka, IN		303	3,356		3,659	165	02/07/08	1993
Huntsville, Al	5,268	1,576	8,252		9,828	270	09/30/08	2008
Baton Rouge, LA	4,510	1,822	6,332	1,560	9,714	199	10/03/08	2008
Ferguson Enterprises:								
Auburn, AL	1,371	663	1,401		2,064	51	08/21/08	2007
Charlotte, NC		2,347	7,782		10,129	296	08/21/08	2007
Cohasset, MN		65	1,221		1,286	44	08/21/08	2007
Front Royal, VA	26,549	3,475	38,699		42,174	1,401	08/21/08	2007
Ocala, FL	4,080	650	6,207		6,857	231	08/21/08	2006
Powhatan, VA		522	4,712		5,234	168	08/21/08	2007
Salisbury, MD		773	8,016		8,789	286	08/21/08	2007
Shallotte, NC		594	1,717		2,311	62	08/21/08	2006
Gallina Centro:								
Collierville, TN	14,200	5,669	10,347		16,016	814	03/26/07	2000
Gold s Gym:								
O Fallon, IL	3,650	1,407	5,253		6,660	519	09/29/06	2005
St. Peters, MO	5,114	2,338	4,428		6,766	291	07/31/07	2007
O Fallon, MS	5,425	3,120	3,992		7,112	270	08/29/07	2007
Gordman s:								
Peoria, IL	4,950	1,558	6,674		8,232	520	01/18/07	2006
Gregg Appliances:								
Greensboro, NC	(9)	2,412	3,931	(366)	5,977	197	01/11/08	2007
Grove City, OH	(9)	987	4,477		5,464	176	09/17/08	2008
Mt Juliet, TN		2,088	3,638		5,726	135	09/23/08	2008
Hilltop Plaza:								
Bridgeton, MO	(9)	8,012	13,342		21,354	674	02/06/08	1991
HOM Furniture:								
Fargo, ND	4,800	1,155	9,779		10,934	791	01/04/07	2004

Home Depot:								
Bedford Park, IL	(9)	9,024	20,877		29,901	1,286	08/21/07	1992
Lakewood, CO	7,803	9,367			9,367		08/27/08	2006
Colma, CA		17,636	20,114		37,750	655	09/30/08	1995
Infiniti:								
Davie, FL	5,188	3,076	5,410		8,486	478	11/30/06	2006
Jo-Ann Fabrics:								
Alpharetta, GA	(9)	2,578	3,682		6,260	169	08/05/08	2000
Kohl s:								
Wichita, KS	5,200	1,798	6,200	619	8,617	593	09/27/06	1996
Lake Zurich, IL	9,075	1,854	10,086		11,940	654	07/17/07	2000

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Kohl s (Continued):								
Grand Forks, ND	5,080	1,855	5,680		7,535	232	06/11/08	2006
Tilton, NH	3,780	5,640			5,640		3/27/09	(8)
Kroger:								
LaGrange, GA	4,750	1,101	6,032	176	7,309	401	06/28/07	1998
LA Fitness:								
Brooklyn Park, MN	6,049	1,963	7,460		9,423	300	06/17/08	2008
Matteson, IL	6,122	2,628	6,474		9,102	284	07/16/08	2007
Greenwood, IN		2,233	7,670		9,903	299	08/05/08	2007
La-Z-Boy:								
Glendale, AZ	3,415	2,515	2,968		5,483	350	10/25/05	2001
Newington, CT	4,140	1,466	4,979		6,445	375	01/05/07	2006
Kentwood, MI	3,602	1,442	3,702		5,144	271	06/28/07	1986
Lincoln Place:								
Fairview Heights, IL	35,432	6,010	36,738	469	43,217	2,657	04/05/07	1998
Logan s Roadhouse:								
Fairfax, VA	1,117	1,527	1,414		2,941	104	03/28/07	1998
Johnson City, TN	1,933	1,280	1,794		3,074	131	03/28/07	1996
Long John Silvers:								
Houston, TX	(9)	965		120	1,085	7	07/19/07	2004
Lowe s:								
Enterprise, AL	4,859	1,012	5,803		6,815	668	12/01/05	1995
Lubbock, TX	7,475	4,581	6,563		11,144	619	09/27/06	1996
Midland, TX	7,150	3,525	7,332		10,857	683	09/27/06	1996
Cincinnati, OH	13,800	5,592	11,319		16,911	761	07/17/07	1998
Chester, NY	3,962	5,704			5,704		09/19/08	2008
Tilton, NH	12,960	10,800			10,800		3/27/09	(8)

