

U. S. Securities and Exchange Commission

Washington, DC 20549

FORM 10-QSB

(Mark One)

☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2001

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 01-14453

National Real Estate Limited Partnership Income Properties

(Exact name of small business issuer as specified in its charter)

Wisconsin

39-1503893

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification Number)

1155 Quail Court, Pewaukee, Wisconsin 53702-3703

(Address of principal executive offices)

(262) 695-1400

(Issuer's telephone number, including area code)

----- N/A -----

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Sections 13 or 15(d) of the Exchange Act during the past 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

# NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES

## INDEX

### Page

#### PART I. FINANCIAL INFORMATION

Balance Sheet (Unaudited) - September 30, 2001, and December 31, 2000 .....	2
Statement of Operations (Unaudited) - Three and nine months ended September 30, 2001, and 2000 .....	3
Statement of Changes in Partners' Capital (Deficit)(Unaudited) - Nine months ended September 30, 2001, and 2000.....	4
Statement of Cash Flows (Unaudited) - Nine months ended September 30, 2001, and 2000.....	5
Notes to Financial Statements (Unaudited) .....	6-7
Management's Discussion and Analysis of Financial Condition and Results of Operations .....	8-9

#### PART II. OTHER INFORMATION AND SIGNATURES

Item 1. Legal Proceedings .....	9-11
Item 2. Changes in Securities and Use of Proceeds .....	12
Item 3. Defaults Upon Senior Securities.....	12
Item 4. Submission of Matters to a Vote of Security Holders .....	12
Item 5. Other Information .....	12
Item 6. Exhibits and Reports on Form 8-K.....	12

**PART I. FINANCIAL INFORMATION****NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES***(A Wisconsin Limited Partnership)***BALANCE SHEET***(Unaudited)*

	<b><u>September 30,</u></b> <b><u>2001</u></b>	<b><u>December 31,</u></b> <b><u>2000</u></b>
<b>ASSETS</b>		
Cash and cash equivalents	\$277,264	\$245,403
Escrow deposits and other assets	69,978	91,248
Investment properties, at cost		
Land	568,848	568,848
Buildings and improvements	<u>4,324,905</u>	<u>4,324,905</u>
	4,893,753	4,893,753
Less accumulated depreciation	<u>2,245,527</u>	<u>2,137,780</u>
	<u>2,648,226</u>	<u>2,755,973</u>
	<u>\$2,995,468</u>	<u>\$3,092,624</u>
 <b>LIABILITIES AND PARTNERS' CAPITAL</b>		
<i>Liabilities:</i>		
Accrued expenses and other liabilities	\$84,518	\$101,996
Tenant security deposits	5,010	4,823
Deferred rent	34,145	31,963
Accrued interest payable to individual General Partner	101,608	75,650
Note payable to individual General Partner (Note 5)	<u>271,020</u>	<u>271,020</u>
	496,301	485,452
 <i>Partners' Capital (Deficit):</i>		
General Partners	(165,159)	(161,919)
Limited Partners	2,685,997	2,790,762
(authorized - 10,000 Interests; issued - 9,034.01 Interests)		
Less cost of 29.86 Limited Partner Interests held in Treasury	<u>(21,671)</u>	<u>(21,671)</u>
	<u>2,499,167</u>	<u>2,607,172</u>
	<u>\$2,995,468</u>	<u>\$3,092,624</u>

*See notes to financial statements.*

**NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES***(A Wisconsin Limited Partnership)***Statement of Operations***(Unaudited)*

