

WELLS REAL ESTATE INVESTMENT TRUST II INC

Form 424B3

May 20, 2009

Index to Financial Statements

**FILED PURSUANT TO RULE 424(B)(3)  
REGISTRATION NO. 333-144414**

**WELLS REAL ESTATE INVESTMENT TRUST II, INC.**

**SUPPLEMENT NO. 1 DATED MAY 20, 2009**

**TO THE PROSPECTUS DATED APRIL 30, 2009**

This document supplements, and should be read in conjunction with, our prospectus dated April 30, 2009, relating to our offering of 375,000,000 shares of common stock. 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;

entering into an amended and restated Wachovia Line of Credit;

entering into a new Bank of America Facility;

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 three months ended March 31, 2009, filed on May 13, 2009; and

our unaudited financial statements as of and for the three months ended March 31, 2009 as filed in our Quarterly Report on Form 10-Q, filed on May 13, 2009.

#### **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 a follow-on public offering of 300.6 million shares of common stock. Of these shares, we offered 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 the follow-on public 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 174.4 million unsold shares related to the dividend reinvestment plan registered under the initial public offering. We stopped making offers under the combined follow-on offering on November 10, 2008. We raised gross offering proceeds of approximately \$2.6 billion from the sale of approximately 257.6 million shares in our follow-on public offering, including shares sold under the dividend reinvestment plan.

We began accepting subscriptions in this offering on November 11, 2008. As of April 30, 2009, we had raised gross offering proceeds of approximately \$0.3 billion from the sale of approximately 31.5 million shares in this offering, including the dividend reinvestment plan. As of April 30, 2009, approximately 343.5 million shares remained available for sale to the public in this offering, including the dividend reinvestment plan. As of April 30, 2009, we had received aggregate gross offering proceeds of approximately \$4.9 billion from the sale of approximately

## Edgar Filing: WELLS REAL ESTATE INVESTMENT TRUST II INC - Form 424B3

486.2 million shares in our public offerings. After incurring approximately \$96.7 million in acquisition fees, approximately \$441.3 million in selling commissions and dealer-manager fees, approximately \$65.4 million in other organization and offering expenses, and funding common stock redemptions of approximately \$294.7 million pursuant to the share redemption program, as of April 30, 2009, we had raised aggregate net offering proceeds available for investment in properties of approximately \$4.0 billion, substantially all of which had been invested in real estate properties.

### **Indebtedness**

As of May 7, 2009, we had total outstanding indebtedness of approximately \$1.2 billion, which consisted of \$11.2 million outstanding under a fixed-rate line of credit, \$50.0 million outstanding under an unsecured variable-rate term loan, and \$863.0 million outstanding under mortgage loans with fixed interest rates, or with interest rates that are effectively fixed when considered in connection with an interest rate swap agreement, and \$241.0 million outstanding under a new line of credit with Wachovia Bank, which is explained in detail in this supplement under the heading Amended and Restated Wachovia Line of Credit.

### **Amended and Restated Wachovia Line of Credit**

On May 7, 2009, we entered into a \$245.0 million, one-year, unsecured revolving financing facility (the Amended and Restated Wachovia Line of Credit ) with a syndicate of banks led by Wachovia Bank, N.A. The \$245.0 million facility amends and restates the line of credit entered with Wachovia Bank on May 9, 2005, which was scheduled to mature on May 9, 2009.

---

## Index to Financial Statements

The Amended and Restated Wachovia Line of Credit contains borrowing arrangements that provide for interest costs based on, at our option, of the London Interbank Offered Rate ( LIBOR ) for 7 or 30 day periods, plus an applicable margin ranging from 3.00% to 3.75% ( LIBOR Loans ) or a floating base rate, plus an applicable margin ranging from 2.00% to 2.75% ( Base Rate Loans ). The applicable margin for LIBOR Loans and Base Rate Loans is based on our debt to total asset value ratio, as defined in the Amended and Restated Wachovia Line of Credit agreement. The base rate for any day is the greatest of Wachovia's prime rate for such day, the Federal Funds Rate for such day plus 0.50%, and the one-month adjusted Eurodollar rate for such day plus 1.00%. The adjusted Eurodollar rate has a floor of 2.00%.

Under the terms of the Amended and Restated Wachovia Line of Credit, accrued interest is payable in arrears on the first day of each calendar month. We are required to repay outstanding principal and accrued interest on May 7, 2010. We may repay the Amended and Restated Wachovia Line of Credit at any time without premium or penalty.

We may borrow up to 50% of our unencumbered asset value. Unencumbered asset value is calculated as the annualized net operating income of the lender-approved unencumbered properties owned for more than two consecutive fiscal quarters divided by 9.00%, plus the book value, computed in accordance with U.S. generally accepted accounting principles ( GAAP ), of such properties acquired during the most recently ended two fiscal quarters, plus the GAAP book value of construction-in-process properties included in the lender-approved unencumbered properties.

The Amended and Restated Wachovia Line of Credit agreement also stipulates that our net distributions, which equal total dividends and other distributions less the amount reinvested through our dividend reinvestment plan, may not exceed the greater of (i) 90% of our funds from operations for the twelve-month period preceding the date of payment or 100% of our funds from operations for the two most recently completed fiscal quarters; or (ii) the minimum amount required in order for us to maintain our status as a REIT. Funds from operations, as defined by the agreement, means net income (loss), minus (or plus) gains (or losses) from debt restructuring, mark-to-market adjustments on interest rate swaps, and sales of property during such period, plus depreciation on real estate assets and amortization (other than amortization of deferred financing costs) for such period, all after adjustments for unconsolidated partnerships and joint ventures. We may not make net distributions if a default or an event of default as described in the Amended and Restated Wachovia Line of Credit agreement has occurred and is continuing or would result from the payment of net distributions.

Debt covenants of the Amended and Restated Wachovia Line of Credit require that we maintain our leverage, i.e., the ratio of total debt to total asset value, at 50% or less at all times during the term of the facility and our ratio of secured debt to total asset value, at 40% or less at all times during the term of the facility. Total asset value is equal to the sum of our cash and cash equivalents, plus the annualized net operating income less capital reserves for the prior fiscal quarter for all properties owned for more than two consecutive fiscal quarters, divided by 9.00%, plus the GAAP book value of properties acquired during our most recently ended two fiscal quarters, plus the GAAP book value of construction in process properties, plus the GAAP book value of unimproved land. In addition, the ratio of our unencumbered asset value to total unsecured debt must be less than 2:1 at any time and we must maintain certain interest and fixed charge coverage ratios, a minimum tangible net worth, a limitation on secured recourse debt to total asset value and a limitation on the amount of outstanding floating rate debt. The Amended and Restated Wachovia Line of Credit also places certain limits on investments that fall outside our core investments of improved office and industrial properties located in the United States.

Upon entering the Amended and Restated Wachovia Line of Credit, we drew down the full amount available to pay down amounts due under our maturing line of credit.

### **Bank of America Facility**

On May 7, 2009, we entered into a \$50.0 million, three-month, unsecured term loan facility with Bank of America, N.A. (the Bank of America Facility ). The Bank of America Facility amends and restates a term loan entered with Wachovia Bank on January 9, 2008, which was scheduled to mature on May 9, 2009. The Bank of America Facility matures on August 5, 2009, and provides for interest costs to be incurred, at our option, of a floating one-month LIBOR rate, plus an applicable margin ranging from 3.00% to 3.75% ( LIBOR Loans ) or a floating base rate, plus an applicable margin ranging from 2.00% to 2.75% ( Base Rate Loans ), both as reset daily. The applicable margin for LIBOR Loans and Base Rate Loans is based on our debt to total asset value ratio, as defined in the Bank of America Facility agreement. The base rate for any day is the greatest of Bank of America's prime rate for such day, the Federal Funds Rate for such day plus 0.50%, and the one-month adjusted Eurodollar rate for such day plus 1.00%. The adjusted Eurodollar rate has a floor of 2.00%. We are required to make monthly principal payments of approximately \$16.67 million, plus interest payments. Accrued interest is payable in arrears on the first day of each calendar month, upon any prepayment and at maturity. We may prepay the loan at any time without premium or penalty. The Bank of America Facility agreement contains covenants substantially the same as those imposed by the Amended and Restated Wachovia Line of Credit described above. Proceeds from the Bank of America Facility were used to pay down amounts due under our maturing line of credit.



---

**Index to Financial Statements**

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

The following discussion and analysis should be read in conjunction with our accompanying consolidated financial statements and notes thereto. See also our consolidated financial statements and the notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2008. 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 our prospectus dated April 30, 2009.

**Overview**

During the periods presented, we have continued to receive investor proceeds under our follow-on offerings of common stock and to invest in real estate assets. Thus, our results of operations for the three months ended March 31, 2009 and 2008, respectively, reflect growing operational revenues and expenses and fluctuating interest and general and administrative expenses. The increases in 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 to fund such acquisitions.

**Liquidity and Capital Resources**

*Overview*

We have continued to raise funds through the sale of our common stock and have invested those proceeds primarily in real properties. We anticipate receiving additional proceeds from the sale of our common stock under our current public offering and using such proceeds to repay our line of credit in the short term. Over the long term, we expect to use a combination of offering proceeds and borrowings to invest in future acquisitions of real property. 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 distributions to be paid to our stockholders will be largely dependent upon the amount of cash generated from our operating activities, how quickly we are able to invest proceeds from the sale of our common stock in quality income-producing assets, 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. 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 distribution payment schedule. Our primary focus, however, is to continue to maintain the quality of our portfolio. Thus, we may opt to lower the distribution rate rather than to compromise that quality or to accumulate significant borrowings to meet a distribution level higher than operating cash flow would support. We continue to carefully monitor our cash flows and market conditions and their impact on our earnings and future distribution projections.

