

WELLS REAL ESTATE INVESTMENT TRUST II INC

Form POS AM

November 03, 2005

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As filed with the Securities and Exchange Commission on November 3, 2005

Registration No. 333-107066

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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### POST-EFFECTIVE AMENDMENT NO. 11

TO

FORM S-11

### REGISTRATION STATEMENT

*Under*

*THE SECURITIES ACT OF 1933*

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## Wells Real Estate Investment Trust II, Inc.

(Exact name of registrant as specified in its charter)

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6200 The Corners Parkway

Norcross, Georgia 30092

(770) 449-7800

(Address, including zip code, and telephone number, including area code, of the registrant's principal executive offices)

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**Leo F. Wells, III**

**President**

**Wells Real Estate Investment Trust II, Inc.**

**6200 The Corners Parkway**

**Norcross, Georgia 30092**

**(770) 449-7800**

(Name, address, including zip code and telephone number, including area code, of agent for service)

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**Copies to:**

**Robert H. Bergdolt, Esq.**

**DLA Piper Rudnick Gray Cary US LLP**

**4700 Six Forks Road, Suite 200**

**Raleigh, North Carolina 27609-5244**

**(919) 786-2000**

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**Approximate date of commencement of proposed sale to public:** As soon as practicable after the effectiveness of the registration statement.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. "

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. "

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. "

## Edgar Filing: WELLS REAL ESTATE INVESTMENT TRUST II INC - Form POS AM

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. "

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This Post-Effective Amendment No. 11 consists of the following:

1. The Registrant's final form of Prospectus dated November 26, 2003, previously filed pursuant to Rule 424(b)(4) on December 1, 2003 and refiled herewith.
  2. Supplement No. 9 dated May 18, 2004 to the Registrant's Prospectus dated November 26, 2003, previously filed as part of Post-Effective Amendment No. 4, which is refiled herewith.
  3. Supplement No. 33 dated May 23, 2005 to the Registrant's Prospectus dated November 26, 2003, previously filed as part of Post-Effective Amendment No. 9, which is refiled herewith.
  4. Supplement No. 34 dated May 23, 2005 to the Registrant's Prospectus dated November 26, 2003, previously filed as part of Post-Effective Amendment No. 9, which is refiled herewith.
  5. Supplement No. 37 dated August 9, 2005 to the Registrant's Prospectus dated November 26, 2003, previously filed as part of Post-Effective Amendment No. 10, which is refiled herewith.
  6. Supplement No. 41 dated November 3, 2005 to the Registrant's Prospectus dated November 26, 2003.
  7. Part II included herewith.
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## WELLS REAL ESTATE INVESTMENT TRUST II, INC.

Maximum Offering of 785,000,000 Shares of Common Stock

Minimum Offering of 250,000 Shares of Common Stock

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Wells Real Estate Investment Trust II, Inc. is a newly organized Maryland corporation that intends to qualify as a REIT beginning with the taxable year that will end December 31, 2003. We expect to use substantially all of the net proceeds from this offering to acquire and operate commercial real estate primarily consisting of high quality, income-generating office and industrial properties leased to creditworthy companies and governmental entities. Because we have not yet identified any specific properties to purchase, we are considered to be a blind pool.

We are offering up to 600,000,000 shares of common stock in our primary offering for \$10 per share, with discounts available for certain categories of purchasers as described in Plan of Distribution. We are also offering up to 185,000,000 shares to be issued pursuant to our dividend reinvestment plan at a purchase price equal to the higher of \$9.55 per share or 95% of the estimated value of a share of our common stock, as estimated by our advisor or another firm we choose for that purpose.

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**See Risk Factors beginning on page 21 to read about risks you should consider before buying shares of our common stock. These risks include the following:**

No public market currently exists for our shares of common stock. If you are able to sell your shares, you would likely have to sell them at a substantial discount.

We have no operating history nor do we currently own any properties. We have not identified any properties to acquire with proceeds from this offering.

If we raise substantially less than the maximum offering, we may not be able to invest in a diverse portfolio of properties and the value of your investment may vary more widely with the performance of specific properties.

We are dependent on our advisor to select investments and conduct our operations. Adverse changes in the financial health of our advisor or our relationship with our advisor could adversely affect us.

Our advisor and its affiliates will face conflicts of interest, including significant conflicts created by our advisor's compensation arrangements with us and similar programs sponsored by our advisor.

We will pay substantial fees and expenses to our advisor, its affiliates and participating broker-dealers, which payments increase the risk that you will not earn a profit on your investment.

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Neither the SEC, the Attorney General of the State of New York nor any other state securities regulator has approved or disapproved of our common stock, determined if this prospectus is truthful or complete or passed on or endorsed the merits of this offering. Any representation to the contrary is a criminal offense.

The use of projections or forecasts in this offering is prohibited. No one is permitted to make any oral or written predictions about the cash benefits or tax consequences you will receive from your investment.

	Price	Selling	Dealer	Net Proceeds
	to Public*	Commissions*	Manager	(Before Expenses)
			Fee*	
Primary Offering				
Per Share	\$ 10.00	\$ 0.70	\$ 0.25	\$ 9.05
Total Minimum	\$ 2,500,000	\$ 175,000	\$ 62,500	\$ 2,262,500
Total Maximum	\$ 6,000,000,000	\$ 420,000,000	\$ 150,000,000	\$ 5,430,000,000
Dividend Reinvestment Plan				
Per Share	\$ 9.55	\$ 0.4775	\$	\$ 9.0725
Total Maximum	\$ 1,766,750,000	\$ 88,337,500	\$	\$ 1,678,412,500

\* The selling commissions and, in some cases, all or a portion of the dealer manager fee will not be charged with regard to shares sold to or for the account of certain categories of purchasers. The reduction in these fees will be accompanied by a corresponding reduction in the per share purchase price, except that all shares sold under the dividend reinvestment plan will be at the higher of \$9.55 per share or 95% of the estimated value of a share of our common stock. See Plan of Distribution.

The dealer manager of this offering, Wells Investment Securities, Inc., is our affiliate and will offer the shares on a best-efforts basis. The minimum permitted purchase is generally \$1,000. We will not sell any shares unless we sell a minimum of 250,000 shares to the public for \$10 per share by November 26, 2004 (one year from the date of this prospectus). Pending satisfaction of this condition, all subscription payments will be placed in an account held by the escrow agent, SouthTrust Bank, in trust for subscribers' benefit, pending release to us. If we do not sell at least 250,000 shares for \$10 per share by November 26, 2004, we will return all funds in the escrow account (including interest), and we will stop selling shares.

## WELLS INVESTMENT SECURITIES, INC.

November 26, 2003

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**SUITABILITY STANDARDS**

The shares we are offering are suitable only as a long-term investment. Because there is no public market for the shares, you will have difficulty selling your shares. In consideration of these factors, we require initial stockholders and subsequent purchasers to have either:

a net worth of at least \$150,000; or

gross annual income of at least \$45,000 and a net worth of at least \$45,000.

In addition, we will not sell shares to investors in the states named below unless they meet special suitability standards.

**California, Iowa, Massachusetts, Michigan, Missouri, New Jersey and Tennessee** - Investors must have either (1) a net worth of at least \$225,000, or (2) gross annual income of at least \$60,000 and a net worth of at least \$60,000.

**Maine** - Investors must have either (1) a net worth of at least \$200,000, or (2) gross annual income of at least \$50,000 and a net worth of at least \$50,000.

**Iowa, Missouri, Ohio and Pennsylvania** - In addition to the suitability requirements described above, investors must have a net worth of at least 10 times their investment in us.

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

Those selling shares on our behalf must make every reasonable effort to determine that the purchase of shares in this offering is a suitable and appropriate investment for each stockholder based on information provided by the stockholder regarding the stockholder's financial situation and investment objectives. See [Plan of Distribution](#) [Suitability Standards](#) for a detailed discussion of the determinations regarding suitability that we require of all those selling shares on our behalf.

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**QUESTIONS AND ANSWERS ABOUT THIS OFFERING**

Below we have provided some of the more frequently asked questions and answers relating to an offering of this type. Please see the Prospectus Summary and the remainder of this prospectus for more detailed information about this offering.

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Q: What is a REIT?

A: In general, a REIT is a company that:

combines the capital of many investors to acquire or provide financing for real estate properties;

allows individual investors to invest in a large-scale diversified real estate portfolio through the purchase of interests, typically shares, in the REIT;

is required to pay dividends to investors of at least 90% of its taxable income; and

avoids the double taxation treatment of income that would normally result from investments in a corporation because a REIT does not generally pay federal corporate income taxes on its net income, provided certain income tax requirements are satisfied.

---

Q: What is Wells Real Estate Investment Trust II, Inc.?

A: Wells Real Estate Investment Trust II, Inc. is a newly organized Maryland corporation that intends to qualify as a REIT beginning with the taxable year that will end December 31, 2003. We expect to use substantially all of the net proceeds from this offering to acquire and operate commercial real estate primarily consisting of high quality, income-generating office and industrial properties leased to creditworthy companies and governmental entities. We may also invest in entities that make similar investments. We were incorporated in the State of Maryland in July 2003.

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Q: What is your relationship to Wells Real Estate Investment Trust, Inc.?

A: Wells Real Estate Investment Trust, Inc., which we refer to as Wells REIT I, is a separate REIT from us. However, we have a common advisor, Wells Capital, Inc., and some of our directors and all of our officers are also directors and officers of Wells REIT I.

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Q: Are there any risks involved in an investment in your shares?

A: An investment in our shares involves significant risk. You should read the Risk Factors section of this prospectus beginning on page 21. That section contains a detailed discussion of material risks that you should consider before you invest in the common stock we are selling with this

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prospectus. Some of the more significant risks relating to an investment in our shares include the following:

No public market currently exists for our shares of common stock. If you are able to sell your shares, you would likely have to sell them at a substantial discount from their public offering price.

We have no operating history, nor do we currently own any properties. We have not identified any properties to acquire with proceeds from this offering.

If we raise substantially less than the maximum offering, we may not be able to invest in a diverse portfolio of properties, and the value of your investment may vary more widely with the performance of specific properties.

We are dependent on our advisor to select investments and conduct our operations; thus, adverse changes in the financial health of our advisor or our relationship with our advisor could adversely affect us.

We will pay substantial fees and expenses to our advisor, its affiliates and participating broker-dealers, which payments increase the risk that you will not earn a profit on your investment.

Our advisor and its affiliates will face conflicts of interest, including significant conflicts created by our advisor's compensation arrangements with us and other Wells-sponsored programs.

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Q: Who is your advisor?

A: Wells Capital is our advisor. Wells Capital was incorporated in the State of Georgia in 1984. As of September 30, 2003, Wells Capital had sponsored or advised public real estate programs that had raised approximately \$4.3 billion from approximately 119,000 investors and that owned and operated more than 22 million square feet of commercial real estate properties.

---

Q: What will the advisor do?

A: Wells Capital, as our advisor, will manage our daily affairs and make recommendations on all property acquisitions to our board of directors. We expect that a committee of our board of directors comprised of all of our independent directors will exercise its right to approve or reject all proposed property acquisitions. Wells Capital will also provide asset management, marketing, investor relations and other administrative services on our behalf.

---

Q: How will Wells Capital select potential properties for acquisition?

A:

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Wells Capital will generally seek to acquire high quality office and industrial buildings located in densely populated metropolitan markets leased to creditworthy companies and governmental entities. Current tenants of public real estate programs sponsored or advised by Wells Capital



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include The Coca-Cola Company, State Street Bank, AT&T, Siemens Automotive, PricewaterhouseCoopers, Novartis and SYSCO Corporation.

To find properties that best meet our selection criteria for investment, Wells Capital's property acquisition team will study regional demographics and market conditions and interview local brokers to gain the practical knowledge that these studies sometimes lack. An experienced commercial construction engineer will inspect the structural soundness and the operating systems of each building, and an environmental firm will investigate all environmental issues to ensure each property meets our quality specifications.

---

Q: What conflicts of interest will your advisor face?

A: Some of our directors and all of our officers are directors and officers of the advisor. Additionally, some of our directors are also directors of Wells REIT I, with which we may engage in joint ventures. Wells Capital and its affiliates will receive fees in connection with transactions involving the purchase, management and sale of our properties regardless of the quality of the property acquired or the services provided to us. Wells Capital must determine which investment opportunities to recommend to us or another Wells program or joint venture and may also be in the position of structuring the terms of joint ventures between us and other Wells-sponsored programs. Wells Capital, Wells Investment Securities and their affiliates will also receive fees in connection with our public offerings of equity securities. These conflicts of interest could influence the judgment of our advisor and its affiliates, including our officers and some of our directors, resulting in decisions that are not in our best interests. We discuss these specific conflicts of interest, as well as others arising from these relationships, under Risk Factors Risks Related to Conflicts of Interest and under Conflicts of Interest.

---

Q: What are the fees that you will pay to the advisor and its affiliates in connection with this offering?

A: We will pay Wells Capital and Wells Investment Securities, Inc. (the dealer manager for this offering) compensation for services they will perform for us. We will pay the advisor acquisition fees in connection with the selection, acquisition, development or construction of properties in an amount equal to 2% of gross offering proceeds. We will also reimburse Wells Capital for expenses it pays on our behalf, including reimbursement for our organization and offering expenses. Our reimbursement obligation for organization and offerings costs, however, may not exceed 2% of our gross offering proceeds.

We will pay a selling commission and a dealer manager fee to Wells Investment Securities equal to 7% and 2.5%, respectively, of the gross proceeds raised in connection with a sale of shares in this offering. The selling commissions will be reallocated to participating broker-dealers, as may a portion of the dealer manager fee. The selling commission and dealer manager fee will be reduced or waived in connection with certain categories of sales, such as sales through investment advisers or banks acting as trustees or fiduciaries and sales under our dividend reinvestment plan.

We will also pay our advisor a monthly asset-management fee of one-twelfth of 0.75% of the sum of the cost of all occupied properties we own plus the cost of investments in joint ventures. This asset-management fee is capped on a quarterly basis at 1.0% of the net asset value of those investments at quarter end after deducting debt used to acquire or refinance properties. We might

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also engage an affiliate of our advisor to provide property-management services. We would pay market rates for such property-management services, possibly including the property manager's costs of providing property-management services. We will reimburse the advisor for the costs and expenses it incurs in providing asset-management services and administrative services, such as the cost of providing investor services.

In connection with the sale of properties, we may pay the advisor or its affiliates a fee of up to 3% of the gross sales price of the properties. This fee, when combined with other real estate commissions paid to our advisor, its affiliates and unaffiliated third parties, may not exceed 6% of the contract sales price. Wells Capital may also receive a subordinated 10% share of the net sales proceeds from the sale of our portfolio if our stockholders have enjoyed an 8% cumulative, non-compounded return or a similar success-based fee if our shares trade at prices reflecting such a return (taking prior dividends into account) upon their listing on a national securities exchange or the Nasdaq National Market.

See Management Compensation and Plan of Distribution for a more detailed description of the fees and expenses payable to our advisor, our dealer manager and their affiliates.

---

Q: How many real estate properties do you currently own?

A: We currently do not own any properties. We expect to use substantially all of the net proceeds from this offering to acquire and operate commercial real estate primarily consisting of high quality income-generating office and industrial properties leased to creditworthy companies and governmental entities. We may also invest in entities that make similar investments. Because we have not yet identified any specific properties to purchase, we are considered to be a blind pool.

---

Q: Will you acquire properties in joint ventures?

A: Probably. Among other reasons, we may want to acquire properties through a joint venture in order to diversify our portfolio of properties in terms of geographic region, property type and tenant industry group.

---

Q: What steps will you take to make sure you purchase environmentally compliant properties?

A: We will obtain a Phase I environmental assessment of each property purchased. In addition, we generally expect to obtain a representation from the seller that, to its knowledge, the property is not contaminated with hazardous materials.

---

Q: What will be the terms of your leases?

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- A: We will seek to secure leases with creditworthy tenants before or at the time we acquire a property. We expect that our leases generally will be economically net leases, which means that the tenant would be responsible for the cost of repairs, maintenance, property taxes, utilities, insurance and other operating costs. In most of these leases, we will probably be responsible for the replacement of specific structural components of a property, such as the roof of the building

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or the parking lot. We expect that our leases generally will have terms of five or more years, some of which may have renewal options.

---

Q: How will Wells REIT II own its real estate properties?

A: As an UPREIT, we expect to own substantially all of our real estate properties through Wells Operating Partnership II, L.P., which we refer to as Wells OP II. We organized Wells OP II to own, operate and manage real properties on our behalf. Wells REIT II is the sole general partner of Wells OP II.

---

Q: What is an UPREIT?

A: UPREIT stands for Umbrella Partnership Real Estate Investment Trust. The UPREIT structure is used because a sale of property directly to the REIT is generally a taxable transaction to the selling property owner. In an UPREIT structure, a seller of a property who desires to defer taxable gain on the sale of his property may transfer the property to the UPREIT in exchange for limited partnership units in the UPREIT and defer taxation of gain until the seller later exchanges his UPREIT units on a one-for-one basis for REIT shares. If the REIT shares are publicly traded, the former property owner will achieve liquidity for his investment upon the exchange. Using an UPREIT structure may give us an advantage in acquiring desired properties from persons who may not otherwise sell their properties because of unfavorable tax results.

---

Q: If I buy shares, will I receive dividends and how often?

A: To maintain our qualification as a REIT, we are required to make aggregate annual distributions to our stockholders of at least 90% of our taxable income (which does not necessarily equal net income as calculated in accordance with accounting principles generally accepted in the United States (GAAP)). We intend to pay dividends quarterly. Our board of directors may authorize distributions in excess of those required for us to maintain REIT status depending on our financial condition and such other factors as our board of directors deems relevant. We have not established a minimum distribution level.

---

Q: How will you calculate the payment of dividends to stockholders?

A: We expect to calculate our quarterly dividends on a daily basis to stockholders of record so any dividend benefits may begin to accrue immediately upon becoming a stockholder.

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Q: May I reinvest my dividends in shares of Wells REIT II?

A:

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Yes. You may participate in our dividend reinvestment plan by checking the appropriate box on the Subscription Agreement or by filling out an enrollment form we will provide to you at your request. The purchase price for shares purchased under the dividend reinvestment plan will be the higher of \$9.55 or 95% of the estimated value of a share of our common stock, as estimated by our advisor or another firm we choose for that purpose.

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Q: Will the dividends I receive be taxable as ordinary income?

A: Yes and No. Generally, dividends that you receive, including dividends that are reinvested pursuant to our dividend reinvestment plan, will be taxed as ordinary income to the extent they are from current or accumulated earnings and profits. We expect that some portion of your dividends will not be subject to tax in the year in which they are received because depreciation expense reduces the amount of taxable income but does not reduce cash available for distribution. The portion of your distribution that is not subject to tax immediately is considered a return of capital for tax purposes and will reduce the tax basis of your investment. This, in effect, defers a portion of your tax until your investment is sold or Wells REIT II is liquidated, at which time you will be taxed at capital gains rates. However, because each investor's tax considerations are different, we suggest that you consult with your tax advisor. You should also review the section of the prospectus entitled Federal Income Tax Considerations.

---

Q: What will you do with the money raised in this offering?

A: We intend to use substantially all of the net proceeds from this offering to acquire and operate commercial real estate primarily consisting of high quality, income-generating office and industrial properties leased to creditworthy companies and governmental entities. Depending primarily on the number of shares we sell in this offering and assuming a \$9.55 per share price for shares sold under our dividend reinvestment plan, we estimate for each share sold in this offering that between \$8.65 and \$8.83 will be available for the purchase of real estate, with the remaining proceeds to pay fees and expenses of this offering and an acquisition fee to our advisor.

Until we invest the proceeds of this offering in real estate, we may invest in short-term, highly liquid or other authorized investments. Such short-term investments will not earn as high of a return as we expect to earn on our real estate investments, and we may be not be able to invest the proceeds in real estate promptly.

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Q: What kind of offering is this?

A: We are offering up to 785,000,000 shares of common stock on a best efforts basis.

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Q: How does a best efforts offering work?

A: When shares are offered on a best efforts basis, the broker-dealers participating in the offering are only required to use their best efforts to sell the shares and have no firm commitment or obligation to purchase any of the shares. Therefore, we may not sell all or any of the shares that we are offering.

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Q: How long will this offering last?

A: This offering will not last beyond November 26, 2005, except that we may continue to offer shares under the dividend reinvestment plan beyond that date until we have sold 185,000,000 shares through the reinvestment of dividends. In some states, we may not be able to continue the offering for these periods without renewing the registration statement or filing a new registration statement.

---

Q: Who can buy shares?

A: You can buy shares pursuant to this prospectus provided that you have either (1) a net worth of at least \$45,000 and an annual gross income of at least \$45,000, or (2) a net worth of at least \$150,000. For this purpose, net worth does not include your home, home furnishings or personal automobiles. These minimum levels may be higher in certain states, so you should carefully read the more detailed description under Suitability Standards immediately following the cover page of this prospectus.

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Q: Is there any minimum investment required?

A: Yes. Generally, you must invest at least \$1,000. Except in Ohio, Maine, Minnesota, Nebraska and Washington, investors who have purchased units from an affiliated Wells public real estate program can make purchases for less than the minimum investment. These minimum investment levels may be higher in certain states, so you should carefully read the more detailed description under Plan of Distribution Minimum Purchase Requirements.

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Q: How do I subscribe for shares?

A: If you choose to purchase shares in this offering, you will need to fill out a Subscription Agreement, like the one contained in this prospectus as Appendix A, for a specific number of shares and pay for the shares at the time you subscribe.

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Q: What happens if you don't sell at least 250,000 shares to the public?

A: If we do not sell at least 250,000 shares to the public at \$10 per share before November 26, 2004, we will terminate the offering and stop selling shares. In such event, within ten days after termination of the offering, the escrow agent will return your funds, including interest. Different escrow procedures apply to Pennsylvania investors. See Plan of Distribution Special Notice to Pennsylvania Investors.

---

Q: If I buy shares in this offering, how may I later sell them?

A: At the time you purchase the shares, they will not be listed for trading on any securities exchange or over-the-counter market. In fact, we expect that there will not be any public market for the shares when you purchase them, and we cannot be sure if one will ever develop. In addition, our charter imposes restrictions on the ownership of our stock, which will apply to potential purchasers of your stock. As a result, you may find it difficult to find a buyer for your shares and



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realize a return on your investment. See Description of Shares Restriction on Ownership of Shares.

After you have held your shares for at least one year, you may be able to have your shares repurchased by us pursuant to our proposed share redemption program. For at least the next five years, the redemption price would generally be \$8.40. (The terms of our proposed redemption program would be more generous upon the death of a stockholder.) We do not intend to adopt the proposed share redemption program during this or any other primary offering unless the SEC grants us an exemption from its restrictions on issuers bidding for their securities during a distribution. Without this exemptive relief, the earliest that we could adopt the proposed share redemption program would be after the completion of our primary offering. Even if adopted, we could later amend or terminate the program. See Description of Shares Proposed Share Redemption Program.

We may return all or a portion of your capital contribution in connection with a sale of the company or the properties we will acquire. Alternatively, you may be able to obtain a return of all or a portion of your capital contribution in connection with the sale of your shares.

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Q: When will the company seek to list its shares of common stock?

A: We will seek to list our shares of common stock when our independent directors believe listing would be in the best interest of our stockholders. If we do not list our shares of common stock on a national securities exchange or on the Nasdaq National Market by October 2015, our charter requires that we either:

seek stockholder approval of an extension or amendment of this listing deadline; or

seek stockholder approval of the liquidation of the corporation.

If we sought and did not obtain stockholder approval of an extension or amendment to the listing deadline, we would then be required to seek stockholder approval of our liquidation. If we sought and failed to obtain stockholder approval of our liquidation, our charter would not require us to list or liquidate and we could continue to operate as before. If we sought and obtained stockholder approval of our liquidation, we would begin an orderly sale of our properties and distribute our net proceeds to you.

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Q: What is the experience of your officers and directors?

A: Our management team has extensive experience investing in and managing commercial real estate. Below is a short description of the background of each of our officers. See the Management Executive Officers and Directors section of this prospectus for a more detailed description of the experience of each of our officers and directors.

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<u>Name</u>	<u>Title</u>	<u>Experience</u>
Leo F. Wells, III	President and Director	Founder of Wells Real Estate Funds and has been involved in real estate sales, management and brokerage services for over 30 years
Douglas P. Williams	Executive Vice President, Secretary, Treasurer and Director	Former accounting executive at OneSource, Inc., a supplier of janitorial and landscape services
Charles R. Brown	Director*	President of CRB Realty Associates, a real estate developer, and former President of Technology Park/Atlanta, Inc., which developed Technology Park/Atlanta, a 600-acre office park
Richard W. Carpenter	Director*	Former President and Chairman of the Board of Southmark Properties, an Atlanta-based REIT investing in commercial properties
Bud Carter	Director*	Former broadcast news director and anchorman and current Senior Vice President for the Executive Committee, an organization established to aid corporate presidents and CEOs
Donald S. Moss	Director*	Former executive officer of Avon Products, Inc.
Jack M. Pinkerton	Director*	Former President of the Pinkerton and Laws Company, which was one of the 200 largest construction companies in the world at the time of his retirement in 1988
Walter W. Sessoms	Director*	Former executive officer of BellSouth Telecommunications, Inc.

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Neil H. Strickland	Director*	Founder of Strickland General Agency, Inc., a property and casualty general insurance agency concentrating on commercial customers
Wayne W. Woody	Director*	Interim Chief Financial Officer for Legacy Investment Group, a boutique investment firm, from 2000 to 2001. Senior Partner with KPMG LLP and predecessor firms, where he enjoyed a 31-year career
Randall D. Fretz	Senior Vice President	Former President of US & Canada operations for Larson-Juhl, a world leader in custom art and picture-framing home decor

\* Denotes director is not affiliated with our advisor, Wells Capital.

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Q: Will I be notified of how my investment is doing?

A: Yes, we will provide you with periodic updates on the performance of your investment with us, including:

Four detailed quarterly dividend reports;

An annual report;

An annual IRS Form 1099-DIV, if required;

Supplements to the prospectus; and

Three quarterly financial reports.

We will provide this information to you via one or more of the following methods, in our discretion and with your consent, if necessary:

U.S. mail or other courier;

Facsimile;

Electronic delivery; and

Posting on our affiliated website, which is [www.wellsref.com](http://www.wellsref.com).

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Q: When will I get my detailed tax information?

A: Your Form 1099-DIV tax information, if required, will be mailed by January 31 of each year.

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Q: Who can help answer my questions?

A: If you have more questions about the offering, or if you would like additional copies of this prospectus, you should contact your registered representative or contact:

Investor Services Department

Wells Real Estate Funds, Inc.

Suite 250

6200 The Corners Parkway

Norcross, Georgia 30092

Telephone: (800) 557-4830 or (770) 243-8282

Fax: (770) 243-8198

E-mail: [investor.services@wellsref.com](mailto:investor.services@wellsref.com)

[www.wellsref.com](http://www.wellsref.com)

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**PROSPECTUS SUMMARY**

*This prospectus summary highlights material information contained elsewhere in this prospectus. Because it is a summary, it may not contain all of the information that is important to you. To understand this offering fully, you should read the entire prospectus carefully, including the Risk Factors section and the financial statements, before making a decision to invest in our common stock.*

**Wells Real Estate Investment Trust II, Inc.**

Wells Real Estate Investment Trust II, Inc. is a newly organized Maryland corporation that intends to qualify as a REIT beginning with the taxable year that will end December 31, 2003. We expect to use substantially all of the net proceeds from this offering to acquire and operate commercial real estate primarily consisting of high quality, income-generating office and industrial properties leased to creditworthy companies and governmental entities. Because we have not yet identified any specific properties to purchase, we are considered to be a blind pool.

Our office is located at 6200 The Corners Parkway, Suite 250, Norcross, Georgia 30092. Our telephone number outside the State of Georgia is 800-557-4830 (770-243-8282 in Georgia). Our fax number is (770) 243-8198, and the e-mail address of our investor relations department is [investor.services@wellsref.com](mailto:investor.services@wellsref.com).

