Cole Credit Property Trust II Inc
Form 10-K
March 07, 2013

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

x	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the fiscal year ended December 31, 2012
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)
2325 East Camelback Road, Suite 1100 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 x
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 x
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 x 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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 Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer o Accelerated filer o Non-accelerated filer x 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 x

There is no established market for the registrant's shares of common stock. There were approximately 210.1 million shares of common stock held by non-affiliates as of June 30, 2012, the last business day of the registrant's most recently completed second fiscal quarter.

The number of shares of common stock outstanding as of March 6, 2013 was 208,584,611.

Documents Incorporated by Reference:

The Registrant incorporates by reference portions of the Cole Credit Property Trust II, Inc. definitive joint proxy statement/prospectus to be filed with the SEC with respect to the Registrant's 2013 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," "estimate," "continue," or other similar words. Forward-looking statements that were true at the time made may ultimately prove to be incorrect or false. We caution readers not to place undue reliance on forward-looking statements, which reflect our management's view only as of the date this Annual Report on Form 10-K is filed with the Securities and Exchange Commission (the "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. Additionally, 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 "Item 1A – Risk Factors" 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 29, 2004, that elected to be taxed, and currently qualifies, as a real estate investment trust ("REIT") for federal income tax purposes. 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, 2012, we owned 752 properties comprising 21.2 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, 2012, the rentable space at these properties was 96% leased. As of December 31, 2012, we also owned 69 mortgage notes receivable secured by 43 restaurant properties and 26 single-tenant retail properties, each of which is subject to a net lease.

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 a 99.99% partnership 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.

Our sponsor, Cole Real Estate Investments, which is comprised of a group of affiliated entities, including our advisor, has sponsored various real estate investment programs, including Cole Credit Property Trust, Inc. ("CCPT"), Cole Credit Property Trust III, Inc. ("CCPT III"), Cole Corporate Income Trust, Inc. ("CCIT"), Cole Real Estate Income Strategy (Daily NAV), Inc. ("Cole Income NAV Strategy") and Cole Credit Property Trust IV, Inc. ("CCPT IV"). Pursuant to an advisory agreement, Cole Advisors II, an affiliate of our sponsor, is responsible for managing our affairs on a day-to-day basis and for identifying and making acquisitions and investments on our behalf. Our charter provides that our independent directors are responsible for reviewing the performance of our advisor and determining whether the compensation paid to our advisor and its affiliates is reasonable. The advisory 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 of 1933, as amended (the "Initial Offering"). We commenced our principal operations on September 23, 2005, when we satisfied our escrow requirements and 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. The Registration Statement also covered up to 5,000,000 shares available pursuant to a distribution reinvestment plan (the "DRIP") under which our stockholders were able to 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 an amendment to our 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 $541.4 million and a maximum of 1,202,000 shares was available under the DRIP for an aggregate offering price of $11.4 million.

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 $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 to us of $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. All unsold shares in the Follow-on Offering were deregistered.

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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"). Our DRIP provides that reinvestments of distributions will be made at a price equal to the most recent estimated per share value of our common stock as determined by our board of directors ("Estimated Share Value"). On June 22, 2010 our board of directors established an Estimated Share Value of $8.05, and on July 27, 2011, our board of directors established a new Estimated Share Value of $9.35.

On December 6, 2012, our board of directors, including all of its independent directors, voted to suspend the DRIP and the share redemption program. Beginning with the distributions previously authorized by our board of directors for the month of December 2012, which were paid in January 2013, and continuing until such time as our board of directors may approve the resumption of the DRIP, all distributions authorized by our board of directors are to be paid to our stockholders in cash. As a result of the suspension of the share redemption program, all redemption requests received from stockholders during the fourth quarter of 2012 on or before December 6, 2012 and that were determined by us to be in good order on or before December 12, 2012 were honored in accordance with the terms, conditions and limitations of the share redemption program. We did not process or accept any requests for redemption received after December 6, 2012 and will not process or accept any future requests until such time as our board of directors may approve resumption of the share redemption program.

As of December 31, 2012, we had issued 28,877,523 shares of our common stock in the DRIP Offering, resulting in gross proceeds of $261.3 million. Combined with the gross proceeds from the Initial Offering and Follow-on Offering, we had aggregate gross proceeds from the Offerings of $2.3 billion (including shares sold pursuant to the DRIP) as of December 31, 2012, before offering costs, selling commissions, and dealer management fees of $188.3 million and before share redemptions of $206.1 million.

On January 22, 2013, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Spirit Realty Capital, Inc. ("Spirit"), a publicly-listed REIT. The Merger Agreement provides for the merger of Spirit with and into the Company, with the Company as the surviving corporation (the "Merger"). Upon consummation of the Merger, Spirit stockholders will receive 1.9048 shares of our common stock for each share of Spirit common stock they own (which equates to an inverse exchange ratio of 0.525 shares of Spirit common stock for each share of the Company's common stock) and each share of our common stock will remain an issued and outstanding share of the combined company. Upon the closing of the Merger, the combined company will list its shares on the New York Stock Exchange and trade under Spirit's existing ticker "SRC". Upon consummation of the Merger, the board of directors of the combined company will consist of all seven of Spirit's board members combined with two board members designated by the Company. In addition, Spirit's management will oversee the ongoing operations of the combined Company. After the Merger is consummated, Cole Advisors II and Spirit may enter into a transition services agreement whereby Cole Advisors II would provide property and asset management services on Spirit's behalf or for Spirit for amounts agreed upon by the parties. Refer to Note 2 to our consolidated financial statements in this Annual Report on Form 10-K for further discussion regarding the Merger.

There are no assurances that the proposed Merger will be consummated on the expected timetable, or at all. If the Merger is consummated, it is expected to significantly change the scope of our business and as a result our 2012 results of operations may not necessarily be representative of our future results of operations. Unless otherwise stated, all disclosures and discussion in this Form 10-K do not include the expected effects of the Merger.

On January 23, 2013, our board of directors established an Estimated Share Value of $9.45 per share. In determining this Estimated Share Value, the board primarily considered that the exchange ratio agreed to by the parties to the Merger was the result of arm's length negotiations that occurred over a period of time leading up to the execution of the Merger Agreement. In making its determination, the board also considered the recent trading history of Spirit's common stock, and noted the volume-weighted average price of Spirit's common stock from December 24, 2012, the date of its inclusion in the Russell 2000 Index, through January 22, 2013, the date on which the Merger was announced. Refer to Part II, Item 5 of this Annual Report on Form 10-K, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities – Market Information," for additional information.

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, commercial mortgage backed securities ("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.

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

Decisions relating to the purchase or sale of our investments are made by our advisor, subject to oversight by our board of directors, a majority of whom are independent directors. Our board of directors may revise our investment policies, as described below, without the concurrence of our stockholders. However, our board of directors will not amend our charter, including any investment policies that are provided in our charter, without the concurrence of a majority of the outstanding shares, except for amendments that do not adversely affect the rights, preferences and privileges 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

Types of Investments

We invest primarily in freestanding, single-tenant, retail properties under long-term net leases to investment grade and other creditworthy tenants. We also invest in multi-tenant retail “power centers” and single tenant office and industrial properties under long-term net leases to investment grade and other creditworthy tenants. In addition, we have acquired, and may continue to acquire mortgage loans secured by similar types of commercial properties in our portfolio.

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 national big box retailers and smaller national and regional retail establishments and other multi-tenant retail properties that complement 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 also 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 under long-term leases 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 retail properties and single-tenant net leased office and industrial properties that complement 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.

To the extent feasible, we have acquired a well-balanced portfolio diversified by geographic location, age of the property and lease maturity. We pursued, and continue to pursue, properties with tenants that represent a variety of industries so as to avoid concentration in any one industry. These industries include all types of retail establishments, such as “big box” retailers, convenience stores, drug stores and restaurant properties. Tenants of our properties are diversified between national, regional and local brands. We generally target 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 has enabled 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.

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There is no limitation on the number, size or type of properties that we may acquire, or on the percentage of net proceeds of the Offerings that 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 have incurred, and may continue to incur, debt to acquire properties if our advisor 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.

Real Estate Underwriting Process

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. The underwriting process includes analyzing the financial data and other available information about the tenant, such as income statements, balance sheets, net worth, cash flow, business plans, data provided by industry credit rating services, and/or other information our advisor may deem relevant. 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.

In evaluating the credit worthiness of a tenant or prospective tenant, our advisor may not always use specific quantifiable standards, and may consider many factors, including debt ratings obtained from debt rating agencies, such as Moody's Investors Service ("Moody's") and Standard & Poor's Financial Services, LLC ("Standard & Poor's"), and/or the proposed terms of the acquisition. A tenant will be considered "investment grade" when the tenant has a debt rating by Moody's of Baa3 or better or a credit rating by Standard & Poor's of BBB- or better, or its payments are guaranteed by a company with such rating. Changes in tenant credit ratings, coupled with future acquisition and disposition activity, may increase or decrease our concentration of investment grade tenants in the future.

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

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

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

Other creditworthy tenants are tenants with financial profiles that our advisor believes meet our investment objectives. In evaluating the credit worthiness of a tenant or prospective tenant, our advisor does not use specific quantifiable standards, but does consider many factors, including 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.

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Description of Leases

The majority of our properties are 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 of the building, 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 initial lease terms of ten years or more at the time of acquisition. We have acquired and in the future we may continue to acquire 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 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 investments will be properties of the types described above, we have made and may continue to 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 have invested and may continue to invest in other commercial properties such as business and industrial parks, 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 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 oversight 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:

- tenant rolls and tenant creditworthiness;
- a property condition report;
- unit level store performance;
- property location, visibility and access;
- age of the property, physical condition and curb appeal;
- neighboring property uses;
- local market conditions including vacancy rates;
- area demographics, including trade area population and average household income;
- neighborhood growth patterns and economic conditions;
- 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, termination options, projected net cash flow yield and projected internal rates of return.

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. Our advisor also will consider non-rated and non-investment grade rated tenants that we consider creditworthy, as described in "– Real Estate Underwriting Process" above.

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 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 "Item 1A – Risk Factors – General Risks Related to Investments in Real Estate" for additional information.

Ownership Structure

Our investment in real estate generally takes the form of holding fee title or a long-term leasehold estate. In addition, we have invested in mortgages acquired in the secondary market and secured by commercial properties. We have acquired our real estate investments 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 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 may enter into joint ventures, partnerships, co-tenancies and other co-ownership arrangements with affiliated entities of our advisor, including other real estate programs sponsored by affiliates of our advisor, for the acquisition, development or improvement of properties or the acquisition of other real estate-related investments. We have and may continue to 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, our advisor will evaluate the underlying real property or other real estate-related investment using the same criteria described above in "– Real Estate Investment Decisions" for the selection of our real property investments. Our advisor also will evaluate the joint venture or co-ownership partner and the proposed terms of the joint venture or a co-ownership arrangement.

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.

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Cole Advisors II and its officers and key persons may have conflicts of interest in determining which real estate program sponsored by our sponsor, Cole Real Estate Investments, 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 another Cole-sponsored program, Cole Advisors II may face a conflict in structuring the terms of the relationship between our interests and the interest of the co-venturer and in managing the joint venture. Since Cole Advisors II and its affiliates will control both the 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 enter into joint ventures with other real estate programs sponsored by Cole Real Estate Investments 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 unaffiliated 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 of America ("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. Our advisor has substantial discretion with respect to the financing we obtain, subject to our borrowing policies, which are approved by our board of 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.

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Beginning in late 2007, domestic and international financial markets experienced significant disruptions that were brought about in large part by challenges in the world-wide banking system. These disruptions severely impacted the availability of credit and contributed to rising costs associated with obtaining credit. Since 2010, the volume of mortgage lending for commercial real estate has been increasing and lending terms have improved and they continue to improve; however, such lending activity continues to be significantly less than previous levels. Although lending market conditions have improved, certain factors continue to negatively affect the lending environment, including the sovereign credit issues of certain countries in the European Union. 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. For properties for which we are able to obtain financing, the interest rates and other terms on such loans may be unacceptable. Additionally, if we are able to refinance our existing debt as it matures, it may be at lower leverage levels or at rates and terms which 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, each of which may adversely affect our results of operations and the distribution rate we are able to pay to our investors. We have managed, and expect to continue to manage, the current mortgage lending environment by utilizing borrowings on our $350.0 million line of credit (the “Credit Facility”), and considering alternative lending sources, including the securitization of debt, utilizing fixed rate loans, 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 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 years ended December 31, 2012 and 2011 we did not acquire any properties or borrow any funds from Cole Advisors II or its affiliates.

Disposition Policies

We intend to hold each property we acquire for an extended period of time, generally eight to ten years from the time of acquisition. Holding periods for other real estate-related investments will vary. However, circumstances might arise that could result in the early sale of some properties. We may sell a property before the end of the expected holding period if we believe the sale of the property would be in the best interests of our stockholders. The determination of whether a particular property should be sold or otherwise disposed of will be made after consideration of relevant factors, including prevailing economic conditions and current tenant creditworthiness, with a view to achieving maximum capital appreciation. There can be no assurance that this objective will be realized. The selling price of a property that is net leased will be determined in part by the amount of rent payable remaining under the lease and the economic conditions at that time. In connection with our sales of properties, we may lend the purchaser all or a portion of the purchase price. In these instances, our taxable income may exceed the cash received in the sale. The terms of payment will be affected by customs in the area in which the property being sold is located and the then-prevailing economic conditions.

Acquisition of Properties from Affiliates of our Advisor

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 of our advisor unless a majority of our directors (including a majority of our independent directors) not otherwise interested in the transaction 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 of our advisor as well as property held by such 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 of our advisor 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 years ended December 31, 2012 and 2011, we did not purchase any properties from our advisor or its affiliates.

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 we will compensate our advisor and its affiliates. While our independent directors will act on our behalf, our agreements and compensation arrangements with our advisor and its affiliates may not be determined by arm's-length negotiations, since the approval process may be impacted by the fact that our stockholders invested with the understanding and expectation that an affiliate of Cole Real Estate Investments would act as our advisor. Some of the potential conflicts of interest in our transactions with our advisor and its affiliates, and certain conflict resolution procedures set forth in our charter, are described below.

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Our officers and affiliates of our advisor will try to balance our interests with the interests of other real estate programs sponsored by Cole Real Estate Investments. However, to the extent that these persons 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 and Other Concurrent Offerings

Affiliates of our advisor act as an advisor to, and Christopher H. Cole, our chairman, president and chief executive officer, and D. Kirk McAllaster, Jr., our executive vice president, chief financial officer and treasurer, act as officers and/or directors of CCPT, CCPT III, CCIT, CCPT IV, and Cole Income NAV Strategy, each a real estate investment trust that has investment objectives and targeted assets similar to ours. In addition, one of our independent directors also is an independent director of CCIT; and our other independent director also is an independent director of Cole Income NAV Strategy. CCPT, CCPT III and CCPT IV focus primarily on the retail sector, CCIT is focused on the office and industrial sectors, and Cole Income NAV Strategy focuses on the retail, office and industrial sectors. CCPT is no longer offering shares for investment, and currently is not pursuing acquisitions of additional properties. 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.

CCPT III commenced sales of its common stock pursuant to a follow-on offering of 275,000,000 shares of its common stock after the termination its initial public offering on October 1, 2010. CCPT III ceased issuing shares in its follow-on offering on April 27, 2012; all remaining unsold shares in CCPT III’s follow-on offering were deregistered. CCPT III continues to sell shares pursuant to its distribution reinvestment plan and continues to invest in real estate. CCIT commenced sales of its common stock in its initial public offering on February 10, 2011. Cole Income NAV Strategy commenced sales of its common stock in its initial public offering on December 6, 2011. CCPT IV’s initial public offering of up to 250,000,000 shares of common stock was declared effective by the SEC on January 26, 2012 and it commenced sales of its common stock in the offering on March 1, 2012. It is likely that potential acquisitions which may be appropriate for CCPT III, CCIT, CCPT IV and Cole Income NAV Strategy may also be appropriate for us.

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 investment objectives and policies similar to ours. 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, as well as our officers and our affiliated directors, likely will experience conflicts of interest as they simultaneously perform services for us and other real estate programs sponsored by Cole Real Estate Investments. Any Cole sponsored real estate program, 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 such programs own or acquire property that is adjacent, or in close proximity, to a property we own, our property may compete with other program’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 such affiliate in the event of a default by or disagreement with the affiliate or in invoking powers, rights or options pursuant to any agreement between us and our advisor, any of its affiliates or another real estate program sponsored by Cole Real Estate Investments.

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 real estate programs sponsored by Cole Real Estate Investments 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 real estate programs sponsored by Cole Real Estate Investments 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 real estate programs sponsored by Cole Real Estate Investments and other ventures in which they are involved.

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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 their affiliates. 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.

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 real estate programs sponsored by Cole Real Estate Investments are located. In such a case, a conflict could arise in the leasing of properties in the event that we and another real estate program sponsored by Cole Real Estate Investments 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 real estate program sponsored by Cole Real Estate Investments were to attempt to sell similar properties at the same time. Conflicts of interest may also exist at such time as we or affiliates of our advisor 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 resale 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 property manager, Cole Realty Advisors, Inc. (“Cole Realty Advisors”), an affiliate of our advisor, pursuant to a property management and leasing agreement. Our agreement with Cole Realty Advisors has a one year term, which was renewed for an additional year on November 7, 2012. We expect Cole Realty Advisors to also serve as property manager for properties owned by other real estate programs sponsored by Cole Real Estate Investments, 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.

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

We have incurred commissions, fees and other compensation payable to Cole Advisors II and its affiliates in connection with the Offerings, including selling commissions, dealer manager fees, and organization and offering expenses. In addition, we have incurred, and expect to continue to incur, commissions, fees and expenses payable to Cole Advisors II and its affiliates in connection with the acquisition and management of our assets, including acquisition and advisory fees, financing coordination fees, property management and leasing fees, asset management fees, acquisition expenses and operating expenses. In connection with the sale of properties, we have incurred, and may continue to incur real estate commissions. In addition, we may pay Cole Advisors II and its affiliates subordinated participation in net sale proceeds and subordinated performance fees; however, the subordinated participation in net sale proceeds and the subordinated performance fees payable or reimbursable to Cole Advisors II and 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 and its affiliates regardless of the quality of the properties acquired or the services provided to us.

Employees

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

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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, acquisition, property management, asset management, financing, accounting and investor relation services, including personnel costs, subject to certain limitations. During the years ended December 31, 2012, 2011 and 2010, we incurred $3.6 million, $3.5 million and $3.8 million, respectively, for such services provided by Cole Advisors II and/or its affiliates.

Insurance

See sections captioned “Acquisition and Investment Policies – Description of Leases” and “– Environmental Matters.”

Reportable Segments

We operate and report our results on a consolidated basis in our commercial properties segment. See Note 3 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 our properties.

Concentration of Credit Risk

As of December 31, 2012, we had cash on deposit, including restricted cash, in four financial institutions, all of which had deposits in excess of federally insured levels totaling $7.7 million; however, we have not experienced any losses in such accounts. We limit significant cash deposits to accounts held by financial institutions with high credit standing; therefore, we believe we are not exposed to any significant credit risk on our cash deposits.

No single tenant accounted for greater than 10% of our gross annualized rental revenues for the year ended December 31, 2012. Tenants in the specialty retail, drugstore and restaurant industries comprised 17%, 15% and 15%, respectively, of our gross annualized rental revenues for the year ended December 31, 2012. Additionally, we have certain geographic concentrations in our property holdings. In particular, as of December 31, 2012, 166 of our properties were located in Texas and 23 were located in Florida, accounting for 16% and 10% of our 2012 gross annualized rental revenues, respectively. See “Item 2. Properties” for additional information regarding the geographic concentration of our properties.

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. We have acquired certain properties that are subject to environmental remediation, in which 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. In addition, we carry environmental liability insurance on our properties that provides coverage for remediation liability and pollution liability for third-party bodily injury and property damage claims. See “Item 1. Business – Acquisitions and Investment Policies – Conditions to Closing Our Acquisitions” for a description of the steps we may take to ensure environmental compliance in the properties we acquire.

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. We have filed and

we will file documents in connection with our Merger 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.

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Item 1A. RISK FACTORS

The factors described below represent our principal risks. Other factors may exist that we do not consider to be significant based on information that is currently available or that we are not currently able to provide.

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

Failure to complete the Merger could negatively impact the value of our common stock and the future value of our business and financial results.

If the Merger is not completed, our ongoing business could be adversely affected and we will be subject to several risks, including being required, under certain circumstances, to pay to Spirit a termination fee of $55.0 million and/or up to $10.0 million in expense reimbursement. These risks could negatively impact the value of our common stock, the future value of our business and our financial results. In addition, whether or not the Merger is completed, we are subject to several risks, including the following:

- having to pay certain costs relating to the proposed Merger, such as legal, accounting, financial advisor, filing, printing and mailing fees; and
- diversion of management focus and resources from operational matters and other strategic opportunities while working to implement the Merger.

The pendency of the Merger could adversely affect our business and operations.

In connection with the pending Merger, some of our tenants or vendors may delay or defer decisions, which could negatively impact our revenues, earnings, cash flows and expenses regardless of whether the Merger is completed. In addition, due to operating covenants in the Merger Agreement, we may be unable, during the pendency of the Merger, to pursue certain strategic transactions, undertake certain significant capital projects, undertake certain significant financing transactions and otherwise pursue other actions that are not in the ordinary course of business, even if such actions would prove beneficial.

If we do not complete the Merger, there will continue to be no public trading market for our shares and there may never be one; therefore, your shares may continue to have limited liquidity.

There currently is no public market for our shares and, absent the completion of the pending Merger, there may never be one. In addition, we do not have a fixed liquidation date. If the Merger is not completed, our stockholders will not have the opportunity to sell their shares and our board of directors will review other alternatives for a liquidity event, which may not occur in the near term or on terms as attractive as the terms of the Merger with Spirit. If the Merger does not occur and you seek to sell 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. Furthermore, on December 6, 2012, our board of directors, including all of its independent directors, voted to suspend the share redemption program and we do not anticipate that the board of directors will resume our share redemption program while the Merger is pending. As a result, if we do not complete the Merger, you may have to hold your shares for an indefinite period of time or, if you are able to sell your shares, you likely would have to sell them at a substantial discount to the price you paid for the shares.

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 complement 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 have established policies relating to the creditworthiness of tenants of our properties, but our board of directors has wide discretion in implementing these policies.

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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 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 our advisor 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 programs sponsored by Cole Real Estate Investments. 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 the 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 the Offerings in an interest-bearing account or invest the proceeds in short-term, investment-grade investments.

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.

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 (the “NASAA REIT Guidelines”). In addition, we have entered into indemnification

agreements with each of our directors and our chief financial officer that clarify and supplement the indemnification provisions contained in our charter and generally provide that, on the terms and subject to the conditions of the indemnification agreement and consistent with our charter, we will indemnify our directors and chief financial officer to the fullest extent permitted by law. Although our charter and the indemnification agreements do 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.

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Cybersecurity risks and cyber incidents may adversely affect our business by causing a disruption to our operations, a compromise or corruption of our confidential information, and/or damage to our business relationships, all of which could negatively impact our financial results.

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of our information resources. These incidents may be an intentional attack or an unintentional event and could involve gaining unauthorized access to our information systems for purposes of misappropriating assets, stealing confidential information, corrupting data or causing operational disruption. The result of these incidents may include disrupted operations, misstated or unreliable financial data, liability for stolen assets or information, increased cybersecurity protection and insurance costs, litigation and damage to our tenant and investor relationships. As our reliance on technology has increased, so have the risks posed to our information systems, both internal and those we have outsourced. We have implemented processes, procedures and internal controls to help mitigate cybersecurity risks and cyber intrusions, but these measures, as well as our increased awareness of the nature and extent of a risk of a cyber incident, do not guarantee that our financial results, operations, business relationships or confidential information will not be negatively impacted by such an incident.

Litigation against us could distract our management and/or negatively impact our operating results.

As noted below in “Item 3 – Legal Proceedings”, we, along with our operating partnership, have been named as defendants in a complaint seeking an injunction to prevent the Merger. Although it is not possible to predict the outcome of litigation with any certainty, claims of this nature present a risk of protracted litigation, attorneys’ fees, costs and expenses, and diversion of management’s attention from the operation of our business.

Risks Related to Conflicts of Interest

Until the Merger with Spirit is closed, we will continue to be subject to conflicts of interest arising out of our relationships with our advisor and its affiliates, including the material conflicts discussed below.

A number of real estate programs sponsored by Cole Real Estate Investments 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 currently has 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 real estate programs sponsored by Cole Real Estate Investments managed by officers and key personnel of our advisor and/or its affiliates, and these other real estate programs sponsored by Cole Real Estate Investments may use investment strategies and have investment objectives that are similar to ours. In particular, CCPT III, CCPT IV, Cole Income NAV Strategy and CCIT are currently offering shares of their common stock pursuant to effective registration statements 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, general partners, and/or the advisors or fiduciaries of other real estate programs sponsored by Cole Real Estate Investments. There is a risk that our advisor will choose a property that provides lower returns to us than a property purchased by another real estate program sponsored by Cole Real Estate Investments. 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 real estate programs sponsored by Cole Real Estate Investments decide whether to allocate any particular property to us or to another real estate program sponsored by Cole Real Estate Investments that has an investment strategy similar to ours. In addition, we may acquire properties in geographic areas where other real estate programs sponsored by Cole Real Estate Investments own properties. If one of the other real estate programs sponsored by Cole Real Estate Investments 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 real estate programs sponsored by Cole Real Estate Investments, or if our advisor recommends that we make or purchase mortgage loans or participations in mortgage loans, since other real estate programs sponsored by Cole Real Estate Investments may be competing with us for these investments.

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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 real estate programs sponsored by Cole Real Estate Investments for the acquisition, development or improvement of properties. Cole Advisors II may have conflicts of interest in determining which real estate programs sponsored by Cole Real Estate Investments 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 co-venturer and in managing the joint venture. Since Cole Advisors II and its affiliates will control both the 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.

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, are also officers of our advisor, our property manager, and/or their affiliates. 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 (1) allocation of new investments and management time and services between us and the other entities,

(2) our purchase of properties from, or sale of properties, to affiliates of our advisor or other Cole-sponsored real estate programs, (3) the timing and terms of the investment in or sale of an asset, (4) development of our properties by affiliates of our advisor, (5) investments with affiliates of our advisor, (6) compensation to our advisor, and (7) 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.

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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 for federal income tax purposes. 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 to the price of our common stock for our stockholders.

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 of directors.

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.

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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 its affiliates. Consequently, the five-year prohibition and the super-majority vote requirements will not apply to business combinations between us and Cole Advisors II or its affiliates. As a result, Cole Advisors II and any of its affiliates 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 of its affiliates. 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.

If we are required to register as an investment company under the Investment Company Act of 1940, 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 SEC. 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.

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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, unless otherwise provided in our organizational documents. As a result, the nature of your investment could change without your consent.

The estimated value per share of our common stock may not reflect the value that stockholders will receive for their investment.

In February 2009, the Financial Industry Regulatory Authority (“FINRA”) informed broker dealers that sell shares of non-traded REITs that broker dealers may not report, in a customer account statement, an estimated value per share that is developed from data more than 18 months old. To assist broker dealers in complying with the FINRA notice, our board of directors established an estimated value of our common stock, as of July 27, 2011 of $9.35 per share. As with any valuation methodology, the methodologies considered by our board of directors, in reaching an estimate of the value of our shares, are based upon a number of estimates, assumptions, judgments and opinions that may, or may not, prove to be correct. The use of different estimates, assumptions, judgments or opinions may have resulted in significantly different estimates of the value of our shares.

Furthermore, in reaching an estimate of the value of our shares, the board of directors did not include a discount for debt that may include a prepayment obligation or a provision precluding assumption of the debt by a third party; or the costs that are likely to be incurred in connection with an appropriate exit strategy, whether that strategy might be a listing of our shares of common stock on a national securities exchange, a merger, or a sale of our portfolio. As a result, there can be no assurance that:

- any stockholder will be able to realize the estimated share value, upon attempting to sell their shares;
- we will be able to achieve, for our stockholders, the estimated value per share, upon a listing of our shares of common stock on a national securities exchange, a merger, or a sale of our portfolio; or
- the estimated share value, or the methodologies used by the board of directors to estimate the share value, will be found by any regulatory authority to comply with ERISA, FINRA or any other regulatory requirements.

For a full description of the methodologies used to value our assets and liabilities in connection with the calculation of the estimated value per share, see our Current Report on Form 8-K filed with the SEC on July 27, 2011.

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On January 23, 2013, the Company's board of directors established an Estimated Share Value of $9.45 per share. Refer to Part II, Item 5 of this Annual Report on Form 10-K, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities – Market Information," for additional information.

Your interest in us will be diluted if we issue additional shares.

Existing stockholders and, if reinstated, potential investors in the DRIP 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 the DRIP 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, (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 real estate programs sponsored by Cole Real Estate Investments, to merge into or cause the exchange or conversion of their interest for interests of Cole OP II. Because the limited partnership interests of Cole OP II may, in the discretion of our board of directors, be exchanged for shares of our common stock, any merger, exchange or conversion between Cole OP II and another entity ultimately could result in the issuance of a substantial number of shares of our common stock, thereby diluting the percentage ownership interest of other stockholders. Because of these and other reasons described in this "Risk Factors" section, you should not expect to be able to own a significant percentage of our shares.

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

Cole Advisors II and its affiliates perform services for us in connection with the acquisition and disposition 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 are based primarily on anticipated cash flow from operations over time. 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.

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

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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 risks 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 is materially dependent on the financial stability of such tenants. Such tenants face competition within their industries and other factors that could reduce their ability to make rent payments. 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 sell our properties in a particular geographic area or otherwise 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 major tenant declares bankruptcy, we may be unable to collect balances due under relevant leases, which could have a material adverse effect on our financial condition and ability to pay distributions.

We may experience concentration in one or more tenants. 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 operating cash flows 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 the Offerings to buy real estate and real estate-related investments and to pay various fees and expenses. We reserved 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.

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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.

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 adversely affect our operating results, financial condition and 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, for our leased properties, the ability of our tenants to enter into new leasing transactions or satisfy rental payments under existing leases. If the current market environment was to persist or worsen or the global disruptions were to adversely affect the recovery of U.S. financial markets it could affect our operating results and financial condition as follows:

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Debt Market - Since 2010, the volume of mortgage lending for commercial real estate has been increasing and lending terms have improved and continue to improve; however the real estate debt markets could begin experiencing increasing 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, dislocations in the debt markets could reduce 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) could slow real estate transaction activity; and (3) may result in an inability to refinance debt as it becomes due. In addition, deterioration in 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. In addition, the failure of any lending source with which we entered, or enter, into a credit facility or line of credit would adversely affect our ability to meet our obligations if we were unable to replace the funding source.

- Real Estate Market - The global economic recession caused commercial real estate values to decline substantially. The U.S. commercial real estate markets began a recovery in 2010 which has continued through 2012. However, if the global recession were to persist or worsen, or it were to affect the U.S. financial markets, there may be uncertainty in the valuation, or in the stability of the value, of the properties we own or may acquire that could result in a substantial decrease in the value of our properties. 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 slowdown or downturn cannot be predicted. Our operations could be negatively affected to the extent that an economic slowdown 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.

