

WASHINGTON REAL ESTATE INVESTMENT TRUST
Form 8-K/A
October 14, 2005

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) JULY 29, 2005

WASHINGTON REAL ESTATE INVESTMENT TRUST

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction

of incorporation)

1-6622
(Commission File Number)

53-0261100
IRS Employer

Identification Number)

6110 Executive Boulevard, Suite 800, Rockville, Maryland 20852

(Address of principal executive offices) (Zip Code)

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Registrant's telephone number, including area code (301) 984- 9400

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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ITEM 2.01 COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS

The undersigned registrant, in order to provide the financial statements required to be included in the Current Report on Form 8-K dated July 29, 2005 in connection with the acquisition of certain assets and the borrowing under the line of credit to pay for the acquisition of Albemarle Point (Albemarle), hereby amends the following items, as set forth in the pages attached hereto.

Item 9.01. FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial Statements of Businesses Acquired

1. Albemarle Point - Audited Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2004.

In acquiring Albemarle, Washington Real Estate Investment Trust (WRIT) evaluated among other things, sources of revenue (including but not limited to, competition in the rental market, comparative rents and occupancy rates) and expenses (including but not limited to, utility rates, ad valorem tax rates, maintenance expenses and anticipated capital expenditures). After reasonable inquiry, management is not aware of any material factors affecting Albemarle that would cause the reported financial information not to be indicative of Albemarle's future operating results.

(b) Pro Forma Financial Information

The following pro forma financial statements for the Albemarle acquisition (as defined in Regulation S-X) are filed as an exhibit hereto:

1. WRIT Unaudited Pro Forma Condensed Consolidated Balance Sheet as of June 30, 2005.
2. WRIT Unaudited Pro Forma Condensed Consolidated Statements of Operations for the year ended December 31, 2004 and the six months ended June 30, 2005.

(c) Exhibits

23. Consent of Independent Auditors

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 hereunto duly authorized.

WASHINGTON REAL ESTATE INVESTMENT
TRUST

(Registrant)

By: /s/ Laura M. Franklin

(Signature)

Laura M. Franklin
Senior Vice President Accounting,
Administration and Corporate Secretary

October 14, 2005

(Date)

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Trustees of

Washington Real Estate Investment Trust

We have audited the accompanying Historical Summary of Gross Income and Direct Operating Expenses of Albemarle Point (Historical Summary) for the year ended December 31, 2004. This Historical Summary is the responsibility of the Property's management. Our responsibility is to express an opinion on the Historical Summary based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission as described in Note 2, and is not intended to be a complete presentation of Albemarle Point's revenues and expenses.

In our opinion, the Historical Summary referred to above presents fairly, in all material respects, the gross income and direct operating expenses described in Note 2 of Albemarle Point for the year ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

ARGY, WILTSE & ROBINSON, P.C.

McLean, Virginia

August 10, 2005

ALBEMARLE POINT

HISTORICAL SUMMARY OF GROSS INCOME AND DIRECT OPERATING EXPENSES

YEAR ENDED DECEMBER 31, 2004 AND THE SIX MONTHS

ENDED JUNE 30, 2005 (UNAUDITED)

| | 2004 | 2005 (Unaudited) |
|---|-------------------|---------------------|
| | <u> </u> | <u> </u> |
| Gross income: | | |
| Base rents | \$ 4,233,209 | \$ 2,516,999 |
| Expense recoveries | 470,036 | 314,327 |
| Other | 28,790 | 28,340 |
| | <u> </u> | <u> </u> |
| Total gross income | \$ 4,732,035 | \$ 2,859,666 |
| | <u> </u> | <u> </u> |
| Direct operating expenses: | | |
| Real estate taxes | \$ 338,816 | \$ 247,383 |
| Utilities | 313,654 | 178,288 |
| Contract services | 347,163 | 144,987 |
| Salaries | 63,435 | 11,495 |
| Insurance | 33,573 | 22,815 |
| Repairs, maintenance and supplies | 32,652 | 87,380 |
| Other expenses | 44,393 | 28,801 |
| | <u> </u> | <u> </u> |
| Total direct operating expenses | \$ 1,173,686 | \$ 721,149 |
| | <u> </u> | <u> </u> |
| Gross income in excess of direct operating expenses | \$ 3,558,349 | \$ 2,138,517 |
| | <u> </u> | <u> </u> |

The accompanying notes are an integral part of this historical summary.