*Short-term Liquidity and Capital Resources*

During the three months ended March 31, 2009, we generated net cash flows from operating activities of \$52.6 million, which is primarily comprised of receipts of rental payments, tenant reimbursements, hotel income, deferred 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. From net cash flows from operating activities and cash on hand, we paid distributions to stockholders of \$66.7 million during this period. During the three months ended March 31, 2009, we generated net proceeds from the sale of common stock under our third public offering, net of fees, offering cost reimbursements, and share redemptions, of \$97.2 million, the majority of which was used to fund investments in real estate of \$46.4 million and to repay borrowings of \$28.3 million. We expect to utilize the residual cash balance on hand as of March 31, 2009 of approximately \$93.6 million to satisfy current liabilities, pay future distributions, fund future acquisitions of real properties, or to reduce indebtedness in future periods.

We expect to use substantially all of our future operating cash flow, after payments for certain capital expenditures, to pay distributions to stockholders. We intend to continue to generate capital from the sale of common stock under our public offerings and to use such offering proceeds to repay our line of credit over the short term and to invest in additional real properties over the long term. Our Wachovia Line of Credit and Wachovia Term Loan had a total outstanding balance of \$361.0 million as of April 30, 2009 and matured on May 9, 2009. We have executed a replacement line of credit with Wachovia Bank, N.A. and a replacement term loan with Bank of America, N.A., both of which are described in more detail in this supplement under the headings Amended and Restated Wachovia Line of Credit and Bank of America Facility.

On February 27, 2009, our board of directors declared distributions for stockholders of record from March 16, 2009 through June 15, 2009 in an amount equal to an annualized distribution of \$0.60 per share, which is consistent with the rate of distributions declared for the first quarter of

## Edgar Filing: WELLS REAL ESTATE INVESTMENT TRUST II INC - Form 424B3

2009 and each quarter of 2008 on a per-share basis. This distribution will be paid in June 2009.

### *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. As of April 30, 2009,

**Index to Financial Statements**

approximately 276.3 million primary offering shares remain available for sale under our ongoing third public offering, which will expire upon the earlier of the sale of all 300.0 million primary offering shares or October 1, 2010, unless extended by our Board of Directors. Approximately 67.2 million additional shares remain available for sale under our dividend reinvestment plan ( DRP ) at a purchase price equal to the higher of \$9.55 per share or 95% of the estimated value of a share of our common stock. 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, interest expense, and distributions.

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 will be used to pay distributions. However, we may temporarily use other sources of cash, such as short-term borrowings, to fund distributions 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, capital expenditures, 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 distributions paid may be lower as well. Cash flow from operations will depend significantly on the level of market rents and our tenants ability to make rental payments in the future. We believe that the diversity and creditworthiness of our tenant base helps to mitigate the risk of a tenant defaulting on a lease. However, general economic downturns, downturns in one or more of our core markets, or downturns in the particular industries in which our tenants operate 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 any of these situations, our cash flow and consequently our ability to meet capital needs, could adversely affect our ability to pay distributions in the future.

*Contractual Commitments and Contingencies*

Our contractual obligations as of March 31, 2009 will become payable in the following periods (in thousands):

<b>Contractual Obligations</b>	<b>Total</b>	<b>2009</b>	<b>2010-2011</b>	<b>2012-2013</b>	<b>Thereafter</b>
Outstanding debt obligations <sup>(1)</sup>	\$ 1,242,217	\$ 370,945	\$ 184,822	\$ 70,710	\$ 615,740
Capital lease obligations <sup>(2)</sup>	664,000			544,000	120,000
Purchase obligations <sup>(3)</sup>	102,210	102,210			
Operating lease obligations	230,310	1,797	4,792	5,087	218,634
<b>Total</b>	<b>\$ 2,238,737</b>	<b>\$ 474,952</b>	<b>\$ 189,614</b>	<b>\$ 619,797</b>	<b>\$ 954,374</b>

<sup>(1)</sup> Amounts include principal payments only. We made interest payments, including amounts capitalized, of approximately \$10.4 million during the three months ended March 31, 2009 and expect to pay interest in future periods on outstanding debt obligations based on the rates and terms disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008.

<sup>(2)</sup> Amount includes principal payments only. We made interest payments of approximately \$10.3 million during the three months ended March 31, 2009 and expect to pay interest in future periods based on the terms disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008.

<sup>(3)</sup> Represents purchase commitments for the Cranberry Woods Buildings, the Dvintsev Business Center Tower B and the foreign currency exchange contract. (See Note 4 to our accompanying consolidated financial statements.)

**Results of Operations***Overview*

## Edgar Filing: WELLS REAL ESTATE INVESTMENT TRUST II INC - Form 424B3

Our results of operations are not indicative of those expected in future periods as a result of acquiring properties during the periods presented and future acquisitions of real estate assets.

### *Comparison of the three months ended March 31, 2008 versus the three months ended March 31, 2009*

Rental income increased from approximately \$91.6 million for the three months ended March 31, 2008 to approximately \$106.8 million for the three months ended March 31, 2009, primarily as a result of growth in the portfolio. Rental income is expected to continue to increase in future periods, as compared to historical periods, due to the anticipated acquisition of Dvintsev Business Center Tower B and the Cranberry Woods Drive Buildings. (See Note 4 to our accompanying consolidated financial statements.)

Tenant reimbursements remained at approximately \$25.9 million for both of the three months ended March 31, 2008 and 2009. Tenant reimbursements are expected to increase in future periods, as compared to historical periods, due to the anticipated acquisition of Dvintsev Business Center Tower B and the Cranberry Woods Drive Buildings.

Property operating costs increased from approximately \$40.0 million for the three months ended March 31, 2008 to approximately \$42.5 million for the three months ended March 31, 2009, primarily due to the expiration of property tax abatements



---

**Index to Financial Statements**

for the Key Center Complex assumed at acquisition. Property operating costs are expected to continue to increase in future periods, as compared to historical periods, due to the anticipated acquisition of Dvintsev Business Center Tower B and the Cranberry Woods Drive Buildings.

Asset and property management fees remained steady at approximately \$9.3 million for the three months ended March 31, 2008 and approximately \$9.4 million for the three months ended March 31, 2009 due to growth in the portfolio, offset by a reduction in the rate of asset management fees effective October 2008. (See Note 6 to our accompanying consolidated financial statements.) Asset and property management fees are expected to continue to increase in future periods, as compared to historical periods, due to the anticipated acquisition of Dvintsev Business Center Tower B and the Cranberry Woods Drive Buildings.

Effective January 1, 2009, we began to expense acquisition fees and expenses as a result of adopting SFAS No. 141(R) *Business Combinations* ( SFAS 141(R) ). (See Note 2 to our accompanying consolidated financial statements.)

Depreciation increased from approximately \$17.5 million for the three months ended March 31, 2008 to approximately \$22.0 million for the three months ended March 31, 2009, primarily as a result of the growth in the portfolio. Depreciation is expected to continue to increase in future periods, as compared to historical periods, due to the anticipated acquisition of Dvintsev Business Center Tower B and the Cranberry Woods Drive Buildings.

Amortization increased from approximately \$29.3 million for the three months ended March 31, 2008 to approximately \$29.9 million for the three months ended March 31, 2009, primarily as a result of the growth in the portfolio. Amortization is expected to increase in future periods, due to the anticipated acquisition of Dvintsev Business Center Tower B and the Cranberry Woods Drive Buildings.

General and administrative expenses increased from approximately \$6.0 million for the three months ended March 31, 2008 to approximately \$6.8 million for the three months ended March 31, 2009, primarily as a result of growth in the portfolio. General and administrative expenses are expected to increase in future periods, due to the anticipated acquisition of Dvintsev Business Center Tower B and the Cranberry Woods Drive Buildings.

Interest expense increased from approximately \$14.7 million for the three months ended March 31, 2008 to approximately \$21.8 million for the three months ended March 31, 2009, primarily due to \$9.1 million incurred on capital leases assumed in connection with 2008 acquisitions, which is entirely offset by interest income earned on corresponding investments in development authority bonds. Absent interest expense incurred on capital leases, future interest expense will depend largely upon the timing and availability of opportunities to acquire real estate assets consistent with our investment objectives, the level of additional proceeds that we are able to raise under our public offerings, our ability to secure financings or re-financings, and changes in market interest rates. We anticipate that future borrowings will be used primarily to fund anticipated future acquisitions of real estate.

Interest and other income increased from approximately \$2.1 million for the three months ended March 31, 2008 to approximately \$10.3 million for the three months ended March 31, 2009, primarily due to \$9.1 million earned on investment in development authority bonds. The interest earned on the investment in development authority bonds is entirely offset by interest expense incurred on corresponding capital leases. Future levels of interest income will vary primarily based on differences in the pace at which capital is raised in our public offerings and the pace at which such capital is invested in real estate assets or used to repay borrowings.

We recognized a loss on foreign currency exchange contract of approximately \$1.1 million for the three months ended March 31, 2008 and approximately \$0.6 million for the three months ended March 31, 2009. Gains (losses) on foreign currency exchange contract are primarily impacted by fluctuations in value of the U.S. dollar compared to the Russian rouble. We settled the foreign currency exchange contract on April 1, 2009 with a payment of \$8.2 million.

We recognized a loss on interest rate swaps that do not qualify for hedge accounting treatment of \$9.1 million for the three months ended March 31, 2008, compared to a gain of \$4.8 million for the three months ended March 31, 2009. Gains (losses) on interest rate swaps are primarily impacted by changes in market interest rates, changes in the outlook for future market interest rates and the length of time remaining under the respective swap contracts.