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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 for interest bearing accounts. As of December 31, 2012, we had cash and cash equivalents and restricted cash deposited in four financial institutions, all of which had deposits in excess of current 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.

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 terrorist 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 acts of terrorism as a condition for providing mortgage loans. It is uncertain whether such insurance policies will be available at reasonable cost, or at all, 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 ("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.

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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.

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 other programs sponsored by Cole Real Estate Investments 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 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 do not have sufficient proceeds 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 real estate programs sponsored by Cole Real Estate Investments, 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.

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

We compete with many other entities engaged in real estate investment activities, including individuals, corporations, bank and insurance company investment accounts, other REITs, real estate limited partnerships, and other entities engaged in real estate investment activities, many of which have greater resources than we do. Larger 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 additional 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.

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. We have acquired certain properties that are subject to environmental remediation in which the seller, the tenant and/or another third

party has been identified as the responsible party for environmental remediation costs related to the property. Although we do not believe that the environmental matters identified at such properties will have a material adverse effect on our results of operations, the presence of hazardous substances at these properties or in general, or the failure to properly remediate such substances, may adversely affect our ability to sell or rent such property or to use such property as collateral for future borrowing.

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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 or our ability to sell a particular property.

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 may not 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.

A proposed change in U.S. accounting standards for leases could reduce the overall demand to lease our properties.

The existing accounting standards for leases require lessees to classify their leases as either capital or operating leases. Under a capital lease, both the leased asset, which represents the tenant's right to use the property, and the contractual lease obligation are recorded on the tenant's balance sheet if one of the following criteria are met: (1) the lease transfers ownership of the property to the lessee by the end of the lease term; (2) the lease contains a bargain purchase option; (3) the non-cancelable lease term is more than 75% of the useful life of the asset; or (4) if the present value of the minimum lease payments equals 90% or more of the leased property's fair value. If the terms of the lease do not meet these criteria, the lease is considered an operating lease, and no leased asset or contractual lease obligation is recorded by the tenant.

Recently, the U.S. Financial Accounting Standards Board (the "FASB") and the International Accounting Standards Board ("IASB") initiated a joint project to develop new guidelines to lease accounting. The FASB and IASB (collectively, the "Boards") recently issued Exposure Drafts (the "Exposure Drafts"), which propose substantial changes to the current lease accounting standards, primarily by eliminating the concept of operating lease accounting. As a result, a lease asset and obligation would be recorded on the tenant's balance sheet for all lease arrangements. In addition, the Exposure Drafts could impact the method in which contractual lease payments would be recorded. In order to mitigate the effect of the proposed lease accounting, tenants may seek to negotiate certain terms within new lease arrangements or modify terms in existing lease arrangements, such as shorter lease terms, which would generally have less impact on tenant balance sheets. Also, tenants may reassess their lease-versus-buy strategies. This could result in a greater renewal risk, a delay in investing proceeds from our Offerings, or shorter lease terms, all of which may negatively impact our operations and our ability to pay distributions to you.

The Exposure Drafts do not include a proposed effective date, are still being deliberated, and are subject to change. The Boards intend to complete their deliberations and publish a revised exposure draft during the first half of 2013; however, a final standard is not expected to be issued until 2013 or 2014.

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. 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 unless a higher amount is approved by a majority of the independent directors, in accordance with the NASAA REIT Guidelines.

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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 our stockholders' investments. 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 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.

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. 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. As of December 31, 2012, we had $1.8 billion in total debt outstanding and the ratio of debt to total gross real estate and related assets net of gross intangible lease liabilities was 51%.

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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 have used and may continue to 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. 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. 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. 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.

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 risks 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;

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- 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.

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

Investing in mortgage, bridge or mezzanine loans, 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 determines that it is advantageous for us to do so. However, if we make or acquire 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.

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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 elsewhere herein, 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 slowdown 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.

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. The mortgage-backed securities market has recently suffered from a severe dislocation created by mortgage pools that included 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 maintain our qualification as a REIT would adversely affect our operations and our ability to make distributions.

We currently qualify as a REIT for federal income tax purposes. If we fail maintain our qualification 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.

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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 re-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 have and may continue to 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 elected to reinvest in our common stock.

If you participated in our DRIP prior to its suspension on December 6, 2012, 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.

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 losing our 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 our REIT status for federal income tax purposes.

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 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.

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Legislative or regulatory action with respect to taxes could adversely affect the returns to our investors.

In recent years, numerous legislative, judicial and administrative changes have been made in the provisions of the federal income tax laws applicable to investments similar to an investment in our common stock. Additional changes to the tax laws are likely to continue to occur, and we cannot assure our stockholders that any such changes will not adversely affect their taxation. Such changes could have an adverse effect on an investment in our stock or on the market value or the resale potential of our assets. Our stockholders are urged to consult with their own tax advisor with respect to the impact of recent legislation on their investment in our stock and the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in shares of our common stock.

Congress passed major federal tax legislation in 2003, with modifications to that legislation in 2005 and an extension of that legislation by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. One of the changes effected by that legislation generally reduced the maximum tax rate on qualified dividends paid by corporations to individuals to 15.0% through 2012. On January 3, 2013, President Obama signed into law the American Taxpayer Relief Act of 2012, extending such 15.0% qualified dividend rate for 2013 and subsequent taxable years for those unmarried individuals with income under $400,000 and for married couples with income under $450,000. For those with income above such thresholds, the qualified dividend rate is 20.0%. REIT distributions, however, generally do not constitute qualified dividends and consequently are not eligible for this reduced maximum tax rate. Therefore, our stockholders will pay federal income tax on our distributions (other than capital gains dividends or distributions which represent a return of capital for tax purposes) at the applicable “ordinary income” rate, the maximum of which is currently 39.6%. 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 you, and we thus expect to avoid the “double taxation” to which other corporations are typically subject.

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 our stockholders’ best interest.

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.

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;

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- 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 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, 2012, we owned 752 properties comprising 21.2 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, 2012, 417 of the properties were freestanding, single-tenant retail properties, 312 of the properties were freestanding, single-tenant commercial properties and 23 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 5 to our consolidated financial statements in this Annual Report on Form 10-K. As of December 31, 2012, 96% of the rentable square feet of these properties was leased, with a weighted-average remaining lease term of 9.8 years. As of December 31, 2012, we had outstanding debt of $1.8 billion, secured by properties in our portfolio and their related tenant leases and other real estate related assets on which the debt was placed.

Property Statistics

The following table shows the tenant diversification of our consolidated real estate assets, based on gross annualized rental revenue, as of December 31, 2012:

Tenant	Total Number of Leases	Leased Square Feet [1]	2012 Gross Annualized Rental Revenue (in thousands)	Percentage of 2012 Gross Annualized Rental Revenue	
Walgreens – drug store	70	1,011,529	$ 23,097	9	%
Church’s Chicken – restaurant	1	244,231	14,056	6	%
Academy Sports – sporting goods	9	1,955,411	12,944	5	%
Circle K – convenience store	83	250,580	11,550	5	%
CVS – drug store	37	412,496	9,408	4	%
Home Depot – home improvement	5	554,979	7,189	3	%
Ferguson Enterprises – specialty retail	8	1,111,948	6,940	3	%
Tractor Supply – specialty retail	27	783,616	6,679	3	%
Petsmart – specialty retail	8	1,035,471	6,146	2	%
Lowe’s – home improvement	8	1,061,550	6,067	2	%
Other	516	11,985,465	149,541	58	%
	772	20,407,276	$ 253,617	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 tenant industry diversification of consolidated real estate assets, based on gross annualized rental revenue, as of December 31, 2012:

Industry	Total Number of Leases	Leased Square Feet [1]	2012 Gross Annualized Rental Revenue (in thousands)	Percentage of 2012 Gross Annualized Rental Revenue	
Specialty retail	203	4,626,991	$43,077	17	%
Drugstore	128	1,690,979	38,568	15	%
Restaurant	122	955,988	37,044	15	%
Sporting goods	17	2,278,621	17,106	7	%
Home improvement	13	1,616,529	13,256	5	%
Convenience store	84	264,896	12,563	5	%
Distribution	14	1,410,464	10,296	4	%
Fitness and health	21	584,273	9,678	4	%
Automotive parts	30	636,005	9,227	4	%
Electronics retail	14	576,891	7,270	3	%
Other	126	5,765,639	55,532	21	%
	772	20,407,276	$253,617	100	%

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

The following table shows the geographic diversification of our consolidated real estate assets, based on gross annualized rental revenue, as of December 31, 2012:

Location	Total Number of Properties	Rentable Square Feet [1]	2012 Gross Annualized Rental Revenue (in thousands)	Percentage of 2012 Gross Annualized Rental Revenue	
Texas	166	3,638,467	$40,604	16	%
Florida	23	2,088,910	24,954	10	%
Georgia	63	1,131,834	19,731	8	%
Illinois	23	1,742,432	18,899	7	%
Ohio	64	666,985	13,293	5	%
Missouri	25	714,761	9,415	4	%
Tennessee	39	559,109	8,710	3	%
Nevada	2	1,009,278	7,119	3	%
North Carolina	20	811,666	6,872	3	%
Virginia	12	992,554	6,700	3	%
Other	315	7,861,715	97,320	38	%
	752	21,217,711	$253,617	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 our properties owned provide for initial terms of 10 to 20 years. As of December 31, 2012, the weighted average remaining lease term was 9.8 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 of the building. The leases of the properties provide for annual base rental payments (payable in monthly installments) ranging from $7,000 to $14.1 million (average of $330,000). 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.

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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, 2012, 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 [1]	2012 Gross Annualized Rental Revenue (in thousands)	Percentage of 2012 Gross Annualized Rental Revenue	
2013	38	654,594	$4,632	2	%
2014	33	414,662	4,010	2	%
2015	46	1,250,819	11,415	5	%
2016	57	1,775,388	18,682	7	%
2017	91	1,748,290	20,991	8	%
2018	90	1,463,216	19,552	8	%
2019	16	445,442	6,616	3	%
2020	27	619,693	8,065	3	%
2021	76	1,538,835	22,424	9	%
2022	49	1,236,312	15,170	6	%
Thereafter	249	9,260,025	122,060	47	%
	772	20,407,276	$253,617	100	%

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

Notes Payable Information

As of December 31, 2012, we had $1.8 billion of debt outstanding, consisting of (1) $1.4 billion in fixed rate mortgage loans (the “Fixed Rate Debt”), which includes $77.6 million of variable rate debt swapped to fixed rates, (2) $4.3 million in variable rate mortgage loans (the “Variable Rate Debt”) and (3) $319.1 million outstanding under the Credit Facility. The Fixed Rate Debt has annual interest rates ranging from 3.15% to 7.22%, with a weighted average annual interest rate of 5.68%, and various maturity dates ranging from September 2014 through August 2031. The Variable Rate Debt has an annual interest rate of LIBOR plus 275 basis points and matures in September, 2014. The Credit Facility allows us to borrow up to $238.9 million in revolving loans (the “Revolving Loans”) and $111.1 million in term loan borrowings (the “Term Loan”). Revolving Loans under the Credit Facility bear interest at variable rates depending on the type of loan used. Eurodollar rate loans have variable rates which are generally equal to the one-month, two-month, three-month, or six-month LIBOR plus 275 to 400 basis points, determined by the leverage ratio of the Company in accordance with the agreement. Base rate committed loans have variable rates equal to the greater of (a) the Federal Funds Rate plus 0.5%; (b) Bank of America’s prime rate; or (c) the Eurodollar Rate plus 1.0%; plus 175 to 300 basis points, determined by the leverage ratio of the Company in accordance with the agreement. As of December 31, 2012, the interest rate in effect for Revolving Loans under the Credit Facility was 3.71%. On February 24, 2011, we executed an interest rate swap agreement which had the effect of fixing the interest rate for the Term Loan borrowings under the Credit Facility to 4.94% per annum based on our overall leverage levels at the time of the transaction. The Credit Facility matures on December 17, 2013. See Note 11 to our consolidated financial statements in this Annual Report on Form 10-K for additional terms of the Credit Facility.

The ratio of debt to total gross real estate and related assets net of gross intangible lease liabilities, as of December 31, 2012, was 51% and the weighted average years to maturity was 3.6 years. Except for the notes payable under the Credit Facility, which are unsecured obligations, the notes payable are secured by the respective properties on which the debt was placed and their related tenant leases and other real estate related assets, which had an aggregate gross asset value of $2.5 billion at December 31, 2012. The notes payable are generally non-recourse to us and Cole OP II, but both are liable for customary non-recourse carve-outs.

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Generally, the notes payable may not be prepaid, in whole or in part, except under the following circumstances: (1) prepayment may be made subject to payment of a yield maintenance premium or through defeasance, (2) full prepayment may be made on any of the three monthly payment dates occurring immediately prior to the maturity date and (3) 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, certain mortgage notes include hyper-amortization provisions. The interest rate during the hyper-amortization period would be the fixed interest rate as stated on the respective mortgage note agreement plus 2.0%. The individual mortgage note maturity date, under the hyper-amortization provisions, would generally be extended by 20 years. During such period, the lender would apply 100% of the rents collected to (1) all payments for escrow or reserve accounts, (2) payment of interest at the original fixed interest rate, (3) payments for the replacement reserve account, (4) any other amounts due in accordance with the mortgage note agreement other than any additional interest expense, (5) any operating expenses of the property pursuant to an approved annual budget, (6) any extraordinary expenses, (7) payments to be applied to the reduction of the principal balance of the mortgage note, and (8) any additional interest expense, which is not paid would be added to the principal balance of the mortgage note.

Item 3. LEGAL PROCEEDINGS

In connection with the Company's Merger with Spirit, on March 5, 2013, a putative class action and derivative lawsuit was filed in the Circuit Court for Baltimore City, Maryland against and purportedly on behalf of Spirit captioned Kendrick, et al. v. Spirit Realty Capital, Inc., et al. The complaint names as defendants Spirit, the members of the board of directors of Spirit, Spirit Realty, L.P., a Delaware limited partnership (the "Spirit Partnership"), the Company and Cole OP II, and alleges that the directors of Spirit breached their fiduciary duties by engaging in an unfair process leading to the Merger Agreement, agreeing to a Merger Agreement at an opportunistic and unfair price, allowing draconian and preclusive deal protection devices in the Merger Agreement, and by engaging in self-interested and otherwise conflicted actions. The complaint alleges that the Company, Cole OP II and the Spirit Partnership aided and abetted those breaches of fiduciary duty. The complaint seeks a declaration that defendants have breached their fiduciary duties or aided and abetted such breaches and that the Merger Agreement is unenforceable, an order enjoining a vote on the transactions contemplated by the Merger Agreement, rescission of the transactions in the event they are consummated, imposition of a constructive trust, an award of fees and costs, including attorneys' and experts' fees and costs, and other relief.

In the ordinary course of business we may become subject to litigation or claims. We are not aware of any material pending legal proceedings, other than as stated above and ordinary routine litigation incidental to our business, to which we are a party or to which our properties are the subject.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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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 6, 2013, we had approximately 208.6 million shares of common stock outstanding, held by a total of 40,945 stockholders of record. The number of stockholders is based on the records of DST Systems, Inc., which 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. Unless and until our shares are listed on a national securities exchange in connection with the Merger or otherwise, we cannot guarantee 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 per share estimated value of the shares to those fiduciaries who request such reports. In addition, in order for FINRA members and their associated persons to participate in any 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 it was developed, and the date of the data used to develop the estimated value. For these purposes, the Estimated Share Value of our common stock was $9.35 as of December 31, 2012, which was based solely on our board of director's approval on July 27, 2011 of an Estimated Share Value of $9.35.

In determining an estimated value of the Company's shares, the board of directors considered information and analysis, including valuation materials that were provided by CBRE Capital Advisors, Inc. ("CBRE Cap"), an independent investment banking firm that specializes in providing real estate financial services, and information provided by the Company's advisor, Cole REIT Advisors II, LLC. See our Current Report on Form 8-K, filed with the SEC on July 27, 2011, for additional information regarding CBRE Cap and its valuation materials.

On January 23, 2013, the Company's board of directors established an Estimated Share Value of $9.45 per share. As discussed in Part I, Item 1 of this Annual Report on Form 10-K, "Business – Formation," on January 22, 2013, the Company entered into the Merger Agreement with Spirit. At the effective time of the Merger, Spirit stockholders will receive 1.9048 shares of the Company's common stock for each share of Spirit common stock they own (equivalent to 0.525 Spirit shares for each Company share) and each share of Company common stock will remain an issued and outstanding share of the combined company. In determining the Estimated Share Value on January 23, 2013, the board primarily considered that the exchange ratio agreed to by the parties to the Merger was the result of arm's length negotiations that occurred over a period of time leading up to the execution of the Merger Agreement. In making its determination, the board also considered the recent trading history of Spirit's common stock, and noted that the volume-weighted average price of Spirit's common stock from December 24, 2012, the date of its inclusion in the Russell 2000 Index, through January 22, 2013, the date on which the Merger was announced (19 trading days), was $18.01 per share. The board further noted that the product of multiplying this price by 0.525 (the implied exchange ratio for the Company common stock) resulted in an implied value of $9.45 per share of Company common stock. The board determined to establish $9.45 as the estimated value of the Company's common stock, as of January 23, 2013, for the sole purpose of assisting broker dealers in reporting an estimated value of the Company's shares on their customer account statements.

Share Redemption Program

Our board of directors has adopted a share redemption program to enable our stockholders to sell their shares to us in limited circumstances. On December 6, 2012, our board of directors, including all of its independent directors, voted to suspend our share redemption program and we do not anticipate that the board of directors will resume our share redemption program while the Merger is pending.

As a result of the suspension of the share redemption program, all redemption requests received from stockholders during the fourth quarter of 2012 on or before December 6, 2012 and that were determined by us to be in good order on or before December 12, 2012 were honored in accordance with the terms, conditions and limitations of the share redemption program. We did not process or accept any requests for redemption received after December 6, 2012 and will not process or accept any future requests until such time as our board of directors may approve resumption of the share redemption program.

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During the year ended December 31, 2012, we redeemed 7.7 million shares under our share redemption program, at an average redemption price of $9.31 per share for an aggregate redemption price of $71.3 million. During the year ended December 31, 2011, we redeemed 6.2 million shares under our share redemption program, at an average redemption price of $8.55 per share for an aggregate redemption price of $52.6 million. Subsequent to December 31, 2012, we redeemed 12,964 shares for $121,000 pursuant to redemption requests received on or before December 6, 2012. Redemption requests related to 13.4 million shares that were received during the year ended December 31, 2012 went unfulfilled, including shares unfulfilled and resubmitted from a previous period. See the section titled "Share Redemptions" in "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operation" appearing elsewhere in this Annual Report on Form 10-K, and Note 18 to our consolidated financial statements in this Annual Report on Form 10-K for additional share redemption information.

During the three months ended December 31, 2012, 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 2012	—	$—	—	(1)
November 2012	1,530,108	$9.33	1,530,108	(1)
December 2012	1,471,071	$9.35	1,471,071	(1)
Total	3,001,179		3,001,179	(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 elected to be taxed and 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 equal to at least 90% of our taxable income (computed without regard to the dividends paid deduction and excluding net capital gains). One of our primary goals is to pay regular (monthly) distributions to our stockholders.

For federal income tax purposes, distributions to common stockholders are characterized as ordinary dividends, capital gain distributions, or 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 nontaxable return of capital, reducing the tax basis in each U.S. stockholder's shares. In addition, the amount of distributions in excess of a U.S. stockholder's tax basis in such shares will be taxable as gain realized from the sale of those shares.

Our board of directors authorized a daily distribution, based on 366 days in the calendar year, of $0.001707848 per share (which equates to approximately 6.25% on an annualized basis calculated at the current rate, based on our original offering price of $10.00 per share, and an annualized return of approximately 6.68%, based on the July 27, 2011 estimate of the value of our shares of $9.35 per share) for stockholders of record as of the close of business on each day of the period commencing on January 1, 2012 and ending on December 31, 2012. In addition, our board of directors authorized a daily distribution, based on 365 days in the calendar year, of $0.001712523 per share (which equates to approximately 6.25% on an annualized basis calculated at the current rate, based on our original offering price of $10.00 per share, and an annualized distribution rate of approximately 6.61%, based on the January 23, 2013 estimate of the value of our shares of $9.45 per share) for stockholders of record as of the close of business on each day of the period commencing on January 1, 2013 and ending on March 31, 2013.

The following table shows the character of the distributions we paid on a per share basis during the years ended December 31, 2012, 2011 and 2010, respectively (in thousands, except per share data):

Year	Total Distributions Paid	Distributions Paid per Common Share	Nontaxable Distributions	Ordinary Dividends	Capital Gain Distributions
2012	$131,378	$0.63	$0.39	$0.24	$—

2011	$131,003	$0.63	$0.29	$0.23	$0.11
2010	$129,251	$0.62	$0.40	$0.22	$—

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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, for an aggregate offering price of $497.5 million. 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 for an aggregate offering price after such increase of $550.4 million. 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, for an aggregate follow-on offering price of $1.5 billion. 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 $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.

On September 18, 2008, we registered 30,000,000 additional shares to be offered pursuant to our DRIP in our DRIP Offering, for an aggregate DRIP Offering price of $285.0 million. As of December 31, 2012, we were authorized to issue 10,000,000 shares of preferred stock, but had none issued or outstanding. On December 6, 2012, our board of directors, including all of its independent directors, voted to suspend the DRIP. Beginning with the distributions previously authorized by our board of directors for the month of December 2012, which were paid in January 2013, and continuing until such time as our board of directors may approve the resumption of the DRIP, all distributions authorized by our board of directors are to be paid to our stockholders in cash.

As of December 31, 2012, we had issued an aggregate of 231,165,454 shares of common stock, excluding redemptions, in our Offerings, raising gross offering proceeds of $2.3 billion. From this amount, we paid $70.5 million in acquisition fees to Cole Realty Advisors, $171.8 million in selling commissions and dealer manager fees to Cole Capital (of which $144.9 million was reallowed to third-party broker dealers), $24.5 million in finance coordination fees to Cole Advisors II and $16.3 million in organization and offering cost reimbursements to Cole Advisors II. We paid no selling commissions, dealer manager fees or organization and offering costs to Cole Capital during the year ended December 31, 2012. With the net offering proceeds and indebtedness, we acquired $3.5 billion in total gross real estate and related assets net of gross intangible lease liabilities.

As of March 6, 2013, we had issued approximately 28.9 million shares in the DRIP Offering at an aggregate gross offering price of $261.3 million.

Unregistered Sale of Securities and Issuance of Stock Options

We issued 20,000 shares of our common stock to an affiliate of our advisor, 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, 2012:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Option, 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 consolidated financial statements.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Balance Sheet Data:					
Total investment in real estate assets, net	$3,099,281	$3,182,476	$3,154,692	$3,131,639	$3,127,334
Investment in mortgage notes receivable, net	$73,438	$76,745	$79,778	$82,500	$84,994
Marketable securities	$—	$—	$81,995	$56,366	$24,583
Investment in unconsolidated joint ventures	$—	$22,334	$38,324	$40,206	$25,792
Cash and cash equivalents	$21,384	$53,205	$45,791	$28,417	$106,485
Total assets	$3,289,536	$3,430,322	$3,485,335	$3,413,104	$3,432,028
Notes payable and line of credit	$1,757,322	$1,767,591	$1,673,243	$1,607,473	$1,550,314
Repurchase agreement	$—	$—	$54,312	$—	$—
Acquired below market lease intangibles, net	$119,550	$130,680	$140,797	$149,832	$156,813
Redeemable common stock	$121	$14,482	$12,237	$87,760	$65,046
Stockholders' equity	$1,367,306	$1,471,713	$1,560,375	$1,521,984	$1,614,976
Operating Data:					
Total revenue	$282,852	$279,345	$269,150	$275,455	$201,004
General and administrative expenses	$7,984	$7,943	$6,989	$7,020	$5,632
Property operating expenses	$23,427	$22,743	$20,294	$25,821	$16,796
Property and asset management expenses	$17,701	$16,987	$16,447	$14,904	$9,762
Merger related expenses	$5,847	$—	$—	$—	$—
Depreciation and amortization	$89,238	$88,246	$85,162	$90,750	$63,859
Impairment of real estate assets	$5,742	$—	$4,500	$13,500	$3,550
Operating income	$132,680	$140,405	$132,317	$120,219	$101,405
Gain on sale of marketable securities	$—	$15,587	$—	$—	$—
Gain on sale of unconsolidated joint venture interests	$—	$5,162	$—	$—	$—
Impairment of joint venture investment	$1,156	$—	$—	$—	$—
Interest expense	$107,963	$108,186	$102,977	$98,997	$78,063
Net income	$25,397	$53,809	$30,430	$22,406	$25,092
Modified funds from operations [(1)]	$127,969	$141,153	$125,880	$132,691	$92,566
Cash Flow Data:					
Cash flows provided by operating activities	$118,371	$114,449	$105,627	$116,872	$96,073
Cash flows provided by (used in) investing activities	$11,205	$(18,328)	$(110,207)	$(45,497)	$(1,216,078)
Cash flows (used in) provided by financing activities	$(161,397)	$(88,707)	$21,954	$(149,443)	$1,182,973
Per Share Data:					
Net income - basic and diluted	$0.12	$0.26	$0.15	$0.11	$0.17

Distributions declared	$0.63	$0.63	$0.62	$0.66	$0.70
Weighted average shares outstanding – basic	210,075,980	209,693,707	207,198,078	202,686,670	146,198,235
Weighted average shares outstanding – diluted	210,077,076	209,693,707	207,198,078	202,690,094	146,201,399

(1) See "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Funds from Operations and 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.

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the "Selected Financial Data" section of this Annual Report on Form 10-K 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 our Initial Offering. We have no paid employees and are externally advised and managed by Cole Advisors II, our advisor. 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 indebtedness. Rental and other property income accounted for 92%, 90% and 89% of total revenue for the years ended December 31, 2012, 2011, and 2010, respectively. As 96% of our rentable square feet was under lease as of December 31, 2012, with a weighted average remaining lease term of 9.8 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's 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, 2012, 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 51%, with 12% of the debt, or $212.3 million, including $208.0 million in Revolving Loans 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 refinancings or new indebtedness used to acquire the properties. We may manage our risk of changes in real estate prices on future property acquisitions, if any, 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 manage our interest rate risk by monitoring the interest rate environment in connection with our future property acquisitions, if any, or upcoming debt maturities to determine the appropriate financing or refinancing terms, 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 terms for future acquisitions or refinancing, our results of operations may be adversely affected.

Recent Market Conditions and Portfolio Strategies

Beginning in late 2007, domestic and international financial markets experienced significant disruptions that were brought about in large part by challenges in the world-wide banking system. These disruptions severely impacted the availability of credit and contributed to rising costs associated with obtaining credit. Since 2010, the volume of mortgage lending for commercial real estate has been increasing and lending terms have improved and they continue to improve; however, such lending activity continues to be significantly less than previous levels. Although lending market conditions have improved, certain factors continue to negatively affect the lending environment, including the sovereign credit issues of certain countries in the European Union. 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. For properties for which we are able to obtain financing, the interest rates and other

terms on such loans may be unacceptable. Additionally, if we are able to refinance our existing debt as it matures, it may be at lower leverage levels or at rates and terms which are less favorable than our existing debt or, if we elect to extend the maturity dates of the mortgage notes in accordance with any hyper-amortization provisions, the interest rates charged to us will be higher, each of which may adversely affect our results of operations and the distribution rate we are able to pay to our investors. We have managed, and expect to continue to manage, the current mortgage lending environment by utilizing borrowings on our Credit Facility, and considering alternative lending sources, including the securitization of debt, utilizing fixed rate loans, 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.

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The economic downturn led to high unemployment rates and a decline in consumer spending. These economic trends have adversely impacted the retail and real estate markets by causing higher tenant vacancies, declining rental rates and declining property values. In 2011 and 2012, the economy improved and continues to show signs of recovery. Additionally, the real estate markets have experienced an improvement in property values, occupancy and rental rates; however, in many markets property values, occupancy and rental rates continue to be below those previously experienced before the economic downturn. As of December 31, 2012, 96% of our rentable square feet was under lease. During the year ended December 31, 2012, our percentage of rentable square feet under lease remained stable. However, if the recent improvements in economic conditions do not continue, we may experience additional vacancies or be required to reduce rental rates on occupied space. Our advisor is actively seeking to lease all of our vacant space, however, as many retailers and other tenants have been delaying or eliminating their store expansion plans, the amount of time required to re-lease a property has increased.

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

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

We are required to make subjective assessments as to the useful lives of its depreciable assets. We consider the period of future benefit of each respective asset to determine the appropriate useful life of the assets. Real estate and related 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	Lease term

We continually monitor events and changes in circumstances that could indicate that the carrying amounts of our real estate and related assets may not be recoverable. Impairment indicators that we consider include, but are not limited to, bankruptcy or other credit concerns of a property's major tenant, such as a history of late payments, rental concessions and other factors, 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, we assess the recoverability of the assets by determining whether the carrying amount of the assets will be recovered through the undiscounted future 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 amount, we will adjust the real estate and related assets to their respective fair values and recognize an impairment loss. Generally, fair value is determined using a discounted cash flow analysis and recent comparable sales transactions.

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We continually monitor certain properties for which we have identified impairment indicators. As of December 31, 2012, we had seven properties with an aggregate book value of $46.7 million for which we assessed the recoverability of the carrying amounts. For six of these properties, the undiscounted future cash flows expected as a result of the use of the real estate and related assets and the eventual disposition of the assets continued to exceed their carrying amount as of December 31, 2012. Should the conditions related to any of these, or any other properties change, the underlying assumptions used to determine the expected undiscounted future cash flows may change and adversely affect the recoverability of the respective real estate and related assets' carrying amounts. We identified two properties during the year ended December 31, 2012 and one property during the year ended December 31, 2010 with impairment indicators for which the undiscounted future cash flows expected as a result of the use and eventual disposition of each of the real estate and related assets were less than the carrying amount of the respective properties. As a result, we reduced the carrying amount of the real estate and related assets to their estimated fair value by recognizing an impairment loss of $5.7 million during the year ended December 31, 2012 and $4.5 million during the year ended December 31, 2010. No impairment losses were recorded during the year ended December 31, 2011.

When developing estimates of expected future cash flows, we make certain assumptions regarding future market rental income amounts subsequent to the expiration of current lease agreements, property operating expenses, terminal capitalization and discount rates, the expected number of months it takes to re-lease the property, required tenant improvements and the number of years the property will be held for investment. The use of alternative assumptions in estimating expected future cash flows could result in a different determination of the property's expected future cash flows and a different conclusion regarding the existence of an impairment, the extent of such loss, if any, as well as the fair value of our real estate and related assets.

When a real estate asset is identified by management as held for sale, we cease depreciation and amortization of the assets related to the property and estimate the fair value, net of selling costs. If, in management's opinion, the fair value, net of selling costs, of the asset is less than the carrying amount of the asset, an adjustment to the carrying value would be recorded to reflect the estimated fair value of the property, net of selling costs.