Market Pointe: Papillion, NE		11,626	12,882	29	24,537	554	06/20/08	2007
Marsh Supermarket: Indianapolis, IN		1,842	10,764		12,606	523	02/07/08	1999
Massard Farms: Fort Smith, AR	10,029	4,295	10,755	1	15,051	653	10/11/07	2001
Mealey s Furniture: Maple Shade, NJ	(9)	1,716	3,907	821	6,444	261	12/12/07	2007
Mercedes Benz: Atlanta, GA	(9)	2,623	7,208		9,831	559	12/15/06	2000
Milford Commons: Milford, CT	5,582	7,525	4,257		11,782	235	01/17/08	2005

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Mountainside Fitness:								
Chandler, AZ	(9)	1,177	4,480		5,657	573	02/09/06	2001
Mustang Engineering:								
Houston, TX	7,843	1,859	16,198		18,057	995	01/31/08	1983
Northern Tool & Equipment:								
Blaine, MN	3,185	2,233	2,432		4,665	204	02/28/07	2006
O Reilly Auto Parts:								
Dallas, TX	3,290	1,896	2,904		4,800	216	02/06/07	1970
Office Depot:								
Dayton, OH	2,130	807	2,183		2,990	196	07/07/06	2005
Greenville, MS	2,192	666	2,469		3,135	226	07/12/06	2000
Warrensburg, MO	1,810	1,024	1,540		2,564	196	07/19/06	2001
Benton, AR	2,130	560	2,506		3,066	205	11/21/06	2001
Oxford, MS	2,295	916	2,141		3,057	170	12/01/06	2006
Enterprise, AL	1,850	771	1,635		2,406	124	02/27/07	2006
Alcoa, TN		1,164	2,537		3,701	127	01/31/08	1999
Laurel, MS	(9)	351	2,214		2,565	74	09/30/08	2002
London, KY	(9)	724	2,687		3,411	112	09/30/08	2001
OfficeMax:								
Orangeburg, SC	1,875	590	2,363		2,953	208	02/28/07	1999
Old Time Pottery:								
Fairview Heights, IL	2,140	1,044	2,943		3,987	443	11/21/06	1979
One Pacific Place:								
Omaha, NE	23,400	6,254	27,877	586	34,717	2,941	02/06/07	1988
Oxford Theater:								
Oxford, MS		281	4,051		4,332	350	08/31/06	2006
Payless Shoes:								

Columbia, SC	(9)	568	742	1,310	28	09/30/08	1998
PepBoys:							
Albuquerque, NM	2,236	1,495	1,980	3,475	96	03/25/08	1990
Arlington Heights, IL	3,639	1,379	4,376	5,755	210	03/25/08	1995
Clarksville, IN		1,017	1,492	2,509	75	03/25/08	1993
Colorado Springs, CO	1,580	1,223	1,820	3,043	91	03/25/08	1994
El Centro, CA		1,000	1,202	2,202	58	03/25/08	2006
Fort Myers, FL	1,807	2,121	2,546	4,667	121	03/25/08	1994
Frederick, MD		1,786	2,812	4,598	129	03/25/08	1987
Hampton, VA		2,024	1,757	3,781	86	03/25/08	1993
Lakeland, FL		3,313	1,991	5,304	102	03/25/08	1991
Nashua, NH	2,593	2,415	2,006	4,421	97	03/25/08	1996

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PepBoys (Continued):								
New Hartford, NY	1,404	1,280	1,178		2,458	70	03/25/08	1992
Orem, UT		1,392	1,224		2,616	60	03/25/08	1990
Pasadena, TX		1,703	2,656		4,359	128	03/25/08	1995
Redlands, CA	2,738	1,460	2,918		4,378	138	03/25/08	1994
San Antonio, TX	1,458	905	2,091		2,996	104	03/25/08	1988
Tamarac, FL		1,690	2,106		3,796	100	03/25/08	1997
Tampa, FL	1,141	3,902	2,035		5,937	114	03/25/08	1991
West Warwick, RI		2,429	1,198		3,627	60	03/25/08	1993
Petsmart:								
McCarran, NV		5,151	43,546		48,697	1,661	07/02/08	2008
Chattanooga, TN	2,318	1,136	3,418		4,554	120	08/05/08	1996
Daytona Beach, FL	2,450	1,735	3,270		5,005	115	08/05/08	1996
Fredericksburg, VA	2,423	3,247	2,083		5,330	74	08/05/08	1997
Plastech:								
Auburn Hills, MI		3,283	18,153	(2,881)	18,555	1,610	12/15/05	1995
Pocatello Square:								
Pocatello, ID	17,250	3,262	18,418	(250)	21,430	1,296	04/06/07	2006
Rayford Square:								
Spring, TX	5,940	2,339	6,696	178	9,213	659	03/02/06	1973
Rite Aid:								
Alliance, OH		432	1,446		1,878	182	10/20/05	1996
Enterprise, AL	2,043	920	2,391		3,311	263	01/26/06	2005
Wauseon, OH	2,142	1,047	2,333		3,380	260	01/26/06	2005
Saco, ME	1,375	391	1,989	2	2,382	221	01/27/06	1997
Cleveland, OH	1,413	566	1,753		2,319	197	04/27/06	1997
Fremont, OH	1,388	863	1,435		2,298	157	04/27/06	1997
Defiance, OH	2,321	1,174	2,373		3,547	241	05/26/06	2005

