

U. S. Securities and Exchange Commission

Washington, DC 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2002

() **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)
Statement of Net Assets in Liquidation
(Liquidation Basis)
(Unaudited)

	<u>March 31,</u> <u>2002</u>	<u>December 31,</u> <u>2001</u>
ASSETS		
Investment properties, at estimated liquidation value	\$1,695,436	\$4,875,079
Buildings, improvements, and land		
Cash and cash equivalents	2,881,973	315,549
Escrow deposits and other assets	<u>18,611</u>	<u>20,961</u>
Total Assets	4,596,020	5,211,589
LIABILITIES		
Tenant security deposits	0	26,050
Accrued real estate tax	9,342	30,886
Accrued expenses and other liabilities	661	44,832
Deferred rent	13,302	14,332
Mortgage note payable (Note 5)	0	517,003
Reserve for plaintiffs' attorney fees	795,931	808,504
Reserve for future liquidation expenses	5 <u>100,775</u>	<u>116,350</u>
Total Liabilities	<u>920,011</u>	<u>1,557,957</u>
Net assets in liquidation	<u>\$3,676,009</u>	<u>\$3,653,632</u>

See notes to financial statements.

NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES II

(A Wisconsin Limited Partnership)

Statement of Changes in Net Assets in Liquidation

(Liquidation Basis)

(Unaudited)

**Three Months Ended
March 31,**

2002

INCOME

Operating	<u>\$94,958</u>
Total income	94,958

OPERATING EXPENSES

Operating	49,601
Administrative	40,598
Interest	<u>2,775</u>
Total operating expenses	<u>92,974</u>

Income from operations	<u>1,984</u>
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Other income

Interest income	<u>4,590</u>
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<i>Net income</i>	6,574
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Net assets in liquidation at January 1, 2002 (Liquidation basis)	3,653,632
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Adjustments to liquidation basis	<u>15,803</u>
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Net assets in liquidation at March 31, 2002	<u>\$3,676,009</u>
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See notes to financial statements.

NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES II
(A Wisconsin Limited Partnership)
Statement of Income
(Going Concern Basis)
(Unaudited)

	Three Months Ended March 31,
	<u>2001</u>
INCOME	
Operating	<u>\$186,120</u>
Total income	186,120
 OPERATING EXPENSES	
Operating	65,421
Administrative	34,750
Depreciation	36,474
Interest	<u>10,968</u>
Total operating expenses	<u>147,613</u>
 Income from operations	<u>38,507</u>
Other income	
Interest income	<u>3,038</u>
 <i>Net income</i>	<u>\$41,545</u>
 Net income attributable to General Partners (5%)	 \$2,077
Net income attributable to Limited Partners (95%)	 \$39,468
 Per Limited Partnership	 <u>\$1.91</u>
\$ Interests outstanding--20,653.69	

See notes to financial statements.

NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES II

(A Wisconsin Limited Partnership)

Statement of Partners' Capital

(Going Concern Basis)

(Unaudited)

Three Months Ended March 31

	<u>Limited Partners</u>	<u>General Partners</u>	<u>Total</u>
<u>March 31, 2001</u>			
Partners' capital, beginning of period	\$2,462,465	\$58,854	\$2,521,319
Distributions	--	--	--
Net income for the period	<u>1,441,998</u>	<u>12,695</u>	<u>1,454,693</u>
Partners' capital, end of period	<u><u>\$3,904,463</u></u>	<u><u>\$71,549</u></u>	<u><u>\$3,976,012</u></u>

See notes to financial statements.

NATIONAL REAL ESTATE LIMITED PARTNERSHIP

INCOME PROPERTIES II

(A Wisconsin Limited Partnership)

Statement of Cash Flows

(Going Concern Basis)

(Unaudited)

Three Months Ended March 31

2001

Operating Activities:

Net income \$41,545

Adjustments to reconcile net income to net cash provided by operating activities:

Depreciation 33,527

Amortization of debt issue costs 2,947

Changes in operating assets and liabilities:

Escrow deposits and other assets 22,637

Deferred rent 4,894

Accrued expenses, other liabilities and accrued (35,720)

Real estate taxes

Tenant security deposits (939)

NET CASH PROVIDED BY OPERATING ACTIVITIES

68,891

Investing Activities:

0

Financing Activities:

Distributions to partners (72,288)

Payments on mortgage note (2,208)

NET CASH USED IN FINANCING ACTIVITIES

(74,496)

DECREASE IN CASH

(5,605)

Cash and cash equivalents at beginning of period

238,748

CASH AND CASH EQUIVALENTS AT END OF PERIOD

\$233,143

See notes to financial statements.

NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES II
(A Wisconsin Limited Partnership)
Notes to Financial Statements
(Unaudited)
March 31, 2002

1. In the opinion of the General Partners, the accompanying unaudited financial statements contain all adjustments (consisting of normal recurring accruals and liquidation basis adjustments) 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, 2001 (please refer to the footnotes of those statements for additional details of the Partnership's financial condition). The operating results for the period ended March 31, 2002 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 \$5,351 under an agreement with NRMI for the quarter ended March 31, 2002. The Partnership also incurred \$52,702 in the first quarter of 2002 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 quarter of 2002, the Partnership incurred lease fees totaling \$2,817, which represents the Partnership's prorata portion, based upon space occupied, of NRMI's monthly rental obligation.

4. **National Development and Investment, Inc. (NDII)**: 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% adjustable 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. The note was repaid in full on January 23, 2002, in connection with the sale of the Amberwood Apartments.

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. Net proceeds from the January 23, 2002, sale of Amberwood Apartments did not exceed \$57,500 per unit; thus, no payment of proceeds is due NRELP VI.

NATIONAL REAL ESTATE LIMITED PARTNERSHIP INCOME PROPERTIES-II
(A Wisconsin Limited Partnership)
Management's Discussion and Analysis of
Financial Condition and Results of Operations
March 31, 2002

The Partnership owned and operated two investment properties during the first quarter of 2002: 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 located in Holland, Michigan. On January 23, 2002, the Partnership sold Amberwood Apartments for a gross sale price of \$3,350,000. On April 26, 2002, the Partnership sold Cave Creek Lock-it Lockers Phases II and III for a gross sale price of \$1,760,096, its portion of the total gross sale price of \$2,080,000 for Phases I, II and III.

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

Cave Creek Lock-It Lockers= average occupancy during the first quarter of 2002 was 85.42% based on net rentable square footage. During the comparable period in 2001, occupancy was 90.88%.

Three Months Ended March 31, 2002 and 2001

As described in Part II, Item 1, Legal Proceedings, the Partnership reached a settlement agreement on February 11, 2002 that will result in liquidation of the Partnership's net assets. Accordingly, on December 31, 2001, the Partnership revalued its assets and liabilities to the amounts expected to be collected and paid during the liquidation (please refer to the financial statement footnotes to the Partnership's annual report for the year ended December 31, 2001, for additional details). As a result, operations for the three months ended March 31, 2002, are reported on the Statement of Changes in Net Assets in Liquidation, while operations for the three months ended March 31, 2001, are reported on a going concern basis on the Statement of Income. The Statement of Changes in Net Assets in Liquidation differs from the Statement of Income in that the Partnership no longer depreciates investment properties, and has recognized certain Liquidation Basis Adjustments. As a result of these differences, the results of the three months ended March 31, 2002 are not comparable to the results of the three months ended March 31, 2001.

Net assets in liquidation increased \$22,377 from \$3,653,632 on December 31, 2001, to \$3,676,009 on March 31, 2002. This increase was due to \$6,574 net income for the period, and \$15,803 in adjustments to the liquidation basis estimate during the period.

The \$15,803 in adjustments to the liquidation basis estimate consisted of \$3,230 in reductions to estimated selling costs for the Cave Creek Lock-it Lockers Phases II & III, and estimated selling costs not yet incurred for the sale of Amberwood Apartments as of March 31, 2002.

PART II. OTHER INFORMATION AND SIGNATURES

Item 1. Legal Proceedings

On May 25, 1999, the general partners, the property management company (NRMI), and other entities and individuals were named as defendants in a lawsuit (the "Vishnevsky Defendants"). The plaintiffs sought to have this action certified as a class action lawsuit. In the complaint, the plaintiffs alleged wrongdoing against the Vishnevsky Defendants in connection with two basic areas. First, various vote solicitations were made by the plaintiffs alleging to be an effort to perpetuate the Partnership and avoid liquidation. Second, allegations were made regarding 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 ("2000 Settlement"). The 2000 Settlement provided for the appointment of an independent marketing agent (the "Partnerships' Representative") to market and sell the Partnership investment property. However, no offer to purchase the property was to be accepted without first obtaining approval from a majority interest of the limited partners. Final distribution of the net proceeds received from a sale of the Partnership's investment property was to be made in accordance with the terms of the Partnership's limited partnership agreement and prospectus, and upon providing 20-day notice to the plaintiffs' attorney. Net proceeds were first to be applied to pay plaintiffs' counsel's legal fees, expenses and costs, with interest thereon. The actual terms for distribution were finalized in the February 11, 2002 Arbitration Stipulation, described hereinafter.

Pursuant to the 2000 Settlement, the Partnership and its property continued to be managed by NRMI and the general partners under the existing contracts until such time as the Partnership and its property were liquidated. The Arbitration Stipulation states that the existing employees of NRMI will continue to be compensated based on their current employment arrangements, notwithstanding provisions set forth in the 2000 Settlement.