Allocation of Purchase Price of Real Estate and Related Assets

Upon the acquisition of real properties, we allocate 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 respective fair values. Acquisition related expenses are expensed as incurred. 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 intangible lease assets and liabilities. 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 lease values are recorded based on the present value (using a discount rate which reflects the risks associated with the leases acquired) of the difference between (1) the contractual amounts to be paid pursuant to the in-place leases and (2) 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, respectively. Above market lease values are amortized as a reduction to rental income over the remaining terms of the respective leases. Below market leases are amortized as an increase to rental income over the remaining terms of the respective leases, including any bargain renewal periods. In considering whether or not we expect a tenant to execute a bargain renewal option, we evaluate economic factors and certain qualitative factors at the time of acquisition, such as the financial strength of the tenant, remaining lease term, the tenant mix of the leased property, our relationship with the tenant and the availability of competing tenant space. If a lease were to be terminated prior to its stated expiration, all unamortized amounts of above market or below market lease values relating to that lease would be recorded as an adjustment to rental income.

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The fair values of in-place leases include estimates of direct costs associated with obtaining a new tenant, and opportunity costs associated with lost rental and other property income, which are avoided by acquiring a property with an in-place lease. Direct costs associated with obtaining a new tenant include commissions 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 intangible values of opportunity costs, which are calculated using the contractual amounts to be paid pursuant to the in-place leases over a market absorption period for a similar lease, are capitalized as intangible lease assets and are amortized to expense over 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.

We estimate the fair value of assumed mortgage notes payable based upon indications of current market pricing for similar types of debt financing 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 mortgage note's outstanding principal balance is amortized to interest expense over the term of the respective mortgage note payable.

The determination of the fair values of the real estate and related 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 alternative estimates may result in a different allocation of management's purchase price, which could impact our results of operations.

Investment in Direct Financing Leases

For real estate property leases classified as direct financing leases, the building portion of the leases are accounted for as direct financing leases, while the land portion is accounted for as operating leases. For direct financing leases, we record an asset which represents (net investment) that is determined by using the aggregate of the total amount of future minimum lease payments, the estimated residual value of the leased property and the 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 eventual disposition of the leased property. Actual residual values realized could differ from these estimates. We evaluate the collectability of future minimum lease payments on each direct financing lease to determine collectability primarily through the evaluation of payment history. We have not provided for an allowance of doubtful accounts based on the grouping of direct financing leases because we believe the characteristics of each direct financing lease are not sufficiently similar to allow an evaluation as a group for a possible allowance. As such, all of our direct financing leases are evaluated individually for the purpose of determining if an allowance is needed. Any write-down of an estimated residual value is recognized as an impairment loss in the current period.

Investment in Mortgage Notes Receivable

Mortgage notes receivable consist of loans we acquired, which are secured by real estate properties. 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 collectability of both interest and principal on each mortgage note receivable to determine whether it is collectible, primarily through the evaluation of credit quality indicators such as underlying collateral and payment history. We do not provide for an allowance for loan losses based on the grouping of loans as we believe the characteristics of the loans are not sufficiently similar to allow for an evaluation of these loans as a group for a possible loan loss allowance. As such, all of our loans are evaluated individually for the purpose of determining if an allowance is needed. 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. 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 to the value of the underlying collateral if the mortgage note receivable is collateral dependent. Interest income on performing mortgage note receivable is accrued as earned. Interest income on impaired mortgage notes receivable is

recognized on a cash basis.

Investment in Unconsolidated Joint Ventures

We did not have an investment in any unconsolidated joint ventures as of December 31, 2012. Our investment in unconsolidated joint venture as of December 31, 2011 consisted of our non-controlling majority interest in a joint venture that owned a multi-tenant property in Independence, Missouri, which was sold on September 28, 2012 as discussed in Note 3 to our consolidated financial statements in this annual report on Form 10-K.

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We accounted for the unconsolidated joint venture using the equity method of accounting as we had the ability to exercise significant influence, but not control, over operating and financial policies of the venture. The equity method of accounting requires the investment to be initially recorded at cost and subsequently adjusted for our share of equity in the joint venture's earnings and distributions. We are required to determine whether an event or change in circumstances has occurred that may have a significant adverse effect on the fair value of its investment in the joint venture. If an event or change in circumstance has occurred, we are required to evaluate the joint venture for potential impairment and determine if the carrying amount of its investment exceeds its fair value. An impairment charge is recorded when an impairment is deemed to be other than temporary. To determine whether an impairment is other-than-temporary, we consider whether it has the ability and intent to hold the investment until the carrying amount is fully recovered. The evaluation of an investment in a joint venture for potential impairment requires our management to exercise significant judgment and to make certain assumptions. The use of different judgments and assumptions could result in different conclusions. We recognize gains or losses on the sale of interests in joint ventures to the extent the economic substance of the transaction is a sale.

Revenue Recognition

Certain properties have leases where minimum rental payments increase during the term of the lease. We record rental income for the full term of each lease on a straight-line basis. When we acquire a property, the terms of existing leases are 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. Expected reimbursements from tenants for recoverable real estate taxes and operating expenses are included in tenant reimbursement income in the period when such costs are incurred.

Income Taxes

We qualified and elected to be taxed as a REIT for federal income tax purposes under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. As a REIT, we are required, among other things, to distribute at least 90% of our taxable income (excluding capital gains) to our stockholders. In addition, we generally will not be subject to federal corporate income tax to the extent we distribute our taxable income to our stockholders. REITs are subject to a number of other organizational and operational requirements. Even if we maintain our qualification 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

We account and report for our derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities 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. The changes in fair value for derivative instruments that are not designated as a hedge or that do not meet the hedge accounting criteria 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 and 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, 2012, 2011, and 2010:

	2012		2011		2010	
Number of commercial properties	752		753		725	
Approximate rentable square feet [1]	21.2 million		21.2 million		20.6 million	
Percentage of rentable square feet leased	96	%	96	%	94	%

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

The following table summarizes our consolidated real estate investment activity during the years ended December 31, 2012, 2011, and 2010:

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	2012		2011		2010		
Commercial properties acquired	1		28		31		(1)
Approximate purchase price of acquired properties	$7.6	million	$100.7	million	$107.5	million	
Approximate rentable square feet [2]	49,000		525,000		1.1 million		

(1) Excludes two properties substituted for one property under a master lease agreement with one of the Company's tenants.

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

Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011

Revenue. Revenue increased $3.6 million, or 1%, to $282.9 million for the year ended December 31, 2012, compared to $279.3 million for the year ended December 31, 2011. Our revenue consisted primarily of rental and other property income from net leased commercial properties, which accounted for 92% and 90% of total revenues during the years ended December 31, 2012 and 2011, respectively.

Rental and other property income increased $8.1 million, or 3%, to $259.6 million for the year ended December 31, 2012, compared to $251.5 million for the year ended December 31, 2011. The increase was primarily due to the acquisition of 28 properties during the year ended December 31, 2011 and one property acquired subsequent to December 31, 2011, combined with additional revenue from the expansion and improvements to certain existing properties as discussed in Note 6 to our consolidated financial statements included in this Annual Report on Form 10-K. We also pay certain operating expenses subject to reimbursement by the tenant. Tenant reimbursement income decreased $1.8 million, or 10%, to $15.2 million for the year ended December 31, 2012, compared to $17.0 million for the year ended December 31, 2011, primarily due to a change in our expected reimbursements from tenants for recoverable real estate taxes and operating expenses during the year ended December 31, 2012.

Earned income from direct financing leases remained constant at $1.9 million for the years ended December 31, 2012, and December 31, 2011. We owned 13 properties accounted for as direct financing leases for each of the years ended December 31, 2012 and 2011.

Interest income on mortgage notes receivable remained relatively constant, decreasing $277,000, or 4%, to $6.1 million for the year ended December 31, 2012, compared to $6.4 million for the year ended December 31, 2011, as we recorded interest income on mortgages receivable on 69 amortizing mortgage notes receivable during each of the years ended December 31, 2012 and 2011. We expect interest income to decrease in future periods as the proportion of principal payments received increases.

There was no interest income recorded on marketable securities during the year ended December 31, 2012, compared to $2.5 million for the year ended December 31, 2011. The decrease was due to the sale of all of our CMBS during the year ended December 31, 2011.

General and Administrative Expenses. General and administrative expenses remained relatively constant, increasing $41,000, or 1%, to $8.0 million for the year ended December 31, 2012, compared to $7.9 million for the year ended December 31, 2011. The primary general and administrative expense items are escrow and trustee fees, operating expenses reimbursable to our advisor, state franchise and income taxes, professional fees, unused fees on our line of credit, board of directors costs, insurance, and other licenses and fees.

Property Operating Expenses. Property operating expenses remained relatively constant, increasing $684,000, or 3%, to $23.4 million for the year ended December 31, 2012, compared to $22.7 million for the year ended December 31, 2011. The primary property operating expense items are property taxes, repairs and maintenance, property insurance and bad debt expense.

Property and Asset Management Expenses. Pursuant to the advisory agreement with our advisor, as amended, we are required to pay to our advisor a monthly asset management fee equal to one-twelfth of 0.25% of the aggregate valuation of our invested assets, as determined by our board of directors. Additionally, we reimburse costs incurred by our advisor in providing asset management services, subject to certain limitations, as set forth in the advisory agreement. Pursuant to the property management agreement with our property manager, which is an affiliate of our advisor, 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 certain limitations as set forth in the property management agreement.

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Property and asset management expenses increased $714,000, or 4%, to $17.7 million for the year ended December 31, 2012, compared to $17.0 million for the year ended December 31, 2011. Of this amount, property management expenses increased to $8.5 million for the year ended December 31, 2012 from $8.1 million for the year ended December 31, 2011, and asset management expenses increased to $9.2 million for the year ended December 31, 2012, from $8.9 million for the year ended December 31, 2011. These increases were primarily due to an increase in property and asset management fees related to the acquisition of 28 properties throughout the year ended December 31, 2011 and one property acquired subsequent to December 31, 2011, combined with an increase in our asset base related to the board of directors' determination of the estimated share value of $9.35 as of July 27, 2011, compared to the previously determined share value of $8.05.

Merger Related Expenses. We recorded $5.8 million in Merger related expenses for the year ended December 31, 2012 as discussed in Note 2 to our consolidated financial statements in this Annual Report on Form 10-K. No Merger related expenses were recorded during the year ended December 31, 2011.

Acquisition Related Expenses. We recorded $233,000 in acquisition related expenses for the year ended December 31, 2012, compared to $3.0 million recorded for the year ended December 31, 2011. During the year ended December 31, 2012 we acquired one property for $7.6 million, and during the year ended December 31, 2011 we acquired 28 properties for $100.7 million. Pursuant to the advisory agreement with our advisor, we pay an acquisition fee to our advisor of 2% of the contract purchase price of each property or asset acquired. Acquisition related expenses also include reimbursements to our advisor for certain acquisition expenses as well as acquisition expenses we pay directly to external parties incurred in the process of acquiring such property.

Depreciation and Amortization Expenses. Depreciation and amortization expenses remained relatively constant, increasing $992,000, or 1%, to $89.2 million for the year ended December 31, 2012, compared to $88.2 million for the year ended December 31, 2011. The increase was primarily related to depreciation and amortization on 28 properties acquired throughout the year ended December 31, 2011 and one property acquired subsequent to December 31, 2011.

Impairment of Real Estate Assets. An impairment loss of $5.7 million was recorded relating to two properties during the year ended December 31, 2012, as discussed in Note 3 to our consolidated financial statements in this Annual Report on Form 10-K. There were no real estate impairment losses recorded during the year ended December 31, 2011.

Equity in Income of Unconsolidated Joint Ventures and Other Income. Equity in income of unconsolidated joint ventures and other income increased $448,000, or 60%, to $1.2 million during the year ended December 31, 2012, compared to $749,000 during the year ended December 31, 2011. The increase was primarily due to the sale of our interest in one of our unconsolidated joint ventures, which was operating at a loss throughout the prior year, on September 30, 2011.

Gain on Sale of Real Estate Assets and Property Condemnation. We recorded a $639,000 gain on the sale of real estate assets and property condemnations for the year ended December 31, 2012 related primarily to the sale of two properties. We recorded a $92,000 gain related to the condemnation of one property during the year ended December 31, 2011.

Gain on Sale of Marketable Securities. During the year ended December 31, 2011, we recorded a gain on sale of marketable securities of $15.6 million in connection with the sale of six CMBS. No similar transactions occurred during the year ended December 31, 2012.

Gain on Sale of Unconsolidated Joint Venture Interests. We recorded a gain on the sale of our interest in an unconsolidated joint venture of $5.2 million during the year ended December 31, 2011 as discussed in Note 6 to our consolidated financial statements in this Annual Report on Form 10-K. No gain was recorded on the sale of our interest in an unconsolidated joint venture during the year ended December 31, 2012.

Impairment of Investment in Unconsolidated Joint Venture. We recorded an impairment of $1.2 million related to an unconsolidated joint venture during the year ended December 31, 2012 as discussed in Note 3 to our consolidated financial statements in this Annual Report on Form 10-K. No impairment was recorded on our investment in unconsolidated joint ventures during the year ended December 31, 2011.

Interest Expense. Interest expense remained relatively constant, decreasing $223,000, or less than 1%, to $108.0 million for the year ended December 31, 2012, compared to $108.2 million during the year ended December 31, 2011, primarily due to a decrease in the weighted average interest rate, which was partially offset by an increase of $14.9 million in the average outstanding debt balance resulting from borrowings incurred to acquire 28 properties during the year ended December 31, 2011, and one property subsequent to December 31, 2011.

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Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010

Revenue. Revenue increased $10.1 million, or 4%, to $279.3 million for the year ended December 31, 2011, compared to $269.2 million for the year ended December 31, 2010. Our revenue consisted primarily of rental and other property income from net leased commercial properties, which accounted for 90% and 89% of total revenues during the years ended December 31, 2011 and 2010, respectively.

Rental and other property income increased $12.8 million, or 5%, to $251.5 million for the year ended December 31, 2011, compared to $238.7 million for the year ended December 31, 2010. The increase was primarily related to rental revenue from the acquisition of 28 new properties subsequent to December 31, 2010, as well as an increase in our occupancy rate from 94% to 96% during 2011. In addition, tenant reimbursement income increased $3.0 million, or 21%, to $17.0 million for the year ended December 31, 2011, compared to $14.0 million for the year ended December 31, 2010. The increase was primarily due to an increase in certain operating expenses related to these properties that are subject to reimbursement by the tenant, primarily property tax expense and repairs and maintenance during year ended December 31, 2011.

Earned income from direct financing leases remained relatively constant, decreasing $125,000, or 6%, to $1.9 million for the year ended December 31, 2011, compared to $2.1 million for the year ended December 31, 2010. We owned 13 properties accounted for as direct financing leases for each of the years ended December 31, 2011 and 2010.

Interest income on mortgage notes receivable remained relatively constant, decreasing $236,000, or 4%, to $6.4 million for the year ended December 31, 2011, compared to $6.7 million for the year ended December 31, 2010, as we recorded interest income on 69 amortizing mortgage notes receivable during each of the years ended December 31, 2011 and 2010. We expect interest income to decrease in future periods as the proportion of principal payments received increases.

Interest income on marketable securities decreased $5.2 million, or 68%, to $2.5 million for the year ended December 31, 2011, compared to $7.7 million for the year ended December 31, 2010. The decrease was due to the sale of all of our CMBS bonds during the first half of the year ended December 31, 2011.

General and Administrative Expenses. General and administrative expenses increased $954,000, or 14%, to $7.9 million for the year ended December 31, 2011, compared to $7.0 million for the year ended December 31, 2010. The increase was primarily due to an increase in insurance expense combined with higher unused fees on our Credit Facility due to the increase in the size of the Credit Facility from $135 million to $350 million in December 2010. The primary general and administrative expense items are legal and accounting fees, insurance, state franchise and income taxes, escrow and trustee fees, unused fees on our line of credit, operating expenses reimbursable to our advisor, and other licenses and fees.

Property Operating Expenses. Property operating expenses increased $2.4 million, or 12%, to $22.7 million for the year ended December 31, 2011, compared to $20.3 million for the year ended December 31, 2010. The increase was primarily due to an increase in property tax expense of $1.5 million, which is subject to reimbursement, combined with an increase in repairs and maintenance expense of $1.0 million. The primary property operating expense items are property taxes, repairs and maintenance, insurance and bad debt expense.

Property and Asset Management Expenses. Pursuant to the advisory agreement with our advisor, as amended, we are required to pay to our advisor a monthly asset management fee equal to one-twelfth of 0.25% of the aggregate valuation of our invested assets, as determined by our board of directors. Additionally, we reimburse costs incurred by our advisor in providing asset management services, subject to certain limitations, as set forth in the advisory agreement. Pursuant to the property management agreement with our property manager, which is an affiliate of our advisor, 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 certain limitations as set forth in the property management agreement.

Property and asset management expenses remained relatively constant, increasing $540,000, or 3%, to $17.0 million for the year ended December 31, 2011, compared to $16.4 million for the year ended December 31, 2010. Of this amount, property management expenses increased to $8.1 million for the year ended December 31, 2011 from $8.0

million for the year ended December 31, 2010, and asset management expenses increased to $8.9 million for the year ended December 31, 2011, from $8.5 million for the year ended December 31, 2010, primarily due to an increase in property and asset management fees related to 28 new properties acquired subsequent to December 31, 2010, combined with property and asset management fees recorded for a full year on 31 properties acquired during the year ended December 31, 2010.

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Acquisition Related Expenses. Acquisition related expenses decreased $420,000, or 12%, to $3.0 million for the year ended December 31, 2011, compared to $3.4 million for the year ended December 31, 2010. The decrease was a result of fewer acquisition related expenses recorded on 28 properties purchased during the year ended December 31, 2011 with an aggregate purchase price of $100.7 million, compared to 31 properties during the year ended December 31, 2010 with an aggregate purchase price of $107.5 million. Pursuant to the advisory agreement with our advisor, we pay an acquisition fee to our advisor of 2% of the contract purchase price of each property or asset acquired. Acquisition related expenses also include reimbursements to our advisor for certain acquisition expenses as well as acquisition expenses we pay directly to external parties incurred in the process of acquiring such property.

Depreciation and Amortization Expenses. Depreciation and amortization expenses increased $3.0 million, or 4%, to $88.2 million for the year ended December 31, 2011, compared to $85.2 million for the year ended December 31, 2010. The increase was primarily related to additional depreciation and amortization recorded on 28 new properties acquired subsequent to December 31, 2010.

Impairment of Real Estate Assets. There were no impairment losses recorded during the year ended December 31, 2011. An impairment loss of $4.5 million was recorded relating to one property during the year ended December 31, 2010, as discussed in Note 3 to our consolidated financial statements in this Annual Report on Form 10-K.

Equity in Income of Unconsolidated Joint Ventures and Other Income. Equity in income of unconsolidated joint ventures and other income decreased $341,000, or 31%, to $749,000 during the year ended December 31, 2011, compared to $1.1 million during the year ended December 31, 2010. The decrease was primarily due to the sale of our interest in one of our unconsolidated joint ventures on September 30, 2011.

Gain on Sale of Real Estate Assets and Property Condemnation. We recorded a $92,000 gain on the sale of real estate assets and property condemnations for the year ended December 31, 2011 related to the condemnation of one property. We recorded no gains related to the sale of real estate assets and property condemnation during the year ended December 31, 2010.

Gain on Sale of Marketable Securities. During the year ended December 31, 2011, we recorded a gain on sale of marketable securities of $15.6 million in connection with the sale of all of our CMBS bonds. No similar transactions occurred during the year ended December 30, 2010.

Gain on Sale of Unconsolidated Joint Venture Interests. During the year ended December 31, 2011, we recorded a gain on the sale of our interest in an unconsolidated joint venture of $5.2 million, as discussed in Note 6 to our consolidated financial statements in this Annual Report on Form 10-K. No similar transactions occurred during the year ended December 31, 2010.

Interest Expense. Interest expense increased $5.2 million, or 5%, to $108.2 million for the year ended December 31, 2011, compared to $103.0 million during the year ended December 31, 2010, primarily due to an increase of $80.1 million in the average outstanding debt balance.

Portfolio Information

Real Estate Portfolio

As of December 31, 2012, we directly owned 752 properties located in 45 states and the U.S. Virgin Islands, the gross rentable space of which was 96% leased with a weighted average lease term remaining of 9.8 years. Of the leases related to these properties, 13 were classified as direct financing leases, as discussed in Note 5 to our consolidated financial statements in this Annual Report on Form 10-K.

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As of December 31, 2012, our five highest tenant concentrations, based on gross annualized rental revenue, were as follows:

Tenant	Total Number of Leases	Leased Square Feet [1]	2012 Gross Annualized Rental Revenue (in thousands)	Percentage of 2012 Gross Annualized Rental Revenue
Walgreens – drug store	70	1,011,529	$23,097	9 %
Church's Chicken – restaurant	1	244,231	14,056	6 %
Academy Sports – sporting goods	9	1,955,411	12,944	5 %
Circle K – convenience store	83	250,580	11,550	5 %
CVS – drug store	37	412,496	9,408	4 %
	200	3,874,247	$71,055	29 %

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

As of December 31, 2012, our five highest tenant industry concentrations, based on gross annualized rental revenue, were as follows:

Industry	Total Number of Leases	Leased Square Feet [1]	2012 Gross Annualized Rental Revenue (in thousands)	Percentage of 2012 Gross Annualized Rental Revenue
Specialty retail	203	4,626,991	$43,077	17 %
Drugstore	128	1,690,979	38,568	15 %
Restaurant	122	955,988	37,044	15 %
Sporting goods	17	2,278,621	17,106	7 %
Home improvement	13	1,616,529	13,256	5 %
	483	11,169,108	$149,051	59 %

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

As of December 31, 2012, our five highest geographic concentrations, based on gross annualized rental revenue, were as follows:

Location	Total Number of Properties	Rentable Square Feet [1]	2012 Gross Annualized Rental Revenue (in thousands)	Percentage of 2012 Gross Annualized Rental Revenue
Texas	166	3,638,467	$40,604	16 %
Florida	23	2,088,910	24,954	10 %
Georgia	63	1,131,834	19,731	8 %
Illinois	23	1,742,432	18,899	7 %
Ohio	64	666,985	13,293	5 %
	339	9,268,628	$117,481	46 %

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

Mortgage Notes Receivable Portfolio

As of December 31, 2012, we owned two portfolios of mortgage notes receivable with a balance of $73.4 million consisting of 69 mortgage notes receivable, secured by 43 restaurant properties and 26 retail properties with a weighted average maturity of 7.7 years.

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Funds From Operations and Modified Funds From Operations

Funds From Operations ("FFO") is a non-GAAP financial performance measure defined by the National Association of Real Estate Investment Trusts ("NAREIT") and widely recognized by investors and analysts as one measure of operating performance of a real estate company. The FFO calculation excludes items such as real estate depreciation and amortization, gains and losses on the sale of depreciable real estate, impairments of depreciable real estate and impairments of joint ventures. Depreciation and amortization as applied in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, it is management's view, and we believe the view of many industry investors and analysts, that the presentation of operating results for real estate companies by using the historical cost method alone is insufficient. In addition, FFO also excludes gains and losses from the sale of depreciable real estate, which we believe provides management and investors with a helpful additional measure of the performance of our real estate portfolio, as it allows for comparisons, year to year, that reflect the impact on operations from trends in items such as occupancy rates, rental rates, operating costs, general and administrative expenses and interest costs. FFO also excludes real estate impairments of depreciable real estate and impairments of joint ventures that are attributable to measurable decreases in the fair value of depreciable real estate held by the venture. Impairment write-downs are items that management does not include in its evaluation of the historical operating performance of its real estate investments, as management believes that the impact of these items will be reflected over time through changes in rental income or other related costs. We compute FFO in accordance with NAREIT's definition.

In addition to FFO, we use Modified Funds From Operations ("MFFO") as a non-GAAP supplemental financial performance measure to evaluate the operating performance of our real estate portfolio. MFFO, as defined by our company, excludes from FFO merger and acquisition related costs, which are required to be expensed in accordance with GAAP. In evaluating the performance of our portfolio over time, management employs business models and analyses that differentiate the costs to merge or acquire investments from the investments' revenues and expenses. Management believes that excluding merger and acquisition costs from MFFO provides investors with supplemental performance information that is consistent with the performance models and analysis used by management, and provides investors a view of the performance of our portfolio over time, including after the Company ceases to acquire properties on a frequent and regular basis. MFFO also allows for a comparison of the performance of our portfolio with other REITs that are not currently engaging in mergers or acquisitions, as well as a comparison of our performance with that of other non-traded REITs, as MFFO, or an equivalent measure, is routinely reported by non-traded REITs, and we believe often used by analysts and investors for comparison purposes.

For all of these reasons, we believe FFO and MFFO, in addition to net income and cash flows from operating activities, as defined by GAAP, are helpful supplemental performance measures and useful in understanding the various ways in which our management evaluates the performance of our real estate portfolio over time. However, not all REITs calculate FFO and MFFO the same way, so comparisons with other REITs may not be meaningful. FFO and MFFO should not be considered as alternatives to net income or to cash flows from operating activities, and are not intended to be used as a liquidity measure indicative of cash flow available to fund our cash needs.

MFFO may provide investors with a useful indication of our future performance, particularly after our acquisition stage, and of the sustainability of our current distribution policy. However, because MFFO excludes acquisition expenses, which are an important component in an analysis of the historical performance of a property, MFFO should not be construed as a historic performance measure. Neither the SEC, NAREIT, nor any other regulatory body has evaluated the acceptability of the exclusions contemplated to adjust FFO in order to calculate MFFO and its use as a non-GAAP financial performance measure.

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Our calculation of FFO and MFFO, and reconciliation to net income, which is the most directly comparable GAAP financial measure, is presented in the table below for the years ended December 31, 2012, 2011 and 2010, respectively (in thousands). FFO and MFFO are influenced by the timing of acquisitions and the operating performance of our real estate investments.

	Year Ended December 31,		
	2012	2011	2010
NET INCOME	$25,397	$53,809	$30,430
Depreciation of real estate assets	60,890	59,782	56,615
Amortization of lease related costs	28,348	28,464	28,547
Depreciation and amortization of real estate assets in unconsolidated joint ventures	995	1,331	2,347
Impairment of real estate assets	5,742	—	4,500
Impairment of joint venture investment	1,156	—	—
Gain on sale of unconsolidated joint venture interests	—	(5,162)	—
Gain on sale and condemnation of real estate assets	(639)	(92)	—
Funds from operations (FFO)	$121,889	$138,132	$122,439
Acquisition related expenses	233	3,021	3,441
Merger related expenses	5,847	—	—
Modified funds from operations (MFFO)	$127,969	$141,153	$125,880

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

- During the year ended December 31, 2011, we sold six CMBS for $82.1 million, and realized a gain on the sale of $15.6 million, of which $14.7 million had previously been recorded in other comprehensive income. No sales of CMBS occurred during the years ended December 31, 2012 and 2010.
- In order to recognize rental income on a straight-line basis over the terms of the respective leases, we recognized additional rental income by straight-lining rental income of $9.1 million, $11.0 million and $11.8 million during the years ended December 31, 2012, 2011 and 2010, respectively. In addition, related to our unconsolidated joint ventures, straight-line revenue of $50,000, $21,000 and $48,000 for the years ended December 31, 2012, 2011 and 2010, respectively, is included in equity in income of unconsolidated joint ventures and other income on the consolidated statements of operations.
- Amortization of deferred financing costs and amortization of fair value adjustments of mortgage notes assumed totaled $9.2 million, $9.1 million and $8.4 million during the years ended December 31, 2012, 2011 and 2010, 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 $26,000, $135,000 and $601,000 for the years ended December 31, 2012, 2011 and 2010 respectively, which is included in equity in income of unconsolidated joint ventures and other income on the consolidated statements of operations.

Distributions

Our board of directors authorized a daily distribution, based on 366 days in the calendar year, of $0.001707848 per share (which equates to 6.25% on an annualized basis calculated at the current rate, assuming a $10.00 per share purchase price, and an annualized return of approximately 6.68%, based on the July 27, 2011 estimate of the value of our shares of $9.35 per share) for stockholders of record as of the close of business on each day of the period, commencing on January 1, 2012 and ending on December 31, 2012. In addition, our board of directors authorized a daily distribution, based on 365 days in the calendar year, of $0.001712523 per share (which equates to approximately 6.25% on an annualized basis calculated at the current rate, based on the original offering price of $10.00 per share, and an annualized distribution rate of approximately 6.61%, based on the January 23, 2013 estimate of the value of the Company’s shares of $9.45 per share) for stockholders of record as of the close of business on each day of the period commencing on January 1, 2013 and ending on March 31, 2013.

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During the years ended December 31, 2012 and 2011, we paid distributions of $131.4 million and $131.0 million, respectively, including $57.0 million and $59.7 million, respectively, through the issuance of shares pursuant to our DRIP Offering. Our distributions for the year ended December 31, 2012 were funded by net cash provided by operating activities of $118.4 million, or 90%, a portion of the net proceeds in excess of our investment from our prior year sale of marketable securities of $9.2 million, or 7%, principal payments from mortgage notes receivable and real estate under direct financing leases of $3.6 million, or 3%, and proceeds from the DRIP offering of $233,000, or less than 1%. Our distributions for the year ended December 31, 2011 were funded by net cash provided by operating activities of $114.4 million, or 87%, portion of the net proceeds in excess of our investment from the sale of marketable securities of $11.3 million, or 9%, proceeds from the DRIP Offering of $3.0 million, or 2%, and return of capital from unconsolidated joint ventures of $2.3 million, or 2%. Net cash provided by operating activities for the years ended December 31, 2012 and 2011, reflect a reduction for real estate acquisition related expenses incurred and expensed of $233,000 and $3.0 million, respectively, in accordance with GAAP. We treat our real estate acquisition expenses as funded by proceeds from the offering of our shares, including proceeds from the DRIP Offering. Therefore, for consistency, proceeds from the issuance of common stock for the years ended December 31, 2012 and 2011 have been reported as a source of distributions to the extent that acquisition expenses have reduced net cash flows from operating activities.

On December 6, 2012, our board of directors, including all of its independent directors, voted to suspend the DRIP and the share redemption program. Beginning with the distributions previously authorized by our board of directors for the month of December 2012, which were paid in January 2013, and continuing until such time as our board of directors may approve the resumption of the DRIP, all distributions authorized by our board of directors are to be paid to our stockholders in cash.

Share Redemptions

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. 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. Effective August 1, 2010 our board of directors reinstated our share redemption program and adopted several amendments to the 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 and the cash available for redemption is limited to the proceeds from the sale of shares pursuant to our DRIP Offering. In addition, we will redeem shares on a quarterly basis, at the rate of approximately one-fourth of 3% of the weighted average number of shares outstanding during the prior calendar year (including shares requested for redemption upon the death of a stockholder). Funding for redemptions for each quarter will be limited to the net proceeds we receive from the sale of shares, during such quarter, under from DRIP Offering.