ALBEMARLE POINT

NOTES TO THE HISTORICAL SUMMARY OF GROSS INCOME AND

DIRECT OPERATING EXPENSES

DECEMBER 31, 2004 AND THE SIX MONTHS

ENDED JUNE 30, 2005 (UNAUDITED)

NOTE 1 - NATURE OF BUSINESS

Albemarle Point is a 29-acre business park consisting of six buildings located in Chantilly, Virginia. The operations of Albemarle Point consist of leasing office and industrial/flex space to various tenants.

NOTE 2 - BASIS OF PRESENTATION

Washington Real Estate Investment Trust purchased Albemarle Point in July 2005. The Historical Summary has been prepared for the purpose of complying with Regulation S-X, Rule 3-14 of the Securities and Exchange Commission (SEC), which requires certain information with respect to real estate operations acquired to be included with certain filings with the SEC. This Historical Summary includes the historical gross income and direct operating expenses of Albemarle Point, exclusive of the following expenses which may not be comparable to the proposed future operations:

- (a) Interest expense on existing mortgages and borrowings
- (b) Depreciation of property and equipment
- (c) Management and leasing fees
- (d) Certain corporate and administrative expenses
- (e) Provisions for income taxes

NOTE 3 - USE OF ESTIMATES

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The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions regarding revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results could differ from estimated amounts.

NOTE 4 - DESCRIPTION OF LEASING ARRANGEMENTS

All leases are classified as operating leases and expire at various dates through 2015. The following is a schedule by years of future minimum rents receivable on noncancelable operating leases in effect as of December 31, 2004:

| | |
|------------|---------------|
| 2005 | \$ 5,278,000 |
| 2006 | 5,626,000 |
| 2007 | 5,785,000 |
| 2008 | 5,593,000 |
| 2009 | 4,685,000 |
| Thereafter | 15,750,000 |
| | <hr/> |
| | \$ 42,717,000 |
| | <hr/> |

During the year ended December 31, 2004, six tenants accounted for approximately 77% of the total base rents.

NOTE 5 - INTERIM UNAUDITED FINANCIAL INFORMATION

The Historical Summary for the six months ended June 30, 2005 is unaudited; however, in the opinion of management, all adjustments (consisting solely of normal, recurring adjustments) necessary for the fair presentation of the financial statement for the interim period have been included. The results of the interim period are not necessarily indicative of the results to be obtained for a full fiscal year.

WASHINGTON REAL ESTATE INVESTMENT TRUST

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET AND
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

The pro forma balance sheet as of June 30, 2005 presents consolidated financial information as if the acquisition had taken place on June 30, 2005. The pro forma statements of operations for the year ended December 31, 2004, and the six months ended June 30, 2005, present the pro forma results of operations as if the acquisition had taken place as of the beginning of the respective reporting periods.

WRIT purchased Albemarle Point on July 29, 2005.

The unaudited consolidated pro forma financial information is not necessarily indicative of what WRIT's actual results of operations or financial position would have been had this transaction been consummated on the dates indicated, nor does it purport to represent WRIT's results of operations or financial position for any future period. The results of operations for the periods ended December 31, 2004 and June 30, 2005 are not necessarily indicative of the operating results for these periods.