We also maintain an Internet site at [www.wellsref.com](http://www.wellsref.com) at which there is additional information about us and our affiliates, but the contents of that site are not incorporated by reference in or otherwise a part of this prospectus.

**Our Advisor**

Our advisor is Wells Capital, which will be responsible for managing our affairs on a day-to-day basis and for identifying and making acquisitions on our behalf.

**Our Management**

We have a ten-member board of directors, eight of whom are independent of Wells Capital. Our officers and two of our directors are affiliated with Wells Capital. Our charter, which requires that a majority of our directors be independent of Wells Capital, creates a committee of our board comprised solely of all of our independent directors. This committee, which we call the conflicts committee, is responsible for reviewing the performance of Wells Capital and must approve other matters set forth in our charter. See Conflicts of Interest Certain Conflict Resolution Procedures. Our directors are elected annually by the stockholders.

**Our REIT Status**

If we qualify as a REIT, we generally will not be subject to federal income tax on income that we distribute to our stockholders. Under the Internal Revenue Code, REITs are subject to numerous organizational and operational requirements, including a requirement that they distribute at least 90% of their annual taxable income to their stockholders. If we fail to qualify for taxation as a REIT in any year, our income will be taxed at regular corporate rates, and we may be precluded from qualifying for treatment as a REIT for the four-year period following our failure to qualify. Even if we qualify as a

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REIT for federal income tax purposes, we may still be subject to state and local taxes on our income and property and to federal income and excise taxes on our undistributed income.

**Summary Risk Factors**

Following are the most significant risks relating to your investment:

No public market currently exists for our shares of common stock. If you are able to sell your shares, you would likely have to sell them at a substantial discount from their public offering price.

We have no operating history, nor do we currently own any properties. We have not identified any properties to acquire with proceeds from this offering.

If we raise substantially less than the maximum offering, we may not be able to invest in a diverse portfolio of properties, and the value of your investment may vary more widely with the performance of specific properties.

We are dependent on our advisor to select investments and conduct our operations; thus, adverse changes in the financial health of our advisor or our relationship with our advisor could adversely affect us.

Our advisor and its affiliates will face conflicts of interest, including significant conflicts created by our advisor's compensation arrangements with us and other Wells-sponsored programs.

We will pay substantial fees and expenses to our advisor, its affiliates and participating broker-dealers, which payments increase the risk that you will not earn a profit on your investment.

Before you invest in us, you should see the complete discussion of the Risk Factors beginning on page 21 of this prospectus.

**Description of Real Estate Investments**

We expect to use substantially all of the net proceeds from this offering to acquire and operate commercial real estate primarily consisting of high quality income-generating office and industrial properties leased to creditworthy companies and governmental entities. We may also invest in entities that make similar investments. Leo F. Wells, III, Douglas P. Williams, Randall D. Fretz, Donald A. Miller and David H. Steinwedell, acting through our advisor, Wells Capital, will make most of the decisions regarding our investments. We expect that our conflicts committee will exercise its right to approve or reject each of these investments.



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Because we have not yet identified any specific properties to purchase, we are considered to be a blind pool. As we acquire properties, we will supplement this prospectus to describe material changes to our portfolio.

### **Estimated Use of Proceeds of Offering**

Depending primarily on the number of shares we sell in this offering and assuming all shares sold under our dividend reinvestment plan are sold at \$9.55 per share, we estimate for each share sold in this

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offering that between \$8.65 and \$8.83 will be available for the purchase of real estate. We will use the remainder of the offering proceeds to pay the costs of the offering, including selling commissions and the dealer manager fee, and to pay the fee to our advisor for its services in connection with the selection, acquisition, development and construction of properties.

**Investment Objectives**

Our primary investment objectives are:

to provide current income for you through the payment of cash dividends; and

to preserve and return your capital contributions.

We also seek capital gain from our investments. See the Investment Objectives and Criteria section of this prospectus for a more complete description of our investment policies and charter-imposed investment restrictions.

**Conflicts of Interest**

Wells Capital, as our advisor, will experience conflicts of interest in connection with the management of our business affairs, including the following:

Wells Capital must determine which investment opportunities to recommend to us or another Wells program or joint venture;

Wells Capital may structure the terms of joint ventures between us and other Wells-sponsored programs;

Wells Capital must determine which property and leasing managers to retain and may retain Wells Management, Inc., an affiliate, to manage and lease some or all of our properties;

Wells Capital and its affiliates will have to allocate their time between us and other real estate programs and activities in which they are involved;

Wells Capital and its affiliates will receive fees in connection with transactions involving the purchase, management and sale of our properties regardless of the quality of the property acquired or the services provided to us; and

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Wells Capital and its affiliates will also receive fees in connection with our public offerings of equity securities.

Our officers and two of our directors will also face these conflicts because of their affiliation with Wells Capital. In addition, our officers and eight of our directors serve as officers and directors of Wells REIT I. See the [Conflicts of Interest](#) section of this prospectus for a detailed discussion of the various conflicts of interest relating to your investment, as well as the procedures that we have established to mitigate a number of these potential conflicts.

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The following chart shows the ownership structure of the various Wells entities that are affiliated with Wells Capital.

**Prior Offering Summary**

As of June 30, 2003, Wells Capital and its affiliates had sponsored 15 publicly offered real estate limited partnerships and Wells REIT I on an unspecified property, or "blind pool," basis. As of June 30, 2003, they had raised in excess of \$3.5 billion from approximately 108,000 investors in these 16 public real estate programs. The "Prior Performance Summary" of this prospectus contains a discussion of the Wells programs sponsored to date. We also provide certain statistical data relating to the Wells programs with investment objectives similar to ours in the "Prior Performance Tables" included at the end of this prospectus.

**The Offering**

We are offering up to 600,000,000 shares of our common stock in our primary offering at \$10 per share, with discounts available for certain categories of purchasers as described in "Plan of Distribution" below. We are also offering 185,000,000 shares of common stock under our dividend reinvestment plan at the higher of \$9.55 or 95% of the estimated value of a share of our common stock, as estimated by our advisor or another firm we choose for that purpose. We will offer shares of common stock in our primary offering until the earlier of November 26, 2005 or the date we sell 600,000,000 shares. We may sell shares under the dividend reinvestment plan beyond November 26, 2005 until we have sold 185,000,000 shares through the reinvestment of dividends. In some states, we may not be able to continue the offering

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for these periods without renewing the registration statement or filing a new registration statement. We may terminate this offering at any time.

We will not sell any shares unless we sell a minimum of 250,000 shares to the public for \$10 per share by November 26, 2004. Purchases by our directors, officers, advisor or their affiliates will not count toward meeting this minimum threshold. Pending satisfaction of this condition, all subscription payments will be placed in an account held by the escrow agent, SouthTrust Bank, in trust for subscribers' benefit, pending release to us. If we do not sell 250,000 shares to the public for \$10 per share by November 26, 2004, we will terminate this offering and return all subscribers' funds, plus interest, except as noted below regarding procedures for Pennsylvania investors. Funds in escrow will be invested in short-term investments that mature on or before November 26, 2004 or that can be readily sold or otherwise disposed of for cash by such date without any dissipation of the offering proceeds invested.

Notwithstanding our \$2.5 million minimum offering amount for all other jurisdictions, we will not sell any shares to Pennsylvania investors unless we raise a minimum of \$200 million in gross offering proceeds (including sales made to residents of other jurisdictions). Pending satisfaction of this condition, all Pennsylvania subscription payments will be placed in an account held by the escrow agent, SouthTrust Bank, in trust for Pennsylvania subscribers' benefit, pending release to us. If we have not reached this \$200 million threshold within 120 days of the date that we first accept a subscription payment from a Pennsylvania investor, we will, within 10 days of the end of that 120-day period, notify Pennsylvania investors in writing of their right to receive refunds, without interest. If you request a refund within 10 days of receiving that notice, we will arrange for the escrow agent to return promptly by check the funds deposited in the Pennsylvania escrow account (or to return your check if the escrow agent has not yet collected on it) to each subscriber. Amounts held in the Pennsylvania escrow account from Pennsylvania investors not requesting a refund will continue to be held for subsequent 120-day periods until we raise at least \$200 million or until the end of the subsequent escrow periods. At the end of each subsequent escrow period, we will again notify you of your right to receive refunds with interest from the day after the expiration of the initial 120-day period.

**Compensation to Wells Capital and its Affiliates**

Wells Capital and its affiliates will receive compensation and reimbursement for services relating to this offering and the investment and management of our assets. The most significant items of compensation are included in the table below. The selling commissions and dealer manager fee may vary for different categories of purchasers. See Plan of Distribution. This table assumes the shares are sold through distribution channels associated with the highest possible selling commissions and dealer manager fees and assumes a \$9.55 price for each share sold through our dividend reinvestment program.

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<u>Type of Compensation</u>	<u>Determination of Amount</u>	<u>Estimated Amount for Maximum Offering (785,000,000 shares)</u>
<b><i>Offering Stage</i></b>		
Selling Commissions	7.0% of gross offering proceeds in primary offering and 5% of gross proceeds from sales under dividend reinvestment plan; all selling commissions will be reallocated to participating broker-dealers	\$ 508,337,500
Dealer Manager Fee	Up to 2.5% of gross offering proceeds	\$ 150,000,000
Other Organization and Offering Expenses	Up to 2.0% of gross offering proceeds	\$ 34,778,830
<b><i>Acquisition and Development Stage</i></b>		
Acquisition Fees	2.0% of gross offering proceeds	\$ 155,335,000
<b><i>Operational Stage</i></b>		
Asset Management Fees	Monthly fee equal to one-twelfth of 0.75% of the sum of the cost of all occupied properties we own plus the cost of investments in joint ventures, provided that the amount paid in any calendar quarter may not exceed 1.0% of the net asset value of those investments at quarter end after deducting debt used to acquire or refinance properties; plus costs and expenses incurred by advisor in providing asset-management services	N/A
Property Management Fee	If we retain Wells Management to manage and lease some of our properties, we will pay a market-based property management fee, which may include reimbursement of Wells Management's personnel costs and other costs of managing the properties. Wells Management may also receive a fee for the initial leasing of newly constructed properties, which would generally equal one month's rent.	N/A
Operating Expenses	Reimbursement of our advisor's cost of providing administrative services	N/A

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<u>Type of Compensation</u>	<u>Determination of Amount</u>	<u>Estimated Amount for Maximum Offering (785,000,000 shares)</u>
<b><i>Liquidation/Listing Stage</i></b>		
Real Estate Commissions	Up to 3.0% of contract price for property sold for substantial assistance in connection with sale	N/A
Subordinated Participation In Net Sale Proceeds (payable only if we are not listed on an exchange)	10.0% of remaining net sale proceeds after return of capital plus payment to investors of an 8.0% cumulative, non-compounded return on the capital contributed by investors	N/A
Subordinated Incentive Listing Fee (payable only if we are listed on an exchange)	10.0% of the amount by which our adjusted market value plus distributions exceeds the aggregate capital contributed by investors plus an amount equal to an 8.0% cumulative, non-compounded return to investors	N/A

**Dividend Policy**

To maintain our qualification as a REIT, we are required to make aggregate annual distributions to our stockholders of at least 90% of our taxable income (which does not necessarily equal net income as calculated in accordance with GAAP). Our board of directors may authorize distributions in excess of those required for us to maintain REIT status depending on our financial condition and such other factors as our board of directors deems relevant. We have not established a minimum distribution level. We expect to calculate our quarterly dividends based upon daily record and dividend declaration dates so investors may be entitled to dividends immediately upon purchasing our shares.

**Listing**

We will seek to list our shares of common stock when our independent directors believe listing would be in the best interest of our stockholders. If we do not list our shares of common stock on a national securities exchange or on the Nasdaq National Market by October 2015, our charter requires that we either:

seek stockholder approval of an extension or amendment of this listing deadline; or

seek stockholder approval of the liquidation of the corporation.

If we sought and did not obtain stockholder approval of an extension or amendment to the listing deadline, we would then be required to seek stockholder approval of our liquidation. If we sought and failed to obtain stockholder approval of our liquidation, our charter would not require us to list or liquidate and we could continue to operate as before. If we sought and obtained stockholder approval of our liquidation, we would begin an orderly sale of our properties and distribute our net proceeds to you.





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**Dividend Reinvestment Plan**

Under our dividend reinvestment plan, you may have the dividends you receive reinvested in additional shares of our common stock. The purchase price per share under our dividend reinvestment plan will be the higher of \$9.55 or 95% of the estimated value of a share of our common stock, as estimated by our advisor or another firm we choose for that purpose. Although we will not pay the 5% selling commissions in connection with sales to certain categories of purchasers, the price for all categories of purchasers will be the same. If you participate in the dividend reinvestment plan, you will not receive the cash from your dividends. As a result, you may have a tax liability with respect to your share of our taxable income, but you will not receive cash dividends to pay such liability. We may terminate the dividend reinvestment plan at our discretion at any time upon 10 days prior written notice to you.

**Proposed Share Redemption Program**

Our board of directors has approved a share redemption program that could enable our stockholders to sell their shares to us in limited circumstances. However, we will not adopt the program during this primary offering or any subsequent primary offering unless the SEC grants us exemptive relief from restrictions on issuer repurchases during a distribution.

Even if we adopt the proposed share redemption program, there would be numerous restrictions on your ability to sell your shares to us under the proposed program. You generally would have to hold your shares for one year before selling your shares to us under the plan. In addition, we would limit the number of shares redeemed pursuant to our proposed share redemption program as follows: (1) during any calendar year, we would not redeem in excess of 5% of the weighted average number of shares outstanding during the prior calendar year; and (2) funding for the redemption of shares would come exclusively from the net proceeds we received from the sale of shares under our dividend reinvestment plan. These limits may prevent us from accommodating all requests made in any year. For three years after we complete this offering or any subsequent public equity offerings we commence within one year of the completion of a public equity offering, the price at which we would repurchase your stock would be \$8.40 per share. Thereafter, the redemption price would equal 95% of our per share value as estimated by Wells Capital or another financial advisor or valuation firm we chose for this purpose. The proposed share redemption program would have different rules if shares were being redeemed in connection with the death of a stockholder. See [Description of Shares Proposed Share Redemption Program](#) for more information about the proposed share redemption program. Our board of directors could amend or terminate the proposed share redemption program with 30 days advance notice.

**Wells Operating Partnership II, L.P.**

We expect to own substantially all of our real estate properties through Wells Operating Partnership II, L.P. (Wells OP II), our operating partnership. We are the sole general partner of Wells OP II. Wells Capital has purchased \$200,000 of limited partner units in Wells OP II. This UPREIT structure may allow sellers of properties to transfer their properties to Wells OP II in exchange for limited partnership interests of Wells OP II and defer gain recognition for tax purposes with respect to such transfers of properties. The holders of units in Wells OP II may have their units redeemed for cash or, at our option, shares of our common stock. At present, we have no plans to acquire any specific properties in exchange for units of Wells OP II.

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**ERISA Considerations**

The section of this prospectus entitled "ERISA Considerations" describes the effect the purchase of shares will have on individual retirement accounts and retirement plans subject to the Employee Retirement Income Security Act of 1974, as amended (ERISA), and/or the Internal Revenue Code. ERISA is a federal law that regulates the operation of certain tax-advantaged retirement plans. Any retirement plan trustee or individual considering purchasing shares for a retirement plan or an individual retirement account should read this section of the prospectus very carefully.

**Description of Shares**

***Uncertificated Shares***

Our board of directors has authorized the issuance of shares of our capital stock without certificates. We expect that, until our shares are listed on a national securities exchange or the Nasdaq National Market, we will not issue shares in certificated form. We maintain a stock ledger that contains the name and address of each stockholder and the number of shares that the stockholder holds. With respect to uncertificated stock, we will continue to treat the stockholder registered on our stock ledger as the owner of the shares until the new owner delivers a properly executed form to us, which we will provide to any registered holder upon request.

***Stockholder Voting Rights and Limitations***

We intend to hold annual meetings of our stockholders for the purpose of electing our directors or conducting other business matters that may be presented at such meetings. We may also call a special meeting of stockholders from time to time. You are entitled to one vote for each share of common stock you own at any of these meetings.

***Restriction on Share Ownership***

Our charter contains restrictions on ownership of the shares that prevent any one person from owning more than 9.8% of our outstanding shares unless exempted by our board of directors. These restrictions are designed to enable us to comply with ownership restrictions imposed on REITs by the internal revenue code. see "Description of Shares - Restriction on Ownership of Shares." Our charter also limits your ability to transfer your shares to prospective stockholders unless (i) they meet suitability standards regarding income or net worth, which are described above at "Suitability Standards" immediately following the cover page of this prospectus, and (ii) the transfer complies with minimum purchase requirements, which are described below at "Plan of Distribution - Minimum Purchase Requirements."

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**RISK FACTORS**

*An investment in our common stock involves various risks and uncertainties. You should carefully consider the following risk factors in conjunction with the other information contained in this prospectus before purchasing our common stock. The risks discussed in this prospectus can adversely affect our business, operating results, prospects and financial condition. This could cause the value of our common stock to decline and could cause you to lose all or part of your investment. The risks and uncertainties described below are not the only ones we face but do represent those risks and uncertainties that we believe are material to our business, operating results, prospects and financial condition. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also harm our business.*

**Risks Related to an Investment In Us**

*There is no public trading market for your shares; therefore, it will be difficult for you to sell your shares.*

There is no current public market for the shares. You may not sell your shares unless the buyer meets applicable suitability and minimum purchase standards. Our charter also prohibits the ownership of more than 9.8% of our stock, unless exempted by our board of directors, which may inhibit large investors from desiring to purchase your shares. Moreover, we have delayed adoption of our proposed share redemption program until the earlier of (i) the completion of this primary offering, which may last until November 26, 2005, or (ii) the receipt by us of SEC exemptive relief from rules restricting issuer purchases during distributions, which relief we may not be able to obtain. Even when one of these conditions is met, our board of directors could choose not to adopt the proposed share redemption program or to amend its proposed terms without stockholder approval. Our board would also be free to amend or terminate the program upon 30 days notice after its adoption. In addition, the proposed share redemption program includes numerous restrictions that would limit your ability to sell your shares. We describe these restrictions in more detail under **Description of Shares Proposed Share Redemption Program**. Therefore, it will be difficult for you to sell your shares promptly or at all. If you are able to sell your shares, you would likely have to sell them at a substantial discount to their public offering price. It is also likely that your shares would not be accepted as the primary collateral for a loan. You should purchase the shares only as a long-term investment because of the illiquid nature of the shares.

*If we are unable to find suitable investments, we may not be able to achieve our investment objectives or pay dividends.*

Our ability to achieve our investment objectives and to pay dividends depends upon the performance of Wells Capital, our advisor, in the acquisition of our investments and the determination of any financing arrangements and upon the performance of our property managers in the selection of tenants and negotiation of leasing arrangements. Except for the investments described in one or more supplements to this prospectus, you will have no opportunity to evaluate the terms of transactions or other economic or financial data concerning our investments. You must rely entirely on the management abilities of Wells Capital, the property managers Wells Capital selects (which may include Wells Management) and the oversight of our board of directors. We cannot be sure that Wells Capital will be successful in obtaining suitable investments on financially attractive terms or that, if Wells Capital makes investments on our behalf, our objectives will be achieved. The more money we raise in this offering, the greater will be our challenge to invest all of the net offering proceeds on attractive terms. Therefore, the large size of this offering increases the risk that we may pay too much for real estate acquisitions.

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If we, through Wells Capital, are unable to find suitable investments promptly, we will hold the proceeds from this offering in an interest-bearing account or invest the proceeds in short-term, investment-grade investments and may, ultimately, liquidate. In such an event, our ability to pay dividends to our stockholders would be adversely affected.

*We may suffer from delays in locating suitable investments, which could adversely affect our ability to make distributions and the value of your investment.*

We could suffer from delays in locating suitable investments, particularly as a result of our reliance on our advisor at times when management of our advisor is simultaneously seeking to locate suitable investments for other affiliated programs. Of course, the more money we raise in this offering, the more difficult it will be to invest the net offering proceeds promptly. Therefore, the large size of this offering increases the risk of delays in investing our net offering proceeds. Delays we encounter in the selection, acquisition and development of income-producing properties would likely adversely affect our ability to pay dividends to our stockholders and our stockholders' overall returns. This, in turn, would reduce the value of your investment. In particular, where we acquire properties prior to the start of construction or during the early stages of construction, it will typically take several months to complete construction and rent available space. Therefore, you could suffer delays in the distribution of cash dividends attributable to those particular properties. You should expect to wait several months after the closing of a property acquisition before we are in a position to pay cash dividends attributable to such property.

*Because this is a blind pool offering, you will not have the opportunity to evaluate our investments before we make them, which makes your investment more speculative.*

Because we have not yet acquired or identified any investments that we may make, we are not able to provide you with information to evaluate our investments prior to acquisition. We will seek to invest substantially all of the offering proceeds available for investment, after the payment of fees and expenses, in the acquisition of commercial properties. However, you will be unable to evaluate the economic merit of real estate projects before we invest in them and will be entirely relying on the ability of our advisor to select well-performing investment properties. Furthermore, our board of directors will have broad discretion in implementing policies regarding tenant or mortgagor creditworthiness, and you will not have the opportunity to evaluate potential tenants, managers or borrowers. These factors increase the risk that your investment may not generate returns comparable to our competitors.

*If we are unable to raise substantial funds, we will be limited in the number and type of investments we may make, and the value of your investment in us will fluctuate with the performance of the specific properties we acquire.*

This offering is being made on a "best efforts" basis, whereby the brokers participating in the offering are only required to use their best efforts to sell our shares and have no firm commitment or obligation to purchase any of the shares. As a result, the amount of proceeds we raise in this offering may be substantially less than the amount we would need to achieve a broadly diversified property portfolio. We may be unable to raise even the minimum offering amount. If we are unable to raise substantially more than the minimum offering amount, we will make fewer investments resulting in less diversification in terms of the number of investments owned, the geographic regions in which our investments are located and the types of investments that we make. In that case, the likelihood that any single property's performance would adversely affect our profitability will increase. For example, if we only raise the minimum amount of \$2.5

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million, we will most likely make our investments through one or more joint ventures and may only be able to make one investment. If we only make one investment, we would not achieve any asset diversification. Additionally, we are not limited in the number or size of our investments or the percentage of net proceeds we may dedicate to a single investment. Your investment in our shares will be subject to greater risk to the extent that we lack a diversified portfolio of investments. In addition, our inability to raise substantial funds would increase our fixed operating expenses as a percentage of gross income, and our financial condition and ability to pay distributions could be adversely affected.

***Our lack of prior operating history or established financing sources hinders your ability to evaluate this investment.***

We have no operating history. You should not rely upon the past performance of other real estate investment programs our advisor or its affiliates sponsored. Such past performance may not predict our future results. We were incorporated in July 2003, and as of the date of this prospectus we have not made any investments in real estate or otherwise. This lack of operating history significantly increases the risk and uncertainty you face in making an investment in our shares.

***Our loss of or inability to obtain key personnel could delay or hinder implementation of our investment strategies, which could adversely affect our ability to make distributions and the value of your investment.***

Our success depends to a significant degree upon the contributions of Leo F. Wells, III, Douglas P. Williams and Randall D. Fretz, each of whom would be difficult to replace. We do not have employment agreements with Messrs. Wells, Williams or Fretz, and we cannot guarantee that such persons will remain affiliated with us. Although Messrs. Wells, Williams and Fretz have entered into employment agreements with Wells Capital, these agreements are terminable at will by either party; thus, such persons may not remain affiliated with Wells Capital or us. If any of our key personnel were to cease their affiliation with us, we may be unable to find suitable replacement personnel, and our operating results could suffer. We do not intend to maintain key person life insurance on any person. We believe that our future success depends, in large part, upon our advisor's and our property managers' ability to hire and retain highly skilled managerial, operational and marketing personnel. Competition for such personnel is intense, and our advisor and any property managers we retain may be unsuccessful in attracting and retaining such skilled personnel. Further, we intend to establish strategic relationships with firms that have special expertise in certain services or as to real properties in certain geographic regions. Maintaining such relationships will be important for us to effectively compete with other investors for properties in such regions. We may be unsuccessful in attracting and retaining such relationships. If we lose or are unable to obtain the services of highly skilled personnel or do not establish or maintain appropriate strategic relationships, our ability to implement our investment strategies could be delayed or hindered, and the value of your investment may decline.

***Our rights and the rights of our stockholders to recover claims against our independent directors are limited, which could reduce your and our recovery against them if they negligently cause us to incur losses.***

Maryland law provides that a director has no liability in that capacity if he performs his duties in good faith, in a manner he reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Our charter provides that no independent director shall be liable to us or our stockholders for

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monetary damages and that we will generally indemnify them for losses unless they are grossly negligent or engage in willful misconduct. As a result, you and we may have more limited rights against our independent directors than might otherwise exist under common law, which could reduce your and our recovery from these persons if they act in a negligent manner. In addition, we may be obligated to fund the defense costs incurred by our independent directors (as well as by our other directors, officers, employees and agents) in some cases, which would decrease the cash otherwise available for distributions to you.

**Risks Related to Conflicts of Interest**

*Wells Capital and possibly Wells Management will face conflicts of interest relating to the purchase and leasing of properties, and such conflicts may not be resolved in our favor, which could adversely affect our investment opportunities and hence our ability to pay dividends.*

We rely on our advisor to identify suitable investment opportunities. Other Wells-sponsored programs, especially those that are currently raising offering proceeds, such as Wells Fund XIV and Wells REIT I, also rely on Wells Capital for investment opportunities. Many investment opportunities would be suitable for us as well as other Wells programs. If Wells Capital directs an investment opportunity to a Wells-sponsored program, it is to offer the investment opportunity to the program for which the opportunity, in the discretion of Wells Capital, is most suitable. Likewise, we may rely at least in part on Wells Management to attract and retain creditworthy tenants. Other Wells-sponsored programs rely on Wells Management for the same tasks. If Wells Management directs creditworthy prospective tenants to another Wells-sponsored program where it could direct such tenants to our properties, our tenant base may have more inherent risk than might otherwise be the case. Our charter disclaims any interest in an investment opportunity known to Wells Capital that Wells Capital has not recommended to us. Wells Capital could direct attractive investment opportunities to other entities or even make such investments for its own account. Wells Management could direct attractive tenants to other entities. Such events could result in our investing in properties that provide less attractive returns or leasing properties to tenants that are more likely to default under their leases, thus reducing the level of dividends we may be able to pay you.

*Wells Capital will face conflicts of interest relating to joint ventures that we may form with affiliates of Wells Capital, which conflicts could result in a disproportionate benefit to the other venture partners at our expense.*

We are likely to enter into joint venture agreements with other Wells programs for the acquisition, development or improvement of properties. Wells Capital may have conflicts of interest in determining which Wells program should enter into any particular joint venture agreement. The co-venturer may have economic or business interests or goals that are or may become inconsistent with our business interests or goals. In addition, Wells Capital may face a conflict in structuring the terms of the relationship between our interests and the interest of the affiliated co-venturer and in managing the joint venture. Since Wells Capital and its affiliates will control both the affiliated co-venturer and, to a certain extent, us, agreements and transactions between the co-venturers with respect to any such joint venture will not have the benefit of arm's-length negotiation of the type normally conducted between unrelated co-venturers. Co-venturers may thus benefit to our and your detriment.

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*Wells Capital, its affiliates and our officers will face competing demands relating to their time, and this may cause our operations to suffer.*

We rely on Wells Capital and its affiliates for the day-to-day operation of our business. Wells Capital and its affiliates, including our officers, have interests in other Wells programs and engage in other business activities. As a result, they will have conflicts of interest in allocating their time between us and other Wells programs and activities in which they are involved. Because these persons have competing interests on their time and resources, they may have conflicts of interest in allocating their time between our business and these other activities. During times of intense activity in other programs and ventures, they may devote less time and fewer resources to our business than are necessary or appropriate to manage our business. If this occurs, the returns on our investments may suffer.