As a result of the suspension of the share redemption program in December 2012, all redemption requests received from stockholders during the fourth quarter of 2012 on or before December 6, 2012 and that were determined to be in good order on or before December 12, 2012 were honored in accordance with the terms, conditions and limitations of the share redemption program. We did not process or accept any requests for redemption received after December 6, 2012 and will not process or accept any future requests until such time as our board of directors may approve resumption of the share redemption program.

Pursuant to the share redemption program, as amended, the redemption price per share is dependent on the length of time the shares are held and the most recently disclosed Estimated Share Value. As of December 31, 2012, the Estimated Share Value was $9.35 per share, as determined by the board of directors on July 27, 2011. During the year ended December 31, 2012 we received valid redemption requests pursuant to the share redemption program, as amended, relating to approximately 19.5 million shares, including those requests unfulfilled and resubmitted from a previous period, and requests relating to approximately 6.1 million shares were redeemed for $56.9 million at an average price of $9.32. The remaining redemption requests relating to approximately 13.4 million shares went unfulfilled, including those requests unfulfilled and resubmitted from a previous period.

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 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 and interest income on our cash balances. We expect to utilize available borrowings on our Credit Facility and potential additional financings and refinancings to repay our outstanding indebtedness and complete possible future property acquisitions.

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As of December 31, 2012, we had cash and cash equivalents of $21.4 million and available borrowings of $30.4 million under our Credit Facility. Additionally, as of December 31, 2012, we had unencumbered properties with a gross book value of $1.0 billion, including $636.1 million of assets that are part of the Credit Facility's unencumbered borrowing base (the "Borrowing Base Assets"), which 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, subject to certain covenants and leverage and borrowing base restrictions related to our Credit Facility; however, the use of any Borrowing Base Assets as collateral would reduce the available borrowings under our Credit Facility.

Short-term Liquidity and Capital Resources

On a short-term basis, our principal demands for funds will be for operating expenses, distributions to stockholders and interest and principal on current and any future debt financings. We expect to meet our short-term liquidity requirements through available cash, cash provided by property operations, the issuance of new mortgage notes on unencumbered assets and borrowings from our Credit Facility. As of December 31, 2012, we had $319.1 million under our Credit Facility maturing within the next 12 months, which we expect to be repaid or refinanced in connection with or subsequent to the Merger. If the Merger is not completed, we will seek to refinance amounts outstanding under our Credit Facility.

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, 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 debt service payments on any outstanding indebtedness, and distributions to our stockholders.

We expect that substantially all cash flows from operations will be used to pay distributions to our stockholders after certain capital expenditures, including tenant improvements and leasing commissions, are paid; however, we may use other sources to fund distributions as necessary, including borrowing on the Credit Facility and/or borrowings in anticipation of future cash flow. 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 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.

As of December 31, 2012, we had issued approximately 231.2 million shares of our common stock in the Offerings resulting in gross proceeds of $2.3 billion. As of December 31, 2012, we had redeemed a total of approximately 22.6 million shares of common stock for a cost of $206.1 million. Redemption requests relating to approximately 13.4 million shares that were received during the year ended December 31, 2012 went unfulfilled.

As of December 31, 2012, we had $1.8 billion of debt outstanding, consisting of (1) $1.4 billion of Fixed Rate Debt, which includes $77.6 million of variable rate debt swapped to fixed rates, (2) $4.3 million of Variable Rate Debt and (3) $319.1 million outstanding under the Credit Facility, which includes $111.1 million swapped to a fixed rate. The Fixed Rate Debt has annual interest rates ranging from 3.15% to 7.22%, with a weighted average annual interest rate of 5.68%, and various maturity dates ranging from September, 2014 through August, 2031. The Variable Rate Debt has an annual interest rate of LIBOR plus 275 basis points, and matures in September, 2014. As of December 31, 2012, the weighted average interest rate in effect for Revolving Loans under the Credit Facility was 3.71% and the Term Loan was fixed at a rate of 4.94% per annum based on our overall leverage levels. Additionally, the ratio of debt to gross real estate and related assets net of gross intangible lease liabilities, as of December 31, 2012, was 51% and the weighted average years to maturity was 3.6 years. Our contractual obligations as of December 31, 2012 were as follows (in thousands):

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	Payments due by period [1] [2]				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Principal payments – fixed rate debt[3]	$1,442,354	$5,142	$331,924	$916,277	$189,011
Interest payments – fixed rate debt[4]	345,337	82,574	156,321	87,128	19,314
Principal payments – variable rate debt	4,250	—	4,250	—	—
Interest payments – variable rate debt[5]	222	125	97	—	—
Principal payments – credit facility	319,111	319,111	—	—	—
Interest payments – credit facility[4] [6]	12,776	12,776	—	—	—
Total	$2,124,050	$419,728	$492,592	$1,003,405	$208,325

(1) The table above 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. As of December 31, 2012, the fair value adjustment, net of amortization, of mortgage notes assumed was $8.4 million.

(4) As of December 31, 2012, we had $188.7 million of Variable Rate Debt and Credit Facility borrowings 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) A rate of 2.96% was used to calculate the variable debt payment obligations in future periods. This was the rate effective as of December 31, 2012.

(6) Payment obligations for the Term Loan and Revolving Loans outstanding under the Credit Facility calculated based on interest rates of 4.94% and 3.71%, respectively, in effect as of December 31, 2012.

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, 2012 Compared to the Year Ended December 31, 2011

Operating Activities. Net cash provided by operating activities increased $3.9 million, or 3%, to $118.4 million for the year ended December 31, 2012, compared to $114.4 million for the year ended December 31, 2011. The increase was primarily due to a net change in our working capital accounts of $2.8 million and an increase in net income before non-cash adjustments for depreciation, amortization, bad debt expense, impairments, gains on sale of marketable securities and real estate assets and unconsolidated joint ventures of $1.1 million for the year ended December 31, 2012 compared to December 31, 2011. See “– Results of Operations” for a more complete discussion of the factors impacting our operating performance.

Investing Activities. Net cash provided by investing activities increased $29.5 million to $11.2 million for the year ended December 31, 2012, compared to net cash used in investing activities of $18.3 million for the year ended December 31, 2011. The increase was primarily a result of less cash used for investments in real estate and related assets as we made one real estate acquisition with a purchase price of $7.6 million during the year ended December 31, 2012, compared to the acquisition of 28 properties for a total purchase price of $100.7 million during the year ended December 31, 2011. Additionally, we used cash of $15.0 million for capital expenditures during the year ended December 31, 2012, compared with $20.9 million during the year ended December 31, 2011. We received $28.6 million in proceeds from the sale of real estate assets and our interest in an unconsolidated joint venture during the year ended December 31, 2012 compared to proceeds of $19.0 million from the sale of real estate assets and our interest in an unconsolidated joint venture during the year ended December 31, 2011. These amounts were partially offset by a decrease in proceeds from sale of marketable securities of $82.1 million, as no sales of marketable securities occurred during the year ended December 31, 2012.

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Financing Activities. Net cash used in financing activities increased $72.7 million, or 82%, to $161.4 million for the year ended December 31, 2012 compared to $88.7 million for the year ended December 31, 2011. During the year ended December 31, 2012, our loan activity resulted in net repayments of $12.2 million and during the year ended December 31, 2011 our loan activity resulted in net borrowings of $38.2 million, combining for an increase in cash used for mortgage notes payable, the Credit Facility and our Repurchase Agreement of $50.3 million. Additionally, the increase in net cash used in financing activities was due to an increase in cash used for the redemptions of common stock of $18.7 million and an increase in distributions to investors of $3.0 million for the year ended December 31, 2012 compared to the year ended December 31, 2011.

Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010

Operating Activities. Net cash provided by operating activities increased $8.8 million, or 8%, to $114.4 million for the year ended December 31, 2011, compared to $105.6 million for the year ended December 31, 2010. The increase was primarily due to an increase in net income before non-cash adjustments for depreciation, amortization, accretion, and impairment of $25.7 million, combined with an increase in the change in accounts payable and accrued expenses of $4.8 million for the year ended December 31, 2011 compared to December 31, 2010. These increases were offset by a gain on the sale of marketable securities of $15.6 million and a gain on the sale of a joint venture interest of $5.2 million for the year ended December 31, 2011. 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 $91.9 million, or 83%, to $18.3 million for the year ended December 31, 2011 compared to $110.2 million for the year ended December 31, 2010. The decrease was primarily related to proceeds of $82.1 million received from the sale of marketable securities, combined with net proceeds of $18.8 million received from the sale of our interests in an unconsolidated joint venture during the year ended December 31, 2011. No such sales occurred during the year ended December 31, 2010. The increase from sale proceeds was partially offset by an increase in the acquisition of real estate and related assets of $5.8 million combined with an increase in restricted cash of $4.7 million during the year ended December 31, 2011.

Financing Activities. Net cash used in financing activities increased $110.7 million to $88.7 million for the year ended December 31, 2011, compared to net cash provided by financing activities of $22.0 million for the year ended December 31, 2010. The increase in cash used was primarily due to a decrease in proceeds from mortgage notes payable, the Credit Facility and our Repurchase Agreement of $197.5 million combined with an increase in cash used for the redemptions of common stock of $31.0 million during the year ended December 31, 2011 compared to December 31, 2010. These amounts were partially offset by a decrease of $117.5 million in outstanding amounts repaid under the mortgage notes payable, the Credit Facility and our Repurchase Agreement for the year ended December 31, 2011 compared to the year ended December 31, 2010.

Election as a REIT

We are taxed as a REIT under the Internal Revenue Code of 1986, as amended. To maintain our qualification as a REIT, we must continue to meet certain requirements relating to our organization, sources of income, nature of assets, distributions of income to our stockholders and recordkeeping. As a REIT, we generally are not subject to federal income tax on taxable income that we distribute to our stockholders so long as we distribute at least 90% of our annual taxable income (computed without regard to the dividends paid deduction and excluding net capital gains).

If we fail to maintain our qualification as a REIT for any reason in a taxable year and applicable relief provisions do not apply, we will be subject to tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates. We will not be able to deduct distributions paid to our stockholders in any year in which we fail to maintain our qualification as a REIT. We also will be disqualified for the four taxable years following the year during which qualification was lost unless we are entitled to relief under specific statutory provisions. 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 maintain our qualification as a REIT for federal income tax purposes. No provision for federal income taxes has been made in our accompanying consolidated financial statements in this Annual Report on Form 10-K. 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 consolidated financial statements.

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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 property's operating expenses, including real estate taxes, special assessments and sales and use taxes, utilities, insurance and building repairs. However, because of the long-term nature of leases for real property, such leases may not re-set frequently enough to adequately offset the effects of inflation.

Commitments and Contingencies

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

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 such as 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, real estate commissions and reimbursement of certain operating costs. See Note 15 to our consolidated financial statements in this Annual Report on Form 10-K for a further explanation 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, including CCPT, CCPT III, CCPT IV, CCIT and Cole Income NAV Strategy. 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 other real estate programs sponsored by Cole Real Estate Investments, may be in conflict with us in connection with providing services to other real estate related programs related to property acquisitions, property dispositions, and property management among others. The compensation arrangements between affiliates of Cole Advisors II and these other real estate programs sponsored by Cole Real Estate Investments could influence the 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, 2012 through the filing date of this Annual Report on Form 10-K. Refer to Note 22 to our consolidated financial statements in this Annual Report on Form 10-K for further explanation. Such events include:

- Redemption of shares of common stock;
- Line of credit;
- Share valuation;
- Merger Agreement;
- Legal proceedings;
- Advisory and property management matters agreement;
- Property disposition; and
- Holdings merger agreement.

Impact of Recent Accounting Pronouncements

Refer to Note 3 to our consolidated financial statements included in this Annual Report on Form 10-K for further explanation. There have been no accounting pronouncements issued, but not yet applied by us, that will significantly impact our financial statements.

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Off Balance Sheet Arrangements

As of December 31, 2012 and 2011, 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

We have obtained variable rate debt financing to fund certain property acquisitions, and therefore we are exposed to changes in LIBOR and a bank's prime rate. Our objectives in managing interest rate risks 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 may 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 variable rate financial instrument. We have not entered, and do not intend to enter, into derivative or interest rate transactions for speculative purposes. We may also enter into rate lock arrangements to lock interest rates on future borrowings. We may be exposed to credit and market risks including, but not limited to, the failure of any counterparty to perform under the terms of the derivative contract or the adverse effect on the value of the financial instrument resulting from a change in interest rates.

As of December 31, 2012, $212.3 million of the $1.8 billion outstanding on notes payable and the Credit Facility was subject to variable interest rates. Revolving Loans under the Credit Facility bore interest at a weighted average rate of 3.71%. The remaining variable rate debt bore interest at the one-month LIBOR plus 275 basis points. As of December 31, 2012, an increase of 50 basis points in interest rates would result in a change in interest expense of $1.1 million per year, assuming all of our derivatives remain effective hedges.

As of December 31, 2012, we had four interest rate swap agreements outstanding, which mature on various dates from November 2013 through March 2016, with an aggregate notional amount under the swap agreements of $188.7 million and an aggregate net fair value of $(2.2) million. The fair value of these interest rate swap agreements is dependent upon existing market interest rates and swap spreads. As of December 31, 2012, an increase of 50 basis points in interest rates would result in an increase to the fair value of these interest rate swaps of $1.3 million. These interest rate swaps were designated as hedging instruments.

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 Annual Report on Form 10-K.

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, 2012.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As required by Rules 13a-15(b) and 15d-15(b) of 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, 2012, were effective to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act 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.

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Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. 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 GAAP. 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 our 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 our internal control over financial reporting was effective as of December 31, 2012.

Changes in Internal Control Over Financial Reporting

No change occurred in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d -15(f) of the Exchange Act) during the three months ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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 joint proxy statement/prospectus to be filed with the SEC with respect to our 2013 annual meeting of stockholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to our definitive joint proxy statement/prospectus to be filed with the SEC with respect to our 2013 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 joint proxy statement/prospectus to be filed with the SEC with respect to our 2013 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 joint proxy statement/prospectus to be filed with the SEC with respect to our 2013 annual meeting of stockholders.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference to our definitive joint proxy statement/prospectus to be filed with the SEC with respect to our 2013 annual meeting of stockholders.

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.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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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, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. 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, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, 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.

/s/ DELOITTE & TOUCHE LLP
Phoenix, Arizona
March 6, 2013

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

	December 31, 2012	December 31, 2011
ASSETS		
Investment in real estate assets:		
Land	$861,249	$863,257
Buildings and improvements, less accumulated depreciation of $297,422 and $238,688, respectively	1,911,029	1,959,922
Real estate assets under direct financing leases, less unearned income of $11,454 and $13,342, respectively	34,966	35,999
Acquired intangible lease assets, less accumulated amortization of $159,639 and $128,544, respectively	292,037	323,298
Total investment in real estate assets, net	3,099,281	3,182,476
Investment in mortgage notes receivable, net	73,438	76,745
Total investment in real estate and mortgage assets, net	3,172,719	3,259,221
Cash and cash equivalents	21,384	53,205
Restricted cash	10,206	11,811
Investment in unconsolidated joint venture	—	22,334
Rents and tenant receivables, less allowance for doubtful accounts of $80 and $547, respectively	62,182	57,403
Prepaid expenses and other assets	4,048	3,739
Deferred financing costs, less accumulated amortization of $20,499 and $17,751, respectively	18,997	22,609
Total assets	$3,289,536	$3,430,322
LIABILITIES AND STOCKHOLDERS' EQUITY		
Notes payable and line of credit	$1,757,322	$1,767,591
Accounts payable and accrued expenses	17,148	16,100
Due to affiliates	1,937	1,069
Acquired below market lease intangibles, less accumulated amortization of $53,557 and $42,880, respectively	119,550	130,680
Distributions payable	11,087	11,157
Deferred rental income, derivative and other liabilities	15,065	17,530
Total liabilities	1,922,109	1,944,127
Commitments and contingencies		
Redeemable common stock	121	14,482
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, 208,597,575 and 210,151,692 shares issued and outstanding, respectively	2,086	2,101
Capital in excess of par value	1,883,113	1,882,971
Accumulated distributions in excess of earnings	(515,712)	(409,801)
Accumulated other comprehensive loss	(2,181)	(3,558)
Total stockholders' equity	1,367,306	1,471,713
Total liabilities and stockholders' equity	$3,289,536	$3,430,322

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,		
	2012	2011	2010
Revenues:			
Rental and other property income	$259,567	$251,499	$238,706
Tenant reimbursement income	15,249	17,020	14,044
Earned income from direct financing leases	1,888	1,942	2,067
Interest income on mortgage notes receivable	6,148	6,425	6,661
Interest income on marketable securities	—	2,459	7,672
Total revenue	282,852	279,345	269,150
Expenses:			
General and administrative expenses	7,984	7,943	6,989
Property operating expenses	23,427	22,743	20,294
Property and asset management expenses	17,701	16,987	16,447
Merger related expenses	5,847	—	—
Acquisition related expenses	233	3,021	3,441
Depreciation	60,890	59,782	56,615
Amortization	28,348	28,464	28,547
Impairment of real estate assets	5,742	—	4,500
Total operating expenses	150,172	138,940	136,833
Operating income	132,680	140,405	132,317
Other income (expense):			
Equity in income of unconsolidated joint ventures and other income	1,197	749	1,090
Gain on sale of real estate assets and property condemnation	639	92	—
Gain on sale of marketable securities	—	15,587	—
Gain on sale of unconsolidated joint venture interests	—	5,162	—
Impairment of investment in unconsolidated joint venture	(1,156)	—	—
Interest expense	(107,963)	(108,186)	(102,977)
Total other expense	(107,283)	(86,596)	(101,887)
Net Income	$25,397	$53,809	$30,430
Weighted average number of common shares outstanding:			
Basic	210,075,980	209,693,707	207,198,078
Diluted	210,077,076	209,693,707	207,198,078
Net income per common share:			
Basic and diluted	$0.12	$0.26	$0.15

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 COMPREHENSIVE INCOME
(in thousands)

	Year Ended December 31,		
	2012	2011	2010
Net income	$25,397	$53,809	$30,430
Other comprehensive income (loss):			
Unrealized (loss) gain on marketable securities	—	(1,713)	23,051
Reclassification of previous unrealized gain on marketable securities into net income	—	(14,654)	—
Unrealized gain (loss) on interest rate swaps	1,164	98	(853)
Reclassification of previous unrealized loss on interest rate swaps into net income	213	—	—
Total other comprehensive income (loss)	1,377	(16,269)	22,198
Comprehensive income	$26,774	$37,540	$52,628

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

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

	Common Stock		Capital in Excess of Par Value	Accumulated Distributions in Excess of Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Number of Shares	Par Value				
Balance January 1, 2010	204,662,620	$2,047	$1,762,904	$(233,480)	$ (9,487)	$1,521,984
Issuance of common stock	7,037,054	70	61,307	—	—	61,377
Distributions to investors	—	—	—	(129,497)	—	(129,497)
Other offering costs	—	—	(9)	—	—	(9)
Redemptions of common stock	(2,382,328)	(24)	(21,614)	—	—	(21,638)
Stock compensation expense	—	—	7	—	—	7
Changes in redeemable common stock	—	—	75,523	—	—	75,523
Comprehensive income	—	—	—	30,430	22,198	52,628
Balance December 31, 2010	209,317,346	2,093	1,878,118	(332,547)	12,711	1,560,375
Issuance of common stock	6,986,717	70	59,626	—	—	59,696
Distributions to investors	—	—	—	(131,063)	—	(131,063)
Redemptions of common stock	(6,152,371)	(62)	(52,528)	—	—	(52,590)
Changes in redeemable common stock	—	—	(2,245)	—	—	(2,245)
Comprehensive income	—	—	—	53,809	(16,269)	37,540
Balance, December 31, 2011	210,151,692	2,101	1,882,971	(409,801)	(3,558)	1,471,713
Issuance of common stock	6,099,920	61	56,973	—	—	57,034
Distributions to investors	—	—	—	(131,308)	—	(131,308)
Redemptions of common stock	(7,654,037)	(76)	(71,192)	—	—	(71,268)
Changes in redeemable common stock	—	—	14,361	—	—	14,361
Comprehensive income	—	—	—	25,397	1,377	26,774
Balance, December 31, 2012	208,597,575	$2,086	$1,883,113	$(515,712)	$ (2,181)	$1,367,306

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,		
	2012	2011	2010
Cash flows from operating activities:			
Net income	$25,397	$53,809	$30,430
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	60,890	59,782	56,615
Amortization of intangible lease assets and below market lease intangibles, net	21,698	21,976	20,695
Amortization of deferred financing costs	7,333	7,195	6,580
Amortization of premiums on mortgage notes receivable	722	705	687
Accretion of discount on marketable securities	—	(846)	(2,578)
Amortization of fair value adjustments of mortgage notes payable assumed	1,885	1,863	1,849
Bad debt expense (recovery)	689	87	(257)
Stock compensation expense	—	—	7
Impairment of real estate assets and joint venture investment	6,898	—	4,500
Equity in income of unconsolidated joint ventures	(1,157)	(666)	(965)
Return on investment from unconsolidated joint ventures	1,157	711	1,285
Gain on sale of real estate assets and property condemnation	(639)	(92)	—
Gain on sale of marketable securities	—	(15,587)	—
Gain on sale of unconsolidated joint venture interests	—	(5,162)	—
Changes in assets and liabilities:			
Rents and tenant receivables	(5,663)	(11,874)	(11,815)
Prepaid expenses and other assets	(309)	127	246
Accounts payable and accrued expenses	(220)	1,401	(3,436)
Due to affiliates, deferred rental income and other liabilities	(310)	1,020	1,784
Net cash provided by operating activities	118,371	114,449	105,627
Cash flows from investing activities:			
Investment in real estate and related assets and other capital expenditures	(22,601)	(121,552)	(115,790)
Proceeds from sale of real estate assets and property condemnation	7,405	247	5
Proceeds from sale of marketable securities	—	82,061	—
Proceeds from sale of unconsolidated joint venture interests	21,178	18,769	—
Principal repayments from mortgage notes receivable and real estate assets under direct financing leases	3,618	3,275	2,825
Return of investment from unconsolidated joint ventures	—	2,338	1,562
Refund of property escrow deposits	—	1,340	—
Payment of property escrow deposits	—	(1,340)	—
Change in restricted cash	1,605	(3,466)	1,191
Net cash provided by (used in) investing activities	11,205	(18,328)	(110,207)
Cash flows from financing activities:			
Offering costs on issuance of common stock	—	—	(9)
Redemptions of common stock	(71,268)	(52,590)	(21,638)
Distributions to investors	(74,344)	(71,307)	(67,874)
Proceeds from notes payable, line of credit and repurchase agreement	311,300	247,796	445,312
Repayment of notes payable, line of credit and repurchase agreement	(323,454)	(209,623)	(327,079)
Payment of loan deposits	(1,015)	—	(2,145)

Refund of loan deposits	1,015	—	2,145
Deferred financing costs paid	(3,631)	(2,983)	(6,758)
Net cash (used in) provided by financing activities	(161,397)	(88,707)	21,954
Net (decrease) increase in cash and cash equivalents	(31,821)	7,414	17,374
Cash and cash equivalents, beginning of year	53,205	45,791	28,417
Cash and cash equivalents, end of year	$21,384	$53,205	$45,791

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") for federal income tax purposes. Substantially all of the Company's business is conducted through Cole Operating Partnership II, LP ("Cole OP II"), a Delaware limited partnership. The Company is the sole general partner of and owns a 99.99% partnership interest in Cole OP II. Cole REIT Advisors II, LLC ("Cole Advisors II"), the 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, 2012, the Company owned 752 properties comprising 21.2 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, 2012, the rentable space at these properties was 96% leased. As of December 31, 2012, the Company also owned 69 mortgage notes receivable secured by 43 restaurant properties and 26 single-tenant retail properties, each of which is subject to a net lease.

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 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 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 $541.4 million and a maximum of 1,202,000 shares was available under the DRIP for an aggregate offering price of $11.4 million.

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 $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 were 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 $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"). On June 22, 2010, the Company's board of directors amended the DRIP to provide that reinvestments of distributions made on or after July 15, 2010 will be made at a price equal to the most recent estimated per share value of the Company's common stock as determined by the board of directors (the "Estimated Share Value"). As of December 31, 2012, the Estimated Share Value was $9.35 per share, which was determined by the board of directors on July 27, 2011 and used for the purchase of shares pursuant to the DRIP through December 6,

2012.

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

On December 6, 2012, the board of directors, including all of its independent directors, voted to suspend the DRIP and the Company's share redemption program. Beginning with the distributions previously authorized by the board of directors for the month of December 2012, which were paid in January 2013, and continuing until such time as the board of directors may approve the resumption of the DRIP, all distributions authorized by the board of directors are to be paid to the Company's stockholders in cash. As a result of the suspension of the share redemption program, all redemption requests received from stockholders during the fourth quarter of 2012 on or before December 6, 2012 and that were determined by the Company to be in good order on or before December 12, 2012 were honored in accordance with the terms, conditions and limitations of the share redemption program. The Company did not process or accept any requests for redemption received after December 6, 2012 and will not process or accept any future requests until such time as the board of directors may approve resumption of the share redemption program.

As of December 31, 2012, the Company had issued approximately 231.2 million shares of common stock in its Offerings for aggregate gross proceeds of $2.3 billion (including proceeds from the issuance of shares pursuant to the DRIP Offering of $261.3 million), before share redemptions of $206.1 million. As of December 31, 2012, the Company had incurred an aggregate of $188.3 million in offering costs, selling commissions, and dealer manager fees in the Offerings.

The Company's stock is not currently listed on a national securities exchange. On January 22, 2013, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Spirit Realty Capital, Inc. ("Spirit"), a publicly-listed REIT. The Merger Agreement provides for the merger of Spirit with and into the Company, with the Company as the surviving corporation (the "Merger"). Upon consummation of the Merger, Spirit stockholders will receive 1.9048 shares of the Company's common stock for each share of Spirit common stock they own (which equates to an inverse exchange ratio of 0.525 shares of Spirit common stock for each share of the Company's common stock) and each share of Company common stock will remain an issued and outstanding share of the combined company. Upon the closing of the Merger, the combined company will list its shares on the New York Stock Exchange and trade under Spirit's existing ticker "SRC". Refer to Note 2 to these consolidated financial statements for further discussion regarding the Merger.

NOTE 2 — MERGER AGREEMENT

On January 22, 2013, the Company, Cole OP II, Spirit and Spirit Realty, L.P., a Delaware limited partnership (the "Spirit Partnership"), entered into the Merger Agreement. The Merger Agreement provides for the merger of Spirit with and into the Company with the Company continuing as the surviving corporation (the "Surviving Corporation") and the merger of the Cole OP II with and into the Spirit Partnership (the "Partnership Merger") with the Spirit Partnership continuing as the surviving limited partnership (the "Surviving Limited Partnership"). A special committee of independent directors of the Company unanimously recommended the Merger and the board of directors has unanimously approved the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement.

Pursuant to the terms and subject to the conditions set forth in the Merger Agreement, at the effective time of the Merger (the "Merger Effective Time"), each outstanding share of common stock, par value $0.01 per share, of Spirit ("Spirit Common Stock") will be converted into the right to receive 1.9048 (the "Exchange Ratio") shares of common stock, par value $0.01 per share, of the Surviving Corporation ("Surviving Corporation Common Stock"). At and after the Merger Effective Time, each share of common stock, par value $0.01 per share, of the Company ("Company Common Stock") issued and outstanding immediately prior to the Merger Effective Time shall remain outstanding. At the effective time of the Partnership Merger, (i) each outstanding partnership unit in the Cole OP II (other than partnership units held by the Company, which shall cease to exist) shall automatically be converted into one validly issued share of Surviving Corporation Common Stock; (ii) each outstanding partnership unit in the Spirit Partnership shall remain outstanding; and (iii) the general partner interest of the Spirit Partnership shall constitute the only general partner interests in the Surviving Partnership.

Under the terms of the Merger Agreement, at the Merger Effective Time, the Surviving Corporation shall assume Spirit's 2012 Incentive Award Plan (the "Plan") and the number and kind of shares available for issuance under the Plan

shall be converted into shares of Surviving Corporation Common Stock, after giving effect to the Exchange Ratio, in accordance with the provisions of the Plan. Similarly, all outstanding shares of Spirit Common Stock that are subject to vesting and other restrictions will convert into restricted shares of Surviving Corporation Common Stock, after giving effect to the Exchange Ratio, with the same terms and conditions as were applicable to such shares of Spirit Common Stock immediately prior to the Merger Effective Time.

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

The completion of the Merger is subject to customary conditions, including, among others: (i) approval by the holders of a majority of the outstanding shares of Spirit Common Stock; (ii) approval by the holders of a majority of the outstanding shares of Company Common Stock; (iii) the authorization of the listing on the New York Stock Exchange (the "NYSE") of the Surviving Corporation Common Stock, including the Surviving Corporation Common Stock to be issued in connection with the Merger; (iv) the registration statement on Form S-4 registering the applicable Surviving Corporation Common Stock to be issued as consideration for the Merger having been declared effective by the Securities and Exchange Commission (the "SEC"); and (v) the obtaining of certain third party consents.

At the Merger Effective Time, the size of the board of directors of the Surviving Corporation will be set at nine, and all of the directors of Spirit immediately prior to the consummation of the Merger and up to two individuals designated by the Company and reasonably satisfactory to Spirit, will comprise the board of directors of the Surviving Corporation. Spirit's management will oversee the operations of the Surviving Corporation. In addition, at the Merger Effective Time, the charter and bylaws of the Surviving Corporation will be amended and restated to be substantially identical to the charter and bylaws of Spirit, as in effect immediately prior to the Merger Effective Time. The name of the Surviving Corporation shall be "Spirit Realty Capital, Inc."

The Company and Spirit have made certain customary representations, warranties and covenants in the Merger Agreement. Each of the Company and Spirit is required, among other things: (i) subject to certain exceptions, to conduct its business in the ordinary course consistent with past practice during the interim period between the execution of the Merger Agreement and the consummation of the Merger; and (ii) not to solicit alternative transactions, and, subject to certain exceptions, not to enter into discussions concerning, or provide confidential information in connection with, any alternative transaction. Each party has also agreed to use its reasonable best efforts to cause the Merger to be consummated. In addition, subject to certain exceptions, the Merger Agreement requires each party to call and hold a meeting of its stockholders and for the respective board of directors of each party to recommend that its stockholders approve the Merger and the transactions contemplated by the Merger Agreement.

The Merger Agreement contains certain termination rights for both the Company and Spirit, including, among other bases for termination, if the Merger is not consummated on or before July 22, 2013 (subject to a two month extension under certain circumstances) and if the requisite approvals of either the stockholders of the Company or Spirit are not obtained. In addition, either party may choose to terminate the Merger Agreement under certain circumstances, including among others, if: (i) prior to its stockholder vote, the party receives a Superior Proposal, as defined in the Merger Agreement, and after providing the other party with adequate notice and paying the termination fee (as described below), the party enters into a definitive agreement in connection with such Superior Proposal; or (ii) the party's board of directors changes its recommendation to its stockholders to vote in favor of the Merger as a result of an Intervening Event, as defined in the Merger Agreement, and contemporaneously such party pays the other party the termination fee. If no alternative acquisition proposal has been publicly announced prior to a party's meeting of its stockholders and such party fails to obtain the approval of its stockholders, such party may be required to reimburse the other party's transaction expenses (as described below). The Merger Agreement provides that, in connection with the termination of the Merger Agreement under specified circumstances, one party may be required to pay to the other a termination fee of $55.0 million and/or reimburse the other party's transaction expenses up to an amount equal to $10.0 million.