The unaudited consolidated pro forma financial information should be read in conjunction with WRIT's Form 8-K filed with the Securities and Exchange Commission (SEC) on August 4, 2005, announcing the acquisition of Albemarle Point; the consolidated financial statements and notes thereto included in WRIT's Annual Report on Form 10-K for the year ended December 31, 2004; WRIT's Quarterly Report on Form 10-Q for the six months ended June 30, 2005; and the Historical Summary of Gross Income and Direct Operating Expenses and Notes included elsewhere in this Form 8-K/A. In management's opinion, all adjustments necessary to reflect this transaction have been made.

WASHINGTON REAL ESTATE INVESTMENT TRUST

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

JUNE 30, 2005

(In thousands, except per share amounts)

| | Registrant | Pro Forma Adjustments | Pro Forma |
|---|---------------------|--|----------------------|
| Assets | | | |
| Land | \$ 219,492 | \$ 7,485 ⁽¹⁾ | \$ 226,977 |
| Income producing property | 953,084 | 58,348 ⁽¹⁾ | 1,011,432 |
| Accumulated depreciation | (220,607) | | (220,607) |
| Net income producing property | 951,969 | 65,833 | 1,017,802 |
| Development in progress | 17,427 | | 17,427 |
| Total investment in real estate, net | 969,396 | 65,833 | 1,035,229 |
| Cash and cash equivalents | 18,673 | (1,909) ⁽²⁾ | 16,764 |
| Restricted cash | 4,261 | | 4,261 |
| Rents and other receivables, net of allowance for doubtful accounts | 22,553 | (47) ⁽²⁾ | 22,506 |
| Prepaid expenses and other assets | 34,165 | 2,522 ⁽¹⁾ (1,099) ⁽²⁾ | 35,588 |
| Total Assets | \$ 1,049,048 | \$ 65,300 | \$ 1,114,348 |
| Liabilities | | | |
| Notes payable | \$ 420,000 | \$ | \$ 420,000 |
| Mortgage notes payable | 196,960 | | 196,960 |
| Lines of credit/short-term note payable | | 63,000 ⁽²⁾⁽³⁾ | 63,000 |
| Accounts payable and other liabilities | 30,140 | 1,411 ⁽¹⁾ 37 ⁽²⁾ | 31,588 |
| Advance rents | 5,179 | 26 ⁽²⁾ | 5,205 |
| Tenant security deposits | 6,305 | 826 ⁽²⁾ | 7,131 |
| | 658,584 | 65,300 | 723,884 |
| Minority interest | 1,646 | | 1,646 |
| Shareholders' Equity | | | |
| Shares of beneficial interest; \$.01 par value | 421 | | 421 |
| Additional paid-in capital | 407,572 | | 407,572 |
| Retained earnings (deficit) | (15,878) | | (15,878) |
| Deferred compensation on restricted shares | (3,297) | | (3,297) |
| Total Shareholders' Equity | 388,818 | | 388,818 |

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| | | | | |
|------------------------------------|--------|--------------|-----------|--------------|
| Total Liabilities and Shareholders | Equity | \$ 1,049,048 | \$ 65,300 | \$ 1,114,348 |
|------------------------------------|--------|--------------|-----------|--------------|

See accompanying notes to pro forma balance sheet.

WASHINGTON REAL ESTATE INVESTMENT TRUST

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

JUNE 30, 2005

(In thousands, except per share amounts)

NOTES TO PRO FORMA BALANCE SHEET

Note 1: WRIT accounted for the acquisition using the purchase method of accounting. WRIT allocated the purchase price to the related physical assets (land, building and tenant improvements) and in-place leases (tenant origination costs, leasing commissions, and net lease intangible assets/liabilities) based on their fair values, in accordance with SFAS No. 141, Business Combinations.

