

WELLS REAL ESTATE INVESTMENT TRUST II INC

Form 8-K/A

March 06, 2006

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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) December 20, 2005

Wells Real Estate Investment Trust II, Inc.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation)

000-51262
(Commission File Number)

20-0068852
(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

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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))
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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 December 20, 2005 and filed on December 23, 2005 to provide the required financial statements of the Registrant relating to the acquisition by the Registrant of the 5 Houston Center Building (the Building), as described in such Current Report.

Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements. The following financial statements of the Building and 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.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Current Report on Form 8-K to be signed on its behalf by the undersigned hereunto duly authorized.

WELLS REAL ESTATE INVESTMENT
TRUST II, INC. (Registrant)

By: /s/ Douglas P. Williams
Douglas P. Williams
Executive Vice President

Date: March 6, 2006

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INDEPENDENT AUDITORS REPORT

To the Stockholders and Board of Directors

Wells Real Estate Investment Trust II, Inc.

Atlanta, Georgia

We have audited the accompanying statement of revenues over certain operating expenses of the 5 Houston Center Building (the Building) for the year ended December 31, 2004. This statement is the responsibility of the Building s management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Building s internal control over financial reporting. Our audit 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 Building 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, and evaluating the overall financial statement presentation. 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 of the Securities and Exchange Commission, as described in Note 2, and is not intended to be a complete presentation of the 5 Houston Center 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 5 Houston Center Building for the year ended December 31, 2004 in conformity with U.S. generally accepted accounting principles.

/s/ Frazier & Deeter, LLC

Atlanta, Georgia

January 6, 2006

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Table of Contents**5 Houston Center Building****Statements of Revenues Over Certain Operating Expenses****For the year ended December 31, 2004 (audited)****and the nine months ended September 30, 2005 (unaudited)****(in thousands)**

	2005 <i>(Unaudited)</i>	2004
Revenues:		
Base rent	\$ 8,619	\$ 11,202
Tenant reimbursements	4,102	5,439
Lease Termination	0	1,135
Other revenues	1,009	1,107
Total revenues	13,730	18,883
Expenses:		
Real estate taxes	1,740	2,333
Utilities	741	1,058
General and administrative	399	627
Road and grounds	415	595
Repairs and maintenance	429	580
Management fees	404	561
Cleaning	368	511
Other operating expenses	90	152
Total expenses	4,586	6,417
Revenues over certain operating expenses	\$ 9,144	\$ 12,466

See accompanying notes.

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5 Houston Center Building

Notes to Statements of Revenues Over Certain Operating Expenses

For the year ended December 31, 2004 (audited)

and the nine months ended September 30, 2005 (unaudited)

1. Description of Real Estate Property Acquired

On December 20, 2005, Wells Real Estate Investment Trust II, Inc. (Wells REIT II), through two wholly owned subsidiaries, acquired the 5 Houston Center Building (the Building), a 27-story office building containing approximately 581,000 square feet located in Houston, Texas. Total consideration for the acquisition was approximately \$166.0 million. Wells REIT II is a Maryland corporation that engages in the acquisition and ownership of commercial real estate properties throughout the United States. Wells REIT II was incorporated on July 3, 2003 and has elected to be taxed as a real estate investment trust for federal income tax purposes.

2. Basis of Accounting

The accompanying statements of revenues over certain operating expenses are presented in conformity with accounting principles generally accepted in the United States 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 REIT 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 rental revenue by approximately \$0.3 million for the year ended December 31, 2004 and increased rental revenue by approximately \$0.3 million for the nine months ended September 30, 2005.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Table of Contents**5 Houston Center Building****Notes to Statements of Revenues Over Certain Operating Expenses (continued)****For the year ended December 31, 2004 (audited)****and the nine months ended September 30, 2005 (unaudited)****4. Description of Leasing Arrangements**

The Building is approximately 96% leased, with Ernst and Young U.S. L.L.P. (Ernst & Young), Jackson Walker L.L.P. (Jackson Walker), Jenkens and Gilchrist, P.C. (Jenkens & Gilchrist) and Capgemini U.S. L.L.P. (Capgemini) leasing approximately 56% of the Building's rentable square footage under long-term lease agreements. Ernst & Young, Jackson Walker, Jenkens & Gilchrist and Capgemini contributed approximately 28%, 14%, 13%, 8% respectively, of rental income for the year ended December 31, 2004. Under the terms of the Ernst & Young, Jackson Walker, Jenkens & Gilchrist and Capgemini leases, each tenant is required to reimburse to the landlord its proportionate share of the Building's operating expenses in excess of a base year. The remaining rentable square footage is leased to various office and retail tenants under lease agreements with terms that vary in length and with various reimbursement clauses.

5. Future Minimum Rental Commitments

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

2005	\$ 10,770
2006	11,148
2007	11,227
2008	11,519
2009	11,273
Thereafter	28,325
	\$ 84,262

Subsequent to December 31, 2004, Ernst & Young, Jackson Walker, and Jenkens & Gilchrist will contribute approximately 29%, 14% and 14%, 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, 2005 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.

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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, 2004 and its quarterly report filed on Form 10-Q for the nine months ended September 30, 2005. 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 previously filed on Form 8-K.