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b><u>2001</u></b>	<b><u>2000</u></b>	<b><u>2001</u></b>	<b><u>2000</u></b>
<b>INCOME</b>				
Operating income	<u>\$187,410</u>	<u>\$198,668</u>	<u>\$591,567</u>	<u>\$603,854</u>
Total income	187,410	198,668	591,567	603,854
 <b>OPERATING EXPENSES</b>				
Operating expenses	88,041	100,333	277,879	262,746
Administrative expense	52,432	65,362	159,637	170,434
Depreciation	35,916	35,954	107,747	107,861
Interest expense	<u>7,959</u>	<u>9,503</u>	<u>25,958</u>	<u>26,753</u>
Total expenses	<u>184,348</u>	<u>211,152</u>	<u>571,221</u>	<u>567,794</u>
 <b>Income (Loss) from Operations</b>	<u>3,062</u>	<u>(12,484)</u>	<u>20,346</u>	<u>36,060</u>
<b>Other Income:</b>				
Interest income	<u>3,590</u>	<u>6,713</u>	<u>10,888</u>	<u>24,085</u>
 <b>Net Income (Loss)</b>	<u>\$6,652</u>	<u>\$(5,771)</u>	<u>\$31,234</u>	<u>\$60,145</u>
 Net Income (Loss) attributable to General Partners (3%)	\$200	\$(173)	\$937	\$1,804
Net Income (Loss) attributable to Limited Partners (97%)	\$6,452	\$(5,598)	\$30,297	\$58,341
Per Limited Partnership	<u>\$ .72</u>	<u>\$(.62)</u>	<u>\$3.36</u>	<u>\$6.48</u>
Interests outstanding--9,004.15				

*See notes to financial statements.*

# NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES

## (A Wisconsin Limited Partnership) Statement of Changes in Partners' Capital (Deficit) (Unaudited) Nine Months Ended September 30,

	<u>Limited Partners</u>	<u>General Partners</u>	<u>Interests Held in Treasury</u>	<u>Total</u>
<u>September 30, 2001</u>				
Partners' Capital (Deficit), beginning of period	\$2,790,762	\$(161,919)	(\$21,671)	\$2,607,172
Distributions	(135,062)	(4,177)		(139,239)
Net Income for the period	<u>30,297</u>	<u>937</u>		<u>31,234</u>
Partners' Capital (Deficit), end of period	<u>\$2,685,997</u>	<u>\$(165,159)</u>	<u>\$(21,671)</u>	<u>\$2,499,167</u>
 <u>September 30, 2000</u>				
Partners' Capital (Deficit), beginning of period	\$3,472,815	\$(140,824)	\$(21,671)	\$3,310,320
Distributions	(621,288)	(19,215)		(640,503)
Net Income for the period	<u>58,341</u>	<u>1,804</u>		<u>60,145</u>
Partners' Capital (Deficit), end of period	<u>\$2,909,868</u>	<u>\$(158,235)</u>	<u>\$(21,671)</u>	<u>\$2,729,962</u>

*See notes to financial statements.*

**NATIONAL REAL ESTATE LIMITED PARTNERSHIP**

**INCOME PROPERTIES**

*(A Wisconsin Limited Partnership)*

**Statement of Cash Flows**

*(Unaudited)*

*Nine Months Ended September 30*

	<b><u>2001</u></b>	<b><u>2000</u></b>
<b>Operating Activities</b>		
Net income for the period	\$31,234	\$60,145
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Depreciation	107,747	107,861
<i>Changes in operating assets and liabilities:</i>		
Escrow deposits and other assets	21,270	(79,729)
Deferred rent	2,182	(1,819)
Accrued expenses, other liabilities, and accrued interest	8,480	19,501
Tenant security deposits	<u>187</u>	<u>420</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	171,100	106,379
<b>Investing Activity:</b>	0	0
<b>Financing Activities:</b>		
Distributions to partners	<u>(139,239)</u>	<u>(640,503)</u>
<b>INCREASE/DECREASE IN CASH</b>	<u>31,861</u>	<u>(534,124)</u>
<b>Cash and cash equivalents at beginning of period</b>	<u>245,403</u>	<u>806,382</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u><u>\$277,264</u></u>	<u><u>\$272,258</u></u>

*See notes to financial statements.*

**NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES**  
**(A Wisconsin Limited Partnership)**  
**Notes to Financial Statements**  
**(Unaudited)**  
**September 30, 2001**

