

WELLS REAL ESTATE INVESTMENT TRUST II INC  
Form 424B3  
August 11, 2006

Filed Pursuant to Rule 424(b)(3)

Registration No. 333-125643

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

**SUPPLEMENT NO. 2 DATED AUGUST 11, 2006**

**TO THE PROSPECTUS DATED APRIL 26, 2006**

This document supplements, and should be read in conjunction with, our prospectus dated April 26, 2006 relating to our offering of 475,000,000 shares of common stock, as supplemented by supplement no. 1 dated May 16, 2006. 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;

the acquisition of a five-story office building containing approximately 354,000 rentable square feet located on a 15.2-acre parcel of land in Naperville, Illinois;

the acquisition of a four-story office building containing approximately 227,000 rentable square feet located on a 13.2-acre parcel of land in Orlando, Florida;

information regarding our indebtedness;

an amendment to our share redemption program and entering into an insurance agreement that may help us fund redemptions under the program upon the death of stockholders;

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

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

**Status of Our Public Offerings**

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

On November 10, 2005, we commenced our follow-on offering of 300.6 million shares of common stock. Of these shares, we are offering 300 million shares in a primary offering and 0.6 million shares under our dividend reinvestment plan. On April 14, 2006, we amended the registration statements for our follow-on offering and our initial public offering in order to offer in a combined prospectus the 300.6 million shares registered under the follow-on offering and the 174.4 million unsold dividend reinvestment plan shares registered under the initial public offering. As of August 9, 2006, we had received gross offering proceeds of approximately \$517.5 million from the sale of approximately 51.8 million shares in our follow-on offering.

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As of August 9, 2006, we had received aggregate gross offering proceeds of approximately \$2.5 billion from the sale of approximately 248.9 million shares in our public offerings. After incurring approximately \$49.6 million in acquisition fees, approximately \$233.5 million in selling commissions and dealer manager fees, approximately \$38.3 million in other organization and offering expenses, and funding common stock redemptions of approximately \$34.8 million pursuant to the share redemption program, as of August 9, 2006, we had raised aggregate net offering proceeds available for investment in properties of approximately \$2.1 billion, substantially all of which had been invested in real estate properties.

#### **Acquisition of the 263 Shuman Boulevard Building**

On July 20, 2006, we purchased a five-story office building containing approximately 354,000 rentable square feet (the 263 Shuman Boulevard Building ) for approximately \$55.3 million, exclusive of closing costs. The acquisition was funded with net proceeds raised from this offering and with proceeds from our \$400.0 million line of credit with Wachovia Bank, N.A. The 263 Shuman Boulevard Building is located on an approximate 15.2-acre parcel of land at 263 Shuman Boulevard in Naperville, Illinois. The 263 Shuman Boulevard Building was purchased from 263 Shuman, LLC, which is not affiliated with us or our advisor.

The 263 Shuman Boulevard Building, which was completed in 1986, is entirely leased to OfficeMax Incorporated. OfficeMax, which is traded on the New York Stock Exchange, is a provider of business-to-business and retail office products distribution. OfficeMax provides office supplies and paper, print and document services, technology products and solutions, and furniture to large, medium and small businesses and consumers. OfficeMax reported a net worth, as of April 1, 2006, of approximately \$1.7 billion.

The current annual base rent payable under the OfficeMax lease, which commenced in June 2006 and expires in May 2017, is approximately \$4.5 million; however, provided that OfficeMax is not in default under its lease, OfficeMax is entitled to a full abatement of its base rent and its proportionate share of taxes and a partial abatement of its proportionate share of operating expenses that would otherwise be due for the first lease year (the Rental Concession ). OfficeMax has the right, at its option, to extend the initial term of its lease for two additional five-year periods. OfficeMax has a one-time option to terminate its lease effective in 2014 for a termination fee equal to the sum of unamortized leasing costs and the Rental Concession, plus six months of base rent and operating expenses.

We do not intend to make significant renovations or improvements to the 263 Shuman Boulevard Building in the near term. We believe that the 263 Shuman Boulevard Building is adequately insured.

#### **Acquisition of the 11950 Corporate Boulevard Building**

On August 9, 2006, we purchased a four-story office building containing approximately 227,000 rentable square feet (the 11950 Corporate Boulevard Building ) for approximately \$44.0 million, exclusive of closing costs. The acquisition was funded with net proceeds raised from this offering and with proceeds from our \$400.0 million line of credit with Wachovia Bank, N.A. The 11950 Corporate Boulevard Building is located on an approximate 13.2-acre parcel of land at 11950 Corporate Boulevard in Orlando, Florida. The 11950 Corporate Boulevard Building was purchased from 11950 Corporate Owner Corporation, which is not affiliated with us or our advisor.

