WELLS REAL ESTATE INVESTMENT TRUST II INC
Form 424B3
August 21, 2008
Index to Financial Statements

FILED PURSUANT TO RULE 424 (B) (3)
REGISTRATION NO. 333-125643

WELLS REAL ESTATE INVESTMENT TRUST II, INC.

SUPPLEMENT NO. 10 DATED AUGUST 21, 2008

TO THE PROSPECTUS DATED APRIL 24, 2007

This document supplements, and should be read in conjunction with, our prospectus dated April 24, 2007 relating to our offering of 475,000,000 shares of common stock, as supplemented by supplement no. 7 dated April 18, 2008, supplement no. 8 dated May 23, 2008 and supplement no. 9 dated July 31, 2008. 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 two 14-story office buildings containing approximately 955,000 aggregate rentable square feet located in Atlanta, Georgia (the Lindbergh Center Buildings);
- the acquisition of a 95% interest in a 14-story office building containing approximately 356,000 rentable square feet located on approximately 2.8 acres of land in Sandy Springs, Georgia (the Three Glenlake Building);
- information regarding our indebtedness;
- 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 and six months ended June 30, 2008, filed on August 14, 2008;
- our unaudited financial statements as of and for the three months and six months ended June 30, 2008 as filed in our Quarterly Report on Form 10-Q, filed on August 14, 2008;
- audited financial statement of the Lindbergh Center Buildings; and
- unaudited pro forma financial statements as of June 30, 2008 and for the year ended December 31, 2007 and the six months ended June 30, 2008.

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 this 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 this 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 and registered under the initial public offering. As of August 15, 2008, we had received gross offering proceeds of approximately $2.3 billion from the sale of approximately 237.5 million shares in this follow-on offering, including dividend reinvestment plan shares sold under the combined prospectus.

As of August 15, 2008, we had received aggregate gross offering proceeds of approximately $4.3 billion from the sale of approximately 434.6 million shares in our public offerings. After incurring approximately $86.5 million in acquisition fees, approximately $398.1 million in selling commissions and dealer-manager fees, approximately $57.7 million in other organization and offering expenses, and funding common stock redemptions of approximately $176.6 million pursuant to the share redemption program, as of August 15, 2008, we had raised aggregate net offering proceeds available for investment in properties of approximately $3.6 billion, substantially all of which had been invested in real estate properties.

Acquisition of the Lindbergh Center Buildings

On July 1, 2008, we purchased two 14-story office buildings located on approximately 3.0 acres of land at 575 Morosgo Drive in Atlanta, Georgia (collectively, the Lindbergh Center Buildings). We purchased the Lindbergh Center Buildings subject to a ground lease that expires on July 31, 2030 and we have options available to renew the ground lease through July 31, 2099. The current annual rent due under the ground lease is approximately $1.2 million. The Lindbergh Center Buildings contain approximately 955,000 aggregate rentable square feet. The purchase price of the Lindbergh Center Buildings was approximately $285.0 million, exclusive of closing costs. The Lindbergh Center Buildings, and related revenue bond and capital lease described below, were purchased from BellSouth Telecommunications, Inc., which is not affiliated with us or our advisor. The acquisition of the Lindbergh Center Buildings was funded with net proceeds raised from this offering and with proceeds from our $450.0 million line of credit with Wachovia Bank, N.A. (the Wachovia Line of Credit).

Index to Financial Statements

Fee simple title to the land on which the Lindbergh Center Buildings are located is held by Metropolitan Atlanta Rapid Transit Authority (MARTA). MARTA leases the land under a 99-year ground lease (MARTA Ground Lease) to the Development Authority of Fulton County (the Development Authority), which issued a taxable revenue bond for $250.0 million in connection with the construction of the Lindbergh Center Buildings. In connection with the acquisition of the Lindbergh Center Buildings, we assumed the investment in the development authority bond and a corresponding obligation under a capital lease of the Lindbergh Center Buildings. Certain real property tax abatement benefits are available to us because the leasehold interest under the MARTA Ground Lease is held by the Development Authority. The property tax abatement benefits will expire in 2012. The amount of rent payable under the lease (which we owe) and the amount of interest receivable on the bond (to which we are entitled) are approximately the same. Upon exercise of an option to purchase contained in the lease, we will acquire the leasehold interest under the MARTA Ground Lease. We are not likely to exercise the purchase option until the tax abatement benefits expire. Upon expiration of the MARTA Ground Lease, title to the Lindbergh Center Buildings will vest in MARTA.

