

WELLS REAL ESTATE INVESTMENT TRUST II INC
Form 8-K/A
January 12, 2007
[Table of Contents](#)

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) October 31, 2006

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

Edgar Filing: WELLS REAL ESTATE INVESTMENT TRUST II INC - Form 8-K/A

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))
-

Table of Contents

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 October 31, 2006 and filed on November 1, 2006 to provide the required financial statements of the Registrant relating to the acquisition by the Registrant of the International Financial Tower (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.

International Financial Tower

| | |
|--|-----|
| <u>Independent Auditors Report</u> | F-1 |
| <u>Statements of Revenues Over Certain Operating Expenses for the year ended December 31, 2005 and the nine months ended September 30, 2006 (unaudited)</u> | F-2 |
| <u>Notes to Statements of Revenues Over Certain Operating Expenses for the year ended December 31, 2005 and the nine months ended September 30, 2006 (unaudited)</u> | F-3 |

Wells Real Estate Investment Trust II, Inc.

| | |
|---|------|
| Unaudited Pro Forma Financial Statements | |
| <u>Summary of Unaudited Pro Forma Financial Statements</u> | F-5 |
| <u>Pro Forma Balance Sheet as of September 30, 2006 (unaudited)</u> | F-6 |
| <u>Pro Forma Statement of Operations for the nine months ended September 30, 2006 (unaudited)</u> | F-9 |
| <u>Pro Forma Statement of Operations for the year ended December 31, 2005 (unaudited)</u> | F-11 |

Table of Contents

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: January 12, 2007

Table of Contents

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 International Financial Tower (the Building) for the year ended December 31, 2005. 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 International Financial Tower 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 International Financial Tower for the year ended December 31, 2005 in conformity with U.S. generally accepted accounting principles.

Atlanta, Georgia

/s/ Frazier & Deeter, LLC

January 12, 2007

Table of Contents

International Financial Tower
Statements of Revenues Over Certain Operating Expenses
For the year ended December 31, 2005 (audited)
and the nine months ended September 30, 2006 (unaudited)
(in thousands)

| | 2006 | 2005 |
|---|--------------------|-----------------|
| | <i>(Unaudited)</i> | |
| Revenues: | | |
| Base rent | \$ 12,212 | \$ 14,276 |
| Tenant reimbursements | 4,963 | 8,320 |
| Other revenues | 762 | 957 |
| Total revenues | 17,937 | 23,553 |
| Expenses: | | |
| Ground lease | 4,954 | 6,605 |
| Real estate taxes | 2,047 | 2,241 |
| Operating services | 1,970 | 2,700 |
| Utilities | 1,712 | 2,653 |
| Leasing and management fees | 599 | 741 |
| General and administrative | 225 | 241 |
| Total expenses | 11,507 | 15,181 |
| Revenues over certain operating expenses | \$ 6,430 | \$ 8,372 |

See accompanying notes.

Table of Contents

International Financial Tower

Notes to Statements of Revenues Over Certain Operating Expenses

For the year ended December 31, 2005 (audited)

and the nine months ended September 30, 2006 (unaudited)

1. Description of Real Estate Property Acquired

On October 31, 2006, Wells Real Estate Investment Trust II, Inc. (Wells REIT II), through a wholly owned subsidiary, acquired International Financial Tower (the Building), a 19-story office building containing approximately 629,922 square feet located on approximately 1.9 acres in Jersey City, New Jersey from Financial Tower Jersey City, L.P. (the Seller). Total consideration for the acquisition was approximately \$193.6 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 decreased rental revenue by approximately \$1.61 million for the year ended December 31, 2005 and decreased rental revenue by approximately \$0.03 million for the nine months ended September 30, 2006.

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**International Financial Tower****Notes to Statements of Revenues Over Certain Operating Expenses (continued)****For the year ended December 31, 2005 (audited)****and the nine months ended September 30, 2006 (unaudited)****4. Description of Leasing Arrangements**

The Building is approximately 100% leased, with Pershing, LLC (Pershing) and NTT Data USA, LLC (NTT) leasing approximately 97% of the Building's rentable square footage under long-term lease agreements. Pershing and NTT contributed approximately 70% and 26%, respectively, of rental income for the year ended December 31, 2005. Under the terms of the Pershing and NTT 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):

| | |
|------------|-------------------|
| 2006 | \$ 16,494 |
| 2007 | 17,150 |
| 2008 | 16,815 |
| 2009 | 16,264 |
| 2010 | 16,832 |
| Thereafter | 171,117 |
| | \$ 254,672 |

Subsequent to December 31, 2005, Pershing and NTT will contribute approximately 85% and 14%, respectively, of the future minimum rental income from the leases in place at that date.