The 11950 Corporate Boulevard Building, which was completed in 2001, is entirely leased to Siemens Westinghouse Power Corporation ( Siemens Westinghouse ). Siemens Westinghouse, a subsidiary of the German electronics and electrical engineering group Siemens AG, is headquartered in Orlando, Florida and is the regional business entity in the Americas for Siemens Power Generation 's global fossil power generation business. Siemens AG, which is traded on the New York Stock Exchange, has approximately 461,000 employees working to develop and manufacture products, design and install complex systems and projects, and tailor a wide range of services for individual requirements. Siemens AG focuses on the areas of information and communications, automation and control, power, transportation, medical, and lighting. Siemens AG reported a net worth, as of June 30, 2006, of approximately 27.8 billion. The current annual base rent payable under the Siemens Westinghouse lease, which commenced in April 2001 and expires in June 2011, is approximately \$3.2 million. Siemens Westinghouse has the right, at its option, to extend the initial term of its lease for two additional five-year periods.

We do not intend to make significant renovations or improvements to the 11950 Corporate Boulevard Building in the near term. We believe that the 11950 Corporate Boulevard Building is adequately insured.

#### **Indebtedness**

As of August 9, 2006, our leverage ratio, that is, the ratio of total debt to total purchase price of real estate assets plus cash and cash equivalents, was approximately 22%. As of August 9, 2006, total indebtedness was approximately \$605.4 million, which consisted of fixed-rate mortgages on certain properties of approximately \$475.6 million, approximately \$115.5 outstanding under our \$400.0 million credit facility and approximately \$14.3

million outstanding under our construction line of credit. Based on the value of our borrowing-base properties, we had approximately \$284.5 million in remaining capacity under our \$400.0 million line of credit with Wachovia, N.A., of which \$1.4 million was pledged in the form of letters of credit for future tenant improvements and leasing costs.

#### **Amendment to Share Redemption Program**

Our board of directors has further amended our share redemption program, which enables stockholders to sell their shares to us, subject to the limitations described below. The amendment, which will become effective on September 9, 2006, grants us the discretion to redeem all shares submitted for redemption upon the death of stockholders. Set forth below is a full description of our amended share redemption program.

For Ordinary Redemptions (those that do not occur within two years of death or qualifying disability, as defined below), the initial price at which we will repurchase a share under the share redemption program is 91% of the price at which we sold the share. We will pay \$9.10 to redeem a share issued at \$10.00. This initial redemption price will remain fixed until three years after we complete our offering stage. We define the completion of our offering stage to be upon the termination of our first public equity offering that is followed by a one-year period in which we do not engage in another public equity offering. (For purposes of this definition, we do not consider a public equity offering to include offerings on behalf of selling stockholders or offerings related to a dividend reinvestment plan, employee benefit plan or the redemption of interests in our operating partnership).

Three years after we complete our offering stage, the redemption price for Ordinary Redemptions will equal 95% of the estimated per share value of our shares, as estimated by our advisor or another firm chosen for that purpose. We will report this redemption price in the annual report and the three quarterly reports that we publicly file with the SEC.

There are several limitations on our ability to redeem shares:

We will not make an Ordinary Redemption until one year after the issuance of the share to be redeemed.

We will not redeem shares on any redemption date to the extent that such redemptions would cause the amount paid for Ordinary Redemptions since the beginning of the then-current calendar year to exceed 50% of the net proceeds from the sale of shares under our dividend reinvestment plan during such period.

We will limit Ordinary Redemptions and those upon the qualifying disability of a stockholder so that the aggregate of such redemptions during any calendar year do not exceed:

100% of the net proceeds from our dividend reinvestment plan during the calendar year or

5% of the weighted-average number of shares outstanding in the prior calendar year.

Although there is no limit on the number of shares we may redeem upon the death of stockholders, we are under no obligation to redeem such shares to the extent such redemptions would cause total redemptions to exceed the two limits set forth immediately above.