1. In the opinion of the General Partners, the accompanying unaudited financial statements contain all adjustments (consisting of normal recurring accruals) which are necessary for a fair presentation. These statements, which do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements, should be read in conjunction with the National Real Estate Limited Partnership Income Properties annual report for the year ended December 31, 2000 (please refer to the footnotes of those statements for additional details of the Partnership's financial condition). The operating results for the period ended September 30, 2001 may not be indicative of the operating results for the entire year.
2. National Real Estate Limited Partnership Income Properties (the "Partnership") was organized under the Wisconsin Uniform Limited Partnership Act pursuant to a Certificate of Limited Partnership dated December 18, 1984, for the purpose of investing in residential, commercial, and industrial real properties. John Vishnevsky and National Development and Investment, Inc., contributed the sum of \$6,000 to the Partnership as General Partners. The Limited Partnership Agreement authorized the issuance of 10,000 Limited Partnership Interests (the "Interests") at \$1,000 per Interest with the offering period commencing January 31, 1985. Upon conclusion of the offering in December 1986, the Partnership had raised \$9,024,556 in capital representing 9,034.01 Interests.
3. **National Realty Management, Inc. (NRMI)**: The Partnership incurred property management fees of \$34,969 under an agreement with NRMI for the nine month period ended September 30, 2001. The Partnership also incurred \$27,280 in the first nine months of 2001 for the reimbursement of accounting and administrative expenses incurred by NRMI on behalf of the Partnership.

The Partnership subleases a portion of common area office space from NRMI under terms of a lease, which expires on August 31, 2002. During the first nine months of 2001, the Partnership incurred lease fees totaling \$8,305 which represents the Partnership's prorated portion, based upon space occupied, of NRMI's monthly rental obligation.
4. **National Development and Investment, Inc. (NDII)**: The Partnership incurred \$113,119 for the reimbursement of administrative expenses incurred by NDII on behalf of the Partnership for the first nine months of 2001. Effective October 1, 2001, all expenses previously incurred by NDII on behalf of the Partnership will be incurred by NRMI, due to the dissolution of NDII as of that date.
5. As outlined in the prospectus, the General Partners agreed to make loans to the Partnership up to an aggregate of 3% of the gross proceeds of the offering to the extent necessary to provide distributions to the limited partners at annualized rates equal to 8% in 1985, 8.25%

in 1986, and 8.5% in 1987. The loan will be repaid solely from sales proceeds, with compounding interest equal to the cost of funds or 12%, whichever is lower. As of September 30, 2001, interest totaling \$101,608 had accrued.



**NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES**  
**(A Wisconsin Limited Partnership)**  
**Management's Discussion and Analysis of**  
**Financial Condition and Results of Operations**  
**September 30, 2001**

The Partnership currently owns and operates three investment properties; Tucson Lock-It Lockers, a 49,865 net rentable square foot mini warehouse complex in Tucson, Arizona; Phoenix Lock-It Lockers, a 62,016 net rentable square foot mini warehouse complex in Phoenix, Arizona; and a portion of Cave Creek Lock-It Lockers containing 7,604 of 46,283 net rentable square feet in Phoenix, Arizona.

National Real Estate Limited Partnership Income Properties II ("NRELPIP-II") owns the remaining portion of Cave Creek Lock-It Lockers. NRELPIP II is a Wisconsin limited partnership, affiliated with the General Partners.

Occupancy based upon net rentable square feet for the first nine months of 2001 averaged 91.45% for Tucson Lock-It Lockers; 88.52% for Phoenix Lock-It Lockers; and 88.94% for Cave Creek Lock-It Lockers. This compares to an average of 91.0% for Tucson Lock-It Lockers; 90.68% for Phoenix Lock-It Lockers; and 90.55% for Cave Creek Lock-It Lockers during the same period in 2000.

**Nine Months Ended September 30, 2001 and 2000**

Net income decreased \$28,911 from \$60,145 for the nine months ended September 30, 2000 to \$31,234 for the nine months ended September 30, 2001, due to, in part, a \$15,133 increase in operating expenses, and a \$13,197 decrease in interest income.

The \$15,133 increase in operating expenses is due to increased personnel costs and increased real estate taxes for Phoenix Lock-it Lockers.

The \$13,197 decrease in interest income is due to a decrease in interest earned on the money market account, attributable to reduced interest rates and large cash distributions paid which reduced the account balance.

The increase in cash during the first nine months of 2001 was \$31,861, compared to the decrease in cash during the first nine months of 2000 of \$534,124. This variance was due to a decrease of \$501,264 in cash distributed in 2001 as compared to 2000, and a \$100,999 increase in cash provided by escrow deposits and other assets, netted with a \$11,021 decrease in cash provided by accrued expenses, other liabilities and accrued interest, and a \$28,911 decrease in net income from 2000 to 2001.