The following unaudited pro forma balance sheet as of September 30, 2005 has been prepared to give effect to the acquisition of the 919 Hidden Ridge Building, the 5 Houston Center Building, the 2000 Park Lane Building, the Tampa Commons Building, the LakePointe Buildings and the recapitalization of the entity that owns an interest in the Key Center Complex (collectively, the Q4 2005 Acquisitions) as if the acquisitions occurred on September 30, 2005. Other adjustments provided in the following unaudited pro forma balance sheet are comprised of certain pro forma financing-related activities, including, but not limited to, capital raised through the issuance of additional common stock through the latest date of acquisition and pay-down of acquisition-related debt subsequent to the pro forma balance sheet date. Wells Operating Partnership II, L.P. (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, 2005 has been prepared to give effect to the acquisitions of the 180 Park Avenue 105 Building, the Governor s Pointe Buildings, the 5995 Opus Parkway Building, the 215 Diehl Road Building, the 100 East Pratt Street Building, the College Park Plaza Building, the 180 E. 100 South Building, the Nashoba Buildings, the Baldwin Point Building and the University Circle Buildings (collectively, the Q1, Q2 and Q3 2005 Acquisitions) and the Q4 2005 Acquisitions as if the acquisitions occurred on January 1, 2004.

The following unaudited pro forma statement of operations for the year ended December 31, 2004 has been prepared to give effect to the acquisition of the Weatherford Center Houston Building, the New Manchester One Building, the Republic Drive Buildings, the Manhattan Towers Property, the 9 Technology Drive Building, the 180 Park Avenue Buildings, the One Glenlake Building, the 80 M Street Building, the One West Fourth Street Building, the 3333 Finley Road, the 1501 Opus Place Buildings, the Wildwood Buildings, the Emerald Point Building, the 800 North Frederick Building, the Corridors III Building and the Highland Landmark III Building (collectively, the 2004 Acquisitions), the Q1, Q2 and Q3 2005 Acquisitions and the Q4 2005 Acquisitions as if the acquisitions occurred on January 1, 2004.

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 2004 Acquisitions, the Q1, Q2 and Q3 2005 Acquisitions and the Q4 2005 Acquisitions been consummated as of January 1, 2004. In addition, the pro forma balance sheet includes pro forma allocations of the purchase price based upon preliminary estimates of the fair value of the assets and liabilities acquired in connection with the acquisitions of the Q4 2005 Acquisitions. These allocations may be adjusted in the future upon finalization of these preliminary estimates.

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	Wells Real		Pro Forma Adjustments						Pro Forma
	Estate Investment		Q4 2005 Acquisitions						
	Trust II, Inc. Historical (a)	919 Hidden Ridge	5 Houston Center	2000 Park Key Center	Tampa Lane	Commons LakePointe	Other	Total	
Real estate assets, at cost:									
Land	\$ 244,320	\$ 2,620(b) 60(c)	\$ 8,100(b) 86(c)	\$ 10,191(b) 115(c)	\$ 1,380(b) 1(c)	\$ 5,150(b)	\$ 4,638(b)	\$ 94(c)	\$ 276,755
Buildings and improvements, less accumulated depreciation	1,176,125	33,420(b) 982(c)	100,155(b) 1,674(c)	216,556(b) 3,032(c)	16,926(b) 17(c)	29,858(b)	12,535(b)	1,179(c)	1,592,459
Intangible lease assets, less accumulated amortization	267,571	7,937(b)	45,822(b)	59,576(b)	4,913(b)	11,513(b)	2,395(b)	0	399,727
Construction in progress	438	0	0	0	0	0	3,711(b)	0	4,149
Total real estate assets	1,688,454	45,019	155,837	289,470	23,237	46,521	23,279	1,273	2,273,090
Cash and cash equivalents	152,014	(45,343)(b)	(76,487)(b)	(164,994)(b)	(687)(b)	(147)(b)	(122)(b)	195,261(e) (4,413)(f) (55,082)(i)	0
Tenant receivables, net of allowance for doubtful accounts	18,438	0	0	0	0	0	0	0	18,438
Prepaid expenses and other assets	44,573	(1,042)(c)	(1,760)(c)	(3,147)(c)	(18)(c)	0	0	4,413(f) (1,273)(c)	41,746
Deferred financing costs, less accumulated amortization	3,265	0	57(d)	0	0	0	72(d)	0	3,395

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Deferred lease costs, less accumulated amortization	178,908	1,366(b)	13,340(b)	32,231(b)	6,872(b)	3,265(b)	3,936(b)	0	239,918
Investments in bonds	78,000	0	0	0	0	0	0	0	78,000
Total assets	\$ 2,163,652	\$ 0	\$ 90,988	\$ 153,560	\$ 29,404	\$ 49,639	\$ 27,165	\$ 140,179	\$ 2,654,587

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WELLS REAL ESTATE INVESTMENT TRUST II, INC.

PRO FORMA BALANCE SHEET

SEPTEMBER 30, 2005

(in thousands)

(unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY

	Wells Real		Pro Forma Adjustments							Pro Forma Total
	Estate Investment		Q4 2005 Acquisitions							
	Trust II, Inc.		Houston		2000 Park		Tampa			
Historical	919 Hidden	Key Center	Key Center	Lane	Commons	LakePointe	Other			
(a)	Ridge Center									
Liabilities:										
Line of credit and note payable	\$ 510,110	\$ 0	\$ 90,000(g)	\$ 12,571(h) 134,000(b)	\$ 29,271(b)	\$ 48,400(b)	\$ 20,599(b) 6,476(j)	\$ (55,082)(i)	\$ 796,345	
Obligations under capital leases	78,000	0	0	0	0	0	0	0	78,000	
Intangible lease liabilities, less accumulated amortization	54,674	0	988(b)	6,989(b)	133(b)	916(b)	0	0	63,700	
Accounts payable, accrued expenses and accrued capital expenditures	19,357	0	0	0	0	323(b)	90(b)	0	19,770	
Due to affiliates	3,238	0	0	0	0	0	0	0	3,238	
Dividends payable	4,266	0	0	0	0	0	0	0	4,266	
Deferred income	4,727	0	0	0	0	0	0	0	4,727	