*Our officers and some of our directors face conflicts of interest related to the positions they hold with Wells Capital and its affiliates, which could hinder our ability to successfully implement our business strategy and to generate returns to you.*

Our executive officers and some of our directors are also officers and directors of our advisor, our dealer manager and other affiliated entities. As a result, they owe fiduciary duties to these various entities and their stockholders and limited partners, which fiduciary duties may from time to time conflict with the fiduciary duties that they owe to us and our stockholders. Their loyalties to these other entities could result in actions or inactions that are detrimental to our business, which could harm the implementation of our business strategy and our investment and leasing opportunities. If we do not successfully implement our business strategy, we may be unable to generate cash needed to make distributions to you and to maintain or increase the value of our assets.

*Wells Capital and its affiliates, including our officers and some of our directors, will face conflicts of interest caused by compensation arrangements with us and other Wells-sponsored programs, which could result in actions that are not in the long-term best interests of our stockholders.*

Wells Capital and its affiliates will receive substantial fees from us. These fees could influence our advisor's advice to us, as well as the judgment of the affiliates of Wells Capital who serve as our officers or directors. Among other matters, the compensation arrangements could affect their judgment with respect to:

the continuation, renewal or enforcement of our agreements with Wells Capital and its affiliates, including the advisory agreement, the dealer manager agreement and any property management and leasing agreement;

public offerings of equity by us, which entitle Wells Investment Securities to dealer manager fees and entitle Wells Capital to increased acquisition and asset management fees;

property sales, which entitle Wells Capital to real estate commissions and possible success-based sale fees;

property acquisitions from other Wells-sponsored programs, which might entitle Wells Capital to real estate commissions and possible success-based sale fees in connection with its services for the seller;





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property acquisitions from third parties, which utilize proceeds from our public offerings, thereby increasing the likelihood of continued equity offerings and related fee income for Wells Investment Securities and Wells Capital;

whether and when we seek to list our common stock on a national securities exchange or the Nasdaq National Market, which listing could entitle Wells Capital to a success-based listing fee but could also adversely affect its sales efforts for other programs if the price at which our shares trade is lower than the price at which we offered shares to the public; and

whether and when we seek to sell the company or its assets, which sale could entitle Wells Capital to a success-based fee but could also adversely affect its sales efforts for other programs if the sales price for the company or its assets resulted in proceeds less than the amount needed to preserve our stockholders' capital.

The acquisition fees paid to Wells Capital and management and leasing fees that would be paid to its affiliate, Wells Management, if Wells Management were retained to manage some of our properties, will be paid irrespective of the quality of their acquisition or property-management services during the term of the related agreement. Moreover, Wells Capital and Wells Management will have considerable discretion with respect to the terms and timing of acquisition, disposition and leasing transactions. Considerations relating to their compensation from other programs could result in decisions that are not in the best interests of our stockholders, which could hurt our ability to pay you dividends or result in a decline in the value of your investment.

*Our board's loyalties to Wells REIT I (and possibly to future Wells-sponsored programs) could influence its judgment.*

Eight of our ten directors are also directors of Wells REIT I. The loyalties of those eight directors to Wells REIT I may influence the judgment of our board when considering issues for us that may affect Wells REIT I, such as the following:

The conflicts committee of the board of directors must evaluate the performance of Wells Capital with respect to whether Wells Capital is presenting to us our fair share of investment opportunities. If our advisor is not presenting a sufficient number of investment opportunities to us because it is presenting many opportunities to Wells REIT I or if our advisor is giving preferential treatment to Wells REIT I in this regard, our conflicts committee may not be well suited to enforce our rights under the terms of the advisory agreement or to seek a new advisor.

The conflicts committee may have to make a similar evaluation with respect to the performance of Wells Management if we retain Wells Management to manage and lease any of our properties. If Wells Management is not performing well as our property manager because of its services for Wells REIT I, the divided loyalties of the members of our conflicts committee could adversely affect their willingness to insist on improvement in the performance of Wells Management or to seek another property manager.

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The conflicts committee will likely decide whether we purchase a property. This decision could be influenced by the hope that Wells Capital would present the opportunity to Wells REIT I if we did not pursue it.

We could enter into transactions with Wells REIT I, such as property sales or acquisitions, joint ventures or financing arrangements. Decisions of the board or the conflicts committee regarding the terms of those transactions may be influenced by the board's or committee's loyalties to Wells REIT I.

A decision of the board or the conflicts committee regarding the timing of a debt or equity offering could be influenced by concerns that the offering would compete with an offering of Wells REIT I.

A decision of the board or the conflicts committee regarding the timing of property sales could be influenced by concerns that the sales would compete with those of Wells REIT I.

We could also face similar conflicts if our promoters sponsor additional REITs, such as Wells Real Estate Investment Trust III, Inc. See Conflicts of Interest Our Advisor's Interest in Other Wells Real Estate Programs General.

***Our operating performance could suffer if Wells Capital incurs significant losses, including those losses that may result from being the general partner of other entities.***

We are dependent on Wells Capital to select investments and conduct our operations; thus, adverse changes in the financial health of Wells Capital or our relationship with Wells Capital could adversely affect us. As a general partner to many Well-sponsored programs, Wells Capital may have contingent liability for the obligations of such partnerships. Enforcement of such obligations against Wells Capital could result in a substantial reduction of its net worth. If such liabilities affected the level of services that Wells Capital could provide, our operations and financial performance could suffer as well, which would adversely affect your ability to receive distributions and the value of your investment.

***There is no separate counsel for our affiliates and us, which could result in conflicts of interest and our pursuit of actions not in our stockholders' best interests.***

Alston & Bird LLP is counsel both to us and to Wells Capital and its affiliates, including Wells Investment Securities, Wells Management Company and Wells Development Corporation. As discussed above, there is a possibility that the interests of the various parties may conflict. If we do not obtain separate counsel when our interests conflict with those of Wells Capital and its affiliates, our counsel's loyalties to Wells Capital and its affiliates could interfere with its independent professional judgment in considering alternatives that we should pursue, which could result in our pursuing courses of action that are not in our stockholders' best interests.

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**Risks Related to This Offering and Our Corporate Structure**

*Our charter limits the number of shares a person may own, which may discourage a takeover that could otherwise result in a premium price to our stockholders.*

Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of directors, no person may own more than 9.8% of our outstanding common stock. This restriction may have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price for holders of our common stock.

*Our charter permits our board of directors to issue stock with terms that may subordinate the rights of our common stockholders or discourage a third party from acquiring us in a manner that could result in a premium price to our stockholders.*

Our board of directors may classify or reclassify any unissued common stock or preferred stock and establish the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications and terms or conditions of redemption of any such stock. Thus, our board of directors could authorize the issuance of preferred stock with terms and conditions that could have priority as to distributions and amounts payable upon liquidation over the rights of the holders of our common stock. Such preferred stock could also have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price to holders of our common stock.

*Your investment return may be reduced if we are required to register as an investment company under the Investment Company Act; if we become an unregistered investment company, we could not continue our business.*

We do not intend to register as an investment company under the Investment Company Act of 1940, as amended. If we were obligated to register as an investment company, we would have to comply with a variety of substantive requirements under the Investment Company Act that impose, among other things:

limitations on capital structure;

restrictions on specified investments;

prohibitions on transactions with affiliates; and

compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly increase our operating expenses.

## Edgar Filing: WELLS REAL ESTATE INVESTMENT TRUST II INC - Form POS AM

In order to maintain our exemption from regulation under the Investment Company Act, we must engage primarily in the business of buying real estate, and these investments must be made within a year after this offering ends. If we are unable to invest a significant portion of the proceeds of this offering in properties within one year of the termination of this offering, we may avoid being required to register as an investment company by temporarily investing any unused

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proceeds in government securities with low returns. This would reduce the cash available for distribution to investors and possibly lower your returns.

To maintain compliance with the Investment Company Act exemption, we may be unable to sell assets we would otherwise want to sell and may need to sell assets we would otherwise wish to retain. In addition, we may have to acquire additional income or loss generating assets that we might not otherwise have acquired or may have to forego opportunities to acquire interests in companies that we would otherwise want to acquire and would be important to our investment strategy. If we were required to register as an investment company but failed to do so, we would be prohibited from engaging in our business, and criminal and civil actions could be brought against us. In addition, our contracts would be unenforceable unless a court required enforcement, and a court could appoint a receiver to take control of us and liquidate our business.

*You will have limited control over changes in our policies and operations.*

Our board of directors determines our major policies, including our policies regarding financing, growth, debt capitalization, REIT qualification and distributions. Our board of directors may amend or revise these and other policies without a vote of the stockholders. Under the Maryland General Corporation Law and our charter, our stockholders have a right to vote only on limited matters. Our board's broad discretion in setting policies and our stockholders' inability to exert control over those policies increases the uncertainty and risks you face as a stockholder.

*You may not be able to sell your shares under the proposed share redemption program.*

We will not adopt the proposed share redemption program until the earlier of (i) the completion of this primary offering, which may last until November 26, 2005, or (ii) the receipt by us of SEC exemptive relief from rules restricting issuer purchases during distributions, which relief we may never obtain. Even when one of these conditions is met, our board of directors could choose not to adopt the proposed share redemption program or to amend its proposed terms without stockholder approval. Our board would also be free to amend or terminate the program upon 30 days notice after its adoption. In addition, the proposed share redemption program includes numerous restrictions that would limit your ability to sell your shares.

Generally, you would have to have held your shares for at least one year in order to participate in our proposed share redemption program. Subject to funds being available, we would limit the number of shares redeemed pursuant to our proposed share redemption program as follows: (1) during any calendar year, we would not redeem in excess of 5% of the weighted average number of shares outstanding during the prior calendar year; and (2) funding for the redemption of shares would come exclusively from the net proceeds we received from the sale of shares under our dividend reinvestment plan. These limits might prevent us from accommodating all redemption requests made in any year. Furthermore, for three years after we complete this offering or any subsequent public equity offerings we commence within one year of the completion of a public equity offering, the price at which we would repurchase your stock would be \$8.40 per share. Thereafter, the redemption price would equal 95% of our per share value as estimated by Wells Capital or another firm we chose for that purpose. The share redemption program would have different rules if shares were being redeemed in connection with the death of a stockholder. See Description of Shares Proposed Share Redemption Program for more information about the proposed share redemption program. Even if we adopt the proposed share redemption program, these restrictions would severely limit your ability to sell your shares should you require liquidity and would limit your ability to recover the value you invested.

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*The offering price was not established on an independent basis; the actual value of your investment may be substantially less than what you pay.*

The selling price of the shares bears no relationship to our book or asset values or to any other established criteria for valuing shares. The board of directors considered the following factors in determining the offering price:

the offering price of Wells REIT I;

the range of offering prices of comparable unlisted REITs; and

the recommendation of the dealer manager.

Because the offering price is not based upon any independent valuation, the offering price may not be indicative of the proceeds that you would receive upon liquidation. Further, the offering price may be significantly more than the price at which the shares would trade if they were to be listed on an exchange or actively traded by broker-dealers.

*Because the dealer manager is one of our affiliates, you will not have the benefit of an independent review of us or the prospectus customarily undertaken in underwritten offerings.*

The dealer manager, Wells Investment Securities, is one of our affiliates and will not make an independent review of us or the offering. Accordingly, you do not have the benefit of an independent review of the terms of this offering. Further, the due diligence investigation of us by the dealer manager cannot be considered to be an independent review and, therefore, may not be as meaningful as a review conducted by an unaffiliated broker-dealer or investment banker.

*Your interest in us will be diluted if we issue additional shares.*

Potential investors in this offering do not have preemptive rights to any shares we issue in the future. Our charter authorizes us to issue 1,000,000,000 shares of capital stock, of which 900,000,000 shares are designated as common stock and 100,000,000 are designated as preferred stock. Our board of directors may increase the number of authorized shares of capital stock without stockholder approval. After your purchase in this offering, our board may elect to (1) sell additional shares in this or future public offerings, (2) issue equity interests in private offerings, (3) issue shares of our common stock upon the exercise of the options we may grant to our independent directors or to Wells Capital or Wells Management employees, (4) issue shares to our advisor, its successors or assigns, in payment of an outstanding fee obligation, or (5) issue shares of our common stock to sellers of properties we acquire in connection with an exchange of limited partnership interests of Wells OP II. To the extent we issue additional equity interests after your purchase in this offering, your equity interest in us will be diluted.

*Payment of fees to Wells Capital and its affiliates will reduce cash available for investment and distribution.*

Wells Capital and its affiliates will perform services for us in connection with the offer and sale of the shares, the selection and acquisition of our investments, the management and leasing of our properties and the administration of our other investments and possibly the management and leasing of our properties. We will pay them substantial fees for these services, which will result in immediate dilution to the value of your investment and will reduce the

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amount of cash available for investment in properties or distribution to stockholders. As a result of these substantial fees, we expect that for each share sold in this offering only between \$8.65 and \$8.83 will be available for the purchase of real estate, depending primarily upon the number of shares we sell and assuming all shares sold under the dividend reinvestment plan are sold for \$9.55 per share. Therefore, these fees increase the risk that the amount available for distribution to common stockholders upon a liquidation of our portfolio would be less than the purchase price of the shares in this offering. Substantial up-front fees also increase the risk that you will not be able to resell your shares at a profit, even if our shares are listed on a national securities exchange or on the Nasdaq National Market.

*We may be unable to pay or maintain cash distributions or increase distributions over time.*

There are many factors that can affect the availability and timing of cash distributions to you. We will make distributions principally from cash available from our operations. With no prior operations, no one can predict the amount of distributions you may receive. We may be unable to pay or maintain cash distributions or increase distributions over time.

*Adverse economic and geopolitical conditions could negatively affect our returns and profitability.*

Recent geopolitical events have exacerbated the general economic slowdown that has affected the nation as a whole and the local economies where our properties may be located. The following market and economic challenges may adversely affect our operating results:

poor economic times may result in tenant defaults under leases;

job transfers and layoffs may increase vacancies;

maintaining occupancy levels may require increased concessions or reduced rental rates; and

increased insurance premiums, resulting in part from the increased risk of terrorism, may reduce funds available for distribution or, to the extent we can pass such increases through to tenants, may lead to tenant defaults. Increased insurance premiums also may make it difficult to increase rents to tenants on turnover, which may adversely affect our ability to increase our returns.

Our operations could be negatively affected to the extent that an economic downturn is prolonged or becomes more severe.

*If we are unable to obtain funding for future capital needs, cash distributions to our stockholders and the value of our investments could decline.*

When tenants do not renew their leases or otherwise vacate their space, we will often need to expend substantial funds for tenant improvements to the vacated space in order to attract replacement tenants. In addition, although we expect that our leases with tenants will require tenants to



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pay routine property maintenance costs, we will likely be responsible for any major structural repairs, such as repairs to the foundation, exterior walls and rooftops.

We will use substantially all of this offering's gross proceeds to buy real estate and pay various fees and expenses. We do not intend to reserve any proceeds from this offering for future

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capital needs. Accordingly, if we need additional capital in the future to improve or maintain our properties or for any other reason, we will have to obtain financing from other sources, such as cash flow from operations, borrowings, property sales or future equity offerings. These sources of funding may not be available on attractive terms or at all. If we cannot procure additional funding for capital improvements, our investments may generate lower cash flows or decline in value, or both.

*You may be more likely to sustain a loss on your investment because our promoters do not have as strong an economic incentive to avoid losses as do promoters who have made significant equity investments in their company.*

Our promoters have only invested \$201,000 in us, which investment was made primarily through a purchase of limited partnership interests in our operating partnership, Wells OP II. Therefore, if we are successful in raising enough proceeds to be able to reimburse our promoters for our significant organization and offering expenses, our promoters have little exposure to losses in the value of our shares. Without this exposure, our investors may be at a greater risk of loss because our promoters do not have as much to lose from a decrease in the value of our shares as do those promoters who make more significant equity investments in their companies.

**General Risks Related To Investments In Real Estate**

*Economic and regulatory changes that impact the real estate market may adversely affect our operating results and the value of our real estate properties.*

Our operating results will be subject to risks generally incident to the ownership of real estate, including:

changes in general or local economic conditions;

changes in supply of or demand for similar or competing properties in an area;

changes in interest rates and availability of permanent mortgage funds which may render the sale of a property difficult or unattractive;

changes in tax, real estate, environmental and zoning laws; and

periods of high interest rates and tight money supply.

These and other reasons may prevent us from being profitable or from realizing growth or maintaining the value of our real estate properties.

*Properties that have significant vacancies could be difficult to sell, which could diminish the return on your investment.*

A property may incur vacancies either by the continued default of tenants under their leases or the expiration of tenant leases. If vacancies continue for a long period of time, we may suffer reduced revenues resulting in less cash available to distribute to stockholders. In addition, because properties' market values depend principally upon the value of the properties' leases, the resale value of properties with high or prolonged vacancies could suffer, which could further reduce your return.

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*We depend on tenants for our revenue, and lease terminations could reduce our distributions to our stockholders.*

The success of our investments materially depends on the financial stability of our tenants. A default by a significant tenant on its lease payments to us would cause us to lose the revenue associated with such lease and require us to find an alternative source of revenue to meet mortgage payments and prevent a foreclosure if the property is subject to a mortgage. In the event of a tenant default or bankruptcy, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and re-letting our property. If significant leases are terminated, we may be unable to lease the property for the rent previously received or sell the property without incurring a loss. These events could cause us to reduce the amount of distributions to stockholders.

*Our inability to sell a property when we want could adversely impact our ability to pay cash distributions to you.*

General economic conditions, availability of financing, interest rates and other factors, including supply and demand, all of which are beyond our control, affect the real estate market. We may be unable to sell a property for the price, on the terms, or within the time frame we want. That inability could adversely affect our cash flow and results of operations.

*Uninsured losses relating to real property or excessively expensive premiums for insurance coverage may adversely affect your returns.*

Wells Capital will attempt to obtain adequate insurance on all of our properties to cover casualty losses. However, there are types of losses, generally catastrophic in nature, such as losses due to wars, acts of terrorism, earthquakes, floods, hurricanes, pollution or environmental matters, which are uninsurable or not economically insurable, or may be insured subject to limitations, such as large deductibles or co-payments. Insurance risks associated with potential terrorism acts could sharply increase the premiums we pay for coverage against property and casualty claims. Additionally, mortgage lenders in some cases have begun to insist that commercial property owners purchase coverage against terrorism as a condition for providing mortgage loans. Such insurance policies may not be available at reasonable cost, if at all, which could inhibit our ability to finance or refinance our properties. In such instances, we may be required to provide other financial support, either through financial assurances or self-insurance, to cover potential losses. We may not have adequate coverage for such losses. If any of our properties incurs a casualty loss that is not fully insured, the value of our assets will be reduced by any such uninsured loss. In addition, other than any working capital reserve or other reserves we may establish, we have no source of funding to repair or reconstruct any uninsured damaged property. Also, to the extent we must pay unexpectedly large amounts for insurance, we could suffer reduced earnings that would result in lower distributions to stockholders.

*Our operating results may be negatively affected by potential development and construction delays and resultant increased costs and risks.*

We may use proceeds from this offering to acquire and develop properties upon which we will construct improvements. We will be subject to uncertainties associated with re-zoning for development, environmental concerns of governmental entities and/or community groups, and our builders' ability to build in conformity with plans, specifications, budgeted costs, and timetables. If a builder fails to perform, we may resort to legal action to rescind the purchase or the construction contract or to compel performance. A builder's performance may also be

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affected or delayed by conditions beyond the builder's control. Delays in completing construction could also give tenants the right to terminate preconstruction leases. We may incur additional risks when we make periodic progress payments or other advances to builders before they complete construction. These and other factors can result in increased costs of a project or loss of our investment. In addition, we will be subject to normal lease-up risks relating to newly constructed projects. We also must rely on rental income and expense projections and estimates of the fair market value of property upon completion of construction when agreeing upon a purchase price at the time we acquire the property. If our projections are inaccurate, we may pay too much for a property, and our return on our investment could suffer.

We may invest in unimproved real property. Returns from developing unimproved properties are also subject to risks associated with re-zoning the land for development and environmental concerns of governmental entities and/or community groups. Although we intend to limit any investment in unimproved property to property we intend to develop, your investment may nevertheless be subject to the risks associated with investments in unimproved real property.

***Competition with third parties in acquiring properties and other investments may reduce our profitability and the return on your investment.***

We compete with many other entities engaged in real estate investment activities, including individuals, corporations, bank and insurance company investment accounts, other REITs, real estate limited partnerships, and other entities engaged in real estate investment activities, many of which have greater resources than we do. Larger REITs may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. In addition, the number of entities and the amount of funds competing for suitable investments may increase. Any such increase would result in increased demand for these assets and therefore increased prices paid for them. If we pay higher prices for properties and other investments, our profitability will be reduced and you may experience a lower return on your investment.

***Uncertain market conditions relating to the future disposition of properties could adversely affect the return on your investment.***

We intend to hold the properties in which we invest until we determine that selling or otherwise disposing of properties would help us to achieve our investment objectives. Various real estate market conditions may affect the future disposition of our properties, and we may not be able to sell our properties at a profit. Accordingly, the extent to which you will receive cash distributions and realize potential appreciation on our real estate investments will depend upon fluctuating market conditions.

***Actions of our joint venture partners could negatively impact our performance.***

We are likely to enter into joint ventures with other Wells programs as well as third parties to acquire, develop or improve properties. We may also purchase and develop properties in joint ventures or in partnerships, co-tenancies or other co-ownership arrangements. Such investments may involve risks not otherwise present with other methods of investment in real estate, including, for example:

the possibility that our co-venturer, co-tenant or partner in an investment might become bankrupt;



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that such co-venturer, co-tenant or partner may at any time have economic or business interests or goals which are or which become inconsistent with our business interests or goals; or

that such co-venturer, co-tenant or partner may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives.

Any of the above might subject a property to liabilities in excess of those contemplated and thus reduce your returns.

*Costs of complying with governmental laws and regulations may adversely affect our income and the cash available for any distributions.*

All real property and the operations conducted on real property are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. Some of these laws and regulations may impose joint and several liability on tenants, owners or operators for the costs to investigate or remediate contaminated properties, regardless of fault or whether the acts causing the contamination were legal. In addition, the presence of hazardous substances, or the failure to properly remediate these substances, may adversely affect our ability to sell, rent or pledge such property as collateral for future borrowings.

Some of these laws and regulations have been amended so as to require compliance with new or more stringent standards as of future dates. Compliance with new or more stringent laws or regulations or stricter interpretation of existing laws may require us to incur material expenditures. Future laws, ordinances or regulations may impose material environmental liability. Additionally, our tenants' operations, the existing condition of land when we buy it, operations in the vicinity of our properties, such as the presence of underground storage tanks, or activities of unrelated third parties may affect our properties. In addition, there are various local, state and federal fire, health, life-safety and similar regulations with which we may be required to comply, and which may subject us to liability in the form of fines or damages for noncompliance. Any material expenditures, fines, or damages we must pay will reduce our ability to make distributions and may reduce the value of your investment.

*Discovery of previously undetected environmentally hazardous conditions may adversely affect our cash flows.*

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous real property owner or operator may be liable for the cost to remove or remediate hazardous or toxic substances on, under or in such property. These costs could be substantial. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures or prevent us from entering into leases with prospective tenants that may be impacted by such laws. Environmental laws provide for sanctions for noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. Certain environmental laws and common law principles could be used to impose liability for release of and exposure to hazardous substances, including asbestos-containing materials into the air. Third parties may seek recovery from real property owners or operators for personal injury or property damage associated with exposure to released hazardous substances. The cost of defending against claims of liability, of complying with

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environmental regulatory requirements, of remediating any contaminated property, or of paying personal injury claims could reduce the amounts available for distribution to you.

*If we sell properties and provide financing to purchasers, defaults by the purchasers would adversely affect our cash flows.*

If we decide to sell any of our properties, we intend to use our best efforts to sell them for cash. However, in some instances we may sell our properties by providing financing to purchasers. When we provide financing to purchasers, we will bear the risk that the purchaser may default, which could negatively impact our cash dividends to stockholders. Even in the absence of a purchaser default, the distribution of the proceeds of sales to our stockholders, or their reinvestment in other assets, will be delayed until the promissory notes or other property we may accept upon a sale are actually paid, sold, refinanced or otherwise disposed of.

### **Risks Associated with Debt Financing**

*We may incur mortgage indebtedness and other borrowings, which may increase our business risks.*

We may, in some instances, acquire real properties by borrowing funds. In addition, we may incur mortgage debt and pledge some or all of our real properties as security for that debt to obtain funds to acquire additional real properties. We may borrow if we need funds to satisfy the REIT tax qualification requirement that we distribute at least 90% of our annual REIT taxable income to our stockholders. We may also borrow if we otherwise deem it necessary or advisable to ensure that we maintain our qualification as a REIT for federal income tax purposes.

If there is a shortfall between the cash flow from a property and the cash flow needed to service mortgage debt on that property, then the amount available for distributions to stockholders may be reduced. In addition, incurring mortgage debt increases the risk of loss since defaults on indebtedness secured by a property may result in lenders initiating foreclosure actions. In that case, we could lose the property securing the loan that is in default, thus reducing the value of your investment. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but we would not receive any cash proceeds. We may give full or partial guarantees to lenders of mortgage debt to the entities that own our properties. When we give a guaranty on behalf of an entity that owns one of our properties, we will be responsible to the lender for satisfaction of the debt if it is not paid by such entity. If any mortgages contain cross-collateralization or cross-default provisions, a default on a single property could affect multiple properties. If any of our properties are foreclosed upon due to a default, our ability to pay cash distributions to our stockholders will be adversely affected.

*High mortgage rates may make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire and the amount of cash distributions we can make.*

If mortgage debt is unavailable at reasonable rates, we may not be able to finance the purchase of properties. If we place mortgage debt on properties, we run the risk of being unable to refinance the properties when the loans come due, or of being unable to refinance on favorable terms. If interest rates are higher when we refinance the properties, our income could be reduced.





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We may be unable to refinance properties. If any of these events occurs, our cash flow would be reduced. This, in turn, would reduce cash available for distribution to you and may hinder our ability to raise more capital by issuing more stock or by borrowing more money.

*Lenders may require us to enter into restrictive covenants relating to our operations, which could limit our ability to make distributions to our stockholders.*

When providing financing, a lender may impose restrictions on us that affect our distribution and operating policies and our ability to incur additional debt. Loan documents we enter into may contain covenants that limit our ability to further mortgage the property, discontinue insurance coverage, or replace Wells Capital as our advisor. These or other limitations may adversely affect our flexibility and our ability to achieve our operating plans.

*Increases in interest rates could increase the amount of our debt payments and adversely affect our ability to pay dividends to our stockholders.*

We expect that we will incur indebtedness in the future. Interest we pay could reduce cash available for distributions. Additionally, if we incur variable rate debt, increases in interest rates would increase our interest costs, which would reduce our cash flows and our ability to pay dividends to you. In addition, if we need to repay existing debt during periods of rising interest rates, we could be required to liquidate one or more of our investments in properties at times which may not permit realization of the maximum return on such investments.

*We have broad authority to incur debt, and high debt levels could hinder our ability to make distributions and could decrease the value of your investment.*

Our policies do not limit us from incurring additional debt until debt would exceed 50% of the cost of our assets, and we may exceed this limit under some circumstances. High debt levels would cause us to incur higher interest charges, would result in higher debt service payments, and could be accompanied by restrictive covenants. These factors could limit the amount of cash we have available to distribute and could result in a decline in the value of your investment.