Subject to the limitations described above, we will redeem shares on the last business day of each month. Requests for redemption must be received at least five business days before a month-end redemption date in order for us to repurchase the shares that month. If we cannot purchase all shares presented for redemption, we will honor redemption requests at the applicable month-end on a pro rata basis. We will deviate from pro rata purchases in two minor ways: (i) if a pro rata redemption would result in you owning less than half of the minimum amount required by applicable state law, then we would redeem all of your shares; and (ii) if a pro rata redemption would result in you owning more than half but less than all of the amount required by applicable state law, then we would not redeem any shares that would reduce your holdings below the minimum amount. In the event that you seek the redemption of all of your shares, there is no holding-period requirement for shares purchased pursuant to our dividend reinvestment plan.

If we do not completely satisfy your redemption request at month-end because the request was not received in time or because of the restrictions on the number of shares we can redeem under the program, we will treat the unsatisfied portion of the redemption request as a request for redemption in the following month unless you withdraw the request before the next date for redemptions. You may withdraw a redemption request upon written notice to us at the address below before the date for redemption.

In several respects we treat redemptions sought within two years of a stockholder's death or qualifying disability differently from Ordinary Redemptions. First, there is no requirement that the shares be outstanding for at least a year before being redeemed. Second, the redemption price equals 100% of the price at which we sold the share until three years after we complete our offering stage. At that time, the redemption price will be 100% of the price at which we sold the share or 100% of the estimate of our per share value, whichever is greater. Finally, as explained above, there is no limit on the number of shares we may redeem upon the death of stockholders.

In order for a disability to entitle a stockholder to the special redemption terms described above (a qualifying disability), (1) the stockholder must receive a determination of disability based upon a physical or mental condition or impairment arising after the date the stockholder acquired the shares to be redeemed, and (2) such determination of disability must be made by the governmental agency responsible for reviewing the disability retirement benefits that the stockholder could be eligible to receive (the applicable governmental agency). The applicable governmental agencies are limited to the following: (i) if the stockholder paid Social Security taxes and therefore could be eligible to receive Social Security disability benefits, then the applicable governmental agency is the Social Security Administration or the agency charged with responsibility for administering Social Security disability benefits at that time if other than the Social Security Administration; (ii) if the stockholder did not pay Social Security benefits and therefore could not be eligible to receive Social Security disability benefits, but the stockholder could be eligible to receive disability benefits under the Civil Service Retirement System (CSRS), then the applicable governmental agency is the U.S. Office of Personnel Management or the agency charged with responsibility for administering CSRS benefits at that time if other than the Office of Personnel Management; or (iii) if the stockholder did not pay Social Security taxes and therefore could not be eligible to receive Social Security disability benefits but suffered a disability that resulted in the stockholder's discharge from military service under conditions that were other than dishonorable and therefore could be eligible to receive military disability benefits, then the applicable governmental agency is the Veteran's Administration or the agency charged with responsibility for administering military death benefits at that time if other than the Veteran's Administration.

Disability determinations by governmental agencies for purposes other than those listed above, including but not limited to worker's compensation insurance, administration or enforcement of the Rehabilitation Act or Americans with Disabilities Act or waiver of insurance premiums, will not entitle a stockholder to the special redemption terms described above. Redemption requests following an award by the applicable governmental agency of disability benefits must be accompanied by: (1) the investor's initial application for disability benefits and (2) a Social Security Administration Notice of Award, a U.S. Office of Personnel Management determination of disability under CSRS, a Veteran's Administration record of disability-related discharge or such other documentation issued by the applicable governmental agency that we deem acceptable and demonstrates an award of the disability benefits.

We understand that the following disabilities do not entitle a worker to Social Security disability benefits:

disabilities occurring after the legal retirement age,

temporary disabilities and

disabilities that do not render a worker incapable of performing substantial gainful activity.

Therefore, such disabilities will not qualify for the special redemption terms except in the limited circumstances when the investor is awarded disability benefits by the other applicable governmental agencies described above.

A stockholder that is a trust may only redeem on the terms available in connection with the death or disability of a stockholder if the deceased or disabled was the sole beneficiary of the trust or if the only other beneficiary of the trust was the spouse of the deceased or disabled.

Qualifying stockholders who desire to redeem their shares must give written notice to Wells Investment Securities, the dealer manager for this offering, at 6200 The Corners Parkway, Suite 250, Norcross, Georgia 30092, ATTN: Investor Services. Wells Investment Securities is responsible for all services to be performed in connection with the share redemption program, although it has outsourced clerical duties to our advisor.