The Lindbergh Center Buildings, which were constructed in 2002, are entirely leased to AT&T Services, Inc. (AT&T Services), a wholly-owned subsidiary of AT&T Inc. (AT&T). AT&T, which guarantees the AT&T Services lease, reported a net worth as of June 30, 2008 of approximately $111.9 billion. AT&T Services provides local and long distance phone service, wireless and data communications, paging, internet access and messaging, cable and satellite television, security services, and telecommunications equipment in the United States. AT&T Services also provides directory advertising and publishing. The current annual base rent under the AT&T Services leases is approximately $19.9 million. The current remaining lease term on the AT&T Services lease is 12 years. AT&T Services has the right to extend the term of its leases for two successive periods of five years each.

Acquisition of the Three Glenlake Building

On July 31, 2008, we acquired a 95% interest in a 14-story office building containing approximately 356,000 rentable square feet located on approximately 2.8 acres of land at 3 Glenlake Parkway in Sandy Springs, Georgia (the Three Glenlake Building) for approximately $100.6 million, exclusive of closing costs. Our interest in the Three Glenlake Building, and related revenue bond and capital lease described below, were purchased from Two Glenlake, LLC (Two Glenlake), the joint venture partner. Two Glenlake retained a 5% interest in the newly formed joint venture. Two Glenlake is not affiliated with us or our advisor. The acquisition of our interest in the Three Glenlake Building was funded with i) net proceeds raised from this offering, ii) proceeds from our $450.0 million Wachovia Line of Credit and iii) proceeds from a $25.0 million loan secured by the Three Glenlake Building. The loan bears interest at LIBOR plus 90 basis points and matures on July 31, 2013; however, interest has effectively been fixed at 5.95% for the life of the loan through an interest rate swap agreement. Interest is due monthly; however, under the terms of the loan agreement, a portion of the debt service amounts will be deferred and added to the outstanding balance of the note over the term.

Fee simple title to the Three Glenlake Building is held by the Development Authority of Fulton County (the Development Authority), which issued a taxable revenue bond for $120.0 million in connection with the construction of the Three Glenlake Building. In connection with the acquisition of the Three Glenlake Building, we assumed the investment in the development authority bond and a corresponding obligation under a capital lease of the Three Glenlake Building. Certain real property tax abatement benefits are available to us because the fee simple title to the Three Glenlake Building is held by the Development Authority. The property tax abatement benefits will expire in 2017. The amount of rent payable under the lease (which we owe) and the amount of interest receivable on the bond (to which we are entitled) are approximately the same. We will acquire fee simple title to the Three Glenlake Building upon exercise of an option to purchase contained in the lease. We are not likely to exercise the purchase option until the tax abatement benefits expire.

The Three Glenlake Building, which was constructed in 2008, is entirely leased to Newell Rubbermaid, Inc. (Rubbermaid). Rubbermaid reported a net worth as of June 30, 2008 of approximately $2.3 billion. Rubbermaid is a global marketer of consumer and commercial products including office products, cleaning products, organizational products and tools and hardware. The current annual base rent under the Rubbermaid lease is approximately $6.5 million. The current remaining lease term on the Rubbermaid lease is 12 years. Rubbermaid has the right to extend the term of its lease for two successive periods of five years each.

Indebtedness

As of August 15, 2008, our leverage ratio, that is, the ratio of total debt to total purchase price of real estate assets plus cash and cash equivalents, was approximately 26%. As of August 15, 2008, we had total outstanding indebtedness of $1.3 billion, which consisted of $8.3 million outstanding under a fixed-rate line of credit, $100.0 million outstanding under an unsecured variable-rate term loan, and $833.7 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. We currently have $335.0 million outstanding under the Wachovia Line of Credit.