6. Ground Lease

During the year ended December 31, 2005 and the nine months ended September 30, 2006, fee title to the land on which the Building is situated was held by an affiliated entity of the Seller, which leased the land to the Seller. The Building recognized ground lease expense of approximately \$6.6 million for the year ended December 31, 2005 and approximately \$5.0 million for the nine months ended September 30, 2006. Prior to Wells REIT II's acquisition of the Building, the Seller terminated the ground lease and acquired the land from its affiliated entity. Wells REIT II acquired fee title to the land as part of its acquisition of the Building. As such, the Building will not incur ground lease expense in the future.

7. Interim Unaudited Financial Information

The statement of revenues over certain operating expenses for the nine months ended September 30, 2006 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.

Table of Contents

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, 2005 and its quarterly report filed on Form 10-Q for the nine months ended September 30, 2006. 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, 2006 has been prepared to give effect to the acquisitions of International Financial Tower and the Sterling Commerce Building (the Q4 2006 Acquisitions) as if the acquisitions occurred on September 30, 2006. 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 acquisition date of the Sterling Commerce Building and pay-down of acquisition-related debt subsequent to the pro forma balance sheet date.

The following unaudited pro forma statement of operations for the nine months ended September 30, 2006 has been prepared to give effect to the acquisitions of the SanTan Buildings, the 263 Shuman Building, the 11950 Corporate Boulevard Building, the Edgewater Corporate Center, the 4300 Centreway Place Building, the 80 Park Plaza Building and the Q4 2006 Acquisitions (collectively, the 2006 Acquisitions) as if the acquisitions occurred on January 1, 2005.

The following unaudited pro forma statement of operations for the year ended December 31, 2005 has been prepared to give effect to the acquisition of 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, the University Circle Buildings, the 919 Hidden Ridge Building, the 5 Houston Center Building, the Key Center Complex, the 2000 Park Lane Building, the Tampa Commons Building and the LakePointe Buildings (the 2005 Acquisitions) and the 2006 Acquisitions as if the acquisitions occurred on January 1, 2005. Edgewater Corporate Center had no operations during the year ended December 31, 2005 and, accordingly, has not been included in the pro forma statement of operations for the year ended December 31, 2005.

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 2005 Acquisitions and the 2006 Acquisitions been consummated as of January 1, 2005. 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 acquisition of the Q4 2006 Acquisitions. These allocations may be adjusted in the future upon finalization of these preliminary estimates.

Table of Contents

WELLS REAL ESTATE INVESTMENT TRUST II, INC.

PRO FORMA BALANCE SHEET

SEPTEMBER 30, 2006

(in thousands)

(unaudited)

ASSETS

| | Wells Real Estate Investment Trust II, Inc. Historical (a) | Pro Forma Adjustments | | | Pro Forma Total |
|---|---|---|--------------------------------------|--|--------------------|
| | | Q4 2006 International Financial Tower | Acquisitions Sterling Commerce | Other | |
| Real estate assets, at cost: | | | | | |
| Land | \$ 332,570 | \$ 29,039(b) 22(c) | \$ 8,550(b) 85(c) | \$ 721(c) | \$ 370,987 |
| Buildings and improvements, less accumulated depreciation | 1,797,446 | 126,004(b) 126(c) | 39,807(b) 529(c) | 4,074(c) | 1,967,986 |
| Intangible lease assets, less accumulated amortization | 415,679 | 32,853(b) | 10,588(b) | | 459,120 |
| Construction in progress | 1,085 | | | | 1,085 |
| Total real estate assets | 2,546,780 | 188,044 | 59,559 | 4,795 | 2,799,178 |
| Cash and cash equivalents | 72,948 | (2,079)(b) | (26,686)(b) | 167,186(d) (3,778)(e) (207,381)(f) | 210 |
| Tenant receivables, net of allowance for doubtful accounts | 47,687 | | | | 47,687 |
| Prepaid expenses and other assets | 41,949 | (148)(c) (4,000)(b) | (614)(c) 250(b) | 3,778(e) (4,795)(c) | 36,420 |
| Deferred financing costs, less accumulated amortization | 2,791 | | | | 2,791 |
| Deferred lease costs, less accumulated amortization | 285,004 | 8,213(b) | 2,647(b) | | 295,864 |
| Investments in bonds | 78,000 | | | | 78,000 |
| Total assets | \$ 3,075,159 | \$ 190,030 | \$ 35,156 | \$ (40,195) | \$ 3,260,150 |

