

WELLS REAL ESTATE INVESTMENT TRUST II INC

Form 424B3

November 13, 2006

Table of Contents

FILED PURSUANT TO

RULE 424 (B)(3)

REGISTRATION NO: 333-125643

WELLS REAL ESTATE INVESTMENT TRUST II, INC.

SUPPLEMENT NO. 5 DATED NOVEMBER 13, 2006

TO THE PROSPECTUS DATED APRIL 26, 2006

This document supplements, and should be read in conjunction with, our prospectus dated April 26, 2006 relating to our offering of 475,000,000 shares of common stock, as supplemented by supplement no. 1 dated May 16, 2006, supplement no. 2 dated August 11, 2006, supplement no. 3 dated September 22, 2006 and supplement no. 4 dated November 1, 2006. Capitalized terms used in this supplement have the same meanings as set forth in the prospectus. The purpose of this supplement is to disclose:

the status of our public offerings;

information regarding our indebtedness;

information regarding a revision to suitability standards in Kansas;

risks related to our dependence on key personnel of our advisor;

the election of directors at our annual meeting;

Management's Discussion and Analysis of Financial Condition and Results of Operations similar to that filed in our Quarterly Report on Form 10-Q for the period ended September 30, 2006, filed on November 8, 2006; and

our unaudited financial statements as of and for the three and nine months ended September 30, 2006.

Status of Our Public Offerings

We commenced our initial public offering of 785 million shares of common stock on December 1, 2003, which consisted of a 600 million-share primary offering and a 185 million-share offering under our dividend reinvestment plan. We stopped making offers under the primary offering on November 26, 2005. We raised gross offering proceeds of approximately \$2.0 billion from the sale of approximately 197.1 million shares in our initial public offering, including shares sold under the dividend reinvestment plan after the primary offering terminated.

On November 10, 2005, we commenced our follow-on offering of 300.6 million shares of common stock. Of these shares, we are offering 300 million shares in a primary offering and 0.6 million shares under our dividend reinvestment plan. On April 14, 2006, we amended the registration statements for our follow-on offering and our initial public offering in order to offer in a combined prospectus the 300.6 million shares registered under the follow-on offering and the 174.4 million unsold dividend reinvestment plan shares registered under the initial public offering. As of November 8, 2006, we had received gross offering proceeds of approximately \$739.3 million from the sale of approximately

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73.9 million shares in our follow-on offering, including dividend reinvestment plan shares sold under the combined prospectus.

As of November 8, 2006, we had received aggregate gross offering proceeds of approximately \$2.7 billion from the sale of approximately 271.0 million shares in our public offerings. After incurring approximately \$54.0 million in acquisition fees, approximately \$253.5 million in selling commissions and dealer manager fees, approximately \$40.7 million in other organization and offering expenses, and funding common stock redemptions of approximately \$45.6 million pursuant to the share redemption program, as of November 8, 2006, we had raised aggregate net offering proceeds available for investment in properties of approximately \$2.3 billion, substantially all of which had been invested in real estate properties.

Indebtedness

As of November 8, 2006, our leverage ratio, that is, the ratio of total debt to total purchase price of real estate assets plus cash and cash equivalents, was approximately 26%. As of November 8, 2006, total indebtedness was approximately \$834.4 million, which consisted of fixed-rate mortgages on certain properties of approximately \$560.5 million, approximately \$259.0 million outstanding under our \$400.0 million line of credit with Wachovia Bank, N.A. (the Wachovia Line of Credit) and approximately \$14.9 million outstanding under our construction

Table of Contents

line of credit. Based on the value of our borrowing-base properties, we had approximately \$128.5 million in remaining capacity under the Wachovia Line of Credit, of which approximately \$2.0 million was pledged in the form of letters of credit for future tenant improvements and leasing costs.

Revision to Suitability Standards in Kansas

As of November 13, 2006, we will not sell shares to investors in Kansas unless they meet the following special suitability standards:

Investors must have either (1) a net worth of at least \$225,000, or (2) gross annual income of at least \$60,000 and a net worth of at least \$60,000.

Furthermore, it is recommended by the Office of the Kansas Securities Commissioner that Kansas investors not invest, in the aggregate, more than 10% of their liquid net worth in this and similar direct participation investments. Liquid net worth is defined as that portion of net worth, which consists of cash, cash equivalents and readily marketable securities.

For purposes of determining suitability of an investor, net worth in all cases should be calculated excluding the value of an investor's home, furnishings and automobiles. In the case of sales to fiduciary accounts, these suitability standards must be met by the fiduciary account, by the person who directly or indirectly supplied the funds for the purchase of the shares if such person is the fiduciary or by the beneficiary of the account.

Those selling shares on our behalf must make every reasonable effort to determine that the purchase of shares in this offering is a suitable and appropriate investment for each stockholder based on information provided by the stockholder regarding the stockholder's financial situation and investment objectives.

Risks Related to Our Dependence on Key Personnel of Wells Capital

The following risk factor relates to our dependence on key personnel of Wells Capital and should be read together with the risk factors disclosed in the prospectus.

Our inability to retain the services of key personnel could cause our operations to suffer.

We rely on Wells Capital, our advisor, and its affiliates for the day-to-day operation of our business. We believe that our success is significantly dependent upon the contributions of the key personnel of Wells Capital and its affiliates, including among others Leo F. Wells, III, Douglas P. Williams, and Randall D. Fretz, each of whom would be difficult to replace. Such key personnel dedicate attention to multiple programs sponsored by Wells Real Estate Funds, Inc. (WREF) and, as a result, experience conflicts of interest in allocating their time among us and other WREF-sponsored programs with which they are involved.