The \$100,999 increase in cash provided by escrow deposits and other assets is due to reductions in the salary escrow account for severance salaries paid in 2001, and funds subsequently released from escrow.

The \$11,021 decrease in cash provided by accrued expenses, other liabilities and accrued interest is due to accrued liabilities existing at December 31, 2000, paid in 2001.

### **Three Months Ended September 30, 2001 and 2000**

Net income increased \$12,423 from \$(5,771) for the three months ended September 30, 2000 to \$6,652 for the three months ended September 30, 2001, due to, in part, a \$12,930 decrease in administrative expenses, and a \$12,292 decrease in operating expenses, netted with a \$11,258 decrease in operating income.

The \$12,930 decrease in administrative expenses is primarily due to a decrease in legal expenses.

The \$12,292 decrease in operating expenses is primarily due to the timing of payments for advertising services.

The \$11,258 decrease in operating income is attributable to increased tenant abatements/concessions at all three Lockers properties.

## **PART II. OTHER INFORMATION AND SIGNATURES**

### **Item 1. Legal Proceedings**

On May 25, 1999, the general partners for National Real Estate Investments 78-II Limited Partnership, National Real Estate Investments 78-IV Limited Partnership, National Real Estate Investments 79-I Limited Partnership, National Real Estate Investments 79-II Limited Partnership, National Real Estate Investments 79-III Limited Partnership, National Real Estate Investments 81-I Limited Partnership, National Real Estate Investments 82-I Limited Partnership, National Real Estate Investments 16 Limited Partnership, National Real Estate Investments 17 Limited Partnership, National Real Estate Limited Partnership Income Properties, National Real Estate Limited Partnership Income Properties-II, National Select Placement - XVI Limited Partnership, National Select Placement - XVIII Limited Partnership and National Select Placement - XX Limited Partnership (the "General Partners"), NDII, NRMI, EC, and other entities and individuals were named as defendants in a lawsuit in Waukesha County Circuit Court captioned as Paustenbach, et al. v. Vishnevsky, et al., Case No. 99-CV-1034 (the "Lawsuit"). The partnerships listed above in this paragraph (the "Partnerships") were not included in the original Lawsuit but were later added to the action as nominal defendants. The plaintiffs sought to have this action certified as a class action lawsuit. In the complaint, the plaintiffs alleged wrongdoing against the General Partners and their affiliates including NDII, NRMI and EC in connection with two basic areas. First, allegations involving various vote solicitations alleged by the plaintiffs to be an effort to perpetuate the Partnerships and avoid liquidation. Second, allegations involving the taking and use of Partnership funds and property, including excessive fees and unauthorized expenses. On March 14, 2000, the parties to the litigation, with the exception of the defendant Wolf & Company, entered into a Stipulation of Settlement.

Based upon the Stipulation, on April 27, 2000, the Circuit Court of Waukesha County held a hearing which certified the case as a class action and approved terms of a settlement. The more significant terms of the Stipulation of Settlement are as follows:

An independent marketing agent (the “Partnerships’ Representative”) was appointed to market and sell the Partnerships’ investment properties (the “Properties”). However, no offer to purchase any of the Properties will be accepted without first obtaining approval from a majority interest of the limited partners of the selling Partnership. Final distributions of the net proceeds received from sales of the Properties will be made in accordance with the terms of the limited partnership agreements and prospectuses, and upon providing 20-day notice to the plaintiffs’ attorney. Net proceeds will first be applied to pay plaintiffs’ counsels’ legal fees, expenses and costs, with interest thereon. The Partnerships’ Representative prepared Offering Memorandums for marketing the Properties. Letters of Intent have been signed by potential buyers on all of the Properties. In most cases, Purchase and Sale Agreements have been executed.

Interim distributions to limited partners will continue to be made in accordance with each of the limited partnership agreements. However, upon final approval of the Settlement, distributions were increased to the extent that sufficient reserves were established to support normal partnership operations and the wind-up of each Partnership’s affairs upon the sale of its investment property. Any such additional distributions were made within 30 days of the final approval of the Settlement.