Our board of directors may amend, suspend or terminate the share redemption program upon 30 days' notice. However, under the terms of our recently amended Corporate Governance Guidelines, until a secondary market develops for shares of our common stock or our board's decision to commence a liquidation of the Company, we may not amend the share redemption program in a way that materially adversely affects the rights of redeeming heirs without the approval of our stockholders. We will notify you of any amendment, suspension or termination of the share redemption program (i) in the annual or quarterly reports mentioned above or (ii) by means of a separate mailing, accompanied by disclosure in a current or periodic report under the Securities Exchange Act of 1934. During a public offering, we will also include this information in a prospectus supplement or post-effective amendment to the registration statement, as then required under federal securities laws.

Our share redemption program only provides stockholders a limited ability to redeem shares for cash until a secondary market develops for the shares, at which time the program will terminate. No such market presently exists, and we cannot assure you that any market for your shares will ever develop.

On June 16, 2006, in connection with the amendment to our share redemption program, we entered into an insurance agreement with an affiliate of London Life and Casualty Reinsurance Corporation, to provide us with an insurance-backed funding source for the redemption of the shares under our share redemption program in the event we receive an unusually large number of redemption requests due to the death of investors. The funding for redemptions under the share redemption program was previously funded solely from funds received from our dividend reinvestment plan. After the deductible has been met under the insurance agreement, funds will be disbursed to us, upon receipt of a share re-registration or redemption request due to the death of a stockholder.

In accordance with the insurance agreement, the share redemption program insurance proceeds will be paid to us after a quarterly adjusted deductible, currently \$1.8 million for the quarter ending September 30, 2006, is met. The deductible adjusts with additional investment proceeds raised and with the changing demographics of our stockholder base (age, gender, etc.). The maximum dollar value of proceeds that we can collect under the insurance agreement is \$6.0 billion in aggregate or \$5.0 million for any individual redemption request. The insurance agreement has a 10-year term unless it expires earlier upon the occurrence of one of the following liquidity events: (i) the listing of our shares on a national exchange, (ii) our liquidation, or (iii) the acquisition of a majority of our shares by an unaffiliated entity or a merger in which we are not the surviving entity. We may elect to terminate the insurance agreement at any time with 30 days' written notice, subject to a \$0.1 million termination fee and possible penalty. The board has agreed to seek the approval of our stockholders prior to terminating this insurance program.

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

The following discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and notes thereto contained in this supplement no. 2, as well as our consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2005 included in the prospectus. This discussion contains forward-looking statements, which can be identified with the use of forward-looking terminology such as "may," "will," "intend" or similar words. Actual results may differ from those described in forward-looking statements. For a discussion of the factors that could cause actual results to differ from those anticipated, see "Risk Factors" in the prospectus.

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

## Liquidity and Capital Resources

### *Overview*

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

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

### *Short-term Liquidity and Capital Resources*

During the six months ended June 30, 2006, we generated net cash flows from operating activities of approximately \$66.0 million, which is primarily comprised of receipts for rental income, tenant reimbursements, hotel income, and interest and other income, partially offset by payments for property operating costs, interest expense, asset and property management fees, hotel operating costs, and general and administrative expenses. From cash flows from operating activities during the six months ended June 30, 2006, we paid dividends to stockholders of approximately \$63.9 million. During the six months ended June 30, 2006, we generated net cash flows from financing activities of approximately \$36.0 million, primarily as a result of raising proceeds from the sale of common stock under our public offerings, net of commissions, dealer-manager fees, and other offering costs, of approximately \$378.3 million, reduced by net debt repayments of approximately \$258.5 million and redemptions of common stock of approximately \$14.0 million. Such net cash flows from financing activities and cash on hand were used primarily to invest approximately \$89.5 million in real estate and earnest money and pay acquisition fees of approximately \$10.6 million. We expect to utilize residual cash and cash equivalents of approximately \$34.2 million as of June 30, 2006 to satisfy current liabilities, pay future dividends, fund future acquisitions of real properties, or reduce indebtedness.

We intend to continue to generate capital from the sale of common stock in this offering and from third-party borrowings, and to use such capital primarily to fund future acquisitions of real estate. As of July 31, 2006, we held cash balances of approximately \$46.2 million and had approximately \$92.0 million of outstanding borrowings under the \$400.0 million unsecured revolving financing facility with a syndicate of banks led by Wachovia Bank, N.A. (the Wachovia Line of Credit). As of July 31, 2006, after consideration of letters of credit pledged against the Wachovia Line of Credit, we had a remaining borrowing capacity of approximately \$306.6 million under the Wachovia Line of Credit. Accordingly, we believe that we have adequate capacity to continue to expand our portfolio and meet our future operating cash flow needs. We expect to use substantially all of our future operating cash flow, after payment for certain capital expenditures, to pay dividends to stockholders and to use cash on hand and third-party borrowings to fund future acquisitions of real properties.