The charter of Wells Real Estate Investment Trust, Inc. (Wells REIT), a Wells-sponsored program, requires that it begin the process of liquidating its investments if its shares are not listed on a national securities exchange by January 30, 2008. If the board of directors of Wells REIT should decide to list its securities on a national securities exchange prior to January 30, 2008, Wells REIT might seek to become self-managed prior to listing due to the market's apparent preference for self-managed REITs. In so doing, Wells REIT might consider acquiring a portion of Wells Capital's business in an effort to become self-managed. In the event that Wells Real Estate Investment Trust, Inc. or another WREF-sponsored program were to sever ties with WREF, there is a risk that certain of these key personnel may cease their affiliation with us, Wells Capital, or its affiliates. In such event, we may be unable to find suitable replacement personnel, and our operating results could suffer as a result.

Election of Directors

On July 19, 2006, we held our annual meeting of stockholders at The Atlanta Athletic Club in Duluth, Georgia. Our stockholders elected the following individuals to the board of directors: Leo Wells, III; Douglas Williams; Charles Brown; Richard Carpenter; Bud Carter; Donald Moss; Jack Pinkerton; Neil Strickland; and Wayne Woody. The board of directors also solicited proxies for the re-election of Walter W. Sessoms to the board. Mr. Sessoms passed away prior to the annual stockholders' meeting and his name was withdrawn. The board of directors has not made a decision to fill the vacancy on the board.

Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and notes thereto contained in this supplement no. 5, as well as our consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2005 included in the prospectus. This discussion contains forward-looking statements, which can be identified with the use of forward-looking terminology such as *may*, *will*, *intend* or similar words. Actual results may differ from those described in forward-looking statements. For a discussion of the factors that could cause actual results to differ from those anticipated, see *Risk Factors* in the prospectus and *Risks Related to Our Dependence on Key Personnel of Wells Capital* in this supplement.

We were formed on July 3, 2003. During 2004, we began acquiring real estate assets and receiving investor proceeds under our initial public offering of common stock. We continued receiving investor proceeds and investing in real estate assets through September 30, 2006. Thus, our results of operations for the three months and nine months ended September 30, 2006 and 2005, respectively, reflect growing operational revenues and expenses, fluctuating interest expense, and general and administrative expenses. The increased operational revenues and expenses result from acquiring real properties, while the fluctuations in interest expense arise from using varying levels of short-term and long-term debt financing for our acquisitions. Our general and administrative expenses have declined as a percentage of total revenues for the nine months ended September 30, 2006, as compared to the nine months ended September 30, 2005, commensurate with the operational growth of the enterprise.

Liquidity and Capital Resources

Overview

From January 2004 through September 2006, we raised significant funds through the sale of our common stock under our public offerings. We primarily used the proceeds from these sales of common stock, net of offering costs and other expenses, to acquire real properties and fund certain capital improvements identified at the time of acquisition. We anticipate receiving proceeds from the sale of our common stock under this offering in the future, and investing such proceeds in future acquisitions of real properties. We also anticipate receiving proceeds from the sale of our common stock under our dividend reinvestment plan in the future, and using a significant portion of such proceeds to fund redemptions of our common stock under our share redemption program. We expect that our primary source of future operating cash flows will be cash generated from the operations of the properties currently in our portfolio and those to be acquired in the future. The amount of future dividends to be paid to our stockholders will be largely dependent upon the amount of cash generated from our operating activities, our expectations of future cash flows, and our determination of near-term cash needs for capital improvements, tenant re-leasing, redemptions of our common stock, and debt repayments.

The competition to acquire high-quality commercial office properties remains high. Timing differences arise between acquiring properties and raising capital and between making operating payments and collecting operating receipts. Accordingly, we may periodically be required to borrow funds on a short-term basis to meet our dividend payment schedule. Our primary focus, however, is to continue to maintain the quality of our portfolio. Thus, in this intensely competitive environment, we may opt to lower the dividend rather than compromise that quality or accumulate significant borrowings to meet a dividend level higher than operating cash flow would support. We will continue to carefully monitor our cash flows and market conditions and their impact on our earnings and future dividend projections.

Short-term Liquidity and Capital Resources

During the nine months ended September 30, 2006, we generated net cash flows from operating activities of approximately \$102.1 million, which is primarily comprised of receipts for rental income, tenant reimbursements, hotel income, and interest and other income, partially offset by payments for operating costs, interest expense, asset and property management fees, and general and administrative expenses. Such net cash flows from operating activities were primarily used to pay dividends to stockholders of approximately \$100.6 million during the same period. We generated net cash flows from financing activities of approximately \$349.7 million during the nine months ended September 30, 2006, primarily as a result of raising proceeds from the sale of common stock under our public offerings, net of commissions, dealer-manager fees, and other offering costs of approximately \$567.7 million, reduced by net debt repayments and prepayment penalties of approximately \$92.0 million and redemptions of common stock of approximately \$24.4 million. Such net cash flows from financing activities and cash on hand were used primarily to invest approximately \$401.9 million in real estate and pay acquisition fees of approximately

Table of Contents

\$14.7 million. We expect to utilize the residual cash balance of approximately \$72.9 million as of September 30, 2006 to satisfy current liabilities, pay future dividends, fund future acquisitions of real properties, or reduce indebtedness.

