

CAPITAL LEASE FUNDING INC
Form 8-K/A
December 15, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

and 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): November 23, 2004

CAPITAL LEASE FUNDING, INC.
(Exact name of registrant as specified in its charter)

Maryland

1-32039

52-2414533

(State or other jurisdiction
of incorporation)

(Commission
File Number)

(I.R.S. Employer
Identification No.)

110 Maiden Lane, New York, NY

10005

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (212) 217-6300

(Former name or former address, if changed since last report.)

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))

The Company is filing a form 8-K/A to amend its earlier Form 8K filing on November 29, 2004 to add pro forma financial information, and is filing a form 8-K to report a long-term financing transaction, completed on December 9, 2004.

Item 1.01 Entry into a Material Definitive Agreement.

On December 9, 2004, we obtained long-term financing for the real property we acquired on November 23, 2004 known as Choice Centre (the Property). This financing was obtained through a promissory note made by Columbia Pike I, LLC (Columbia), a special purpose entity of which Caplease, LP, our wholly-owned subsidiary, is the sole member. We consolidate the assets, liabilities and results of Columbia for accounting purposes. The payment terms of the note are summarized below:

<u>Payee</u>	<u>Original Principal Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Wachovia Bank, N.A.	\$32,625,000	5.30%	May 11, 2013

Debt service and principal payments on the notes are payable monthly. The note requires a balloon payment of approximately \$24.5 million at maturity. The note may not be prepaid during the first three years but may be defeased during this period at the sole discretion of Columbia. The note is secured by a mortgage on the property (including any improvements on the premises) and an assignment of the leases and rents on the property.

The note is subject to customary events of default, including the failure to pay principal and/or interest on the note or the determination that any representation or warranty made in the loan documents is false or misleading in any material respect. Upon such event of default, the note will, at the option of the payee, become immediately due and payable.

Wachovia Investors, Inc., an affiliate of Wachovia Bank, owns approximately 3.7% of our outstanding common stock. We have entered in to a master repurchase agreement with Wachovia Bank to finance our asset investments on a short-term basis. From time to time, we may sell net lease assets to Wachovia Bank or its affiliates on what we believe are fair market terms. In addition, Wachovia Bank acts as servicer of our net lease loan assets and the transfer agent of our common stock.

Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

As discussed under Item 1.01 above, on December 9, 2004, we obtained long-term financing for the real property we acquired on November 23, 2004 which resulted in the creation of a direct financial obligation.

Item 9.01. Financial Statements and Exhibits.

The following pro forma financial information and exhibits are filed as part of this report.

(b) Pro forma financial information;

The unaudited pro forma financial statements set forth:

- the Pro Forma Condensed Consolidated Balance Sheet (unaudited) as of September 30, 2004;
- the Pro Forma Condensed Consolidated Statement of Operations (unaudited) for the year ended December 31, 2003;
- the Pro Forma Condensed Consolidated Statement of Operations (unaudited) for the nine months ended September 30, 2004;
- the notes to Pro Forma Condensed Consolidated Financial Statements (unaudited); and
- the Statement of Estimated Taxable Operating Results and Estimated Cash to be Made Available by Operations (unaudited) for the year ended December 31, 2003.

The unaudited pro forma condensed consolidated balance sheet of Capital Lease Funding, Inc. (the Company) as of September 30, 2004 assumes the Company's acquisition of the Property had been consummated on September 30, 2004. The unaudited pro forma condensed consolidated income statements for the year ended December 31, 2003 and the nine months ended September 30, 2004 assume the Company's acquisition of the Property occurred on January 1, 2003. The pro forma condensed consolidated financial statements do not purport to represent what our financial position or results of operations would have been if the acquisition had been consummated as of the dates indicated, nor do they purport to project our financial position or results of operations at any future date or for any future period. These pro forma condensed consolidated financial statements should be read in conjunction with our 2003 historical financial statements as included in the final prospectus for our initial public offering (filed with the SEC on March 19, 2004) and our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004.

The pro forma financial statements are based upon assumptions contained in the notes thereto and should be read in conjunction with such notes.

The unaudited pro forma financial statements may not necessarily reflect the results of operations or financial position of the Company which would have actually resulted had the acquisition occurred as of the dates and for the periods indicated, nor should they be taken as indicative of the future results of operations or the future financial position of the Company.