F-6

Table of Contents**WELLS REAL ESTATE INVESTMENT TRUST II, INC.****PRO FORMA BALANCE SHEET****SEPTEMBER 30, 2006****(in thousands)****(unaudited)****LIABILITIES AND STOCKHOLDERS EQUITY**

| | Wells Real | | Pro Forma Adjustments | | | Pro Forma Total |
|---|----------------------------------|----------------------------------|-----------------------|--------------------|--|---------------------|
| | Estate Investment | | Q4 2006 Acquisitions | | | |
| | Trust II, Inc. Historical (a) | International Financial Tower | Sterling Commerce | Other | | |
| Liabilities: | | | | | | |
| Line of credit and notes payable | \$ 743,689 | \$ 190,000(b) | \$ 35,000(b) | \$ (207,381)(f) | | \$ 761,308 |
| Accounts payable, accrued expenses and accrued capital expenditures | 32,258 | 30(b) | 156(b) | | | 32,444 |
| Due to affiliates | 2,866 | | | | | 2,866 |
| Dividends payable | 6,310 | | | | | 6,310 |
| Deferred income | 8,458 | | | | | 8,458 |
| Intangible lease liabilities, less accumulated amortization | 93,172 | | | | | 93,172 |
| Obligations under capital leases | 78,000 | | | | | 78,000 |
| Total liabilities | 964,753 | 190,030 | 35,156 | (207,381) | | 982,558 |
| Minority Interest | 3,203 | | | | | 3,203 |
| Redeemable Common Stock | 33,156 | | | | | 33,156 |
| Stockholders Equity: | | | | | | |
| Common stock, \$0.01 par value; 900,000,000 shares authorized; and 258,275,700 shares issued and outstanding as of September 30, 2006 | 2,583 | | | 189(d) | | 2,772 |
| Additional paid in capital | 2,296,001 | | | 166,997(d) | | 2,462,998 |
| Cumulative distributions in excess of earnings | (190,269) | | | | | (190,269) |
| Redeemable common stock | (33,156) | | | | | (33,156) |
| Other Comprehensive Loss | (1,112) | | | | | (1,112) |
| Total stockholders equity | 2,074,047 | | | 167,186 | | 2,241,233 |
| Total liabilities, minority interest, redeemable common stock and stockholders equity | \$ 3,075,159 | \$ 190,030 | \$ 35,156 | \$ (40,195) | | \$ 3,260,150 |

Table of Contents

- (a) Historical financial information is derived from Wells REIT II's quarterly report filed on Form 10-Q as of September 30, 2006.
- (b) Reflects the purchase price of the assets and liabilities obtained by Wells REIT II in connection with the respective acquisition, net of any purchase price adjustments.
- (c) Reflects deferred project costs applied to land and building at approximately 2.312% of the cash paid for purchase upon acquisition.
- (d) Reflects capital raised through issuance of additional common stock subsequent to September 30, 2006 through December 21, 2006, the date of acquisition of the Sterling Commerce Building, net of organizational and offering costs, commissions and dealer-manager fees
- (e) Reflects deferred project costs capitalized as a result of additional capital raised as described in note (d) above.
- (f) Reflects partial pay down of acquisition-related borrowings using capital raised described in note (d) above.

The accompanying notes are an integral part of this statement.