We recognized net loss attributable to us (as opposed to noncontrolling interests) of approximately \$6.4 million (\$0.02 per share) for the three months ended March 31, 2008 and recognized net income attributable to us (as opposed to noncontrolling interests) of approximately \$6.9 million (\$0.02 per share) for the three months ended March 31, 2009. The increase in net income attributable to the Wells Real Estate Investment Trust II, Inc. is primarily due to continued growth in our portfolio of real estate assets. Absent future market value adjustments on our financial instruments, such as interest rate swaps or foreign currency exchange contracts, we expect future earnings and earnings per share to increase as a result of the anticipated acquisition of Dvintsev Business Center Tower B and the Cranberry Woods Drive Buildings.



**Index to Financial Statements****Operating Funds Generated for Distribution**

When evaluating the amount of cash available to fund distributions to stockholders, we consider net cash provided by operating activities (as presented in the accompanying GAAP-basis consolidated statements of cash flows), adjusted to exclude certain costs that were incurred for the purpose of generating future earnings and appreciation in value over the long term ( Operating Funds Generated for Distribution, or OFGD ). As illustrated below, OFGD reflects net cash provided by operating activities, excluding acquisition fees and acquisition expenses. Upon adopting SFAS 141(R) on January 1, 2009, we began to expense acquisition fees and expenses as incurred; whereas, prior to this date, such costs were capitalized and allocated to properties as acquired. As provided in the prospectuses for our public offerings, both acquisition fees and acquisition expenses have been and will continue to be funded with cash generated from the sale of common stock in our public offering and, therefore, will not utilize cash generated from operations.

We believe that OFGD is a beneficial indicator of funds generated from our operations because it excludes acquisition fees and expenses, which are more closely aligned with investing activities rather than with real estate operations, and which can vary among owners of identical assets in similar conditions. While OFGD may fluctuate in the near-term due to differences in the timing of collections and payments, we believe that, on a long-term basis, OFGD is reflective of our operating performance and may offer a high degree of comparability with other real estate investment trusts and real estate companies. As a result, we believe that the use of OFGD, together with the required GAAP presentation, provides a more complete understanding of the performance of our portfolio relative to the portfolios of our competitors and a more informed and appropriate basis on which to make decisions involving operating, financing, and investing activities.

Reconciliations of net cash provided by operating activities to OFGD for the periods presented in the accompanying consolidated statements of cash flows are provided below (in thousands):

	(Unaudited) Three Months Ended March 31,	
	2009	2008
Net cash provided by operating activities	\$ 52,642	\$ 54,692
Adjustments to reconcile net cash provided by operating activities to OFGD:		
Acquisition fees <sup>(1)</sup>	6,707	
Acquisition expenses <sup>(2)</sup>	2,117	
<b>OFGD</b>	<b>\$ 61,466</b>	<b>\$ 54,692</b>

<sup>(1)</sup> Reflects acquisition fees payable to Wells Capital at 2.0% of gross offering proceeds for services performed pursuant to the Advisory Agreement (see Note 6 to our accompanying consolidated financial statements). Prior to January 1, 2009, rather than impacting net cash provided by operating activities, payments of such fees were presented as acquisition fees paid within the cash flows from investing activities section of the accompanying consolidated statements of cash flows.

<sup>(2)</sup> Reflects customary third-party costs, such as legal fees and expenses, costs of appraisals, accounting fees and expenses, title insurance premiums and other closing costs and other miscellaneous expenses relating to the acquisition of real estate. Prior to January 1, 2009, rather than impacting net cash provided by operating activities, payments of such expenses were included in the caption investment in real estate and earnest money paid within the cash flows from investing activities section of the accompanying consolidated statements of cash flows.

**Election as a REIT**

We have elected to be taxed as a real estate investment trust ( REIT ) under the Internal Revenue Code of 1986, as amended (the Code ), 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

## Edgar Filing: WELLS REAL ESTATE INVESTMENT TRUST II INC - Form 424B3

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.

Wells TRS II, LLC ( Wells TRS ) is a wholly owned subsidiary of Wells Real Estate Investment Trust II, Inc. ( Wells REIT II ) that is organized as a Delaware limited liability company and includes the operations of, among other things, a full-service hotel. We have elected to treat Wells TRS as a taxable REIT subsidiary. We may perform certain additional, non-customary services for tenants of our buildings through Wells TRS; however, any earnings related to such services are subject to federal and state income taxes. In addition, for us to continue to qualify as a REIT, we must limit our investments in taxable REIT subsidiaries to 25% of the value of our total assets in 2009 (20% of our total assets in 2008). Deferred tax assets and liabilities are established for temporary

## Index to Financial Statements

differences between the financial reporting basis and the tax basis of assets and liabilities at the enacted rates expected to be in effect when the temporary differences reverse.

### **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 reset 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.

#### *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
Site improvements	10 years
Tenant improvements	Shorter of economic life or lease term
Intangible lease assets	Lease term

#### *Evaluating the Recoverability 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 assets and related intangible assets may not be recoverable, we assess the recoverability of these assets by determining whether the respective carrying values will be recovered through the estimated undiscounted future operating cash flows expected from the use of the assets and their eventual disposition. In the event that such expected undiscounted future cash flows do not exceed the carrying values, we adjust the carrying value of the real estate assets and related intangible assets to the estimated fair values, pursuant to the provisions of Statement of Financial Accounting Standards 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, depending upon availability: (i) recently quoted market prices, (ii) market prices for comparable properties, or (iii) the present value of future cash flows, including estimated salvage value. We have determined that there has been no impairment in the carrying value of our real estate assets and related intangible assets to date.

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 assets and related intangible assets and net income (loss).

#### *Allocation of Purchase Price of Acquired Assets*

## Edgar Filing: WELLS REAL ESTATE INVESTMENT TRUST II INC - Form 424B3

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

## Index to Financial Statements

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 demand.

### *Intangible Assets and Liabilities Arising from In-Place Leases where We are the Lessor*

As further described below, in-place leases where we are the lessor may have values related to: direct costs associated with obtaining a new tenant, opportunity costs associated with lost rentals that are avoided by acquiring an in-place lease, tenant relationships, and effective contractual rental rates that are above or below market rates:

Direct costs associated with obtaining a new tenant, including commissions, tenant improvements and other direct costs, are estimated based on management's consideration of current market costs to execute a similar lease. Such direct costs are included in intangible lease origination 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 associated with lost rentals avoided by acquiring an in-place lease is calculated based on the contractual amounts to be paid pursuant to the in-place leases over a market absorption period for a similar lease. Such opportunity costs 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.

The value of tenant relationships is calculated based on expected renewal of a lease or the likelihood of obtaining a particular tenant for other locations. Values associated with tenant relationships 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.

The value of effective rental rates of in-place leases that are above or below the market rates of comparable leases is calculated 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 received pursuant to the in-place leases and (ii) management's 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.

### *Evaluating the Recoverability of Intangible Assets and Liabilities*

The values of intangible lease assets and liabilities are determined based on assumptions made at the time of acquisition and have defined useful lives, which correspond with the lease terms. There may be instances in which intangible lease assets and liabilities become impaired and we are required to expense the remaining asset or liability immediately or over a shorter period of time. Lease restructurings, including lease terminations and lease extensions, may impact the value and useful life of in-place leases. In-place leases that are terminated, partially terminated, or modified will be evaluated for impairment if the original in-place lease terms have been modified. In the event that the discounted cash flows of the original in-place lease stream do not exceed the discounted modified in-place lease stream, we adjust the carrying value of the intangible lease assets to the discounted cash flows and recognize an impairment loss. For in-place lease extensions that are executed more than one year prior to the original in-place lease expiration date, the useful life of the in-place lease will be extended over the new lease term with the exception of those in-place lease components, such as lease commissions and tenant allowances, which have been renegotiated for the extended term. Renegotiated in-place lease components, such as lease commissions and tenant allowances, will be amortized over the shorter of the useful life of the asset or the new lease term.

### *Intangible Assets and Liabilities Arising from In-Place Leases where We are the Lessee*

## Edgar Filing: WELLS REAL ESTATE INVESTMENT TRUST II INC - Form 424B3

In-place ground leases where we are the lessee may have value associated with effective contractual rental rates that are above or below market rates. Such values are calculated 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 lease and (ii) management's estimate of fair market lease rates for the corresponding in-place lease, measured over a period equal to the remaining terms of the leases. The capitalized above-market and below-market in-place lease values are recorded as intangible lease liabilities or assets and amortized as an adjustment to property operating cost over the remaining term of the respective leases.

### **Related Parties**

#### *Transactions and Agreements*

We have entered into agreements with our advisor, Wells Capital, Inc. ( 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



---

## **Index to Financial Statements**

property management fees, construction fees, reimbursement of other offering costs, and reimbursement of operating costs. See Note 6 to our accompanying consolidated financial statements included herein for a discussion of the various related-party transactions, agreements, and fees.