Lansing, MI	1,041	254	1,276	1,530	144	06/29/06	1950
Glassport, PA	2,325	674	3,112	3,786	255	10/04/06	2006
Hanover, PA	4,115	1,924	3,804	5,728	309	10/17/06	2006
Plains, PA	3,380	1,147	3,780	4,927	266	04/16/07	2006
Fredericksburg, VA	2,979	1,522	3,378	4,900	226	05/02/07	2007
Lima, OH	3,103	1,814	2,402	4,216	167	05/14/07	2005
Allentown, PA	3,615	1,635	3,654	5,289	249	05/15/07	2006
Sportsman s Warehouse:							
Wichita, KS		1,586	5,954	7,540	541	06/27/06	2006
DePere, WI	3,907	1,131	4,295	5,426	317	04/20/07	2004

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Staples:								
Crossville, TN	1,885	549	2,134		2,683	297	01/26/06	2001
Peru, IL	1,930	1,285	1,959		3,244	196	11/10/06	1998
Clarksville, IN	2,900	939	3,080		4,019	283	12/29/06	2006
Greenville, SC	2,955	1,718	2,496		4,214	177	04/11/07	2007
Warsaw, IN	1,850	1,084	1,984		3,068	143	05/17/07	1998
Guntersville, AL	2,161	969	2,330		3,299	152	07/06/07	2001
Moraine, OH	(9)	1,168	2,182	(11)	3,339	132	10/12/07	2006
Angola, IN	1,999	457	2,366		2,823	84	09/30/08	1999
Starbucks:								
Covington, TN		563	856		1,419	63	06/22/07	2007
Sedalia, MO	(9)	249	837		1,086	57	06/22/07	2006
Bowling Green, KY	(9)	557	1,005	4	1,566	63	10/23/07	2007
Shawnee, OK	(9)	362	644	4	1,010	42	10/31/07	2006
Oklahoma City, OK		386	725	4	1,115	46	11/20/07	2007
Chattanooga, TN		533	788	5	1,326	49	11/26/07	2007
Maryville, TN	(9)	663	733	4	1,400	46	11/26/07	2007
Powell, TN	(9)	517	728	4	1,249	46	11/26/07	2007
Seymour, TN	(9)	509	752	4	1,265	47	11/26/07	2007
Altus, OK		191	885		1,076	52	01/16/08	2007
Stillwater, OK	(9)	164	990		1,154	54	02/28/08	2007
Memphis, TN		201	1,077		1,278	54	03/04/08	2007
Ponca City, OK		218	778		996	40	03/11/08	2007
Kingsport, TN	(9)	544	733		1,277	39	03/25/08	2008
Stations Casino:								
Las Vegas, NV	42,250	4,976	50,024		55,000	2,722	11/01/07	2007
Taco Bell:								
Anderson, IN	(9)	344	640	(12)	972	59	07/19/07	1995
Brazil, IN	(9)	539	569	(12)	1,096	51	07/19/07	1996
Henderson, KY	(9)	380	946	(13)	1,313	75	07/19/07	1992

Martinsville, IN	(9)	421	633	(12)	1,042	57	07/19/07	1986
Princeton, IN	(9)	287	628	(14)	901	61	07/19/07	1992
Robinson, IN	(9)	300	527	(12)	815	50	07/19/07	1994
Spencer, IN	(9)	216	583	(14)	785	53	07/19/07	1999
Vinceness, IN	(9)	623	648	(16)	1,255	59	07/19/07	2000
Washington, IN	(9)	334	583	(12)	905	54	07/19/07	1995
TelerX Marketing: Kings Mountain, NC	6,083	367	7,795		8,162	533	07/17/07	2007
Three Forks Restaurant: Dallas, TX	6,675	3,641	5,678		9,319	230	06/05/08	1998