On June 2, 2006, our board of directors declared a daily dividend for stockholders of record from June 16, 2006 through September 15, 2006 in an amount equal to an annualized dividend of \$0.60 per share, which is consistent with the rate of dividends declared for each quarter in 2005 and the first two quarters of 2006 on a per share basis. Such dividend will be paid during September 2006.

*Long-term Liquidity and Capital Resources*

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

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

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

*Contractual Commitments and Contingencies*

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

<b>Contractual Obligations</b>	<b>Payments Due During the Years Ending December 31, Remainder</b>				
	<b>Total</b>	<b>of 2006</b>	<b>2007-2008</b>	<b>2009-2010</b>	<b>Thereafter</b>
Outstanding debt obligations <sup>(1)</sup>	\$ 569,204	\$ 231	\$ 213,576	\$ 25,029	\$ 330,368
Capital lease obligations	107,040	2,340	9,360	9,360	85,980
Purchase obligations <sup>(2)</sup>	250,400	250,400			
Operating lease obligations	3,150	30	120	120	2,880
<b>Total</b>	<b>\$ 929,794</b>	<b>\$ 253,001</b>	<b>\$ 223,056</b>	<b>\$ 34,509</b>	<b>\$ 419,228</b>

<sup>(1)</sup> Amounts include principal payments only. We made interest payments of \$19.1 million during the six months ended June 30, 2006 and expect to pay interest in future periods on outstanding debt obligations based on the rates and terms disclosed in Note 2 to our consolidated financial statements for the year ended December 31, 2005 included in the prospectus.

<sup>(2)</sup> Includes purchase commitments for the Decision One Building, the 80 Park Place Building, and the 263 Shuman Boulevard Building, all of which were under contract at June 30, 2006. Refer to Note 8 to our accompanying consolidated financial statements for further explanation.



## Results of Operations

### *Overview*

Our results of operations are not indicative of those expected in future periods as we expect that rental income, tenant reimbursements, operating expenses, asset management fees, depreciation, amortization, and net income will increase in future periods as a result of owning the assets we acquired during the last six months of 2005 and the first six months of 2006 for an entire period and as a result of anticipated future acquisitions of real estate assets.

We commenced our initial public offering on December 1, 2003. Following the receipt and acceptance of subscriptions for the minimum offering of \$2,500,000 on January 22, 2004, we acquired 25 real properties during 2004 and the first six months of 2005. During the remainder of 2005 and the first six months of 2006, we invested in 17 additional properties, which increased our total portfolio to 42 properties as of June 30, 2006. Accordingly, the results of operations presented for the three months and six months ended June 30, 2006 and June 30, 2005 are not directly comparable.

### *Comparison of the three months ended June 30, 2005 versus the three months ended June 30, 2006*

Rental income and tenant reimbursements increased from approximately \$29.8 million and \$6.0 million, respectively, for the three months ended June 30, 2005 to approximately \$58.5 million and \$14.5 million, respectively, for the three months ended June 30, 2006, primarily as a result of the growth in the portfolio during the last six months of 2005 and the first six months of 2006. Rental income and tenant reimbursements are expected to continue to increase in future periods, as compared to historical periods, as a result of owning the assets acquired during the last six months of 2005 and the first six months of 2006 for an entire period and future acquisitions of real estate assets.

Hotel income and hotel operating costs of approximately \$6.0 million and \$4.2 million, respectively, were recognized for the three months ended June 30, 2006 and reflect earnings on one hotel property located in Cleveland, Ohio, which we acquired during the fourth quarter of 2005.

Property operating costs and asset and property management fees increased from approximately \$10.3 million and \$2.8 million, respectively, for the three months ended June 30, 2005 to approximately \$21.5 million and \$6.2 million, respectively, for the three months ended June 30, 2006, primarily as a result of the growth in the portfolio during the last six months of 2005 and the first six months of 2006. Property operating costs and asset and property management fees are expected to continue to increase in future periods, as compared to historical periods, due to owning the assets acquired during the last six months of 2005 and the first six months of 2006 for an entire period and future acquisitions of additional real estate assets.

Depreciation of real estate and amortization of related lease costs increased from approximately \$5.2 million and \$9.6 million, respectively, for the three months ended June 30, 2005 to approximately \$11.2 million and \$20.0 million, respectively, for the three months ended June 30, 2006, primarily due to the acquisition of properties during the last six months of 2005 and the first six months of 2006. We expect depreciation and amortization to continue to increase in future periods, as compared to historical periods, due to future acquisitions of real estate assets.

