

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: 01-16874

National Real Estate Limited Partnership Income Properties II

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

Wisconsin

39-1553195

(State or other jurisdiction of  
incorporation or organization)  
Number)

(I.R.S. Employer  
Identification

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 II

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**PART I. FINANCIAL INFORMATION****NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES II***(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	\$254,843	\$238,748
Escrow deposits and other assets	46,255	63,801
Investment properties, at cost		
Land	516,590	516,590
Buildings and improvements	<u>4,154,507</u>	<u>4,154,507</u>
	4,671,097	4,671,097
Less accumulated depreciation	<u>1,905,479</u>	<u>1,804,893</u>
	<u>2,765,618</u>	<u>2,866,204</u>
<i><b>Intangible Assets:</b></i>		
Debt issue costs, net of accumulated amortization of \$29,633 as of September 30, 2001 and \$20,790 as of December 31, 2000	<u>2,947</u>	<u>11,790</u>
	<u>\$3,069,663</u>	<u>\$3,180,543</u>
<b>LIABILITIES AND PARTNERS' CAPITAL</b>		
<i><b>Liabilities:</b></i>		
Accrued expenses and other liabilities	\$536	\$30,429
Accrued real estate tax	22,726	29,015
Tenant security deposits	26,450	27,189
Mortgage note payable (Note 5)	519,062	525,294
Deferred rent	<u>14,936</u>	<u>18,401</u>
	583,710	630,328
<i><b>Partners' Capital:</b></i>		
General Partners	57,086	53,070
Limited Partners	<u>2,428,867</u>	<u>2,497,145</u>
(authorized C 40,000 Interests; issued C 20,653.69 Interests)		
	<u>2,485,953</u>	<u>2,550,215</u>

See notes to financial statements.

\$3,069,663

\$3,180,543

**NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES II**

*(A Wisconsin Limited Partnership)*

**Statement of Operations**

*(Unaudited)*

	Three Months Ended September 30 ,		Nine Months Ended September 30 ,	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
<b>INCOME</b>				
Operating income	<u>\$186,598</u>	<u>\$194,097</u>	<u>\$563,053</u>	<u>\$573,225</u>
Total income	186,598	194,097	563,053	573,225
<b>OPERATING EXPENSES</b>				
Operating expenses	78,184	99,485	235,818	251,232
Administrative expenses	35,983	44,566	112,408	122,996
Depreciation and amortization	36,477	34,427	109,429	103,287
Interest expense	<u>11,185</u>	<u>14,102</u>	<u>33,295</u>	<u>37,769</u>
Total expenses	<u>161,829</u>	<u>192,580</u>	<u>490,950</u>	<u>515,284</u>
<b>Income from Operations</b>	<u>24,769</u>	<u>1,517</u>	<u>72,103</u>	<u>57,941</u>
<b>Other Income (Expenses):</b>				
Interest income	<u>2,166</u>	<u>4,766</u>	<u>8,211</u>	<u>17,790</u>
<b>Net Income</b>	<u>\$26,935</u>	<u>\$6,283</u>	<u>\$80,314</u>	<u>\$75,731</u>
Net Income attributable to General Partners (5%)	\$1,347	\$314	\$4,016	\$3,787
Net Income attributable to Limited Partners (95%)	\$25,588	\$5,969	\$76,298	\$71,944
Per Limited Partnership Interests outstandingB20,653.69	<u>\$1.24</u>	<u>\$0.29</u>	<u>\$3.69</u>	<u>\$3.48</u>

See notes to financial statements.