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TJ Maxx:								
Staunton, VA	3,116	933	3,082		4,015	108	09/30/08	1988
Tractor Supply:								
Parkersburg, WV	1,793	934	2,050		2,984	255	09/26/05	2005
La Grange, TX	1,405	256	2,091		2,347	193	11/06/06	2006
Livingston, TN	1,725	430	2,360		2,790	216	11/22/06	2006
New Braunfels, TX	1,750	511	2,350		2,861	217	11/22/06	2006
Crockett, TX	1,325	291	1,957		2,248	176	12/01/06	2006
Ankeny, IA	1,950	717	1,984		2,701	171	02/09/07	2006
Greenfield, MN	2,228	1,311	2,367		3,678	166	04/02/07	2006
Marinette, WI	1,918	448	2,123		2,571	171	04/10/07	2006
Paw Paw, MI	2,048	537	2,349		2,886	165	04/10/07	2006
Navasota, TX	2,050	348	2,368		2,716	186	04/18/07	2006
Fredericksburg, TX	2,031	593	2,235	(1)	2,827	151	05/08/07	2007
Fairview, TN	1,931	449	2,234	(1)	2,682	151	05/25/07	2007
Baytown, TX	2,251	808	2,212	(1)	3,019	145	06/11/07	2007
Prior Lake, MN	3,283	1,756	2,948	98	4,802	199	06/29/07	1991
Rome, NY	1,774	1,231	1,747		2,978	89	01/04/08	2003
Clovis, NM	1,932	695	2,129		2,824	96	04/07/08	2007
Carroll, OH	1,123	798	1,030		1,828	92	05/08/08	1976
Baldwinsville, NY	1,942	1,110	1,938		3,048	64	10/15/08	2005
LaGrange, KY		584	2,322		2,906	82	11/19/08	2008
Victoria Crossing:								
Victoria, TX	8,288	2,207	9,531	13	11,751	736	01/12/07	2006
Wadsworth Boulevard:								
Denver, CO	12,025	4,723	12,728	237	17,688	1,291	02/06/06	1991
Walgreens:								
Brainerd, MN	2,814	981	2,882		3,863	347	10/05/05	2000
Florissant, MO	3,372	1,482	3,205		4,687	342	11/02/05	2001

St Louis (Gravois), MO	3,999	2,220	3,305		5,525	353	11/02/05	2001
St Louis (Telegraph), MO	3,289	1,745	2,875		4,620	307	11/02/05	2001
Columbia, MO	3,806	2,353	3,351		5,704	381	11/22/05	2002
Olivette, MO	4,747	3,077	3,798		6,875	420	11/22/05	2001
Knoxville, TN	3,088	1,826	2,465		4,291	260	05/08/06	2000
Picayune, MS	2,766	1,212	2,548		3,760	224	09/15/06	2006
Cincinnati, OH	3,341	1,335	3,272		4,607	237	03/06/07	2000
Madeira, OH	2,876	1,060	2,911		3,971	212	03/06/07	1998
Sharonville, OH	2,655	1,203	2,836	352	4,391	228	03/06/07	1998
Shreveport, LA	2,815	477	2,648	(1)	3,124	191	03/23/07	1998
Bridgetown, OH	3,043	1,537	2,356		3,893	169	04/30/07	1998

