

WELLS REAL ESTATE INVESTMENT TRUST INC

Form 424B3

August 14, 2002

Table of Contents

FILED PURSUANT TO  
RULE 424 (B) (3)  
REGISTRATION NO: 333-85848

**WELLS REAL ESTATE INVESTMENT TRUST, INC.  
SUPPLEMENT NO. 1 DATED AUGUST 14, 2002 TO THE PROSPECTUS  
DATED JULY 26, 2002**

*This document supplements, and should be read in conjunction with, the prospectus of Wells Real Estate Investment Trust, Inc. dated July 26, 2002. When we refer to the prospectus in this supplement, we are also referring to any and all supplements to the prospectus. Unless otherwise defined in this supplement, capitalized terms used in this supplement shall have the same meanings as set forth in the prospectus.*

The purpose of this supplement is to describe the following:

- (1) Status of the offering of shares in Wells Real Estate Investment Trust, Inc. (Wells REIT);
- (2) Revisions to the Description of Properties section of the prospectus to describe the following real property acquisitions:
  - (A) Acquisition of a two-story office building in San Antonio, Texas (PacifiCare San Antonio Building);
  - (B) Acquisition of a 4.2 acre tract of land in Houston, Texas (Kerr-McGee Property);
  - (C) Acquisition of two adjacent one-story distribution facility buildings in Duncan, South Carolina (BMG Greenville Buildings);  
and
  - (D) Acquisition of a one-story office building in Suwanee, Georgia (Kraft Atlanta Building);
- (3) Revisions to the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the prospectus;
- (4) Unaudited Financial Statements of the Wells REIT for the quarter ended June 30, 2002; and
- (5) Unaudited pro forma financial statements of the Wells REIT reflecting the acquisitions of the PacifiCare San Antonio Building, the Kerr-McGee Property, the BMG Greenville Buildings and the Kraft Atlanta Building.

**Status of the Offering**

We commenced our initial public offering of common stock on January 30, 1998. Our initial public offering was terminated on December 19, 1999. We received approximately \$132,181,919 in gross offering proceeds from the sale of 13,218,192 shares in our initial public offering. We commenced our second offering of common stock on December 20, 1999. Our second public offering was terminated on December 19, 2000. We received approximately \$175,229,193 in gross offering proceeds from the sale of 17,522,919 shares in our second public offering. We commenced our third public offering of common stock on December 20, 2000. Our third public offering was terminated on July 26, 2002. We received approximately \$1,292,032,232 in gross offering proceeds from the sale of 129,203,223 shares in our third public offering.

Pursuant to the prospectus, we commenced our fourth public offering of common stock on July 26, 2002. As of August 10, 2002, we had received gross proceeds of approximately \$46,430,189 from the sale of approximately 4,643,019 shares in our fourth public

## **Table of Contents**

offering. Accordingly, as of August 10, 2002, we had received aggregate gross offering proceeds of approximately \$1,645,873,533 from the sale of approximately 164,587,353 shares in all of our public offerings. After payment of \$57,110,749 in acquisition and advisory fees and acquisition expenses, payment of \$183,457,253 in selling commissions and organization and offering expenses, and common stock redemptions of \$14,137,852 pursuant to our share redemption program, as of August 10, 2002, we had raised aggregate net offering proceeds available for investment in properties of \$1,391,167,679, out of which \$968,778,340 had been invested in real estate properties, and \$422,389,339 remained available for investment in real estate properties.

### **Description of Properties**

As of August 10, 2002, we had purchased interests in 57 real estate properties located in 19 states, each of which was 100% leased to tenants. Below are the descriptions of our recent real property acquisitions through August 10, 2002.

#### ***The PacifiCare San Antonio Building***

On July 12, 2002, Wells Operating Partnership, L.P. (Wells OP), a Delaware limited partnership formed to acquire, own, lease and operate real properties on behalf of the Wells REIT, purchased a two-story office building containing 142,500 rentable square feet located in San Antonio, Texas (PacifiCare San Antonio Building) for a purchase price of \$14,650,000, plus closing costs. The PacifiCare San Antonio Building was built in 2000 and is located at 6200 Northwest Parkway, San Antonio, Texas.