2

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. This discussion contains forward-looking statements, which can be identified with the use of forward-looking terminology such as may, will, intend, or similar words. Actual results may differ from those described in forward-looking statements. For a discussion of the factors that could cause actual results to differ from those anticipated see Risk Factors in the prospectus and supplement no. 7.

During the periods presented, we have continued to receive investor proceeds under this offering of common stock and to invest in real estate assets. Thus, our results of operations for the three months and six months ended June 30, 2008 and 2007 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 under this offering and invested those proceeds in real properties in 2007 and 2008 and anticipate continuing to do so in the future. We also anticipate continuing to receive proceeds from the sale of our common stock under our dividend reinvestment plan in the future, and using a significant portion of those 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, 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.

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 by accumulating significant borrowings to meet a dividend 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 dividend projections.

Short-term Liquidity and Capital Resources

During the six months ended June 30, 2008, we generated net cash flows from operating activities of approximately $107.2 million, which is primarily comprised of receipts of rental payments, tenant reimbursements, hotel income, and interest and other income, partially offset by payments for operating costs, interest expense, asset and property management fees, and general and administrative expenses. From net cash flows from operating activities and cash on hand, we paid dividends to stockholders of approximately $115.4 million during this period. During the six months ended June 30, 2008, we collected investor proceeds held in a tenant improvement escrow account of $18.8 million, received net debt proceeds of $42.1 million and generated net proceeds from the sale of common stock under this offering, net of fees, offering cost reimbursements, and share redemptions of $323.0 million, which were primarily used to fund investments in real estate of $378.2 million. We expect to utilize the residual cash balance on hand as of June 30, 2008 of approximately $41.5 million to satisfy current liabilities, pay future dividends, fund future acquisitions of real properties, or to reduce indebtedness.

We intend to continue to generate capital from the sale of common stock under this offering and to use such capital, along with selective third party borrowings, primarily to fund future acquisitions of real estate. We expect that we will use a significant portion of the proceeds from sales under our dividend reinvestment plan to fund redemptions under the share redemption program. As of July 31, 2008, we had $361.0 million outstanding under the Wachovia Line of Credit. Accordingly, we believe that we have adequate capacity to meet our scheduled purchase and debt obligations noted in the contractual commitments and contingencies table below. We expect to use substantially all of our future operating cash flow, after payments for certain capital expenditures, to pay dividends to stockholders.

On June 2, 2008, our board of directors declared a daily dividend for stockholders of record from June 16, 2008 through September 15, 2008 in an amount equal to an annualized dividend of $0.60 per share, which is consistent with the rate of dividends declared for the first two quarters of 2008 and each quarter of 2007 on a per-share basis. This dividend will be paid in September 2008.

Index to Financial Statements

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 July 31, 2008, approximately 91.8 million shares remain available for sale under this offering, which will expire upon the earlier of the sale of all 300.0 million shares or November 10, 2008. Thereafter, we expect to commence a second follow-on offering pursuant to a registration statement on Form S-11 that we filed with the Securities and Exchange Commission (the SEC) on July 9, 2007. We may continue to offer the 175.0 million dividend reinvestment plan shares beyond these dates until we have sold all of these shares through the reinvestment of dividends. 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 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 will be used to pay dividends. However, we may temporarily use other sources of cash, such as short-term borrowings, to fund dividends from time to time (see Liquidity and Capital Resources Overview above). We expect to use substantially all net cash flows generated from raising equity or debt financing to fund acquisitions, 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 dividends 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 dividends in the future.

Contractual Commitments and Contingencies

Our contractual obligations as of June 30, 2008 will become payable in the following periods (in thousands):

Contractual Obligations	**Total**	**2008**	**2009-2010**	**2011-2012**	**Thereafter**
Outstanding debt obligations [1]	$ 974,216	$ 90,984	$ 184,958	$ 88,849	$ 609,425
Capital lease obligations [2]	294,000			78,000	216,000
Purchase obligations[3]	666,800	523,900	142,900		
Operating lease obligations	124,090	605	2,420	2,555	118,510
Total	$ 2,059,106	$ 615,489	$ 330,278	$ 169,404	$ 943,935

(1) Amounts include principal payments only. We made interest payments, including amounts capitalized, of approximately $19.8 million during the six months ended June 30, 2008 and expect to pay interest in future periods on outstanding debt obligations based on the rates and terms disclosed in Note 4 to our consolidated financial statements for the year ended December 31, 2007 included in this prospectus and in Note 4 to our accompanying consolidated financial statements.