**NATIONAL REAL ESTATE LIMITED PARTNERSHIP  
INCOME PROPERTIES II**

*(A Wisconsin Limited Partnership)*  
**Statement of Changes in Partners' Capital  
(Unaudited)**

**Nine Months Ended September 30,**

	<u>Limited Partners</u>	<u>General Partners</u>	<u>Total</u>
<b><u>September 30, 2001</u></b>			
Partners' Capital, beginning of period	\$2,497,145	\$53,070	\$2,550,215
Distributions	(144,576)	--	(144,576)
Net Income for the period	<u>76,298</u>	<u>4,016</u>	<u>80,314</u>
Partners' Capital, end of period	<u><u>\$2,428,867</u></u>	<u><u>\$57,086</u></u>	<u><u>\$2,485,953</u></u>
 <b><u>September 30, 2000</u></b>			
Partners' Capital, beginning of period	\$2,975,999	\$48,923	\$3,024,922
Distributions	(506,015)	--	(506,015)
Net Income for the period	<u>71,944</u>	<u>3,787</u>	<u>75,731</u>
Partners' Capital, end of period	<u><u>\$2,541,928</u></u>	<u><u>\$52,710</u></u>	<u><u>\$2,594,638</u></u>

*See notes to financial statements.*

**NATIONAL REAL ESTATE LIMITED PARTNERSHIP**  
**INCOME PROPERTIES II**  
*(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	\$80,314	\$75,731
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Depreciation	100,586	100,830
Amortization of debt issue costs	8,843	2,457
<i>Changes in operating assets and liabilities:</i>		
Escrow deposits and other assets	17,546	(44,896)
Deferred rent	(3,465)	(365)
Accrued expenses, other liabilities and accrued	(36,182)	(29,666)
Real estate taxes		
Tenant security deposits	<u>(739)</u>	<u>(142)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	166,903	103,949
<b>Investing Activity:</b>	0	0
<b>Financing Activities:</b>		
Distributions to partners	(144,576)	(506,015)
Payments on mortgage payable	<u>(6,232)</u>	<u>(5,072)</u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u>(150,808)</u>	<u>(511,087)</u>
<b>INCREASE/(DECREASE) IN CASH</b>	16,095	(407,138)
<b>Cash and cash equivalents at beginning of period</b>	<u>238,748</u>	<u>599,280</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u>\$254,843</u>	<u>\$192,142</u>

*See notes to financial statements.*

**NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES-II**  
**(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. The 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 II 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 II (the APartnership®) was organized under the Wisconsin Uniform Limited Partnership Act pursuant to a Certificate of Limited Partnership dated June 5, 1986, to acquire primarily existing commercial and residential real properties and hotels. John Vishnevsky and National Development and Investment, Inc., contributed the sum of \$1,000 to the Partnership as General Partners. The Limited Partnership Agreement authorized the issuance of 40,000 Limited Partnership Interests (the AInterests®) at \$250 per Interest with the offering period running from August 18, 1986 through August 18, 1988. On August 18, 1988, the Partnership concluded its offering and capital contributions totaled \$5,163,031 for 20,653.69 Limited Partnership Interests.

Pursuant to the Escrow Agreement with First Wisconsin Trust Company, Milwaukee, Wisconsin, until the minimum number of Interests (4,850) and investors (100) were subscribed, payments were impounded in a special interest-bearing escrow account. On February 2, 1987, the Partnership received the required minimum capital contributions of \$1,332,470, representing 5,329.88 Interests, and the funds were released to the Partnership.

3. **National Realty Management, Inc. (NRMI)**: The Partnership incurred property management fees of \$30,167 under an agreement with NRMI for the nine month period ended September 30, 2001. The Partnership also incurred \$23,751 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 half of 2001, the Partnership incurred lease fees totaling \$5,583, which represents the Partnership's prorata portion, based upon space occupied, of NRMI's monthly rental obligation.