The PacifiCare San Antonio Building is leased entirely to PacifiCare Health Systems, Inc. (PacifiCare), a corporation whose shares are traded on NASDAQ. PacifiCare is one of the leading health and consumer service companies in the United States. The services PacifiCare provides include health insurance products, pharmacy and medical management, behavioral health services, and dental and vision services. PacifiCare reported a net worth, as of December 31, 2001, of approximately \$2 billion.

The PacifiCare lease commenced in November 2000 and expires in November 2010. The current annual base rent payable under the PacifiCare lease is \$1,471,700. PacifiCare, at its option, has the right to extend the initial term of its lease for one additional five-year period at an annual base rent of \$1,967,925, and two subsequent five-year terms at the then-current market rental rate. In addition, PacifiCare has an expansion option for between approximately 20,000 and 45,000 rentable square feet, which it may exercise prior to the end of the 42<sup>nd</sup> month of the initial term of the PacifiCare lease.

#### ***Kerr-McGee Property***

Purchase of the Kerr-McGee Property. On July 29, 2002 Wells OP purchased the Kerr-McGee Property, which is a build-to-suit property located in Houston, Texas, for a purchase price of \$1,738,044, plus closing costs. We commenced construction on a four-story office building containing approximately 100,000 rentable square feet (Kerr-McGee Project) on August 1, 2002. Wells OP obtained a construction loan in the amount of \$13,700,000 from Bank of America, N.A. (BOA) to fund the construction of the Kerr-McGee Project. The loan requires monthly payments of interest only and matures on January 29, 2004. The interest rate on the loan, as of August 6, 2002, was 3.80%. The BOA loan is secured by a first priority mortgage on the Kerr-McGee Property.

Wells OP entered into a development agreement, an architect agreement and a construction agreement to construct the Kerr-McGee Project on the Kerr-McGee Property.

**Table of Contents**

**Development Agreement.** Wells OP entered into a development agreement (Development Agreement) with Means-Knaus, LLC, a Texas limited liability company (Developer), as the exclusive development manager to supervise, manage and coordinate the planning, design, construction and completion of the Kerr-McGee Project. As compensation for the services to be rendered by the Developer under the Development Agreement, Wells OP is paying a development fee of \$699,740. The fee is due and payable ratably as the construction and development of the Kerr-McGee Project is completed.

We anticipate that the aggregate of all costs and expenses to be incurred by Wells OP with respect to the acquisition of the Kerr-McGee Property and the planning, design, development, construction and completion of the Kerr-McGee Project will total approximately \$15,760,000.

**Construction Agreement.** Wells OP entered into a design and build construction agreement (Construction Agreement) with Hoar Construction, LLC (Contractor) for the construction of the Kerr-McGee Project. The Construction Agreement provides that Wells OP will pay the Contractor a maximum of \$6,391,255 for the construction of the Kerr-McGee Project that includes all estimated fees and costs. The Contractor will be responsible for all costs of labor, materials, construction equipment and machinery necessary for completion of the Kerr-McGee Project. In addition, the Contractor will be required to secure and pay for any additional building permits which may be necessary for construction of the Kerr-McGee Project.

**Kerr-McGee Lease.** The Kerr-McGee Property is leased to Kerr-McGee Oil & Gas Corporation, a wholly owned subsidiary of Kerr-McGee Corporation (Kerr-McGee), a Delaware corporation whose shares are publicly traded on the New York Stock Exchange (NYSE). Kerr-McGee, which has guaranteed the Kerr-McGee lease, operates a worldwide business in oil and gas exploration and production, and titanium dioxide pigment production and marketing. It has oil fields in the Gulf of Mexico, the North Sea, the South China Sea, and onshore in the United States, Ecuador, Indonesia and Kazakhstan. Kerr-McGee reported a net worth, as of December 31, 2001, of approximately \$3.1 billion.