(2) Amount includes principal payments only. We made interest payments of approximately $4.5 million during the six months ended June 30, 2008 and expect to pay interest in future periods based on the terms disclosed in Note 5 to our consolidated financial statements for the year ended December 31, 2007 included in this prospectus and in Note 5 to our accompanying consolidated financial statements.

(3) Represents purchase commitments for the Three Glenlake Building, the Cranberry Woods Buildings, the Dvintsev Business Center Tower B, the Lindbergh Center Buildings, and the 1580 West Nursery Road Buildings, which were under contract or under construction at June 30, 2008 and the foreign currency exchange contract. Refer to Note 5 of our accompanying consolidated financial statements for further explanation.

Index to Financial Statements

Results of Operations

Overview

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 June 30, 2007 versus the three months ended June 30, 2008

Rental income and tenant reimbursements increased from approximately $75.8 million and $20.7 million, respectively, for the three months ended June 30, 2007 to approximately $96.7 million and $23.9 million, respectively, for the three months ended June 30, 2008, primarily as a result of the growth in the portfolio. Rental income and tenant reimbursements are expected to continue to increase in future periods, as compared to historical periods, as a result of owning recently acquired properties for an entire period and future acquisitions of real estate assets.

Other property income decreased from approximately $2.0 million for the three months ended June 30, 2007 to $0.7 million for the three months ended June 30, 2008 and is primarily due to fees earned in connection with a lease termination at 5 Houston Center in 2007. Unlike the majority of rental income, which is recognized ratably over long-term contracts, income from lease terminations is recognized once we have completed our obligation to provide space to the tenant.

Property operating costs and asset and property management fees increased from approximately $32.3 million and $7.8 million, respectively, for the three months ended June 30, 2007 to approximately $39.4 million and $9.7 million, respectively, for the three months ended June 30, 2008, primarily as a result of the growth in the portfolio. 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 recently acquired properties for an entire period and future acquisitions of real estate assets.

Depreciation increased from approximately $14.1 million for the three months ended June 30, 2007 to approximately $18.8 million for the three months ended June 30, 2008, 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 owning recently acquired properties for an entire period and future acquisitions of real estate assets.

Amortization increased from approximately $26.5 million for the three months ended June 30, 2007 to approximately $29.9 million for the three months ended June 30, 2008, primarily as a result of the growth in the portfolio offset by recognizing write-offs of unamortized lease specific assets related to a lease termination at 5 Houston Center of approximately $5.2 million during the first quarter of 2007. Amortization is expected to increase in future periods, as compared to historical periods, due to owning recently acquired properties for an entire period and future acquisitions of real estate assets.

General and administrative expenses increased from approximately $4.5 million for the three months ended June 30, 2007 to approximately $6.3 million for the three months ended June 30, 2008, primarily as a result of increases in administrative reimbursements related to the growth in our portfolio and costs incurred in connection with prospective acquisitions that did not close. General and administrative expenses are expected to increase in future periods, as compared to historical periods, due to future acquisitions of real estate assets.

Interest expense increased from approximately $10.4 million for the three months ended June 30, 2007 to approximately $16.8 million for the three months ended June 30, 2008, primarily due to the capital lease obligation assumed in connection with the Lenox Park acquisition, new borrowings and an increase in the average balance outstanding on the Wachovia Line of Credit. We anticipate that future borrowings will be used primarily to fund future acquisitions of real estate. Accordingly, the amounts of future borrowings and future interest expense will depend largely upon the level of additional proceeds that we are able to raise under our public offerings, the timing and availability of opportunities to acquire real estate assets consistent with our investment objectives, our ability to secure financings or re-financings, and changes in market interest rates.