We intend to continue to generate capital from the sale of common stock under this offering and from third-party borrowings, and to use such capital primarily to fund future acquisitions of real estate. We expect that we will use a significant portion of the proceeds from sales under our dividend reinvestment plan to fund redemptions under the share redemption program. As of November 8, 2006, we held cash balances of approximately \$46.6 million and had outstanding borrowings under the Wachovia Line of Credit of approximately \$259.0 million. As of November 8, 2006, after consideration of a letter of credit pledged against the Wachovia Line of Credit, we had a remaining borrowing capacity of approximately \$126.5 million under the Wachovia Line of Credit. Accordingly, we believe that we have adequate capacity to continue to expand our portfolio and meet our future operating cash flow needs. We expect to use substantially all of our future operating cash flow, after payments for certain capital expenditures, to pay dividends to stockholders.

On September 5, 2006, our board of directors declared a daily dividend for stockholders of record from September 16, 2006 through December 15, 2006 in an amount equal to an annualized dividend of \$0.60 per share, which is consistent with the rate of dividends declared for each quarter of 2005 and the first three quarters of 2006 on a per share basis. Such dividend will be paid during December 2006.

Long-term Liquidity and Capital Resources

We expect that our primary sources of capital over the long term will include proceeds from the sale of our common stock, proceeds from secured or unsecured borrowings from third-party lenders, and net cash flows from operations. We expect that our primary uses of capital will be for property acquisitions, either directly or through investments in joint ventures, tenant improvements, offering-related costs, operating expenses, including interest expense on any outstanding indebtedness, and dividends.

In determining how and when to allocate cash resources, we initially consider the source of the cash. We expect that substantially all future net operating cash flows, after payments for certain capital expenditures such as tenant improvements and leasing commissions, will be used to pay dividends. However, we may temporarily use other sources of cash, such as short-term borrowings, to fund dividends from time to time (see *Liquidity and Capital Resources Overview* above). We expect to use substantially all net cash flows generated from raising equity or debt financing to fund acquisitions, certain capital expenditures identified upon acquisition, the repayment of outstanding borrowings, and the redemption of shares under the share redemption program. If sufficient equity or debt capital is not available, our future investments in real estate will be lower.

To the extent that future cash flows provided by operations are lower due to lower returns on properties, future dividends paid may be lower as well. Our cash flow from operations depends significantly on market rents and our tenants' ability to make rental payments. We believe that the diversity of our tenant base and the concentration of creditworthy tenants in our portfolio help to mitigate the risk of a tenant defaulting on a lease. However, general economic downturns, or downturns in one or more of our core markets, could adversely impact the ability of our tenants to make lease payments and our ability to re-lease space on favorable terms when leases expire. In the event of either situation, our cash flow and consequently our ability to meet capital needs, could adversely affect our ability to pay dividends in the future.

Table of Contents*Contractual Commitments and Contingencies*

As of September 30, 2006, our contractual obligations are as follows (in thousands):

Contractual Obligations	Total	Payments Due During the Years Ending December 31, Remainder			
		of 2006	2007-2008	2009-2010	Thereafter
Outstanding debt obligations ⁽¹⁾	\$ 743,689	\$ 118	\$ 303,274	\$ 25,029	\$ 415,268
Capital lease obligations	105,870	1,170	9,360	9,360	85,980
Purchase obligations ⁽²⁾	193,600	193,600			
Operating lease obligations	3,135	15	120	120	2,880
Total	\$ 1,046,294	\$ 194,903	\$ 312,754	\$ 34,509	\$ 504,128

⁽¹⁾ Amounts include principal payments only. We made interest payments of \$26.3 million during the nine months ended September 30, 2006 and expect to pay interest in future periods on outstanding debt obligations based on the rates and terms disclosed in Note 4 to our consolidated financial statements for the year ended December 31, 2005 included in the prospectus and in Note 4 to our accompanying consolidated financial statements in this supplement.

⁽²⁾ Represents a purchase commitment for the International Financial Tower, which was under contract at September 30, 2006. Refer to Note 8 of our accompanying consolidated financial statements in this supplement for further explanation.

Results of Operations*Overview*

Our results of operations are not indicative of those expected in future periods, as we expect that rental income, tenant reimbursements, property operating costs, asset and property management fees, depreciation, amortization, and net income will increase in future periods as a result of owning the assets we acquired prior to and during the periods presented for an entire period and as a result of future acquisitions of real estate assets that are anticipated.

We commenced our initial public offering on December 1, 2003. Following the receipt and acceptance of subscriptions for the minimum offering of \$2,500,000 on January 22, 2004, we acquired 18 properties during the year ended December 31, 2004 and acquired 21 properties during the year ended December 31, 2005. During the nine months ended September 30, 2006, we acquired 7 properties and completed construction of the LakePointe 3 building, bringing our total portfolio to 47 properties as of September 30, 2006. Accordingly, the results of operations presented for the three months and nine months ended September 30, 2006 and 2005, respectively, are not directly comparable.

Comparison of the three months ended September 30, 2005 versus the three months ended September 30, 2006

Rental income and tenant reimbursements increased from approximately \$35.8 million and \$8.5 million, respectively, for the three months ended September 30, 2005 to approximately \$61.3 million and \$13.3 million, respectively, for the three months ended September 30, 2006, primarily as a result of the growth in the portfolio during the last three months of 2005 and the first nine months of 2006. Rental income and tenant reimbursements are expected to continue to increase in future periods, as compared to historical periods, as a result of owning the assets acquired during the last three months of 2005 and the first nine months of 2006 for an entire period and future acquisitions of real estate assets.