General and administrative expenses increased from approximately \$2.5 million for the three months ended June 30, 2005 to approximately \$3.0 million for the three months ended June 30, 2006, primarily due to increases in salary expense reimbursements payable to Wells Capital and Wells Management Company, Inc. ( Wells Management ) as a result of acquiring additional properties during the last six months of 2005 and the first six months of 2006. General and administrative expenses as a percent of total revenues decreased from approximately 7% for the three months ended June 30, 2005 to approximately 4% for the three months ended June 30, 2006.

Interest expense increased from approximately \$5.4 million for the three months ended June 30, 2005 to approximately \$10.2 million for the three months ended June 30, 2006, primarily due to new mortgage notes and mortgage notes assumed in connection with property acquisitions during the last six months of 2005, as well as an increase in average borrowings under our line of credit. Average borrowings under our line of credit increased from approximately \$0.9 million during the three months ended June 30, 2005 to \$163.4 million during the three months ended June 30, 2006. Future levels of interest expense will vary primarily based on the amounts of future

borrowings and the costs of borrowings. Future borrowings will be used primarily to fund future acquisitions of real estate or interests therein. Accordingly, the amounts of future borrowings and future interest expense will largely depend on the level of additional proceeds we raise in this offering and any future offerings, the opportunities to acquire real estate assets consistent with our investment objectives, and the timing of such future acquisitions.

Minority interest in earnings of consolidated entities increased from approximately \$75,000 for the three months ended June 30, 2005 to approximately \$405,000 for the three months ended June 30, 2006. This increase is primarily a result of acquiring interests in three separate joint ventures, as well as the consolidation of a variable interest entity in which we are the primary beneficiary, during the last six months of 2005. Earnings allocated to minority interest partners fluctuate based on the level of earnings generated by the respective properties and the nature of the allocation provisions provided in the joint venture agreements.

Net income and net income per share increased from approximately \$1.4 million and \$0.01, respectively, for the three months ended June 30, 2005 to approximately \$4.1 million and \$0.02, respectively, for the three months ended June 30, 2006, primarily due to the increase in net operating income generated from our growing portfolio of properties outpacing the increase in portfolio expenses during the three months ended June 30, 2006, as compared to the three months ended June 30, 2005. We expect future real estate acquisitions to result in an increase in net income in future periods. The level of future net income per share will vary primarily based on the level of proceeds raised in this offering and any future offerings and the rate at which we are able to invest such proceeds in income-generating real estate assets.

*Comparison of the six months ended June 30, 2005 versus the six months ended June 30, 2006*

Rental income and tenant reimbursements increased from approximately \$54.9 million and \$11.1 million, respectively, for the six months ended June 30, 2005 to approximately \$114.8 million and \$27.4 million, respectively, for the six months ended June 30, 2006, primarily as a result of the growth in the portfolio during the last six months of 2005 and the first six months of 2006. Rental income and tenant reimbursements are expected to continue to increase in future periods, as compared to historical periods, as a result of owning the assets acquired during the last six months of 2005 and the first six months of 2006 for an entire period and future acquisitions of real estate assets.

Hotel income and hotel operating costs of approximately \$10.4 million and \$8.0 million, respectively, were recognized for the six months ended June 30, 2006 and reflect earnings on one hotel property located in Cleveland, Ohio, which we acquired during the fourth quarter of 2005.

Property operating costs and asset and property management fees increased from approximately \$18.1 million and \$5.4 million, respectively, for the six months ended June 30, 2005 to approximately \$43.0 million and \$12.0 million, respectively, for the six months ended June 30, 2006, primarily as a result of the growth in the portfolio during the last six months of 2005 and the first six months of 2006. Property operating costs and asset and property management fees are expected to continue to increase in future periods, as compared to historical periods, due to owning the assets acquired during the last six months of 2005 and the first six months of 2006 for an entire period and future acquisitions of additional real estate assets.

Depreciation of real estate and amortization of related lease costs increased from approximately \$9.2 million and \$18.0 million, respectively, for the six months ended June 30, 2005 to approximately \$21.9 million and \$39.5 million, respectively, for the six months ended June 30, 2006, primarily due to the acquisition of properties during the last six months of 2005 and the first six months of 2006. We expect depreciation and amortization to continue to increase in future periods, as compared to historical periods, due to future acquisitions of real estate assets.