### *Legal Action Against Related Parties*

On March 12, 2007, a stockholder of Piedmont Office Realty Trust, Inc. ( Piedmont REIT ) filed a putative class action and derivative complaint, presently styled *In re Wells Real Estate Investment Trust, Inc. Securities Litigation*, in the United States District Court for the District of Maryland against, among others, Piedmont REIT; Leo F. Wells, III, our President and the Chairman of our Board of Directors; Wells Capital, our advisor; Wells Management Company, Inc. ( Wells Management ), our property manager; certain affiliates of Wells Real Estate Funds, Inc. ( WREF ); the directors of Piedmont REIT; and certain individuals who formerly served as officers or directors of Piedmont REIT prior to the closing of the internalization transaction on April 16, 2007. The complaint alleges, among other things, violations of the federal proxy rules and breaches of fiduciary duty arising from the Piedmont REIT internalization transaction and the related proxy statement filed with the Securities and Exchange Commission ( SEC ) on February 26, 2007, as amended. The complaint seeks, among other things, unspecified monetary damages and nullification of the Piedmont REIT internalization transaction. On April 9, 2007, the District Court denied the plaintiff's motion for an order enjoining the internalization transaction. On April 17, 2007, the Court granted the defendants' motion to transfer venue to the United States District Court for the Northern District of Georgia, and the case was docketed in the Northern District of Georgia on April 24, 2007. On June 7, 2007, the Court granted a motion to designate the class lead plaintiff and class co-lead counsel. On June 27, 2007, the plaintiff filed an amended complaint, which attempts to assert class action claims on behalf of those persons who received and were entitled to vote on the Piedmont REIT proxy statement filed with the SEC on February 26, 2007, and derivative claims on behalf of Piedmont REIT. On July 9, 2007, the Court denied the plaintiff's motion for expedited discovery related to an anticipated motion for a preliminary injunction. On August 13, 2007, the defendants filed a motion to dismiss the amended complaint. On March 31, 2008, the Court granted in part the defendants' motion to dismiss the amended complaint. The Court dismissed five of the seven counts of the amended complaint in their entirety. The Court dismissed the remaining two counts with the exception of allegations regarding the failure to disclose in the Piedmont REIT proxy statement details of certain expressions of interest in acquiring Piedmont REIT. On April 21, 2008, the plaintiff filed a second amended complaint, which alleges violations of the federal proxy rules based upon allegations that the proxy statement to obtain approval for the Piedmont REIT internalization transaction omitted details of certain expressions of interest in acquiring Piedmont REIT. The second amended complaint seeks, among other things, unspecified monetary damages, to nullify and rescind the internalization transaction, and to cancel and rescind any stock issued to the defendants as consideration for the internalization transaction. On May 12, 2008, the defendants answered and raised defenses to the second amended complaint. On June 23, 2008, the plaintiff filed a motion for class certification. The defendants responded to the plaintiff's motion for class certification on January 16, 2009. The plaintiff filed its reply in support of its motions for class certification on February 19, 2009. The motion for class certification is currently pending before the court. The parties are presently engaged in discovery. On April 13, 2009, the plaintiff moved for leave to amend the second amended complaint to add additional defendants. The time for the defendants to respond to the motion for leave to amend the complaint has not yet expired. Mr. Wells, Wells Capital, and Wells Management intend to vigorously defend this action. Any financial loss incurred by Wells Capital, Wells Management, or their affiliates could hinder their ability to successfully manage our operations and our portfolio of investments.

### **Commitments and Contingencies**

We are subject to certain commitments and contingencies with regard to certain transactions. Refer to Note 4 of our accompanying consolidated financial statements for further explanation. Examples of such commitments and contingencies include:

property under construction;

property under contract;

obligations under operating leases;

foreign currency exchange contract;

obligations under capital leases;

commitments under existing lease agreements; and

litigation.

**Subsequent Event**

Subsequent to March 31, 2009, we entered into an amended and restated Wachovia Line of Credit and a new Bank of America Facility as more fully explained in this supplement under the headings Amended and Restated Wachovia Line of Credit and Bank of America Facility. We also sold additional shares of common stock as more fully explained in this supplement under the heading Status of our Public Offerings.

**Index to Financial Statements**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

<u>Consolidated Balance Sheets as of March 31, 2009 (unaudited) and December 31, 2008</u>	F-2
<u>Consolidated Statements of Operations for the Three Months Ended March 31, 2009 (unaudited) and 2008 (unaudited)</u>	F-3
<u>Consolidated Statements of Equity for the Three Months Ended March 31, 2009 (unaudited) and 2008 (unaudited)</u>	F-4
<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2009 (unaudited) and 2008 (unaudited)</u>	F-5
<u>Condensed Notes to Consolidated Financial Statements (unaudited)</u>	F-6

F-1

**Index to Financial Statements****WELLS REAL ESTATE INVESTMENT TRUST II, INC.****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per-share amounts)

	(Unaudited)	
	March 31, 2009	December 31, 2008
<b>Assets:</b>		
Real estate assets, at cost:		
Land	\$ 552,802	\$ 552,698
Buildings and improvements, less accumulated depreciation of \$240,841 and \$218,866 as of March 31, 2009 and December 31, 2008, respectively	2,904,171	2,921,441
Intangible lease assets, less accumulated amortization of \$267,515 and \$249,079 as of March 31, 2009 and December 31, 2008, respectively	563,908	585,289
Construction in progress	126,002	97,764
<b>Total real estate assets</b>	<b>4,146,883</b>	4,157,192
Cash and cash equivalents	93,641	86,334
Tenant receivables, net of allowance for doubtful accounts of \$733 and \$506 as of March 31, 2009 and December 31, 2008, respectively	91,870	89,233
Prepaid expenses and other assets	76,049	73,727
Deferred financing costs, less accumulated amortization of \$2,561 and \$2,023 as of March 31, 2009 and December 31, 2008, respectively	4,494	5,019
Intangible lease origination costs, less accumulated amortization of \$150,592 and \$138,904 as of March 31, 2009 and December 31, 2008, respectively	343,370	356,345
Deferred lease costs, less accumulated amortization of \$7,161 and \$6,091 as of March 31, 2009 and December 31, 2008, respectively	42,504	42,924
Investment in development authority bonds	664,000	664,000
<b>Total assets</b>	<b>\$ 5,462,811</b>	\$ 5,474,774
<b>Liabilities:</b>		
Lines of credit and notes payable	\$ 1,242,217	\$ 1,268,522
Accounts payable, accrued expenses, and accrued capital expenditures	116,186	130,299
Due to affiliates	3,232	9,670
Distributions payable	11,877	11,559
Deferred income	28,702	31,028
Intangible lease liabilities, less accumulated amortization of \$38,394 and \$34,778 as of March 31, 2009 and December 31, 2008, respectively	112,503	116,145
Obligations under capital leases	664,000	664,000
<b>Total liabilities</b>	<b>2,178,717</b>	2,231,223
<b>Commitments and Contingencies (Note 4)</b>		
<b>Redeemable Common Stock</b>	<b>656,547</b>	661,340
<b>Equity:</b>		
Common stock, \$0.01 par value; 900,000,000 shares authorized; 453,083,610 and 442,009,370 shares issued and outstanding as of March 31, 2009 and December 31, 2008, respectively	4,531	4,420
Additional paid-in capital	4,041,985	3,943,266
Cumulative distributions in excess of earnings	(754,874)	(694,751)

Edgar Filing: WELLS REAL ESTATE INVESTMENT TRUST II INC - Form 424B3

Redeemable common stock	(656,547)	(661,340)
Other comprehensive loss	(12,946)	(14,812)
Total Wells Real Estate Investment Trust II, Inc. stockholders equity	2,622,149	2,576,783
Noncontrolling interests	5,398	5,428
Total equity	2,627,547	2,582,211
Total liabilities, redeemable common stock, and equity	\$ 5,462,811	\$ 5,474,774

*See accompanying notes.*

F-2

Index to Financial Statements

## WELLS REAL ESTATE INVESTMENT TRUST II, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per-share amounts)

	(Unaudited)	
	Three Months Ended March 31,	
	2009	2008
<b>Revenues:</b>		
Rental income	\$ 106,824	\$ 91,642
Tenant reimbursements	25,871	25,885
Hotel income	4,356	4,551
Other property income	286	94
	137,337	122,172
<b>Expenses:</b>		
Property operating costs	42,492	39,994
Hotel operating costs	3,964	3,948
Asset and property management fees:		
Related-party	8,358	8,344
Other	1,024	973
Acquisition fees and expenses	8,824	
Depreciation	21,975	17,500
Amortization	29,948	29,290
General and administrative	6,806	5,990
	123,391	106,039
<b>Real estate operating income</b>	<b>13,946</b>	<b>16,133</b>
<b>Other income (expense):</b>		
Interest expense	(21,822)	(14,684)
Interest and other income	10,346	2,097
Loss on foreign currency exchange contract	(582)	(1,121)
Gain (loss) on interest rate swaps	4,791	(9,070)
	(7,267)	(22,778)
<b>Gain (loss) before income tax benefit</b>	<b>6,679</b>	<b>(6,645)</b>
<b>Income tax benefit</b>	<b>216</b>	<b>293</b>
<b>Net income (loss)</b>	<b>6,895</b>	<b>(6,352)</b>
<b>Less: Net income attributable to noncontrolling interests</b>	<b>(40)</b>	<b>(1)</b>
<b>Net income (loss) attributable to Wells Real Estate Investment Trust II, Inc.</b>	<b>\$ 6,855</b>	<b>\$ (6,353)</b>
<b>Per-share information basic and diluted:</b>		
Net income (loss) attributable to Wells Real Estate Investment Trust II, Inc.	\$ 0.02	\$ (0.02)

**Weighted-average common shares outstanding basic and diluted**

**446,105**

378,525

*See accompanying notes.*

F-3

Index to Financial Statements

## WELLS REAL ESTATE INVESTMENT TRUST II, INC.

## CONSOLIDATED STATEMENTS OF EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008 (UNAUDITED)

(in thousands, except per-share amounts)

	Common Stock		Stockholders Equity				Total Wells Real Estate Investment Trust II, Inc.		Total Equity
	Shares	Amount	Additional Paid-In Capital	Cumulative Distributions in Excess of Earnings	Redeemable Common Stock	Other Comprehensive Loss	Stockholders Equity	Noncontrolling Interests	
Balance, December 31, 2008	442,009	\$ 4,420	\$ 3,943,266	\$ (694,751)	\$ (661,340)	\$ (14,812)	\$ 2,576,783	\$ 5,427	\$ 2,582,210
Issuance of common stock	16,145	161	161,285				161,446		161,446
Redemptions of common stock	(5,070)	(50)	(47,162)				(47,212)		(47,212)
Increase in redeemable common stock					4,793		4,793		4,793
Distributions to noncontrolling interests								(69)	(69)
Distributions to common stockholders (\$0.15 per share)				(66,978)			(66,978)		(66,978)
Commissions and discounts on stock sales and related dealer-manager fees			(13,375)				(13,375)		(13,375)
Other offering costs			(2,029)				(2,029)		(2,029)
Components of comprehensive income:									
Net income attributable to noncontrolling interests								40	40
Net income attributable to Wells Real Estate Investment Trust II, Inc.				6,855			6,855		6,855
Foreign currency translation adjustment						(158)	(158)		(158)
Market value adjustment to interest rate swap						2,024	2,024		2,024
Comprehensive income							8,721	40	8,761
Balance, March 31, 2009	453,084	\$ 4,531	\$ 4,041,985	\$ (754,874)	\$ (656,547)	\$ (12,946)	\$ 2,622,149	\$ 5,398	\$ 2,627,547