Hotel income and hotel operating costs of approximately \$7.4 million and \$5.5 million, respectively, were recognized for the three months ended September 30, 2006 and reflect earnings on one hotel property located in Cleveland, Ohio, which we acquired during the fourth quarter of 2005.

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Property operating costs and asset and property management fees increased from approximately \$13.1 million and \$3.5 million, respectively, for the three months ended September 30, 2005 to approximately \$22.3 million and \$6.4 million, respectively, for the three months ended September 30, 2006, primarily as a result of the growth in the portfolio during the last three months of 2005 and the first nine months of 2006. Property operating costs and asset and property management fees are expected to continue to increase in future periods, as compared to historical periods, due to owning the assets acquired during the last three months of 2005 and the first nine months of 2006 for an entire period and future acquisitions of additional real estate assets.

Table of Contents

Depreciation of real estate and amortization of related lease costs increased from approximately \$6.5 million and \$11.7 million, respectively, for the three months ended September 30, 2005 to approximately \$11.9 million and \$20.5 million, respectively, for the three months ended September 30, 2006, primarily due to the acquisition of properties during the last three months of 2005 and the first nine months of 2006. We expect depreciation and amortization to continue to increase in future periods, as compared to historical periods, due to future acquisitions of real estate assets.

General and administrative expenses increased from approximately \$1.5 million for the three months ended September 30, 2005 to approximately \$2.9 million for the three months ended September 30, 2006, primarily due to increases in salary expense reimbursements payable to Wells Capital and Wells Management as a result of increasing the size of our portfolio of real estate assets during the last three months of 2005 and the first nine months of 2006.

Lease termination expense of approximately \$1.8 million was recognized for the three months ended September 30, 2006 due to a noncash partial write-off of intangible lease assets resulting from an amendment to a lease agreement that reduced base rent in exchange for the removal of a lease termination option.

Interest expense increased from approximately \$5.5 million for the three months ended September 30, 2005 to approximately \$9.4 million for the three months ended September 30, 2006, primarily due to new mortgage notes and mortgage notes assumed in connection with property acquisitions, as well as an increase in average borrowings under our line of credit. There were no borrowings on the line of credit during the three months ended September 30, 2005 compared to average borrowings of approximately \$173.1 million during the three months ended September 30, 2006. Future levels of interest expense will vary primarily based on the amounts of future borrowings and the costs of borrowings. Future borrowings will be used primarily to fund future acquisitions of real estate or interests therein. Accordingly, the amounts of future borrowings and future interest expense will largely depend on the level of additional proceeds we raise in this offering and any future offerings, the opportunities to acquire real estate assets consistent with our investment objectives, and the timing of such future acquisitions.

Net income and net income per share decreased from approximately \$5.2 million and \$0.03, respectively, for the three months ended September 30, 2005 to approximately \$2.6 million and \$0.01, respectively, for the three months ended September 30, 2006, primarily as a result of the increases in lease termination expense and interest expense described above. We expect future real estate acquisitions to result in an increase in net income in future periods and expect future net income per share to fluctuate primarily based on the level of proceeds raised in this offering and any future offerings and the rate at which we are able to invest such proceeds in income-generating real estate assets.

Comparison of the nine months ended September 30, 2005 versus the nine months ended September 30, 2006

Rental income and tenant reimbursements increased from approximately \$90.7 million and \$19.7 million, respectively, for the nine months ended September 30, 2005 to approximately \$176.1 million and \$40.7 million, respectively, for the nine months ended September 30, 2006, primarily as a result of the growth in the portfolio during the last three months of 2005 and the first nine months of 2006. Rental income and tenant reimbursements are expected to continue to increase in future periods, as compared to historical periods, as a result of owning the assets acquired during the last three months of 2005 and the first nine months of 2006 for an entire period and future acquisitions of real estate assets.

Hotel income and hotel operating costs of approximately \$17.8 million and \$13.5 million, respectively, were recognized for the nine months ended September 30, 2006 and reflect earnings on one hotel property located in Cleveland, Ohio, which we acquired during the fourth quarter of 2005.

Property operating costs and asset and property management fees increased from approximately \$31.3 million and \$8.9 million, respectively, for the nine months ended September 30, 2005 to approximately \$65.3 million and \$18.4 million, respectively, for the nine months ended September 30, 2006, primarily as a result of the growth in the portfolio during the last three months of 2005 and the first nine months of 2006. Property operating costs and asset and property management fees are expected to continue to increase in future periods, as compared to historical periods, due to owning the assets acquired during the last three months of 2005 and the first nine months of 2006 for an entire period and future acquisitions of additional real estate assets.

Depreciation of real estate and amortization of related lease costs increased from approximately \$15.8 million and \$29.7 million, respectively, for the nine months ended September 30, 2005 to approximately \$33.8 million and

Table of Contents

\$60.0 million, respectively, for the nine months ended September 30, 2006, primarily due to the acquisition of properties during the last three months of 2005 and the first nine months of 2006. We expect depreciation and amortization to continue to increase in future periods, as compared to historical periods, due to future acquisitions of real estate assets.

Lease termination expense of approximately \$1.8 million was recognized for the nine months ended September 30, 2006 due to a noncash partial write-off of intangible lease assets resulting from an amendment to a lease agreement that reduced base rent in exchange for the removal of a lease termination option.

General and administrative expenses increased from approximately \$6.1 million for the nine months ended September 30, 2005 to approximately \$8.8 million for the nine months ended September 30, 2006, primarily due to increases in salary expense reimbursements payable to Wells Capital and Wells Management as a result of increasing the size of our portfolio of real estate assets during the last three months of 2005 and the first nine months of 2006. General and administrative expenses as a percent of total revenues decreased from approximately 6% for the nine months ended September 30, 2005 to approximately 4% for the nine months ended September 30, 2006.