As of December 31, 2012 the Company had incurred $5.8 million for legal, consulting and other expenses related to the Merger.

NOTE 3 — 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 of America ("GAAP"), in all material respects, and have been consistently applied in preparing the accompanying consolidated financial statements.

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

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Certain prior year balances have been reclassified in the consolidated statements of operations to separately present gain on sale of real estate assets and property condemnation. In addition, certain prior year balances have been reclassified in the consolidated statements of cash flows to combine proceeds from the sale of real estate assets with proceeds received from property condemnations.

The Company evaluates its relationships and investments to determine if it has variable interests. A variable interest is an investment or other interest that will absorb portions of an entity's expected losses or receive portions of the entity's expected residual returns. If the Company determines that it has a variable interest in an entity, it evaluates whether such interest is in a variable interest entity ("VIE"). A VIE is broadly defined as an entity where either (1) the equity investors as a group, if any, lack the power through voting or similar rights to direct the activities of an entity that most significantly impact the entity's economic performance or (2) the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support. The Company consolidates any VIEs when it is determined to be the primary beneficiary of the VIE's operations.

A variable interest holder is considered to be the primary beneficiary of a VIE if it has the power to direct the activities of a VIE that most significantly impact the entity's economic performance and has the obligation to absorb losses of, or the right to receive benefits from, the entity that could potentially be significant to the VIE. The Company qualitatively assesses whether it is (or is not) the primary beneficiary of a VIE. Consideration of various factors include, but are not limited to, the Company's ability to direct the activities that most significantly impact the entity's economic performance, its form of ownership interest, its representation on the entity's governing body, the size and seniority of its investment, its ability and the rights of other investors to participate in policy making decisions and to replace the manager of and/or liquidate the entity.

The Company continually evaluates the need to consolidate joint ventures, if any, based on standards set forth in GAAP. 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, power to make decisions and contractual and substantive participating rights of the partners/members as well as whether the entity is a VIE for which the Company is the primary beneficiary. The Company has no relationship, investment or other interests in entities that are or were required to be consolidated because the Company has no variable interests in an entity that qualifies as a VIE.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 and related assets are stated at cost, less accumulated depreciation and amortization. Amounts capitalized to real estate and related assets consist of the cost of acquisition, excluding acquisition related expenses, construction and any tenant improvements, major improvements and betterments that extend the useful life of the real estate and related assets and leasing costs. All repairs and maintenance are expensed as incurred.

The Company is required to make subjective assessments as to the useful lives of its depreciable assets. The Company considers the period of future benefit of each respective asset to determine the appropriate useful life of the assets. Real estate and related assets, other than land, are depreciated or amortized on a straight-line basis. The estimated useful lives of the Company's real estate and related assets by class are generally as follows:

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company continually monitors events and changes in circumstances that could indicate that the carrying amounts of its real estate and related assets may not be recoverable. Impairment indicators that the Company considers include, but are not limited to, bankruptcy or other credit concerns of a property's major tenant, such as a history of late payments, rental concessions, and other factors, 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 amount of the assets will be recovered through the undiscounted future 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 amount, the Company will adjust the real estate and related assets to their respective fair values and recognize an impairment loss. Generally, fair value is determined using a discounted cash flow analysis and recent comparable sales transactions.

The Company continually monitors certain properties for which it has identified impairment indicators. As of December 31, 2012, the Company had seven properties with an aggregate book value of $46.7 million for which it had assessed the recoverability of the carrying amounts. For six of these properties, the undiscounted future cash flows expected as a result of the use of the real estate and related assets and the eventual disposition of the assets continued to exceed their carrying amount as of December 31, 2012. Should the conditions related to any of these, or any of the Company's other properties change, the underlying assumptions used to determine the expected undiscounted future cash flows may change and adversely affect the recoverability of the respective real estate and related assets' carrying amounts. The Company identified two properties during the year ended December 31, 2012 and one property during the year ended December 31, 2010 with impairment indicators for which the undiscounted future cash flows expected as a result of the use and eventual disposition of each of the real estate and related assets were less than the carrying amount of the respective properties. As a result, the Company reduced the carrying amount of each of the real estate and related assets to their estimated fair value by recognizing an impairment loss of $5.7 million during the year ended December 31, 2012 and $4.5 million during the year ended December 31, 2010. No impairment indicators were identified and no impairment losses were recorded during the year ended December 31, 2011.

When developing estimates of expected future cash flows, the Company makes certain assumptions regarding future market rental income amounts subsequent to the expiration of current lease agreements, property operating expenses, terminal capitalization and discount rates, the expected number of months it takes to re-lease the property, required tenant improvements and the number of years the property will be held for investment. The use of alternative assumptions in estimating expected future cash flows could result in a different determination of the property's expected future cash flows and a different conclusion regarding the existence of an impairment, the extent of such loss, if any, as well as the fair value of the real estate and related assets.

When a real estate asset is identified by the Company as held for sale, the Company ceases depreciation and amortization of the assets related to the property and estimates the fair value, net of selling costs. If, in management's opinion, the fair value, net of selling costs, of the asset is less than the carrying amount of the asset, an adjustment to the carrying amount would be recorded to reflect the estimated fair value of the property, net of selling costs. There were no assets identified as held for sale as of December 31, 2012 or 2011.

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 respective fair values. 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 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 intangible lease assets and liabilities. 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 lease values are recorded based on the present value (using a discount rate which reflects the risks associated with the leases acquired) of the difference between (1) the contractual amounts to be paid pursuant to the in-place leases and (2) 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, respectively. Above market lease values are amortized as a reduction to rental income over the remaining terms of the respective leases. Below market leases are amortized as an increase to rental income over the remaining terms of the respective leases, including any bargain renewal periods. In considering whether or not the Company expects a tenant to execute a bargain renewal option, the Company evaluates economic factors and certain qualitative factors at the time of acquisition, such as the financial strength of the tenant, remaining lease term, the tenant mix of the leased property, the Company's relationship with the tenant and the availability of competing tenant space. If a lease were to be terminated prior to its stated expiration, all unamortized amounts of above market or below market lease values relating to that lease would be recorded as an adjustment to rental income.

The fair values of in-place leases include estimates of direct costs associated with obtaining a new tenant and opportunity costs associated with lost rental and other property income which are avoided by acquiring a property with an in-place lease. Direct costs associated with obtaining a new tenant include commissions 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 intangible values of opportunity costs, which are calculated using the contractual amounts to be paid pursuant to the in-place leases over a market absorption period for a similar lease, are capitalized as intangible lease assets and are amortized to expense over 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 Company estimates the fair value of assumed mortgage notes payable based upon indications of current market pricing for similar types of debt financing 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 mortgage note's outstanding principal balance is amortized to interest expense over the term of the respective mortgage note payable.

The determination of the fair values of the real estate and related 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 alternative estimates may result in a different allocation of the Company's purchase price, which could impact the Company's results of operations.

Investment in Direct Financing Leases

For real estate property leases classified as direct financing leases, the building portion of the leases are accounted for as direct financing leases, while the land portion is accounted for as operating leases. For direct financing leases, the Company records an asset which represents the net investment that is determined by using the aggregate of the total amount of future minimum lease payments, the 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. The Company evaluates the collectability of future minimum lease payments on each direct financing lease to determine collectability primarily through the evaluation of payment history. There were no amounts past due as of December 31, 2012 or 2011. The Company has not provided for an allowance of doubtful accounts based on the grouping of direct financing leases because the Company believes the characteristics of each direct financing lease are not sufficiently similar to allow an evaluation as a group for a possible allowance. As such, all of the Company's direct financing leases are evaluated individually for the purpose of determining if an allowance is needed. Any write-down of an estimated residual value is recognized as an impairment loss in the current period.

There were no impairment losses or allowances recorded related to direct financing leases during the years ended December 31, 2012, 2011 and 2010.

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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 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 collectability of both interest and principal on each mortgage note receivable to determine whether it is collectible, primarily through the evaluation of credit quality indicators such as underlying collateral and payment history. There were no amounts past due as of December 31, 2012 or 2011. The Company does not provide for an allowance for loan losses based on the grouping of loans as the Company believes the characteristics of the loans are not sufficiently similar to allow for an evaluation of these loans as a group for a possible loan loss allowance. As such, all of the Company's loans are evaluated individually for the purpose of determining if an allowance is needed. 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 collateral dependent. Interest income on a 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, 2012, 2011 and 2010.

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.

Restricted Cash

The restricted cash balance of $10.2 million and $11.8 million as of December 31, 2012 and 2011, respectively, included amounts 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 Unconsolidated Joint Venture

The Company did not have an investment in any unconsolidated joint ventures as of December 31, 2012. The investment in unconsolidated joint venture as of December 31, 2011 consisted of the Company's non-controlling majority interest in a joint venture that owned a 386,000 square foot multi-tenant property in Independence, Missouri ("Independence Commons"), which was sold on September 28, 2012. As of December 31, 2011, the aggregate carrying amount of assets held within the unconsolidated joint venture was $59.3 million and the face value of the non-recourse mortgage note payable was $34.1 million.

The Company accounted for the unconsolidated joint venture using the equity method of accounting as the Company had the ability to exercise significant influence, but not control, over operating and financial policies of the venture. The equity method of accounting requires the investment to be initially recorded at cost and subsequently adjusted for the Company's share of equity in the joint venture's earnings and distributions. The Company is required to determine whether an event or change in circumstances has occurred that may have a significant adverse effect on the fair value of its investment in the joint venture. If an event or change in circumstance has occurred, the Company is required to evaluate the joint venture for potential impairment and determine if the carrying amount of its investment exceeds its fair value. An impairment charge is recorded when an impairment is deemed to be other than temporary. To determine whether an impairment is other-than-temporary, the Company considers whether it has the ability and intent to hold the investment until the carrying amount is fully recovered. The evaluation of an investment in a joint venture for potential impairment requires the Company's management to exercise significant judgment and to make certain

assumptions. The use of different judgments and assumptions could result in different conclusions. On September 28, 2012, the Company sold 100% of its interest in Independence Commons to its joint venture partner for cash proceeds of $21.2 million. In connection with the transaction, the Company evaluated the terms of the purchase and sale agreement and respective sales price, and determined that its investment in Independence Commons was impaired because the carrying amount of its investment exceeded its fair value. As a result, the Company evaluated whether the impairment was other-than-temporary. Because the Company agreed to sell its interest, and it did not have the intent to hold the investment until the carrying amount was fully recovered, the Company determined that the impairment was other-than-temporary and recorded an impairment loss of $1.2 million. No impairment indicators were identified and no impairment losses were recorded related to the unconsolidated joint venture for the years ended December 31, 2011 and 2010. The Company recognizes gains or losses on the sale of interests in joint ventures to the extent the economic substance of the transaction is a sale.

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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. 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 records allowances for those balances that the Company deems to be uncollectible, including any amounts relating to straight-line rent receivables. The Company's reported net income is directly affected by management's estimate of the collectability of accounts receivable.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets primarily includes expenses paid 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

The Company accounts and reports for its derivative instruments, including certain derivative instruments embedded in other contracts, 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. The changes in fair value for derivative instruments that are not designated as a hedge or that do not meet the hedge accounting criteria 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, 2012, 2011 and 2010, was $7.3 million, $7.2 million and $6.6 million, respectively, and was recorded in interest expense in the consolidated statements of operations.

Revenue Recognition

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 qualified and elected to be taxed as a REIT for federal income tax purposes under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. The Company generally is not subject to federal corporate income tax to the extent it distributes its taxable income to its stockholders, and so long as it, among other things, distributes at least 90% of its annual taxable income (computed without regard to the dividends paid deduction and excluding net capital gains). REITs are subject to a number of other organizational and operational requirements. Even if the Company maintains its qualification 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, 2012, the Company had cash on deposit, including restricted cash, in four financial institutions, all of which had deposits in excess of federally insured levels totaling $7.7 million; however, the Company has not experienced any losses in such accounts. The Company limits significant cash deposits to accounts held by financial institutions with high credit standing; therefore, the Company believes it is not exposed to any significant credit risk

on its cash deposits.

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No single tenant accounted for greater than 10% of the Company's gross annualized rental revenues for the year ended December 31, 2012. Tenants in the specialty retail, drugstore and restaurant industries comprised 17%, 15% and 15%, respectively, of the Company's 2012 gross annualized rental revenues. Additionally, the Company has certain geographic concentrations in its property holdings. In particular, as of December 31, 2012, 166 of the Company's properties were located in Texas and 23 were located in Florida, accounting for 16% and 10%, respectively, of the Company's 2012 gross annualized rental revenues.

Due to Affiliates

As of December 31, 2012 and 2011, $1.9 million and $1.1 million, respectively, was due to Cole Advisors II and its affiliates primarily related to property and asset management fees, and the reimbursement of general and administrative, property and asset management expenses incurred.

Stockholders' Equity

As of each of the years ended December 31, 2012 and 2011, 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 $0.01 per share. The Company's board of directors may amend the charter to authorize the issuance of additional shares of capital stock 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 has adopted a share redemption program that permits its stockholders to sell their shares, which is subject to the limitations discussed in Note 18 to these consolidated financial statements. The Company records amounts that are redeemable under the share redemption program as redeemable common stock outside of permanent equity in its consolidated balance sheets. Redeemable common stock is recorded at the greater of the carrying amount or redemption value each reporting period. Changes in the value from period to period are recorded as an adjustment to capital in excess of par.

On December 6, 2012, the board of directors, including all of its independent directors, voted to suspend the DRIP and the share redemption program. As of December 31, 2012, there was $121,000 recorded as redeemable common stock on the consolidated balance sheet related to valid redemption requests received on or before December 6, 2012 which were redeemed subsequent to December 31, 2012.

As of December 31, 2011, the quarterly redemption limit was less than the proceeds received from the sale of shares from the DRIP Offering, resulting in the Company recording one-fourth of 3% of the weighted average number of shares outstanding during the prior calendar year at a price of $9.35 as redeemable common stock on the consolidated balance sheet.

Earnings per Share

Earnings per share are calculated based on the weighted average number of common shares outstanding during each period presented. Diluted income per share considers the effect of all potentially dilutive share equivalents, including the outstanding independent directors' stock options discussed in Note 17 to these consolidated financial statements.

Stock Options

GAAP 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"), based on estimated fair values. As of December 31, 2012 and 2011, there were 45,000 stock options outstanding under the IDSOP at a weighted average exercise price of $9.12 per share.

Reportable Segments

The Company's operating segment consists 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 are aggregated into one reportable segment.

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COLE CREDIT PROPERTY TRUST II, INC.
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Interest

Interest is charged to interest expense as it accrues. No interest costs were capitalized during the years ended December 31, 2012, 2011 and 2010.

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 stockholders of record as of the applicable record dates.

Pursuant to the Company's DRIP, distributions are reinvested in shares of the Company's common stock at a price equal to the most recent Estimated Share Value of the Company's common stock as determined by its board of directors. The Company's board of directors determined that the Estimated Share Value, as of July 27, 2011, was $9.35 per share, which was an increase from the previous share value of $8.05. On December 6, 2012, the board of directors, including all of its independent directors, voted to suspend the DRIP and the share redemption program as discussed in Note 1 to these consolidated financial statements.

On August 8, 2012, the Company's board of directors declared a daily distribution of $0.001707848 per share for stockholders of record as of the close of business on each day of the period commencing on October 1, 2012 and ending on December 31, 2012. As of December 31, 2012, the Company had distributions payable of $11.1 million. The distributions were paid in cash in January 2013.

New Accounting Pronouncements

In May 2011, the U.S. Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2011-04, Fair Value Measurements and Disclosures (Topic 820): Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS, ("ASU 2011-04"), which converges guidance between GAAP and International Financial Reporting Standards to provide a uniform framework of fair value measurements and requires additional disclosures including quantifiable information about measurements to changes in unobservable inputs for Level 3 fair value measurements. ASU 2011-04 became effective for the Company on January 1, 2012. The adoption of ASU 2011-04 has not had a material impact on the Company's consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update 2011-05, Presentation of Comprehensive Income, which requires the presentation of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. The Company elected to present two separate but consecutive statements herein.

NOTE 4 — FAIR VALUE MEASUREMENTS

GAAP defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. GAAP emphasizes that fair value is intended to be a market-based measurement, as opposed to a transaction-specific measurement.

Fair value is defined 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, which are only used to the extent that observable inputs are not available, reflect the Company’s assumptions about the pricing of an asset or liability.

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During the year ended December 31, 2012, real estate assets with a carrying amount of $10.3 million related to two properties were deemed to be impaired and their carrying amounts were reduced to their estimated fair value of $4.5 million, resulting in an impairment charge of approximately $5.7 million, which is included in impairment of real estate assets on the consolidated statement of operations for the year ended December 31, 2012. In addition, during the year ended December 31, 2012, the Company's investment in its unconsolidated joint venture was deemed to be impaired and its carrying amount was reduced to its estimated fair value of $21.2 million, resulting in an impairment charge of $1.2 million, which is included in impairment of joint venture investment on the consolidated statement of operations for the year ended December 31, 2012.

A summary of real estate and other assets measured at fair value on a non-recurring basis during the year ended December 31, 2012 is as follows (in thousands):

	Balance as of December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses
Description:					
Investment in real estate assets	$4,532	$ —	$ —	$4,532	$5,742
Investment in unconsolidated joint venture [1]	$—	$ —	$ —	$—	$1,156

(1) The Company sold its interest in its unconsolidated joint venture on September 28, 2012, as discussed in Note 2 to these consolidated financial statements.

During the year ended December 31, 2011, there were no real estate assets or joint venture investments measured at fair value on a non-recurring basis.

The Company's estimated fair value of its real estate assets was primarily based upon a discounted cash flow analysis and an estimated sales price provided by a third party broker. The discounted cash flow analysis was comprised of unobservable inputs, including internally prepared probability-weighted cash flow estimates, which included estimated future market rental income, property operating expenses, the expected number of months to re-lease the property and estimated tenant improvements, which are all considered Level 3 inputs. In addition, the discounted cash flow analysis utilized observable discount rates and terminal capitalization rates, which were based on available information obtained from third-party service provider reports, which are considered Level 2 inputs. The Company's estimated fair value of its joint venture investment was primarily based upon an indicative offer by the Company's joint venture partner, which is considered to be a Level 2 input.

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 and restricted cash – The Company considers the carrying amounts of these financial assets to approximate fair value because of the short period of time between their origination and their expected realization.

Mortgage notes receivable – The fair value is estimated by discounting the expected cash flows on the notes at rates at which management believes similar loans would be made as of December 31, 2012 and 2011. The estimated fair value of these notes was $86.1 million and $85.3 million as December 31, 2012 and 2011, respectively, as compared to the carrying amount of $73.4 million and $76.7 million as of December 31, 2012 and 2011, respectively. The fair value of the Company's mortgage notes receivable is estimated using Level 2 inputs.

Notes payable and line of credit – The fair value is estimated by discounting the expected cash flows based on estimated borrowing rates available to the Company as of December 31, 2012 and 2011. The estimated fair value of the notes payable and line of credit was $1.9 billion and $1.8 billion as of December 31, 2012 and 2011, respectively, as compared to the carrying amount of $1.8 billion, as of both December 31, 2012 and 2011. The fair value of the Company's notes payable and line of credit is estimated using Level 2 inputs.

Derivative Instruments – The Company’s derivative instruments 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.

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Considerable judgment is necessary to develop estimated fair values of financial assets and liabilities. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize, or be liable for, on disposition of the financial assets and liabilities. As of December 31, 2012, there have been no transfers of financial assets or liabilities between levels.

In accordance with the fair value hierarchy described above, the following table shows the fair value of the Company's financial liabilities that are required to be measured at fair value on a recurring basis as of December 31, 2012 and 2011(in thousands):

	Balance as of December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Interest rate swaps	$2,181	$ —	$2,181	$—

	Balance as of December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Interest rate swaps	$3,558	$ —	$3,558	$—

The following table shows a reconciliation of the change in fair value of the Company's financial assets and liabilities measured at fair value on a recurring basis with significant unobservable inputs (Level 3), which consist of marketable securities, for the years ended December 31, 2012 and 2011 (in thousands):

	Year Ended December 31,	
	2012	2011
Balance at beginning of year	$—	$81,995
Total gains or losses		
Realized gain included in earnings	—	15,587
Reclassification of previous unrealized gain out of other comprehensive income	—	(14,654)
Unrealized loss included in other comprehensive income	—	(1,713)
Purchases, issuances, settlements, sales and accretion		
Purchases	—	—
Issuances	—	—
Settlements	—	(82,061)
Accretion of discount included in earnings	—	846
Balance at end of year	$—	$—

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

NOTE 5 — INVESTMENT IN DIRECT FINANCING LEASES

The components of investment in direct financing leases as of December 31, 2012 and December 31, 2011 were as follows (in thousands):

	December 31, 2012	December 31, 2011
Minimum lease payments receivable	$18,566	$21,487
Estimated residual value of leased assets	27,854	27,854
Unearned income	(11,454)	(13,342)
Total	$34,966	$35,999

A summary of minimum future lease payments, exclusive of renewals, under the non-cancelable direct financing leases as of December 31, 2012 is as follows (in thousands):

Year ended December 31,	Amount
2013	$2,932
2014	2,782
2015	2,403
2016	2,019
2017	1,545
Thereafter	6,885
Total	$18,566

NOTE 6 — REAL ESTATE TRANSACTIONS

2012 Property Acquisition

During the year ended December 31, 2012, the Company acquired a 100% interest in one commercial property for a purchase price of $7.6 million (the “2012 Acquisition”). The Company purchased the 2012 Acquisition with a combination of proceeds from the DRIP Offering, cash flows from operations and net proceeds from borrowings. The Company allocated the purchase price of the 2012 Acquisition to the fair value of the assets acquired. The following table summarizes the purchase price allocation (in thousands):

	December 31, 2012
Land	$1,858
Building and improvements	5,073
Acquired in-place leases	624
Acquired above market leases	36
Total purchase price	$7,591

The Company recorded revenue for the year ended December 31, 2012 of $77,000, and net loss for the year ended December 31, 2012 of $168,000, related to the 2012 Acquisition. In addition, the Company recorded $233,000 of acquisition related expenses for the year ended December 31, 2012.

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

2011 Property Acquisitions

During the year ended December 31, 2011, the Company acquired a 100% interest in 28 commercial properties for an aggregate purchase price of $100.7 million (the "2011 Acquisitions"). The Company purchased the 2011 Acquisitions with a combination of proceeds from the DRIP Offering, cash flows from operations and net proceeds from borrowings. The Company allocated the purchase price of the 2011 Acquisitions to the fair value of the assets acquired and liabilities assumed. The following table summarizes the purchase price allocation (in thousands):

	December 31, 2011
Land	$29,570
Building and improvements	57,405
Acquired in-place leases	14,139
Acquired above market leases	835
Acquired below market leases	(1,232)
Total purchase price	$100,717

The Company recorded revenue for the year ended December 31, 2011 of $6.0 million, and net income for the year ended December 31, 2011 of $1.0 million, related to the 2011 Acquisitions. In addition, the Company recorded $3.0 million of acquisition related expenses for the year ended December 31, 2011.

The following information summarizes selected financial information from the combined results of operations of the Company, as if all of the 2011 Acquisitions were completed on January 1, 2010 for each period presented below. The table below presents the Company's estimated revenue and net income, on a pro forma basis, for the years ended December 31, 2011 and 2010, respectively (in thousands):

	December 31, 2011	December 31, 2010
Pro forma basis (unaudited):		
Revenue	$283,515	$279,310
Net income	$57,506	$32,261

The unaudited pro forma information for the year ended December 31, 2011 was adjusted to exclude $3.0 million of acquisition costs related to the 2011 Acquisitions. These costs were recognized in the unaudited pro forma information for the year ended December 31, 2010. The unaudited 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 2010, nor does it purport to represent the results of future operations.

2012 Other Investments in Real Estate

During the year ended December 31, 2012, the Company paid a tenant improvement allowance of $8.8 million for expansion and improvements to two existing properties, for which the Company will receive additional rents. Such costs were capitalized to building and improvements and will be depreciated over their estimated useful lives.

2011 Other Investment in Real Estate

During the year ended December 31, 2011, the Company paid a tenant improvement allowance of $12.0 million for an expansion and improvements to an existing property, including the conversion of an existing warehouse into office space and the construction of a parking area, for which the Company will receive additional rents. Such costs were capitalized to buildings and improvements and will be depreciated over their estimated useful life.

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

2012 Dispositions

During the year ended December 31, 2012, the Company sold two properties for a gross sales price of $7.5 million (the "2012 Dispositions"). The transaction resulted in net cash proceeds of $7.3 million to the Company and a gain of $552,000. In connection with this sale, $215,000 of straight-line rent receivables were written off as a reduction to the gain. The Company has no continuing involvement with the 2012 Dispositions. The Company recorded revenue of $610,000, $633,000 and $633,000 for the years ended December 31, 2012, 2011 and 2010, respectively, related to the 2012 Dispositions. In addition, the Company recorded net income, excluding the gain on sale, of $24,000, $154,000 and $147,000 for the years ended December 31, 2012, 2011 and 2010, respectively, related to the 2012 Dispositions. The results of operations for the 2012 Dispositions have not been presented as discontinued operations on the Company's consolidated statements of operations because the 2012 Dispositions are not considered to be a material component of the Company's operations.

In addition, on September 28, 2012, the Company sold 100% of its interest in an unconsolidated joint venture that owned a 386,000 square foot multi-tenant retail building, Independence Commons, for cash proceeds of $21.2 million, which approximated its carrying amount, as discussed in Note 3 to these consolidated financial statements.

2011 Dispositions

On September 30, 2011, the Company sold 100% of its interest in an unconsolidated joint venture that owned and operated ten self-storage properties located in Arizona for net cash proceeds of $18.8 million. The Company recorded a gain on the sale of $5.2 million. The Company did not dispose of any additional properties during the year ended December 31, 2011.

NOTE 7 — ACQUIRED INTANGIBLE LEASE ASSETS

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

	As of December 31,	
	2012	2011
Acquired in-place leases, net of accumulated amortization of $138,333 and $111,556, respectively (with a weighted average life of 10.5 and 11.1 years, respectively)	$250,628	$277,764
Acquired above market leases, net of accumulated amortization of $21,306 and $16,988, respectively (with a weighted average life of 11.8 and 11.4 years, respectively)	41,409	45,534
	$292,037	$323,298

Amortization expense related to the intangible assets for the years ended December 31, 2012, 2011 and 2010 was $32.7 million, $33.4 million, and $33.2 million, respectively.

Estimated amortization expense related to the intangible lease assets as of December 31, 2012 for each of the five succeeding fiscal years is as follows (in thousands):

	Amortization	
Year ended December 31,	Leases In-Place	Above Market Leases
2013	$26,849	$4,296
2014	$26,265	$4,258
2015	$25,224	$4,199
2016	$23,374	$3,853
2017	$21,339	$3,578

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

NOTE 8 — INVESTMENT IN MORTGAGE NOTES RECEIVABLE

As of December 31, 2012, the Company owned 69 mortgage notes receivable, which were secured by 43 restaurant properties and 26 single-tenant retail properties (each, a "Mortgage Note", and collectively, the "Mortgage Notes"). As of December 31, 2012, the Mortgage Notes balance of $73.4 million consisted of the face amount of the Mortgage Notes of $68.0 million, a $6.9 million premium, $2.0 million of acquisition costs, and was net of accumulated amortization of premium and acquisition costs of $3.5 million. As of December 31, 2011, the Mortgage Notes balance of $76.7 million consisted of the face amount of the Mortgage Notes of $70.6 million, a $6.9 million premium, $2.0 million of acquisition costs, and was net of accumulated amortization of premium and acquisition costs of $2.8 million. The premium and acquisition costs are amortized into interest income over the term of each 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 with a weighted average interest rate of 9.89%. There were no amounts past due as of December 31, 2012.

NOTE 9 — MARKETABLE SECURITIES

During the year ended December 31, 2011, the Company sold all six of its investments in commercial mortgage backed securities ("CMBS") for $82.1 million and realized a gain on the sale of $15.6 million. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis. The Company had no investments in CMBS as of and during the year ended December 31, 2012.

NOTE 10 — 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):

Derivatives designated as hedging instruments	Balance Sheet Location	Notional Amount	Interest Rate	Effective Date	Maturity Date	Fair Value of Liability	
						December 31, 2012	December 31, 2011
Interest Rate Swap [1]	Deferred rental income, derivative and other liabilities	$31,781	6.2%	11/04/2008	10/31/2012	$—	$ (869)
Interest Rate Swap	Deferred rental income, derivative and other liabilities	14,847	6.2%	06/12/2009	06/11/2012	—	(172)
Interest Rate Swap	Deferred rental income, derivative and other liabilities	6,968	5.8%	02/20/2009	03/01/2016	(481)	(497)
Interest Rate Swap [1]	Deferred rental income, derivative and other liabilities	30,000	6.0%	11/24/2009	10/16/2012	—	(310)
Interest Rate Swap	Deferred rental income, derivative and other liabilities	111,111	4.9%	02/28/2011	11/30/2013	(1,133)	(1,558)
Interest Rate Swap	Deferred rental income,	38,250	3.5%	09/26/2011	09/26/2014	(321)	(152)

	derivative and other liabilities						
Interest Rate Swap	Deferred rental income, derivative and other liabilities	32,400	3.2%	09/05/2012	09/05/2015	(246)	—
						$(2,181)	$ (3,558)

(1) The associated loan was repaid, in full, on September 28, 2012, resulting in termination of the interest rate swap.

Additional disclosures related to the fair value of the Company's derivative instruments are included in Note 4 to these consolidated financial statements. The notional amount under the agreements is an indication of the extent of the Company's involvement in each instrument, but does not represent exposure to credit, interest rate or market risks.