General and administrative expenses increased from approximately \$4.6 million for the six months ended June 30, 2005 to approximately \$5.9 million for the six months ended June 30, 2006, primarily due to increases in salary expense reimbursements payable to Wells Capital and Wells Management as a result of acquiring additional properties during the last six months of 2005 and the first six months of 2006. General and administrative expenses as a percent of total revenues decreased from approximately 7% for the six months ended June 30, 2005 to approximately 4% for the six months ended June 30, 2006.

Interest expense increased from approximately \$11.2 million for the six months ended June 30, 2005 to approximately \$21.3 million for the six months ended June 30, 2006, primarily due to new mortgage notes and mortgage notes assumed in connection with property acquisitions during the last six months of 2005, as well as an increase in average borrowings under our line of credit. Average borrowings under our line of credit increased from approximately \$19.7 million during the first six months of 2005 to \$217.3 million during the first six months of 2006. Future levels of interest expense will vary primarily based on the amounts of future borrowings and the costs of borrowings. Future borrowings will be used primarily to fund future acquisitions of real estate or interests therein. Accordingly, the amounts of future borrowings and future interest expense will largely depend on the level of additional proceeds we raise in this offering and any future offerings, the opportunities to acquire real estate assets consistent with our investment objectives, and the timing of such future acquisitions.

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

Minority interest in earnings of consolidated entities increased from approximately \$106,000 for the six months ended June 30, 2005 to approximately \$376,000 for the six months ended June 30, 2006. This increase is primarily a result of acquiring interests in three separate joint ventures, as well as the consolidation of a variable interest entity in which we are the primary beneficiary, during the last six months of 2005. Earnings allocated to minority interest partners fluctuate based on the level of earnings generated by the respective properties and the nature of the allocation provisions provided in the joint venture agreements.

Net income increased from approximately \$2.2 million for the six months ended June 30, 2005 to approximately \$3.2 million for the six months ended June 30, 2006, while net income per share decreased from approximately \$0.02 for the six months ended June 30, 2005 to approximately \$0.01 for the six months ended June 30, 2006. The increase in net income is primarily due to the increase in net operating income generated from our growing portfolio of properties outpacing the increase in portfolio expenses during the six months ended June 30, 2006, as compared to the six months ended June 30, 2005. The decrease in net income per share is primarily due to the increase in proceeds raised in this offering outpacing the increase in net income. We expect future real estate acquisitions to result in an increase in net income in future periods and expect future net income per share to fluctuate primarily based on the level of proceeds raised in this offering and any future offerings the rate at which we are able to invest such proceeds in income-generating real estate assets.

### **Funds From Operations**

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

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

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Net income	\$ 4,086	\$ 1,429	\$ 3,205	\$ 2,238
Add:				
Depreciation of real assets	11,232	5,172	21,909	9,231
Amortization of lease-related costs	20,044	9,644	39,513	18,004
<b>FFO</b>	<b>\$ 35,362</b>	<b>\$ 16,245</b>	<b>\$ 64,627</b>	<b>\$ 29,473</b>
Weighted-average shares outstanding	227,108	119,079	216,664	104,656

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

*Noncash Items Included in Net Income:*

Straight-line rental revenue of approximately \$5.3 million and \$3.3 million was recognized for the three months ended June 30, 2006 and June 30, 2005, respectively, and approximately \$11.0 million and \$5.5 million was recognized for the six months ended June 30, 2006 and June 30, 2005, respectively;

Amortization of above-market and below-market in-place leases was recognized as net decreases to rental revenues of approximately \$2.8 million and \$1.0 million for the three months ended June 30, 2006 and June 30, 2005, respectively, and approximately \$5.7 million and \$1.7 million for the six months ended June 30, 2006 and June 30, 2005, respectively;

Amortization of deferred financing costs of approximately \$0.2 million and \$0.4 million was recognized as interest expense for the three months ended June 30, 2006 and June 30, 2005, respectively, and approximately \$0.5 million and \$0.9 million was recognized as interest expense for the six months ended June 30, 2006 and June 30, 2005, respectively; and

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

*Cash Item Excluded from Net Income:*

Master lease proceeds of approximately \$0.1 million and \$6.9 million were collected during the three months ended June 30, 2006 and 2005, respectively, relating to previous acquisitions, and approximately \$0.3 million and \$6.9 million were collected during the six months ended June 30, 2006 and 2005, respectively, relating to previous acquisitions. Master lease proceeds are recorded as an adjustment to the basis of real estate assets during the period acquired and, accordingly, are not included in net income or FFO. We consider master lease proceeds when determining cash available for dividends to our stockholders.