Interest expense increased from approximately \$16.7 million for the nine months ended September 30, 2005 to approximately \$30.8 million for the nine months ended September 30, 2006, primarily due to new mortgage notes and mortgage notes assumed in connection with property acquisitions, as well as an increase in average borrowings under our line of credit. Average borrowings under our line of credit increased from approximately \$13.2 million during the first nine months of 2005 to \$202.3 million during the first nine months of 2006. Future levels of interest expense will vary primarily based on the amounts of future borrowings and the costs of borrowings. Future borrowings will be used primarily to fund future acquisitions of real estate or interests therein. Accordingly, the amounts of future borrowings and future interest expense will largely depend on the level of additional proceeds we raise in this offering and any future offerings, the opportunities to acquire real estate assets consistent with our investment objectives, and the timing of such future acquisitions.

We recognized a loss on early extinguishment of debt of approximately \$1.1 million during the nine months ended September 30, 2006 in connection with prepaying the University Circle Buildings mortgage note in January 2006. The loss resulted from a prepayment penalty of approximately \$5.7 million and a write-off of approximately \$0.6 million in deferred financing costs, partially offset by a write-off of the unamortized fair value adjustment to debt of approximately \$5.2 million.

Net income and net income per share decreased from approximately \$7.5 million and \$0.06, respectively, for the nine months ended September 30, 2005 to approximately \$5.8 million and \$0.03, respectively, for the nine months ended September 30, 2006, primarily as a result of the loss on early extinguishment of debt, the lease termination expense, and the increase in interest expense described above. We expect future real estate acquisitions to result in an increase in net income in future periods and expect future net income per share to fluctuate primarily based on the level of proceeds raised in this offering and any future offerings and the rate at which we are able to invest such proceeds in income-generating real estate assets.

Funds From Operations

Funds from operations (FFO) is a non-GAAP financial measure and should not be viewed as an alternative measurement of our operating performance to net income. We believe that FFO is a beneficial indicator of the performance of equity REITs. Specifically, FFO calculations exclude factors such as depreciation and amortization of real estate assets and gains or losses from sales of operating real estate assets. As such factors can vary among owners of identical assets in similar conditions based on historical cost accounting and useful-life estimates, FFO may provide a valuable comparison of operating performance between periods and with other REITs. Management believes that accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. As a result, we believe that the use of FFO, together with the required GAAP presentation, provides a more complete understanding of our performance relative to our competitors and a more informed and appropriate basis on which to make decisions involving operating, financing, and investing activities. We calculate FFO in accordance with the current National Association of Real Estate Investment Trust (NAREIT) definition. However, other REITs may not define FFO in accordance with the NAREIT definition, or may interpret the current NAREIT definition differently than we do.

Table of Contents

As presented below, FFO is adjusted to exclude the impact of certain noncash items, such as depreciation, amortization, and gains on the sale of real estate assets. Reconciliations of net income to FFO are presented below (in thousands):

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Net income	\$ 2,637	\$ 5,246	\$ 5,842	\$ 7,484
Add:				
Depreciation of real assets	11,937	6,542	33,846	15,773
Amortization of lease-related costs	20,475	11,655	59,988	29,659
FFO	\$ 35,049	\$ 23,443	\$ 99,676	\$ 52,916
Weighted-average shares outstanding	247,285	161,770	226,983	123,903

Set forth below is additional information related to certain cash and noncash items included in or excluded from net income above, which may be helpful in assessing our operating results. In addition, cash flows generated from FFO may be used to fund all or a portion of certain capitalizable items that are excluded from FFO, such as capitalized interest, tenant improvements, building improvements, and deferred lease costs. Please see the accompanying consolidated statements of cash flows for detail of our operating, investing, and financing cash activities.

Noncash Items Included in Net Income:

Straight-line rental revenue of approximately \$5.1 million and \$4.4 million was recognized for the three months ended September 30, 2006 and 2005, respectively, and approximately \$16.1 million and \$9.9 million was recognized for the nine months ended September 30, 2006 and 2005, respectively;

Amortization of above-market and below-market in-place leases was recognized as net decreases to rental income of approximately \$2.8 million and \$0.8 million for the three months ended September 30, 2006 and 2005, respectively, and approximately \$8.5 million and \$2.5 million for the nine months ended September 30, 2006 and 2005, respectively;

Amortization of deferred financing costs of approximately \$0.2 million and \$0.2 million was recognized as interest expense for the three months ended September 30, 2006 and 2005, respectively, and approximately \$0.7 million and \$1.2 million was recognized as interest expense for the nine months ended September 30, 2006 and 2005, respectively;

Approximately \$1.1 million was recognized as a loss on early extinguishment of debt for the nine months ended September 30, 2006 in connection with prepayment of the University Circle Buildings mortgage note during January 2006 resulting from a prepayment penalty of \$5.7 million and a write-off of \$0.6 million in deferred financing costs, partially offset by a write-off of the unamortized fair value adjustment to debt of approximately \$5.2 million; and

Approximately \$1.8 million was recognized as lease termination expense for the three months and nine months ended September 30, 2006 due to a noncash partial write-off of intangible lease assets resulting from an amendment to a lease agreement that reduced base rent in exchange for the removal of a lease termination option.