### **Section 1031 Exchange Program Risks**

*We may have increased exposure to liabilities from litigation as a result of our participation in the Section 1031 Exchange Program.*

Wells Development Corporation, an affiliate of Wells Capital, our advisor, has developed a program to facilitate real estate acquisitions for persons (1031 Participants) who seek to reinvest proceeds from a real estate sale and qualify that reinvestment for like-kind exchange treatment under Section 1031 of the Internal Revenue Code (Section 1031 Exchange Program). The program is described in greater detail under Investment Objectives and Criteria Acquisition and Investment Policies Section 1031 Exchange Program. The Section 1031 Exchange Program

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involves a private placement of co-tenancy interests in real estate. There will be significant tax and securities disclosure risks associated with these private placement offerings of co-tenancy interests to 1031 Participants. For example, in the event that the Internal Revenue Service conducts an audit of the purchasers of co-tenancy interests and successfully challenges the qualification of the transaction as a like-kind exchange, purchasers of co-tenancy interests may file a lawsuit against the entity offering the co-tenancy interests and its sponsors. We may be involved in one or more such offerings and could therefore be named in or otherwise required to defend against lawsuits brought by 1031 Participants. Any amounts we are required to expend

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for any such litigation claims may reduce the amount of funds available for distribution to you. In addition, disclosure of any such litigation may adversely affect our future ability to raise additional capital through the sale of stock or borrowings.

*We will be subject to risks associated with co-tenancy arrangements that are not otherwise present in a real estate investment.*

Our participation in the Section 1031 Exchange Program likely would involve an obligation of Wells OP II to purchase any co-tenancy interests in a property that remain unsold at the completion of a Section 1031 Exchange Program private placement offering. Accordingly, Wells OP II could be required to purchase the unsold co-tenancy interests and thus become subject to the risks of ownership of properties in a co-tenancy arrangement with unrelated third parties.

Ownership of co-tenancy interests involves risks not otherwise present with an investment in real estate such as the following:

the risk that a co-tenant may at any time have economic or business interests or goals that are inconsistent with our business interests or goals;

the risk that a co-tenant may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives; or

the possibility that a co-tenant might become insolvent or bankrupt, which may be an event of default under mortgage loan financing documents or allow the bankruptcy court to reject the tenants in common agreement or management agreement entered into by the co-tenants owning interests in the property.

Any of the above might subject a property to liabilities in excess of those contemplated and thus reduce your returns.

In the event that our interests become adverse to those of the other co-tenants, we will not have the contractual right to purchase the co-tenancy interests from the other co-tenants. Even if we are given the opportunity to purchase such co-tenancy interests in the future, we cannot guarantee that we will have sufficient funds available at the time to purchase co-tenancy interests from the 1031 Participants.

We might want to sell our co-tenancy interests in a given property at a time when the other co-tenants in such property do not desire to sell their interests. Therefore, we may not be able to sell our interest in a property at the time we would like to sell. In addition, we anticipate that it will be much more difficult to find a willing buyer for our co-tenancy interests in a property than it would be to find a buyer for a property we owned outright.

*Our participation in the Section 1031 Exchange Program may limit our ability to borrow funds in the future.*

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Institutional lenders may view our obligations under agreements to acquire unsold co-tenancy interests in properties as a contingent liability against our cash or other assets, which may limit our ability to borrow funds in the future. Lenders providing lines of credit may restrict our ability to draw on our lines of credit by the amount of our potential obligation. Further, our lenders may view such obligations in such a manner as to limit our ability to borrow funds based

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on regulatory restrictions on lenders which limit the amount of loans they can make to any one borrower.

**Federal Income Tax Risks**

*Failure to qualify as a REIT would adversely affect our operations and our ability to make distributions.*

Alston & Bird LLP, our legal counsel, has rendered its opinion that we will qualify as a REIT, based upon our representations as to the manner in which we are and will be owned, invest in assets and operate, among other things. However, our qualification as a REIT will depend upon our ability to meet, through investments, actual operating results, distributions and satisfaction of specific stockholder rules, the various tests imposed by the Internal Revenue Code. Alston & Bird LLP will not review these operating results or compliance with the qualification standards on an ongoing basis. This means that we may fail to satisfy the REIT requirements in the future. Also, this opinion represents Alston & Bird LLP's legal judgment based on the law in effect as of the date of this prospectus. Alston & Bird's opinion is not binding on the Internal Revenue Service or the courts. Future legislative, judicial or administrative changes to the federal income tax laws could be applied retroactively, which could result in our disqualification as a REIT.

If we fail to qualify as a REIT for any taxable year, we will be subject to federal income tax on our taxable income at corporate rates. In addition, we would generally be disqualified from treatment as a REIT for the four taxable years following the year of losing our REIT status. Losing our REIT status would reduce our net earnings available for investment or distribution to stockholders because of the additional tax liability. In addition, distributions to stockholders would no longer qualify for the dividends-paid deduction, and we would no longer be required to make distributions. If this occurs, we might be required to borrow funds or liquidate some investments in order to pay the applicable tax.

*Certain fees paid to Wells OP II may cause us to lose our REIT status.*

In connection with any transactions under the Section 1031 Exchange Program, Wells OP II would enter into a number of contractual arrangements that would, in effect, guarantee the sale of the co-tenancy interests being offered under the Section 1031 Exchange Program. In consideration for entering into these agreements, Wells OP II would be paid fees which could be characterized by the Internal Revenue Service as non-qualifying income for purposes of satisfying the REIT qualification income tests. If this fee income were, in fact, treated as non-qualifying, and if the aggregate of such fee income and any other non-qualifying income in any taxable year exceeded 5.0% of our gross revenues for such year, we could lose our REIT status for that taxable year and the four ensuing taxable years. Our failure to qualify as a REIT would adversely affect your return on your investment.

*Recharacterization of transactions under the Section 1031 Exchange Program may result in a 100% tax on income from a prohibited transaction, which would diminish our cash distributions to our stockholders.*

The Internal Revenue Service could recharacterize transactions under the Section 1031 Exchange Program such that Wells OP II is treated as the bona fide owner, for tax purposes, of properties acquired and resold by the entity established to facilitate the transaction. Such recharacterization could result in the income realized on these transactions by Wells OP II being treated as gain on the sale of property that is held as inventory or otherwise held primarily for the



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sale to customers in the ordinary course of its trade or business. In such event, the gain would constitute income from a prohibited transaction and would be subject to a 100% penalty tax. If this occurs, our ability to pay cash distributions to our stockholders will be adversely affected.

*Recharacterization of sale-leaseback transactions may cause us to lose our REIT status.*

We may purchase properties and lease them back to the sellers of such properties. While we will use our best efforts to structure any such sale-leaseback transaction such that the lease will be characterized as a true lease, thereby allowing us to be treated as the owner of the property for federal income tax purposes, we cannot assure you that the IRS will not challenge such characterization. In the event that any such sale-leaseback transaction is challenged and recharacterized as a financing transaction or loan for federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed. If a sale-leaseback transaction were so recharacterized, we might fail to satisfy the REIT qualification asset tests or the income tests and, consequently, lose our REIT status effective with the year of recharacterization. Alternatively, the amount of our REIT taxable income could be recalculated which might also cause us to fail to meet the distribution requirement for a taxable year.

*You may have current tax liability on distributions you elect to reinvest in our common stock.*

If you participate in our dividend reinvestment plan, you will be deemed to have received, and for income tax purposes will be taxed on, the amount reinvested in common stock to the extent the amount reinvested was not a tax-free return of capital. As a result, unless you are a tax-exempt entity, you may have to use funds from other sources to pay your tax liability on the value of the common stock received.

*In certain circumstances, we may be subject to federal and state income taxes as a REIT, which would reduce our cash available for distribution to you.*

Even if we qualify and maintain our status as a REIT, we may be subject to federal income taxes or state taxes. For example, net income from a prohibited transaction will be subject to a 100% tax. We may not be able to make sufficient distributions to avoid excise taxes applicable to REITs. We may also decide to retain income we earn from the sale or other disposition of our property and pay income tax directly on such income. In that event, our stockholders would be treated as if they earned that income and paid the tax on it directly. However, stockholders that are tax-exempt, such as charities or qualified pension plans, would have no benefit from their deemed payment of such tax liability. We may also be subject to state and local taxes on our income or property, either directly or at the level of Wells OP II or at the level of the other companies through which we indirectly own our assets. Any federal or state taxes we pay will reduce our cash available for distribution to you.

*Legislative or regulatory action tax changes could adversely affect you.*

At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. Any of those new laws or interpretations may take effect retroactively and could adversely affect the taxation of us or of you as a stockholder. Therefore, changes in laws could diminish the value of an investment in our common stock or the value or the resale potential of our properties. On May 23, 2003, Congress passed the Jobs and Growth Tax Relief Reconciliation Act of 2003, which decreases the tax rate on most dividends paid by corporations to individual investors to a maximum of 15% from current rates, and such rates are retroactive to the beginning of January 2003.



REIT dividends, with limited exceptions,

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will not benefit from the rate reduction, because a REIT's income generally is not subject to corporate level tax. As such, this legislation could cause shares in non-REIT corporations to be a more attractive investment to individual investors than shares in REITs, and could have an adverse effect on the value of our common stock. You are urged to consult with your own tax advisor with respect to the impact of the Jobs and Growth Tax Relief Reconciliation Act of 2003 and any other relevant legislation on your investment in our common stock and the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our common stock.

**Retirement Plan Risks**

*If you fail to meet the fiduciary and other standards under ERISA or the Internal Revenue Code as a result of an investment in our stock, you could be subject to criminal and civil penalties.*

There are special considerations that apply to pension or profit sharing trusts or IRAs investing in shares. If you are investing the assets of a pension, profit sharing, 401(k), Keogh or other qualified retirement plan or the assets of an IRA in our common stock, you should satisfy yourself that:

your investment is consistent with your fiduciary obligations under ERISA and the Internal Revenue Code;

your investment is made in accordance with the documents and instruments governing your plan or IRA, including your plan's investment policy;

your investment satisfies the prudence and diversification requirements of Sections 404(a)(1)(B) and 404(a)(1)(C) of ERISA and other applicable provisions of ERISA and the Internal Revenue Code;

your investment will not impair the liquidity of the plan or IRA;

your investment will not produce unrelated business taxable income for the plan or IRA;

you will be able to value the assets of the plan annually in accordance with ERISA requirements and applicable provisions of the plan or IRA; and

your investment will not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the Internal Revenue Code.

Failure to satisfy the fiduciary standards of conduct and other applicable requirements of ERISA and the Internal Revenue Code may result in imposition of civil and criminal penalties, and can subject the fiduciary to equitable remedies. In addition, if an investment in our shares constitutes a prohibited transaction under ERISA or the Internal Revenue Code, the fiduciary who authorized or directed the investment may be subject to imposition of excise taxes with respect to the amount invested.



**Table of Contents****Index to Financial Statements****CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Some of the information in this prospectus may contain forward-looking statements. Such statements include, in particular, statements about our plans, strategies and prospects. You can generally identify forward-looking statements by our use of forward-looking terminology such as may, will, expect, intend, anticipate, estimate, believe, continue or other similar words. You should not rely on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control.

These forward-looking statements are subject to various risks and uncertainties, including those discussed above under Risk Factors, that could cause our actual results to differ materially from those projected in any forward-looking statement we make. We do not undertake to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**ESTIMATED USE OF PROCEEDS**

The following tables set forth information about how we intend to use the proceeds raised in this offering assuming that we sell the minimum of 250,000 shares, a mid-point of 392,500,000 shares and the maximum of 785,000,000 shares, respectively, of common stock. For the mid-point and maximum offerings, we estimate that we would sell 11% of the shares through distribution channels involving a reduced dealer manager fee and no selling commissions at purchase prices ranging from \$9.20 to \$9.30. With respect to the mid-point and maximum offerings, we assume that we would sell 24% of the shares through our dividend reinvestment program for a price of \$9.55 per share. Many of the figures set forth below represent management's best estimate since they cannot be precisely calculated at this time. Depending primarily on the number of shares we sell in this offering and assuming a \$9.55 purchase price for shares sold under the dividend reinvestment plan, we estimate that 86.5% to 90.0% of our gross offering proceeds, or between \$8.65 and \$8.83 per share, will be used for investments, while the remainder will be used to pay offering expenses, including selling commissions and the dealer manager fee, and to pay a fee to our advisor for its services in connection with the selection, acquisition, development and construction of our real estate investments.

	250,000 Shares		392,500,000 Shares		785,000,000 Shares	
	Amount	Percent	Amount	Percent	Amount	Percent
Gross Offering Proceeds	\$ 2,500,000	100.0%	\$ 3,851,875,000	100.0%	\$ 7,703,750,000	100.0%
Selling Commissions and Dealer Manager Fee <sup>(1)</sup>	\$ 237,500	9.5%	\$ 290,865,625	7.6%	\$ 581,731,250	7.6%
Other Organization and Offering Expenses <sup>(2)</sup>	\$ 50,000	2.0%	\$ 25,607,835	0.7%	\$ 34,778,830	0.5%
Acquisition Fees <sup>(3)</sup>	\$ 50,000	2.0%	\$ 77,037,500	2.0%	\$ 154,075,000	2.0%
Initial Working Capital Reserve <sup>(4)</sup>						
Amount Available for Investment <sup>(5)(6)</sup>	\$ 2,162,500	86.5%	\$ 3,458,364,040	89.8%	\$ 6,933,164,920	90.0%

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1. For the mid-point and maximum offerings, includes selling commissions equal to 7.0% of aggregate gross offering proceeds and a dealer manager fee equal to 2.5% of aggregate offering proceeds on 66% of shares sold; selling commissions equal to 5.0% of aggregate gross offering proceeds and a dealer manager fee equal to 0.0% of aggregate offering proceeds on 20% of shares sold (through the dividend reinvestment plan); no selling commissions or dealer manager fee on 3% of shares sold, which are shares sold under the dividend reinvestment plan through investment advisers compensated on a fee-for-service basis; and no selling commissions and a dealer manager fee of between 1.5% and 2.5% on the remaining shares sold through investment advisers compensated on a fee-for-service basis. See Plan of Distribution.
2. Includes all expenses (other than selling commissions and the dealer manager fee) to be paid by us in connection with the offering, including our legal, accounting, printing, mailing and filing fees, charges of our escrow holder, reimbursing the due diligence expenses of participating broker-dealers, and amounts to reimburse Wells Capital for the salaries of its employees and other costs in connection with preparing supplemental sales materials, holding educational conferences and attending retail seminars conducted by broker-dealers. Wells Capital has agreed to reimburse us to the extent organizational and offering expenses incurred by us, other than selling commissions and the dealer manager fee, exceed 2% of aggregate gross offering proceeds.
3. We will pay Wells Capital, as our advisor, acquisition fees of 2.0% of gross offering proceeds for its services in connection with the selection, purchase, development and construction of real estate. We will pay Wells Capital the acquisition fee amount upon receipt of the offering proceeds rather than at the time a property is acquired. In addition to this acquisition fee, we may also incur customary third-party acquisition expenses in connection with the acquisition (or attempted acquisition) of a property. See note 6 below.
4. Because we expect that the vast majority of leases for the properties acquired by us will provide for tenant reimbursement of operating expenses, we do not anticipate that a permanent reserve for maintenance and repairs of real estate properties will be established. However, to the extent that we have insufficient funds for such purposes, we may establish reserves from gross offering proceeds, out of cash flow generated by operating properties or out of nonliquidating net sale proceeds, defined generally to mean the net cash proceeds received by us from any sale or exchange of properties.
5. Amount available for investment will include customary third-party acquisition expenses such as legal fees and expenses, costs of appraisals, accounting fees and expenses, title insurance premiums and other closing costs and miscellaneous expenses relating to the acquisition of real estate. We estimate that these third-party costs would average 0.5% of the contract purchase prices of property acquisitions. If our proposed share redemption program is adopted, up to 100% of the net proceeds from sales under our dividend reinvestment plan could be used to repurchase shares of our common stock. See Description of Shares Proposed Share Redemption Program.
6. Until required in connection with the acquisition and development of properties, substantially all of the net proceeds of the offering and, thereafter, our working capital reserves, may be invested in short-term, highly liquid investments including government obligations, bank certificates of deposit, short-term debt obligations and interest-bearing accounts or other authorized investments as determined by our board of directors.

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**MANAGEMENT**

**Board of Directors**

We operate under the direction of our board of directors. The board is responsible for the management and control of our affairs. The board has retained Wells Capital to manage our day-to-day affairs and the acquisition and disposition of our investments, subject to the board's supervision. Because of the numerous conflicts of interest created by the relationships among us, Wells Capital and various affiliates, many of the responsibilities of the board have been delegated to a committee comprised of all of our independent directors. See [Conflicts of Interest](#).

We have a ten-member board of directors. Our board may change the size of the board, but not to fewer than three board seats. Our charter provides that a majority of the directors must be independent directors. We have eight independent directors. An independent director is a person who is not one of our officers or employees or an officer or employee of Wells Capital or its affiliates and has not been so for the previous two years. Serving as a director of, or having an ownership interest in, another Wells-sponsored program will not, by itself, preclude independent-director status.

Each director will serve until the next annual meeting of stockholders or until his successor has been duly elected and qualified. Although the number of directors may be increased or decreased, a decrease shall not have the effect of shortening the term of any incumbent director. Any director may resign at any time and may be removed with or without cause by the stockholders upon the affirmative vote of at least a majority of all the votes entitled to be cast at a meeting called for the purpose of the proposed removal. The notice of the meeting shall indicate that the purpose, or one of the purposes, of the meeting is to determine if the director shall be removed.

Unless filled by a vote of the stockholders as permitted by the Maryland General Corporation Law, a vacancy created by an increase in the number of directors or the death, resignation, removal, adjudicated incompetence or other incapacity of a director shall be filled by a vote of a majority of the remaining directors. As provided in our charter, nominations of individuals to fill the vacancy of a board seat previously filled by an independent director will be made by the remaining independent directors.

Our directors and officers are not required to devote all of their time to our business and are only required to devote the time to our affairs as their duties may require. In addition to meetings of the various committees of the board, which committees we describe below, we expect to hold seven regular board meetings each year. We do not expect that our directors will be required to devote a substantial portion of their time in discharging their duties. Our board is empowered to fix the compensation of all officers that it selects and may pay compensation to directors for services rendered to us in any other capacity.

Our general investment and borrowing policies are set forth in this prospectus. Our directors may establish further written policies on investments and borrowings and shall monitor our administrative procedures, investment operations and performance to ensure that the policies are fulfilled and are in the best interest of the stockholders. We will follow the policies on investments and borrowings set forth in this prospectus unless they are modified by our directors.

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**Committees of the Board of Directors**

Many of the powers of the board of directors may be delegated to one or more committees. Our charter requires that each committee consist of at least a majority of independent directors.

*Audit Committee*

Our bylaws require that the audit committee of the board of directors consist solely of independent directors. The audit committee selects the independent public accountants to audit our annual financial statements, reviews with the independent public accountants the plans and results of the audit engagement, approves the audit and non-audit services provided by the independent public accountants, reviews the independence of the independent public accountants, considers the range of audit and non-audit fees and reviews the adequacy of our internal accounting controls. Our audit committee consists of Donald S. Moss, Walter W. Sessoms, Neil H. Strickland and W. Wayne Woody.

*Conflicts Committee*

In order to reduce or eliminate certain potential conflicts of interest, our charter creates a conflicts committee of our board of directors comprised of all of our independent directors, that is, all of our directors who are not affiliated with our advisor. Serving on the board of, or owning an interest in, another Wells-sponsored program will not, by itself, preclude a director from serving on the conflicts committee. The conflicts committee, which is authorized to retain its own legal and financial advisors, is empowered to act on any matter permitted under Maryland law provided that it first determines that the matter at issue is such that the exercise of independent judgment by Wells Capital affiliates could reasonably be compromised. Those conflict-of-interest matters that cannot be delegated to a committee under Maryland law must be acted upon by both the board of directors and the conflicts committee. See [Conflicts of Interest](#) [Certain Conflict Resolution Procedures](#).

Because many of our independent directors are also independent directors of Wells REIT I, these independent directors would face conflicts of interests with respect to transactions between Wells REIT I and us. (See [Risk Factors](#) [Risks Related to Conflicts of Interest](#) [Our board's loyalties to Wells REIT I \(and possibly future Wells-sponsored programs\) could influence its judgment.](#) ) To address these conflicts, the conflicts committee has created a subcommittee of the conflicts committee comprised of all directors on the conflicts committee who are unaffiliated with another Wells-sponsored program. The conflicts subcommittee is empowered to act on any matter permitted by Maryland law if (1) the conflicts committee delegates the matter to the conflicts subcommittee or (2) the conflicts subcommittee disagrees with the conflict committee's handling of a matter and its minutes reflect that it determined that the matter at issue was such that the exercise of independent judgment by both the affiliates of Wells Capital and the affiliates of another Wells-sponsored program could reasonably have been compromised. (See [Conflicts of Interest](#) [Certain Conflict Resolution Procedures](#). ) Two of our directors serve on the conflicts subcommittee.

Our conflicts committee will also discharge the board's responsibilities relating to compensation of our executives. The conflicts committee will administer the granting of stock options to selected employees of Wells Capital and Wells Management based upon recommendations from Wells Capital and Wells Management, and set the terms and conditions of such options in accordance with the Stock Option Plan, which we describe below. The conflicts





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committee will also have authority to amend the Stock Option Plan or create other incentive compensation and equity-based plans.

***Advisory Committees***

The board of directors may establish various advisory committees on which certain members of the board would sit to assist Wells Capital and its affiliates in areas that have a direct impact on our operations, such as the following: asset management; finance and planning; and shareholder relations, communications and development.

**Executive Officers and Directors**

We have provided below certain information about our executive officers and directors.

<i>Name</i>	<i>Age</i>	<i>Positions</i>
Leo F. Wells, III	59	President and Director
Douglas P. Williams	52	Executive Vice President, Secretary, Treasurer and Director
Charles R. Brown	65	Director*
Richard W. Carpenter	66	Director*
Bud Carter	65	Director*
Donald S. Moss	67	Director*
Jack M. Pinkerton	76	Director*
Walter W. Sessoms	69	Director*
Neil H. Strickland	67	Director*
W. Wayne Woody	61	Director*
Randall D. Fretz	51	Senior Vice President

\* Denotes director is not affiliated with our advisor, Wells Capital.

**Leo F. Wells, III** is our President and one of our directors. He is also the President and a director of Wells REIT I and is the President, Treasurer and sole director of Wells Capital, our advisor. He is also the sole stockholder, sole director, President and Treasurer of Wells Real Estate Funds, Inc., the parent corporation of Wells Capital. Mr. Wells is President of Wells & Associates, Inc., a real estate brokerage and investment company formed in 1976 and incorporated in 1978, for which he serves as principal broker. He is also a trustee of the Wells Family of Real Estate Funds, an open-end management investment company organized as an Ohio business trust, which includes as one of its series the Wells S&P REIT Index Fund. He is also the President, Treasurer and sole director of:

Wells Management Company, Inc., a company we may engage to manage some or all of our properties;

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Wells Advisors, Inc., a company he organized in 1991 to act as a non-bank custodian for IRAs;

Wells Development Corporation, a company he organized in 1997 to develop real properties; and

Wells Asset Management, Inc., a company he organized in 1997, which serves as an investment adviser to the Wells Family of Real Estate Funds.

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Mr. Wells was a real estate salesman and property manager from 1970 to 1973 for Roy D. Warren & Company, an Atlanta-based real estate company, and he was associated from 1973 to 1976 with Sax Gaskin Real Estate Company, during which time he became a Life Member of the Atlanta Board of Realtors Million Dollar Club. From 1980 to February 1985 he served as Vice President of Hill-Johnson, Inc., a Georgia corporation engaged in the construction business. Mr. Wells holds a Bachelor of Business Administration degree in economics from the University of Georgia. Mr. Wells is a member of the International Association for Financial Planning.

Mr. Wells has over 30 years of experience in real estate sales, management and brokerage services. In addition to being the President and a director of Wells REIT I, he is currently a general partner in a total of 27 real estate limited partnerships formed for the purpose of acquiring, developing and operating office buildings and other commercial properties. As of December 31, 2002, these 27 real estate limited partnerships represented investments totaling approximately \$347,000,000 from approximately 28,300 investors.

On August 26, 2003, Mr. Wells and Wells Investment Securities entered into a Letter of Acceptance, Waiver and Consent (AWC) with the NASD relating to alleged rule violations. The AWC set forth the NASD's findings that Wells Investment Securities and Mr. Wells had violated conduct rules relating to the provision of non-cash compensation of more than \$100 to associated persons of NASD member firms in connection with their attendance at the annual educational and due diligence conferences sponsored by Wells Investment Securities in 2001 and 2002. See Affiliated Companies Dealer Manager below.

**Douglas P. Williams** is our Executive Vice President, Secretary and Treasurer and one of our directors. Since 1999, he has also served as Executive Vice President, Secretary and Treasurer and a director of Wells REIT I, a Senior Vice President of Wells Capital, our advisor, and is also a Vice President of:

Wells Investment Securities, Inc., our dealer manager, of which he is also a director and the CFO and Treasurer;

Wells Real Estate Funds, Inc.;

Wells Advisors, Inc.; and

Wells Asset Management, Inc.

From 1996 to 1999, Mr. Williams served as Vice President and Controller of OneSource, Inc., a leading supplier of janitorial and landscape services, where he was responsible for corporate-wide accounting activities and financial analysis. Mr. Williams was employed by ECC International Inc., a supplier to the paper industry and to the paint, rubber and plastic industries, from 1982 to 1995. While at ECC, Mr. Williams served in a number of key accounting positions, including: Corporate Accounting Manager, U.S. Operations; Division Controller, Americas Region; and Corporate Controller, America/Pacific Division. Prior to joining ECC and for one year after leaving ECC, Mr. Williams was employed by Lithonia Lighting, a manufacturer of lighting fixtures, as a Cost and General Accounting Manager and Director of Planning and Control. Mr. Williams started his professional career as an auditor for a predecessor firm of KPMG LLP.

Mr. Williams is a member of the American Institute of Certified Public Accountants and the Georgia Society of Certified Public Accountants and is licensed with the NASD as a financial



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and operations principal. Mr. Williams received a Bachelor of Arts degree from Dartmouth College and a Masters of Business Administration degree from the Amos Tuck School of Graduate Business Administration at Dartmouth College.

**Charles R. Brown** is one of our independent directors. He has been involved in real estate activities for over 40 years. From 1971 to 1976, he served as Director of Marketing and Project Manager for Atlantic Center, one of the South's largest multi-use complexes. Atlantic Center is a two-million square-foot project in the central business district of Atlanta and includes a Hilton Hotel, a bank and office and retail establishments. From 1976 to 1997, Mr. Brown was President of Technology Park/Atlanta, Inc., where he was instrumental in developing Technology Park/Atlanta, a 600-acre office park in Peachtree Corners just north of Atlanta, which was selected for the Governor's Award for its contribution to community economic development. He still serves on the Board of directors of Technology Park/Atlanta.

Mr. Brown has been President of CRB Realty Associates, a private real estate consulting firm, since the 1980s. He has previously been president and vice chairman of Atlantic Station, LLC, where he was involved in the planning and development of Atlantic Station, a redevelopment project of the Atlantic Steel mill in Atlanta, Georgia. He has also represented one of the partnerships developing an office building constituting part of the Atlantic Station project.

Mr. Brown is a past President of Georgia Tech Foundation, past Chairman of the Gwinnett Chamber of Commerce and Georgia Chamber of Commerce and past Vice Chairman of the Georgia Governor's Development Council and served on the Board of the Georgia Department of Technical and Adult Education. He is a graduate of the Georgia Institute of Technology where he received a B.S. degree in Building Construction from the College of Architecture.

**Richard W. Carpenter** is one of our independent directors. He is also an independent director of Wells REIT I and a trustee of the Wells Family of Real Estate Funds. He served as General Vice President of Real Estate Finance of The Citizens and Southern National Bank from 1975 to 1979, during which time his duties included the establishment and supervision of the United Kingdom Pension Fund, U.K.-American Properties, Inc. that was established primarily for investment in commercial real estate within the United States.

Mr. Carpenter is a managing partner of Carpenter Properties, L.P., a real estate limited partnership and a Director and Chairman of the Audit Committee of MidCountry Financial Corporation. He retired as President and director of Commonwealth Oil Refining Company, Inc. and Realmark Holdings in 2001.