### **Election as a REIT**

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986 (the Code), as amended, and have operated as such beginning with our taxable year ended December 31, 2003. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our adjusted taxable income, as defined in the Code, to our stockholders, computed without regard to the dividends-paid deduction and by excluding our net capital gain. As a REIT, we generally will not be subject to federal income tax on income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we will then be subject to federal income taxes on our taxable income for that year and for the four years following the year during which qualification is lost, unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to our stockholders. However, we believe that we are organized and operate in such a manner as to qualify for treatment as a REIT for federal income tax purposes.

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

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

### **Inflation**

We are exposed to inflation risk, as income from long-term leases is the primary source of our cash flows from operations. There are provisions in the majority of our tenant leases that are intended to protect us from, and mitigate the risk of, the impact of inflation. These provisions include rent steps, reimbursement billings for operating expense pass-through charges, real estate tax and insurance reimbursements on a per square-foot basis, or in some cases, annual reimbursement of operating expenses above a certain per square-foot allowance. However, due to the long-term nature of the leases, the leases may not re-set frequently enough to fully cover inflation.

### **Application of Critical Accounting Policies**

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

*Investment in Real Estate Assets*

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

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

*Allocation of Purchase Price of Acquired Assets*

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

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

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

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

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

*Valuation of Real Estate Assets*

We continually monitor events and changes in circumstances that could indicate that the carrying amounts of the real estate and related intangible assets of both operating properties and properties under construction, in which we have an ownership interest, either directly or through investments in joint ventures, may not be recoverable. When indicators of potential impairment are present that suggest that the carrying amounts of real estate and related

intangible assets may not be recoverable, we assess the recoverability of these assets by determining whether the carrying value will be recovered through the undiscounted future operating cash flows expected from the use of the asset and its eventual disposition. In the event that such expected undiscounted future cash flows do not exceed the carrying value, we decrease the carrying value of the real estate and related intangible assets to the estimated fair values, as defined by Statement of Financial Accounting Standard No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and recognize an impairment loss. Estimated fair values are calculated based on the following information, in order of preference, dependent upon availability: (i) recently quoted market prices, (ii) market prices for comparable properties, or (iii) the present value of undiscounted cash flows, including estimated salvage value. We have determined that there has been no impairment in the carrying value of our real estate assets during the six months ended June 30, 2006 and 2005.

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

### **Related-Party Transactions and Agreements**

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

### **Commitments and Contingencies**

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

Take-Out Agreements;

Decision One Building;

Properties under contract; and

Commitments under existing lease agreements.

### **Events Subsequent to June 30, 2006**

Subsequent to June 30, 2006, we sold additional shares of common stock as more fully explained in this supplement no. 2 under the heading Status of Our Public Offerings. On July 20, 2006, we acquired the 263 Shuman Boulevard Building as described under the heading Acquisition of the 263 Shuman Boulevard Building. On August 9, 2006, we acquired the 11950 Corporate Boulevard Building as described under the heading Acquisition of the 11950 Corporate Boulevard Building.

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## WELLS REAL ESTATE INVESTMENT TRUST II, INC.

## CONSOLIDATED BALANCE SHEETS

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

	(Unaudited)	
	June 30,	December 31,
	2006	2005
<b>Assets:</b>		
Real estate assets, at cost:		
Land	\$ 285,838	\$ 277,097
Buildings and improvements, less accumulated depreciation of \$53,870 and \$31,961 as of June 30, 2006 and December 31, 2005, respectively	1,640,715	1,589,689
Intangible lease assets, less accumulated amortization of \$75,186 and \$43,538 as of June 30, 2006 and December 31, 2005, respectively	364,055	390,001
Construction in progress	588	6,040
<b>Total real estate assets</b>	<b>2,291,196</b>	<b>2,262,827</b>
Cash and cash equivalents	34,234	35,352
Tenant receivables, net of allowance for doubtful accounts of \$1,217 and \$735 as of June 30, 2006 and December 31, 2005, respectively	41,245	27,887
Prepaid expenses and other assets	40,654	44,033
Deferred financing costs, less accumulated amortization of \$1,044 and \$614 as of June 30, 2006 and December 31, 2005, respectively	2,173	3,231
Deferred lease costs, less accumulated amortization of \$35,591 and \$20,929 as of June 30, 2006 and December 31, 2005, respectively	231,393	237,553
Investment in bonds	78,000	78,000
<b>Total assets</b>	<b>\$ 2,718,895</b>	<b>\$ 2,688,883</b>
<b>Liabilities:</b>		