We recognized a gain on interest rate swaps that do not qualify for hedge accounting treatment of approximately $8.4 million for the three months ended June 30, 2008, compared to a loss of $7,000 for the three months ended June 30, 2007, primarily due to a market value adjustment to the interest rate swap agreement on the 222 E. 41st Street Building loan in the second quarter of 2008 prompted by a revised economic outlook. We anticipate that future gains and losses on our interest rate swaps that do not qualify for hedge accounting treatment will fluctuate primarily as a result of changes in market interest rates and changes in the economic outlook for future market rates. Market value adjustments to swaps that qualify for hedge accounting treatment are recorded in other comprehensive income and do not impact net income.

We recognized a loss on foreign currency exchange contract of approximately $0.2 million for the three months ended June 30, 2008 due to a market value adjustment to our foreign currency exchange contract prompted by the decline in value of the U.S. Dollar compared to the Russian ruble. We anticipate that future gains and losses on our foreign currency exchange contract will fluctuate primarily as a result of the future fluctuations in value between the U.S. Dollar and the Russian ruble.

Index to Financial Statements

We recognized a gain on early extinguishment of debt of approximately $3.0 million for the three months ended June 30, 2008 in connection with accepting an offer from the lender to prepay the Key Center Complex mortgage notes for approximately $11.5 million. The net book value of the mortgage notes was approximately $14.5 million, resulting in a gain on early extinguishment of debt of approximately $3.0 million.

Interest and other income increased from approximately $2.7 million for the three months ended June 30, 2007 to approximately $3.9 million for the three months ended June 30, 2008, due to income earned on investment in development authority bonds assumed in connection with the Lenox Park acquisition, partially offset by lower interest income from holding lower average cash balances during the three months ended June 30, 2008, as compared to the three months ended June 30, 2007, due to timing differences in raising capital in our public offerings and closing on property acquisitions. 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 net income and net income per share of approximately $7.7 million and $0.02, respectively, for the three months ended June 30, 2007, as compared to $16.8 million and $0.04, respectively, for the three months ended June 30, 2008. These increases are primarily attributable to the impact of the market value adjustment to the interest rate swap on the 222 E. 41st Street Building loan and the gain on early extinguishment of debt described above. We expect future earnings and earnings per share to increase, exclusive of market value adjustments to the interest rate swap, as a result of current and future real estate acquisitions over the long-term.

Comparison of the six months ended June 30, 2007 versus the six months ended June 30, 2008

Rental income and tenant reimbursements increased from approximately $149.3 million and $41.0 million, respectively, for the six months ended June 30, 2007 to approximately $188.3 million and $49.8 million, respectively, for the six months ended June 30, 2008, primarily as a result of the growth in the portfolio. Rental income and tenant reimbursements are expected to continue to increase in future periods, as compared to historical periods, as a result of owning recently acquired assets for an entire period and future acquisitions of real estate assets.

Other property income decreased from approximately $2.0 million for the six months ended June 30, 2007 to $0.8 million for the six months ended June 30, 2008 and is primarily due to fees earned in connection with a lease termination at 5 Houston Center in the second quarter of 2007. Unlike the majority of rental income, which is recognized ratably over long-term contracts, income from lease terminations is recognized once we have completed our obligation to provide space to the tenant.

Property operating costs and asset and property management fees increased from approximately $62.9 million and $15.4 million, respectively, for the six months ended June 30, 2007 to approximately $79.4 million and $19.0 million, respectively, for the six months ended June 30, 2008, primarily as a result of the growth in the portfolio. 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 recently acquired assets for an entire period and future acquisitions of real estate assets.

Depreciation increased from approximately $28.3 million for the six months ended June 30, 2007 to approximately $36.3 million for the six months ended June 30, 2008, primarily as a result of the growth to the portfolio. Depreciation is expected to increase in future periods, as compared to historical periods, due to owning recently acquired assets for an entire period and future acquisitions of real estate assets.

Amortization increased from approximately $57.4 million for the six months ended June 30, 2007 to approximately $59.2 million for the six months ended June 30, 2008, primarily as a result of the growth in the portfolio. Amortization is expected to increase in future periods, as compared to historical periods, due to owning recently acquired assets for an entire period and future acquisitions of real estate assets.