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

Accounting for changes in the fair value of a derivative instrument depends on the intended use and designation of the derivative instrument. 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 change in fair value of the effective portion of the derivative instruments that are designated as hedges is recorded in other comprehensive income or loss. The ineffective portion of the change in fair value of the derivative instruments is recorded in interest expense.
The following table summarizes the gains and losses on the Company's derivative instruments and hedging activities (in thousands):

	Amount of Gain (Loss) Recognized in Other Comprehensive Income			Amount of Loss Reclassified from Accumulated Other Comprehensive Income to Interest Expense [1]		
	Year ended December 31,			Year ended December 31,		
Derivatives in Cash Flow Hedging Relationships	2012	2011	2010	2012	2011	2010
Interest Rate Swaps	$1,164	$98	$(853)	$213	$—	$—

(1) On September 28, 2012, the Company repaid $61.8 million of variable rate debt prior to its maturity. This debt was subject to interest rate swap agreements. As a result, the interest rate swap agreements were terminated and the Company reclassified $213,000 of unrealized losses previously recorded in accumulated other comprehensive income into interest expense. The remaining interest rate swaps were considered effective during the year ended December 31, 2012. In addition, there were no portions of the change in the fair value of the interest rate swap agreements that were considered ineffective during the years ended December 31, 2011 and 2010.
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 credit risk valuation adjustments on its interest rate swaps based on the respective credit quality of the Company and the counterparty. There were no events of default related to the remaining interest rate swaps as of December 31, 2012 and 2011.
NOTE 11 — NOTES PAYABLE, LINE OF CREDIT AND REPURCHASE AGREEMENT
As of December 31, 2012, the Company had $1.8 billion of debt outstanding, consisting of (1) $1.4 billion in fixed rate mortgage loans (the "Fixed Rate Debt"), which includes $77.6 million of variable rate debt swapped to fixed rates, (2) $4.3 million in variable rate mortgage loans (the "Variable Rate Debt") and (3) $319.1 million outstanding under a senior unsecured line of credit entered into on December 17, 2010 (the "Credit Facility"). The aggregate balance of gross real estate assets, net of gross intangible lease liabilities, securing the Fixed Rate Debt and the Variable Rate Debt, was $2.5 billion as of December 31, 2012. Additionally, the aggregate balance of gross real estate assets that are part of the Credit Facility's unencumbered borrowing base was $636.1 million. The combined weighted average interest rate was 5.39% and the weighted average years to maturity was 3.6 years as of December 31, 2012.
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 the Company's overall leverage ratios and Variable Rate Debt. These agreements also include usual and customary events of default and remedies for facilities of this nature. Based on the Company's analysis and review of its results of operations and financial condition, the Company believes it was in compliance with the covenants of the Credit Facility and such notes payable as of December 31, 2012.

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

Notes Payable
The Fixed Rate Debt has annual interest rates ranging from 3.15% to 7.22%, with a weighted average annual interest rate of 5.68%, and various maturity dates ranging from September 2014 through August 2031. The Variable Rate Debt has an annual interest rate of LIBOR plus 275 basis points, and matures in September 2014. The notes payable are secured by properties in the portfolio and their related tenant leases, as well as other real estate-related assets on which the debt was placed. During the year ended December 31, 2012, the Company issued $81.9 million of fixed rate debt, with annual interest rates ranging from 3.90% to 4.67% and maturity dates ranging from July 2019 to September 2022. In addition, the Company issued $32.4 million of variable rate debt, which has been effectively fixed at an interest rate of 3.15% pursuant to a swap agreement. Refer to Note 10 to these consolidated financial statements for further details of the new interest rate swap agreement. During the year ended December 31, 2012, the Company repaid $152.4 million of fixed rate debt, including monthly principal payments on amortizing loans.
Generally, the Fixed Rate Debt may not be prepaid, in whole or in part, except under the following circumstances: (1) prepayment may be made subject to payment of a yield maintenance premium or through defeasance, (2) full prepayment may be made on any of the three monthly payment dates occurring immediately prior to the maturity date, and (3) 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 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 (1) all payments for escrow or reserve accounts, (2) payment of interest at the original fixed interest rate, (3) payments for the replacement reserve account, (4) any other amounts due in accordance with the mortgage note agreement other than any additional interest expense, (5) any operating expenses of the property pursuant to an approved annual budget, (6) any extraordinary expenses, (7) payments to be applied to the reduction of the principal balance of the mortgage note, and (8) any additional interest expense, which is not paid will be added to the principal balance of the mortgage note.
Line of Credit
The Credit Facility provides for up to $350.0 million of unsecured borrowings and allows the Company to borrow up to $238.9 million in revolving loans (the "Revolving Loans") and a $111.1 million in a term loan (the "Term Loan"). Up to 15.0% of the total amount available may be used for issuing letters of credit and up to $20.0 million may be used for "swingline" loans, which generally are loans of a minimum of $100,000 for which the borrower receives funding on the same day as its loan request, and which are repaid within five business days. Subject to meeting certain conditions described in the Credit Agreement and the payment of certain fees, the amount of the Credit Facility may be increased up to a maximum of $450.0 million, with each increase being no less than $25.0 million. The Credit Facility matures on December 17, 2013.
The Revolving Loans under the Credit Facility bear interest at variable rates depending on the type of loan used. Eurodollar rate loans have variable rates which are generally equal to the one-month, two-month, three-month, or six-month LIBOR plus 275 to 400 basis points, determined by the leverage ratio of the Company in accordance with the agreement. Base rate committed loans have variable rates equal to the greater of (a) the Federal Funds Rate plus 0.5%; (b) Bank of America's prime rate; or (c) the Eurodollar Rate plus 1.0%; plus 175 to 300 basis points, determined by the leverage ratio of the Company in accordance with the agreement.

During the year ended December 31, 2012, the Company borrowed $197.0 million and repaid $171.0 million under the Credit Facility. As of December 31, 2012, the Company had $111.1 million outstanding under the Term Loan and an additional $208.0 million in Revolving Loans outstanding. Additionally, the Company has established a letter of credit in the amount of $476,000 from the Credit Facility lenders to support an escrow agreement relating to a certain property with that property's lender. This letter of credit reduces the amount of borrowings available under the Credit Facility. The Company executed an interest rate swap agreement on February 24, 2011, which fixed LIBOR for amounts outstanding under the Term Loan to 1.44%. The all-in rate for the Term Loan includes a spread of 275 to 400 basis points, as determined by the leverage ratio of the Company, which was equal to a spread of 350 basis points as of December 31, 2012. Revolving Loans outstanding as of December 31, 2012 bore interest at a weighted average interest rate of 3.71%.

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

Repurchase Agreement

Prior to the sale of the Company's investment in CMBS during 2011, the CMBS were pledged as collateral to a bank under a repurchase agreement (the "Repurchase Agreement"), which provided secured borrowings. As of December 31, 2012, there were no amounts outstanding or available under the Repurchase Agreement. During the year ended December 31, 2011, the Company borrowed $10.7 million under the Repurchase Agreement and repaid the total amount outstanding of $65.0 million in connection with the sale of all the Company's investments in CMBS.

Maturities

The following table summarizes the scheduled aggregate principal repayments, including principal repayments on amortizing debt, for the Fixed Rate Debt, Variable Rate Debt and Credit Facility for each of the five succeeding fiscal years and the period thereafter (in thousands):

Year ended December 31,	Principal Repayments [1]
2013	$324,253
2014	49,366
2015	286,808
2016	199,352
2017	716,925
Thereafter	189,011
Total	$1,765,715

(1) Principal payment amounts reflect actual payments based on face amount of notes payable. As of December 31, 2012, the fair value adjustment, net of amortization of mortgage notes assumed was $8.4 million.

NOTE 12 — ACQUIRED BELOW MARKET LEASE INTANGIBLES

Acquired below market lease intangibles consisted of the following (in thousands):

	As of December 31,	
	2012	2011
Acquired below market leases, net of accumulated amortization of $53,557 and $42,880, respectively (with a weighted average life of 11.0 and 11.5 years, respectively)	$119,550	$130,680

During the years ended December 31, 2012, 2011 and 2010, $11.0 million, $11.4 million and $12.5 million, respectively, were recorded as an increase to rental and other property income resulting from the amortization of the intangible lease liability.

Estimated amortization of the intangible lease liability as of December 31, 2012 for each of the five succeeding fiscal years is as follows (in thousands):

Year ended December 31,	Amortization of Below Market Leases
2013	$10,758
2014	$10,645
2015	$10,440
2016	$10,222
2017	$9,871

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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 year ended December 31, 2012, 2011 and 2010 are as follows (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Supplemental Disclosures of Non-Cash Investing and Financing Activities:			
Distributions declared and unpaid	$11,087	$11,157	$11,097
Common stock issued through the DRIP Offering	$57,034	$59,696	$61,377
Net unrealized (loss) gain on marketable securities	$—	$(1,713)	$23,051
Reclassification of unrealized gain on marketable securities into net income	$—	$14,654	$—
Net unrealized gain (loss) on interest rate swaps	$1,164	$98	$(853)
Reclassification of unrealized loss on interest rate swaps into net income	$213	$—	$—
Accrued capital expenditures	$1,268	$—	$791
Accrued deferred financing costs	$90	$—	$107
Decrease in earnout liability	$—	$—	$983
Supplemental Cash Flow Disclosures:			
Interest paid	$98,903	$98,939	$94,515

During the year ended December 31, 2010, the Company substituted one property for two new properties under a master lease agreement with one of the Company's tenants. The allocation of the non-cash consideration resulted in an increase to the Company's depreciable assets and a decrease in the related land assets of $136,000. No gain or loss was recorded related to this transaction.

NOTE 14 — COMMITMENTS AND CONTINGENCIES

Litigation

In the ordinary course of business, the Company may become subject to litigation or claims. The Company is not aware of any pending legal proceedings of which the outcome is reasonably possible to have a material effect on its results of operations, financial condition or liquidity.

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 respective 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. In addition, the Company carries environmental liability insurance on its properties that provides limited coverage for remediation liability and pollution liability for third-party bodily injury and property damage claims. Accordingly, the Company does not believe that it is reasonably possible that the environmental matters identified at such properties will have a material effect on its results of operations, financial condition or liquidity, nor is it aware of any environmental matters at other properties which it believes are reasonably possible to have a material effect on its results of operations, financial condition or liquidity.

NOTE 15 — RELATED-PARTY TRANSACTIONS AND ARRANGEMENTS

The Company has incurred commissions, fees and expenses payable to Cole Advisors II and its affiliates in connection with the Offerings, and has incurred and will continue to incur commissions, fees and expenses in connection with the acquisition, management and sale of the assets of the Company.

DRIP Offering

During the year ended December 31, 2012, 2011 and 2010, the Company did not pay any amounts to Cole Advisors II for selling commissions, dealer manager fees, or other organization and offering expense reimbursements incurred in connection with the DRIP Offering.

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

Acquisitions and Operations

Cole Advisors II or its affiliates receive acquisition and advisory fees of up to 2% of the contract purchase price of each asset for the acquisition, development or construction of properties, and are reimbursed for acquisition expenses incurred in the process of acquiring properties, so long as the total acquisition fees and expenses relating to the transaction do not exceed 4% of the contract purchase price.

The Company paid, and, subject to the advisory and property management matters agreement discussed below, expects to continue to pay, Cole Advisors II an annualized asset management fee of 0.25% of the aggregate asset value of the Company's aggregate invested assets, as reasonably estimated by the Company's board of directors. The Company also reimburses certain costs and expenses incurred by Cole Advisors II in providing asset management services.

The Company paid, and, subject to the advisory and property management matters agreement discussed below, expects to continue to pay, Cole Realty Advisors, Inc. ("Cole Realty Advisors"), its property manager and an affiliate of its advisor, up to (1) 2% of gross revenues received from the Company's single tenant properties and (2) 4% 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 do 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 also reimburses Cole Realty Advisors' costs of managing and leasing the properties.

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 (1) 2% of average invested assets, or (2) 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 and real estate commissions.

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 and/or assumes such permanent financing.

The Company recorded fees and expense reimbursements as shown in the table below for services provided by Cole Advisors II and its affiliates related to the services described above during the periods indicated (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Acquisitions and Operations:			
Acquisition and advisory fees and expenses	$159	$2,322	$2,239
Asset management fees and expenses	$9,192	$8,903	$8,485
Property management and leasing fees and expenses	$8,224	$7,710	$7,738
Operating expenses	$1,438	$1,496	$1,494
Financing coordination fees	$1,403	$2,326	$2,020
Liquidation/Listing			

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, including those held indirectly through joint ventures, 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 (the "Real Estate Commission"). 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.

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

If the Company's portfolio is liquidated, 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.

If the Company's common stock is listed 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.

If the advisory agreement with Cole Advisors II is terminated, 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 (1) the appraised asset value at the time of such termination plus total distributions paid to stockholders through the termination date exceeds (2) 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.

During the year ended December 31, 2012, no commissions or fees were incurred for services provided by Cole Advisors II and its affiliates related to the services described above. During the year ended December 31, 2011, the Company incurred a Real Estate Commission of $382,000 for services provided by Cole Advisors II and its affiliates in connection with the sale of the Company's interest in an unconsolidated joint venture.

Advisory and Property Management Matters Agreement

In connection with the Merger, on January 22, 2013, the Company and Cole OP II entered into an advisory and property management matters agreement with Cole Advisors II and Cole Realty Advisors (together with the Advisor, the "Advisor Parties"). Spirit is a signatory to the agreement as an express third party beneficiary. The agreement provides, among other things, that the Advisor Parties' current agreements with the Company and Cole OP II will terminate upon closing of the Merger. The Advisor Parties will continue to be paid the asset management, property management and other fees payable pursuant to the current agreements, as applicable, for services rendered between the date of the Merger Agreement and the closing of the Merger, but agree to waive any fees due upon the termination of their current agreements, including (i) any fees due upon listing of the surviving corporation common stock on the NYSE; (ii) any performance fees due upon the consummation of the Merger; and (iii) any other fees that would be payable under the current agreements with respect to the Merger (including any equity or debt financing transaction that occurs in connection with the consummation of the Merger) and the other transactions contemplated in the Merger Agreement. Upon closing of the Merger, Spirit and Cole Advisors II may enter into a transition services agreement whereby Cole Advisors II will provide property and asset management services to Spirit for amounts agreed upon by the parties.

Due to Affiliates

As of December 31, 2012 and December 31, 2011, $1.9 million and $1.1 million, respectively, had been incurred, primarily for asset management fees and expenses, general and administrative expenses and finance coordination fees, by Cole Advisors II and its affiliates, but had not yet been reimbursed by the Company and were included in due to affiliates on the consolidated balance sheets.

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 issuance, 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 are unable to provide the Company with these services, the Company would be required to find alternative providers of these services.

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

NOTE 17 — INDEPENDENT DIRECTORS' STOCK OPTION PLAN

The Company's IDSOP authorizes the grant of non-qualified stock options to the Company's independent directors, subject to the discretion of the board of directors and the applicable limitations of the IDSOP. The term of the IDSOP is 10 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. The Company does not intend to continue to grant options under the IDSOP; however, the exercise price for any 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, 2012 and 2011, the Company had granted options to purchase 50,000 shares under the IDSOP and options to purchase 45,000 shares at a weighted average exercise price of $9.12 per share remained outstanding. No shares were granted or exercised pursuant to the IDSOP for the years ended December 31, 2012 and 2011. A total of 1,000,000 shares have been authorized and reserved for issuance under the IDSOP.

During the years ended December 31, 2012 and 2011, the Company did not record any stock-based compensation charges, as all stock-based compensation charges related to unvested share-based compensation awards granted under the IDSOP had previously been recognized. During the year ended December 31, 2010, the Company recorded stock-based compensation charges of $7,000. 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.

As of December 31, 2012 and 2011, all of the outstanding options were fully vested and had a weighted average contractual remaining life of 4.23 years and 5.27 years, respectively, and an intrinsic value of $10,000. The fair value of each stock option granted was estimated as of the date of the grant using the Black-Scholes method with 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 0.00% 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.

NOTE 18 — STOCKHOLDERS' EQUITY

Distribution Reinvestment Plan

Prior to the suspension of the DRIP on December 6, 2012, the Company allowed stockholders to elect to have their distributions reinvested in additional shares of the Company's common stock at a price equal to the Estimated Share Value. No sales commissions or dealer manager fees were paid on shares sold under the DRIP. The Company may terminate or further amend the DRIP at the Company's discretion at any time upon ten days prior written notice to the stockholders. During the years ended December 31, 2012 and 2011, 6.1 million and 7.0 million shares were purchased under the DRIP, for $57.0 million and $59.7 million, respectively.

Share Redemption Program

Prior to the suspension of the share redemption program on December 6, 2012, the Company allowed 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.

During any calendar year, the Company will not redeem in excess of 3% of the weighted average number of shares outstanding during the prior calendar year and the cash available for redemption is limited to the proceeds from the sale of shares pursuant to the DRIP during such calendar year. In addition, the Company will redeem shares on a quarterly basis, at the rate of one-fourth of 3% of the weighted average number of shares outstanding during the prior calendar year (including shares requested for redemption upon the death of a stockholder). Funding for redemptions for each quarter will be limited to the net proceeds received from the sale of shares, during such quarter, under the DRIP.

The redemption price per share (other than for shares purchased pursuant to the DRIP) depends on the length of time the stockholder has held such shares as follows: after one year from the purchase date – 92.5% of the Estimated Share Value; after two years from the purchase date – 95.0% of the Estimated Share Value; after three years from the purchase date – 97.5% of the Estimated Share Value; and after four years from the purchase date – 100% of the

Estimated Share Value. The redemption price for shares purchased pursuant to the DRIP will be 100% of the Estimated Share Value.

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

Upon receipt of a request for redemption, the Company may conduct a Uniform Commercial Code search to ensure that no liens are held against the shares. If the Company cannot purchase all shares presented for redemption in any quarter, based upon the limit on the number of shares and/or insufficient cash available, the Company will give priority to the redemption of decreased stockholders' shares. The Company next will give priority to requests for full redemptions of accounts with a balance of 250 shares or less at the time the Company receives the request, in order to reduce the expense of maintaining small accounts. Thereafter, the Company will honor the remaining redemption requests on a pro rata basis. Following such redemption period, the unsatisfied portion of the prior redemption request must be resubmitted, prior to the last day of the new quarter. Unfulfilled requests for redemption will not be carried over automatically to subsequent redemption periods.

The Company redeems shares on the last business day of the month following the end of each fiscal quarter. Requests for redemption must be received on or prior to the end of the fiscal quarter in order for the Company to repurchase the shares in the month following the end of the fiscal quarter.

The following table shows information regarding the Company's share redemptions during the years ended December 31, 2012 and 2011, respectively (in thousands). The information presented is based on the quarter in which the redemption request was received. Valid redemption requests include requests that were unfulfilled and resubmitted from a previous period.

	Valid Redemption Request Received[2]	Valid Redemption Requests Fulfilled [1]		Valid Redemption Requests Unfulfilled
	Shares	Shares	Dollars	Shares
Quarter Ended:				
December 31, 2012	3,646	1,471	$13,756	2,175
September 30, 2012	5,842	1,530	$14,270	4,312
June 30, 2012	5,876	1,540	$14,349	4,336
March 31, 2012	4,174	1,566	$14,539	2,608

	Valid Redemption Request Received[2]	Valid Redemption Requests Fulfilled [1]		Valid Redemption Requests Unfulfilled
	Shares	Shares	Dollars	Shares
Quarter Ended:				
December 31, 2011	5,104	1,547	$14,354	3,557
September 30, 2011	5,801	1,537	$14,208	4,264
June 30, 2011	4,747	1,549	$14,261	3,198
March 31, 2011	4,787	1,553	$12,217	3,234

(1) The Company generally redeems shares on the last business day of the month following the end of each fiscal quarter in which requests were received; however, due to the suspension of the share redemption program, the Company redeemed shares for the quarter ending December 31, 2012 in December 2012, with the exception of the amounts discussed in Note 22 to these consolidated financial statements.

(2) A valid redemption request is one that complies with the applicable requirements and guidelines of our share redemption program in effect at such time.

NOTE 19 — INCOME TAXES

For federal income tax purposes, distributions to stockholders are characterized as ordinary dividends, capital gain distributions, or nontaxable distributions. Nontaxable distributions will reduce U.S. stockholders' basis (but not below zero) in their shares. The following table shows the character of distributions the Company paid on a percentage basis during the years ended December 31, 2012, 2011 and 2010:

Character of Distributions (unaudited):	2012		2011		2010	
Ordinary dividends	38	%	36	%	35	%
Nontaxable distributions	62	%	47	%	65	%

Capital gain distributions	—	%	17	%	—	%
Total	100	%	100	%	100	%

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

As of December 31, 2012, the tax basis carrying value of the Company's land and depreciable real estate assets was $3.1 billion. During the years ended December 31, 2012, 2011 and 2010, the Company had state and local income and franchise taxes of $1.4 million, $1.3 million and $1.2 million, respectively, which were recorded in general and administrative expenses in the consolidated statements of operations.

NOTE 20 — OPERATING LEASES

The Company's real estate properties are leased to tenants under operating leases for which the terms and expirations vary. As of December 31, 2012, the leases have a weighted-average remaining term of 9.8 years. The leases may have provisions to extend the lease agreements, options for early termination after paying a specified penalty, rights of first refusal to purchase the property at competitive market rates, and other terms and conditions as negotiated. The Company retains substantially all of the risks and benefits of ownership of the real estate assets leased to tenants. As of December 31, 2012, the future minimum rental income from the Company's investment in real estate assets under non-cancelable operating leases, assuming no exercise of renewal options, as of December 31, 2012 and for the succeeding five fiscal years is as follows (in thousands):

Year ended December 31,	Future Minimum Rental Income
2013	$252,027
2014	245,824
2015	238,691
2016	223,202
2017	206,679
Thereafter	1,314,685
Total	$2,481,108

NOTE 21 — QUARTERLY RESULTS (UNAUDITED)

Presented below is a summary of the unaudited quarterly financial information for the years ended December 31, 2012 and 2011 (in thousands, except for per share amounts). In the opinion of management, the information for the interim periods presented includes all adjustments, which are of a normal and recurring nature, necessary to present a fair presentation of the results for each such periods.

	December 31, 2012				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
Revenues	$71,565	$70,804	$70,168	$70,315	
Operating income	$36,700	$33,198 (1)	$34,892 (2)	$27,890	(1) (3)
Net income	$9,803	$6,755 (1)	$7,204 (2)	$1,635	(1) (3)
Basic and diluted net income per common share	$0.05	$0.03	$0.03	$0.01	
Distributions declared per common share	$0.16	$0.16	$0.16	$0.15	

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

	December 31, 2011			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$69,815	$69,376	$69,271	$70,883
Operating income	$35,229	$33,729	$35,002	$36,445
Net income	$16,735 (4)	$14,927 (4)	$12,952 (5)	$9,195
Basic and diluted net income per common share	$0.08	$0.07	$0.06	$0.04
Distributions declared per common share	$0.15	$0.16	$0.16	$0.16

(1) Operating and net income for the second and fourth quarters of 2012 include impairments of real estate assets of $2.0 million and $3.7 million, respectively.

(2) Operating and net income for the third quarter of 2012 include an impairment of the investment in unconsolidated joint venture of $1.2 million.

(3) Operating and net income for the fourth quarter of 2012 include Merger related expenses of $3.9 million.

(4) Net income for the first and second quarters of 2011 includes a gain on the sale of marketable securities of $7.9 million and $7.7 million, respectively.

(5) Net income for the third quarter of 2011 includes a gain on the sale of unconsolidated joint venture interest of $5.1 million.

NOTE 22 — SUBSEQUENT EVENTS

Redemption of Shares of Common Stock

Subsequent to December 31, 2012, the Company redeemed 12,964 shares for $121,000 at an average price per share of $9.35 pursuant to redemption requests received on or before December 6, 2012.

Line of Credit

Subsequent to December 31, 2012, the Company borrowed $16.0 million and repaid $6.0 million of the amounts outstanding under the Credit Facility. As of March 6, 2013, the Company had $329.1 million outstanding under the Credit Facility and $20.4 million available for borrowing.

Share Valuation

Subsequent to December 31, 2012, the Company’s board of directors established a new Estimated Share Value.

Merger Agreement

Subsequent to December 31, 2012, the Company entered into the Merger Agreement with Spirit, as discussed in Note 2 to these consolidated financial statements.

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

Legal Proceedings

In connection with the Company's Merger with Spirit, on March 5, 2013, a putative class action and derivative lawsuit was filed in the Circuit Court for Baltimore City, Maryland against and purportedly on behalf of Spirit captioned Kendrick, et al. v. Spirit Realty Capital, Inc., et al. The complaint names as defendants Spirit, the members of the board of directors of Spirit, the Spirit Partnership, the Company and Cole OP II, and alleges that the directors of Spirit breached their fiduciary duties by engaging in an unfair process leading to the Merger Agreement, agreeing to a Merger Agreement at an opportunistic and unfair price, allowing draconian and preclusive deal protection devices in the Merger Agreement, and by engaging in self-interested and otherwise conflicted actions. The complaint alleges that the Company, Cole OP II and the Spirit Partnership aided and abetted those breaches of fiduciary duty. The complaint seeks a declaration that defendants have breached their fiduciary duties or aided and abetted such breaches and that the Merger Agreement is unenforceable, an order enjoining a vote on the transactions contemplated by the Merger Agreement, rescission of the transactions in the event they are consummated, imposition of a constructive trust, an award of fees and costs, including attorneys' and experts' fees and costs, and other relief.

Advisory and Property Management Matters Agreement

Subsequent to December 31, 2012, the Company and Cole OP II entered into an advisory and property management matters agreement with Cole Advisors II and Cole Realty Advisors, with Spirit as a signatory to the agreement as an express third party beneficiary, as discussed in Note 15 to these consolidated financial statements.

Property Disposition

Subsequent to December 31, 2012, the Company sold one property for a gross sales price of $4.7 million. The transaction resulted in net cash proceeds of $4.5 million to the Company and a gain of $245,000. In connection with this sale, $136,000 of straight-line receivables were written off as a reduction to the gain. The Company has no continuing involvement with the property disposed of subsequent to the disposition. As of December 31, 2012, the potential buyer was performing its due diligence processes for this property and negotiations with the Company on the purchase and sale terms were not yet complete. Therefore, the Company believes that the sale the property was not considered to be probable, and therefore, the requirements under GAAP to treat the property as held for sale were not met as of December 31, 2012.

Holdings Merger Agreement

On March 5, 2013, Cole Credit Property Trust III, Inc. ("CCPT III"), Cole Holdings Corporation ("Holdings"), CREInvestments, LLC ("Holdings Merger Sub") and Christopher H. Cole ("Mr. Cole"), entered into an Agreement and Plan of Merger (the "Holdings Merger Agreement"). The Holdings Merger Agreement provides for the merger of Holdings with and into Holdings Merger Sub (the "Holdings Merger") with the Holdings Merger Sub surviving and continuing its existence under the laws of the State of Maryland as a wholly owned subsidiary of CCPT III. Holdings is wholly owned by Mr. Cole, the chairman of the board, chief executive officer and president of the Company and is an affiliate of the Company's sponsor, the parent company and indirect owner of the Company's advisor and the indirect owner of the Company's property manager and dealer manager. The consummation of the Holdings Merger is subject to various conditions. Upon consummation of the Holdings Merger, the Holdings Merger Sub will be renamed Cole Real Estate Investments, Inc. and intends to list its shares of common stock on the New York Stock Exchange. Despite the indirect change of control that would occur for the Company's advisor, property manager and dealer manager upon consummation of the Holdings Merger, such entities will continue to serve in their respective capacities to the Company without any changes in personnel or service procedures resulting from the Holdings Merger.