Cash Item Excluded from Net Income:

Master lease proceeds relating to previous acquisitions of approximately \$5.7 million and \$8.2 million were collected during the three months ended September 30, 2006 and 2005, respectively, and approximately \$6.0 million and \$15.1 million were collected during the nine months ended September 30, 2006 and 2005, respectively. Master lease proceeds are recorded as an adjustment to the basis of real

Table of Contents

estate assets during the period acquired and, accordingly, are not included in net income or FFO. We consider master lease proceeds when determining cash available for dividends to our stockholders.

Election as a REIT

We have elected to be taxed as a REIT under the Code, as amended, and have operated as such beginning with our taxable year ended December 31, 2003. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our adjusted taxable income, as defined in the Code, to our stockholders, computed without regard to the dividends-paid deduction and by excluding our net capital gain. As a REIT, we generally will not be subject to federal income tax on income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we will then be subject to federal income taxes on our taxable income for that year and for the four years following the year during which qualification is lost, unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to our stockholders. However, we believe that we are organized and operate in such a manner as to qualify for treatment as a REIT for federal income tax purposes.

On October 4, 2005, we created Wells TRS II, LLC (Wells TRS), a wholly owned subsidiary organized as a Delaware limited liability company, which owns, among other things, an interest in a full-service hotel. We have elected to treat Wells TRS as a taxable REIT subsidiary. We may perform additional, non-customary services for tenants of buildings that we own through Wells TRS, including any real estate or non-real estate related services; however, any earnings related to such services are subject to federal and state income taxes. In addition, in order for us to continue to qualify as a REIT, our investments in taxable REIT subsidiaries cannot exceed 20% of the value of our total assets. Wells TRS had net operating income on an income tax basis for the three months and nine months ended September 30, 2006. The related deferred tax liability as of September 30, 2006 is included in accounts payable, accrued expense, and accrued capital expenditures, and the related deferred tax asset as of December 31, 2005 is included in prepaid and other assets in the accompanying consolidated balance sheets. The related income tax expense for the three months and nine months ended September 30, 2006 is included in the accompanying consolidated statements of income.

No provision for federal income taxes has been made in our accompanying consolidated financial statements, other than the provision relating to Wells TRS, as we made distributions in excess of taxable income for the periods presented. We are subject to certain state and local taxes related to property operations in certain locations, which have been provided for in our accompanying consolidated financial statements.

Inflation

We are exposed to inflation risk, as income from long-term leases is the primary source of our cash flows from operations. There are provisions in the majority of our tenant leases that are intended to protect us from, and mitigate the risk of, the impact of inflation. These provisions include rent steps, reimbursement billings for operating expense pass-through 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. However, due to the long-term nature of the leases, the leases may not re-set frequently enough to fully cover inflation.

Application of Critical Accounting Policies

Our accounting policies have been established to conform with GAAP. The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied, thus resulting in a different presentation of the financial statements. Additionally, other companies may utilize different estimates that may impact comparability of our results of operations to those of companies in similar businesses.

Table of Contents

Investment in Real Estate Assets

We are required to make subjective assessments as to the useful lives of our depreciable assets. We consider the period of future benefit of the asset to determine the appropriate useful lives. These assessments have a direct impact on net income. The estimated useful lives of our assets by class are as follows:

Buildings	40 years
Building improvements	5-25 years
Tenant improvements	Shorter of economic life or lease term
Intangible lease assets	Lease term

Allocation of Purchase Price of Acquired Assets

Upon the acquisition of real properties, we allocate the purchase price of properties to acquired tangible assets, consisting of land and building, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases and the value of in-place leases, based in each case on our estimate of their fair values.

The fair values of the tangible assets of an acquired property (which includes land and building) are determined by valuing the property as if it were vacant, and the as-if-vacant value is then allocated to land and building based on our determination of the relative fair value of these assets. We determine the as-if-vacant fair value of a property using methods similar to those used by independent appraisers. Factors we consider in performing these analyses include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases, including leasing commissions and other related costs. In estimating carrying costs, we include real estate taxes, insurance, and other operating expenses during the expected lease-up periods based on current market conditions.

The fair values of above-market and below-market in-place leases are recorded based on the present value (using a discount rate that reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) our estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining terms of the leases. The capitalized above-market and below-market lease values are recorded as intangible lease assets or liabilities and amortized as an adjustment to rental income over the remaining terms of the respective leases.

The fair values of in-place leases include direct costs associated with obtaining a new tenant, opportunity costs associated with lost rentals that are avoided by acquiring an in-place lease, and tenant relationships. Direct costs associated with obtaining a new tenant include commissions, tenant improvements, and other direct costs and are estimated based on our consideration of current market costs to execute a similar lease. These direct costs are included in deferred lease costs in the accompanying consolidated balance sheets and are amortized to expense over the remaining terms of the respective leases. The value of opportunity costs is calculated using the contractual amounts to be paid pursuant to the in-place leases over a market absorption period for a similar lease. Customer relationships are valued based on expected renewal of a lease or the likelihood of obtaining a particular tenant for other locations. These lease intangibles are included in intangible lease assets in the accompanying consolidated balance sheets and are amortized to expense over the remaining terms of the respective leases.

Estimates of the fair values of the tangible and intangible assets require us to estimate market lease rates, property operating expenses, carrying costs during lease-up periods, discount rates, market absorption periods, and the number of years the property is held for investment. The use of inappropriate estimates would result in an incorrect assessment of our purchase price allocations, which would impact the amount of our reported net income.