Mr. Carpenter previously served as Vice Chairman of the board of directors of both First Liberty Financial Corp. and Liberty Savings Bank, F.S.B. and Chairman of the Audit Committee of First Liberty Financial Corp. He has been a member of the National Association of Real Estate Investment Trusts and formerly served as President and Chairman of the Board of Southmark Properties, an Atlanta-based REIT which invested in commercial properties. Mr. Carpenter is a past Chairman of the American Bankers Association Housing and Real Estate Finance Division Executive Committee. Mr. Carpenter holds a Bachelor of Science degree from Florida State University, where he was named the outstanding alumnus of the School of Business in 1973.

**Bud Carter** is one of our independent directors. He is also an independent director of Wells REIT I and a trustee of the Wells Family of Real Estate Funds. He was an award-winning



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broadcast news director and anchorman for several radio and television stations in the Midwest for over 20 years. From 1975 to 1980, Mr. Carter served as General Manager of WTAZ-FM, a radio station in Peoria, Illinois and served as editor and publisher of The Peoria Press, a weekly business and political journal in Peoria, Illinois. From 1981 until 1989, Mr. Carter was also an owner and General Manager of Transitions, Inc., a corporate outplacement company in Atlanta, Georgia.

Mr. Carter currently serves as Senior Vice President for The Executive Committee, an international organization established to aid presidents and CEOs to share ideas on ways to improve the management and profitability of their respective companies. The Executive Committee operates in numerous large cities throughout the United States, Canada, Australia, France, Italy, Malaysia, Brazil, the United Kingdom and Japan. The Executive Committee has more than 7,000 presidents and CEOs who are members. In addition, Mr. Carter was the first Chairman of the organization recruited in Atlanta and still serves as Chairman of the first two groups formed in Atlanta, each comprised of 16 noncompeting CEOs and presidents. Mr. Carter serves on the board of directors of Creative Storage Systems, Inc., DiversiTech Corporation and Wavebase9. He is a graduate of the University of Missouri where he earned degrees in journalism and social psychology.

**Donald S. Moss** is one of our independent directors. He is also an independent director of Wells REIT I and a trustee of the Wells Family of Real Estate Funds. He was employed by Avon Products, Inc. from 1957 until his retirement in 1986. While at Avon, Mr. Moss served in a number of key positions, including Vice President and Controller from 1973 to 1976, Group Vice President of Operations-Worldwide from 1976 to 1979, Group Vice President of Sales-Worldwide from 1979 to 1980, Senior Vice President-International from 1980 to 1983 and Group Vice President-Human Resources and Administration from 1983 until his retirement in 1986. Mr. Moss was also a member of the board of directors of Avon Canada, Avon Japan, Avon Thailand, and Avon Malaysia from 1980 to 1983.

Mr. Moss is currently a director of The Atlanta Athletic Club. He formerly was the National Treasurer and a director of the Girls Clubs of America from 1973 to 1976. Mr. Moss graduated from the University of Illinois where he received a degree in business.

**Jack M. Pinkerton** is one of our independent directors. He served as President of The Pinkerton and Laws Company from 1955 to 1983. He resigned in 1983 as President and became Chairman of the Executive Committee for The Pinkerton & Laws Company until his retirement in 1988, at which time The Pinkerton and Laws Company was one of the 200 largest construction companies in the United States. Mr. Pinkerton's current activities include Co-Director of Construction for Piedmont Park Conservancy and Early Learning Property Management (construction and development of Early Learning Centers).

Mr. Pinkerton served as chairman of the board of Enterprise National Bank before it was sold to Regions Bank. Mr. Pinkerton has also served as chairman of the board of numerous non-profit organizations. He received his Civil Engineering degree from Vanderbilt University and a Master of Theology Studies degree from Emory University.

**Walter W. Sessoms** is one of our independent directors. He is also an independent director of Wells REIT I and a trustee of the Wells Family of Real Estate Funds. He was employed by Southern Bell and its successor company, BellSouth, from 1956 until his retirement in June 1997. While at BellSouth, Mr. Sessoms served in a number of key positions, including

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Vice President-Residence for the State of Georgia from June 1979 to July 1981, Vice President-Transitional Planning Officer from July 1981 to February 1982, Vice President-Georgia from February 1982 to June 1989, Senior Vice President-Regulatory and External Affairs from June 1989 to November 1991, and Group President-Services from December 1991 until his retirement on June 30, 1997. He also worked at AT&T Corporation in New York from 1969 to 1971 when Southern Bell was a part of the Bell System. From September 1973 to September 1974, Mr. Sessoms participated in the President's Executive Interexchange Program in Washington, D.C.

Mr. Sessoms currently serves as a director of the Georgia Chamber of Commerce for which he is a past Chairman of the Board and the Salvation Army's Board of Visitors of the Southeast Region. Mr. Sessoms is also a past advisory council member for the University of Georgia College of Business Administration and past member of the executive committee of the Atlanta Chamber of Commerce. Mr. Sessoms is a graduate of Wofford College where he earned a degree in economics and business administration, and is currently a member of the Wofford College Board of Trustees. He is a past member of the Governor's Education Reform Commission. In addition, Mr. Sessoms is a member of the Board of Trustees of the Southern Center for International Studies and is past President of the Atlanta Rotary Club. He is also a Trustee for the Atlanta University Center.

**Neil H. Strickland** is one of our independent directors. He is also an independent director of Wells REIT I and a trustee of the Wells Family of Real Estate Funds. He was employed by Loyalty Group Insurance (which subsequently merged with America Fore Loyalty Group and is now known as The Continental Group) as an automobile insurance underwriter. From 1957 to 1961, Mr. Strickland served as Assistant Supervisor of the Casualty Large Lines Retrospective Rating Department. From 1961 to 1964, Mr. Strickland served as Branch Manager of Wolverine Insurance Company, a full service property and casualty service company, where he had full responsibility for underwriting of insurance and office administration in the State of Georgia. In 1964, Mr. Strickland and a non-active partner started Superior Insurance Service, Inc., a property and casualty wholesale general insurance agency. Mr. Strickland served as President and was responsible for the underwriting and all other operations of the agency. In 1967, Mr. Strickland sold his interest in Superior Insurance Service, Inc. and started Strickland General Agency, Inc., a property and casualty general insurance agency concentrating on commercial customers. Mr. Strickland is currently the Senior Operation Executive of Strickland General Agency, Inc. and devotes most of his time to long-term planning, policy development and senior administration.

Mr. Strickland is a past President of the Norcross Kiwanis Club and served as both Vice President and President of the Georgia Surplus Lines Association. He also served as President and a director of the National Association of Professional Surplus Lines Offices. Mr. Strickland currently serves as a director of First Capital Bank, a community bank located in the State of Georgia. Mr. Strickland attended Georgia State University where he majored in business administration. He received his L.L.B. degree from Atlanta Law School.

**W. Wayne Woody** is one of our independent directors. He is also an independent director of Wells REIT I and a trustee of the Wells Family of Real Estate Funds. He served as the Interim Chief Financial Officer for Legacy Investment Group, a boutique investment firm, from 2000 to 2001. From 1968 until his retirement in 1999, Mr. Woody was employed by KPMG LLP and its predecessor firms, Peat Marwick Mitchell & Co. and Peat Marwick Main. As a Senior Partner, he served in a number of key positions in the firm, including Securities and Exchange Commission Reviewing Partner and Partner-in-Charge of Professional Practice and Firm Risk Management for the southeastern United States and Puerto Rico. Mr. Woody was also a member



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of the Board of Directors of KPMG LLP from 1990 through 1994. Prior to joining KPMG, Mr. Woody was the Principal Budget Analyst for the State of Georgia Office of Planning and Budget where he reviewed, analyzed and presented the Governor's budget proposals to the state legislature.

Mr. Woody currently serves as Chairman of the Audit Committee for the City of Atlanta. He is also a director and the Chairman of the Audit Committee of the Metropolitan Atlanta Chapter of the American Red Cross. Mr. Woody is a member of the Board of Directors for the Metropolitan Atlanta Chapter of the American Heart Association. In addition, he is a trustee and the Chairman of the Finance Committee for the Georgia State University Foundation. Mr. Woody previously served a three-year term as Chairman of the Board of Trustees for the Georgia Center for the Visually Impaired.

Mr. Woody received a Bachelor of Science degree from Middle Tennessee State University and a Masters of Business Administration degree from Georgia State University. He is a Certified Public Accountant in the states of Georgia and North Carolina.

**Randall D. Fretz** is our Vice President and is a Senior Vice President of Wells Capital. He is also the Chief of Staff and a Vice President of Wells Real Estate Funds, Inc., a Vice President of Wells REIT I, and a director of Wells Investment Securities, Inc. Mr. Fretz is primarily responsible for corporate strategy and planning and advising and coordinating the executive officers of Wells Capital on corporate matters and special projects. Prior to joining Wells Capital in 2002, Mr. Fretz served for seven years as President of US & Canada operations for Larson-Juhl, a world leader in custom art and picture-framing home decor. Mr. Fretz was previously a Division Director at Bausch & Lomb, a manufacturer of optical equipment and products, and also held various senior positions at Tandem International and Lever Brothers. Mr. Fretz holds a bachelor degree in each of Sociology and Physical Education from McMaster University in Hamilton, Ontario. He also earned an MBA from the Ivey School of Business in London, Ontario.

### **Compensation of Directors**

We intend to pay each of our independent directors an annual retainer of \$12,000. In addition, we will pay directors for attending board and committee meetings as follows:

\$2,500 per regular board meeting; we expect seven regular board meetings per year.

\$2,500 per audit committee meeting to review our periodic reports; we expect four such meetings per year.

\$250 per teleconference board meeting; we expect two such meetings per month.

\$1,500 for all other committee meetings; we expect five such meetings per committee per year.

An additional \$500 to a committee chair for each committee meeting attended in person.

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However, when a committee meeting follows a board meeting, an additional fee will not always be paid for attending the committee meeting. For example, a conflicts committee meeting will

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generally be held immediately after every board meeting, but a separate fee will not be paid for attendance at the conflicts committee meeting.

In addition, we have reserved 100,000 shares of common stock for future issuance upon the exercise of stock options granted to the independent directors pursuant to our Independent Director Stock Option Plan. All directors will receive reimbursement of reasonable out-of-pocket expenses incurred in connection with attendance at meetings of the board of directors. If a director also is one of our officers, we will not pay separate compensation for services rendered as a director.

**Independent Director Stock Option Plan**

Our sole stockholder has approved an Independent Director Stock Option Plan. We expect to issue non-qualified stock options to purchase 2,500 shares to each independent director pursuant to this plan. In addition, we expect to issue options to purchase 1,000 shares to each independent director then in office on the date of each annual stockholders' meeting. We may not grant options at any time when the issuance of the shares underlying the grant, when combined with those issuable upon exercise of outstanding options or warrants granted to our advisor, directors, officers or any of their affiliates, would exceed 10% of our outstanding shares.

The exercise price for the initial options for 2,500 shares will be \$12.00 per share. The exercise price for the subsequent options will be the greater of (1) \$12.00 per share or (2) the fair market value of the shares on the date they are granted. Fair market value is generally defined to mean (1) the closing sales price on the immediately preceding date on which sales were reported if the shares are listed on a securities exchange or are traded over the Nasdaq National Market or (2) the mean between the bid and offered prices as quoted by Nasdaq for such immediately preceding trading date if the shares are not listed on a securities exchange or traded over the Nasdaq National Market. However, if the conflicts committee determines that the fair market value of our shares is not properly reflected by such Nasdaq quotations, or if our shares are not quoted by Nasdaq, then the conflicts committee will determine fair market value in good faith.

We have authorized and reserved a total of 100,000 shares for issuance under the plan. If the number of outstanding shares is changed into a different number or kind of shares or securities through a reorganization or merger in which we are the surviving entity, or through a combination, recapitalization or otherwise, we will make an appropriate adjustment in the number and kind of shares that may be issued pursuant to exercise of the options. We will also make a corresponding adjustment to the exercise price of the options granted prior to any change. Any such adjustment, however, will not change the total payment, if any, applicable to the portion of the options not exercised but will change only the exercise price for each share. To date, we have not issued any director options under this Plan.

Options will lapse on the first to occur of (1) the tenth anniversary of the date we grant them, (2) the removal for cause of the independent director as a member of the board of directors, or (3) three months following the date the independent director ceases to be a director for any reason other than death or disability. Options may be exercised by payment of cash or through the delivery of common stock. Options are generally exercisable in the case of death or disability for a period of one year after death or the disabling event. No option issued may be exercised if such exercise would jeopardize our status as a REIT under the Internal Revenue Code. The independent directors may not sell, pledge, assign or transfer their options other than by will or the laws of descent or distribution.

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The term of the plan is 10 years. Upon our earlier dissolution or liquidation, upon our reorganization, merger or consolidation with one or more corporations as a result of which we are not the surviving corporation or upon sale of all or substantially all of our properties, the plan will terminate, and any outstanding options will terminate and be forfeited. The board of directors may provide in writing in connection with any such transaction for any or all of the following alternatives:

for the assumption by the successor corporation of the options granted or the replacement of the options with options covering the stock of the successor corporation, or a parent or subsidiary of such corporation, with appropriate adjustments as to the number and kind of shares and exercise prices;

for the continuance of the plan and the options by such successor corporation under the original terms; or

for the payment in cash or shares of common stock in lieu of and in complete satisfaction of such options.

**Stock Option Plan**

Our sole stockholder has approved a Stock Option Plan, which is designed to enable Wells Capital and Wells Management to obtain or retain the services of employees considered essential to our long-range success and the success of Wells Capital and Wells Management by offering such employees an opportunity to participate in our growth through ownership of our common stock.

The conflicts committee of the board of directors shall conduct the general administration of the plan. The conflicts committee is authorized to grant non-qualified stock options to selected employees of Wells Capital and Wells Management based upon the recommendation of Wells Capital and subject to the absolute discretion of the conflicts committee and applicable limitations of the plan. The exercise price for the options shall be the greater of (1) \$11.00 per share, or (2) the fair market value of the shares on the date the option is granted. Fair market value for this plan will be determined in the same fashion as the Independent Director Stock Option Plan. A total of 750,000 shares have been authorized and reserved for issuance under our Stock Option Plan. However, we may not grant options at any time when the issuance of the shares underlying the grant, when combined with those issuable upon exercise of outstanding options or warrants granted to our advisor, directors, officers or any of their affiliates, would exceed 10% of our outstanding shares. To date, we have not issued any stock options under this plan.

The conflicts committee shall set the term of the options in its discretion, although no option shall have a term greater than five years. The conflicts committee shall set the period during which the right to exercise an option vests in the holder of the option. No option issued may be exercised, however, if such exercise would jeopardize our status as a REIT under the Internal Revenue Code. In addition, no option may be sold, pledged, assigned or transferred by an option holder in any manner other than by will or the laws of descent or distribution.

In the event that the conflicts committee determines that any dividend or other distribution, recapitalization, stock split, reorganization, merger, liquidation, dissolution, or sale, transfer, exchange or other disposition of all or substantially all of our assets, or other similar corporate transaction or event, affects the shares such that the conflicts committee determines an

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adjustment to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the plan or with respect to an option, then the conflicts committee shall, in such manner as it may deem equitable, adjust the number and kind of shares or the exercise price with respect to any option. The plan has a 10-year term and has the same provisions as the Independent Director Stock Option Plan with respect to dissolution, liquidation, reorganization, merger or other similar transactions.

### **Limited Liability and Indemnification of Directors, Officers, Employees and Other Agents**

Our charter limits the liability of our directors and officers to us and our stockholders for monetary damages and requires us to indemnify our directors, officers, Wells Capital or its affiliates for losses they may incur by reason of their service in that capacity if all of the following conditions are met:

our directors, Wells Capital or its affiliates have determined, in good faith, that the course of conduct that caused the loss or liability was in our best interests;

our directors, Wells Capital or its affiliates were acting on our behalf or performing services for us;

in the case of independent directors, the liability or loss was not the result of gross negligence or willful misconduct by the party seeking indemnification;

in the case of the non-independent directors, Wells Capital or its affiliates, the liability or loss was not the result of negligence or misconduct by the party seeking indemnification; and

the indemnification is recoverable only out of our net assets and not from the stockholders.

The SEC takes the position that indemnification against liabilities arising under the Securities Act of 1933 is against public policy and unenforceable. Furthermore, our charter prohibits our indemnification of our directors, Wells Capital or its affiliates or broker-dealers for liabilities arising from or out of a violation of state or federal securities laws, unless one or more of the following conditions are met:

there has been a successful adjudication on the merits of each count involving alleged securities law violations;

such claims have been dismissed with prejudice on the merits by a court of competent jurisdiction; or

a court of competent jurisdiction approves a settlement of the claims against the indemnitee and finds that indemnification of the settlement and the related costs should be made, and the court considering the request for indemnification has been advised of the position of the SEC and of the published position of any state securities regulatory authority in which the securities were offered as to indemnification for violations of securities laws.



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Our advisor is Wells Capital. Wells Capital has contractual and fiduciary responsibilities to us and our stockholders. Some of our officers and directors are also officers and directors of Wells Capital.

The directors and executive officers of Wells Capital are as follows:

<i><u>Name</u></i>	<i><u>Age</u></i>	<i><u>Positions</u></i>
Leo F. Wells, III	59	President, Treasurer and sole director
Douglas P. Williams	52	Senior Vice President and Assistant Secretary
Ron D. Ford	42	Senior Vice President
Stephen G. Franklin	54	Senior Vice President
Randall D. Fretz	51	Senior Vice President
Donald A. Miller	41	Senior Vice President
David H. Steinwedell	42	Vice President

The backgrounds of Messrs. Wells, Williams and Fretz are described in the Management Executive Officers and Directors section of this prospectus. Below is a brief description of the other executive officers of Wells Capital.

**Ron D. Ford, Ph.D.** is a Senior Vice President of Wells Capital. Mr. Ford is responsible for all of the finance, risk management, accounting and reporting activities. Prior to joining Wells in 2003, Mr. Ford was Chief Executive Officer at Media Arts Group, Inc. during 2002. From 1998 to 2001 he was Chief Financial Officer and then President of OneCoast Network, Inc., a sales and marketing company in the wholesale gift segment of consumer goods. From 1995 to 1998, Mr. Ford was with Curtis 1000, a supplier of office business products, as Chief Financial Officer/Chief Information Officer. Mr. Ford has more than 20 years of experience in senior management. He has extensive experience in sales, operations, financial management, information technology and organizational development. Mr. Ford received his undergraduate degree in Business Administration with a magna cum laude from the University of Tennessee. He completed his MBA at Vanderbilt University and earned a doctorate in executive management from the Weatherhead School of Management at Case Western Reserve University. Mr. Ford is a certified public accountant.

**Stephen G. Franklin, Ph.D.** is a Senior Vice President of Wells Capital. Mr. Franklin is responsible for marketing, sales and coordination of broker-dealer relations. Mr. Franklin also serves as Vice President of Wells Real Estate Funds, Inc. Prior to joining Wells Capital in 1999, Mr. Franklin served as President of Global Access Learning, an international executive education and management development firm. From 1997 to 1999, Mr. Franklin served as President, Chief Academic Officer and Director of EduTrek International, a publicly traded provider of international post-secondary education that owns the American InterContinental University, with campuses in Atlanta, Ft. Lauderdale, Los Angeles, Washington, D.C., London and Dubai. While at EduTrek, he was instrumental in developing the Masters and Bachelors of Information Technology, International MBA and Adult Evening BBA programs. Prior to joining EduTrek, Mr. Franklin was Associate Dean of the Goizueta Business School at Emory University and a former tenured Associate Professor of Business Administration. He served on the founding Executive MBA faculty, and has taught graduate, undergraduate and executive courses in management and organizational behavior, human resources management and entrepreneurship. He is also co-founder and Director of the Center for Healthcare Leadership in the Emory





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University School of Medicine. Mr. Franklin was a frequent guest lecturer at universities throughout North America, Europe and South Africa.

In 1984, Mr. Franklin took a sabbatical from Emory University and became Executive Vice President and a principal stockholder of Financial Service Corporation, an independent financial planning broker-dealer. Mr. Franklin and the other stockholders of FSC later sold their interests in FSC to Mutual of New York Life Insurance Company.

**Donald A. Miller** is a Senior Vice President of Wells Capital. Mr. Miller is responsible for directing all aspects of the acquisitions, dispositions, property management, construction and leasing groups of our advisor and its affiliates. Prior to joining Wells in 2003, Mr. Miller headed Lend Lease's U.S. real estate operations including acquisitions, dispositions, financing and investment management. Prior to joining Lend Lease (The Yarmouth Group) in 1994, Mr. Miller was responsible for regional acquisitions for Prentiss Properties Realty Advisors, a predecessor entity to the publicly traded Prentiss REIT. Earlier in his career, Mr. Miller worked in the pension investment management department of Delta Air Lines, and was responsible for real estate and international equity investment programs. Mr. Miller is a Chartered Financial Analyst (CFA) and holds multiple broker/dealer and real estate licenses. He received a B.A. from Furman University in Greenville, South Carolina.

**David H. Steinwedell** is a Vice President of Wells Capital. He is primarily responsible for the acquisition of real estate properties. From 2000 to 2001, when he joined Wells Capital, Mr. Steinwedell served as a principal in Steinwedell and Associates, a capital markets advisory firm specializing in transactions and strategic planning for commercial real estate firms. From 1998 to 2000, he served as the Executive Vice President of Investment Banking at Jones Lang LaSalle and as Managing Director at Cushman Realty Corporation from 1994 to 1998. From 1982 to 1994, Mr. Steinwedell served as Managing Director for Real Estate Investments at Aetna Life and Casualty. He graduated from Hamilton College with a B.S. in Economics. Mr. Steinwedell is a licensed real estate broker in Georgia and is a member of the Urban Land Institute and the National Association of Industrial and Office Properties.

Wells Capital employs personnel, in addition to the directors and executive officers listed above, who have extensive experience in selecting and managing commercial properties similar to the properties we seek to acquire.

### **The Advisory Agreement**

Under the terms of the advisory agreement, Wells Capital will use its reasonable efforts to present to us investment opportunities to provide a continuing and suitable investment program consistent with our investment policies and objectives as adopted by our board of directors. The advisory agreement calls for Wells Capital to provide for our day-to-day management and to retain property managers, subject to the authority of our board of directors, and to perform other duties including the following:

find, present and recommend to us real estate investment opportunities consistent with our investment policies and objectives;

structure the terms and conditions of our real estate acquisitions, sales or joint ventures;

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acquire properties on our behalf in compliance with our investment objectives and policies;

arrange for financing and refinancing of properties;

enter into leases and service contracts for our properties;

oversee the property managers' performance;

review and analyze the properties' operating and capital budgets;

generate an annual budget for us;

review and analyze financial information for each property and the overall portfolio;

formulate and oversee the implementation of strategies for the administration, promotion, management, operation, maintenance, improvement, financing and refinancing, marketing, leasing and disposition of properties;

perform transfer agent functions; and

engage our agents.

The fees payable to Wells Capital under the advisory agreement are described in detail at **Management Compensation** below. We also describe in that section our obligation to reimburse Wells Capital for organization and offering expenses, administrative and management services and payments made by Wells Capital to third parties in connection with potential acquisitions.

The term of the current advisory agreement ends after one year and may be renewed for an unlimited number of successive one-year periods upon mutual consent of Wells Capital and us. Additionally, either party may terminate without penalty the advisory agreement upon 60 days written notice.

Wells Capital and its affiliates expect to engage in other business ventures and, as a result, their resources will not be dedicated exclusively to our business. However, pursuant to the advisory agreement, Wells Capital must devote sufficient resources to our administration to discharge its obligations. Wells Capital may assign the advisory agreement to an affiliate upon our approval. We may assign or transfer the advisory agreement to a successor entity.

**Initial Investment by Our Advisor**

Wells Capital has purchased 20,000 limited partnership units of Wells OP II, our operating partnership, for \$200,000 and 100 shares of our common stock for \$1,000. The units constitute 100% of the minority limited partner units outstanding at this time. Wells Capital may not sell any of these units during the period it serves as our advisor. Although Wells Capital and its affiliates are not prohibited from acquiring additional shares of our common stock, Wells Capital currently has no options or warrants to acquire any shares. Wells Capital has agreed to abstain from voting any shares it acquires in any vote for the election of directors or any vote regarding the approval or termination of any contract with Wells Capital or any of its affiliates.

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**Affiliated Companies**

***Property Manager***

We may engage Wells Management Company, Inc. to manage and lease particular properties. Wells Management is a wholly owned subsidiary of Wells Real Estate Funds, Inc., and Mr. Wells is the sole director of Wells Management. The executive officers of Wells Management are as follows:

<u>Name</u>	<u>Age</u>	<u>Positions</u>
Leo F. Wells, III	59	President and Treasurer
M. Scott Meadows	39	Senior Vice President and Secretary

The background of Mr. Wells is described in the Management Executive Officers and Directors section of this prospectus. Below is a brief description of the other executive officer of Wells Management.

**M. Scott Meadows** is a Senior Vice President and Secretary of Wells Management. He is primarily responsible for the real estate operations for Wells Management. Prior to joining Wells Management in 1996, Mr. Meadows served as Senior Property Manager for The Griffin Company, a full-service commercial real estate firm in Atlanta, where he was responsible for managing a 500,000 square foot office and retail portfolio. Mr. Meadows previously managed real estate as a Property Manager for Sea Pines Plantation Company. He graduated from University of Georgia with a B.B.A. in management. Mr. Meadows is a Georgia real estate broker and holds a Real Property Administrator designation from the Building Owners and Managers Institute International and a Certified Property Manager designation from the Institute of Real Estate Management.

If we retain Wells Management to manage and lease any of our properties, we will pay a market-based fee as determined by our advisor. The advisor will make this determination based on a review of what other management companies charge for the type and location of properties subject to the property management and leasing agreement. In addition, we may reimburse Wells Management for costs and expenses Wells Management incurs in managing properties we own. If we manage joint ventures and retain Wells Management to manage the property held by those joint ventures, the joint ventures may also reimburse Wells Management for similar costs and expenses relating to the joint ventures properties. Reimbursable costs and expenses typically include wages and salaries and other employee-related expenses for employees engaged in operating, managing, maintaining, and leasing properties subject to a management agreement. Employee-related expenses include taxes, insurance, benefits, legal, travel, and other out-of-pocket expenses related to managing and leasing properties. The management fees we may pay to Wells Management would cover, without additional expense to us, Wells Management's general overhead costs, such as its expenses for rent and utilities.

We may also pay Wells Management a separate one-time fee for the initial leasing of newly constructed properties based on a market rate, which is typically an amount equal to one month's rent. In addition, Wells Management may receive a separate fee if a tenant engages Wells Management to oversee tenant improvements. Such fees typically do not exceed 5.0% of the cost of the tenant improvements.



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Wells Management will hire, direct and establish policies for employees who will have direct responsibility for each property's operations, including resident managers and assistant managers, as well as building and maintenance personnel. Some or all of the other employees may be employed on a part-time basis and may also be employed by one or more of the following:

Wells Capital;

Wells Management;

partnerships organized by Wells Management or its affiliates; and

other persons or entities owning properties managed by Wells Management.

The principal office of Wells Management is located at 6200 The Corners Parkway, Suite 250, Norcross, Georgia 30092.

***Dealer Manager***

Wells Investment Securities, Inc., our dealer manager, is a member firm of the NASD. Wells Investment Securities was organized in May 1984 for the purpose of participating in and facilitating the distribution of securities of Wells programs.

Wells Investment Securities will provide wholesaling, sales promotion and marketing assistance services to us in connection with the distribution of the shares offered pursuant to this prospectus. It may also sell shares at the retail level.

Wells Real Estate Funds, Inc. is the sole stockholder of Wells Investment Securities. In connection with the NASD enforcement action described below, Mr. Wells recently resigned as the President, Treasurer and sole director of Wells Investment Securities. The current directors and executive officers of Wells Investment Securities are:

<u>Name</u>	<u>Age</u>	<u>Positions</u>
Philip M. Taylor	60	President and Director
Douglas P. Williams	52	Vice President, CFO, Treasurer and Director
Randall D. Fretz	51	Director

The backgrounds of Messrs. Williams and Fretz are described in the Management Executive Officers and Directors section of this prospectus.