4. **National Development and Investment, Inc. (NDII)**: The Partnership incurred \$77,686 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. The mortgage note payable is secured by the Amberwood Apartments. The loan bears interest at a variable rate of interest (based on five year treasury securities) plus 2.25% adjusting to 2.35% on May 1, 2002. Monthly payments of principal and interest are due based on a twenty-five year amortization schedule, which also adjusts on May 1, 2002. All unpaid principal and interest is due on April 1, 2007. Maturities for the remainder of 2001 to 2004 are: \$2,022, \$8,971, \$9,765, and \$10,506 respectively. Maturities from 2005 and thereafter are \$487,798.
6. In 1992, the Partnership purchased 12 units of Amberwood Condominiums from National Real Estate Limited Partnership VI (NRELP VI), an affiliated partnership. The Partnership is contingently liable to pay NRELP VI proceeds from a future sale of the Amberwood Condominiums as set forth in a Future Interest Proceeds Agreement. Upon the future sale of Amberwood Condominiums, NRELP VI is entitled to receive 50% of the net sales price above \$57,500 per unit (reduced by normal selling costs) until the Partnership earns a cumulative return of 20% on its investment. After that, NRELP VI will receive 60% of the net sales price above \$57,500 per unit.

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

The Partnership owns and operates two investment properties: a portion of Cave Creek Lock-It Lockers, containing 38,679 of 46,283 net rentable square feet, located in Phoenix, Arizona, and Amberwood Apartments, a 56-unit apartment complex in Holland, Michigan.

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

Amberwood's average occupancy rate for the first three quarters of 2001 was 97.33%. Cave Creek Lock-It Lockers' average occupancy during the same period was 88.94% based on net rentable square footage. During the comparable period in 2000, occupancy rates were 98.29% for Amberwood and 90.55% for Cave Creek Lock-It Lockers.

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

Partnership net income increased \$4,583 from \$75,731 for the first three quarters of 2000, to \$80,314 for the first three quarters of 2001. The increase in net income is attributed to, in part, a decrease in interest income of \$9,579, a decrease in administrative expenses of \$10,588, and a decrease of operating expenses of \$15,414, netted with a decrease in operating income of \$10,172.

The \$9,579 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 in 2000 which reduced the account balance.

The \$10,588 decrease in administrative expenses can be primarily attributed to legal fees decreased from the period January 1, 2000 through September 30, 2000, to the period January 1, 2001 through September 30, 2001.

Operating expenses decreased by \$15,414 for several reasons. Manager/rental agents' salary expenses are lower than the first three quarters of 2000. The first three quarters of 2000 incurred more expenses for asphalt paving than did the first three quarters of 2001. In addition, other repairs and maintenance expenses were down during the first three quarters of 2001, compared to the same time period in 2000.

Operating income decreased \$10,172 due to an increase in vacancies, rent abatements, and delinquent rent write-offs.

Net cash provided during the first nine months of 2001 was \$16,095 as compared to \$407,138 net cash used during the first nine months of 2000. This difference is primarily due to a \$361,439 decrease in cash distributed, and an increase in cash provided by escrow deposits and other assets of \$62,442.

Cash provided by escrow deposits and other assets increased \$62,442 during the first three quarters in 2001 compared to the first three quarters of 2000. This increase is primarily due to a reduction in the

salary escrow account from September 30, 2000 to September 30, 2001 due to severance salaries paid in February of 2001 and funds subsequently released from escrow.

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

Partnership net income increased \$20,652 from the \$6,283 net income for the three months ended September 30, 2000, to \$26,935 for the three months ended September 30, 2001. This increase is primarily attributed to a decrease in operating expense of \$21,301, and a decrease in administrative expense of \$8,583, netted with a decrease in operating income of \$7,499.

The decrease of \$21,301 in operating expenses is primarily attributed to a decrease in repairs and maintenance expense, asphalt paving expense, and advertising expense for the three months ended September 30, 2001, compared to the three months ended September 30, 2000.

The \$8,583 decrease in administrative expense is primarily due to a decrease in legal fees.

Operating income decreases \$7,499 primarily due to an increase in vacancies, rent abatements, and delinquent rent write-offs.

## **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-II  
\_\_\_\_\_  
(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 II  
(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