Table of Contents**WELLS REAL ESTATE INVESTMENT TRUST II, INC.****PRO FORMA STATEMENT OF OPERATIONS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006****(in thousands)****(Unaudited)**

| | Pro Forma Adjustments 2006 Acquisitions | | | | | | | | | |
|--|---|-------------------------------------|---|---------------------------|--------------------------|--|------------------------------|----------------------------|-------------|------------|
| | Wells Real Estate Investment Trust II, Inc. | 11950 Corporate Blvd | Edgewater Corporate Center | 4300 Centreway | 80 Park Place | International Financial Tower | Sterling Commerce | Pro Forma Total | | |
| | Historical (a) | SanTan | 263 Shuman | | | | | | | |
| Revenues: | | | | | | | | | | |
| Rental income | \$ 176,076 | \$ 1,938(b) | \$ 2,205(b) | \$ 2,007(b) | \$ 513(b) | \$ 1,327(b) | \$ 9,030(b) | \$ 13,085(b) | \$ 5,818(b) | \$ 211,999 |
| Tenant reimbursements | 40,657 | 16(c) | 1,274(c) | 1,251(c) | 200(c) | 40(c) | 9,809(c) | 4,963(c) | 332(c) | 58,542 |
| Hotel income | 17,811 | | | | | | | | | 17,811 |
| | 234,544 | 1,954 | 3,479 | 3,258 | 713 | 1,367 | 18,839 | 18,048 | 6,150 | 288,352 |
| Expenses: | | | | | | | | | | |
| Property operating costs | 65,272 | 675(d) | 1,274(d) | 1,265(d) | 200(d) | 382(d) | 9,809(d) | 11,507(d) | 2,898(d) | 93,282 |
| Hotel operating costs | 13,479 | | | | | | | | | 13,479 |
| Asset and property management fees: | | | | | | | | | | |
| Related party | 14,806 | 46(j) | 45(j) | 36(j) | 10(j) | 16(j) | 121(j) | 159(j) | 50(j) | 15,289 |
| Other | 3,560 | | | | | | | | | 3,560 |
| Depreciation | 33,846 | 232(e) | 365(e) | 463(e) | 29(e) | 165(e) | 1,149(e) | 2,365(e) | 754(e) | 39,368 |
| Amortization | 59,988 | 899(f) | 475(f) | 1,261(f) | 305(f) | 753(f) | 6,655(f) | 2,090(f) | 1,143(f) | 73,569 |
| Lease termination expense | 1,814 | | | | | | | | | 1,814 |
| General and administrative | 8,807 | | | | | | | | | 8,807 |
| | 201,572 | 1,852 | 2,159 | 3,025 | 544 | 1,316 | 17,734 | 16,121 | 4,845 | 249,168 |
| Real estate operating income | 32,972 | 102 | 1,320 | 233 | 169 | 51 | 1,105 | 1,927 | 1,305 | 39,184 |
| Other income (expense): | | | | | | | | | | |
| Interest expense | (30,755) | (1,705)(h) | | | | | (2,181)(i) | (516)(g) | (116)(g) | (35,273) |
| Loss on early extinguishment of debt | (1,115) | | | | | | | | | (1,115) |
| Interest and other income | 5,559 | | | | | | | | | 5,559 |
| | (26,311) | (1,705) | | | | | (2,181) | (516) | (116) | (30,829) |
| Income (loss) before minority interest and income tax benefit | 6,661 | (1,603) | 1,320 | 233 | 169 | 51 | (1,076) | 1,411 | 1,189 | 8,355 |
| Minority interest in earnings of consolidated entities | (580) | | | | | | | | | (580) |
| | 6,081 | (1,603) | 1,320 | 233 | 169 | 51 | (1,076) | 1,411 | 1,189 | 7,775 |

Edgar Filing: WELLS REAL ESTATE INVESTMENT TRUST II INC - Form 8-K/A

| | | | | | | | | | | | | |
|--|----|---------|------------|----------|--------|--------|-------|------------|----------|----------|----------|---------|
| Income (loss) before income tax benefit | | | | | | | | | | | | |
| Income tax expense | | (239) | | | | | | | | | | (239) |
| Net income (loss) | \$ | 5,842 | \$ (1,603) | \$ 1,320 | \$ 233 | \$ 169 | \$ 51 | \$ (1,076) | \$ 1,411 | \$ 1,189 | \$ 7,536 | |
| Net income per share - basis and diluted | \$ | 0.03 | | | | | | | | | | \$ 0.03 |
| Weighted-average shares outstanding - basic and diluted | | 226,983 | | | | | | | | | | 281,398 |