**Philip M. Taylor** is President and Director of Wells Investment Securities, Inc. Mr. Taylor joined Wells in March 2001 and directs the national sales effort. Prior to joining Wells, Mr. Taylor was Vice President, Sales and Project Operations, for Atlantech International, Inc. from 1991 to 2000. During a twenty-one year tenure with Ingersoll-Rand Company, Mr. Taylor held progressively more responsible positions in sales, marketing and management. He also served for five years as an officer of the U.S. Army. Mr. Taylor holds NASD series 7, 24 and 63 licenses. Mr. Taylor earned a bachelor degree in Industrial Management from East Tennessee State University and a Master of Business Administration in Finance/Management from the University of Oregon.

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*NASD Action.* On August 26, 2003, Wells Investment Securities and Mr. Wells entered into a Letter of Acceptance, Waiver and Consent (AWC) with the NASD relating to alleged rule violations. The AWC set forth the NASD's findings that Wells Investment Securities and Mr. Wells had violated conduct rules relating to the provision of non-cash compensation of more than \$100 to associated persons of NASD member firms in connection with their attendance at the annual educational and due diligence conferences sponsored by Wells Investment Securities in 2001 and 2002.

Without admitting or denying the allegations and findings against them, WIS and Mr. Wells consented in the AWC to various findings by the NASD, which are summarized as follows:

In 2001 and 2002, WIS sponsored conferences attended by registered representatives who sold its real estate investment products. WIS also paid for certain expenses of guests of the registered representatives who attended the conferences. In 2001, WIS paid the costs of travel to the conference and meals for many of the guests, and paid the costs of playing golf for some of the registered representatives and their guests. WIS later invoiced registered representatives for the cost of golf and for travel expenses of guests, but was not fully reimbursed for such. In 2002, WIS paid for meals for registered representatives of a predetermined sales goal for WIS products. The conduct violated the prohibitions against payment and receipt of non-cash compensation in connection with the sales of these products contained in NASD's Conduct Rules 2710, 2810 and 3060. In addition, WIS and Wells failed to adhere to all of the terms of their written undertaking, made in March 2001, not to engage in the conduct described above, thereby failing to observe high standards of commercial honor and just and equitable principles of trade.

WIS consented to a censure and Mr. Wells consented to suspension from acting in a principal capacity with a member firm for one year. WIS and Mr. Wells also agreed to the imposition of a joint and several fine in the amount of \$150,000. In conjunction with the entry of the AWC, Mr. Wells resigned as President, Treasurer and sole director of WIS; however, he will continue to engage in selling efforts on behalf of WIS.

*Legal Proceeding.* On October 9, 2003, Stephen L. Flood, the Controller of Luzerne County, Pennsylvania, and the Luzerne County Retirement Board (Luzerne Board) on behalf of the Luzerne County Employee Retirement System (Plan) filed a lawsuit in the U.S. District Court, Middle District of Pennsylvania against 26 separate defendants including Wells REIT I, Wells Investment Securities, and Wells Real Estate Funds, Inc., the parent company of our advisor and of our dealer manager (Wells Defendants).

The complaint alleges, among other things, that (1) certain former members of the Luzerne Board named as defendants invested \$10 million in Wells REIT I on behalf of the Plan, (2) such former members of the Luzerne Board breached their fiduciary duties to the Plan by, among other things, permitting the investment of the Plan's funds in investments not suitable for the Plan because they were long-term illiquid investments, permitting the Plan to pay excessive fees and commissions to co-defendants and accepting political contributions in exchange for awarding advisory and management agreements, (3) the Wells Defendants and others knew or



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should have known that the investment, and the fees and commissions associated with the investment, were not proper for the Plan because the investment was a long-term illiquid investment, (4) the Wells Defendants and others knew or should have known that certain Luzerne Board members and certain investment advisers and managers were breaching their fiduciary duties to the Plan, (5) the defendants engaged in and conspired to engage in an improper scheme to intentionally defraud the Plan, and (6) the investment was not approved by a majority of the Luzerne Board at a public meeting, and consequently, the investment was an inappropriate and void action.

The Plan is seeking damages of not less than \$25 million, treble damages and punitive damages from all defendants on a joint and several liability basis. Our promoters believe that this lawsuit is without merit with respect to the Wells Defendants, and the Wells Defendants intend to vigorously defend this lawsuit.

***IRA Custodian***

Wells Advisors, Inc. was organized in 1991 for the purpose of acting as a passive, non-bank custodian for IRAs investing in the securities of Wells real estate programs. Wells Advisors currently charges no fees for such services. Wells Advisors was approved by the Internal Revenue Service to act as a qualified passive non-bank custodian for IRAs on March 20, 1992. In circumstances where Wells Advisors acts as an IRA custodian, the authority of Wells Advisors is limited to holding limited partnership units or REIT shares on behalf of the beneficiary of the IRA and making distributions or reinvestments in such units or shares solely at the direction of the beneficiary of the IRA. Well Advisors is not authorized to vote any of such units or shares held in any IRA except in accordance with the written instructions of the beneficiary of the IRA. Mr. Wells is the President and sole director and owns 50% of the common stock and all of the preferred stock of Wells Advisors. As of September 30, 2003, Wells Advisors was acting as the IRA custodian for in excess of \$1,030,000,000 in Wells real estate program investments.

**Management Decisions**

The primary responsibility for the management decisions of Wells Capital and its affiliates, including the selection of investment properties to be recommended to our board of directors, the negotiation for these investments and asset-management decisions, will reside in Leo F. Wells, III, Douglas P. Williams, Ron D. Ford, Randall D. Fretz, Donald A. Miller and David H. Steinwedell. We expect that proposed transactions will often be discussed by the board of directors in advance of a final board vote. During these discussions, independent directors can offer ideas for ways in which deals can be changed to make them acceptable. The conflicts committee is empowered to approve or reject all acquisitions of real estate. We expect that the conflicts committee will condition our acquisition of any property on the committee's prior approval.

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We have no paid employees. Wells Capital, our advisor, and its affiliates will manage our day-to-day affairs. The following table summarizes all of the compensation and fees we will pay to Wells Capital and its affiliates, including amounts to reimburse their costs in providing services. The selling commissions and dealer manager fee may vary for different categories of purchasers. See Plan of Distribution. This table assumes the shares are sold through distribution channels associated with the highest possible selling commissions and dealer manager fees.

<i>Form of Compensation and Entity Receiving</i>	<i>Determination of Amount</i>	<i>Estimated Amount for Maximum Offering <sup>(1)</sup></i>
<b><i>Organizational and Offering Stage</i></b>		
<i>Selling Commissions Wells Investment Securities <sup>(2)</sup></i>	7.0% of gross offering proceeds (5.0% for sales of shares under the dividend reinvestment plan) before reallocation of commissions earned by participating broker-dealers. Wells Investment Securities, our dealer manager, will reallocate 100% of commissions earned to participating broker-dealers.	\$ 508,337,500
<i>Dealer Manager Fee Wells Investment Securities <sup>(2)</sup></i>	2.5% of gross offering proceeds before reallocation to participating broker-dealers, except that no dealer manager fee is payable on shares sold under our dividend reinvestment plan. Wells Investment Securities will reallocate a portion of its dealer manager fee to participating broker-dealers. See Plan of Distribution.	\$ 150,000,000
<i>Reimbursement of Organization and Offering Expenses Wells Capital <sup>(3)</sup></i>	Up to 2.0% of gross offering proceeds. Wells Capital will incur or pay our organization and offering expenses (excluding selling commissions and the dealer manager fee). We will then reimburse Wells Capital for these amounts up to 2.0% of aggregate gross offering proceeds.	\$ 34,778,830
<b><i>Acquisition and Development Stage</i></b>		
<i>Acquisition Fees Wells Capital <sup>(4)</sup></i>	2.0% of gross offering proceeds for services in connection with the selection, purchase, development or construction of real property.	\$ 155,335,000

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<i>Form of Compensation and Entity Receiving</i>	<i>Determination of Amount</i>	<i>Estimated Amount for Maximum Offering <sup>(1)</sup></i>
<i>Asset Management Fee Wells Capital <sup>(5)</sup></i>	Monthly fee equal to one-twelfth of 0.75% of the cost of (1) the occupied properties we own and (2) our investments in joint ventures. These fees are limited to 1.0% of the net asset value of the properties included in the above calculation, calculated on a quarterly basis. For purposes of this calculation, net asset value means the excess of the cost of the investments described above over aggregate outstanding debt used to acquire or refinance properties. Additionally, we will reimburse Wells Capital for all costs and expenses it incurs in fulfilling its duties as our asset portfolio manager. These costs and expenses may include wages and salaries and other employee-related expenses of Wells Capital's employees engaged in the management, administration, operations, and marketing functions. Employee-related expenses include taxes, insurance and benefits relating to such employees, and legal, travel and other out-of-pocket expenses that are directly related to their services provided to us.	Actual amounts are dependent upon total equity and debt capital we raise and results of operations and therefore cannot be determined at the present time.
<i>Property Management Wells Management <sup>(5)(6)</sup></i>	If we retain Wells Management to manage and lease any of our properties, we will pay Wells Management a fee equal to what other management companies generally charge for the management of similar properties, which may include reimbursement for the costs and expenses Wells Management incurs in managing the properties. Reimbursable costs and expenses include wages and salaries and other expenses of employees engaged in operating, managing, maintaining and leasing properties. In addition, we may pay Wells Management a separate one-time fee for the initial leasing of newly constructed properties at a market rate, typically equal to one month's rent.	Actual amounts are dependent upon results of operations and therefore cannot be determined at the present time.
<i>Other Operating Expenses <sup>(5)</sup></i>	We will reimburse the expenses incurred by Wells Capital in connection with its provision of administrative services, including related personnel costs. We will not reimburse for personnel costs in connection with services for which Wells Capital receives acquisition fees or real estate commissions.	Actual amounts are dependent upon operations and therefore cannot be determined at the present time.
<b><i>Liquidation/Listing Stage</i></b>		
<i>Real Estate Commissions - Wells Capital or its Affiliates <sup>(7)</sup></i>	For substantial assistance in connection with the sale of properties, we will pay Wells Capital or its affiliates an amount equal to 3.0% of the contract price of each property sold; provided, however, in no event may the real estate commissions paid to Wells Capital, its affiliates and unaffiliated third parties exceed 6% of the contract sales price.	Actual amounts are dependent upon results of operations and therefore cannot be determined at the present time.

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<i>Form of Compensation and Entity Receiving</i>	<i>Determination of Amount</i>	<i>Estimated Amount for Maximum Offering <sup>(1)</sup></i>
<i>Subordinated Participation in Net Sale Proceeds Wells Capital <sup>(8)</sup></i>	After investors in our offerings have received a return of their net capital contributions and an 8.0% per year cumulative, noncompounded return, then Wells Capital is entitled to receive 10.0% of remaining net sale proceeds.	Actual amounts are dependent upon results of operations and therefore cannot be determined at the present time.
<i>Subordinated Incentive Listing Fee Wells Capital <sup>(8)(9)</sup></i>	Upon listing of our common stock on a national securities exchange or the Nasdaq National Market, a fee equal to 10.0% of the amount by which (1) the market value of our outstanding stock plus distributions paid by us prior to listing, exceeds (2) the sum of the total amount of capital raised from investors and the amount of cash flow necessary to generate an 8.0% per year cumulative, noncompounded return to investors.	Actual amounts are dependent upon results of operations and therefore cannot be determined at the present time.

(1) The estimated maximum dollar amounts are based on the sale of the maximum of 785,000,000 shares to the public, including 185,000,000 shares through the dividend reinvestment plan.

(2) The selling commissions and, in some cases, the dealer manager fee will not be charged with regard to shares sold to or for the account of certain categories of purchasers. See Plan of Distribution.

(3) These organization and offering expenses include all expenses (other than selling commissions and the dealer manager fee) to be paid by us in connection with the offering, including our legal, accounting, printing, mailing and filing fees, charges of our escrow holder, due diligence expense reimbursements to participating broker-dealers and amounts to reimburse Wells Capital for the salaries of its employees and other costs in connection with preparing supplemental sales materials, holding educational conferences and attending retail seminars conducted by broker-dealers. Under our charter, the portion of these organization and offering expenses for which we (as opposed to Wells Capital) would be responsible could not be increased above 2.0% of our gross offering proceeds without the approval of a majority of our independent directors.

(4) We will pay Wells Capital the acquisition fee amount upon receipt of the offering proceeds rather than at the time a property is acquired. However, if either party terminates or fails to renew the advisory agreement, Wells Capital must return acquisition fees not yet allocated to one of our investments. In addition, we will reimburse Wells Capital for amounts it pays to third parties in connection with the selection, acquisition or development of a property, whether or not acquired. Under our charter, a majority of our independent directors would have to approve any increase in the acquisition fees payable to our advisor above 2.0% of gross offering proceeds. Our charter also limits our ability to purchase property if the total of all acquisition fees and expenses relating to the purchase exceeds 6% of the contract purchase price.

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- (5) Wells Capital must reimburse us the amount by which our aggregate annual total operating expenses exceed the greater of 2% of our average invested assets or 25% of our net income unless the conflicts committee has determined that such excess expenses were justified based on unusual and non-recurring factors. Average invested assets means the average monthly book value of our assets during the 12-month period before deducting depreciation, bad debts or other non-cash reserves. Total operating expenses means all expenses paid or incurred by us, as determined under GAAP, that are in any way related to our operation, including advisory fees, but excluding (a) the expenses of raising capital such as organization and offering expenses, legal, audit, accounting, underwriting, brokerage, listing, registration and other fees, printing and other such expenses and taxes incurred in connection with the issuance, distribution, transfer, registration and stock exchange listing of our stock; (b) interest payments; (c) taxes; (d) non-cash expenditures such as depreciation, amortization and bad debt reserves; (e) reasonable incentive fees based on the gain in the sale of our assets; and (f) acquisition fees, acquisition expenses (including expenses relating to potential acquisitions that we do not close), real estate commissions on the resale of property and other expenses connected with the acquisition, disposition, management and ownership of real estate interests, mortgage loans or other property (including the costs of foreclosure, insurance premiums, legal services, maintenance, repair and improvement of property).
- (6) Our organizational documents do not impose a specific cap on property management fees. However, if we retain Wells Management to manage some of our properties, our charter requires that the management fee be no less favorable to us than a fee we could obtain from a third-party property manager. Additionally, all property management fees, including both those paid to Wells Management and third parties, are subject to the limit on total operating expenses as described in footnote (5).
- (7) Although we are most likely to pay real estate commissions to Wells Capital or an affiliate in the event of our liquidation, these fees may also be earned during our operational stage.
- (8) Upon termination of the Advisory Agreement, Wells Capital may be entitled to a similar fee if Wells Capital would have been entitled to a subordinated participation in net sale proceeds had the portfolio been liquidated (based on an independent appraised value of the portfolio) on the date of termination. Under our charter, we could not increase these success-based fees without the approval of a majority of our independent directors, and any increase in the subordinated participation in net sale proceeds would have to be reasonable. Our charter provides that such incentive fee is presumptively reasonable if it does not exceed 15% of the balance of such net proceeds remaining after investors have received a return of their net capital contributions and a 6% per year cumulative, noncompounded return.

Wells Capital cannot earn both the subordinated participation in net sale proceeds and the subordinated incentive listing fee. Any portion of the subordinated participation in net sale proceeds that Wells Capital receives prior to our listing will offset the amount otherwise due pursuant to the subordinated incentive listing fee.

- (9) If at any time the shares become listed on a national securities exchange or on the Nasdaq National Market, we will negotiate in good faith with Wells Capital a fee structure appropriate for an entity with a perpetual life. The conflicts committee of our board of directors must approve the new fee structure negotiated with Wells Capital. In

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negotiating a new fee structure, the conflicts committee must consider all of the factors its members deem relevant, including but not limited to:

the size of the advisory fee in relation to the size, composition and profitability of our portfolio;

the success of Wells Capital in generating opportunities that meet our investment objectives;

the rates charged to other REITs and to investors other than REITs by advisors performing similar services;

additional revenues realized by Wells Capital through their relationship with us;

the quality and extent of service and advice furnished by Wells Capital;

the performance of our investment portfolio, including income, conservation or appreciation of capital, frequency of problem investments and competence in dealing with distress situations; and

the quality of our portfolio in relationship to the investments generated by Wells Capital for the account of other clients.

The market value of our outstanding stock will be calculated based on the average market value of the shares issued and outstanding at listing over the 30 trading days beginning 180 days after the shares are first listed on a stock exchange. We have the option to pay the subordinated incentive listing fee in the form of stock, cash, a promissory note or any combination thereof. In the event the subordinated incentive listing fee is earned by Wells Capital as a result of the listing of the shares, any previous payments of the subordinated participation in net sale proceeds will offset the amounts due pursuant to the subordinated incentive listing fee, and we will not be required to pay Wells Capital any further subordinated participation in net sale proceeds.

Since Wells Capital and its affiliates are entitled to differing levels of compensation for undertaking different transactions on our behalf, such as the subordinated participation in net sale proceeds, Wells Capital has the ability to affect the nature of the compensation it receives by recommending different transactions. However, as our fiduciary, Wells Capital is obligated to exercise good faith in all its dealings with respect to our affairs. (See Management The Advisory Agreement. )

**Table of Contents****Index to Financial Statements****STOCK OWNERSHIP**

The following table sets forth the beneficial ownership of our common stock as of the date of this prospectus for each person or group that holds more than 5% of our common stock, for each director and executive officer and for our directors and executive officers as a group. To our knowledge, each person that beneficially owns our shares has sole voting and dispositive power with regard to such shares.

<b>Name of Beneficial Owner <sup>(1)</sup></b>	<b>Number of Shares Beneficially Owned <sup>(2)</sup></b>	<b>Percent of All Shares</b>
Wells Capital, Inc.	100	100.0%
Leo F. Wells, III, President and Director	100	100.0%
Douglas P. Williams, Executive Vice President and Director		
Charles R. Brown, Director		
Richard W. Carpenter, Director		
Bud Carter, Director		
Donald S. Moss, Director		
Jack M. Pinkerton, Director		
Walter W. Sessoms, Director		
Neil H. Strickland, Director		
W. Wayne Woody, Director		
Randall D. Fretz, Vice President		
All directors and executive officers as a group	100	100.0%

(1) Address of each beneficial owner listed is 6200 The Corners Parkway, Suite 250, Norcross, Georgia 30092.

(2) Consists of shares held by Wells Capital, Inc. Mr. Wells indirectly owns all of the shares of Wells Capital. Excludes Wells OP II limited partner interests.

**CONFLICTS OF INTEREST**

We are subject to various conflicts of interest arising out of our relationship with Wells Capital and its affiliates, some of whom serve as our officers and directors. We discuss these conflicts below and conclude this section with a discussion of the corporate governance measures we adopted to ameliorate some of the risks posed by these conflicts.

**Our Advisors' Interests in Other Wells Real Estate Programs****General**

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Wells Capital and its affiliates are general partners and advisors of other Wells programs, including programs that have investment objectives similar to ours, and we expect that they will organize other such partnerships and programs in the future. Wells Capital and such affiliates have legal and financial obligations with respect to these programs that are similar to their obligations to us.

As described in the Prior Performance Summary, Wells Capital and its affiliates have sponsored the following 16 public real estate programs with substantially identical investment objectives as ours:

1. Wells Real Estate Fund I (Wells Fund I),
2. Wells Real Estate Fund II (Wells Fund II),
3. Wells Real Estate Fund II-OW (Wells Fund II-OW),
4. Wells Real Estate Fund III, L.P. (Wells Fund III),
5. Wells Real Estate Fund IV, L.P. (Wells Fund IV),
6. Wells Real Estate Fund V, L.P. (Wells Fund V),
7. Wells Real Estate Fund VI, L.P. (Wells Fund VI),
8. Wells Real Estate Fund VII, L.P. (Wells Fund VII),
9. Wells Real Estate Fund VIII, L.P. (Wells Fund VIII),
10. Wells Real Estate Fund IX, L.P. (Wells Fund IX),



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11. Wells Real Estate Fund X, L.P. (Wells Fund X),
12. Wells Real Estate Fund XI, L.P. (Wells Fund XI),
13. Wells Real Estate Fund XII, L.P. (Wells Fund XII),
14. Wells Real Estate Fund XIII, L.P. (Wells Fund XIII),
15. Wells Real Estate Fund XIV, L.P. (Wells Fund XIV), and
16. Wells Real Estate Investment Trust, Inc. (Wells REIT I).

Two Wells-sponsored programs are currently also conducting public offerings. Wells REIT I commenced its fourth public offering on July 26, 2002 of up to 300 million shares of common stock at a price of \$10.00 per share. Wells Fund XIV commenced a public offering of up to 4.5 million units of limited partnership interest at a price of \$10.00 per unit on May 14, 2003.

A 17th program, Wells Real Estate Investment Trust III, Inc. (Wells REIT III), is a newly formed entity with no assets or operating history. Wells REIT III has filed a registration statement covering the issuance of 500,000 shares of common stock and 100,000,000 shares of preferred stock. Our promoters will likely withdraw the Wells REIT III registration statement or delay its effectiveness or amend it to either decrease the size of its offering or to change the investment objectives of Wells REIT III. In other words, our promoters do not intend to launch two large initial public offerings of REITs with similar investment objectives that would likely be raising capital at the same time. All of our officers and some of our directors are also officers and directors of Wells REIT I and Wells REIT III.

***Allocation of Investment Opportunities***

We rely on our advisor to identify suitable investment opportunities. Other Wells-sponsored programs, especially those that are currently raising offering proceeds, also rely on Wells Capital for investment opportunities. Many investment opportunities would be suitable for us as well as other Wells programs. If Wells Capital directs an investment opportunity to a Wells-sponsored program, it will offer the investment opportunity to the program for which the opportunity, in the discretion of Wells Capital, is most suitable. As a result, Wells Capital could direct attractive investment opportunities to other entities or even purchase them for its own account. Our charter disclaims any interest in an investment opportunity known to Wells Capital that Wells Capital has not recommended to us. See Certain Conflict Resolution Procedures.

***Joint Ventures with Affiliates of Wells Capital***

We are likely to enter into joint venture agreements with other Wells programs for the acquisition, development or improvement of properties. See Investment Objectives and Criteria Joint Venture Investments. Wells Capital and its affiliates may have conflicts of interest in determining which Wells program should enter into any particular joint venture agreement. The co-venturer may have economic or business interests or goals that are or may become inconsistent with our business interests or goals. In addition, should any such joint venture be consummated, Wells

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Capital may face a conflict in structuring the terms of the relationship between our interests and the interests of the affiliated co-venturer and in managing the joint venture. Since Wells Capital and its affiliates will control both the affiliated co-venturer and, to a certain extent, us, agreements and transactions between the co-venturers with respect to any such joint venture will not have the benefit of arm's-length negotiation of the type normally conducted between unrelated co-venturers. See Risk Factors Investment Risks.

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***Competition for Tenants and Others***

Conflicts of interest will exist to the extent that we may acquire properties in the same geographic areas where other Wells programs own properties. In such a case, a conflict could arise in the leasing of properties in the event that we and another Wells program were to compete for the same tenants in negotiating leases, or a conflict could arise in connection with the resale of properties in the event that we and another Wells program were to attempt to sell similar properties at the same time. See Risk Factors Investment Risks. Conflicts of interest may also exist at such time as we or any of our affiliates managing property on our behalf seek to employ developers, contractors, building managers or other third parties. Wells Capital will seek to reduce conflicts that may arise with respect to properties available for sale or rent by making prospective purchasers or tenants aware of all such properties. Wells Capital will also seek to reduce conflicts relating to the employment of developers, contractors or building managers by making prospective employees aware of all properties in need of their services. However, Wells Capital and its affiliates cannot fully avoid these conflicts because it may establish differing terms for resales or leasing of the various properties or differing compensation arrangements for employees at different properties.

***Allocation of Advisor s Time***

We rely on Wells Capital and its affiliates for the day-to-day operation of our business. As a result of its interests in other Wells programs and the fact that it has also engaged and will continue to engage in other business activities, Wells Capital and its affiliates will have conflicts of interest in allocating their time between us and other Wells programs and activities in which they are involved. However, Wells Capital believes that it and its affiliates have sufficient personnel to discharge fully their responsibilities to all of the Wells programs and ventures in which they are involved.

**Receipt of Fees and Other Compensation by Wells Capital and its Affiliates**

Wells Capital and its affiliates will receive substantial fees from us. These compensation arrangements could influence our advisor s advice to us, as well as the judgment of the affiliates of Wells Capital who serve as our officers or directors. Among other matters, the compensation arrangements could affect their judgment with respect to:

the continuation, renewal or enforcement of our agreements with Wells Capital and its affiliates, including the advisory agreement and the dealer manager agreement;

public offerings of equity by us, which entitle Wells Investment Securities to dealer manager fees and entitle Wells Capital to increased acquisition and asset-management fees;

property sales, which entitle Wells Capital to real estate commissions and possible success-based sale fees;

property acquisitions from other Wells-sponsored programs, which might entitle Wells Capital to real estate commissions and possible success-based sale fees in connection with its services for the seller;



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property acquisitions from third parties, which utilize proceeds from our public offerings, thereby increasing the likelihood of continued equity offerings and related fee income for Wells Investment Securities and Wells Capital;

whether and when we seek to list our common shares on a national securities exchange or the Nasdaq National Market, which listing could entitle Wells Capital to a success-based listing fee but could also adversely affect its sales efforts for other programs depending on the price at which the shares trade; and

whether and when we seek to sell the company or its assets, which sale could entitle Wells Capital to a success-based fee but could also adversely affect its sales efforts for other programs depending upon the sales price for the company or its assets.

The advisory fees paid to Wells Capital and any management and leasing fees we may pay to Wells Management Company if we retain them to manage some of our properties will be paid irrespective of the quality of their acquisition or property management services during the term of the related agreement. See Certain Conflict Resolution Procedures.

### **Our Board's Loyalties to Wells REIT I and Possibly to Future Wells-sponsored Programs**

Eight of our ten directors are also directors of Wells REIT I. The loyalties of those eight directors to Wells REIT I may influence the judgment of our board when considering issues for us that may affect Wells REIT I, such as the following:

The conflicts committee of the board of directors must evaluate the performance of Wells Capital with respect to whether Wells Capital is presenting to us our fair share of investment opportunities. If our advisor is not presenting a sufficient number of investment opportunities to us because it is presenting many opportunities to Wells REIT I, or if our advisor is giving preferential treatment to Wells REIT I in this regard, our conflicts committee may not be well suited to enforce our rights under the terms of the advisory agreement or to seek a new advisor.

The conflicts committee may have to make a similar evaluation with respect to the performance of Wells Management if we retain Wells Management to manage and lease some of our properties. If Wells Management is not performing well as a property manager because of its services for Wells REIT I, the divided loyalties of the members of our conflicts committee could adversely affect their willingness to insist on improvement of the performance of the property manager.

The conflicts committee will likely decide whether we purchase a property. This decision could be influenced by the hope that Wells Capital would present the opportunity to Wells REIT I if we did not pursue it.

We could enter into transactions with Wells REIT I, such as property sales or acquisitions, joint ventures or financing arrangements. Decisions of the board or the conflicts committee regarding the terms of those transactions may be influenced by its loyalties to Wells REIT I.

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A decision of the board or the conflicts committee regarding the timing of a debt or equity offering could be influenced by concerns that the offering would compete with an offering of Wells REIT I.

A decision of the board or the conflicts committee regarding the timing of property sales could be influenced by concerns that the sales would compete with those of Wells REIT I.

We could also face similar conflicts if our promoters sponsor additional REITs, such as Wells REIT III. See [Our Advisor's Interest in Other Wells Real Estate Programs](#) - General.