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Walgreens (Continued):								
Dallas, TX	2,175	992	2,749	619	4,360	227	05/09/07	1996
Bryan, TX	4,111	783	4,792	(4)	5,571	320	05/18/07	2001
Harris County, TX	3,673	1,651	3,007		4,658	209	05/18/07	2000
Gainesville, FL	2,465	1,079	2,398		3,477	157	06/01/07	1997
Kansas City (63rd St), MO	3,035	1,255	2,944	364	4,563	206	07/11/07	2000
Kansas City (Independence), MO	2,990	1,233	3,066	1	4,300	194	07/11/07	1997
Kansas City (Linwood), MO	2,438	1,066	2,634	202	3,902	177	07/11/07	2000
Kansas City (Troost), MO	2,464	1,149	3,288	1	4,438	207	07/11/07	2000
Topeka, KS	1,870	860	2,142		3,002	135	07/11/07	1999
Fort Worth, TX	3,675	276	2,982	1	3,259	185	07/17/07	1992
Richmond, VA	(9)	745	2,902		3,647	184	08/17/07	1997
Dallas, TX	(9)	367	2,214	(1)	2,580	133	08/27/07	1997
Brentwood, TN	3,465	2,904	2,179	(74)	5,009	125	10/17/07	2006
Harriman, TN	3,209	1,133	3,526		4,659	199	10/24/07	2007
Beverly Hills, TX	2,185	1,286	2,562	691	4,539	167	12/05/07	2007
Waco, TX	2,185	1,138	2,683	700	4,521	174	12/05/07	2007
Cincinnati (Seymour), OH	(9)	756	2,587		3,343	142	12/21/07	2000
Oneida, TN	3,171	555	3,938		4,493	193	02/29/08	2007
Batesville, MS	3,359	1,558	3,265		4,823	155	03/31/08	2007
Elmira, NY	3,836	1,996	3,831		5,827	163	05/01/08	2007
Hibbing, MN	2,564	1,048	2,763		3,811	115	05/14/08	2007
Essex, MD	3,933	1,208	4,725		5,933	193	05/30/08	2007
Bath, NY	2,589	1,114	2,924		4,038	118	06/02/08	2008
Chino Valley, AZ	3,282	1,779	3,014		4,793	118	06/02/08	2007

Albany, GA	2,791	929	3,177		4,106	129	06/11/08	2008
Rome, NY	2,758	1,170	3,121		4,291	120	07/15/08	2007
Columbus, MS	2,731	1,193	2,831		4,024	113	07/24/08	2004
Mobile, AL	2,805	1,654	3,286		4,940	121	08/28/08	2007
Akron, OH		565	1,961	16	2,542	70	09/30/08	1994
Broken Arrow, OK	935	770	1,274		2,044	48	09/30/08	1993
Crossville, TN	2,753	878	3,154		4,032	118	09/30/08	2001
Jacksonville, FL	2,695	1,044	4,178		5,222	143	09/30/08	2000
LaMarque, TX	2,213	450	3,461		3,911	117	09/30/08	2000
Newton, IA		505	3,456		3,961	118	09/30/08	2000
Saginaw, MI	2,213	801	2,977		3,778	103	09/30/08	2001
Seattle, WA	3,355	2,944	3,206		6,150	109	09/30/08	2002
Tulsa, OK	1,926	651	2,168		2,819	77	09/30/08	1994
Tulsa, OK	985	192	1,935		2,127	69	09/30/08	1993

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Walgreens (Continued):								
Evansville, IN	2,423	1,131	2,898		4,029	82	11/25/08	2007
Austin, MN	3,531	1,049	1,940		2,989	39	3/27/09	2002
Canton, IL	4,429	842	3,046		3,888	63	3/27/09	2006
Galloway, OH	4,250	1,055	2,834		3,889	59	3/27/09	2003
Humble, TX	4,395	1,092	3,027		4,119	61	3/27/09	2003
Memphis, TN	5,058	693	3,827		4,520	79	3/27/09	2002
Parkville, MO	4,274	1,461	2,243		3,704	47	3/27/09	2006
San Antonio, TX	4,060	991	3,005		3,996	61	3/27/09	2004
Toledo, OH	5,400	1,208	3,469		4,677	71	3/27/09	2005
Antioch, TN	4,425	479	3,411		3,890	70	3/31/09	2002
Decatur, IL	4,003	680	2,989		3,669	62	3/31/09	2005
Long Beach, MS	3,662	791	2,600		3,391	53	3/31/09	2005
Roselle, NJ	5,742	1,632	3,746		5,378	75	3/31/09	2002
Saraland, AL	5,079	1,415	3,187		4,602	65	3/31/09	2003
Wal-Mart:								
Anderson, SC	8,160	3,265	8,442	1,271	12,978	660	05/08/07	1993
New London, WI	1,778	658	1,938	135	2,731	145	05/09/07	1991
Spencer, IN	1,377	612	1,427	176	2,215	113	05/23/07	1987
Bay City, TX	(9)	637	2,558	(6)	3,189	161	08/14/07	1990
Washington, IL	(9)	1,043	2,386	118	3,547	156	09/10/07	1989
Borger, TX	(9)	932	1,828	(11)	2,749	112	09/12/07	1991
Whiteville, NC	(9)	854	1,357	(8)	2,203	95	10/11/07	1988
WaWa:								
Hockessin, DE	2,709	1,850	2,000		3,850	219	03/29/06	2000
Manahawkin, NJ	2,617	1,359	2,360		3,719	212	03/29/06	2000
Narberth, PA	2,422	1,659	1,782		3,441	196	03/29/06	2000
Wehrenberg Theatre:								
Arnold, MO	(9)	2,798	4,604	10	7,412	434	06/14/06	1998
Weston Shops:								
Weston, FL	6,029	6,034	9,573		15,607	383	07/30/08	2007