COLE CREDIT PROPERTY TRUST II, INC.
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

	Balance at beginning of period	Charged to expenses	Deductions	Balance at end of period
Year Ended December 31, 2010				
Allowance for doubtful accounts	$1,648	$(257)	$745	$646
Year Ended December 31, 2011				
Allowance for doubtful accounts	$646	$87	$186	$547
Year Ended December 31, 2012				
Allowance for doubtful accounts	$547	$689	$1,156	$80

COLE CREDIT PROPERTY TRUST II, INC.
SCHEDULE III – REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION
(in thousands)

Description (a)	Encumbrances	Initial Costs to Company		Total Adjustment to Basis	Gross Amount at Which Carried At December 31, 2012 (b) (c)	Accumulated Depreciation (d) (e) (f)	Date Acquired	Date Constructed
		Land	Buildings & Improvements					
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	$ 738	8/24/2007	2007
7500 Cottonwood Center:								
Jenison, MI	—	1,079	4,023	81	5,183	654	3/30/2007	1993
Aaron Rents:								
Alamogordo, NM	(i)	273	619	—	892	70	9/15/2008	2006
Anderson, SC	(i)	156	978	—	1,134	107	9/15/2008	1992
Baton Rouge, LA	(i)	226	603	—	829	67	9/15/2008	1999
Beeville, TX	(i)	80	808	—	888	90	9/15/2008	2004
Calmut City, IL	(i)	277	992	—	1,269	114	9/15/2008	1977
Charlotte, NC	(i)	272	424	—	696	48	9/15/2008	1957
Chiefland, FL	(i)	380	651	—	1,031	78	9/15/2008	2007
Clanton, AL	(i)	231	817	—	1,048	91	9/15/2008	2007
Essex, MD	(i)	632	966	—	1,598	107	9/15/2008	1988
Forrest City, AR	(i)	246	623	—	869	69	9/15/2008	2002
Griffin, GA	(i)	483	599	—	1,082	69	9/15/2008	2007
Grovetown, GA	(i)	220	799	—	1,019	89	9/15/2008	2007
Harrisonville, MO	(i)	509	252	—	761	29	9/15/2008	1996
Hartsville, SC	(i)	304	875	—	1,179	96	9/15/2008	2007
Largo, FL	(i)	393	884	—	1,277	103	9/15/2008	1999
Mansfield, TX	(i)	244	906	—	1,150	105	9/15/2008	2007
Navasota, TX	(i)	121	866	—	987	100	9/15/2008	2007
Okeechobee, FL	(i)	305	792	—	1,097	94	9/15/2008	2006
Rensselaer, NY	(i)	699	1,337	—	2,036	157	9/15/2008	1971
Rome, TX	(i)	387	1,050	—	1,437	123	9/15/2008	1996
Sandersville, GA	(i)	153	856	—	1,009	96	9/15/2008	2006
Shreveport, LA	(i)	267	569	—	836	67	9/15/2008	2001
Wichita, KS	(i)	247	627	—	874	69	9/15/2008	2005
Wilton, NY	(i)	2,693	3,577	—	6,270	425	9/15/2008	1987
Mineral Wells, TX	(i)	263	587	—	850	42	4/16/2010	2008
Sweetwater, TX	(i)	253	660	—	913	47	4/16/2010	2006

ABX Air:								
Coventry, RI	—	548	3,293	16	3,857	546	2/16/2007	1998
Academy Sports:								
Macon, GA	3,478	1,232	3,901	—	5,133	778	1/6/2006	2005
Katy, TX	68,250	8,853	88,008	12,240	109,101	15,274	1/18/2007	1976
Lufkin, TX	(i)	1,512	3,260	—	4,772	413	2/7/2008	2003
Advance Auto:								
Greenfield, IN	(i)	670	609	—	1,279	134	6/29/2006	2003
Trenton, OH	(i)	333	651	—	984	144	6/29/2006	2003
Columbia Heights, MN	1,038	549	1,071	—	1,620	208	7/6/2006	2005

COLE CREDIT PROPERTY TRUST II, INC.
SCHEDULE III – REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION
(in thousands)

Description (a)	Encumbrances	Initial Costs to Company		Total Adjustment to Basis	Gross Amount at Which Carried At December 31, 2012 (b) (c)	Accumulated Depreciation (d) (e) (f)	Date Acquired	Date Constructed
		Land	Buildings & Improvements					
Advance Auto (continued):								
Fergus Falls, MN	$ 722	$187	$ 911	$(1)	$1,097	$ 183	7/6/2006	2005
Holland Township, MI	1,231	647	1,134	—	1,781	230	7/12/2006	2006
Holland, MI	1,193	614	1,118	—	1,732	226	7/12/2006	2006
Zeeland, MI	1,057	430	1,109	—	1,539	225	7/12/2006	2006
Grand Forks, ND	840	346	889	—	1,235	179	8/15/2006	2005
Duluth, MN	860	284	1,050	—	1,334	200	9/8/2006	2006
Grand Bay, AL	(i)	256	770	—	1,026	157	9/29/2006	2005
Hurley, MS	(i)	171	811	—	982	164	9/29/2006	2005
Rainsville, AL	(i)	383	823	—	1,206	166	9/29/2006	2005
Ashland, KY	(i)	641	827	—	1,468	171	11/17/2006	2006
Jackson, OH	(i)	449	755	—	1,204	158	11/17/2006	2005
New Boston, OH	(i)	477	846	—	1,323	177	11/17/2006	2005
Scottsburg, IN	(i)	264	844	—	1,108	175	11/17/2006	2006
Maryland Heights, MO	(i)	736	896	—	1,632	180	1/12/2007	2005
Charlotte, NC	(i)	435	905	—	1,340	49	12/22/2010	2008
Irvington, NJ	(i)	1,078	924	—	2,002	54	12/22/2010	2010
Midwest City, OK	(i)	248	1,222	—	1,470	64	12/22/2010	2010
Penns Grove, NJ	(i)	402	907	—	1,309	53	12/22/2010	2007
St. Francis, WI	(i)	394	1,065	—	1,459	57	12/22/2010	1997
Willingboro, NJ	(i)	973	676	—	1,649	38	12/22/2010	2010
Dunellen, NJ	(i)	1,054	1,242	—	2,296	72	12/22/2010	2007
Allstate Insurance:								
Cross Plains, WI	(i)	864	4,488	8	5,360	661	12/7/2007	2007
Yuma, AZ	(i)	1,426	5,885	—	7,311	783	5/22/2008	2008
American TV & Appliance:								
Peoria, IL	6,053	2,028	8,172	—	10,200	1,405	10/23/2006	2003
Applebee’s:								
Albany, OR	1,929	808	1,836	—	2,644	281	4/26/2007	2005
Augusta, GA	2,258	621	2,474	—	3,095	363	4/26/2007	2005
Aurora (Iliff), CO	1,884	1,324	1,258	—	2,582	183	4/26/2007	1992

Aurora, CO	1,732	1,001	1,373	—	2,374	199	4/26/2007	1998
Clovis, NM	1,924	512	2,125	—	2,637	308	4/26/2007	2005
Colorado Springs, CO	1,288	781	985	—	1,766	144	4/26/2007	1998
Columbus (Airport), GA	2,182	726	2,265	—	2,991	334	4/26/2007	2006
Columbus (Gentian), GA	2,453	1,098	2,263	6	3,367	334	4/26/2007	2005
Fountain, CO	1,876	747	1,825	—	2,572	267	4/26/2007	2005
Gallup , NM	2,172	499	2,477	—	2,976	359	4/26/2007	2004
Garden City, GA	1,817	803	1,688	—	2,491	248	4/26/2007	1998
Grand Junction, CO	2,142	915	2,021	—	2,936	294	4/26/2007	1995
Littleton, CO	1,566	1,491	656	—	2,147	97	4/26/2007	1990
Longview, WA	2,479	969	2,429	4	3,402	366	4/26/2007	2004
Loveland, CO	1,445	437	1,543	—	1,980	224	4/26/2007	1997

COLE CREDIT PROPERTY TRUST II, INC.
SCHEDULE III – REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION
(in thousands)

Description (a)	Encumbrances	Initial Costs to Company		Total Adjustment to Basis	Gross Amount at Which Carried At December 31, 2012	Accumulated Depreciation	Date Acquired	Date Constructed
		Land	Buildings & Improvements		(b) (c)	(d) (e) (f)		
Applebee's (continued):								
Macon (Eisenhower), GA	$ 1,711	$785	$ 1,561	$ —	$2,346	$ 230	4/26/2007	1998
Macon (Riverside), GA	1,731	794	1,579	—	2,373	233	4/26/2007	1998
Santa Fe, NM	2,787	1,637	2,184	5	3,826	318	4/26/2007	1997
Savannah, GA	1,734	1,079	1,454	(156)	2,377	216	4/26/2007	1993
Union Gap, WA	1,761	196	2,218	—	2,414	332	4/26/2007	2004
Walla Walla, WA	1,647	770	1,487	—	2,257	231	4/26/2007	2005
Warner Robins, GA	1,732	677	1,696	—	2,373	251	4/26/2007	1994
Apria Healthcare:								
St. John, MO	4,420	1,669	4,390	133	6,192	1,004	3/28/2007	1996
Arby's:								
New Castle, PA	(i)	555	810	—	1,365	103	1/31/2008	1999
Ashley Furniture:								
Amarillo, TX	4,026	1,367	4,747	—	6,114	748	4/6/2007	1980
Anderson, SC	(i)	677	3,240	(4)	3,913	433	9/28/2007	2006
AT&T:								
Beaumont, TX	8,592	611	10,717	10	11,338	2,113	3/19/2007	1971
Santa Clara, CA	5,020	2,455	10,876	—	13,331	1,183	9/30/2008	2002
Bank of America:								
Delray Beach, FL	(i)	11,890	2,984	—	14,874	384	1/31/2008	1975
BE Aerospace:								
Winston-Salem, NC	(i)	346	4,387	—	4,733	480	10/31/2008	1987
Best Buy:								
Fayettville, NC	(i)	2,020	4,285	301	6,606	608	10/4/2007	1999
Wichita, KS	5,625	2,192	8,319	—	10,511	1,276	2/7/2008	1984
Las Cruces, NM	—	1,584	4,043	105	5,732	474	9/30/2008	2002
Kansas City, KS	—	1,464	5,375	—	6,839	236		
Big 5 Center:								
Aurora, CO	2,804	1,265	2,827	—	4,092	431	4/11/2007	2006
BJ's Wholesale:								
Ft. Lauderdale, FL	11,125	10,920	14,762	—	25,682	1,645	9/23/2008	2007
Haverhill, MA	9,100	5,497	13,904	49	19,450	1,713	4/14/2008	2006

Woodstock, GA	—	3,071	11,542	—	14,613	1,185	1/29/2009	2002
Borders:								
Rapid City, SD	4,393	1,589	1,951	—	3,540	299	6/1/2007	1999
Reading, PA	4,257	2,128	3,186	626	5,940	487	6/1/2007	1997
Boscov’s:								
Voorhees, NJ	(i)	1,889	5,012	—	6,901	679	2/7/2008	1970
Bridgestone Tire:								
Atlanta, GA	(i)	1,623	977	—	2,600	127	2/7/2008	1998
Broadview Village Square:								
Broadview , IL	31,500	8,489	46,933	338	55,760	6,962	9/14/2007	1994

COLE CREDIT PROPERTY TRUST II, INC.
SCHEDULE III – REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION
(in thousands)

		Initial Costs to Company			Gross Amount at Which Carried At December 31,			
Description (a)	Encumbrances	Land	Buildings & Improvements	Total Adjustments to Basis	2012 (b) (c)	Accumulated Depreciation (d) (e) (f)	Date Acquired	Date Constructed
Burger King:								
Durham, NC	$ —	$808	$ —	$ —	$808	$ —	4/29/2011	(h)
Carmax:								
Greenville, SC	14,565	8,061	11,830	—	19,891	1,508	1/25/2008	1998
Pineville, NC	(i)	6,980	4,014	—	10,994	548	1/31/2008	2002
Raleigh, NC	(i)	4,000	7,669	8	11,677	970	1/31/2008	1994
Chambers Corner:								
Wayland, MI	—	1,608	7,277	37	8,922	1,085	9/19/2007	2000
Chapel Hill Centre:								
Douglasville, GA	3,050	1,827	5,303	—	7,130	163	10/28/2011	2006
Chili’s:								
Paris, TX	1,790	600	1,851	—	2,451	304	12/28/2006	1999
Fredericksburg, TX	1,504	820	1,290	—	2,110	207	6/5/2007	1985
Tilton, NH	1,260	1,085	—	—	1,085	—	3/27/2009	(h)
Childtime Childcare:								
Cuyahoga Falls, OH	(i)	114	564	—	678	31	12/15/2010	1972
Arlington, TX	(i)	268	867	—	1,135	46	12/15/2010	2000
Oklahoma City (May), OK	(i)	74	479	—	553	25	12/15/2010	1998
Oklahoma City (Penn), OK	—	60	617	—	677	32	12/15/2010	1998
Rochester, NY	(i)	107	485	—	592	28	12/15/2010	1974
Modesto (Honey Creek), CA	(i)	191	605	—	796	36	12/15/2010	2006
Church’s Chicken:								
191 Locations	64,574	47,249	57,362	—	104,611	7,155	10/31/2008	Various
Circle K:								
Akron (1178 Arlington), OH	680	434	834	—	1,268	114	12/20/2007	1994
Akron (1559 Market), OH	680	539	832	8	1,379	114	12/20/2007	1995
Akron (1693 West Market), OH	803	664	2,064	8	2,736	270	12/20/2007	2000
	548	362	1,062	—	1,424	144	12/20/2007	1991

Akron (940 Arlington), OH								
Akron (Albrecht), OH	539	400	908	—	1,308	120	12/20/2007	1997
Akron (Brittain), OH	605	345	1,005	8	1,358	140	12/20/2007	1995
Akron (Brown), OH	605	329	707	—	1,036	103	12/20/2007	1950
Akron (Cuyahoga), OH	813	518	794	—	1,312	111	12/20/2007	1998
Akron (Darrow), OH	605	544	849	8	1,401	116	12/20/2007	1994
Akron (Exchange), OH	709	559	900	—	1,459	121	12/20/2007	1996
Akron (Main), OH	567	330	1,288	7	1,625	177	12/20/2007	2000
Akron (Manchester), OH	794	304	945	—	1,249	130	12/20/2007	1994
Akron (Ridgewood), OH	605	435	386	—	821	56	12/20/2007	1969
Akron (Waterloo), OH	595	385	1,019	—	1,404	137	12/20/2007	2001
Albuquerque, NM	614	748	626	—	1,374	83	12/20/2007	1994
Auburn, AL	775	693	1,045	—	1,738	141	12/20/2007	1990
Augusta, GA	501	783	953	—	1,736	130	12/20/2007	1985
Barberton (31st St), OH	454	389	1,519	—	1,908	205	12/20/2007	1991

COLE CREDIT PROPERTY TRUST II, INC.
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(in thousands)

Description (a)	Encumbrances	Initial Costs to Company		Total Adjustments to Basis	Gross Amount at Which Carried At December 31, 2012 (b) (c)	Accumulated Depreciation (d) (e) (f)	Date Acquired	Date Constructed
Circle K (continued):								
Barberton (5th St.), OH	$ 595	$283	$ 1,067	$ —	$1,350	$ 141	12/20/2007	1996
Barberton (Wooster), OH	1,077	520	1,168	—	1,688	157	12/20/2007	2000
Baton Rouge (Burbank), LA	444	538	708	—	1,246	96	12/20/2007	1976
Baton Rouge (Floynell), LA	633	551	686	—	1,237	92	12/20/2007	1977
Baton Rouge (Jefferson), LA	482	770	600	—	1,370	81	12/20/2007	1970
Beaufort, SC	784	745	663	—	1,408	88	12/20/2007	1997
Bedford, OH	624	416	708	—	1,124	95	12/20/2007	2000
Bluffton , SC	1,162	1,075	777	—	1,852	106	12/20/2007	1997
Bossier City, LA	737	755	771	—	1,526	101	12/20/2007	1987
Brookpark, OH	652	472	819	—	1,291	108	12/20/2007	1998
Canton (12th St.) , OH	524	459	878	—	1,337	123	12/20/2007	1992
Canton (Tuscarwas), OH	1,068	730	1,339	—	2,069	180	12/20/2007	2000
Charleston, SC	1,257	1,182	758	—	1,940	99	12/20/2007	1987
Charlotte (Independence), NC	912	589	581	—	1,170	79	12/20/2007	1996
Charlotte (Sharon), NC	945	663	734	—	1,397	97	12/20/2007	1997
Charlotte (Sugar Creek), SC	973	623	603	—	1,226	80	12/20/2007	1991
Cleveland , OH	765	573	1,352	—	1,925	182	12/20/2007	2002
Columbia (Garners), SC	1,021	645	739	—	1,384	98	12/20/2007	1993
Columbia (Hardscrabble), SC	850	587	777	—	1,364	102	12/20/2007	1997
Columbia (Lumpkin), GA	756	526	756	—	1,282	105	12/20/2007	1978
	690	569	455	—	1,024	64	12/20/2007	1984

Columbus (Airport), GA								
Columbus (Buena Vista), GA	728	576	623	—	1,199	87	12/20/2007	1990
Columbus (Warm Springs), GA	888	2,085	2,949	—	5,034	385	12/20/2007	1978
Columbus (Whiteville), GA	1,512	1,394	1,039	—	2,433	137	12/20/2007	1995
Copley, OH	558	336	692	8	1,036	100	12/20/2007	1993
Cuyahoga Falls (Bath), OH	983	472	1,287	—	1,759	171	12/20/2007	2002
Cuyahoga Falls (Port), OH	671	413	988	—	1,401	134	12/20/2007	1995
Cuyahoga Falls (State), OH	463	327	613	8	948	85	12/20/2007	1972
El Paso (Americas), TX	1,106	696	1,272	—	1,968	172	12/20/2007	1999
El Paso (Mesa), TX	576	684	821	—	1,505	111	12/20/2007	1999
El Paso (Zaragosa), TX	1,030	967	764	—	1,731	102	12/20/2007	1998
Fairlawn, OH	756	480	818	—	1,298	112	12/20/2007	1993
Fort Mill, SC	1,172	1,207	2,007	—	3,214	261	12/20/2007	1999
Goose Creek, SC	633	671	578	—	1,249	78	12/20/2007	1983
Huntersville, NC	973	680	716	—	1,396	95	12/20/2007	1996
Kent, OH	472	223	678	—	901	91	12/20/2007	1994
Lanett, AL	430	1,645	4,693	—	6,338	654	12/20/2007	1974
Macon (Arkwright), GA	529	422	675	(5)	1,092	91	12/20/2007	1993
Macon (Riverside), GA	567	588	625	—	1,213	89	12/20/2007	1974
Maple Heights, OH	718	524	1,052	—	1,576	144	12/20/2007	1998
Martinez, GA	595	506	702	—	1,208	96	12/20/2007	1986

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(in thousands)

Description (a)	Encumbrances	Initial Costs to Company		Total Adjustment to Basis	Gross Amount at Which Carried At December 31, 2012 (b) (c)	Accumulated Depreciation (d) (e) (f)	Date Acquired	Date Constructed
		Land	Buildings & Improvements					
Circle K (continued):								
Midland (Beaver Run), GA	$ 1,172	$1,066	$ 1,099	$—	$2,165	$ 150	12/20/2007	1995
Mobile (Airport) , AL	813	516	651	—	1,167	93	12/20/2007	1987
Mobile (Moffett) , AL	619	475	374	(45)	804	54	12/20/2007	1988
Mount Pleasant, SC	709	616	631	—	1,247	86	12/20/2007	1978
North Augusta, SC	558	380	678	—	1,058	90	12/20/2007	1999
North Monroe, LA	737	816	1,375	—	2,191	180	12/20/2007	1986
Northfield , OH	935	829	1,564	—	2,393	205	12/20/2007	1983
Norton, OH	690	374	1,430	—	1,804	192	12/20/2007	2001
Opelika (2nd Avenue), AL	595	778	1,590	—	2,368	215	12/20/2007	1989
Opelika (Columbus), AL	1,096	829	968	—	1,797	141	12/20/2007	1988
Parma, OH	633	451	1,052	—	1,503	141	12/20/2007	2002
Phenix City, AL	775	674	1,148	—	1,822	153	12/20/2007	1999
Pine Mountain, GA	567	744	3,016	—	3,760	398	12/20/2007	1999
Port Wentworth, GA	1,087	945	861	—	1,806	126	12/20/2007	1991
Savannah (Johnny Mercer), GA	699	551	480	—	1,031	67	12/20/2007	1990
Savannah (King George), GA	756	816	712	—	1,528	95	12/20/2007	1997
Seville, OH	1,228	642	1,989	8	2,639	263	12/20/2007	2003
Shreveport , LA	586	517	1,074	—	1,591	143	12/20/2007	1988
Springdale, SC	813	368	609	—	977	81	12/20/2007	1999
Twinsburg, OH	652	409	1,146	—	1,555	158	12/20/2007	1984
Valley, AL	756	512	733	—	1,245	99	12/20/2007	1974

West Monroe (1602), LA	803	538	1,127	—	1,665	148	12/20/2007	1999
West Monroe (503), LA	709	918	660	—	1,578	89	12/20/2007	1983
Willoughby, OH	576	390	1,001	—	1,391	133	12/20/2007	1986
Circuit City (Formerly):								
Mesquite, TX	—	1,094	6,687	1,242	9,023	1,167	6/29/2007	1996
Taunton, MA	—	2,219	6,314	(5,011)	3,522	192	7/13/2007	2001
Groveland, FL	20,250	4,990	24,740	—	29,730	3,440	7/17/2007	1991
Aurora, CO	4,777	1,763	4,295	1,975	8,033	625	8/22/2007	1995
Kennesaw, GA	(i)	2,242	18,075	4,706	25,023	3,442	1/31/2008	1998
Columbus Fish Market :								
Grandview, OH	(i)	1,417	1,478	—	2,895	87	9/27/2010	1985
Conns:								
San Antonio, TX	—	1,026	3,055	—	4,081	539	5/26/2006	2002
Convergys:								
Las Cruces, NM	4,883	1,740	5,785	—	7,525	800	6/2/2008	1983
Coral Walk:								
Cape Coral, FL	(i)	7,737	20,708	(231)	28,214	3,090	6/12/2008	2007
Cost-U-Less:								
St. Croix, USVI	4,035	706	4,472	—	5,178	686	3/26/2007	2005

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		Land	Buildings & Improvements					
Cumming Town Center:								
Cumming, GA	$ 33,700	$13,555	$ 48,146	$(1,218)	$60,483	$ 5,751	7/11/2008	2007
CVS:								
Alpharetta, GA	(i)	1,214	1,693	—	2,907	341	12/1/2005	1998
Richland Hills, TX	(i)	1,141	2,302	—	3,443	432	12/8/2005	1997
Portsmouth (Scioto Trail), OH	1,420	561	1,639	169	2,369	338	3/8/2006	1997
Lakewood, OH	—	552	1,225	80	1,857	288	4/19/2006	1996
Madison, MS	2,809	1,068	2,835	—	3,903	523	5/26/2006	2004
Portsmouth, OH	(i)	328	1,862	205	2,395	387	6/28/2006	1997
Okeechobee, FL	4,076	1,623	3,563	—	5,186	624	7/7/2006	2001
Orlando, FL	3,016	2,125	2,213	—	4,338	400	7/12/2006	2005
Gulfport, MS	2,611	1,231	2,483	—	3,714	429	8/10/2006	2000
Clinton, NY	1,983	684	2,014	—	2,698	337	8/24/2006	2006
Glenville Scotia, NY	3,413	1,601	2,928	—	4,529	472	11/16/2006	2006
Florence, SC	1,706	771	1,803	—	2,574	277	5/17/2007	1998
Indianapolis, IN	—	1,077	2,238	—	3,315	281	2/7/2008	1998
Onley, VA	3,251	1,584	3,156	—	4,740	384	5/8/2008	2007
Columbia (I), TN	1,370	1,090	1,752	—	2,842	216	9/30/2008	1998
Columbia (II), TN	1,330	1,205	1,579	—	2,784	198	9/30/2008	1998
Hamilton, OH	2,280	917	1,682	—	2,599	198	9/30/2008	1999
Mechanicsville, NY	1,417	415	2,104	—	2,519	233	9/30/2008	1997
Atlanta, GA	—	910	2,450	—	3,360	273	10/7/2008	2006
Carrollton, TX	(i)	542	1,428	—	1,970	159	12/23/2008	1995
Kissimmee, FL	(i)	810	1,607	—	2,417	176	12/23/2008	1995
Lake Worth, TX	(i)	474	1,323	—	1,797	147	12/23/2008	1996
Richardson, TX	—	476	1,769	—	2,245	196	12/23/2008	1996
River Oaks, TX	—	819	1,711	—	2,530	190	12/23/2008	1996
The Colony, TX	(i)	460	1,422	(5)	1,877	158	12/23/2008	1996

Wichita Falls (SW), TX	(i)	451	1,655	—	2,106	183	12/23/2008	1996
Wichita Falls, TX	(i)	471	1,276	—	1,747	141	12/23/2008	1995
Myrtle Beach, SC	4,788	1,565	2,564	—	4,129	256	3/27/2009	2004
Maynard, MA	5,596	2,157	2,049	—	4,206	199	3/31/2009	2005
Waynesville, NC	3,966	420	3,005	—	3,425	298	3/31/2009	2005
Indianapolis (21st Street), IN	(i)	807	2,073	—	2,880	129	7/21/2010	1986
Lincoln, IN	(i)	375	2,472	—	2,847	144	9/17/2010	1981
Azle, TX	3,158	935	2,955	—	3,890	164	12/16/2010	1985
Fairview Township, PA	2,018	968	1,754	—	2,722	91	1/27/2011	2007
St. Augustine, FL	2,714	1,002	3,081	—	4,083	132	4/26/2011	2008
Dave and Buster’s:								
Addison, IL	5,600	5,837	6,810	—	12,647	1,017	7/19/2007	2006
David’s Bridal:								
Lenexa, KS	—	766	2,197	—	2,963	519	1/11/2006	2005

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David's Bridal (continued):								
Topeka, KS	$ 2,000	$569	$ 2,193	$ —	$2,762	$ 455	10/13/2006	2006
Dickinson Theater:								
Yukon, OK	(i)	980	3,403	7	4,390	475	7/17/2007	2007
Dick's Sporting Goods:								
Amherst, NY	6,321	3,147	6,084	864	10,095	1,180	12/20/2006	1986
Dollar General:								
Crossville, TN	1,950	647	2,088	—	2,735	402	6/2/2006	2006
Ardmore, TN	1,804	735	1,839	—	2,574	350	6/9/2006	2005
Livingston, TN	1,856	899	1,687	—	2,586	328	6/12/2006	2006
Drexel Heritage:								
Hickory, NC	—	394	3,622	—	4,016	1,360	2/24/2006	1963
Eckerd:								
Lincolnton, NC	1,538	557	2,131	—	2,688	317	4/3/2007	1998
Easton, PA	4,060	2,308	3,411	—	5,719	495	4/25/2007	2005
Spartanburg, SC	2,259	1,368	1,791	—	3,159	275	5/17/2007	1998
EDS Information Systems:								
Salt Lake City, UT	18,000	2,283	19,796	279	22,358	2,763	7/17/2007	1999
Federal Express:								
Rockford, IL	(i)	1,469	3,669	223	5,361	749	12/9/2005	1994
Council Bluffs, IA	2,185	530	1,845	—	2,375	308	11/15/2006	1999
Edwardsville, KS	12,880	1,693	15,439	5,507	22,639	2,540	11/15/2006	1999
Peoria, IL	2,080	337	2,629	22	2,988	367	7/20/2007	1997
Walker, MI	—	1,387	4,424	3,334	9,145	614	8/8/2007	2001
Mishawaka, IN	(i)	303	3,356	—	3,659	428	2/7/2008	1993
Huntsville, AL	—	1,576	8,252	8	9,836	899	9/30/2008	2008
Baton Rouge, LA	6,470	1,822	6,332	1,561	9,715	797	10/3/2008	2008
Ferguson Enterprises:								
Auburn, AL	—	663	1,401	—	2,064	162	8/21/2008	2007
Charlotte, NC	4,050	2,347	7,782	—	10,129	943	8/21/2008	2007
Cohasset, MN	(i)	65	1,221	—	1,286	138	8/21/2008	2007

Front Royal, VA	—	3,475	38,699	—	42,174	4,458	8/21/2008	2007
Ocala, FL	—	650	6,207	—	6,857	734	8/21/2008	2006
Powhatan, VA	(i)	522	4,712	—	5,234	534	8/21/2008	2007
Salisbury, MD	(i)	773	8,016	—	8,789	911	8/21/2008	2007
Shallotte, NC	(i)	594	1,717	—	2,311	197	8/21/2008	2006
Fire Mountain Buffet:								
Decatur, AL	—	870	1,318	—	2,188	60	4/29/2011	2004
Dawsonville, GA	—	686	851	—	1,537	39	4/29/2011	2005
Lake Charles, LA	—	1,115	1,058	—	2,173	52	4/29/2011	1987
Gallina Centro:								
Collierville, TN	14,200	5,669	10,347	8	16,024	1,668	3/26/2007	2000

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		Land	Buildings & Improvements					
Gallina Centro II:								
Collierville II, TN	—	$1,858	$ 5,073	$—	$6,931	$ 17	11/15/2012	2012
Gold's Gym:								
O'Fallon, IL	3,650	1,407	5,253	—	6,660	992	9/29/2006	2005
St. Peters, MO	4,893	2,338	4,428	—	6,766	645	7/31/2007	2007
O'Fallon, MS	5,425	3,120	3,992	—	7,112	611	8/29/2007	2007
Golden Corral:								
Albuquerque, NM	—	1,526	2,853	—	4,379	119	9/28/2011	2011
Gordman's:								
Peoria, IL	4,950	1,558	6,674	—	8,232	1,047	1/18/2007	2006
Gregg Appliances:								
Greensboro, NC	(i)	2,412	3,931	(366)	5,977	498	1/11/2008	2007
Grove City, OH	(i)	987	4,477	—	5,464	584	9/17/2008	2008
Mt Juliet, TN	2,425	2,088	3,638	—	5,726	449	9/23/2008	2008
Hilltop Plaza:								
Bridgeton, MO	(i)	8,012	13,342	7	21,361	1,752	2/6/2008	1991
HOM Furniture:								
Fargo, ND	4,800	1,155	9,779	—	10,934	1,592	1/4/2007	2004
Home Depot:								
Bedford Park, IL	(i)	9,024	20,877	545	30,446	2,926	8/21/2007	1992
Lakewood, CO	7,212	9,367	—	—	9,367	—	8/27/2008	2006
Colma, CA	19,300	17,636	20,114	—	37,750	2,175	9/30/2008	1995
Infiniti:								
Davie, FL	5,151	3,076	5,410	—	8,486	936	11/30/2006	2006
Ivex Packaging:								
New Castle, PA	—	162	3,877	—	4,039	209	12/20/2010	1986
J.Jill:								
Tilton, NH	(i)	6,214	17,378	—	23,592	1,125	9/30/2010	2008
Jo-Ann Fabrics:								
Alpharetta, GA	(i)	2,578	3,682	—	6,260	538	8/5/2008	2000
Independence, MO	(i)	1,304	2,790	—	4,094	172	12/23/2010	2006
Kohl's:								

Wichita, KS	5,200	1,798	6,200	818	8,816	1,176	9/27/2006	1996
Lake Zurich, IL	9,075	1,854	10,086	—	11,940	1,453	7/17/2007	2000
Grand Forks, ND	4,931	1,855	5,680	—	7,535	684	6/11/2008	2006
Tilton, NH	3,780	5,640	—	—	5,640	—	3/27/2009	(h)
Olathe, KS	5,819	2,539	5,471	350	8,360	217	8/23/2011	1995
Kroger:								
LaGrange, GA	—	1,101	6,032	177	7,310	874	6/28/2007	1998
LA Fitness:								
Brooklyn Park, MN	5,871	1,963	7,460	—	9,423	885	6/17/2008	2008
Matteson, IL	5,753	2,628	6,474	—	9,102	867	7/16/2008	2007
Greenwood, IN	(i)	2,233	7,670	—	9,903	950	8/5/2008	2007
League City, TX	(i)	1,597	4,832	16	6,445	328	5/21/2010	2007

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(in thousands)

Description (a)	Encumbrances	Initial Costs to Company		Total Adjustment to Basis	Gross Amount at Which Carried At December 31, 2012 (b) (c)	Accumulated Depreciation (d) (e) (f)	Date Acquired	Date Constructed
		Land	Buildings & Improvements					
LA Fitness (continued):								
Naperville, IL	(i)	$2,415	$ 5,759	$ —	$8,174	$ 388	6/30/2010	1999
West Chester, OH	5,075	664	6,696	—	7,360	314	4/27/2011	2009
La-Z-Boy:								
Glendale, AZ	(i)	2,515	2,968	—	5,483	600	10/25/2005	2001
Newington, CT	3,324	1,466	4,979	—	6,445	756	1/5/2007	2006
Kentwood, MI	—	1,442	3,702	—	5,144	590	6/28/2007	1986
Lincoln Place:								
Fairview Heights, IL	35,432	6,010	36,738	1,416	44,164	5,650	4/5/2007	1998
Logan's Roadhouse:								
Fairfax, VA	1,117	1,527	1,414	—	2,941	216	3/28/2007	1998
Johnson City, TN	1,933	1,280	1,794	—	3,074	273	3/28/2007	1996
Wichita Falls, TX	(i)	435	1,670	—	2,105	90	12/17/2010	2009
Trussville, AL	(i)	723	1,147	—	1,870	63	12/17/2010	2008
Long John Silvers:								
Houston, TX	(i)	965	—	122	1,087	17	7/19/2007	2004
Lowe's:								
Enterprise, AL	(i)	1,012	5,803	—	6,815	1,164	12/1/2005	1995
Lubbock, TX	7,475	4,581	6,563	57	11,201	1,187	9/27/2006	1996
Midland, TX	7,150	3,525	7,332	—	10,857	1,306	9/27/2006	1996
Cincinnati, OH	13,800	5,592	11,319	—	16,911	1,691	7/17/2007	1998
Chester, NY	3,834	5,704	—	—	5,704	—	9/19/2008	2008
Tilton, NH	12,960	10,800	—	—	10,800	—	3/27/2009	(h)
Market Pointe:								
Papillion, NE	11,825	11,626	12,882	322	24,830	1,718	6/20/2008	2007
Marsh Supermarket:								
Indianapolis, IN	5,950	1,842	10,764	—	12,606	1,359	2/7/2008	1999
Massard Farms								

Fort Smith, AR	9,670	4,295	10,755	236	15,286	1,584	10/11/2007	2001
Mealey's Furniture:								
Maple Shade, NJ	(i)	1,716	3,907	821	6,444	643	12/12/2007	2007
Mercedes Benz:								
Atlanta, GA	(i)	2,623	7,208	—	9,831	1,110	12/15/2006	2000
Milford Commons:								
Milford, CT	5,161	7,525	4,257	—	11,782	572	1/17/2008	2005
Mountainside Fitness:								
Chandler, AZ	(i)	1,177	4,480	—	5,657	1,017	2/9/2006	2001
Mustang Engineering:								
Houston, TX	(i)	1,859	16,198	37	18,094	2,520	1/31/2008	1983
Northern Tool & Equipment:								
Blaine, MN	3,185	2,233	2,432	—	4,665	417	2/28/2007	2006