### **Fiduciary Duties Owed by Some of Our Affiliates to Our Advisor and Our Advisor's Affiliates**

Our executive officers and some of our directors are also officers and directors of:

Wells Capital, our advisor and the general partner of the various real estate programs sponsored by Wells Capital described above;

Wells Management, one of our possible property managers; and

Wells Investment Securities, our dealer manager.

As a result, they owe fiduciary duties to these various entities and their stockholders and limited partners, which fiduciary duties may from time to time conflict with the fiduciary duties they owe to us.

### **Affiliated Dealer Manager**

Since Wells Investment Securities, our dealer manager, is an affiliate of Wells Capital, you will not have the benefit of an independent due diligence review and investigation of the type normally performed by an independent underwriter in connection with the offering of securities. See [Plan of Distribution](#).

### **Affiliated Property Manager**

Some properties we acquire may be managed and leased by Wells Management. To the extent we retain Wells Management, we will not have the benefit of independent property management. See [Management - Affiliated Companies](#).

**Lack of Separate Representation**

Alston & Bird LLP is counsel both to us and to Wells Capital and its affiliates, including Wells Investment Services, Wells Management and Wells Development Corporation. There is a possibility that in the future the interests of the various parties may conflict. If we do not obtain separate counsel when our interests conflict with those of Wells Capital and its affiliates, our counsel's loyalties to Wells Capital and its affiliates could interfere with its independent professional judgment in considering alternatives that we should pursue. The conflicts committee of our board of directors is authorized to engage separate counsel for advice when considering matters where the interests of Wells Capital and its affiliates could conflict with our interests.

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**Certain Conflict Resolution Procedures**

***Conflicts Committee***

In order to reduce or eliminate certain potential conflicts of interest, our charter creates a conflicts committee of our board or directors comprised of all of our independent directors. Serving on the board of, or owning an interest in, another Wells-sponsored program will not, by itself, preclude a director from serving on the conflicts committee. The conflicts committee, which is authorized to retain its own legal and financial advisors, is empowered to act on any matter permitted under Maryland law provided that it first determines that the matter at issue is such that the exercise of independent judgment by Wells Capital affiliates could reasonably be compromised. Those conflict of interest matters that we cannot delegate to a committee under Maryland law must be acted upon by both the board of directors and the conflicts committee. Among the matters we expect the conflicts committee to act upon are:

the continuation, renewal or enforcement of our agreements with Wells Capital and its affiliates, including the advisory agreement and the dealer manager agreement;

public offerings of securities;

property sales;

property acquisitions;

transactions with affiliates;

compensation of our officers and directors who are affiliated with our advisor;

whether and when we seek to list our common shares on a national securities exchange or the Nasdaq National Market; and

whether and when we seek to sell the company or its assets.

***Conflicts Subcommittee***

To address conflicts involving us and another Wells-sponsored program, the conflicts committee has created a subcommittee of the conflicts committee comprised of all directors on the conflicts committee that are unaffiliated with another Wells-sponsored program, e.g., Wells REIT I. The conflicts subcommittee is empowered to act on any matter permitted by Maryland law if (1) the conflicts committee delegates the matter to the conflicts subcommittee or (2) the conflicts subcommittee disagrees with the conflicts committee's handling of a matter and its minutes reflect that it determined that the matter at issue was such that the exercise of independent judgment by both the affiliates of Wells Capital and the



affiliates of another Wells-sponsored program could reasonably have been compromised. Two directors currently serve on the conflicts subcommittee.

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***Other Charter Provisions Relating to Conflicts of Interest***

In addition to the creation of the conflicts committee, our charter contains many other restrictions relating to conflicts of interest including the following:

*Advisor Compensation.* The conflicts committee will evaluate at least annually whether the compensation that we contract to pay to Wells Capital and its affiliates is reasonable in relation to the nature and quality of services performed and that such compensation is within the limits prescribed by the charter. The conflicts committee will supervise the performance of Wells Capital and its affiliates and the compensation we pay to them to determine that the provisions of our compensation arrangements are being carried out. This evaluation will be based on the factors set forth below as well as any other factors deemed relevant by the conflicts committee:

the amount of the fees paid to Wells Capital and its affiliates in relation to the size, composition and performance of our investments;

the success of Wells Capital in generating appropriate investment opportunities;

the rates charged to other REITs and others by advisors performing similar services;

additional revenues realized by Wells Capital and its affiliates through their relationship with us, including whether we pay them or they are paid by others with whom we do business;

the quality and extent of service and advice furnished by Wells Capital and its affiliates;

the performance of our investment portfolio; and

the quality of our portfolio relative to the investments generated by Wells Capital for its own account and for its other clients.

We can only pay Wells Capital a real estate commission in connection with the sale of a property if it provides a substantial amount of the services in the effort to sell the property and the commission does not exceed 3% of the sales price of the property. Moreover, the commission, when added to all other real estate commissions paid to unaffiliated parties in connection with the sale, may not exceed the lesser of a competitive real estate commission or 6% of the sales price of the property.

*Term of Advisory Agreement.* Each contract for the services of our advisor may not exceed one year, although there is no limit on the number of times that a particular advisor may be retained. The conflicts committee or our advisor may terminate our advisory agreement with Wells Capital without cause or penalty on 60 days written notice.

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*Our Acquisitions.* We will not purchase or lease properties in which Wells Capital, our directors or officers or any of their affiliates has an interest without a determination by a majority of the conflicts committee, that such transaction is fair and reasonable to us and at a price to us no greater than the cost of the property to the affiliated seller or lessor unless there is substantial justification for the excess amount. In no event will we acquire any such property at an amount in excess of its current appraised value as determined by an independent expert selected by our independent directors not otherwise interested in the transaction.

*Mortgage Loans Involving Affiliates.* Our charter prohibits us from investing in or making mortgage loans in which the transaction is with Wells Capital or our directors or officers or any of their affiliates unless an independent expert appraises the underlying property. We must keep the appraisal for at least five years and make it available for inspection and duplication by

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any of our stockholders. In addition, we must obtain a mortgagee's or owner's title insurance policy or commitment as to the priority of the mortgage or the condition of the title. Our charter prohibits us from making or investing in any mortgage loans that are subordinate to any mortgage or equity interest of Wells Capital, our directors or officers or any of their affiliates.

*Other Transactions Involving Affiliates.* A majority of the conflicts committee must conclude that all other transactions, including joint ventures, between us and Wells Capital, our officers or directors or any of their affiliates are fair and reasonable to us and on terms and conditions not less favorable to us than those available from unaffiliated third parties.

*Limitation on Operating Expenses.* Wells Capital must reimburse us the amount by which our aggregate annual total operating expenses exceed the greater of 2% of our average invested assets or 25% of our net income unless the conflicts committee has determined that such excess expenses were justified based on unusual and non-recurring factors. Average invested assets means the average monthly book value of our assets during the 12-month period before deducting depreciation, bad debts or other non-cash reserves. Total operating expenses means all expenses paid or incurred by us, as determined under generally accepted accounting principles, that are in any way related to our operation, including advisory fees, but excluding (a) the expenses of raising capital such as organization and offering expenses, legal, audit, accounting, underwriting, brokerage, listing, registration and other fees, printing and other such expenses and taxes incurred in connection with the issuance, distribution, transfer, registration and stock exchange listing of our stock; (b) interest payments; (c) taxes; (d) non-cash expenditures such as depreciation, amortization and bad debt reserves; (e) reasonable incentive fees based on the gain in the sale of our assets; and (f) acquisition fees, acquisition expenses, real estate commissions on the resale of property and other expenses connected with the acquisition, disposition, management and ownership of real estate interests, mortgage loans or other property (including the costs of foreclosure, insurance premiums, legal services, maintenance, repair and improvement of property).

*Issuance of Options and Warrants to Certain Affiliates.* Our charter prohibits the issuance of options or warrants to purchase our capital stock to Wells Capital, our directors or officers or any of their affiliates (i) on terms more favorable than we offer such options or warrants to the general public or (ii) in excess of an amount equal to 10% of our outstanding capital stock on the date of grant.

*Repurchase of Our Shares.* Our charter prohibits us from paying a fee to Wells Capital or our directors or officers or any of their affiliates in connection with our repurchase of our capital stock.

*Loans.* We will not make any loans to Wells Capital or to our directors or officers or any of their affiliates. In addition, we will not borrow from these affiliates unless a majority of the conflicts committee approves the transaction as being fair, competitive and commercially reasonable, and no less favorable to us than comparable loans between unaffiliated parties. These restrictions on loans will only apply to advances of cash that are commonly viewed as loans, as determined by the board of directors. By way of example only, the prohibition on loans would not restrict advances of cash for legal expenses or other costs incurred as a result of any legal action for which indemnification is being sought, nor would the prohibition limit our ability to advance reimbursable expenses incurred by directors or officers or Wells Capital or its affiliates.

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*Reports to Stockholders.* Our charter requires that we prepare an annual report and deliver it to our stockholders within 120 days after the end of each fiscal year. Among the matters that must be included in the annual report are:

the ratio of the costs of raising capital during the year to the capital raised;

the aggregate amount of advisory fees and the aggregate amount of other fees paid to Wells Capital and any affiliate of Wells Capital by us or third parties doing business with us during the year;

our total operating expenses for the year, stated as a percentage of our average invested assets and as a percentage of our net income;

a report from the conflicts committee that our policies are in the best interests of our common stockholders and the basis for such determination; and

separately stated, full disclosure of all material terms, factors and circumstances surrounding any and all transactions involving us and our advisor, a director or any affiliate thereof during the year; and the conflicts committee is specifically charged with a duty to examine and comment in the report on the fairness of the transactions.

*Voting of Shares Owned by Affiliates.* Before becoming a stockholder, Wells Capital or a director or officer or any of their affiliates must agree not to vote their shares regarding (i) the removal of any of these affiliates or (ii) any transaction between them and us.

*Ratification of Charter Provisions.* Our board of directors and the conflicts committee have reviewed and ratified our charter by the vote of a majority of their respective members, as required by our charter.

### ***Allocation of Investment Opportunities***

When Wells Capital presents an investment opportunity to a Wells-sponsored program, it will offer the opportunity to the program for which the investment opportunity is most suitable. This determination is made by Wells Capital. However, our advisory agreement with Wells Capital requires that Wells Capital make this determination in a manner that is fair without favoring any other Wells-sponsored program. In determining the Wells-sponsored program for which an investment opportunity would be most suitable, Wells Capital will consider the following factors:

the investment objectives and criteria of each program;

the cash requirements of each program;

the effect of the acquisition both on diversification of each program's investments by type of commercial property and geographic area and on diversification of the tenants of its properties;

the policy of each program relating to leverage of properties;

the anticipated cash flow of each program;

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the income tax effects of the purchase on each program;

the size of the investment; and

the amount of funds available to each program and the length of time such funds have been available for investment.

In the event that an investment opportunity becomes available that is equally suitable for us and one or more other Wells programs, then Wells Capital will offer the investment opportunity to the entity that has had the longest period of time elapse since it was offered an investment opportunity. If a subsequent event or development, such as a delay in the closing of a property or a delay in the construction of a property, causes any such investment, in the opinion of Wells Capital, to be more appropriate for another Wells program, Wells Capital may offer the investment to another Wells program.

Our advisory agreement with Wells Capital requires that Wells Capital periodically inform the conflicts committee of the investment opportunities it has offered to other Wells programs so that the conflicts committee can evaluate whether we are receiving our fair share of opportunities. Wells Capital is to inform the conflicts committee of such investment opportunities quarterly. Wells Capital's success in generating investment opportunities for us and its fair allocation of opportunities among Wells programs are important criteria in the conflicts committee's determination to continue or renew our arrangements with Wells Capital and its affiliates. The conflicts committee has a duty to ensure that Wells Capital fairly applies its method for allocating investment opportunities among the Wells-sponsored programs.

**INVESTMENT OBJECTIVES AND CRITERIA**

**General**

We intend to invest in commercial real estate properties. Our primary investment objectives are:

to provide current income for you through the payment of cash dividends; and

to preserve and return your capital contributions.

We also seek capital gain from our investments.

We may return all or a portion of your capital contribution in connection with a sale of the company or the properties we will acquire. Alternatively, you may be able to obtain a return on all or a portion of your capital contribution in connection with the sale of your shares.

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We will seek to list our shares of common stock when our independent directors believe listing would be in the best interest of our stockholders. If we do not list our shares of common stock on a national securities exchange or on the Nasdaq National Market by October 2015, our charter requires that we either:

seek stockholder approval of an extension or amendment of this listing deadline; or

seek stockholder approval of the liquidation of the corporation.



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If we sought and did not obtain stockholder approval of an extension or amendment to the listing deadline, we would then be required to seek stockholder approval of our liquidation. If we sought and failed to obtain stockholder approval of our liquidation, our charter would not require us to list or liquidate, and we could continue to operate as before. If we sought and obtained stockholder approval of our liquidation, we would begin an orderly sale of our properties and distribute our net proceeds to you.

Our board may revise our investment policies, which we describe in more detail below, without the concurrence of our stockholders. Our conflicts committee will review our investment policies, which we discuss in detail below, at least annually to determine that our policies are in the best interest of our stockholders. Our charter requires that the conflicts committee include the basis for its determination in its minutes and in an annual report delivered to our stockholders.

**Acquisition and Investment Policies**

***Primary Investment Focus***

We intend to invest primarily in high quality, income-generating office and industrial properties, leased or preleased to creditworthy companies and governmental entities. We will invest in properties at all stages of development, from those under construction to those with established operating histories. As of September 30, 2003, our advisor had sponsored or advised public real estate programs that had acquired more than 22 million square feet of office and industrial buildings.

Wells Capital has developed specific standards for determining the creditworthiness of potential tenants of our properties. While authorized to enter into leases with any type of tenant, we anticipate that a majority of our tenants will be large corporations or other entities that have a net worth in excess of \$100,000,000 or whose lease obligations are guaranteed by another corporation or entity with a net worth in excess of \$100,000,000. In an attempt to limit or avoid speculative purchases, Wells Capital generally will seek to secure, on our behalf, leases with tenants at or prior to the closing of our acquisitions of properties.

Although we are not limited as to the geographic area where we may conduct our operations, we currently intend to invest in properties located in the United States. Generally, we will hold fee title or a long-term leasehold estate in the properties we acquire.

***Other Possible Investments***

Although we expect that most of our property acquisitions will be of the type described above, we may make other investments. For example, we may purchase warehouse and distribution facilities, shopping centers, business and industrial parks, manufacturing facilities, undeveloped land or options to purchase a particular property. We may also purchase mortgage loans. In fact, we can invest in whatever types of interests in real estate that we believe are in our best interests. Moreover, we are not limited in the number or size of properties we may acquire or on the percentage of net proceeds of this offering that we may invest in a single property.

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Although we can purchase any type of interest in real estate, our charter does limit certain types of investments. Unless our charter is amended, we will not:

invest more than 10% of our total assets in unimproved property or mortgage loans on unimproved property, which we define as property not acquired for the purpose of

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producing rental or other operating income or on which there is no development or construction in progress or planned to commence within one year;

make or invest in mortgage loans unless an appraisal is obtained concerning the underlying property, except for those mortgage loans insured or guaranteed by a government or government agency;

make or invest in mortgage loans, including construction loans, on any one property if the aggregate amount of all mortgage loans on such property would exceed an amount equal to 85% of the appraised value of such property as determined by appraisal unless substantial justification exists for exceeding such limit because of the presence of other underwriting criteria;

invest in commodities or commodity futures contracts, except for futures contracts when used solely for the purpose of hedging in connection with our ordinary business of investing in real estate assets and mortgages;

invest in real estate contracts of sale, otherwise known as land sale contracts, unless the contract is in recordable form and is appropriately recorded in the chain of title; or

invest in equity securities unless a majority of the conflicts committee approves such investment as being fair, competitive and commercially reasonable.

We do not intend to make loans to other persons (other than mortgage loans described below), to underwrite securities of other issuers or to engage in the purchase and sale of any types of investments other than interests in real estate.

***Mortgage Loans***

Although our charter permits us to make mortgage loans or to invest in mortgages within the limits described above, we generally do not intend to do so. We do not have a goal of investing any percentage of our assets in mortgages. Even if we have offering proceeds that cannot be invested in office properties immediately, we do not intend to invest those proceeds in mortgages. The circumstances in which we believe we may invest in mortgages or make mortgage loans are limited to the following:

the making of a mortgage loan required by a property owner as a condition to our purchase of a property;

the indirect acquisition of a mortgage by purchasing an entity, such as a REIT or other real estate company, that also owns a mortgage; and

the acquisition of a mortgage with the view of acquiring the underlying property through foreclosure.

***Investment Decisions***

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Wells Capital will have substantial discretion with respect to the selection of specific investments and the purchase and sale of our properties, subject to the approval of our conflicts

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committee. Our conflicts committee will review our investment policies at least annually to determine whether these policies continue to be in the best interests of our stockholders.

In pursuing our investment objectives and making investment decisions for us, Wells Capital will consider relevant real estate property and financial factors, including the creditworthiness of major tenants, the location of the property, its suitability for any development contemplated or in progress, its income-producing capacity, the prospects for long-range appreciation, liquidity and tax considerations. Moreover, to the extent feasible, Wells Capital will strive to invest in a diversified portfolio of properties for us based on geography, type of property and industry group of tenants, although the number and mix of properties we acquire will largely depend upon real estate and market conditions and other circumstances existing at the time we are acquiring our properties and the amount of proceeds we raise in this offering.

To find properties that best meet our selection criteria for investment, Wells Capital's property acquisition team will study regional demographics and market conditions and interview local brokers to gain the practical knowledge that these studies sometimes lack. An experienced commercial construction engineer will inspect the structural soundness and the operating systems of each building, and an environmental firm will investigate all environmental issues to ensure each property meets our quality specifications.

***Conditions to Closing Our Acquisitions***

Generally, we will condition our obligation to close the purchase of any investment on the delivery and verification of certain documents from the seller or developer, including, where appropriate:

plans and specifications;

surveys;

evidence of marketable title, subject to such liens and encumbrances as are acceptable to Wells Capital;

title and liability insurance policies; and

financial statements covering recent operations of properties having operating histories.

Moreover, we will not close the purchase of any property unless and until we obtain an environmental assessment (Phase I review at a minimum) for each property purchased and are generally satisfied with the environmental status of the property.

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***Development and Construction of Properties***

We may invest substantially all of the proceeds available for investment in properties on which improvements are to be constructed or completed. Because development of real estate properties is subject to risks relating to a builder's ability to control construction costs or to build in conformity with plans, specifications and timetables, we may help ensure performance by the builders of properties that are under construction at the price contracted by obtaining either an adequate completion bond or performance bond. As an alternative to a completion bond or performance bond, we may rely upon the substantial net worth of the contractor or developer or a personal guarantee, accompanied by financial statements showing a substantial net worth, provided by an affiliate of the person entering into the construction or development contract.

Moreover, we may directly employ one or more project managers to plan, supervise and implement the development of any unimproved properties that we may acquire. In such event, such persons would be compensated directly by us.

***Tenant Improvements***

We anticipate that tenant improvements required at the time of our acquisition of a property will be funded from our offering proceeds. However, at such time as a tenant of one of our properties does not renew its lease or otherwise vacates its space in one of our buildings, it is likely that, in order to attract new tenants, we will be required to expend substantial funds for tenant improvements and tenant refurbishments to the vacated space. Since we do not anticipate maintaining permanent working capital reserves, we may not have access to funds required in the future for tenant improvements and tenant refurbishments in order to attract new tenants to lease vacated space.

***Terms of Leases***

The terms and conditions of any lease we enter into with our tenants may vary substantially from those we describe in this prospectus. However, we expect that a majority of our leases will be what we refer to as economically net leases. An economically net lease provides that in addition to making its lease payments, the tenant will be required to pay or reimburse us for all real estate taxes, sales and use taxes, special assessments, utilities, insurance and building repairs, and other building operation and management costs. We will probably be responsible for the replacement of specific structural components of a property such as the roof of the building or the parking lot. We expect that our leases will generally have terms of five or more years, some of which may have renewal options.

We may purchase properties and lease them back to the sellers of such properties. Such sale-leaseback transactions carry certain risks, as discussed more fully under **Risk Factors** **Federal Income Tax Risks** **Recharacterization of sale-leaseback transactions may cause us to lose our REIT status.**

We may also enter into arrangements with the seller or developer of a property whereby the seller or developer agrees that if, during a stated period, the property does not generate a specified cash flow, the seller or developer will pay in cash to us a sum necessary to reach the specified cash flow level, subject in some cases to negotiated dollar limitations.



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***Joint Venture Investments***

In order to diversify our portfolio of assets, we are likely to enter into joint ventures for the acquisition, development or improvement of properties, including joint ventures with other Wells programs. We may also enter into joint ventures, partnerships, co-tenancies and other co-ownership arrangements or participations with real estate developers, owners and other affiliated third parties for the purpose of developing, owning and operating real properties. In determining whether to invest in a particular joint venture, Wells Capital will evaluate the real property that such joint venture owns or is being formed to own under the same criteria described elsewhere in this prospectus for the selection of our real estate property investments.

Our policy is to invest in joint ventures only when we will have a right of first refusal to purchase the co-venturer's interest in the joint venture if the co-venturer elects to sell such interest. In the event that the co-venturer elects to sell property held in any such joint venture, however, we may not have sufficient funds to exercise our right of first refusal to buy the other co-venturer's interest in the property held by the joint venture. In the event that any joint venture with an affiliated entity holds interests in more than one property, the interest in each such property may be specially allocated based upon the respective proportion of funds invested by each co-venturer in each such property.

We may only enter into joint ventures with other Wells programs if our conflicts committee approves the transaction as being fair and reasonable to us. At such time as Wells Capital enters into a material joint venture with another Wells program, we will supplement this prospectus to disclose the terms of such investment transaction.

**Section 1031 Exchange Program**

Persons selling real estate held for investment often seek to reinvest the proceeds of that sale in another real estate investment in an effort to obtain favorable tax treatment under Section 1031 of the Internal Revenue Code. Wells Development Corporation (Wells Development), an affiliate of Wells Capital, our advisor, has developed a program (the Section 1031 Exchange Program) to facilitate these transactions, referred to as like-kind exchanges. For each such transaction (a Section 1031 Program Transaction), Wells Development or another Wells affiliate will create a single member limited liability company (each of which we refer to as a Wells Exchange LLC). A Wells Exchange LLC will acquire real estate to be owned in co-tenancy arrangements with persons wishing to engage in like-kind exchanges (1031 Participants). A Wells Exchange LLC will acquire the subject property and prepare and market a private placement memorandum for the sale of co-tenancy interests in that property. When a 1031 Participant wishes to acquire a co-tenancy interest, the Wells Exchange LLC will deed an undivided co-tenancy interest in the subject property to a newly formed single-member limited liability company and then sell that entity to the 1031 Participant.

Wells Development anticipates that properties acquired in connection with the Section 1031 Exchange Program initially will be financed entirely with debt. The Wells Exchange LLC acquiring the property will obtain a first mortgage secured by the property acquired for a portion of the purchase price. In order to finance the remainder of the purchase price, the Wells Exchange LLC will obtain a short-term loan from an institutional lender. Following its acquisition of a property, a Wells Exchange LLC will attempt to sell co-tenancy interests in the property to 1031 Participants in the manner described above. The Wells Exchange LLC will use the proceeds of these sales to pay off the short-term acquisition loan. When a Wells Exchange LLC initially acquires a property, Wells OP II, our operating partnership, may enter into a



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contract with the Wells Exchange LLC. The contract would provide that, if the Wells Exchange LLC cannot sell all of the co-tenancy interests in that particular property to 1031 Participants, Wells OP II will purchase any remaining unsold co-tenancy interests. The purchase price generally would equal the Wells Exchange LLC's cost of those interests (i.e., the amount of the remaining short-term acquisition loan). Wells OP II may execute an agreement providing for the potential purchase of the unsold co-tenancy interests from a Wells Exchange LLC only if our conflicts committee approves of the transaction as being fair, competitive and commercially reasonable to Wells OP II. The price to Wells OP II may be no greater than the cost of the co-tenancy interests to the Wells Exchange LLC unless the conflicts committee finds substantial justification for such excess and that such excess is reasonable. In addition, a fair market value appraisal for each property must be obtained from an independent expert selected by our conflicts committee, and in no event may Wells OP II purchase co-tenancy interests from an affiliate at a price that exceeds the current appraised value for the property interests. Moreover, Wells OP II may enter into one or more additional contractual arrangements obligating it to purchase co-tenancy interests in a particular property directly from the 1031 Participants. In consideration for such obligations, the Wells Exchange LLC would pay Wells OP II a fee in an amount currently anticipated to range between 1.0% and 1.5% of the amount of the short-term loan being obtained by the Wells Exchange LLC. These fees could be characterized by the Internal Revenue Service as non-qualifying income for purposes of satisfying the income tests required for REIT qualification. If this fee income were, in fact, treated as non-qualifying, and if the aggregate of such fee income and any other non-qualifying income in any taxable year ever exceeded 5.0% of our gross revenues for such year, we could lose our REIT status for that taxable year and the four ensuing taxable years. Our failure to qualify as a REIT would adversely affect your return on your investment. While we will monitor these fees and any other non-qualifying income, we could fail to satisfy this test.

In the event that Wells OP II has any obligation to acquire any interest in a property pursuant to the Section 1031 Exchange Program, our conflicts committee will be required to approve each acquisition. Accordingly, Wells Development intends that each Wells Exchange LLC will purchase only real estate properties that otherwise meet our investment objectives.

All purchasers of co-tenancy interests, including Wells OP II if it purchases co-tenancy interests, will be required to execute a tenants-in-common agreement with the other purchasers of co-tenancy interests in that particular property. They will also be required to execute a property management and leasing agreement with Wells Management, which would provide for the payment of property management and leasing fees to Wells Management. If Wells OP II is required to purchase co-tenancy interests pursuant to one or more of these contractual arrangements, we will be subject to various risks associated with co-tenancy arrangements which are not otherwise present in real estate investments, such as the risk that the interests of the 1031 Participants will become adverse to our interests.

### **Borrowing Policies**

Our charter limits our borrowings to 50% of our cost (before deducting depreciation or other non-cash reserves) of all our assets unless any excess borrowing is approved by a majority of the conflicts committee and is disclosed to our stockholders in our next quarterly report with an explanation from the conflicts committee of the justification for the excess borrowing. There is no limitation on the amount we may borrow for the purchase of any single property. We do not intend to exceed this leverage limit except in the early stages of our development, when the costs of properties are most likely to exceed our net offering proceeds. See Plan of Operation

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Liquidity and Capital Resources for a discussion of proposed bridge financing facilities that would enable us to borrow up to 100% of the cost of a property.

By operating on a leveraged basis, we would have more funds available for investment in properties, which would allow us to acquire a more diversified portfolio. Although our liability for the repayment of indebtedness is expected to be limited to the value of the property securing the liability and the rents or profits derived from the property, our use of leveraging increases the risk of default on the mortgage payments and a resulting foreclosure of a particular property. To the extent that we do not obtain mortgage loans on our properties, our ability to acquire additional properties will be restricted. When interest rates on mortgage loans are high or financing is otherwise unavailable on a timely basis, we may purchase certain properties for cash with the intention of obtaining a mortgage loan for a portion of the purchase price at a later time. Wells Capital will seek to obtain financing on our behalf on the most favorable terms available. Lenders may have recourse to assets not securing the repayment of the indebtedness.

Wells Capital will refinance properties during the term of a loan only in limited circumstances, such as when a decline in interest rates makes it beneficial to prepay an existing mortgage, when an existing mortgage matures or if an attractive investment becomes available and the proceeds from the refinancing can be used to purchase such investment. The benefits of the refinancing may include an increased cash flow resulting from reduced debt service requirements, an increase in dividend distributions from proceeds of the refinancing, if any, and/or an increase in property ownership if some refinancing proceeds are reinvested in real estate.

### **Disposition Policies**

We intend to hold each property we acquire for an extended period. However, circumstances might arise that could result in the early sale of some properties. We may sell a property before the end of the expected holding period if we believe the sale of the property would be in the best interests of our stockholders.