The Kerr-McGee lease will commence shortly after completion of the Kerr-McGee Project, which we expect to occur in approximately July 2003. The Kerr-McGee lease will expire 11 years and one month after commencement, or approximately July 31, 2014. Kerr-McGee has the right to extend the initial term of this lease for (1) one additional 20-year period or (2) a combination of five-year terms or ten-year terms totaling not more than 20 years at 95% of the then-current market rental rate. The annual base rent payable for the Kerr-McGee lease beginning on the rent commencement date is expected to be approximately \$1,655,000.

***BMG Greenville Buildings***

On July 31, 2002, Wells OP purchased two adjacent one-story distribution facility buildings containing 473,398 rentable square feet and 313,380 rentable square feet, respectively, located at 110 & 112 Hidden Lake Circle in Duncan, South Carolina (BMG Greenville Buildings) for a purchase price of \$26,900,000, plus closing costs. The BMG Greenville Buildings were originally built in 1987.

The BMG Greenville Buildings are leased to BMG Direct Marketing, Inc. (BMG Marketing) and BMG Music, respectively. BMG Marketing and BMG Music are wholly owned subsidiaries of Bertelsmann AG (Bertelsmann), a German corporation with its international headquarters in Gütersloh, Germany and its U.S. headquarters in New York, New York. Bertelsmann, a guarantor on both the BMG Marketing lease and the BMG Music lease, operates in the media industry, specializing in a wide range of markets including: television and radio; book publishing; magazines and newspapers; music labels; professional information; print and media services; book and music clubs; and media e-commerce.

## **Table of Contents**

Bertelsmann has operations in approximately 51 countries. Bertelsmann reported a net worth, as of June 30, 2001, of approximately \$8.15 billion.

The BMG Marketing lease commenced in March 1988 and expires in March 2011. The current annual base rent payable under the BMG Marketing lease is \$1,394,156. BMG Marketing, at its option, has the right to extend the initial term of its lease for two additional ten-year periods at 95% of the then-current market rental rate.

The BMG Music lease commenced in December 1987 and expires in March 2011. The current annual base rent payable under the BMG Music lease is \$763,600. BMG Music, at its option, has the right to extend the initial term of its lease for two additional ten-year periods at 95% of the then-current market rental rate.

### ***Kraft Atlanta Building***

On August 1, 2002, Wells OP purchased a one-story building containing an aggregate of 87,219 rentable square feet located at 4000 Johns Creek Court in Suwanee, Georgia (Kraft Atlanta Building) for a purchase price of \$11,625,000. The Kraft Atlanta Building was built in 2001.

Kraft Foods North America, Inc. (Kraft) leases 73,264 rentable square feet (84%) of the Kraft Atlanta Building. Kraft, a wholly owned subsidiary of Kraft Foods, Inc., a Virginia corporation whose shares are publicly traded on the NYSE, is one of the largest food and beverage companies in the world with operations in 145 countries.

The Kraft lease commenced in February 2002 and expires in January 2012. The annual base rent payable under the Kraft lease beginning on September 1, 2002 will be \$1,263,804. Kraft, at its option, has the right to extend the initial term of its lease for two additional five-year periods at the then-current market rental rate. In addition, Kraft may terminate the Kraft lease (1) at the end of the third lease year, by paying a \$7,000,000 termination fee, or (2) at the end of the seventh lease year, by paying a \$1,845,296 termination fee.

PerkinElmer Instruments, LLC (PerkinElmer) leases the remaining 13,955 rentable square feet (16%) of the Kraft Atlanta Building. PerkinElmer provides analytical solutions for the pharmaceutical, food and beverage, environmental, chemical, and semiconductor industries. PerkinElmer is a wholly owned subsidiary of PerkinElmer, Inc., a Massachusetts corporation whose shares are publicly traded on the NYSE. PerkinElmer, Inc. is a global technology company focusing on life sciences, optoelectronics and analytical instruments. PerkinElmer, Inc. operates in more than 125 countries.

