WELLS REAL ESTATE INVESTMENT TRUST II INC
Form 8-K/A
November 22, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of

the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) November 1, 2004

Wells Real Estate Investment Trust II, Inc.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation)

333-107066	**20-0068852**
(Commission File Number)	**(IRS Employer Identification No.)**

6200 The Corners Parkway, Norcross, Georgia 30092-3365

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code (770) 449-7800

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

INFORMATION TO BE INCLUDED IN THE REPORT

Wells Real Estate Investment Trust II, Inc. (the Registrant) hereby amends its Current Report on Form 8-K dated November 1, 2004 to provide the required financial statements of the Registrant relating to the acquisition by the Registrant of The Corridors III Building, as described in such Current Report.

Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements. The following financial statements of the Registrant are submitted at the end of this Amendment to Current Report on Form 8-K/A and are filed herewith and incorporated herein by reference:

(b) Pro Forma Financial Information. See Paragraph (a) above.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 1 to Current Report on Form 8-K/A to be signed on its behalf by the undersigned hereunto duly authorized.

WELLS REAL ESTATE INVESTMENT

TRUST II, INC. (Registrant)

By: /s/ Randall D. Fretz

Randall D. Fretz
Senior Vice President

Date: November 22, 2004

Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors

Wells Real Estate Investment Trust II, Inc.

We have audited the accompanying statement of revenues over certain operating expenses of The Corridors III Building for the year ended December 31, 2003. This statement is the responsibility of The Corridors III Building s management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of revenues over certain operating expenses is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of revenues over certain operating expenses. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statement of revenues over certain operating expenses. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of revenues over certain operating expenses was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission, as described in Note 2, and is not intended to be a complete presentation of The Corridors III Building s revenues and expenses.

In our opinion, the statement of revenues over certain operating expenses referred to above presents fairly, in all material respects, the revenues and certain operating expenses described in Note 2 of The Corridors III Buildings for the year ended December 31, 2003, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Atlanta, Georgia

November 12, 2004

The Corridors III Building

Statements of Revenues Over Certain Operating Expenses

For the year ended December 31, 2003

and the nine months ended September 30, 2004 (unaudited)

(in thousands)

	2004	2003
	(Unaudited)	
Revenues:		
Base rent	$ 2,014	$ 774
Tenant reimbursements	870	258
Other revenues	4	10
Total revenues	2,888	1,042
Expenses:		
Real estate taxes	244	349
Utilities	199	160
Cleaning	204	123
Payroll	109	121
Other operating expenses	138	101
Repairs and maintenance	139	76
Landscaping	43	69
Insurance	28	47
Management fee	60	42
Total expenses	1,164	1,088
Revenues over certain operating expenses	$ 1,724	$ (46)

See accompanying notes.

The Corridors III Building

Notes to Statements of Revenues Over Certain Operating Expenses

For the year ended December 31, 2003

and the nine months ended September 30, 2004 (unaudited)

1. Description of Real Estate Property Acquired

On November 1, 2004, Wells Operating Partnership II, L.P., through a wholly owned subsidiary, (Wells OP II) acquired The Corridors III (the Building), a seven-story office building containing approximately 222,000 square feet located in Downers Grove, Illinois, from NBS Corridors III, L.L.C. Total consideration for the acquisition was approximately $40.5 million. Wells OP II is a Delaware limited partnership formed to acquire, own, lease, operate and manage real properties on behalf of Wells Real Estate Investment Trust II, Inc. (Wells REIT II), a Maryland corporation. Wells REIT II is the sole general partner of Wells OP II.

2. Basis of Accounting

The accompanying statements of revenues over certain operating expenses are presented in conformity with U. S. generally accepted accounting principles and in accordance with the applicable rules and regulations of the Securities and Exchange Commission for real estate properties acquired. Accordingly, the statements exclude certain historical expenses that are not comparable to the proposed future operations of the property such as certain ancillary income, amortization, depreciation, interest and corporate expenses. Therefore, the statements will not be comparable to the statements of operations of the Building after its acquisition by Wells OP II.

3. Significant Accounting Policies

Rental Revenues

Rental revenue is recognized on a straight-line basis over the terms of the related leases. The excess of rental income recognized over the amounts due pursuant to the lease terms is recorded as straight-line rent receivable. The adjustment to straight-line rent receivable increased revenue by approximately $0.03 million for the year ended December 31, 2003 and $1.4 million for the nine months ended September 30, 2004.