| | |
|--|-----------|
| Contract purchase price | \$ 67,000 |
| Acquisition costs | 171 |
| Price adjustments | (227) |
| | <hr/> |
| Total purchase price | \$ 66,944 |
| | <hr/> |
| Amounts allocated to investment in real estate: | |
| Amount allocated to building | \$ 55,920 |
| Amount allocated to land | 7,485 |
| Amount allocated to tenant origination costs | 2,428 |
| | <hr/> |
| | \$ 65,833 |
| Amounts allocated to other assets and liabilities: | |
| Amount allocated to leasing commissions | \$ 1,310 |
| Amount allocated to net lease intangible asset | 1,212 |
| Amount allocated to net intangible lease liability | (1,411) |
| | <hr/> |
| | \$ 1,111 |
| | <hr/> |
| Total | \$ 66,944 |
| | <hr/> |

Note 2: Adjustments to the Pro Forma Condensed Consolidated Balance Sheet represent draws on the line, cash paid and deposits applied at closing, and the assumption of certain assets and liabilities, including real estate and personal property taxes and security deposits.

| | |
|-----------------------------------|-------------|
| Funding of purchase price: | |
| Lines of credit | \$ (63,000) |
| Cash and cash equivalents | (1,909) |
| Prepaid expenses and other assets | (1,099) |
| | <hr/> |
| | (66,008) |

Other assets and liabilities assumed:

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| | |
|--|--------------------|
| Accounts payable and other liabilities | \$ (37) |
| Advance rents | (26) |
| Tenant security deposits | (826) |
| Rent and other receivables | (47) |
| | <u> </u> |
| | \$ (936) |
| | <u> </u> |
| Total | <u>\$ (66,944)</u> |

Note 3: On July 25, 2005, WRIT increased its unsecured term note under Credit Facility No. 2 from \$50.0M to \$70.0M. On July 28, 2005, WRIT borrowed \$63.0 million under this increased facility to fund a portion of the purchase price. Borrowing under this facility require us to pay the lender an annual facility fee on the total commitment ranging from 0.15% to 0.25% per annum according to a sliding scale based on the credit rating on our publicly issued debt. These fees are payable quarterly. Advances under this agreement bear interest at LIBOR plus a spread based on the credit rating on our publicly issued debt. All outstanding advances are due and payable upon maturity in July 2008. Interest only payments are due and payable on a monthly basis. Funding for the remainder of the purchase price was provided by cash on hand.

WASHINGTON REAL ESTATE INVESTMENT TRUST

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2004

(In thousands, except per share amounts)

| | <u>REGISTRANT</u> | <u>ALBEMARLE</u> | <u>PRO FORMA ADJUSTMENTS</u> | <u>PRO FORMA</u> |
|---|-------------------|------------------|----------------------------------|----------------------|
| Revenue | | | | |
| Real estate rental revenue | \$ 172,067 | \$ 4,703 | \$ (89) ⁽¹⁾ | \$ 176,958 |
| | | | 277 ⁽²⁾ | |
| Other income | 327 | 29 | | 356 |
| | <u>172,394</u> | <u>4,732</u> | <u>188</u> | <u>177,314</u> |
| Expenses | | | | |
| Real estate expenses | 51,394 | 1,174 | 122 ⁽³⁾ | 53,000 |
| | | | 310 ⁽⁴⁾ | |
| Interest expense | 34,500 | | 1,321 ⁽⁵⁾ | 35,821 |
| Depreciation and amortization | 39,441 | | 2,486 ⁽⁶⁾ | 41,927 |
| General and administrative | 6,194 | | | 6,194 |
| | <u>131,529</u> | <u>1,174</u> | <u>4,239</u> | <u>136,942</u> |
| Income from continuing operations | 40,865 | 3,558 | (4,051) | 40,372 |
| Discontinued operations | | | | |
| Income (loss) from operations of property disposed/held for sale | 3,670 | | | 3,670 |
| Gain on disposal | 1,029 | | | 1,029 |
| | <u>45,564</u> | <u>3,558</u> | <u>(4,051)</u> | <u>45,071</u> |
| Net Income | \$ 45,564 | \$ 3,558 | \$ (4,051) | \$ 45,071 |
| Per share information based on the weighted average of shares outstanding. | | | | |
| Shares basic | 41,642 | | | 41,642 |
| Shares diluted | 41,863 | | | 41,863 |
| Income from continuing operations per share basic | \$ 0.98 | | | \$ 0.97 |
| Income from continuing operations per share diluted | \$ 0.98 | | | \$ 0.96 |
| Net income per share basic and diluted | \$ 1.09 | | | \$ 1.08 |