	Common Stock		Stockholders Equity				Total Wells Real Estate Investment Trust II, Inc.		Total Equity
	Shares	Amount	Additional Paid-In Capital	Cumulative Distributions in Excess of Earnings	Redeemable Common Stock	Other Comprehensive Loss	Stockholders Equity	Noncontrolling Interests	



Edgar Filing: WELLS REAL ESTATE INVESTMENT TRUST II INC - Form 424B3

Balance, December 31, 2007	371,510	\$ 3,715	\$ 3,311,895	\$ (427,857)	\$ (596,464)	\$ (3,369)	\$ 2,287,920	\$ 3,073	\$ 2,290,993
Issuance of common stock	18,662	187	186,429				186,616		186,616
Redemptions of common stock	(2,369)	(24)	(22,311)				(22,335)		(22,335)
Decrease in redeemable common stock					(28,533)		(28,533)		(28,533)
Distributions to noncontrolling interests								(4)	(4)
Distributions to common stockholders (\$0.15 per share)				(56,746)			(56,746)		(56,746)
Commissions and discounts on stock sales and related dealer-manager fees			(15,997)				(15,997)		(15,997)
Other offering costs			(2,406)				(2,406)		(2,406)
Components of comprehensive income:									
Net income attributable to noncontrolling interests								1	1
Net loss attributable to Wells Real Estate Investment Trust II, Inc.				(6,353)			(6,353)		(6,353)
Foreign currency translation adjustment						(1)	(1)		(1)
Market value adjustment to interest rate swap						(3,238)	(3,238)		(3,238)
Comprehensive loss							(9,592)	1	(9,591)
Balance, March 31, 2008	387,803	\$ 3,878	\$ 3,457,610	\$ (490,956)	\$ (624,997)	\$ (6,608)	\$ 2,338,927	\$ 3,070	\$ 2,341,997

*See accompanying notes.*

Index to Financial Statements

## WELLS REAL ESTATE INVESTMENT TRUST II, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	(unaudited)	
	Three months ended	
	March 31,	
	2009	2008
<b>Cash Flows from Operating Activities:</b>		
Net income (loss)	\$ 6,895	\$ (6,352)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Straight-line rental income	(2,414)	(4,028)
Depreciation	21,975	17,500
Amortization	31,582	31,795
(Gain) loss on interest rate swaps	(6,885)	9,070
Remeasurement loss on foreign currency	849	
Loss on foreign currency exchange contract	582	1,121
Noncash interest expense	3,769	3,748
Changes in assets and liabilities:		
Decrease (increase) in tenant receivables, net	50	(2,168)
Decrease (increase) in prepaid expenses and other assets	5,489	(1,197)
(Decrease) increase in accounts payable and accrued expenses	(2,107)	4,068
Decrease in due to affiliates	(4,817)	(2,453)
(Decrease) increase in deferred income	(2,326)	3,588
Net cash provided by operating activities	52,642	54,692
<b>Cash Flows from Investing Activities:</b>		
Investment in real estate and earnest money paid	(46,448)	(80,966)
Release of escrowed funds		18,848
Acquisition fees paid		(5,278)
Deferred lease costs paid	(1,112)	(1,277)
Net cash used in investing activities	(47,560)	(68,673)
<b>Cash Flows from Financing Activities:</b>		
Deferred financing costs paid		(1,218)
Proceeds from lines of credit and notes payable	3,206	100,802
Repayments of lines of credit and notes payable	(31,535)	(108,208)
Distributions paid to noncontrolling interests	(69)	(4)
Issuance of common stock	159,750	184,668
Redemptions of common stock	(47,212)	(21,936)
Distributions paid to stockholders	(66,660)	(56,324)
Commissions on stock sales and related dealer-manager fees paid	(11,677)	(15,318)
Other offering costs paid	(3,652)	(4,041)
Net cash provided by financing activities	2,151	78,421
<b>Net increase in cash and cash equivalents</b>	<b>7,233</b>	<b>64,440</b>
<b>Effect of foreign exchange rate on cash and cash equivalents</b>	<b>74</b>	<b>(3)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>86,334</b>	<b>47,513</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 93,641</b>	<b>\$ 111,950</b>

*See accompanying notes.*

F-5

**Index to Financial Statements**

**WELLS REAL ESTATE INVESTMENT TRUST II, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2009**

**(unaudited)**

**1. Organization**

Wells Real Estate Investment Trust II, Inc. ( Wells REIT II ) is a Maryland corporation that has elected to be taxed as a real estate investment trust ( REIT ) for federal income tax purposes. Wells REIT II engages in the acquisition and ownership of commercial real estate properties, including properties that are under construction, are newly constructed, or have operating histories. Wells REIT II was incorporated on July 3, 2003 and commenced operations on January 22, 2004. Wells REIT II conducts business primarily through Wells Operating Partnership II, L.P. ( Wells OP II ), a Delaware limited partnership. Wells REIT II is the sole general partner of Wells OP II and possesses full legal control and authority over the operations of Wells OP II. Wells REIT II owns more than 99.9% of the equity interests in Wells OP II. Wells Capital, Inc. ( Wells Capital ), the external advisor to Wells REIT II, is the sole limited partner of Wells OP II. Wells OP II acquires, develops, owns, leases, and operates real properties directly, through wholly owned subsidiaries or through joint ventures. References to Wells REIT II herein shall include Wells REIT II and all subsidiaries of Wells REIT II, including consolidated joint ventures, Wells OP II, and Wells OP II s direct and indirect subsidiaries. See Note 6 for a discussion of the advisory services provided by Wells Capital.

As of March 31, 2009, Wells REIT II owned interests in 63 office properties, one industrial building, one hotel, and one office property under construction, comprising approximately 20.1 million square feet of commercial space located in 23 states and the District of Columbia. Of these properties, 62 are wholly owned and four are owned through consolidated joint ventures. As of March 31, 2009, the office and industrial properties were approximately 97.2% leased.

On December 1, 2003, Wells REIT II commenced its initial public offering of up to 785.0 million shares of common stock, of which 185.0 million shares were reserved for issuance through Wells REIT II s dividend reinvestment plan ( DRP ), pursuant to a Registration Statement filed on Form S-11 under the Securities Act of 1933. Except for continuing to offer shares for sale through its DRP, Wells REIT II stopped offering shares for sale under its initial public offering on November 26, 2005. Wells REIT II raised gross offering proceeds of approximately \$2.0 billion from the sale of approximately 197.1 million shares under its initial public offering, including shares sold under the DRP through March 2006. On November 10, 2005, Wells REIT II commenced a follow-on offering of up to 300.6 million shares of common stock, of which 0.6 million shares were reserved for issuance under Wells REIT II s DRP, pursuant to a Registration Statement filed on Form S-11 under the Securities Act of 1933. On April 14, 2006, Wells REIT II amended the aforementioned registration statements to offer in a combined prospectus 300.6 million shares registered under the follow-on offering and 174.4 million unsold shares related to the DRP originally registered under the initial public offering. Wells REIT II raised gross offering proceeds of approximately \$2.6 billion from the sale of approximately 257.6 million shares under its follow-on offering, including shares sold under the DRP through November 2008.

On July 9, 2007, Wells REIT II filed a Registration Statement on Form S-11 with the Securities and Exchange Commission ( SEC ) to register a third public offering of up to 375.0 million shares of common stock (the Third Offering ). Pursuant to the Third Offering registration statement, as amended, Wells REIT II is offering up to 300.0 million shares of common stock in a primary offering for \$10 per share, with discounts available to certain categories of purchasers. Wells REIT II is also offering up to 75.0 million shares pursuant to its DRP at a purchase price equal to the higher of \$9.55 per share or 95% of the estimated value of a share of its common stock. The Third Offering registration statement was declared effective by the SEC on October 1, 2008, and offering activities commenced promptly thereafter. Wells REIT II stopped offering shares for sale under the follow-on offering on November 10, 2008 and began accepting subscriptions under the Third Offering on November 11, 2008. As of March 31, 2009, Wells REIT II had raised gross offering proceeds of approximately \$0.3 billion from the sale of approximately 27.2 million shares under the Third Offering, including shares sold under the DRP.

As of March 31, 2009, Wells REIT II had raised gross offering proceeds from the sale of common stock under the initial public offering and follow-on offerings of approximately \$4.8 billion. After deductions from such gross offering proceeds for payments of acquisition fees of approximately \$95.8 million; selling commissions and dealer-manager fees of approximately \$437.2 million; other organization and offering expenses of approximately \$64.7 million; and common stock redemptions of approximately \$288.4 million under the share redemption program, Wells REIT II had received aggregate net offering proceeds of approximately \$3.9 billion. Substantially all of Wells REIT II s net offering proceeds have been invested in real properties and related assets. As of March 31, 2009, approximately 280.6 million shares remain available for sale to the public under the Third Offering, exclusive of shares available under the DRP.