Use of Estimates

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Corridors III Building

Notes to Statements of Revenues Over Certain Operating Expenses (continued)

For the year ended December 31, 2003

and the nine months ended September 30, 2004 (unaudited)

4. Description of Leasing Arrangements

The Building is approximately 93% leased, with MAF Bancorp, Inc. (MAF Bancorp), Toyota Motor Credit Corporation (Toyota Motor Credit), Metropolitan Life Insurance Company (Met Life) and Credit Suisse First Boston Corporation (CSFB) leasing 59%, 10%, 9% and 9%, respectively, of the Building s rentable square footage under long-term lease agreements. Met Life and CSFB contributed 50% and 48%, respectively, of rental income for the year ended December 31, 2003. Under the MAF Bancorp, Toyota Motor Credit, Met Life and CSFB leases, each tenant is required to reimburse to the landlord its proportionate share of the Building s operating expenses in full. During 2003, portions of the Building that are currently leased were vacant.

5. Future Minimum Rental Commitments

Future minimum rental commitments for the years ended December 31 are as follows (in thousands):

2004	$ 1,265
2005	3,336
2006	3,419
2007	3,131
2008	3,009
Thereafter	13,348
	$ 27,508

Subsequent to December 31, 2003, MAF Bancorp, Toyota Motor Credit, Met Life and CSFB will contribute approximately 77%, 7%, 7% and 4%, respectively, of the future minimum rental income from the leases in place at that date.

6. Interim Unaudited Financial Information

The statement of revenues over certain operating expenses for the nine months ended September 30, 2004 is unaudited, however, in the opinion of management, all adjustments (consisting solely of normal, recurring adjustments) necessary for the fair presentation of the financial statement for the interim period have been included. The results of the interim period are not necessarily indicative of the results to be obtained for a full fiscal year.

WELLS REAL ESTATE INVESTMENT TRUST II, INC.

SUMMARY OF UNAUDITED PRO FORMA FINANCIAL STATEMENTS

This pro forma information should be read in conjunction with the consolidated financial statements and notes of Wells Real Estate Investment Trust II, Inc. (Wells REIT II) included in its annual report filed on Form 10-K for the year ended December 31, 2003 and its quarterly report filed on Form 10-Q for the nine months ended September 30, 2004. In addition, this pro forma information should be read in conjunction with the financial statements and notes of certain acquired properties included in various current reports on Form 8-K previously filed.

The following unaudited pro forma balance sheet as of September 30, 2004 has been prepared to give effect to the fourth quarter 2004 acquisitions of the Emerald Point Building, the 800 N. Frederick Building and The Corridors III Building (collectively, the Recent Acquisitions) as if the acquisitions occurred on September 30, 2004. The Other Pro Forma Adjustments contains certain pro forma financing-related activity, including, but not limited to, capital raised through issuance of additional shares and pay down of acquisition-related debt subsequent to the balance sheet date. Wells OP II is a Delaware limited partnership that was organized to own and operate properties on behalf of Wells REIT II, and is a consolidated subsidiary of Wells REIT II.

The following unaudited pro forma statement of operations for the nine months ended September 30, 2004 has been prepared to give effect to the first quarter 2004 acquisitions of the Weatherford Center Houston Building, the New Manchester One Building, the Republic Drive Buildings, the second quarter 2004 acquisitions of the Manhattan Towers Property, the 9 Technology Drive Building, the 180 Park Avenue Buildings, the One Glenlake Building, the 80 M Street Building (collectively, the Q1 and Q2 2004 Acquisitions), the third quarter 2004 acquisitions of the One West Fourth Street Building, the 3333 Finley Road and 1501 Opus Place Buildings (the Other Q3 2004 Acquisitions), the Wildwood Buildings (collectively, the Q3 2004 Acquisitions) and the Recent Acquisitions as if the acquisitions occurred on January 1, 2003.

The following unaudited pro forma statement of operations for the year ended December 31, 2003 has been prepared to give effect to the Q1 and Q2 2004 Acquisitions, the Q3 2004 Acquisitions and the Recent Acquisitions as if the acquisitions occurred on January 1, 2003. The New Manchester One Building had no operations during the year ended December 31, 2003 and, accordingly, has not been included in the pro forma statement of operations for the year ended December 31, 2003.