Wickes Furniture: Chicago, IL	15,925	9,896	11,282	(11,378)	9,800	312	10/17/07	2007
WinCo Foods: Eureka, CA	11,247	4,277	10,919	380	15,576	738	06/27/07	1960
Winter Garden Village: Winter Garden, FL	105,700	22,862	151,385	316	174,563	5,097	09/26/08	2007
TOTAL	1,501,861	785,581	2,049,412	(4,033)	2,830,960	122,887		

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COLE CREDIT PROPERTY TRUST II, INC.
SCHEDULE III REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION (Continued)
December 31, 2009
(in thousands)

Description (1)	Encumbrances	Initial Costs to Company Land	Buildings and Improvements	Total Adjustments to Basis	Gross Amount at Which Carried at December 31, 2009 (2) (3) (5)	Accumulated Depreciation (4) (6)	Date Acquired	Date Constructe
Real Estate Held for Investment the Company has Invested in Under Direct Financing Leases (7):								
Academy Sports:								
Houston, TX	3,825	3,953	1,952	1	5,906		06/27/07	1995
Baton Rouge, LA	4,687	2,719	6,014	1,937	10,670		07/19/07	1996
Houston (Breton), TX	3,045	1,194	4,675	1	5,870		07/19/07	1995
Houston (Southwest), TX	4,625	3,377	5,066	2,570	11,013		07/19/07	1996
North Richland Hills, TX	4,217	2,097	5,693		7,790		07/19/07	1996
Best Buy:								
Evanston, IL	5,900	3,661	6,984	2	10,647		06/27/07	1996
Warwick, RI	5,350	3,948	9,544		13,492		06/27/07	1992
CVS:								
Amarillo, TX	1,741	832	2,563		3,395		07/19/07	1994
Del City, OK	2,631	1,085	4,496		5,581		07/19/07	1998
Eckerd:								
Mantua, NJ	1,470	943	1,495	2	2,440		06/27/07	1993
Vineland, NJ	3,500	2,353	4,743		7,096		06/27/07	1997
Chattanooga, TN	1,920	1,023	2,976		3,999		07/19/07	1997
Mableton, GA	1,197	716	1,699		2,415		07/19/07	1994
TOTAL	44,108	27,901	57,900	4,513	90,314			

(1) As of December 31, 2009, we owned 397 single-tenant, freestanding retail properties,

275 single-tenant, freestanding commercial properties, and 21 multi-tenant retail properties.

(2) The aggregate cost for federal income tax purposes is approximately $3.2 billion.

(3) The following is a reconciliation of total real estate carrying value for the years ended December 31 (in thousands):

	2009	2008	2007
Balance at beginning of period	$ 2,834,730	$ 1,606,722	$ 396,523
Additions			
Acquisitions	97,167	1,218,764	1,213,047
Improvements	3,558		
Adjustments to basis		13,024	
Total additions	100,725	1,231,788	1,213,047
Deductions			
Cost of real estate sold		440	
Adjustments to basis	2,563		
Other (including provisions for impairment of real estate assets)	11,618	3,340	2,848
Total Deductions	14,181	3,780	2,848
Balance at close of period	$ 2,921,274	$ 2,834,730	$ 1,606,722

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COLE CREDIT PROPERTY TRUST II, INC.
SCHEDULE III REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION (Continued)
December 31, 2009
(in thousands)

(4) The following is a reconciliation of accumulated depreciation for the years ended December 31 (in thousands):

	2009	2008	2007
Balance at beginning of period	$ 67,326	$ 24,882	$ 4,547
Additions			
Acquisitions	56,049	42,645	20,460
Improvements	59		
Adjustments to basis		3	
Total additions	56,108	42,648	20,460
Deductions			
Cost of real estate sold			
Other (including provisions for impairment of real estate assets)	547	204	125
Total Deductions	547	204	125
Balance at close of period	$ 122,887	$ 67,326	$ 24,882

(5) In 2009, 2008 and 2007, provisions for impairment were recorded on one property.

(6) The Company s assets are depreciated or amortized using the straight-line method over the useful lives of the assets by class. Generally, tenant improvements

and lease intangibles are amortized over the respective lease term and buildings are depreciated over 40 years.