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		Land	Buildings & Improvements					
O'Reilly Auto Parts:								
Dallas, TX	$ 3,290	$1,896	$ 2,904	$—	$4,800	$ 441	2/6/2007	1970
Office Depot:								
Dayton, OH	2,130	807	2,183	—	2,990	367	7/7/2006	2005
Greenville, MS	—	666	2,469	—	3,135	422	7/12/2006	2000
Warrensburg, MO	—	1,024	1,540	—	2,564	367	7/19/2006	2001
Benton, AR	2,130	560	2,506	—	3,066	401	11/21/2006	2001
Oxford, MS	2,295	916	2,141	—	3,057	338	12/1/2006	2006
Enterprise, AL	1,850	771	1,635	—	2,406	253	2/27/2007	2006
Alcoa, TN	(i)	1,164	2,537	158	3,859	323	1/31/2008	1999
Laurel, MS	(i)	351	2,214	—	2,565	247	9/30/2008	2002
London, KY	(i)	724	2,687	—	3,411	374	9/30/2008	2001
Durham, NC	2,052	737	1,647	—	2,384	77	4/29/2011	2008
Balcones Heights, TX	2,285	1,213	2,157	—	3,370	99	4/29/2011	2009
OfficeMax:								
Orangeburg, SC	—	590	2,363	—	2,953	426	2/28/2007	1999
Old Time Pottery:								
Fairview Heights, IL	—	1,044	2,943	50	4,037	872	11/21/2006	1979
One Pacific Place:								
Omaha, NE	23,400	6,254	27,877	2,217	36,348	5,794	2/6/2007	1988
Oxford Theater:								
Oxford, MS	—	281	4,051	(2,581)	1,751	19	8/31/2006	2006
Payless Shoes:								
Columbia, SC	(i)	568	742	—	1,310	93	9/30/2008	1998
PepBoys:								
Albuquerque, NM	—	1,495	1,980	—	3,475	256	3/25/2008	1990
Arlington Heights, IL	—	1,379	4,376	—	5,755	562	3/25/2008	1995
Clarksville, IN	(i)	1,017	1,492	—	2,509	200	3/25/2008	1993
Colorado Springs, CO	—	1,223	1,820	—	3,043	242	3/25/2008	1994

El Centro, CA	(i)	1,000	1,202	—	2,202	156	3/25/2008	2006
Fort Myers, FL	—	2,121	2,546	—	4,667	323	3/25/2008	1994
Frederick, MD	(i)	1,786	2,812	—	4,598	344	3/25/2008	1987
Hampton, VA	(i)	2,024	1,757	—	3,781	231	3/25/2008	1993
Lakeland, FL	(i)	3,313	1,991	—	5,304	274	3/25/2008	1991
Nashua, NH	—	2,415	2,006	—	4,421	260	3/25/2008	1996
Orem, UT	(i)	1,392	1,224	—	2,616	161	3/25/2008	1990
Pasadena, TX	(i)	1,703	2,656	—	4,359	342	3/25/2008	1995
San Antonio, TX	—	905	2,091	—	2,996	278	3/25/2008	1988
Tamarac, FL	(i)	1,690	2,106	—	3,796	269	3/25/2008	1997
Tampa, FL	—	3,902	2,035	—	5,937	306	3/25/2008	1991

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		Land	Buildings & Improvements					
Pep Boys (continued):								
West Warwick, RI	(i)	$2,429	$ 1,198	$—	$3,627	$ 161	3/25/2008	1993
Petsmart:								
McCarran, NV	22,000	5,151	43,546	—	48,697	5,079	7/2/2008	2008
Chattanooga, TN	—	1,136	3,418	—	4,554	382	8/5/2008	1996
Daytona Beach, FL	—	1,735	3,270	—	5,005	365	8/5/2008	1996
Fredericksburg, VA	—	3,247	2,083	—	5,330	235	8/5/2008	1997
Plastech:								
Auburn Hills, MI	(i)	3,283	18,153	(2,882)	18,554	2,840	12/15/2005	1995
Pocatello Square:								
Pocatello, ID	17,250	3,262	18,418	2,388	24,068	3,092	4/6/2007	2006
Rayford Square:								
Spring, TX	5,940	2,339	6,696	178	9,213	1,179	3/2/2006	1973
Rite Aid:								
Alliance, OH	—	432	1,446	1	1,879	311	10/20/2005	1996
Enterprise, AL	2,043	920	2,391	—	3,311	463	1/26/2006	2005
Wauseon, OH	2,142	1,047	2,333	1	3,381	457	1/26/2006	2005
Saco, ME	1,340	391	1,989	—	2,380	389	1/27/2006	1997
Cleveland, OH	1,370	566	1,753	1	2,320	357	4/27/2006	1997
Fremont, OH	1,300	863	1,435	1	2,299	285	4/27/2006	1997
Defiance, OH	2,321	1,174	2,373	1	3,548	441	5/26/2006	2005
Lansing, MI	1,041	254	1,276	50	1,580	266	6/29/2006	1950
Glassport, PA	2,325	674	3,112	1	3,787	493	10/4/2006	2006
Hanover, PA	4,115	1,924	3,804	—	5,728	597	10/17/2006	2006
Plains, PA	3,380	1,147	3,780	—	4,927	561	4/16/2007	2006
Fredericksburg, VA	2,979	1,522	3,378	—	4,900	484	5/2/2007	2007
Lima, OH	3,103	1,814	2,402	—	4,216	359	5/14/2007	2005
Allentown, PA	3,615	1,635	3,654	—	5,289	534	5/15/2007	2006
Ruth Chris:								
Metairie, LA	(i)	1,701	1,262	—	2,963	74	9/27/2010	2006
Sarasota, FL	(i)	1,480	1,266	—	2,746	74	9/27/2010	2007

Ryan's Buffet:								
Florence, AL	—	827	1,176	—	2,003	55	4/29/2011	1994
Dothan, AL	—	667	1,158	—	1,825	53	4/29/2011	1998
Carrollton, GA	—	610	928	—	1,538	43	4/29/2011	1995
Hiram, GA	—	729	940	—	1,669	44	4/29/2011	1999
Albany, GA	—	838	1,561	—	2,399	72	4/29/2011	2003
Corydon, IN	—	550	1,136	—	1,686	52	4/29/2011	1999
Bowling Green, KY	—	1,371	1,601	—	2,972	75	4/29/2011	1997
Johnstown, PA	—	725	813	—	1,538	37	4/29/2011	1998
Picayune, MS	—	1,212	1,044	—	2,256	49	4/29/2011	1999
Tupelo, MS	—	1,010	947	—	1,957	44	4/29/2011	1995

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Ryan's Buffet (continued):								
Charleston, SC	$ —	$1,209	$ 488	$—	$1,697	$ 24	4/29/2011	1988
Conroe, TX	—	1,746	1,362	—	3,108	65	4/29/2011	1993
Princeton, WV	—	930	1,484	—	2,414	68	4/29/2011	2001
Sportsman's Warehouse (Formerly):								
Wichita, KS	—	1,586	5,954	(4,762)	2,778	—	6/27/2006	2006
DePere, WI	3,907	1,131	4,295	—	5,426	669	4/20/2007	2004
Staples:								
Crossville, TN	—	549	2,134	—	2,683	521	1/26/2006	2001
Peru, IL	—	1,285	1,959	—	3,244	384	11/10/2006	1998
Clarksville, IN	2,900	939	3,080	—	4,019	562	12/29/2006	2006
Greenville, SC	2,955	1,718	2,496	—	4,214	374	4/11/2007	2007
Warsaw, IN	1,850	1,084	1,984	—	3,068	306	5/17/2007	1998
Guntersville, AL	—	969	2,330	—	3,299	338	7/6/2007	2001
Moraine, OH	(i)	1,168	2,182	(11)	3,339	311	10/12/2007	2006
Angola, IN	—	457	2,366	—	2,823	278	9/30/2008	1999
Starbucks:								
Covington, TN	—	563	856	—	1,419	138	6/22/2007	2007
Sedalia, MO	(i)	249	837	—	1,086	123	6/22/2007	2006
Bowling Green, KY	(i)	557	1,005	3	1,565	148	10/23/2007	2007
Shawnee, OK	(i)	362	644	5	1,011	99	10/31/2007	2006
Oklahoma City, OK	—	386	725	5	1,116	112	11/20/2007	2007
Chattanooga, TN	—	533	788	5	1,326	119	11/26/2007	2007
Maryville, TN	(i)	663	733	4	1,400	111	11/26/2007	2007
Powell, TN	(i)	517	728	4	1,249	111	11/26/2007	2007
Seymour, TN	—	509	752	4	1,265	113	11/26/2007	2007
Altus, OK	—	191	885	—	1,076	131	1/16/2008	2007
Stillwater, OK	(i)	164	990	—	1,154	139	2/28/2008	2007
Memphis, TN	—	201	1,077	—	1,278	145	3/4/2008	2007
Ponca City, OK	—	218	778	—	996	107	3/11/2008	2007
Kingsport, TN	(i)	544	733	—	1,277	103	3/25/2008	2008
Stations Casino:								
Las Vegas, NV	42,212	4,976	50,024	—	55,000	6,564	11/1/2007	2007

Taco Bell:								
Anderson, IN	(i)	344	640	(13	) 971	130	7/19/2007	1995
Brazil, IN	(i)	539	569	(12	) 1,096	113	7/19/2007	1996
Henderson, KY	(i)	380	946	(14	) 1,312	168	7/19/2007	1992
Martinsville, IN	(i)	421	633	(12	) 1,042	126	7/19/2007	1986
Princeton, IN	(i)	287	628	(14	) 901	136	7/19/2007	1992
Robinson, IN	(i)	300	527	(11	) 816	110	7/19/2007	1994
Spencer, IN	(i)	216	583	(14	) 785	117	7/19/2007	1999
Vinceness, IN	(i)	623	648	(16	) 1,255	131	7/19/2007	2000

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Taco Bell (continued):								
Washington, IN	(i)	$334	$ 583	$ (12)	$905	$ 119	7/19/2007	1995
TelerX Marketing:								
Kings Mountain, NC	—	367	7,795	—	8,162	1,183	7/17/2007	2007
Three Forks Restaurant:								
Dallas, TX	—	3,641	5,678	—	9,319	679	6/5/2008	1998
TJ Maxx:								
Staunton, VA	—	933	3,082	157	4,172	374	9/30/2008	1988
Tractor Supply:								
Parkersburg, WV	1,793	934	2,050	—	2,984	433	9/26/2005	2005
La Grange, TX	1,405	256	2,091	—	2,347	379	11/6/2006	2006
Livingston, TN	1,725	430	2,360	—	2,790	423	11/22/2006	2006
New Braunfels, TX	1,750	511	2,350	—	2,861	424	11/22/2006	2006
Crockett, TX	1,325	291	1,957	—	2,248	349	12/1/2006	2006
Ankeny, IA	1,950	717	1,984	—	2,701	349	2/9/2007	2006
Greenfield, MN	2,228	1,311	2,367	—	3,678	350	4/2/2007	2006
Marinette, WI	1,918	448	2,123	—	2,571	360	4/10/2007	2006
Paw Paw, MI	2,048	537	2,349	—	2,886	348	4/10/2007	2006
Navasota, TX	2,050	348	2,368	—	2,716	393	4/18/2007	2006
Fredericksburg, TX	2,031	593	2,235	—	2,828	325	5/8/2007	2007
Fairview, TN	1,931	449	2,234	—	2,683	323	5/25/2007	2007
Baytown, TX	2,251	808	2,212	—	3,020	317	6/11/2007	2007
Prior Lake, MN	3,283	1,756	2,948	98	4,802	435	6/29/2007	1991
Rome, NY	1,716	1,231	1,747	—	2,978	226	1/4/2008	2003
Clovis, NM	(i)	695	2,129	—	2,824	266	4/7/2008	2007
Carroll, OH	1,090	798	1,030	—	1,828	261	5/8/2008	1976
Baldwinsville, NY	1,705	1,110	1,938	—	3,048	225	10/15/2008	2005
LaGrange, KY	(i)	584	2,322	—	2,906	300	11/19/2008	2008
Lowville, NY	(i)	126	1,848	—	1,974	127	6/3/2010	2006
Malone, NY	(i)	168	1,852	—	2,020	127	6/3/2010	2006

Elletsville, IN	(i)	247	1,992	—	2,239	122	9/13/2010	2007
Mt. Sterling, KY	1,452	471	1,899	—	2,370	66	10/27/2011	2011
TutorTime:								
Pittsburgh, PA	(i)	508	391	—	899	27	12/15/2010	2008
Victoria Crossing:								
Victoria, TX	8,288	2,207	9,531	121	11,859	1,497	1/12/2007	2006
Wadsworth Boulevard:								
Denver, CO	6,708	4,723	12,728	274	17,725	2,305	2/6/2006	1991
Walgreens:								
Brainerd, MN	2,814	981	2,882	—	3,863	594	10/5/2005	2000
Florissant, MO	3,372	1,482	3,205	—	4,687	590	11/2/2005	2001
St Louis (Gravois), MO	3,999	2,220	3,305	—	5,525	609	11/2/2005	2001

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Walgreen's (continued):								
St Louis (Telegraph), MO	$ 3,289	$1,745	$ 2,875	$ —	$4,620	$ 530	11/2/2005	2001
Columbia, MO	3,573	2,353	3,351	—	5,704	658	11/22/2005	2002
Olivette, MO	4,476	3,077	3,798	—	6,875	725	11/22/2005	2001
Knoxville, TN	3,250	1,826	2,465	—	4,291	474	5/8/2006	2000
Picayune, MS	2,766	1,212	2,548	—	3,760	428	9/15/2006	2006
Cincinnati, OH	3,341	1,335	3,272	—	4,607	492	3/6/2007	2000
Madeira, OH	2,850	1,060	2,911	—	3,971	439	3/6/2007	1998
Sharonville, OH	2,630	1,203	2,836	352	4,391	472	3/6/2007	1998
Shreveport, LA	2,815	477	2,648	—	3,125	396	3/23/2007	1998
Bridgetown, OH	3,043	1,537	2,356	—	3,893	356	4/30/2007	1998
Dallas, TX	2,175	992	2,749	619	4,360	487	5/9/2007	1996
Bryan, TX	4,111	783	4,792	(4)	5,571	685	5/18/2007	2001
Harris County, TX	3,673	1,651	3,007	—	4,658	448	5/18/2007	2000
Gainesville, FL	2,465	1,079	2,398	18	3,495	344	6/1/2007	1997
Kansas City (63rd St), MO	3,035	1,255	2,944	363	4,562	458	7/11/2007	2000
Kansas City (Independence), MO	2,990	1,233	3,066	—	4,299	430	7/11/2007	1997
Kansas City (Linwood), MO	2,438	1,066	2,634	202	3,902	391	7/11/2007	2000
Kansas City (Troost), MO	2,464	1,149	3,288	—	4,437	460	7/11/2007	2000
Topeka, KS	1,870	860	2,142	—	3,002	300	7/11/2007	1999
Fort Worth, TX	3,675	276	2,982	—	3,258	411	7/17/2007	1992
Richmond, VA	(i)	745	2,902	—	3,647	417	8/17/2007	1997
Dallas, TX	(i)	367	2,214	(1)	2,580	300	8/27/2007	1997
Brentwood, TN	2,700	2,904	2,179	(74)	5,009	294	10/17/2007	2006
Harriman, TN	2,500	1,133	3,526	—	4,659	470	10/24/2007	2007
Beverly Hills, TX	2,460	1,286	2,562	691	4,539	413	12/5/2007	2007
Waco, TX	2,730	1,138	2,683	700	4,521	431	12/5/2007	2007
Cincinnati (Seymour), OH	(i)	756	2,587	—	3,343	351	12/21/2007	2000

Oneida, TN	2,500	555	3,938	—	4,493	501	2/29/2008	2007
Batesville, MS	—	1,558	3,265	—	4,823	415	3/31/2008	2007
Elmira, NY	2,900	1,996	3,831	—	5,827	463	5/1/2008	2007
Hibbing, MN	2,489	1,048	2,763	—	3,811	326	5/14/2008	2007
Essex, MD	3,817	1,208	4,725	—	5,933	548	5/30/2008	2007
Bath, NY	2,513	1,114	2,924	—	4,038	348	6/2/2008	2008
Chino Valley, AZ	3,186	1,779	3,014	—	4,793	347	6/2/2008	2007
Albany, GA	2,592	929	3,177	—	4,106	381	6/11/2008	2008
Rome, NY	2,553	1,170	3,121	—	4,291	365	7/15/2008	2007
Columbus, MS	2,552	1,193	2,831	—	4,024	346	7/24/2008	2004
Mobile, AL	3,215	1,654	3,286	—	4,940	385	8/28/2008	2007
Akron, OH	(i)	565	1,961	86	2,612	235	9/30/2008	1994
Broken Arrow, OK	—	770	1,274	—	2,044	160	9/30/2008	1993
Crossville, TN	2,731	878	3,154	—	4,032	393	9/30/2008	2001

COLE CREDIT PROPERTY TRUST II, INC.
SCHEDULE III – REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION
(in thousands)

Description (a)	Encumbrances	Initial Costs to Company		Total Adjustments to Basis	Gross Amount at Which Carried At December 31, 2012	Accumulated Depreciation	Date Acquired	Date Constructed
		Land	Buildings & Improvements		(b) (c)	(d) (e) (f)		
Walgreen's (continued):								
Jacksonville, FL	$ 2,998	$1,044	$ 4,178	$ —	$5,222	$ 474	9/30/2008	2000
LaMarque, TX	—	450	3,461	—	3,911	389	9/30/2008	2000
Newton, IA	(i)	505	3,456	—	3,961	392	9/30/2008	2000
Saginaw, MI	—	801	2,977	—	3,778	342	9/30/2008	2001
Seattle, WA	3,740	2,944	3,206	—	6,150	364	9/30/2008	2002
Tulsa, OK	—	651	2,168	—	2,819	256	9/30/2008	1994
Tulsa, OK	—	192	1,935	—	2,127	231	9/30/2008	1993
Evansville, IN	—	1,131	2,898	—	4,029	300	11/25/2008	2007
Austin, MN	3,531	1,049	1,940	—	2,989	189	3/27/2009	2002
Canton, IL	4,429	842	3,046	—	3,888	301	3/27/2009	2006
Galloway, OH	4,250	1,055	2,834	—	3,889	283	3/27/2009	2003
Humble, TX	4,395	1,092	3,027	—	4,119	294	3/27/2009	2003
Memphis, TN	5,058	693	3,827	—	4,520	380	3/27/2009	2002
Parkville, MO	4,274	1,461	2,243	—	3,704	227	3/27/2009	2006
San Antonio, TX	4,060	991	3,005	—	3,996	292	3/27/2009	2004
Toledo, OH	5,400	1,208	3,469	—	4,677	339	3/27/2009	2005
Antioch, TN	4,425	479	3,411	—	3,890	335	3/31/2009	2002
Decatur, IL	4,003	680	2,989	—	3,669	297	3/31/2009	2005
Long Beach, MS	3,662	791	2,600	—	3,391	256	3/31/2009	2005
Roselle, NJ	5,742	1,632	3,746	—	5,378	360	3/31/2009	2002
Saraland, AL	5,079	1,415	3,187	—	4,602	309	3/31/2009	2003
Mt. Pleasant, TX	3,404	1,097	3,447	—	4,544	185	12/21/2010	1999
Richmond Hill, GA	3,237	1,257	3,304	—	4,561	160	2/25/2011	2009
Wal-Mart:								
Anderson, SC	8,160	3,265	8,442	1,271	12,978	1,414	5/8/2007	1993
New London, WI	1,778	658	1,938	135	2,731	310	5/9/2007	1991
Spencer, IN	1,325	612	1,427	157	2,196	243	5/23/2007	1987
Bay City, TX	(i)	637	2,558	(6)	3,189	365	8/14/2007	1990
Washington, IL	(i)	1,043	2,386	117	3,546	360	9/10/2007	1989
Borger, TX	(i)	932	1,828	(10)	2,750	258	9/12/2007	1991
Whiteville, NC	(i)	854	1,357	245	2,456	225	10/11/2007	1988
WaWa:								
Hockessin, DE	2,709	1,850	2,000	—	3,850	393	3/29/2006	2000

Manahawkin, NJ	2,617	1,359	2,360	—	3,719	379	3/29/2006	2000
Narberth, PA	2,422	1,659	1,782	—	3,441	351	3/29/2006	2000
Wehrenberg Theatre:								
Arnold, MO	(i)	2,798	4,604	126	7,528	823	6/14/2006	1998
Weston Shops:								
Weston, FL	(i)	6,034	9,573	—	15,607	1,168	7/30/2008	2007
Wickes Furniture:								
Chicago, IL	15,925	9,896	11,282	(11,377)	9,801	804	10/17/2007	2007

COLE CREDIT PROPERTY TRUST II, INC.
SCHEDULE III – REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION
(in thousands)

Description (a)	Encumbrances	Initial Costs to Company		Total Adjustment to Basis	Gross Amount at Which Carried At December 31, 2012 (b) (c)	Accumulated Depreciation (d) (e) (f)	Date Acquired	Date Constructed
WinCo Foods:								
Eureka, CA	$ 11,247	$4,277	$ 10,919	$ 380	$15,576	$ 1,622	6/27/2007	1960
Winter Garden Village:								
Winter Garden, FL	105,700	22,862	151,385	2,058	176,305	17,211	9/26/2008	2007
	$ 1,359,996	$841,244	$ 2,176,266	$ 23,523	$3,041,033	$ 297,354		
Real Estate Held for Investment the Company has Invested in Under Direct Financing Leases (g):								
Academy Sports:								
Houston, TX	$ 3,825	$3,953	$ 1,952	$ 1	$5,906	$ —	6/27/2007	1995
Baton Rouge, LA	4,687	2,719	6,014	1,937	10,670	—	7/19/2007	1996
Houston (Breton), TX	3,045	1,194	4,675	—	5,869	—	7/19/2007	1995
Houston (Southwest), TX	4,625	3,377	5,066	3,127	11,570	68	7/19/2007	1996
North Richland Hills, TX	4,217	2,097	5,693	(153)	7,637	—	7/19/2007	1996
Best Buy:								
Evanston, IL	5,900	3,661	6,984	2	10,647	—	6/27/2007	1996
Warwick , RI	5,350	3,948	9,544	—	13,492	—	6/27/2007	1992
CVS:								
Amarillo, TX	1,741	832	2,563	—	3,395	—	7/19/2007	1994
Del City, OK	2,631	1,085	4,496	—	5,581	—	7/19/2007	1998
Eckerd:								
Mantua, NJ	1,470	943	1,495	2	2,440	—	6/27/2007	1993
Vineland, NJ	3,500	2,353	4,743	—	7,096	—	6/27/2007	1997
Chattanooga, TN	1,920	1,023	2,976	—	3,999	—	7/19/2007	1997
Mableton, GA	1,197	716	1,699	—	2,415	—	7/19/2007	1994
	$ 44,108	$27,901	$ 57,900	$ 4,916	$90,717	$ 68		

(a) As of December 31, 2012, we owned 417 single-tenant, freestanding retail properties, 312 single-tenant, freestanding commercial properties and 23 multi-tenant retail properties.
(b) The aggregate cost for federal income tax purposes is approximately $3.1 billion.
(c) The following is a reconciliation of total real estate carrying value for the years ended December 31:

	2012	2011	2010
Balance, beginning of period	3,123,915	3,018,095	2,921,274
Additions			
Acquisitions	6,931	86,975	96,156
Improvements	13,584	19,000	6,668
Total additions	20,515	105,975	102,824
Deductions			
Cost of real estate sold	6,945	155	5
Adjustment to basis	—	—	1,190
Other (including provisions for impairment of real estate assets)	5,735	—	4,808
Total deductions	12,680	155	6,003
Balance, end of period	3,131,750	3,123,915	3,018,095

COLE CREDIT PROPERTY TRUST II, INC.
SCHEDULE III – REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION
(in thousands)

(d) The following is a reconciliation of accumulated depreciation for the years ended December 31:

	2012	2011	2010
Balance, beginning of period	$238,688	$178,906	$122,887
Additions			
Acquisitions - Depreciation Expense for Building, Acquisitions Costs & Tenant Improvements Acquired	59,530	58,534	56,280
Improvements - Depreciation Expense for Tenant Improvements and Building Equipment	1,360	1,248	335
Total additions	60,890	59,782	56,615
Deductions			
Cost of real estate sold	552	—	—
Other (including provisions for impairment of real estate assets)	1,604	—	596
Total deductions	2,156	—	596
Balance, end of period	297,422	238,688	178,906

(e) In 2012, a provision for impairment was recorded on two properties. In 2010, a provision for impairment was recorded on one property.
(f) 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 are amortized over the respective lease term and buildings are depreciated over 40 years.
(g) For financial reporting purposes, the lease has been recorded as a direct financing lease; therefore, depreciation is not applicable.
(h) Subject to ground lease and therefore date constructed is not applicable.
(i) Property is included in the Credit Facility’s unencumbered borrowing base. As of December 31, 2012, the Company had $319.1 million outstanding under the Credit Facility.

COLE CREDIT PROPERTY TRUST II, INC.
SCHEDULE IV – MORTGAGE LOANS ON REAL ESTATE
(in thousands)

Mortgage Loans Receivable [1]	Description	Location	Interest Rate	Final Maturity Date	Periodic Payment Terms [2]	Prior Liens	Outstanding Face Amount of Mortgages	Carrying Amount of Mortgages [3]
Cracker Barrel Notes	Retail	(4)	9.84%	8/1/2020	P & I	None	$38,969	$41,529
KFC Notes	Retail	(5)	10.47%	10/1/2020	P & I	None	18,179	19,912
O'Reilly Notes	Retail	(6)	8.60-9.35%	1/1/2021	P & I	None	10,889	11,997
							$68,037	$73,438

(1) No individual mortgage loan exceeds three percent of the total of the carrying amount for all mortgage loans.
(2) P & I = Principal and interest payments.
(3) The aggregate cost for federal income tax purposes is $83.9 million.
(4) The Cracker Barrel Notes are secured by 23 restaurant properties located in 16 states.
(5) The KFC Notes are secured by 20 restaurant properties located in nine states.
(6) 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):

	2012	2011	2010
Balance, beginning of period	$76,745	$79,778	$82,500
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	(2,585)	(2,328)	(2,035)
Amortization of premium and capitalized loan costs	(722)	(705)	(687)
Balance, end of period	$73,438	$76,745	$79,778

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 6th day of March 2013.

Cole Credit Property Trust II, Inc.

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 persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ CHRISTOPHER H. COLE Christopher H. Cole	Chairman, Chief Executive Officer and President (Principal Executive Officer)	March 6, 2013
/s/ D. KIRK MCALLASTER, JR. D. Kirk McAllaster, Jr.	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)	March 6, 2013
/s/ GAVIN B. BRANDON Gavin B. Brandon	Vice President of Accounting (Principal Accounting Officer)	March 6, 2013
/s/ MARCUS E. BROMLEY Marcus E. Bromley	Director	March 6, 2013
/s/ GEORGE N. FUGELSANG George N. Fugelsang	Director	March 6, 2013

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, 2012 (and are numbered in accordance with Item 601 of Regulation S-K).

Exhibit No.	Description
2.1	Agreement and Plan of Merger, among Spirit Realty Capital, Inc., Spirit Realty, L.P., Cole Credit Property Trust II, Inc., and Cole Operating Partnership II, LP (Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K (File No. 000-51963), filed on January 24, 2013).
3.1	Fifth Articles of Amendment and Restatement, as corrected (Incorporated by reference to Exhibit 3.1 to the Company's Annual Report on 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 Current Report on 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 to the Company's Form S-11 (File No. 333-138444), filed on November 6, 2006).
3.4	Amendment to Amended and Restated Bylaws (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 000-51963), filed on November 14, 2012.
3.5*	Certificate of Correction to Fifth Articles of Amendment and Restatement, filed January 25, 2013.
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 Current Report on 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 Current Report on 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 Current Report on Form 8-K (File No. 333-121094), filed on September 23, 2005).
10.6	Third Amended and Restated Distribution Reinvestment Plan (Incorporated by reference to Exhibit 10.6 of the Company's Annual Report on Form 10-K (File No. 000-51963), filed on March 31, 2011).
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 Quarterly Report on Form 10-Q (File No. 000-51963), filed on May 12, 2006).
10.8	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).
10.9	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).
10.10	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).

Exhibit No.	Description
10.11	Second Amendment to the Amended and Restated Advisory Agreement by and between the Company and Cole Advisors II (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 000-51963), filed on August 12, 2010).
10.12	Amended and Restated Credit Agreement dated as of December 17, 2010 among Cole Operating Partnership II, LP, as Borrower and Bank of America N.A. as Administrative Agent, Swing Line Lender and L/C Issuer, JP Morgan Chase Bank, N.A. as Syndication Agent, U.S. Bank National Association and RBS Citizens, N.A., d/b/a Charter One, as Co-Documentation Agents, and Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities LLC, as Joint Lead Arrangers and Joint Book Managers (Incorporated by reference to Exhibit 10.14 of the Company's Annual Report on Form 10-K (File No. 000-51963), filed on March 31,2011).
10.13	Amended Share Redemption Program dated as of November 9, 2011. (Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K (file No. 000-51963), filed on November 18, 2011).
10.14	Form of Indemnification Agreement dated November 7, 2012 (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (file No. 000-51963), filed on November 14, 2012.
10.15	Advisory and Property Management Matters Agreement among Cole Credit Property Trust II, Inc., Cole Operating Partnership II, LP, Cole REIT Advisors II, LLC, and Cole Realty Advisors, Inc. (Incorporated by reference to Exhibit 99.4 to the Company's Current Report on Form 8-K (File No. 000-51963), filed on January 24, 2013).
10.16	Voting Agreement among Spirit Realty Capital, Inc., Cole Credit Property Trust II, Inc., Cole Operating Partnership II, LP and Macquarie Group (US) Holdings No. 1 Pty Ltd., dated as of January 22, 2013 (Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K (File No. 000-51963), filed on January 24, 2013).
10.17	Voting Agreement among Spirit Realty Capital, Inc., Cole Credit Property Trust II, Inc., Cole Operating Partnership II, LP and TPG Axon Partners, LP, dated as of January 22, 2013 (Incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K (File No. 000-51963), filed on January 24, 2013).
10.18	Voting Agreement among Spirit Realty Capital, Inc., Cole Credit Property Trust II, Inc., Cole Operating Partnership II, LP and TPG-Axon Spirit Holdings Ltd., dated as of January 22, 2013 (Incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K (File No. 000-51963), filed on January 24, 2013).
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 Annual Report on 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 post-effective amendment to Form S-11 (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 Principal Executive Officer of the Company pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Principal Financial Officer of the Company pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of the Principal Executive Officer and Principal 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.
101.INS***	XBRL Instance Document.
101.SCH***	XBRL Taxonomy Extension Schema Document.
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF***	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB***	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE***	XBRL Taxonomy Extension Presentation Linkbase Document.

*	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.
***	XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.