These unaudited pro forma financial statements are prepared for informational purposes only and are not necessarily indicative of future results or of actual results that would have been achieved had the Q1 and Q2 2004 Acquisitions, the Q3 2004 Acquisitions and the Recent Acquisitions been consummated as of January 1, 2003. In addition, the pro forma balance sheet includes allocations of the purchase price based upon preliminary estimates of the fair value of the assets and liabilities acquired. These allocations may be adjusted in the future upon finalization of these preliminary estimates.

WELLS REAL ESTATE INVESTMENT TRUST II, INC.

PRO FORMA BALANCE SHEET

SEPTEMBER 30, 2004

(in thousands)

(Unaudited)

ASSETS

	Wells Real Estate Investment Trust II, Inc. Historical (a)	Pro Forma Adjustments: Other	Recent Acquisitions: Emerald Point	800 N. Frederick	The Corridors III	Pro Forma Total
Real estate assets, at cost:						
Land	$ 114,522	$ 379(b)	$ 8,600(f)	$ 22,705(f)	$ 2,500(f)	$ 148,828
			44(g)	54(g)	24(g)	
Buildings and improvements, less accumulated depreciation	498,918	1,286(b)	18,783(f)	29,757(f)	28,464(f)	577,891
			182(g)	133(g)	368(g)	
Intangible lease assets, less accumulated amortization	128,169	0	13,322(f)	13,371(f)	7,590(f)	162,452
Construction in progress	3,249	0	0	0	0	3,249
Total real estate assets	744,858	1,665	40,931	66,020	38,946	892,420
Cash and cash equivalents	27,617	72,785(c)	(8,900)(f)	(88)(f)	(16,352)(f)	1,398
		(1,645)(d)				
		(72,019)(e)				
Rents receivable	4,154	0	0	0	0	4,154
Prepaid expenses and other assets	13,658	1,645(d)	(900)(f)	(8,000)(f)	(600)(f)	3,333
		(1,665)(b)	(226)(g)	(187)(g)	(392)(g)	
Deferred financing costs, less accumulated amortization	971	0	0	0	0	971
Deferred lease costs, less accumulated amortization	82,977	0	3,345(f)	13,453(f)	1,898(f)	101,673

Investments in bonds	78,000	0	0	0	0	78,000
Total assets	$ 952,235	$ 766	$ 34,250	$ 71,198	$ 23,500	$ 1,081,949

LIABILITIES AND STOCKHOLDERS EQUITY

	Wells Real Estate Investment Trust II, Inc. Historical (a)	Pro Forma Adjustments				Pro Forma Total
			Recent Acquisitions			
		Other	Emerald Point	800 N. Frederick	The Corridors III	
Liabilities:						
Line of credit and note payable	$ 368,037	$ (72,019)(e)	$ 34,250(f)	$ 71,198(f)	$ 23,500(f)	$ 424,966
Obligations under capital leases	78,000	0	0	0	0	78,000
Intangible lease liabilities, less accumulated amortization	23,266	0	0	0	0	23,266
Accounts payable and accrued expenses	12,268	0	0	0	0	12,268
Due to affiliates	841	0	0	0	0	841
Dividends payable	1,309	0	0	0	0	1,309
Total liabilities	483,721	(72,019)	34,250	71,198	23,500	540,650
Minority Interest	99	0	0	0	0	99
Redeemable Common Shares	3,582	0	0	0	0	3,582
Stockholders Equity:						
Common shares, $.01 par value; 900,000,000 shares authorized, 54,422,874 shares issued and outstanding at September 30, 2004	544	82(c)	0	0	0	626
Additional paid in capital	472,474	72,703(c)	0	0	0	545,177
Accumulated deficit	(4,603)	0	0	0	0	(4,603)
Redeemable common shares	(3,582)	0	0	0	0	(3,582)
Total stockholders equity	464,833	72,785	0	0	0	537,618
Total liabilities and stockholders equity	$ 952,235	$ 766	$ 34,250	$ 71,198	$ 23,500	$ 1,081,949

(a) Historical financial information derived from quarterly report filed on Form 10-Q as of September 30, 2004.
(b) Reflects deferred project costs applied to the land and building at approximately 2.312% of cash used to pay down debt related to first, second and third quarter 2004 acquisitions.
(c) Reflects capital raised through issuance of additional shares subsequent to September 30, 2004 through November 1, 2004, the date of the Corridors III acquisition, net of organizational and offering costs, commissions and dealer-manager fees.
(d) Reflects deferred project costs capitalized as a result of additional capital raised described in note (c) above.
(e) Reflects pay down of acquisition-related borrowings using capital raised described in note (c) above.
(f) Reflects Wells REIT II s purchase price for the assets, land, building and liabilities assumed or incurred, net of any purchase price adjustments.
(g) Reflects deferred project costs applied to the land and building at approximately 2.312% of the cash paid for purchase at acquisition.