F-9

Table of Contents

- (a) Historical financial information derived from Wells REIT II's quarterly report filed on Form 10-Q for the quarter ended September 30, 2006.
- (b) Rental income consists primarily of base rent, parking income and amortization of above-market lease assets and below-market lease liabilities. Base rent is recognized on a straight-line basis beginning on the pro forma acquisition date of January 1, 2005.
- (c) Consists of operating cost reimbursements.
- (d) Consists of property operating expenses.
- (e) Depreciation expense on portion of purchase price allocated to Building is recognized using the straight-line method and a 40-year life.
- (f) Amortization of deferred leasing costs and lease intangibles is recognized using the straight-line method over the lives of the respective leases.
- (g) Represents additional interest expense that would have been incurred if the outstanding balance of the Wachovia \$400.0 million line of credit for the nine months ended September 30, 2006 was equal to the pro forma outstanding line of credit balance per the Pro Forma Balance Sheet as of September 30, 2006. The Wachovia \$400.0 million line of credit bore interest at approximately 6.06% for the nine months ended September 30, 2006.
- (h) Represents interest expense on the \$39.0 million mortgage loan that was originated on September 28, 2006. The mortgage loan bears interest at a fixed rate of 5.83% and matures on October 11, 2016.
- (i) Represents interest expense on the \$45.9 million mortgage loan originated in connection with the acquisition of 80 Park Place that bears interest at 6.575% and matures on September 30, 2016.
- (j) 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.

The accompanying notes are an integral part of this statement.

Table of Contents**WELLS REAL ESTATE INVESTMENT TRUST II, INC.****PRO FORMA STATEMENT OF OPERATIONS****FOR THE NINE MONTHS ENDED DECEMBER 31, 2005****(in thousands)****(Unaudited)**

| | Wells Real Estate | | Pro Forma Adjustments 2006 Acquisitions | | | | | | | Pro Forma Total |
|--|----------------------------------|----------------------|--|---------------|-------------------|-------------------|--------------|----------------------------------|----------------------|--------------------|
| | Investment | | 11950 | | | 80 Park | | | | |
| | Trust II, Inc. Historical (a) | 2005 Acquisitions | SanTan | 263 Shuman | Corporate Blvd | 4300 Centreway | Place | International Financial Tower | Sterling Commerce | |
| Revenues: | | | | | | | | | | |
| Rental income | \$ 134,972 | \$ 102,616(b) | \$ 6,548(b) | \$ 4,064(b) | \$ 3,316(b) | \$ 1,895(b) | \$ 12,389(b) | \$ 17,388(b) | \$ 7,673(b) | \$ 290,861 |
| Tenant reimbursements | 29,036 | 18,285(c) | 54(c) | 2,325(c) | 2,076(c) | 35(c) | 13,613(c) | 8,320(c) | 257(c) | 74,001 |
| | 164,008 | 120,901 | 6,602 | 6,389 | 5,392 | 1,930 | 26,002 | 25,708 | 7,930 | 364,862 |
| Expenses: | | | | | | | | | | |
| Property operating costs | 45,818 | 51,238(d) | 2,302(d) | 2,325(d) | 2,099(d) | 904(d) | 13,615(d) | 15,181(d) | 3,490(d) | 136,972 |
| Asset and property management fees: | | | | | | | | | | |
| Related party | 10,639 | 5,400(e) | 216(e) | 210(e) | 166(e) | 73(e) | 563(e) | 737(e) | 232(e) | 18,236 |
| Other | 2,539 | | | | | | | | | 2,539 |
| Depreciation | 24,505 | 16,429(f) | 927(f) | 730(f) | 794(f) | 247(f) | 1,723(f) | 3,153(f) | 1,005(f) | 49,513 |
| Amortization | 43,210 | 30,488(g) | 2,698(g) | 814(g) | 1,892(g) | 1,004(g) | 8,873(g) | 2,787(g) | 1,524(g) | 93,290 |
| General and administrative | 9,056 | | | | | | | | | 9,056 |
| | 135,767 | 103,555 | 6,143 | 4,079 | 4,951 | 2,228 | 24,774 | 21,858 | 6,251 | 309,606 |
| Real estate operating income (loss) | 28,241 | 17,346 | 459 | 2,310 | 441 | (298) | 1,228 | 3,850 | 1,679 | 55,256 |
| Other income (expense): | | | | | | | | | | |
| Interest expense | (25,098) | (3,622)(h) | (2,274)(n) | | | | (3,018)(o) | (5,077)(l) | (1,142)(l) | (50,620) |
| | | (732)(i) | | | | | | | | |
| | | (4,352)(j) | | | | | | | | |
| | | (5,019)(k) | | | | | | | | |
| | | (286)(m) | | | | | | | | |
| Interest and other income | 9,557 | | | | | | | | | 9,557 |
| | (15,541) | (14,011) | (2,274) | | | | (3,018) | (5,077) | (1,142) | (41,063) |
| Income (loss) before minority interest and income tax benefit | 12,700 | 3,335 | (1,815) | 2,310 | 441 | (298) | (1,790) | (1,227) | 537 | 14,193 |
| Minority interest in earnings of consolidated subsidiaries | (220) | | | | | | | | | (220) |
| Income (loss) before income tax benefit | 12,480 | 3,335 | (1,815) | 2,310 | 441 | (298) | (1,790) | (1,227) | 537 | 13,973 |