## Edgar Filing: WELLS REAL ESTATE INVESTMENT TRUST II INC - Form 424B3

Wells REIT II's stock is not listed on a public securities exchange. However, Wells REIT II's charter requires that in the event Wells REIT II's stock is not listed on a national securities exchange by October 2015, Wells REIT II must either seek stockholder approval to extend or amend this listing deadline or seek stockholder approval to begin liquidating investments and distributing the resulting proceeds to the stockholders. If Wells REIT II seeks stockholder approval to extend or amend this listing date and does not obtain it, Wells REIT II will then be required to seek stockholder approval to liquidate. In this circumstance, if Wells REIT II seeks and does not obtain approval to liquidate, Wells REIT II will not be required to list or liquidate and could continue to operate indefinitely as an unlisted company.

F-6

## Index to Financial Statements

### 2. Summary of Significant Accounting Policies

#### *Basis of Presentation*

The consolidated financial statements of Wells REIT II have been prepared in accordance with the rules and regulations of the SEC, including the instructions to Form 10-Q and Article 10 of Regulation S-X, and do not include all of the information and footnotes required by U.S. generally accepted accounting principles ( GAAP ) for complete financial statements. In the opinion of management, the statements for these unaudited interim periods presented include all adjustments, which are of a normal and recurring nature, necessary for a fair and consistent presentation of the results for such periods. Results for these interim periods are not necessarily indicative of a full year s results. Wells REIT II s consolidated financial statements include the accounts of Wells REIT II, Wells OP II, and any variable interest entity in which Wells REIT II or Wells OP II was deemed the primary beneficiary. For further information, refer to the financial statements and footnotes included in Wells REIT II s Annual Report on Form 10-K for the year ended December 31, 2008.

#### *Interest Rate Swap Agreements*

Wells REIT II has entered into interest rate swaps in order to mitigate its interest rate risk on related financial instruments. Wells REIT II does not enter into derivative or interest rate transactions for speculative purposes; however, certain of its derivatives may not qualify for hedge accounting treatment. Wells REIT II records the fair value of its interest rate swap agreements as either prepaid expenses and other assets or accounts payable, accrued expenses, and accrued capital expenditures. Changes in the fair value of the effective portion of an interest rate swap agreement that is designated as a hedge is recorded as other comprehensive income (loss) in the accompanying consolidated statements of equity. The ineffective portion of the hedge, if any, is recognized in current earnings during the period of change in fair value. Changes in the fair value of interest rate swap agreements that do not qualify for hedge accounting treatment are recorded as gain (loss) on interest rate swaps in the accompanying consolidated statements of operations. Amounts received or paid under interest rate swap agreements are recorded as gain (loss) on interest rate swaps for interest rate swaps that do not qualify for hedge accounting treatment, and are recorded as interest expense for interest rate swaps that do qualify for hedge accounting treatment. For the three months ended March 31, 2009, net payments of \$2.1 million are included in gain (loss) on interest rate swaps on the accompanying consolidated statements of operations.

#### *Fair Value Measurements*

Wells REIT II estimates the fair value of its assets and liabilities (where currently required under GAAP) consistent with the provisions of Statement of Financial Accounting Standards ( SFAS ) No. 157, *Fair Value Measurements* ( SFAS 157 ), which became effective for financial assets and liabilities on January 1, 2008 and for non-financial and nonrecurring assets and liabilities on January 1, 2009. Under this standard, fair value is defined as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date. While various techniques and assumptions can be used to estimate fair value depending on the nature of the asset or liability, SFAS 157 provides the following fair value technique parameters and hierarchy, depending upon availability:

Level 1 Assets or liabilities for which the identical term is traded on an active exchange, such as publicly traded instruments or futures contracts.

Level 2 Assets and liabilities valued based on observable market data for similar instruments.

Level 3 Assets or liabilities for which significant valuation assumptions are not readily observable in the market. Such assets or liabilities are valued based on the best available data, some of which may be internally developed. Significant assumptions may include risk premiums that a market participant would consider.

Wells REIT II applied the provisions of SFAS 157 in recording its interest rate swaps and foreign currency exchange contract at fair value. The valuation of the interest rate swaps and foreign currency hedge contract is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The following table presents information about Wells REIT II s assets and liabilities measured at fair value on a recurring basis as of March 31, 2009, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value (in thousands):

**Fair Value Measurements as of March 31, 2009**

Edgar Filing: WELLS REAL ESTATE INVESTMENT TRUST II INC - Form 424B3

	Total	Level 1	Level 2	Level 3
<b>Liabilities:</b>				
Foreign currency exchange contract	\$ 8,221	\$	\$ 8,221	\$
Interest rate swaps	\$ 56,470	\$	\$ 56,470	\$

F-7

---

## Index to Financial Statements

### *Income Taxes*

Wells REIT II has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the Code), and has operated as such beginning with its taxable year ended December 31, 2003. To qualify as a REIT, Wells REIT II must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of its REIT taxable income, as defined by the Code, to its stockholders. As a REIT, Wells REIT II generally is not subject to income tax on income it distributes to stockholders. Wells REIT II is subject to certain state and local taxes related to the operations of properties in certain locations, which have been provided for in the accompanying consolidated financial statements.

Wells TRS II, LLC (Wells TRS) is a wholly owned subsidiary of Wells REIT II and is organized as a Delaware limited liability company and operates, among other things, a full-service hotel. Wells REIT II has elected to treat Wells TRS as a taxable REIT subsidiary. Wells REIT II may perform certain additional, non-customary services for tenants of its buildings through Wells TRS; however, any earnings related to such services are subject to federal and state income taxes. In addition, for Wells REIT II to continue to qualify as a REIT, Wells REIT II must limit its investments in taxable REIT subsidiaries to 25% of the value of the total assets of Wells REIT II for 2009 (20% of the value of the total assets of Wells REIT II for 2008). Deferred tax assets and liabilities represent temporary differences between the financial reporting basis and the tax basis of assets and liabilities based on the enacted rates expected to be in effect when the temporary differences reverse. Wells REIT II records interest and penalties related to uncertain tax positions as general and administrative expense in the accompanying consolidated statements of operations.

### *Accounting Adjustment*

Wells REIT II's net income is understated by \$2.2 million for the three months ended March 31, 2008. Wells REIT II recorded a gain in the third quarter of 2008 related to prior periods to correct the cumulative losses previously reported on a foreign currency exchange contract. Wells REIT II adjusts the basis of its foreign currency exchange contract to fair value based on estimates provided by the counterparty to the contract. During the period from October 2007 through June 2008, the estimates provided by the counterparty were incorrect. We believe that the understatement of net income for the three months ended March 31, 2008 is not material to Wells REIT II's consolidated financial statements. In making this assessment, Wells REIT II has considered qualitative and quantitative factors, including the non-cash nature of this activity and Wells REIT II's substantial equity balances at the end of the period affected.

### *Reclassifications*

Wells REIT II has reclassified the impact of straight-line rental income to a separate adjustment to reconcile net income (loss) to net cash provided by operating activities in the accompanying consolidated statements of cash flows for all periods presented. Previously, the impact of straight-line rental income was included within increase in tenant receivables on the accompanying consolidated statements of cash flows. Wells REIT II also reclassified other property income to a separate adjustment for all periods presented. Previously, the impact of other property income was presented net in property operating costs on the accompanying consolidated statements of operations.

### *Recent Accounting Pronouncements*

SFAS No. 141(R) *Business Combinations* (SFAS 141(R)) became effective for Wells REIT II on January 1, 2009. Among other things, SFAS 141(R) requires Wells REIT II to expense transaction costs for property acquisitions as incurred and to record pre-acquisition contingencies and purchase price contingencies at fair value as of the acquisition date. In connection with adopting SFAS 141(R), Wells REIT II expensed approximately \$8.8 million of acquisition fees and expenses during the three months ended March 31, 2009, of which \$3.2 million relates to acquisition fees payable to Wells Capital for the current period and \$5.6 million relates to pre-acquisition costs incurred in prior periods.

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160). SFAS 160 requires, among other things, (i) noncontrolling ownership interests to be classified as equity, instead of as a minority interest component of mezzanine equity, and (ii) earnings from noncontrolling interests to be included in earnings from consolidated subsidiaries with an additional disclosure of the allocation of such earnings between controlling and noncontrolling interests on the face of the statement of operations. SFAS 160 was effective for Wells REIT II beginning January 1, 2009. In connection with adopting SFAS 160, Wells REIT II reclassified minority interest to noncontrolling interests, a component of permanent equity on the accompanying consolidated balance sheets and reclassified minority interest in earnings to net income attributable to noncontrolling interests on the accompanying consolidated statements of operations for all periods presented.



## Edgar Filing: WELLS REAL ESTATE INVESTMENT TRUST II INC - Form 424B3

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment to FASB Statement No. 133 ( SFAS 161 ). SFAS 161 requires additional disclosures about an entity's derivative and hedging activities including, (i) descriptions of how and why the entity uses derivative instruments, (ii) how such instruments are accounted for under SFAS No. 133, and (iii) how derivative instruments affect the entity's financial position, operations, and cash flows. SFAS 161 was effective for Wells REIT II beginning January 1, 2009. Wells REIT II does not believe the adoption of SFAS 161 had a material financial impact on its consolidated financial statements (See Interest Rate Swap Agreements section on page 9.)