The accompanying notes are an integral part of this statement.

WELLS REAL ESTATE INVESTMENT TRUST II, INC.

PRO FORMA STATEMENT OF OPERATIONS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004

(in thousands, except per share amounts)

(Unaudited)

	Wells Real Estate Investment Trust II, Inc. Historical (a)	Pro Forma Adjustments							
			Q3 2004 Acquisitions		Recent Acquisitions				
		Q1 and Q2 2004 Acquisitions	Other	Wildwood Buildings	Emerald Point	800 N. Frederick	The Corridors III	Pro Forma Total
Revenues:								
Rental income	$ 20,743	$ 16,967(b)	$ 9,608(b)	$ 10,055(b)	$ 3,677(b)	$ 4,654(b)	$ 2,014(b)	$ 67,718
Tenant reimbursements	3,174	2,572(c)	93(c)	4,900(c)	242(c)	2,358(c)	870(c)	14,209
	23,917	19,539	9,701	14,955	3,919	7,012	2,884	81,927
Expenses:								
Property operating costs	6,542	6,068(d)	1,735(d)	5,119(d)	1,219(d)	2,358(d)	1,207(d)	24,248
Asset management fees	1,346	1,344(e)	423(e)	484(e)	124(e)	223(e)	114(e)	4,058
General and administrative	2,535	0	0	0	0	0	0	2,535
Depreciation	3,743	2,313(f)	1,409(f)	1,985(f)	356(f)	560(f)	541 (f)	10,907
Amortization	5,524	6,098(g)	1,534(g)	2,714(g)	1,527(g)	1,653(g)	651(g)	19,701
	19,690	15,823	5,101	10,302	3,226	4,794	2,513	61,449
Real estate operating income	4,227	3,716	4,600	4,653	693	2,218	371	20,478
Other income (expense):								
Interest income	1,679	0	0	0	0	0	0	1,679
Interest expense	(10,516)	0	(1,595)(h)	0	(218)(j)	(664)(j)	(629)(j)	(15,597)
			(368)(i)			(1,607)(k)		
	(8,837)	0	(1,963)	0	(218)	(2,271)	(629)	(13,918)
	(4,610)	3,716	2,637	4,653	475	(53)	(258)	6,560

Income (loss) before minority interest								
Minority interest in loss of consolidated subsidiaries	$ 7	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 7
Net income (loss)	$ (4,603)	$ 3,716	$ 2,637	$ 4,653	$ 475	$ (53)	$ (258)	$ 6,567
Net income (loss) per share, basic and diluted	$ (0.23)							$ 0.10
Weighted average shares outstanding, basic and diluted	19,609							62,647

(a) Historical financial information derived from quarterly report on Form 10-Q for the nine months ended September 30, 2004.
(b) Rental income is recognized on a straight-line basis.
(c) Consists of operating cost reimbursements.
(d) Consists of property operating expenses.
(e) Asset management fees calculated as 0.75% of the cost of the acquisitions on an annual basis limited to 1% of the net asset value of such acquisitions after deducting debt used to finance acquisitions.
(f) Depreciation expense on portion of purchase price allocated to Building is recognized using the straight-line method and a 40-year life.
(g) Amortization of deferred leasing costs and lease intangibles is recognized using the straight-line method over the lives of the respective leases.
(h) Represents interest expense on an assumed mortgage that bears interest at 5.8% and matures on December 10, 2018.
(i) Represents imputed interest expense on an interest-free note payable. Interest expense was calculated using an imputed interest rate of 3.57%, which approximated the interest rate of similar financing.
(j) Represents interest expense on line of credit used to acquire assets, which bore interest at approximately 3.57% for the nine months ended September 30, 2004.
(k) Represents interest expense on an assumed mortgage that bears interest at 4.6175% and matures on November 11, 2011.