Edgar Filing: WELLS REAL ESTATE INVESTMENT TRUST II INC - Form 8-K/A

| | | | | | | | | | | | | | | | | | | | | | |
|--|----|---------|----|-------|----|---------|----|-------|----|-----|----|-------|----|---------|----|---------|----|-----|----|--------|---------|
| Income tax benefit | | 41 | | | | | | | | | 41 | | | | | | | | | | |
| Net income (loss) | \$ | 12,521 | \$ | 3,335 | \$ | (1,815) | \$ | 2,310 | \$ | 441 | \$ | (298) | \$ | (1,790) | \$ | (1,227) | \$ | 537 | \$ | 14,014 | |
| Net income per share - basis and diluted | \$ | 0.09 | | | | | | | | | | | | | | | | | | \$ | 0.05 |
| Weighted-average shares outstanding - basic and diluted | | 139,680 | | | | | | | | | | | | | | | | | | | 281,398 |

F-11

Table of Contents

- (a) Historical financial information derived from Wells REIT II's annual report filed on Form 10-K for the year ended December 31, 2005.
- (b) Rental income consists primarily of base rent, parking income and amortization of above-market lease assets and below-market lease liabilities. Base rent is recognized on a straight-line basis beginning on the pro forma acquisition date of January 1, 2005.
- (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 the \$105.0 million mortgage loan secured by the 100 East Pratt Street Building executed in September 2005 that bears interest at 5.08% and matures in June 2017.
- (i) Represents interest expense on the \$23.0 million mortgage loan executed in connection with the acquisition of the Nashoba Buildings that bears interest at 5.07% and matures in September 2010.
- (j) Represents interest expense on the \$90.0 million mortgage loan assumed in connection with the acquisition of the 5 Houston Center Building that bears interest at 5.00% and matures in October 2008.
- (k) Represents imputed interest expense on the interest-free note payable that matures in April 2012 assumed in connection with the recapitalization of the entity that owns an interest in Key Center.
- (l) Represents additional interest expense that would have been incurred if the outstanding balance of the Wachovia \$400 million line of credit for the year ended December 31, 2005 was equal to the pro forma outstanding line of credit balance per the Pro Forma Balance Sheet as of September 30, 2006. The Wachovia \$400 million line of credit bore interest at approximately 4.46% for the year ended December 31, 2005.
- (m) Represents interest expense on funds drawn from the LakePointe Buildings construction loan, which bore interest at approximately 4.46% for the year ended December 31, 2005.
- (n) Represents interest expense on the \$39.0 million mortgage loan that was originated on September 28, 2006. The mortgage loan bears interest at a fixed rate of 5.83% and matures on October 11, 2016.
- (o) Represents interest expense on the \$45.9 million mortgage loan originated in connection with the acquisition of 80 Park Place that bears interest at 6.575% and matures on September 30, 2016.

The accompanying notes are an integral part of this statement.