Capital Lease Funding, Inc. and Subsidiaries
Pro Forma Condensed Consolidated Balance Sheet
September 30, 2004
(Unaudited, in thousands)

	Capital Lease Funding, Inc. Historical	Pro Forma Adjustments		Capital Lease Funding, Inc. Pro Forma
Assets				
Cash and cash equivalents	\$ 12,286	\$ (11,239)	(a)	\$ 1,047
Mortgage loans held for investment	181,386			181,386
Real estate investments, at cost:				
Land	14,965	7,558	(a)	22,523
Building and improvements	86,012	36,193	(a)	122,205
Less: Accumulated depreciation	(240)			(240)
Real estate investments, net	100,737	43,751	(a)	144,488
Securities available for sale	79,093			79,093
Structuring fees receivable	4,560			4,560
Receivables and other assets	4,784	113	(b)	4,897
Accrued rental income	142			142
Furniture, fixtures and equipment (net of depreciation)	233			233
Total Assets	\$ 383,221	\$ 32,625		\$ 415,846
Liabilities and Stockholders' Equity				
Accounts payable and accrued expenses	\$ 1,611	-		\$ 1,611
Deposits and escrows	23,994	-		23,994
Due to servicer and dealers	4,734	-		4,734
Repurchase agreement obligation due to affiliates and members	94,812	-		94,812
Mortgages on real estate investments		32,625	(b)	32,625
Derivative liabilities	7,202	-		7,202
Dividends payable	2,749	-		2,749
Total Liabilities	135,102	32,625		167,727
Commitments and contingencies		-		
Stockholders' equity:				
Preferred stock, \$.01 par value, 100,000,000 shares authorized, no shares issued and outstanding		-		
Common stock, \$.01 par value, 500,000,000 shares authorized, 27,491,700 shares issued and outstanding at September 30, 2004	275	-		275
Additional paid in capital	256,201	-		256,201
Accumulated other comprehensive income (loss)	(4,639)			(4,639)
Deferred compensation expense	(1,976)	-		(1,976)
Retained earnings	(1,742)	-		(1,742)

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Total Stockholders' Equity	248,119			248,119
Total Liabilities and Stockholders' Equity	\$ 383,221	\$ 32,625		\$ 415,846

See notes to the pro forma condensed consolidated financial statements.

Capital Lease Funding, Inc. and Subsidiaries
Pro Forma Condensed Consolidated Statement of Operations
Year Ended December 31, 2003
(Unaudited, in thousands, except per share data)

	Capital Lease Funding, Inc. Historical	Pro Forma Adjustments		Capital Lease Funding, Inc. Pro Forma
Revenues:				
Interest income from mortgage loans and securities	\$ 7,317			\$ 7,317
Gain on sales of mortgage loans and securities	11,652			11,652
Rental revenue		3,602	(c)	3,602
Reimbursable property expenses		1,255	(c)	1,255
Other revenue	151			151
Total revenues	19,120	4,857		23,977
Expenses:				
Interest expense	1,219			1,219
Interest expense to affiliates	838	1,755	(b)	2,593
Loss on derivatives and short sales of securities	3,129			3,129
General and administrative expenses	7,187	(150)	(d)	7,037
Property expenses		1,356	(c)	1,356
Depreciation and amortization expense on real property		1,055	(d)	1,055
Loan processing expenses	114			114
Total expenses	12,487	4,016		16,503
Net income	\$ 6,633	\$ 841		\$ 7,474
Pro forma earnings per share (unaudited):				
Net income per share, basic and diluted	\$ 1.61			\$ 1.82
Weighted average number of shares outstanding, basic and diluted	4,108			4,108

See notes to the pro forma condensed consolidated financial statements.

Capital Lease Funding, Inc. and Subsidiaries
Pro Forma Condensed Consolidated Statement of Operations
Nine Months Ended September 30, 2004
(Unaudited, in thousands, except per share data)

	Capital Lease Funding, Inc. Historical	Pro Forma Adjustments		Capital Lease Funding, Inc. Pro Forma
Revenues:				
Interest income from mortgage loans and securities	\$ 8,507			\$ 8,507
Gain on sales of mortgage loans and securities	229			229
Rental revenue	903	2,735	(c)	3,638
Reimbursable property expenses		945	(c)	945
Other revenue	142			142
Total revenues	9,781	3,680		13,461
Expenses:				
Interest expense	426			426
Interest expense to affiliates	449	1,301	(b)	1,750
Loss on derivatives and short sales of securities	724			724
General and administrative expenses	6,063	(61)	(d)	6,002
General and administrative expenses-stock based compensation	3,500			3,500
Property expenses		853	(c)	853
Depreciation and amortization expense on real property	240	791	(d)	1,031
Loan processing expenses	121			121
Total expenses	11,523	2,883		14,406
Net (loss) income	\$ (1,742)	\$ 797		\$ (945)
Pro forma earnings per share (unaudited):				
Net loss per share, basic and diluted	\$ (0.09)			\$ (0.05)
Weighted average number of shares outstanding, basic and diluted	20,323			20,323

See notes to the pro forma condensed consolidated financial statements.

Capital Lease Funding, Inc. and Subsidiaries
Notes to Pro Forma Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The accompanying unaudited pro forma condensed consolidated financial statements are presented to reflect the acquisition of Choice Centre, Silver Spring, MD (the Property), an unaffiliated third party, by Capital Lease Funding, Inc.