General and administrative expenses increased from approximately $8.0 million for the six months ended June 30, 2007 to approximately $12.2 million for the six months ended June 30, 2008, primarily as a result of increases in administrative reimbursements related to the growth in our portfolio and costs incurred in connection with prospective acquisitions that did not close. General and administrative expenses are expected to increase in future periods, as compared to historical periods, due to future acquisitions of real estate assets.

Interest expense increased from approximately $22.1 million for the six months ended June 30, 2007 to approximately $31.5 million for the six months ended June 30, 2008, primarily due to the capital lease obligation assumed in connection with the acquisition of five office buildings containing approximately 1 million rentable square feet located on an approximate 17-acre tract of land in Atlanta, Georgia, (the Lenox Park Acquisition) and new borrowings, partially offset by a decrease in the cost of borrowing under the Wachovia Line of Credit. We anticipate that future borrowings will be used primarily to fund future acquisitions of real

Index to Financial Statements

estate. Accordingly, the amounts of future borrowings and future interest expense will depend largely upon the level of additional proceeds that we are able to raise under our public offerings, the timing and availability of opportunities to acquire real estate assets consistent with our investment objectives, our ability to secure financings or re-financings, and changes in market interest rates.

We recognized a loss on interest rate swaps that do not qualify for hedge accounting treatment of approximately $0.6 million for the six months ended June 30, 2008, compared to a loss of $14,000 for the six months ended June 30, 2007, primarily due to market value adjustments to the interest rate swap agreement on the 222 E. 41st Street Building loan in the first and second quarters of 2008 prompted by declines in market interest rates and a revised economic outlook. We anticipate that future gains and losses on our interest rate swaps that do not qualify for hedge accounting treatment will fluctuate primarily as a result of additional changes in market interest rates and changes in the economic outlook for future market rates. Market value adjustments to swaps that qualify for hedge accounting treatment are recorded in other comprehensive income and do not impact net income.

We recognized a loss on foreign currency exchange contract of approximately $1.3 million for the six months ended June 30, 2008 due to a market value adjustment to our foreign currency exchange contract prompted by the decline in value of the U.S. Dollar compared to the Russian ruble. We anticipate that future gains and losses on our foreign currency exchange contract will fluctuate primarily as a result of the future fluctuations in value between the U.S. Dollar and the Russian ruble.

We recognized a gain on early extinguishment of debt of approximately $3.0 million for the six months ended June 30, 2008 in connection with accepting an offer from the lender to prepay the Key Center Complex mortgage notes for approximately $11.5 million. The net book value of the mortgage notes was approximately $14.5 million, resulting in a gain on early extinguishment of debt of approximately $3.0 million.

Interest and other income increased from approximately $4.3 million for the six months ended June 30, 2007 to approximately $6.0 million for the six months ended June 30, 2008, primarily due to income earned on investment in development authority bonds assumed in connection with the Lenox Park acquisition, partially offset by lower interest income from holding lower average cash balances during the six months ended June 30, 2008, as compared to the six months ended June 30, 2007, due to timing differences in raising capital in our public offerings and closing on property acquisitions. 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.

Net income and net income per share increased from approximately $5.1 million and $0.02, respectively, for the six months ended June 30, 2007 to approximately $10.5 million and $0.03, respectively, for the six months ended June 30, 2008 primarily due to the continued growth of our portfolio, the gain on early extinguishment of debt described above, and the write-off of unamortized lease-specific assets related to a lease termination in the first quarter of 2007. Absent market valuation adjustments to our interest rate swap, we expect future earnings and earnings per share to increase as a result of current and future real estate acquisitions over the long-term.