(7) For financial reporting purposes, the lease has been recorded as a direct financing lease; therefore, depreciation is not applicable.

(8) Subject to a ground lease and therefore date constructed is not applicable.

(9) Part of the Credit Facility s underlying collateral pool of 55 commercial properties. As of December 31, 2009, the Company had approximately $33.0 million outstanding under the Credit Facility.

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COLE CREDIT PROPERTY TRUST II, INC.
SCHEDULE IV MORTGAGE LOANS ON REAL ESTATE
December 31, 2009

Mortgage Loans Receivable	Description	Location	Interest Rate	Final Maturity Date	Periodic Payment Terms (1)	Prior Liens	Face Amount of Mortgages (in thousands)	Carrying Amount of Mortgages (2) (in thousands)
Cracker Barrel Notes	Retail	(3)	9.84%	8/1/2020	P & I	None	$ 44,046	$ 46,486
KFC Notes	Retail	(4)	10.47%	10/1/2020	P & I	None	20,206	22,260
O Reilly Notes	Retail	(5)	8.60-9.35%	1/1/2021	P & I	None	12,555	13,754
							$ 76,807	$ 82,500

* No individual mortgage loan exceeds 3 percent of the total of the carrying amount for all mortgage loans.

(1) P & I = Principal and interest payments.

(2) The aggregate cost for federal income tax purposes is approximately $83.9 million.

(3) The Cracker Barrel Notes are secured by 23 restaurant properties located in 16

states.

(4) The KFC Notes are secured by 20 restaurant properties located in nine states.

(5) The O Reilly Notes are secured by 26 commercial retail properties located in two states.

The following shows changes in the carrying amounts of mortgage loans receivable during the period (in thousands):

Balance at December 31, 2008	$ 84,994
Additions:	
New mortgage loans	
Premium on new mortgage loans and capitalized loan costs	
Acquisition costs related to investment in mortgage notes receivable	
Deductions:	
Collections of principal	(1,823)
Amortization of premium and capitalized loan costs	(671)
Balance at December 31, 2009	$ 82,500

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SIGNATURES

Pursuant to the requirements of Sections 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 this 29th day of March 2010.

Cole Credit Property Trust II, Inc.

Date: March 29, 2010

By: /s/ CHRISTOPHER H. COLE
Christopher H. Cole
Chief Executive Officer and President
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following person on behalf of the Registrant and in the capacity as and on the date indicated.

Signature	Title	Date
/s/ CHRISTOPHER H. COLE Christopher H. Cole	Chief Executive Officer and President (Principal Executive Officer)	March 29, 2010
/s/ D. KIRK MCALLASTER, JR. D. Kirk McAllaster, Jr.	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 29, 2010
/s/ MARCUS E. BROMLEY Marcus E. Bromley	Director	March 29, 2010
/s/ ELIZABETH L. WATSON Elizabeth L. Watson	Director	March 29, 2010

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EXHIBIT INDEX

The following exhibits are included, or incorporated by reference, in this Annual Report on Form 10-K for the year ended December 31, 2009 (and are numbered in accordance with Item 601 of Regulation S-K).

Exhibit No.	Description
3.1	Fifth Articles of Amendment and Restatement, as corrected. (Incorporated by reference to Exhibit 3.1 of the Company s Form 10-K (File No. 333-121094), filed on March 23, 2006).
3.2	Amended and Restated Bylaws. (Incorporated by reference to Exhibit 99.1 to the Company s Form 8-K (File No. 333-121094), filed on September 6, 2005).
3.3	Articles of Amendment to Fifth Articles of Amendment and Restatement. (Incorporated by reference to Exhibit 3.3 of the Company s Form S-11 (File No. 333-138444), filed on November 6, 2006).
4.1	Form of Subscription Agreement and Subscription Agreement Signature Page. (Incorporated by reference to Exhibit 4.1 to the Company s post-effective amendment to Form S-11 (File No. 333-138444), filed on February 1, 2008).
4.2	Form of Additional Investment Subscription Agreement. (Incorporated by reference to Exhibit 4.2 to the Company s post-effective amendment to Form S-11 (File No. 333-138444), filed on February 1, 2008).
10.1	2004 Independent Directors Stock Option Plan. (Incorporated by reference to Exhibit 10.5 to the Company s Form S-11 (File No. 333-121094), filed on December 9, 2004).
10.2	Form of Stock Option Agreement under 2004 Independent Directors Stock Option Plan. (Incorporated by reference to Exhibit 10.6 to the Company s pre-effective amendment to Form S-11 (File No. 333-121094), filed on April 11, 2005).
10.3	Amended and Restated Property Management and Leasing Agreement, dated September 16, 2005, by and among Cole Credit Property Trust II, Inc., Cole Operating Partnership II, LP and Fund Realty Advisors, Inc. (Incorporated by reference to Exhibit 10.1 to the Company s Form 8-K (File No. 333-121094), filed on September 23, 2005).
10.4	Amended and Restated Advisory Agreement, dated September 16, 2005, by and between Cole Credit Property Trust II, Inc. and Cole REIT Advisors II, LLC. (Incorporated by reference to Exhibit 10.2 to the Company s Form 8-K (File No. 333-121094), filed on September 23, 2005).
10.5	Amended and Restated Agreement of Limited Partnership of Cole Operating Partnership II, LP, dated September 16, 2005, by and between Cole Credit Property Trust II, Inc. and the limited partners thereto. (Incorporated by reference to Exhibit 10.3 to the Company s Form 8-K (File No. 333-121094), filed on September 23, 2005).
10.6	Amended and Restated Distribution Reinvestment Plan. (Incorporated by reference to Exhibit 10.6 to the Company s pre-effective amendment to Form S-11 (File