Valuation of Real Estate Assets

We continually monitor events and changes in circumstances that could indicate that the carrying amounts of the real estate and related intangible assets of both operating properties and properties under construction, in which we have an ownership interest, either directly or through investments in joint ventures, may not be recoverable. When indicators of potential impairment are present that suggest that the carrying amounts of real estate and related intangible assets may not be recoverable, we assess the recoverability of these assets by determining whether the carrying value will be recovered through the undiscounted future operating cash flows expected from the use of the asset and its eventual disposition. In the event that such expected undiscounted future cash flows do not exceed the carrying value, we decrease the carrying value of the real estate and related intangible assets to the estimated fair

Table of Contents

values, as defined by Statement of Financial Accounting Standard No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and recognize an impairment loss. Estimated fair values are calculated based on the following information, in order of preference, dependent upon availability: (i) recently quoted market prices, (ii) market prices for comparable properties, or (iii) the present value of undiscounted cash flows, including estimated salvage value. We have determined that there has been no impairment in the carrying value of our real estate assets during the nine months ended September 30, 2006 and 2005.

Projections of expected future operating cash flows require that we estimate future market rental income amounts subsequent to the expiration of current lease agreements, property operating expenses, the number of months it takes to re-lease the property, and the number of years the property is held for investment, among other factors. The subjectivity of assumptions used in the future cash flow analysis, including discount rates, could result in an incorrect assessment of the property's fair value and could result in the misstatement of the carrying value of our real estate and related intangible assets and net income.

Related-Party Transactions and Agreements

We have entered into agreements with our advisor, Wells Capital, and its affiliates, whereby we pay certain fees and reimbursements to Wells Capital or its affiliates, for acquisition fees, commissions, dealer-manager fees, asset and property management fees, construction fees, reimbursement of organizational and offering costs, and reimbursement of operating costs. See Note 7 to our accompanying consolidated financial statements included herein for a discussion of the various related-party transactions, agreements, and fees.

Commitments and Contingencies

We are subject to certain commitments and contingencies with regard to certain transactions. Refer to Note 8 of our accompanying consolidated financial statements in this supplement for further explanation. Examples of such commitments and contingencies include:

Take-Out Agreements;

Property under contract;

Commitments under existing lease agreements; and

Litigation.

Table of Contents

INDEX OF FINANCIAL STATEMENTS

	Page
Consolidated Financial Statements	
Wells Real Estate Investment Trust II, Inc. September 30, 2006	
<u>Consolidated Balance Sheets as of September 30, 2006 (unaudited) and December 31, 2005</u>	F-2
<u>Consolidated Statements of Income for the Three Months Ended September 30, 2006 (unaudited) and 2005 (unaudited) and the Nine Months Ended September 30, 2006 (unaudited) and 2005 (unaudited)</u>	F-3
<u>Consolidated Statements of Stockholders' Equity for the Year Ended December 31, 2005 and the Nine Months Ended September 30, 2006 (unaudited)</u>	F-4
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2006 (unaudited) and 2005 (unaudited)</u>	F-5
<u>Condensed Notes to Consolidated Financial Statements (unaudited)</u>	F-6

Table of Contents**WELLS REAL ESTATE INVESTMENT TRUST II, INC.****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share amounts)

	(Unaudited)	
	September 30,	December 31,
	2006	2005
Assets:		
Real estate assets, at cost:		
Land	\$ 332,570	\$ 277,097
Buildings and improvements, less accumulated depreciation of \$65,807 and \$31,961 as of September 30, 2006 and December 31, 2005, respectively	1,797,446	1,589,689
Intangible lease assets, less accumulated amortization of \$89,839 and \$43,538 as of September 30, 2006 and December 31, 2005, respectively	415,679	390,001
Construction in progress	1,085	6,040
Total real estate assets	2,546,780	2,262,827
Cash and cash equivalents	72,948	35,352
Tenant receivables, net of allowance for doubtful accounts of \$1,358 and \$735 as of September 30, 2006 and December 31, 2005, respectively	47,687	27,887
Prepaid expenses and other assets	41,949	44,033
Deferred financing costs, less accumulated amortization of \$1,278 and \$614 as of September 30, 2006 and December 31, 2005, respectively	2,791	3,231
Deferred lease costs, less accumulated amortization of \$43,250 and \$20,929 as of September 30, 2006 and December 31, 2005, respectively	285,004	237,553
Investment in bonds	78,000	78,000
Total assets	\$ 3,075,159	\$ 2,688,883
Liabilities:		
Line of credit and notes payable	\$ 743,689	\$ 832,402
Accounts payable, accrued expenses, and accrued capital expenditures	32,258	31,694
Due to affiliates	2,866	8,220
Dividends payable	6,310	5,142
Deferred income	8,458	8,387
Intangible lease liabilities, less accumulated amortization of \$8,172 and \$3,894 as of September 30, 2006 and December 31, 2005, respectively	93,172	62,560
Obligations under capital leases	78,000	78,000
Total liabilities	964,753	1,026,405
Commitments and Contingencies		
Minority Interest	3,203	2,724
Redeemable Common Stock	33,156	
Stockholders' Equity:		
Common stock, \$0.01 par value; 900,000,000 shares authorized; 258,275,700 and 197,403,280 shares issued and outstanding as of September 30, 2006 and December 31, 2005, respectively	2,583	1,974
Additional paid-in capital	2,296,001	1,752,162
Cumulative distributions in excess of earnings	(190,269)	(94,382)

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Redeemable common stock	(33,156)	
Other comprehensive loss	(1,112)	
Total stockholders' equity	2,074,047	1,659,754
Total liabilities, minority interest, redeemable common stock, and stockholders' equity	\$ 3,075,159	\$ 2,688,883

See accompanying notes.