Funds From Operations

Funds from Operations (FFO) is a non-GAAP financial measure considered by some equity real estate investment trusts (REIT) in evaluating operating performance. We have presented FFO below for the periods included in the accompanying consolidated statements of income, however, do not intend to do so in future filings. We believe that FFO, as defined by the National Association of Real Estate Investment Trusts (NAREIT), has diverged from how we measure real estate operations considerably in recent periods. Changes in the accounting and reporting rules under U.S. generally accepted accounting principals (GAAP) that were put into effect after the establishment of NAREIT s definition of FFO in 1999 have prompted a significant increase in the magnitude of non-cash and non-operating items included in our FFO, as defined. Such non-cash and non-operating items include market value adjustments to interest rate swaps that do not qualify for hedge accounting treatment, amortization of certain in-place lease intangible assets and liabilities and gains or losses on early extinguishments of debt. Additionally, cash flows generated from FFO may be used to fund certain capitalizable items that are excluded from FFO, such as tenant improvements, building improvements, deferred lease costs, and capitalized interest.

In addition to presenting FFO, as defined by NAREIT, we have also presented below FFO, as adjusted to exclude market value adjustments to interest rate swaps that do not qualify for hedge accounting treatment because, to the extent that the underlying contracts remain in effect for the full term, the intra-term gains or losses will not be realized in cash. While we believe that FFO, as adjusted, is more indicative of funds from our operations, we believe that, on a long-term basis, net cash flow from operations as presented in the accompanying consolidated statements of cash flows is the best measure of funds from our operations and offers more comparability with other REIT s and real estate companies. For the six months ended June 30, 2008 and 2007, we reported net cash flow from operations of $107.2 million and $86.0 million, respectfully.

Index to Financial Statements

Reconciliations of net income to FFO, and to FFO, as adjusted to exclude market value adjustments to our interest rate swaps that do not qualify for hedge accounting treatment, are presented below (in thousands):

	For the Three Months Ended June 30, 2008	For the Three Months Ended June 30, 2007	For the Six Months Ended June 30, 2008	For the Six Months Ended June 30, 2007
Net income	**$ 16,837**	$ 7,676	**$ 10,484**	$ 5,066
Add:				
Depreciation of real assets	**18,842**	14,097	**36,343**	28,291
Amortization of lease-related costs	**29,936**	26,503	**59,226**	57,408
FFO	**65,615**	48,276	**106,053**	90,765
(Gain) loss on interest rate swaps that do not qualify for hedge accounting treatment	**(8,431)**	7	**639**	14
FFO, as adjusted to exclude market value adjustments to interest rate swaps that do not qualify for hedge accounting treatment	**$ 57,184**	$ 48,283	**$ 106,692**	$ 90,779
Weighted-average common shares outstanding	**397,692**	317,184	**388,108**	304,173

Election as a REIT

We have elected to be taxed as a 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 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 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, 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. Deferred tax assets and liabilities are established for temporary 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.

Index to Financial Statements

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 tangible assets, consisting of land and building, and identified intangible assets and liabilities, including the value 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 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.

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

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.

Index to Financial Statements

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.

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, pursuant to the provisions of Statement of Financial Accounting Standard (SFAS) 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 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 and related intangible assets and net income.

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 property management fees, construction fees, reimbursement of other 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.

Legal Actions Against Related Parties

On March 12, 2007, a stockholder of Piedmont Office Realty Trust, Inc., formerly known as Wells Real Estate Investment Trust, Inc. (hereinafter referred to as 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 and Wells Capital, our General Partners; Wells Management Company, Inc. (Wells Management), our property manager; certain affiliates of Wells Real Estate Funds (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 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. As of the date of this filing, the time for the defendants to respond to the plaintiff s motion for class certification has not yet passed. The parties are presently engaged in discovery. 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.