The accompanying unaudited pro forma condensed consolidated balance sheet presents the historical financial information of the Company as of September 30, 2004 as adjusted for the acquisition of Choice Center as if the transaction had occurred on September 30, 2004.

The accompanying unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2003 and the nine months ended September 30, 2004 combines the historical operations of the Company with the historical operations of Choice Centre as if the transaction had occurred on January 1, 2003.

2. Pro Forma Adjustments

The unaudited pro forma condensed consolidated financial statements reflect the following significant pro forma adjustments:

- (a) Adjustment to reflect the Company's purchase of the Property, for approximately \$43.8 million, inclusive of acquisition and closing costs. The Company has allocated the purchase price to land, buildings and improvements in the accompanying pro forma consolidated balance sheet. The Company is in the process of determining if any intangible assets were acquired which may result in future adjustments to the allocation of the purchase price. See Note 2(c).
 - (b) Adjustment to reflect the Company's long-term financing on the Property. Subsequent to the purchase date and during December 2004, the Company obtained long-term mortgage financing on the Property with Wachovia Bank, N.A., in the principal amount of \$32.6 million at an interest rate of 5.30%. Inclusive of costs incurred related to the financing, the Company's effective interest rate on the financing is 5.43%. The mortgage loan with Wachovia Bank, N.A. requires monthly payment of interest and principal, with a maturity date of May 2013.
 - (c) Adjustment required for the historical rental revenues and operating expenses for the Property. Operating expenses include management costs and fees, and unreimbursed property expenses calculated using the historical costs of the Property. Rental income is recognized on a straight-line basis. The Company intends to account for the acquisition in accordance with Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangibles, and is currently in the process of analyzing the fair value of the acquired property's in-place leases. No value has yet been assigned to the leases and, therefore, the purchase price allocation is preliminary and subject to change.
 - (d) Adjustment required to reflect depreciation on the Property, based on the total allocated cost of the acquisition to depreciable assets. For GAAP purposes, the Company depreciates the Property using the straight-line method with an estimated useful life of 40 years. As discussed in Notes 2(a) and 2(c), the Company has not finalized the allocation of the purchase price. Any change to the allocation may result in changes to depreciation. The adjustment also reflects the reclassification of historical depreciation expense associated with corporate equipment and fixtures.
 - (e) Adjustment required to reflect interest expense on the long-term financing that the Company put in place during December 2004, including the impact of amortization of deferred financing costs using the constant interest method.
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Capital Lease Funding, Inc. and Subsidiaries
Statement of Estimated Taxable Operating Results
and Estimated Cash to be Made Available by Operations
Year Ended December 31, 2003
(unaudited, in thousands)

Revenues	\$	23,397
Expenses:		
Interest expense		1,219
Interest expense to affiliates		2,593
Loss on derivatives and short sales of securities		3,129
General and administrative expenses		7,037
Property expenses		1,356
Depreciation and amortization expense on real property		928
Loan processing expenses		114
Total expenses		16,376
Estimated taxable operating income		7,020
Add back: Depreciation and amortization expense on real property		928
Estimated cash to be made available by operations	\$	7,949

Capital Lease Funding, Inc. and Subsidiaries
Notes to Statement of Estimated Taxable Operating Results
and Cash to be Made Available by Operations
(Unaudited)

1. Basis of Presentation

The accompanying statement of estimated taxable operating results and cash to be made available by operations represents an estimate of the taxable operating results and cash to be made available by operations expected to be generated by the Company, including the operations of its property acquisition in Silver Spring, MD, based upon the pro forma consolidated statement of operations for the year ended December 31, 2003. These estimated results do not purport to represent future results of operations for the Company and its Silver Spring, MD property acquisition, and were prepared on the basis described herein.

Depreciation has been estimated based upon an allocation of the purchase price of the Property to land (17%) and building (83%) and assuming, for tax purposes, a 39-year useful life applied on a straight-line basis.

No income taxes have been provided because the Company is organized and operates in such a manner so as to qualify as a Real Estate Investment Trust (REIT) under the provisions of the Internal Revenue Code. According, the Company generally will not pay Federal income taxes provided that distributions to its stockholders equal at least the amount of its REIT taxable income as defined under the Internal Revenue Code.

(c) Exhibits.

<u>Exhibit</u>	<u>Description</u>
10.1	Promissory Note, dated December 9, 2004, of Columbia Pike I, LLC in favor of Wachovia Bank, National Association

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.

CAPITAL LEASE FUNDING, INC.

DATE: December 15, 2004

By: /s/ Shawn P. Seale

Shawn P. Seale
Senior Vice President, Chief Financial
Officer and Treasurer

EXHIBIT INDEX

<u>Exhibit</u>	<u>Description</u>
10.1	Promissory Note, dated December 9, 2004, of Columbia Pike I, LLC in favor of Wachovia Bank, National Association