F-2

Table of Contents**WELLS REAL ESTATE INVESTMENT TRUST II, INC.****CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share amounts)

	(Unaudited)		(Unaudited)	
	Three Months Ended		Nine Months Ended	
	September 30, 2006	2005	September 30, 2006	2005
Revenues:				
Rental income	\$ 61,260	\$ 35,795	\$ 176,076	\$ 90,675
Tenant reimbursements	13,287	8,538	40,657	19,683
Hotel income	7,426		17,811	
	81,973	44,333	234,544	110,358
Expenses:				
Property operating costs	22,266	13,122	65,272	31,259
Hotel operating costs	5,483		13,479	
Asset and property management fees:				
Related-party	5,170	2,882	14,806	7,159
Other	1,183	635	3,560	1,741
Depreciation	11,937	6,542	33,846	15,773
Amortization	20,475	11,655	59,988	29,659
Lease termination expense	1,814		1,814	
General and administrative	2,919	1,523	8,807	6,134
	71,247	36,359	201,572	91,725
Real estate operating income	10,726	7,974	32,972	18,633
Other income (expense):				
Interest expense	(9,415)	(5,478)	(30,755)	(16,667)
Loss on early extinguishment of debt			(1,115)	
Interest and other income	1,818	2,833	5,559	5,707
	(7,597)	(2,645)	(26,311)	(10,960)
Income before minority interest and income tax expense	3,129	5,329	6,661	7,673
Minority interest in earnings of consolidated entities	(204)	(83)	(580)	(189)
Income before income tax expense	2,925	5,246	6,081	7,484
Income tax expense	(288)		(239)	
Net income	\$ 2,637	\$ 5,246	\$ 5,842	\$ 7,484
Per share information – basic and diluted:				
Net income available to common stockholders	\$ 0.01	\$ 0.03	\$ 0.03	\$ 0.06
Weighted-average common shares outstanding – basic and diluted	247,285	161,770	226,983	123,903

See accompanying notes.

Table of Contents

WELLS REAL ESTATE INVESTMENT TRUST II, INC.
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
 FOR THE YEAR ENDED DECEMBER 31, 2005
 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2006 (UNAUDITED)

(in thousands, except per share amounts)

	Common Stock		Additional Paid-In Capital	Cumulative Distributions in Excess of Earnings	Redeemable Common Stock	Other Comprehensive Loss	Total Stockholders Equity
	Shares	Amount					
Balance, December 31, 2004	79,132	\$ 791	\$ 699,463	\$ (23,139)	\$	\$	\$ 677,115
Issuance of common stock	119,875	1,199	1,197,555				1,198,754
Redemptions of common stock	(1,604)	(16)	(15,304)				(15,320)
Dividends (\$0.60 per share)				(83,764)			(83,764)
Commissions and discounts on stock sales and related dealer-manager fees			(113,017)				(113,017)
Other offering costs			(16,535)				(16,535)
Net income				12,521			12,521
Balance, December 31, 2005	197,403	1,974	1,752,162	(94,382)			1,659,754
Issuance of common stock	63,430	634	633,666				634,300
Redemptions of common stock	(2,557)	(25)	(24,407)				(24,432)
Redeemable common stock					(33,156)		(33,156)
Dividends (\$0.45 per share)				(101,729)			(101,729)
Commissions and discounts on stock sales and related dealer-manager fees			(57,113)				(57,113)
Other offering costs			(8,307)				(8,307)
Components of comprehensive income:							
Net income				5,842			5,842
Loss on interest rate swap						(1,112)	(1,112)
Comprehensive income							4,730
Balance, September 30, 2006	258,276	\$ 2,583	\$ 2,296,001	\$ (190,269)	\$ (33,156)	\$ (1,112)	\$ 2,074,047

See accompanying notes.

Table of Contents**WELLS REAL ESTATE INVESTMENT TRUST II, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	(unaudited)	
	Nine Months Ended	
	September 30, 2006	2005
Cash Flows from Operating Activities:		
Net income	\$ 5,842	\$ 7,484
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	33,846	15,773
Other amortization	68,582	32,180
Amortization of deferred financing costs and fair market value adjustments on notes payable	1,354	1,633
Loss on early extinguishment of debt	1,115	
Lease termination expense	1,814	
Minority interest in earnings of consolidated entities	580	189
Changes in assets and liabilities:		
Increase in tenant receivables, net	(19,330)	(10,938)
Decrease (increase) in prepaid expenses and other assets	3,161	(6,251)
Increase in accounts payable and accrued expenses	7,169	1,144
Decrease in due to affiliates	(2,079)	(77)
Increase in deferred income	71	3,319
Net cash provided by operating activities	102,125	44,456
Cash Flows from Investing Activities:		
Investment in real estate and earnest money paid	(401,916)	(712,591)
Proceeds from master leases	6,040	15,094
Acquisition fees paid	(14,677)	(22,832)
Deferred lease costs paid	(3,708)	(2,214)
Net cash used in investing activities	(414,261)	(722,543)
Cash Flows from Financing Activities:		
Deferred financing costs paid	(840)	(3,437)
Proceeds from line of credit and notes payable	450,654	347,887
Repayments of line of credit and notes payable	(536,934)	(336,406)
Prepayment penalty on early extinguishment of debt	(5,734)	
Distributions paid to minority interest partners	(101)	(160)
Issuance of common stock	630,463	971,221
Redemptions of common stock	&nbs	