F-8

**Index to Financial Statements****3. Lines of Credit and Notes Payable**

As of March 31, 2009 and December 31, 2008, Wells REIT II had the following indebtedness outstanding (in thousands):

Facility	March 31, 2009	December 31, 2008
Wachovia Line of Credit	\$ 269,000	\$ 300,000
222 E. 41 <sup>st</sup> Street Building mortgage note	145,247	142,850
100 East Pratt Street Building mortgage note	105,000	105,000
Wachovia Term Loan	100,000	100,000
Wildwood Buildings mortgage note	90,000	90,000
5 Houston Center Building mortgage note	90,000	90,000
Manhattan Towers Building mortgage note	75,000	75,000
80 Park Plaza Building mortgage note	54,214	53,323
263 Shuman Boulevard Building mortgage note	49,000	49,000
800 North Frederick Building mortgage note	46,400	46,400
One West Fourth Street Building mortgage note	44,742	45,174
SanTan Corporate Center mortgage note	39,000	39,000
Highland Landmark Building mortgage note	33,840	33,840
Three Glenlake Building mortgage note	25,187	25,121
One and Four Robbins Road Buildings mortgage note	23,000	23,000
215 Diehl Road Building mortgage note	21,000	21,000
1580 West Nursery Road Buildings mortgage note	20,397	20,604
Bank Zenit Line of Credit (11.61%)	5,898	6,828
Bank Zenit Line of Credit (14.00%)	5,292	2,382
 Total indebtedness	 <b>\$ 1,242,217</b>	 <b>\$ 1,268,522</b>

During the three months ended March 31, 2009, Wells REIT II repaid \$31.0 million under the Wachovia Line of Credit. During the three months ended March 31, 2009 and 2008, Wells REIT II made interest payments, including amounts capitalized, of approximately \$10.4 million and \$9.6 million, respectively.

**4. Commitments and Contingencies***Property Under Construction*

On August 1, 2007, Wells REIT II entered into a development agreement with an unrelated third party for the purpose of constructing three office buildings comprised of approximately 824,000 rentable square feet and located in Cranberry, Pennsylvania (the Cranberry Woods Drive Buildings ) for approximately \$187.6 million. As of March 31, 2009, Wells REIT II had incurred and capitalized as land and construction in progress approximately \$135.6 million and estimated incurring additional costs of approximately \$52.0 million to complete the project. The Cranberry Woods Drive Buildings are scheduled to be completed in two phases, with approximately 424,000 rentable square feet to be completed in 2009 and approximately 400,000 rentable square feet to be completed in 2010. Upon completion of construction, the Cranberry Woods Drive Buildings will be 100% leased to Westinghouse Electric Company, LLC, at rental rates to be determined based on total construction costs.

*Property Under Contract*

On October 2, 2007, Wells REIT II acquired 100% of Wells International RE II Limited, a Cypriot corporation that is party to a shared construction agreement with an unrelated entity for the development of a nine-story office tower containing approximately 145,000 rentable square feet in Moscow, Russia ( Dvintsev Business Center Tower B ). Wells REIT II anticipates acquiring Dvintsev Business Center Tower B following the completion of construction in the second quarter of 2009 for approximately \$74.9 million, of which approximately \$56.8 million had been funded as of March 31, 2009. In addition to the remaining approximately \$18.1 million to be paid under this contract, Wells REIT II may owe additional purchase consideration pursuant to an earn-out agreement under which the developer would be compensated for securing qualified leases, as defined, for currently vacant space within two years of closing.



**Index to Financial Statements***Foreign Currency Exchange Contract*

In connection with the future acquisition of the Dvintsev Business Center Tower B, Wells REIT II entered into a foreign currency exchange contract to hedge its exposure to fluctuations in the U.S. dollar to Russian rouble exchange rate. This contract is indexed against a requirement to purchase 802.4 million Russian roubles at a fixed price of \$0.04 per Russian rouble and was settled on April 1, 2009 for a payment of \$8.2 million to the counterparty. As of March 31, 2009 and December 31, 2008, Wells REIT II estimated the fair value of this contract equal to a liability of approximately \$8.2 million and \$7.6 million, respectively, which is included in accounts payable, accrued expenses, and accrued capital expenditures in the accompanying consolidated balance sheets.

*Commitments Under Existing Lease Agreements*

Certain lease agreements include provisions that, at the option of the tenant, may obligate Wells REIT II to expend capital to expand an existing property or provide other expenditures for the benefit of the tenant. As of March 31, 2009, no tenants have exercised such options that had not been materially satisfied.

*Litigation*

From time to time, Wells REIT II is party to legal proceedings, which arise in the ordinary course of its business. Wells REIT II is not currently involved in any legal proceedings for which the outcome is reasonably likely to have a material adverse effect on the results of operations or financial condition of Wells REIT II. Wells REIT II is not aware of any such legal proceedings contemplated by governmental authorities.

*5 Houston Sky Bridge*

In September 2008, Wells REIT II entered into a contract with the developer of a building adjacent to the 5 Houston Center Building that grants a perpetual easement between the two buildings to the developer in consideration for \$12.0 million payable to Wells REIT II in two nonrefundable installments. Upon execution of the contract, Wells REIT II received the first installment of \$6.0 million, which is recorded as deferred income in the accompanying consolidated balance sheets. Upon the earlier of the completion of the steel frame of the adjacent building or March 2010, the second installment will become payable and both payments will be recognized as income.

**5. Supplemental Disclosures of Noncash Activities**

Outlined below are significant noncash investing and financing transactions for the three months ended March 31, 2009 and 2008 (in thousands):

	<b>Three months ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
Acquisition fees applied to real estate assets	\$	\$ 3,341 <sup>(1)</sup>
Other liabilities assumed upon acquisition of properties	\$	\$ 115
Market value adjustment to interest rate swap that qualifies for hedge accounting treatment	\$ 2,024	\$ (3,238)
Accrued capital expenditures and deferred lease costs	\$ 10,741	\$ 6,543
Accrued redemptions of common stock	\$	\$ 152
Acquisition fees due to affiliate	\$	\$ 153 <sup>(1)</sup>
Commissions on stock sales and related dealer-manager fees due to affiliate	\$ 1,136	\$ 631
Other offering costs due to affiliate	\$ 592	\$ 766

Edgar Filing: WELLS REAL ESTATE INVESTMENT TRUST II INC - Form 424B3

Distributions payable	\$ 11,877	\$ 10,132
Discounts applied to issuance of common stock	\$ 1,696	\$ 1,948
(Decrease) increase in redeemable common stock	\$ (4,793)	\$ 28,533

- <sup>(1)</sup> Effective January 1, 2009, all acquisition fees and expenses have been expensed and are included in net cash provided by operating activities. See SFAS 141(R) discussion in Note 2.

F-10

---

**Index to Financial Statements**

**6. Related-Party Transactions and Agreements**

*Advisory Agreement*

Wells REIT II and Wells Capital are party to an advisory agreement (the *Advisory Agreement* ) under which Wells Capital receives the following fees and reimbursements:

Reimbursement of organization and offering costs paid by Wells Capital on behalf of Wells REIT II, not to exceed 2.0% of gross offering proceeds;

Acquisition fees of 2.0% of gross offering proceeds, subject to certain limitations; Wells REIT II also reimburses Wells Capital for expenses it pays to third parties in connection with acquisitions or potential acquisitions;

Monthly asset management fees equal to one-twelfth of 0.75% of the cost of (i) all properties of Wells REIT II and (ii) investment in joint ventures for the months prior to October 2008. Thereafter, the monthly asset management fee is equal to one-twelfth of 0.625% of the cost of (i) all properties of Wells REIT II and (ii) investment in joint ventures until the monthly payment equals \$2,708,333.33 (or \$32.5 million annualized). The monthly payment remains capped at that amount until the cost of (i) all properties of Wells REIT II and (ii) investment in joint ventures is at least \$6.5 billion, after which the monthly asset management fee is equal to one-twelfth of 0.5% of the cost of (i) all properties of Wells REIT II and (ii) investment in joint ventures. However, the asset management fee related to the Lindbergh Center Buildings, which were acquired July 1, 2008, was immediately 0.5%. The amount of asset management fees paid in any three-month period is limited to 0.25% of the average of the preceding three months' net asset value calculations less Wells REIT II's outstanding debt borrowed for purposes of acquiring, improving, or refinancing investment properties;

Reimbursement for all costs and expenses Wells Capital incurs in fulfilling its duties as the asset portfolio manager, including (i) wages and salaries and other employee-related expenses of Wells Capital's employees, who perform a full range of real estate services for Wells REIT II, including management, administration, operations, and marketing, and are billed to Wells REIT II based on the amount of time spent on Wells REIT II by such personnel, provided that such expenses are not reimbursed if incurred in connection with services for which Wells Capital receives a disposition fee (described below) or an acquisition fee, and (ii) amounts paid for IRA custodial service costs allocated to Wells REIT II accounts;

For any property sold by Wells REIT II, a disposition fee equal to 1.0% of the sales price, with the limitation that the total real estate commissions (including such disposition fee) for any Wells REIT II property sold may not exceed the lesser of (i) 6.0% of the sales price of each property or (ii) the level of real estate commissions customarily charged in light of the size, type, and location of the property;

Incentive fee of 10% of net sales proceeds remaining after stockholders have received distributions equal to the sum of the stockholders' invested capital plus an 8% return of invested capital; and

Listing fee of 10% of the amount by which the market value of the stock plus distributions paid prior to listing exceeds the sum of 100% of the invested capital plus an 8% return on invested capital.

Either party may terminate the Advisory Agreement without cause or penalty upon providing 60 days' prior written notice to the other. Under the terms of the Advisory Agreement, Wells REIT II is required to reimburse Wells Capital for certain organization and offering costs up to the lesser of actual expenses or 2% of gross equity proceeds raised. As of March 31, 2009, Wells REIT II has incurred and charged to additional paid-in capital cumulative other offering costs of approximately \$31.7 million related to the initial public offering, \$28.8 million related to the follow-on offering, and \$4.2 million related to the Third Offering, which represents approximately 1.6%, 1.1%, and 1.6% of cumulative gross proceeds raised by Wells REIT II under each offering, respectively.

*Dealer-Manager Agreement*

Wells REIT II is party to a Dealer-Manager Agreement with Wells Investment Securities, Inc. ( WIS ), whereby WIS, an affiliate of Wells Capital, performs the dealer-manager function for Wells REIT II. For these services, WIS earns a commission of up to 7% of the gross offering proceeds from the sale of the shares of Wells REIT II, of which substantially all is re-allowed to participating broker dealers. Wells REIT II pays no commissions on shares issued under its DRP.