The 2000 Settlement further provided that any legal expenses incurred in connection with the arbitration process could not be advanced or paid by the Partnership. The following legal expenses could be paid by the Partnership: 1) legal expenses incurred in drafting the 2000 Settlement, or obtaining preliminary or final approval of the 2000 Settlement, 2) legal expenses incurred in the sales process for marketing or selling the investment property, and 3) other legal expenses properly incurred in the business of the Partnership unrelated to this lawsuit or the arbitration process. Certain legal expenses were charged to the Partnership in 2001. This matter was resolved in the Arbitration Stipulation signed February 11, 2002. The 2000 Settlement also provided that the plaintiffs' claims made against NRMI, the general partners, and other related parties for excessive charging of expenses to the partnerships named as nominal defendants in the class action lawsuit, including the Partnership, were to be resolved through binding arbitration. Any such expenses disallowed through arbitration would be reimbursed to the partnerships. This matter was also settled in the Arbitration Stipulation.

As part of the litigation, the plaintiffs' attorneys were also seeking payment of their fees from the assets of the Partnership and the other nominal defendant entities. The plaintiffs' attorneys requested that they be paid 33% of the net proceeds derived from the sale of the property, which exceeded an aggregate secondary market value of all Partnership shares. Net proceeds include an offset of partnership liabilities and selling costs. Independent appraisals of the Partnership's secondary market value were obtained by both the plaintiffs' attorneys and by Partnership management. The court gave preliminary approval to the 33% reimbursement, and the secondary market value amount was agreed upon in the Arbitration Stipulation.

On April 27, 2000 the Circuit Court of Waukesha County held a hearing and certified the lawsuit as a non-opt out class action, in which all limited partners of the Partnership were required to be included in the settlement of this litigation. Furthermore, the Court ruled that plaintiffs' attorney fees would be equal to one-third of the difference between the secondary market value of the Partnership interest and the total funds available for distribution to the limited partners after payment of all Partnership obligations, as described above.

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 against the Vishnevsky Defendants 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 determination of the secondary market value for computing the plaintiffs' attorney fees until the arbitration proceedings were completed and the Partnerships' properties were sold.

On August 2, 2000, the Vishnevsky Defendants filed an appeal on the portion of the judgment which determined the method for computing the plaintiffs' attorney fees. On October 10, 2000 the Vishnevsky Defendants and their counsel 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 2000 Settlement agreement based upon the lower court's erroneous view of the effective date of that agreement.

The arbitration panel was selected in 2001. The arbitration was tentatively set for hearing the weeks of February 11, and 18, 2002. On February 11, 2002 the parties settled the arbitration issue (the "Arbitration Stipulation"). The Arbitration Stipulation provides in part that Mr. Vishnevsky will pay into a Settlement Fund an amount equal to the cash distribution he receives from each Partnership for his general and unencumbered limited partnership interests, together with an amount equal to the amount he receives from the repayment of all loans, deferred management fees, and interest due him from the Partnerships minus the sum of \$1,300,000 to cover Mr. Vishnevsky's tax liability generated by the sale of the Properties and other expenses. Mr. Vishnevsky will also receive the commissions due to NRMI and the return of the sanctions money. The Arbitration Stipulation also established the secondary market value to be used in the calculation of the plaintiffs' attorney fees to be paid, as described above.

The remaining cash in the settlement fund, as described above, will be allocated and distributed to the limited partners in this partnership and the other partnerships participating in this litigation, based upon a court approved allocation formula. The portion of the Settlement Fund allocable to the limited partners of this partnership is estimated to be \$163,778. Upon completion of all litigation matters, these funds will be disbursed to the limited partners directly from the Settlement Fund. These funds are not the property of the Partnership entity and, accordingly, are not reflected as an asset in the accompanying financial statements and will not flow through the Partnership's books.

The timing of distributions to limited partners will be largely dependent on the amount of time necessary to resolve all issues. Once the Partnership's property is sold and the sales proceeds distributed, the Partnership will be terminated. The monetary impact of these matters has been estimated, and is presented in the statement of net assets in liquidation as estimated obligation for plaintiffs' attorney fees, and estimated obligation for future liquidation expense. The final outcome of these estimates is not presently determinable, and the resulting changes could be material to the financial statements. Upon termination, the amount of the reserves shown for such attorney fees and liquidation expenses will be transferred to a non-interest bearing liquidating trust fund. If any amount remains in the trust fund after payment of all liquidation expenses and attorney fees, it will be added to the Settlement Fund.

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

The sale of the partnership property Amberwood Apartments was reported on Form 8-K filed on February 7, 2002.

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