NRMI and the General Partners will continue to provide management and consulting services to the Partnerships and the Properties on the same terms and conditions currently provided under existing contracts until the Properties are sold and the Partnership entities are dissolved. NRMI will also be the listing broker for the sale of the Partnerships’ Properties.

The plaintiffs’ claims made against NRMI, the General Partners, and other related parties for excessive charging of expenses to the Partnerships will be settled through binding arbitration. Any such expenses disallowed through arbitration will be reimbursed to the Partnerships.

At the April 27, 2000 hearing, the lawsuit was certified as a non-opt out class action, in which all limited partners of the Partnerships (except the defendants) are required to be included in the settlement of this litigation. Furthermore, the Court ruled that plaintiffs’ counsels’ attorney fees would be equal to one-third of the difference between the secondary market value of the Partnerships interests and the total funds available for distribution to the limited partners after payment of all of the Partnerships’ obligations. The Court allowed the defendants sixty days thereafter to present their evidence regarding secondary market value.

On June 20, 2000, the Court entered a judgment based upon its April 27th decision. Thereafter, on July 21, 2000, the Court held a hearing on the plaintiffs’ Motion for Enforcement of the Court Approved Settlement and in Support of Sanctions. The outcome of the hearing was that the Court granted sanctions totaling \$437,000.00 against the defendants including NDII, NRMI, EC and their counsel for delaying the appointment of the Partnerships’ Representative and the arbitrators. The Court took under advisement the remaining open issue regarding the secondary market value for computing the plaintiffs’ counsels’ attorney fees until the arbitration proceedings are completed and the Properties are sold. A Motion for Reconsideration of the sanctions was filed with the Court and was denied on September 25, 2000. The defendants filed a motion with the Court to stay payment

of the sanctions pending appeal. That motion was also denied.

On August 2, 2000, the defendants, including the Corporation, filed an appeal from that portion of the judgment determining the method for computing the plaintiffs' counsels' attorney fees. On October 10, 2000, the defendants, including the Corporation, filed a second appeal from the order granting the sanctions. A motion to consolidate the two appeals was granted.

On October 24, 2001, the Court of Appeals rendered its decision with respect to both appeals. The Court affirmed the lower court ruling respecting the determination of the attorneys fees, but reversed the Order imposing the sanctions for delay in implementing the Settlement Agreement based upon the lower court's erroneous view of the effective date of the settlement stipulation

The arbitration panel has been selected. The arbitration is tentatively set for hearing the weeks of February 11, and 18, 2002. A scheduling order has been set by the chief arbitrator. Based on the events to date, it is not possible to determine the final outcome of the litigation, or the amount of any potential monetary impact on the NDII Affiliates.

**Item 2. Changes in Securities and Use of Proceeds**

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Security Holders**

None

**Item 5. Other Information**

None

**Item 6. Exhibits and Reports on Form 8-K**

None

## SIGNATURES

Pursuant to the requirements 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.

National Real Estate Limited Partnership  
Income Properties  
\_\_\_\_\_  
(Registrant)

Date \_\_\_\_\_

\_\_\_\_\_  
/S/John Vishnevsky

John Vishnevsky  
President and Chief Operating and  
Executive Officer  
National Development and Investment, Inc.  
Corporate General Partner

Date \_\_\_\_\_

\_\_\_\_\_  
/S/John Vishnevsky

John Vishnevsky  
Chief Financial and Accounting Officer

Date \_\_\_\_\_

\_\_\_\_\_  
/S/Stephen P. Kotecki

Stephen P. Kotecki  
President  
EC Corp  
Corporate General Partner

## SIGNATURES

Pursuant to the requirements 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.

National Real Estate Limited Partnership  
Income Properties  
\_\_\_\_\_  
(Registrant)

Date \_\_\_\_\_

\_\_\_\_\_  
John Vishnevsky  
President and Chief Operating and  
Executive Officer  
National Development and Investment, Inc.  
Corporate General Partner

Date \_\_\_\_\_

\_\_\_\_\_  
John Vishnevsky  
Chief Financial and Accounting Officer

Date \_\_\_\_\_

\_\_\_\_\_  
Stephen P. Kotecki  
President  
EC Corp  
Corporate General Partner