F-11

**Index to Financial Statements**

Additionally, Wells REIT II is required to pay WIS a dealer-manager fee of 2.5% of the gross offering proceeds from the sale of Wells REIT II's stock at the time the shares are sold. Under the dealer-manager agreement, up to 1.5% of the gross offering proceeds may be re-allowed by WIS to participating broker dealers. Wells REIT II pays no dealer-manager fees on shares issued under its DRP.

*Property Management, Leasing, and Construction Agreement*

Wells REIT II and Wells Management Company (Wells Management), an affiliate of Wells Capital, are party to a Master Property Management, Leasing, and Construction Agreement (the Management Agreement) under which Wells Management receives the following fees and reimbursements in consideration for supervising the management, leasing, and construction of certain Wells REIT II properties:

Property management fees in an amount equal to a percentage negotiated for each property managed by Wells Management of the gross monthly income collected for that property for the preceding month;

Leasing commissions for new, renewal, or expansion leases entered into with respect to any property for which Wells Management serves as leasing agent equal to a percentage as negotiated for that property of the total base rental and operating expenses to be paid to Wells REIT II during the applicable term of the lease, provided, however, that no commission shall be payable as to any portion of such term beyond ten years;

Initial lease-up fees for newly constructed properties under the agreement, generally equal to one month's rent;

Fees equal to a specified percentage of up to 5% of all construction build-out funded by Wells REIT II, given as a leasing concession, and overseen by Wells Management; and

Other fees as negotiated with the addition of each specific property covered under the agreement.

*Related-Party Costs*

Pursuant to the terms of the agreements described above, Wells REIT II incurred the following related-party costs for the three months ended March 31, 2009 and 2008, respectively (in thousands):

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2009</b>	<b>2008</b>
Commissions, net of discounts <sup>(1)(2)</sup>	<b>\$ 8,536</b>	\$ 10,220
Asset management fees	<b>7,428</b>	7,447
Acquisition fees <sup>(3)</sup>	<b>3,196</b>	3,693
Dealer-manager fees, net of discounts <sup>(1)</sup>	<b>3,143</b>	3,829
Administrative reimbursements, net <sup>(4)</sup>	<b>2,857</b>	2,676
Other offering costs <sup>(1)</sup>	<b>2,029</b>	2,406
Property management fees	<b>930</b>	897
Construction fees <sup>(5)</sup>	<b>128</b>	50
<b>Total</b>	<b>\$ 28,247</b>	\$ 31,218



- (1) Commissions, dealer-manager fees, and other offering costs are charged against equity as incurred.
  - (2) Substantially all commissions were re-allowed to participating broker/dealers during the three months ended March 31, 2009 and 2008.
  - (3) Prior to the adoption of SFAS 141(R) on January 1, 2009, acquisition fees were capitalized to prepaid expenses and other assets as incurred and allocated to properties upon using investor proceeds to fund acquisitions or repay debt used to finance property acquisitions. Pursuant to SFAS 141(R), acquisition fees after January 1, 2009 are expensed as they are incurred.
  - (4) Administrative reimbursements are presented net of reimbursements from tenants of approximately \$0.6 million and \$0.5 million for the three months ended March 31, 2009 and 2008, respectively.
  - (5) Construction fees are capitalized to real estate assets as incurred.
- Wells REIT II incurred no related-party disposition fees, incentive fees, listing fees, or leasing commissions during the three months ended March 31, 2009 and 2008, respectively.

**Index to Financial Statements***Due to Affiliates*

The detail of amounts due to affiliates is provided below as of March 31, 2009 and December 31, 2008 (in thousands):

	March 31, 2009	December 31, 2008
Commissions and dealer-manager fees due to WIS	\$ 1,136	\$ 1,134
Administrative reimbursements due to Wells Capital and/or Wells Management	973	2,206
Other offering cost reimbursements due to Wells Capital	592	2,215
Asset and property management fees due to Wells Capital and/or Wells Management	331	2,729
Acquisition fees due to Wells Capital	200	1,386
	<b>\$ 3,232</b>	<b>\$ 9,670</b>

*Economic Dependency*

Wells REIT II has engaged Wells Capital and its affiliates, Wells Management and WIS, to provide certain services that are essential to Wells REIT II, including asset management services, supervision of the property management and leasing of some properties owned by Wells REIT II, asset acquisition and disposition services, the sale of shares of Wells REIT II's common stock, as well as other administrative responsibilities for Wells REIT II, including accounting services, stockholder communications, and investor relations. As a result of these relationships, Wells REIT II is dependent upon Wells Capital, Wells Management, and WIS.

Wells Capital, Wells Management, and WIS are owned and controlled by Wells Real Estate Funds, Inc. ( WREF ). The operations of Wells Capital, Wells Management, and WIS represent substantially all of the business of WREF. Accordingly, Wells REIT II focuses on the financial condition of WREF when assessing the financial condition of Wells Capital, Wells Management, and WIS. In the event that WREF were to become unable to meet its obligations as they become due, Wells REIT II might be required to find alternative service providers.

Future net income generated by WREF will be largely dependent upon the amount of fees earned by Wells Capital and Wells Management based on, among other things, the level of investor proceeds raised and the volume of future acquisitions and dispositions of real estate assets by Wells REIT II and other WREF-sponsored programs, as well as distribution income earned from equity interests in another REIT. As of March 31, 2009, Wells REIT II believes that WREF is generating adequate cash flow from operations and has adequate liquidity available in the form of cash on hand and other investments necessary to meet its current and future obligations as they become due.

In addition, WREF guarantees unsecured debt held by another WREF-sponsored product that is in the start-up phase of its operations equal to approximately \$49.4 million as of April 30, 2009.

**7. Subsequent Event***Sale of Shares of Common Stock*

From April 1, 2009 through April 30, 2009, Wells REIT II raised approximately \$43.0 million through the issuance of approximately 4.3 million shares of common stock under the Third Offering. As of April 30, 2009, approximately 276.3 million shares remained available for sale to the public under the Third Offering, exclusive of shares available under the DRP.

*Amended and Restated Wachovia Line of Credit*

On May 7, 2009, Wells REIT II entered into a \$245.0 million, one-year, unsecured revolving financing facility (the Amended and Restated Wachovia Line of Credit ) with a syndicate of banks led by Wachovia Bank, N.A. The \$245.0 million facility amends and restates the Wachovia Line of Credit entered with Wachovia Bank on May 9, 2005, which was scheduled to mature on May 9, 2009.

The Amended and Restated Wachovia Line of Credit contains borrowing arrangements that provide for interest costs based on, at the option of Wells REIT II, the London Interbank Offered Rate ( LIBOR ) for 7 or 30 day periods, plus an applicable margin ranging from 3.00% to 3.75% ( LIBOR Loans ) or the floating base rate, plus an applicable margin ranging from 2.00% to 2.75% ( Base Rate Loans ). The applicable margin for

## Edgar Filing: WELLS REAL ESTATE INVESTMENT TRUST II INC - Form 424B3

LIBOR Loans and Base Rate Loans is based on Wells REIT II's debt to total asset value ratio, as defined. The base rate for any day is the greatest of Wachovia's prime rate for such day, the Federal Funds Rate for such day plus 0.50%, and the one-month adjusted Eurodollar rate for such day plus 1.00%. The adjusted Eurodollar rate has a floor of 2.00%.

F-13

**Index to Financial Statements**

Under the terms of the Amended and Restated Wachovia Line of Credit, accrued interest is payable in arrears on the first day of each calendar month. Wells REIT II is required to repay outstanding principal and accrued interest on May 7, 2010. Wells REIT II may repay the Amended and Restated Wachovia Line of Credit at any time without premium or penalty.

Wells REIT II may borrow up to 50% of the unencumbered asset value. Unencumbered asset value is calculated as the annualized net operating income of the lender-approved unencumbered properties owned for more than two consecutive fiscal quarters divided by 9.00%, plus the book value, computed in accordance with GAAP, of such properties acquired during the most recently ended two fiscal quarters, plus the GAAP book value of construction-in-process properties included in the lender-approved unencumbered properties.

*Bank of America Facility*

On May 7, 2009, Wells REIT II entered into a \$50.0 million, three-month, unsecured term loan facility with Bank of America, N.A. (the Bank of America Facility). The Bank of America Facility matures on August 5, 2009, and provides for interest costs to be incurred at the option of Wells REIT II at a floating one-month LIBOR rate, plus an applicable margin ranging from 3.00% to 3.75% (LIBOR Loans) or the floating base rate, plus an applicable margin ranging from 2.00% to 2.75% (Base Rate Loans), both as reset daily. The applicable margin for LIBOR Loans and Base Rate Loans is based on Wells REIT II's debt to total asset value ratio, as defined. The base rate for any day is the greatest of Bank of America's prime rate for such day, the Federal Funds Rate for such day plus 0.50%, and the one-month adjusted Eurodollar rate for such day plus 1.00%. The adjusted Eurodollar rate has a floor of 2.00%. Wells REIT II is required to make monthly principal payments of approximately \$16.67 million, plus interest payments. Accrued interest is payable in arrears on the first day of each calendar month, upon any prepayment and at maturity. Wells REIT II may prepay the loan at any time without premium or penalty.

**Index to Financial Statements**

**SUPPLEMENTAL INFORMATION** The prospectus of Wells Real Estate Investment Trust II, Inc. consists of this sticker, the prospectus dated April 30, 2009 and supplement no. 1 dated May 20, 2009.

Supplement no. 1 includes:

the status of our public offerings;

information regarding our indebtedness;

entering into an amended and restated Wachovia Line of Credit;

entering into a new Bank of America Facility;

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 three months ended March 31, 2009, filed on May 13, 2009; and

our unaudited financial statements as of and for the three months ended March 31, 2009 as filed in our Quarterly Report on Form 10-Q, filed on May 13, 2009.