On August 24, 2007, two stockholders of Piedmont REIT filed a derivative complaint, styled *Donald and Donna Goldstein, Derivatively on behalf of Defendant Wells Real Estate Investment Trust, Inc. v. Leo F. Wells, III, et al.,* in the Superior Court of Fulton County, Georgia, on behalf of Piedmont REIT against, among others, Leo F. Wells, III and Wells Capital, our General Partners, and a number of individuals who currently or formerly served as officers or directors of Piedmont REIT. The complaint alleges, among other things, that the consideration paid by Piedmont REIT as part of the internalization transaction was excessive; that the defendants breached their fiduciary duties to Piedmont REIT; and that the internalization transaction unjustly enriched the defendants. The complaint seeks, among other things, a judgment declaring that the defendants committed breaches of their fiduciary duties and were unjustly enriched at the expense of Piedmont REIT; monetary damages equal to the amount by which Piedmont REIT was damaged by the defendants; an order awarding Piedmont REIT restitution from the defendants and ordering disgorgement of all profits and benefits obtained by the defendants from their wrongful conduct and fiduciary breaches; an order rescinding the internalization transaction; and the establishment of a constructive trust upon any benefits improperly received by the defendants as a result of their wrongful conduct. On October 19, 2007, the Court verbally granted the defendants motion for a protective order (and entered a written order on October 24, 2007) staying discovery until the Court rules on the defendants motion to dismiss the complaint. On October 31, 2007, the defendants filed their motion to dismiss the plaintiffs derivative complaint. On December 19, 2007, the Court entered an order allowing the plaintiffs to take limited written discovery on the issue of derivative demand, but the order staying discovery entered in October 2007 otherwise remains in effect. The defendants responded to the limited discovery requested by the plaintiffs. On January 10, 2008, the plaintiffs filed an amended complaint, which contains substantially the same counts against the same defendants as the original complaint with certain additional factual allegations based primarily on events occurring after the original complaint was filed. In addition, the plaintiffs have responded to the defendants motion to dismiss this lawsuit. A hearing on the motion to dismiss was held on February 22, 2008, and on March 13, 2008, the Court granted the motion to dismiss. On April 11, 2008, the plaintiffs filed a notice to appeal the Court s judgment granting the defendants motion to dismiss.

Commitments and Contingencies

We are subject to certain commitments and contingencies with regard to certain transactions. Refer to Note 5 of our accompanying consolidated financial statements for further explanation. Examples of such commitments and contingencies include:

- Property under construction;
- Properties under contract;
- Foreign currency exchange contract;
- Obligations under capital leases;
- Commitments under existing lease agreements; and
- Litigation.

Subsequent Events

Subsequent to June 30, 2008, we sold additional shares of common stock as more fully explained in this supplement no. 10 under the heading Status of Our Public Offerings. On July 1, 2008, we amended and renewed our advisory agreement with our advisor as more fully explained in supplement no. 9 filed on July 31, 2008 under the heading Renewal and Amendment of Advisory Agreement . On July 1, 2008, we acquired the Lindbergh Center Buildings as described in this supplement no. 10 under the heading Acquisition of the Lindbergh Center Buildings. On July 23, 2008, our Board of Directors appointed John L. Dixon to serve as an independent director as more fully explained in supplement no. 9 filed on July 31, 2008 under the heading Management . On July 31, 2008, we acquired the Three Glenlake Building as described in this supplement no. 10 under the heading Acquisition of the Three Glenlake Building.

Experts

The Statement of Certain Operating Expenses Over Revenues of the Lindbergh Center Buildings for the year ended December 31, 2007 appearing in this supplement has been audited by Frazier & Deeter, LLC, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

INDEX TO FINANCIAL STATEMENTS

Index to Financial Statements

WELLS REAL ESTATE INVESTMENT TRUST II, INC.

CONSOLIDATED BALANCE SHEETS

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

	(Unaudited) June 30, 2008	December 31, 2007
Assets:		
Real estate assets, at cost:		
Land	**$ 532,799**	$ 494,431
Buildings and improvements, less accumulated depreciation of $176,005 and $139,940 as of June 30, 2008 and December 31, 2007, respectively	**2,569,210**	2,364,471
Intangible lease assets, less accumulated amortization of $211,439 and $184,532 as of June 30, 2008 and December 31, 2007, respectively	**583,545**	587,185
Construction in progress	**34,820**	17,279
Total real estate assets	**3,720,374**	3,463,366
Cash and cash equivalents	**41,544**	47,513
Tenant receivables, net of allowance for doubtful accounts of $579 and $1,747 as of June 30, 2008 and December 31, 2007, respectively	**78,432**	70,409
Prepaid expenses and other assets	**83,178**	86,636
Deferred financing costs, less accumulated amortization of $1,213 and $2,668 as of June 30, 2008 and December 31, 2007, respectively	**4,245**	