The PerkinElmer lease commenced in December 2001 and expires in November 2016. The current annual base rent payable under the PerkinElmer lease is \$194,672. PerkinElmer, at its option, has the right to extend the initial term of its lease for two additional five-year periods at the then-current market rental rate. In addition, PerkinElmer may terminate the PerkinElmer lease at the end of the 10th lease year by paying a \$325,000 termination fee.

### **Property Management Fees**

Wells Management Company, Inc. (Wells Management), an affiliate of the Wells REIT and our advisor, will be paid management and leasing fees in the amount of 4.5% of gross revenues from the PacifiCare San Antonio Building, the Kerr-McGee Property, the BMG Greenville Buildings, and the Kraft Atlanta Building subject to certain limitations. In addition, Wells Management will receive a one-time initial lease-up fee relating to the leasing of the Kerr-McGee Property equal to the first month's rent estimated to be approximately \$140,000.

## **Table of Contents**

### **Management's Discussion and Analysis of Financial Condition and Results of Operation**

The following information should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations section beginning on page 101 of the prospectus.

### **Forward Looking Statements**

This section and other sections of the prospectus supplement contain forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and 21E of the Securities Exchange Act of 1934, including discussion and analysis of the financial condition of the Wells REIT, anticipated capital expenditures required to complete certain projects, amounts of anticipated cash distributions to stockholders in the future and certain other matters. Readers of this supplement should be aware that there are various factors that could cause actual results to differ materially from any forward-looking statements made in the supplement, which include changes in general economic conditions, changes in real estate conditions, construction costs which may exceed estimates, construction delays, increases in interest rates, lease-up risks, inability to obtain new tenants upon the expiration of existing leases, inability to invest in properties that will provide targeted rates of return and the potential need to fund tenant improvements or other capital expenditures out of operating cash flow.

### **Liquidity and Capital Resources**

During the six months ended June 30, 2002, we received aggregate gross offering proceeds of \$618,275,931 from the sale of 61,827,594 shares of our common stock. After payment of \$21,406,085 in acquisition and advisory fees and acquisition expenses, payment of \$65,035,665 in selling commissions and organization and offering expenses, and common stock redemptions of \$6,673,412 pursuant to the our share redemption program, we raised net offering proceeds of \$525,160,769 during the first two quarters of 2002, of which \$344,269,118 remained available for investment in properties at quarter end.

During the six months ended June 30, 2001, we received aggregate gross offering proceeds of \$162,606,610 from the sale of 16,260,661 shares of our common stock. After payment of \$5,642,317 in acquisition and advisory fees and acquisition expenses, payment of \$20,151,132 in selling commissions and organizational and offering expenses, and common stock redemptions of \$1,397,561 pursuant to the our share redemption program, we raised net offering proceeds of \$135,415,600 during the first two quarters of 2001, of which \$3,906,869 was available for investment in properties at quarter end.

The significant increase in our available capital resources is due to significantly increased sales of our common stock during the first half of 2002.

As of June 30, 2002, we owned interests in 52 real estate properties either directly or through its interests in joint ventures. These properties are generating operating cash flow sufficient to cover our operating expenses and pay dividends to stockholders. Dividends declared for the first half of 2002 and the first half of 2001 were approximately \$0.39 and \$0.38 per share, respectively. In June 2002, our Board of Directors declared dividends for the third quarter of 2002 in the amount of approximately \$0.19 per share.

Due primarily to the pace of our property acquisitions, as explained in more detail in the following paragraph, dividends paid in the first half of 2002 in the aggregate amount of \$40,867,110 exceeded our Adjusted Funds From Operations for this period by \$4,813,633.