NOTES TO PRO FORMA STATEMENT OF OPERATIONS

- (1) Represents amortization of the net intangible lease liability based on the average remaining life of the acquired leases.
- (2) Represents straight-line revenue adjustment.
- (3) To add Property Management Fees charged to properties by Registrant.
- (4) To adjust real estate taxes based on the assumption that the assessment will increase as a result of the acquisition.
- (5) Represents interest expense on the line of credit borrowings, totaling \$63.0M, used to fund the acquisition.
- (6) Represents depreciation over 30 years, based upon the portion of the purchase price allocated to building and improvements, plus amortization of tenant origination costs and FAS 141 leasing commissions over the average remaining life of the acquired leases.

WASHINGTON REAL ESTATE INVESTMENT TRUST

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE SIX MONTHS ENDED JUNE 30, 2005

(In thousands, except per share amounts)

| | <u>REGISTRANT</u> | <u>ALBEMARLE</u> | <u>PRO FORMA ADJUSTMENTS</u> | <u>PRO FORMA</u> |
|---|-------------------|------------------|----------------------------------|----------------------|
| Revenue | | | | |
| Real estate rental revenue | \$ 91,996 | \$ 2,831 | \$ (44) ⁽¹⁾ | \$ 95,124 |
| | | | 341 ⁽²⁾ | |
| Other income | 321 | 28 | | 349 |
| | <u>92,317</u> | <u>2,859</u> | <u>297</u> | <u>95,473</u> |
| Expenses | | | | |
| Real estate expenses | 28,192 | 721 | 79 ⁽²⁾ | 29,069 |
| | | | 77 ⁽⁴⁾ | |
| Interest expense | 17,870 | | 1,092 ⁽³⁾ | 18,962 |
| Depreciation and amortization | 23,531 | | 1,243 ⁽⁴⁾ | 24,774 |
| General and administrative | 4,325 | | | 4,325 |
| | <u>73,918</u> | <u>721</u> | <u>2,491</u> | <u>77,130</u> |
| Income from property settlement | 504 | | | 504 |
| Income from continuing operations | 18,903 | 2,138 | (2,194) | 18,847 |
| Discontinued operations | | | | |
| Income (loss) from operations of property disposed/held for sale | 234 | | | 234 |
| Gain on disposal | 33,973 | | | 33,973 |
| | <u>53,110</u> | <u>2,138</u> | <u>(2,194)</u> | <u>\$ 53,054</u> |
| Per share information based on the weighted average of shares outstanding. | | | | |
| Shares basic | 41,899 | | | 41,899 |
| Shares diluted | 42,023 | | | 42,023 |
| Income from continuing operations per share basic and diluted | \$ 0.45 | | | \$ 0.45 |
| Net income per share basic | \$ 1.27 | | | \$ 1.27 |
| Net income per share diluted | \$ 1.26 | | | \$ 1.26 |

NOTES TO PRO FORMA STATEMENT OF OPERATIONS

- (1) Represents amortization of the net intangible lease liability based on the average remaining life of the acquired leases.
- (2) Represents straight-line revenue adjustment.
- (3) To add Property Management Fees charged to properties by Registrant.
- (4) To adjust real estate taxes based on the assumption that the assessment will increase as a result of the acquisition.
- (5) Represents interest expense on the line of credit borrowings, totaling \$63.0M, used to fund the acquisition.
- (6)

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Represents depreciation over 30 years, based upon the portion of the purchase price allocated to building and improvements, plus amortization of tenant origination costs and FAS 141 leasing commissions over the average remaining life of the acquired leases.