No. 333-138444), filed on May 10, 2007).

10.7	First Amendment to Amended and Restated Advisory Agreement, dated April 17, 2006, between Cole Credit Property Trust II, Inc. and Cole REIT Advisors II, LLC. (Incorporated by reference to Exhibit 10.1 to the Company s Form 10-Q (File No. 000-51963), filed on May 12, 2006).
10.8	Form of Dealer Manager Agreement. (Incorporated by reference to Exhibit 1.1 to the Company s pre-effective amendment to Form S-11 (File No. 333-138444), filed on April 12, 2007).
10.9	First Amendment to Amended and Restated Property Management and Leasing Agreement, dated May 9, 2007, by and among Cole Credit Property Trust II, Inc., Cole Operating Partnership II, LP and Cole Realty Advisors, Inc. (Incorporated by reference to Exhibit 10.10 to the Company s pre-effective amendment to Form S-11 (File No. 333-138444), filed on May 10, 2007).
10.10	First Amendment to Amended and Restated Agreement of Limited Partnership of Cole Operating Partnership II, LP, dated May 9, 2007, by and between Cole Credit Property Trust II, Inc. and the limited partners thereto. (Incorporated by reference to Exhibit 10.11 to the Company s pre-effective amendment to Form S-11 (File No. 333-138444), filed on May 10, 2007).
10.11	Second Amendment to Amended and Restated Property Management and Leasing Agreement, dated June 1, 2008, by and among Cole Credit Property Trust II, Inc., Cole Operating Partnership II, LP and Cole Realty Advisors, Inc. (Incorporated by reference to Exhibit 10.12 to the Company s post-effective amendment to Form S-11 (File No. 333-138444), filed on July 29, 2008).

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Exhibit No.	Description
10.12	Credit Agreement dated as of May 23, 2008 among Cole Operating Partnership II, LP, as Borrower and Bank of America N.A. as Administrative Agent, Banc of America Securities, LLC as Sole Lead Arranger and Sole Book Manager and JP Morgan Chase Bank, N.A. as Syndication Agent (Incorporated by reference to Exhibit 10.1 to the Company s Form 10-Q (File No. 000-51963), filed on August 14, 2008).
10.13	Second Amended and Restated Distribution Reinvestment Plan (Incorporated by reference to Exhibit 4.1 to the Company s Form S-3 (File No. 333-153578), filed on September 18, 2008).
14.1	Cole Credit Property Trust II, Inc. Code of Business Conduct and Ethics. (Incorporated by reference to Exhibit 14.1 to the Company s Form 10-K (file No. 000-51963), filed on March 23, 2006).
21.1	List of Subsidiaries. (Incorporated by reference to Exhibit 21.1 to the Company s POS AM (File No. 333-121094), filed on December 20, 2006).
23.1*	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.
31.1*	Certification of the Chief Executive Officer of the Company pursuant to Securities Exchange Act Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2*	Certification of the Chief Financial Officer of the Company pursuant to Securities Exchange Act Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1**	Certification of the Chief Executive Officer and Chief Financial Officer of the Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

* Filed herewith.

** In accordance with Item 601(b)(32) of Regulation S-K, this Exhibit is not deemed filed for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section. Such

certifications will not be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.