The accompanying notes are an integral part of this statement.

WELLS REAL ESTATE INVESTMENT TRUST II, INC.

PRO FORMA STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2003

(Unaudited)

	Wells Real Estate Investment Trust II, Inc.	Pro Forma Adjustments						
			Q3 2004 Acquisitions		Recent Acquisitions			
	Historical (a)	Q1 and Q2 2004 Acquisitions	Other	Wildwood Buildings	Emerald Point	800 N. Frederick	The Corridors III	Pro Forma Total
Revenues:								
Rental income	$ 0	$ 41,512,390(b)	$ 16,658,015(b)	$ 14,849,886(b)	$ 4,902,182(b)	$ 6,205,801(b)	$ 641,145(b)	$ 84,769,419
Tenant reimbursements	0	6,346,108(c)	134,506 (c)	6,743,878(c)	309,356 (c)	3,144,000(c)	258,294(c)	16,936,142
	0	47,858,498	16,792,521	21,593,764	5,211,538	9,349,801	899,439	101,705,561
Expenses:								
Property operating costs	0	15,499,757(d)	3,015,447(d)	7,012,115(d)	1,565,651(d)	3,144,000(d)	1,049,030(d)	31,286,000
Asset management fees	0	2,572,923(e)	834,000 (e)	954,665(e)	243,816 (e)	438,854(e)	223,902(e)	5,268,160
General and administrative	94,455	0	0	0	0	0	0	94,455
Depreciation	0	6,727,814(f)	2,621,402(f)	2,978,006(f)	474,132 (f)	747,275(f)	720,788(f)	14,269,417
Amortization	0	13,690,076(g)	2,474,488(g)	3,618,101(g)	2,035,426(g)	2,204,381(g)	867,469(g)	24,889,941
	94,455	38,490,570	8,945,337	14,562,887	4,319,025	6,534,510	2,861,189	75,807,973
Real estate operating income	(94,455)	9,367,928	7,847,184	7,030,877	892,513	2,815,291	(1,961,750)	25,897,588
Other income (expense):								
Interest income	0	0	0	0	0	0	0	0
Interest expense	0	(1,116,929)(h)	(1,192,261)(h)	(5,520,000)(h)	(1,181,625)(h)	(855,546)(h)	(810,750)(h)	(16,374,862)
			(2,941,993)(i)			(2,142,520)(k)		
			(613,238)(j)					

	0	(1,116,929)	(4,747,492)	(5,520,000)	(1,181,625)	(2,998,066)	(810,750)	(16,374,862)
Income (loss) before minority interest	(94,455)	8,250,999	3,099,692	1,510,877	(289,112)	(182,775)	(2,772,500)	9,522,726
Minority interest in loss of consolidated subsidiaries	$ (93,985)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ (93,985)
Net income (loss)	$ (470)	$ 8,250,999	$ 3,099,692	$ 1,510,877	$ (289,112)	$ (182,775)	$ (2,772,500)	$ 9,616,711
Net income (loss) per share, basic and diluted	$ (4.70)							$ 0.15
Weighted average shares outstanding, basic and diluted	100							62,647,203

(a) Historical financial information derived from annual report on Form 10-K for the year ended December 31, 2003.
(b) Rental income is recognized on a straight-line basis.
(c) Consists of operating cost reimbursements.
(d) Consists of property operating expenses.
(e) Asset management fees calculated as 0.75% of the cost of the acquisitions on an annual basis limited to 1% of the net asset value of such acquisitions after deducting debt used to finance acquisitions.
(f) Depreciation expense on portion of purchase price allocated to Building is recognized using the straight-line method and a 40-year life.
(g) Amortization of deferred leasing costs and lease intangibles is recognized using the straight-line method over the lives of the respective leases.
(h) Represents interest expense on lines of credit used to acquire assets, which bore interest at approximately 3.45% for the year ended December 31, 2003.
(i) Represents interest expense on assumed mortgage that bears interest at 5.8% interest and matures on December 10, 2018.
(j) Represents imputed interest expense on an interest-free note payable. Interest expense was calculated using an imputed interest rate of 3.45%, which approximated the interest rate of similar financing.
(k) Represents interest expense on an assumed mortgage that bears interest at 4.6175% and matures on November 11, 2011.

The accompanying notes are an integral part of this statement.