## **Table of Contents**

We acquire properties that meet our standards of quality both in terms of the real estate and the creditworthiness of the tenants. Creditworthy tenants of the type we target are becoming more and more highly valued in the marketplace and, accordingly, there is increased competition in acquiring properties with these creditworthy tenants. As a result, the purchase prices for such properties have increased with corresponding reductions in cap rates and returns on investment. In addition, changes in market conditions have caused us to add to our internal procedures for ensuring the creditworthiness of our tenants before any commitment to buy a property is made. We continue to remain steadfast in our commitment to invest in quality properties that will produce quality income for our stockholders. Accordingly, because the marketplace is now placing a higher value on our type of properties and because of the additional time it now takes in the acquisition process for us to assess tenant credit plus our commitment to adhere to purchasing properties with tenants that meet our investment criteria it appears likely that, in the future, we will be required to lower our dividends.

### **Cash Flows From Operating Activities**

Our net cash provided by operating activities was \$33,138,287 and \$16,288,309 for the six months ended June 30, 2002 and 2001, respectively. The increase in net cash provided by operating activities was due primarily to the net income generated by additional properties acquired during 2002 and 2001.

### **Cash Flows Used In Investing Activities**

Our net cash used in investing activities was \$278,447,051 and \$23,768,731 for the six months ended June 30, 2002 and 2001, respectively. The increase in net cash used in investing activities was due primarily to investments in properties and the payment of related deferred project costs, partially offset by distributions received from joint ventures.

### **Cash Flows From Financing Activities**

Our net cash provided by financing activities was \$511,632,371 and \$9,257,047 for the six months ended June 30, 2002 and 2001, respectively. The increase in net cash provided by financing activities was due primarily to the raising of additional capital and the lack of debt payments which were \$138.7 million in the prior year. We raised \$618,275,931 in offering proceeds for the six months ended June 30, 2002, as compared to \$162,606,610 for the same period in 2001. Additionally, we paid dividends totaling \$40.9 million in the first half of 2002 compared to \$13.8 million in the first half of 2001.

### **Results of Operations**

As of June 30, 2002, our real estate properties were 100% leased to tenants. Gross revenues were \$43,832,954 and \$21,560,953 for the six months ended June 30, 2002 and 2001, respectively. Gross revenues for the six months ended June 30, 2002 and 2001 were attributable to rental income, interest income earned on funds held by the Wells REIT prior to the investment in properties, and income earned from joint ventures. The increase in revenues in 2002 was primarily attributable to the purchase of \$259,535,578 in additional properties during 2002 and the purchase of \$227,933,858 in additional properties during the second half of 2001 which were not owned for the full first half of 2001. The purchase of additional properties also resulted in an increase in expenses which totaled \$19,296,812 for the six months ended June 30, 2002, as compared to \$13,246,710 for the six months ended June 30, 2001. Expenses in 2002 and 2001 consisted primarily of depreciation, operating costs, interest expense, management and leasing fees and general and administrative costs. As a result, our net income also

**Table of Contents**

increased from \$8,314,243 for the six months ended June 30, 2001 to \$24,536,142 for the six months ended June 30, 2002.

While earnings of \$0.22 per share remained stable for the six months ended June 30, 2002, compared to the six months ended June 30, 2001, earnings per share for the second quarter decreased from \$0.12 per share for the three months ended June 30, 2001 to \$0.11 per share for the three months ended June 30, 2002, primarily due to a substantial increase in the number of shares outstanding which was not completely matched by a corresponding increase in net income from new property investments.

**Funds From Operations**

Funds From Operations ( FFO ), as defined by the National Association of Real Estate Investment Trusts ( NAREIT ), generally means net income, computed in accordance with GAAP excluding extraordinary items (as defined by GAAP) and gains (or losses) from sales of property, plus depreciation and amortization on real estate assets, and after adjustments for unconsolidated partnerships, joint ventures and subsidiaries. We believe that FFO is helpful to investors as a measure of the performance of an equity REIT. However, our calculation of FFO, while consistent with NAREIT's definition, may not be comparable to similarly titled measures presented by other REITs. Adjusted Funds From Operations ( AFFO ) is defined as FFO adjusted to exclude the effects of straight-line rent adjustments, deferred loan cost amortization and other non-cash and/or unusual items. Neither FFO nor AFFO represent cash generated from operating activities in accordance with GAAP and should not be considered as alternatives to net income as an indication of our performance or to cash flows as a measure of liquidity or ability to make distributions. The following table reflects the calculation of FFO and AFFO for the three and six months ended June 30, 2002 and 2001, respectively:

	Three Months Ended		Six Months Ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
<b>FUNDS FROM OPERATIONS:</b>				
Net income	\$ 13,756,478	\$ 5,038,898	\$ 24,536,142	\$ 8,314,243
Add:				
Depreciation	7,158,830	3,206,638	12,903,282	6,393,817
Amortization of deferred leasing costs	78,066	75,837	150,815	151,673
Depreciation and amortization unconsolidated partnerships	700,689	504,711	1,406,865	913,674
Funds from operations (FFO)	21,694,063	8,826,084	38,997,104	15,773,407
Adjustments:				
Loan cost amortization	249,530	77,142	424,992	291,899
Straight line rent	(2,127,906)	(613,155)	(3,166,284)	(1,222,716)
Straight line rent unconsolidated Partnerships	(103,020)	(71,768)	(202,335)	(132,246)
Adjusted funds from operations	\$ 19,712,667	\$ 8,218,303	\$ 36,053,477	\$ 14,710,344
<b>BASIC AND DILUTED WEIGHTED AVERAGE SHARES</b>	126,037,819	42,192,347	110,885,641	38,328,405

**Table of Contents**

**Inflation**

The real estate market has not been affected significantly by inflation in the past three years due to the relatively low inflation rate. However, there are provisions in the majority of tenant leases which are intended to protect us from the impact of inflation. These provisions include reimbursement billings for common area maintenance charges, real estate tax and insurance reimbursements on a per square foot basis, or in some cases, annual reimbursement of operating expenses above a certain per square foot allowance.

**Critical Accounting Policies**

Our reported results of operations are impacted by management judgments related to application of accounting policies. A discussion of the accounting policies that management considers to be critical, in that they may require complex judgment in their application or require estimates about matters which are inherently uncertain, is included in Footnote 1 to the financial statements of the Wells REIT contained in this supplement.

**Financial Statements**

*Unaudited Financial Statements*

The financial statements of the Wells REIT, as of June 30, 2002, and for the six month periods ended June 30, 2002 and June 30, 2001, which are included in this supplement, have not been audited.

The Pro Forma Balance Sheet of the Wells REIT, as of June 30, 2002, the Pro Forma Statement of Income for the year ended December 31, 2001, and the Pro Forma Statement of Income for the six months ended June 30, 2002, which are included in this supplement, have not been audited.



**Table of Contents**

**INDEX TO FINANCIAL STATEMENTS**

<b>Wells Real Estate Investment Trust, Inc. and Subsidiary</b>	<b>Page</b>
<u>Unaudited Financial Statements</u>	
<u>Consolidated Balance Sheets as of June 30, 2002 (unaudited) and December 31, 2001</u>	10
<u>Consolidated Statements of Income for the three months ended June 30, 2002 and June 30, 2001 (unaudited), and for the six months ended June 30, 2002 and June 30, 2001 (unaudited)</u>	11
<u>Consolidated Statements of Shareholders' Equity for the year ended December 31, 2001 and for the six months ended June 30, 2002 (unaudited)</u>	12
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2002 and June 30, 2001 (unaudited)</u>	13
<u>Condensed Notes to Consolidated Financial Statements June 30, 2002 (unaudited)</u>	14
<b>Wells Real Estate Investment Trust, Inc. and Subsidiary</b>	
<u>Unaudited Pro Forma Financial Statements</u>	
<u>Summary of Unaudited Pro Forma Financial Statements</u>	26
<u>Pro Forma Balance Sheet as of June 30, 2002 (unaudited)</u>	27
<u>Pro Forma Statement of Income for the year ended December 31, 2001 (unaudited)</u>	29
<u>Pro Forma Statement of Income for the six months ended June 30, 2002 (unaudited)</u>	30

**Table of Contents**

**WELLS REAL ESTATE INVESTMENT TRUST, INC.  
AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS**

	<b>June 30, 2002</b>	<b>December 31, 2001</b>
	<u>(unaudited)</u>	
<b>ASSETS</b>		
<b>REAL ESTATE, at cost:</b>		
Land	\$ 110,330,449	\$ 86,246,985
Building and improvements, less accumulated depreciation of \$37,717,737 in 2002 and \$24,814,454 in 2001	689,490,969	472,383,102
Construction in progress	16,081,841	5,738,573
	<u>815,903,259</u>	<u>564,368,660</u>
Total real estate	815,903,259	564,368,660
<b>INVESTMENT IN JOINT VENTURES</b>	76,217,870	77,409,980
<b>CASH AND CASH EQUIVALENTS</b>	341,909,775	75,586,168
<b>INVESTMENT IN BONDS</b>	22,000,000	22,000,000
<b>ACCOUNTS RECEIVABLE</b>	10,709,104	6,003,179
<b>NOTES RECEIVABLE</b>	5,149,792	0
<b>DEFERRED LEASE ACQUISITION COSTS, net</b>	1,790,608	1,525,199
<b>DEFERRED PROJECT COSTS</b>	14,314,914	2,977,110
<b>DUE FROM AFFILIATES</b>	1,897,309	1,692,727
<b>DEFERRED OFFERING COSTS</b>	1,392,934	0
<b>PREPAID EXPENSES AND OTHER ASSETS, net</b>	1,881,308	718,389
	<u>1,293,166,873</u>	<u>752,281,412</u>
Total assets	\$ 1,293,166,873	\$ 752,281,412
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>LIABILITIES:</b>		
Notes payable	\$ 15,658,141	\$ 8,124,444
Obligation under capital lease	22,000,000	22,000,000
Accounts payable and accrued expenses	11,840,214	8,727,473
Dividends payable	4,538,635	1,059,026
Deferred rental income	1,013,544	661,657
Due to affiliates	2,106,790	2,166,161
	<u>57,157,324</u>	<u>42,738,761</u>
Total liabilities	57,157,324	42,738,761
<b>MINORITY INTEREST OF UNIT HOLDER IN OPERATING PARTNERSHIP</b>	200,000	200,000
	<u>200,000</u>	<u>200,000</u>
<b>SHAREHOLDERS EQUITY:</b>		
Common shares, \$.01 par value; 125,000,000 shares authorized, 145,589,053 shares issued and 144,366,772 outstanding at June 30, 2002, and 83,761,469 shares issued and 83,206,429 shares outstanding at December 31, 2001	1,455,890	837,614
Additional paid-in capital	1,290,858,515	738,236,525
Cumulative distributions in excess of earnings	(43,991,669)	(24,181,092)
Treasury stock, at cost, 1,222,381 shares at June 30, 2002 and 555,040 shares at December 31, 2001	(12,223,808)	(5,550,396)
Other comprehensive loss	(289,379)	0
	<u>1,235,809,549</u>	<u>709,342,651</u>
Total shareholders equity	1,235,809,549	709,342,651
Total liabilities and shareholders equity	\$ 1,293,166,873	\$ 752,281,412

See accompanying condensed notes to financial statements.

Table of Contents

**WELLS REAL ESTATE INVESTMENT TRUST, INC.  
AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)**

	Three Months Ended		Six Months Ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
<b>REVENUES:</b>				
Rental income	\$ 21,833,652	\$ 9,851,167	\$ 38,571,815	\$ 19,711,252
Equity in income of joint ventures	1,271,863	809,481	2,478,686	1,519,194
Interest income	1,534,636	93,092	2,648,351	193,007
Take out fee	0	137,500	134,102	137,500
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>