The determination of whether a particular property should be sold or otherwise disposed of will be made after consideration of relevant factors, including prevailing economic conditions and current tenant creditworthiness, with a view to achieving maximum capital appreciation. We cannot assure you that this objective will be realized. The selling price of a property that is net leased will be determined in large part by the amount of rent payable under the lease. If a tenant has a repurchase option at a formula price, we may be limited in realizing any appreciation. In connection with our sales of properties we may lend the purchaser all or a portion of the purchase price. In these instances, our taxable income may exceed the cash received in the sale. The terms of payment will be affected by custom in the area in which the property being sold is located and the then-prevailing economic conditions.

### **Investment Limitations**

Our charter places numerous limitations on us with respect to the manner in which we may invest our funds or issue securities. These limitations cannot be changed unless our charter is amended, which requires approval of our stockholders. Unless our charter is amended, we will not:

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borrow in excess of 50% of our aggregate cost (before deducting depreciation or other non-cash reserves) of all assets owned by us, unless approved by a majority of the conflicts committee;

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make investments in unimproved property or mortgage loans on unimproved property in excess of 10% of our total assets;

make or invest in mortgage loans unless an appraisal is obtained concerning the underlying property, except for those mortgage loans insured or guaranteed by a government or government agency;

make or invest in mortgage loans, including construction loans, on any one property if the aggregate amount of all mortgage loans on such property would exceed an amount equal to 85% of the appraised value of such property as determined by appraisal unless substantial justification exists for exceeding such limit because of the presence of other underwriting criteria;

make an investment in a property or mortgage loan if the related acquisition fees and acquisition expenses are not reasonable or exceed 6% of the purchase price of the property or, in the case of a mortgage loan, 6% of the funds advanced; provided that the investment may be made if a majority of the conflicts committee determines that the transaction is commercially competitive, fair and reasonable to us.

invest in equity securities unless a majority of the conflicts committee approves such investment as being fair, competitive and commercially reasonable;

invest in real estate contracts of sale, otherwise known as land sale contracts, unless the contract is in recordable form and is appropriately recorded in the chain of title;

invest in commodities or commodity futures contracts, except for futures contracts when used solely for the purpose of hedging in connection with our ordinary business of investing in real estate assets and mortgages;

issue equity securities on a deferred payment basis or other similar arrangement;

issue debt securities in the absence of adequate cash flow to cover debt service;

issue equity securities that are assessable after we have received the consideration for which our board of directors authorized their issuance; or

issue equity securities redeemable solely at the option of the holder, which restriction has no effect on our proposed share redemption program or the ability of our operating partnership to issue redeemable partnership interests.

In addition, our charter includes many other investment limitations in connection with conflict-of-interest transactions, which limitations are described above under **Conflicts of Interest**. Our charter also includes restrictions on roll-up transactions, which are described under **Description of Shares** below.

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**PLAN OF OPERATION**

**General**

As of the date of this prospectus, we have not commenced operations. After the minimum subscription of 250,000 shares at \$10 per share is achieved, subscription proceeds will be released to us (except for subscriptions from Pennsylvania investors see Plan of Distribution Special Notice to Pennsylvania Investors ) and applied to investments in properties and other assets and the payment or reimbursement of selling commissions and other organization and offering expenses. See Estimated Use of Proceeds. We will experience a relative increase in liquidity as additional subscriptions for shares are received and a relative decrease in liquidity as net offering proceeds are expended in connection with the acquisition, development and operation of properties.

We have not entered into any arrangements to acquire any specific properties with the net proceeds from this offering. The number of properties we may acquire will depend upon the number of shares sold and the resulting amount of the net proceeds available for investment in properties.

We are not aware of any material trends or uncertainties, favorable or unfavorable, other than national economic conditions affecting real estate generally, that may be reasonably anticipated to have a material impact on either capital resources or the revenues or income to be derived from the acquisition and operation of real estate properties, other than those referred to in this prospectus.

Our advisor also may, but is not required to, establish reserves from gross offering proceeds, out of cash flow generated by operating properties or out of non-liquidating net sale proceeds from the sale of our properties. Working capital reserves are typically utilized for non-operating expenses such as tenant improvements, leasing commissions and major capital expenditures. Alternatively, a lender may require its own formula for escrow of working capital reserves.

The net proceeds of this offering will provide funds to enable us to purchase properties. We may acquire properties free and clear of permanent mortgage indebtedness by paying the entire purchase price of each property in cash or for equity securities, or a combination thereof, and we may selectively encumber all or certain properties, if favorable financing terms are available, following acquisition. The proceeds from such loans will be used to acquire additional properties or increase cash flow. In addition, we intend to borrow funds to purchase properties. In the event that this offering is not fully sold, our ability to diversify our investments may be diminished.

We intend to make an election under Section 856(c) of the Internal Revenue Code to be taxed as a REIT under the Internal Revenue Code, beginning with the taxable year ended December 31, 2003. If we qualify as a REIT for federal income tax purposes, 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 be subject to federal income tax on our taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year in which our qualification is denied. Such an event could materially and adversely affect our net income. However, we believe that we are organized and operate in a manner that will enable us to qualify for treatment as a REIT for

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federal income tax purposes during the year ended December 31, 2003, and we intend to continue to operate so as to remain qualified as a REIT for federal income tax purposes.

We will monitor the various qualification tests that we must meet to maintain our status as a REIT. Ownership of our shares will be monitored to ensure that no more than 50% in value of our outstanding shares is owned, directly or indirectly, by five or fewer individuals at any time after the first taxable year for which we make an election to be taxed as a REIT. We will also determine, on a quarterly basis, that the gross income, asset and distribution tests as described in the section of this prospectus entitled "Federal Income Tax Considerations - Requirements for Qualification" are met.

### **Liquidity and Capital Resources**

Our principal demands for funds will be for property acquisitions, either directly or through investment interests, for the payment of operating expenses and dividends, and for the payment of interest on our outstanding indebtedness. Generally, cash needs for items other than property acquisitions will be met from operations, and cash needs for property acquisitions will be funded by public offerings of our shares and debt. However, there may be a delay between the sale of our shares and our purchase of properties, which could result in a delay in the benefits to our stockholders, if any, of returns generated from our investment operations. In an attempt to avoid this delay, we have been in discussions with a lender to arrange bridge financing facilities. The discussions have envisioned two tranches of financing. The first financing facility under discussion would be a \$175 million, 90-day secured credit facility, the proceeds of which we would use to acquire properties that are at least 85% leased and occupied. Advances under this facility would initially be available to finance 100% of the acquisition cost of properties. The facility would require us to use equity raised subsequent to entering the facility to repay it. Within 45 days, we must reduce our leverage so that the advances represent no more than 85% of our debt and equity capital. We must further decrease our leverage to 70% by the facility's maturity. Interest would accrue depending on our leverage and would range from LIBOR plus 500 basis points for leverage in excess of 85% down to LIBOR plus 225 basis points for leverage of 70% or less. This facility would be secured by property acquisitions up to \$175 million during the facility term.

When we reduce our leverage to 70%, we will be eligible to replace this facility with the second financing tranche. For the second tranche, we are currently discussing a \$350 million revolving facility, the proceeds of which would be used to acquire properties meeting similar lender requirements, including that each property be 85% occupied and 100% owned in fee simple by Wells OP II. Advances under the facility would be generally limited to 60% to 70% of the property's acquisition cost. We could choose to pay an interest rate of either LIBOR plus 225 basis points or the base rate of the facility's administrative agent plus 50 basis points. In addition to monthly payments of interest, we would have to repay outstanding principal and accrued interest within 180 days of entering into the facility unless we sought a 180-day extension and met the conditions to extend the maturity date. We would also be expected to pay down the facility with proceeds from this offering to the extent they were not needed to meet our budgeted costs. We would execute mortgage instruments and deliver them to the facility's administrative agent at the time of advances under the facility; however, the mortgage instruments would not be recorded unless we defaulted under the facility. The lender arranging the bridge facilities has not committed to making the facilities available to us; the proposal is subject to negotiation as well as the agent's internal credit approval and completion of due diligence.

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Our advisor will evaluate potential additional property acquisitions and engage in negotiations with sellers and lenders on our behalf. After a purchase contract is executed that contains specific terms, the property will not be purchased until the successful completion of due diligence, which includes review of the title insurance commitment, an appraisal and an environmental analysis. In some instances, the proposed acquisition will require the negotiation of final binding agreements, which may include financing documents. During this period, we may decide to temporarily invest any unused proceeds from the offering in certain investments that could yield lower returns than the properties. These lower returns may affect our ability to make distributions.

Potential future sources of capital include proceeds from secured or unsecured financings from banks or other lenders, proceeds from the sale of properties and undistributed funds from operations. If necessary, we may use financings or other sources of capital in the event of unforeseen significant capital expenditures. Other than the proposed bridge facility described above, we have not identified sources of such financing currently.

### **Results of Operations**

As of the date of this prospectus, we have commenced no significant operations because we are in our organizational and development stage. No operations will commence until we have sold at least 250,000 shares of our common stock to the public at \$10 per share in this offering. Our management is not aware of any material trends or uncertainties, other than national economic conditions affecting real estate generally, that may reasonably be expected to have a material impact, favorable or unfavorable, on revenues or income from the acquisition and operations of real properties, other than those referred to in this prospectus.

### **Inflation**

The real estate market has not been affected significantly by inflation in the past three years due to the relatively low inflation rate. However, we expect that there will be provisions in the majority of our tenant leases which would protect us from the impact of inflation. These provisions include 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 cover inflation.

### **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 management's 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 or different amounts of assets, liabilities, revenues and expenses would have been recorded, thus resulting in a different presentation of the financial statements or different amounts reported in 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.





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Below is a discussion of the accounting policies that management considers to be critical once we commence operations in that they may require complex judgment in their application or require estimates about matters that are inherently uncertain.

***Investment in Real Estate Assets***

We will be 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. We anticipate the estimated useful lives of our assets by class to be as follows:

Building	25 years
Building improvements	10-25 years
Land improvements	20-25 years
Tenant Improvements	Lease term

In the event that inappropriate useful lives or methods are used for depreciation, our net income would be misstated.

***Valuation of Real Estate Assets***

We will continually monitor events and changes in circumstances that could indicate that the carrying amounts of our real estate assets, including those held through joint ventures, may not be recoverable. When indicators of potential impairment are present which indicate that the carrying amounts of real estate assets may not be recoverable, we will assess the recoverability of the real estate assets by determining whether the carrying value of the real estate assets 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 will adjust the real estate assets to the fair value and recognize an impairment loss.

Projections of expected future cash flows require us to estimate future market rental income amounts subsequent to the expiration of current lease agreements, property operating expenses, discount rates, the number of months it takes to re-lease the property and the number of years the property is held for investment. The use of inappropriate assumptions in the future cash flows analysis would result in an incorrect assessment of the property's future cash flows and fair value and could result in the overstatement of the carrying value of our real estate assets and net income.

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

Upon the acquisition of real properties, it will be our policy to 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 their fair values.

The fair values of the tangible assets of an acquired property (which includes land and building) will be determined by valuing the property as if it were vacant, and the as-if-vacant value will then be allocated to land and building based on our determination of the relative fair value of these assets. We will 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

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analyses will include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. In estimating carrying costs, we will include real estate taxes, insurance, and other operating expenses during the expected lease-up periods based on current market demand. We will estimate costs to execute similar leases, including leasing commissions and other related costs.

The fair values of above-market and below-market in-place leases will be recorded based on the present value (using an interest 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 will be amortized as an adjustment to rental income over the remaining terms of the respective leases. The fair values of in-place leases will include direct costs associated with obtaining a new tenant, opportunity costs associated with lost rentals, which are avoided by acquiring an in-place lease, and tenant relationships. Direct costs associated with obtaining a new tenant will include commissions, tenant improvements and other direct costs and will be estimated based on our consideration of current market costs to execute a similar lease. We will include these direct costs in deferred leasing costs in our consolidated balance sheet and will amortize such costs to expense over the remaining terms of the respective leases. The value of opportunity costs will be calculated using the contractual amounts to be paid pursuant to the in-place leases over market absorption periods for similar leases. We will value customer relationships based on expected renewal of a lease or the likelihood of obtaining a particular tenant for other locations. We will include these lease intangibles in intangible lease assets in our consolidated balance sheet and amortize these assets to rental income over the remaining terms of the respective leases.

Estimates of the fair values of the tangible and intangible assets will 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 could impact the amount of our reported net income.

**Distributions**

The amount of dividends to be distributed to our stockholders will be determined by our board of directors and is dependent on a number of factors, including funds available from our operations, capital expenditure requirements and annual distribution requirements needed to maintain our status as a REIT under the Internal Revenue Code.

**PRIOR PERFORMANCE SUMMARY**

*The information presented in this section represents the historical experience of real estate programs managed by Wells Capital, our advisor, and its affiliates in the last 10 years. Investors should not assume that they will experience returns, if any, comparable to those experienced by investors in such prior Wells real estate programs.*

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Our advisor, Wells Capital, has served as a general partner of a total of 14 completed publicly offered real estate limited partnerships, eight of which completed their public offerings in the last 10 years. These eight limited partnerships and the year in which each of their offerings was completed are:

1. Wells Real Estate Fund VI, L.P. (1994),
2. Wells Real Estate Fund VII, L.P. (1995),
3. Wells Real Estate Fund VIII, L.P. (1996),
4. Wells Real Estate Fund IX, L.P. (1996),
5. Wells Real Estate Fund X, L.P. (1997),
6. Wells Real Estate Fund XI, L.P. (1998),
7. Wells Real Estate Fund XII, L.P. (2001), and
8. Wells Real Estate Fund XIII, L.P. (2003).

The Prior Performance Tables in this prospectus set forth information as of the dates indicated regarding certain of these Wells public programs as to: (1) experience in raising and investing funds (Table I); (2) compensation to sponsor (Table II); (3) annual operating results of prior programs (Table III); and (4) sales or disposals of properties (Table V).

In addition to the foregoing real estate limited partnerships, Wells Capital and its affiliates have sponsored four public offerings of shares of common stock of Wells Real Estate Investment Trust, Inc., which we refer to as Wells REIT I. Wells REIT I's initial public offering commenced on January 30, 1998 and terminated on December 19, 1999. Wells REIT I received gross proceeds of \$132,181,919 from the sale of 13,218,192 shares from its initial public offering. Wells REIT I's second public offering commenced on December 20, 1999 and terminated on December 19, 2000. Wells REIT I received gross proceeds of \$175,229,193 from the sale of 17,522,919 shares from the second public offering. Wells REIT I's third public offering commenced on December 19, 2000 and terminated on July 26, 2002. Wells REIT I received gross proceeds of \$1,282,976,865 from the sale of 128,297,687 shares from the third public offering. Wells REIT I commenced its fourth public offering on July 26, 2002. As of September 30, 2003, Wells REIT I had received gross proceeds of \$2,369,976,324 from the sale of 236,997,632 shares from its fourth public offering. Accordingly, as of September 30, 2003, Wells REIT I had received aggregate gross offering proceeds of \$3,960,364,301,116 from the sale of 396,036,430 shares of its common stock to 100,599 investors.

Wells Capital and its affiliates are also currently sponsoring a public offering of 4,500,000 units on behalf of Wells Real Estate Fund XIV, L.P. (Wells Fund XIV), a public limited partnership. Wells Fund XIV began its offering on May 14, 2003. As of September 30, 2003, Wells Fund XIV had raised a total of \$9,594,649 in offering proceeds from the sale of 959,465 units to 97 investors.

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In addition to the public real estate programs sponsored by our advisor and its affiliates discussed above, Wells Development intends to form a series of limited liability companies (each of which we refer to as a Wells Exchange LLC ) pursuant to the Section 1031 Exchange Program. See Investment Objectives and Criteria Acquisition and Investment Policies Section 1031 Exchange Program for a description of this program. To date, there have been only two such offerings that have closed. In the most recent offering, a Wells Exchange LLC raised \$16,670,000 in proceeds from a total of 24 investors, the proceeds of which were used to acquire co-tenancy interests in an office building located in Birmingham, Alabama. These offerings are the only private programs sponsored by Wells Capital or its affiliates within the last 10 years.

Since December 31, 1999, the Wells public programs previously sponsored by our advisor and its affiliates have acquired 55 properties located in 21 states. Of these properties acquired, approximately 70.9% of these properties were single-tenant office or industrial buildings and 29.1% were multi-tenant office or industrial buildings. In addition, approximately 21.8% of these properties were new properties, 72.7% were existing properties and 5.5% were properties under construction. All of the properties purchased in which a Wells public partnership

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owned any interest were purchased without borrowing any additional funds. Table VI contained in Part II of the registration statement, which is not part of this prospectus, gives additional information relating to properties acquired by the Wells public programs, including applicable mortgage financing on properties purchased by Wells REIT I.

In addition to the real estate programs sponsored by our advisor discussed above, our advisor is also sponsoring an index mutual fund that invests in various REIT stocks and is known as the Wells S&P REIT Index Fund. The Wells S&P REIT Index Fund is a mutual fund that seeks to provide investment results corresponding to the performance of the S&P REIT Index by investing in the REIT stocks included in the S&P REIT Index. The Wells S&P REIT Index Fund began its offering on January 12, 1998, and as of December 31, 2002, the fund had raised offering proceeds net of redemptions of \$131,774,458 from 7,726 investors.

### **Publicly Offered Unspecified Real Estate Programs**

#### ***General***

Wells Capital and its affiliates have previously sponsored the above-listed eight publicly offered real estate limited partnerships and are currently sponsoring Wells Fund XIV and Wells REIT I on an unspecified property or blind pool basis. As of December 31, 2002, the total amount of funds raised from investors in these eight completed offerings and the ongoing Wells REIT I offering (Wells Fund XIV did not commence its initial offering until May 14, 2003) was approximately \$2.4 billion and the total number of investors in such programs was approximately 80,000.

The investment objectives of each of these Wells programs are substantially identical to our investment objectives. Substantially all of the proceeds of the offerings of these programs that are available for investment in real properties have been so invested. As of December 31, 2002, approximately 87% of the aggregate gross rental income of the properties purchased by Wells public programs since January 1, 1994 was derived from corporate tenants that at the time of lease execution, had a net worth of at least \$100,000,000 or whose lease obligations were guaranteed by another entity having a net worth of at least \$100,000,000.

Wells-sponsored programs have occasionally been adversely affected by the cyclical nature of the real estate market. Some Wells programs invested funds in properties at the high end of a real estate cycle, resulting in sales of such properties for less than their purchase price. In addition, some Wells public programs have owned properties that have experienced long periods of time when no tenants were paying rent. Such occurrences have been sporadic, however.

From the inception of the first Wells public program through December 31, 2002, the Wells public programs had sold four properties and one outparcel of land. No assurance can be made that any of the Wells public programs will ultimately be successful in meeting their investment objectives.

The aggregate dollar amount of the acquisition and development costs of the 91 properties purchased by the nine sponsored Wells public programs in the last 10 years (other than Wells Fund XIV), as of December 31, 2002, was approximately \$2.4 billion of which approximately \$36.5 million (or approximately 1.5%) had not yet been expended on the development of certain of the projects which are still under

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construction. Of the aggregate amount, approximately 98.34% was or will be spent on acquiring or developing office or industrial buildings, and approximately 1.66% was or will be spent on acquiring or developing shopping centers. Of the aggregate amount, approximately 23.11% was or will be spent on new

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properties, 68.63% on existing properties and 8.26% on properties under construction. Following is a table showing a breakdown of the aggregate amount of the acquisition and development costs of the properties purchased by these nine Wells public programs as of December 31, 2002:

<u>Type of Property</u>	<u>New</u>	<u>Existing</u>	<u>Construction</u>
Office and Industrial Buildings	22.82%	68.21%	7.31%
Shopping Centers	0.29%	0.42%	0.95%

***Summary of the Wells Public Programs***

**Wells Fund VI** terminated its offering on April 4, 1994, and received gross proceeds of \$25,000,000 representing subscriptions from 1,793 limited partners (\$19,332,176 of the gross proceeds were attributable to sales of Class A Units, and \$5,667,824 of the gross proceeds were attributable to sales of Class B Units). Limited partners in Wells Fund VI are entitled to change the status of their units from Class A to Class B and vice versa. After taking into effect conversion elections made by limited partners subsequent to their subscription for units, as of December 31, 2002, \$22,687,161 of units of Wells Fund VI were treated as Class A Units, and \$2,313,227 of units were treated as Class B Units. As of December 31, 2002, Wells Fund VI owned interests in the following properties:

<u>Property Name</u>	<u>Location</u>	<u>Property Type</u>	<u>Major Tenant(s)</u>
Hartford	Hartford, CT	four-story office building	Hartford Fire Insurance Company
Stockbridge Village II	Stockbridge, GA	restaurant properties	multiple tenants
Stockbridge Village I Expansion	Stockbridge, GA	restaurant and retail building	multiple tenants
Stockbridge Village III	Stockbridge, GA	shopping center	multiple tenants
Marathon	Appleton, WI	three-story office building	Jaakko Poyry Fluor Daniel
Holcomb Bridge	Roswell, GA	retail center and office development	multiple tenants
BellSouth	Jacksonville, FL	four-story office building	BellSouth Advertising and Publishing Corporation and American Express Travel Related Services, Inc.
Tanglewood Commons	Clemmons, NC	shopping center	Harris Teeter, Inc.

Holcomb Bridge was 40% vacant as of December 31, 2002. The general partners of Wells Fund VI are actively attempting to find new tenants for this space.

As of December 31, 2002, Wells Fund VI had sold its interest in the following properties from its portfolio:

<u>Date of Sale</u>	<u>Property Name</u>	<u>Purchase Price</u>	<u>Net Sale Price</u>	<u>Wells Fund VI % Ownership</u>	<u>Wells Fund VI Net Sale Proceeds</u>	<u>Wells Fund VI Taxable Gain</u>
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Oct. 1, 2001	Cherokee Commons	\$ 10,650,750	\$ 8,434,089	11%	\$ 927,750	\$ 21,867
Oct. 7, 2002	Tanglewood Commons (outparcel only)	\$ 506,326	\$ 524,398	34%	\$ 178,295	\$ 6,144

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The net sale proceeds generated from the above sale of Cherokee Commons and the outparcel of Tanglewood Commons are anticipated to be utilized by the general partners of Wells Fund VI to fund anticipated tenant improvements and other leasing costs associated with re-leasing Holcomb Bridge and are being retained to fund expansion costs, tenant improvements and leasing costs associated with a contemplated expansion of the Tanglewood Commons property.

**Wells Fund VII** terminated its offering on January 5, 1995, and received gross proceeds of \$24,180,174 representing subscriptions from 1,910 limited partners (\$16,788,095 of the gross proceeds were attributable to sales of Class A Units, and \$7,392,079 of the gross proceeds were attributable to sales of Class B Units). Limited partners in Wells Fund VII are entitled to change the status of their units from Class A to Class B and vice versa. After taking into effect conversion elections made by limited partners subsequent to their subscriptions for units, as of December 31, 2002, \$20,925,476 of units in Wells Fund VII were treated as Class A Units, and \$3,254,699 of units were treated as Class B Units.

As of December 31, 2002, Wells Fund VII owned interests in the following properties:

<u>Property Name</u>	<u>Location</u>	<u>Property Type</u>	<u>Major Tenant(s)</u>
Marathon Stockbridge Village I Expansion	Appleton, WI	three-story office building	Jaakko Poyry Fluor Daniel
Stockbridge Village III Holcomb Bridge	Stockbridge, GA	restaurant and retail building	multiple tenants
CH2M Hill	Stockbridge, GA	shopping center	multiple tenants
	Roswell, GA	retail center and office development	multiple tenants
	Gainesville, FL	two-story office building	CH2M Hill and Affiliated Engineers BellSouth Advertising and Publishing Corporation and American Express Travel Related Services, Inc.
BellSouth Tanglewood Commons	Jacksonville, FL	four-story office building	Related Services, Inc.
Hannover Center	Clemmons, NC	shopping center	Harris Teeter, Inc.
	Stockbridge, GA	retail development	multiple tenants

Holcomb Bridge was 40% vacant as of December 31, 2002. The general partners of Wells Fund VII are actively attempting to find new tenants for this space.

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As of December 31, 2002, Wells Fund VII had sold its interest in the following properties from its portfolio:

<u>Date of Sale</u>	<u>Property Name</u>	<u>Purchase Price</u>	<u>Net Sale Price</u>	<u>Wells Fund VII % Ownership</u>	<u>Wells Fund VII Net Sale Proceeds</u>	<u>Wells Fund VII Taxable Gain</u>
Oct. 1, 2001	Cherokee Commons	\$ 10,650,750	\$ 8,434,089	11%	\$ 927,750	\$ 21,867
Oct. 7, 2002	Tanglewood Commons (outparcel only)	\$ 506,326	\$ 524,398	34%	\$ 178,295	\$ 6,144

The net sale proceeds generated from the above sale of Cherokee Commons and the outparcel of Tanglewood Commons are anticipated to be utilized by the general partners of Wells Fund VII to fund anticipated tenant improvements and other leasing costs associated with re-leasing Holcomb Bridge and are being retained to fund expansion costs, tenant improvements and leasing costs associated with a contemplated expansion of the Tanglewood Commons property.

**Wells Fund VIII** terminated its offering on January 4, 1996, and received gross proceeds of \$32,042,689 representing subscriptions from 2,241 limited partners (\$26,135,339 of the gross proceeds were attributable to sales of Class A Units, and \$5,907,350 were attributable to sales of Class B Units). Limited partners in Wells Fund VIII are entitled to change the status of their units from Class A to Class B and vice versa. After taking into effect conversion elections made by limited partners subsequent to their subscriptions for units and certain repurchases made by Wells Fund VIII, as of December 31, 2002, \$28,623,653 of units in Wells Fund VIII were treated as Class A Units, and \$3,409,036 of units were treated as Class B Units. As of December 31, 2002, Wells Fund VIII owned interests in the following properties:

<u>Property Name</u>	<u>Location</u>	<u>Property Type</u>	<u>Major Tenant(s)</u>
CH2M Hill	Gainesville, FL	two-story office building	CH2M Hill and Affiliated Engineers
BellSouth	Jacksonville, FL	four-story office building	BellSouth Advertising and Publishing Corporation and American Express Travel Related Services, Inc.
Tanglewood Commons	Clemmons, NC	shopping center	Harris Teeter, Inc.
Hannover Center	Stockbridge, GA	retail development	multiple tenants
US Cellular	Madison, WI	four-story office building	US Cellular, a subsidiary of BellSouth Corporation
AT&T Texas	Farmers Branch, TX	one-story office building	TCI Central, Inc.
Quest	Irvine, CA	two-story office building	Quest Software, Inc.
Cirrus Logic	Broomfield, CO	two-story office building	Cirrus Logic, Inc.

As of December 31, 2002, Wells Fund VIII had sold its interest in the following property from its portfolio:

<u>Date of Sale</u>	<u>Property Name</u>	<u>Purchase Price</u>	<u>Net Sale Price</u>	<u>Wells Fund VIII % Ownership</u>	<u>Wells Fund VIII</u>	<u>Wells Fund VIII</u>
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					<u>Net Sale Proceeds</u>	<u>Taxable Gain</u>
Oct. 7, 2002	Tanglewood Commons (outparcel only)	\$ 506,326	\$ 524,398	32%	\$ 167,808	\$ 5,784

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The net sale proceeds generated from the above sale of the outparcel of Tanglewood Commons are anticipated to be utilized by the general partners of Wells Fund VIII to fund expansion costs, tenant improvements and leasing costs associated with a contemplated expansion of the Tanglewood Commons property.

**Wells Fund IX** terminated its offering on December 30, 1996, and received gross proceeds of \$35,000,000 representing subscriptions from 2,098 limited partners. \$29,359,310 of the gross proceeds were attributable to sales of Class A Units, and \$5,640,690 were attributable to sales of Class B Units. Limited Partners in Wells Fund IX are entitled to change the status of their units from Class A to Class B and vice versa. After taking into effect conversion elections made by limited partners subsequent to their subscriptions for units, as of December 31, 2002, \$31,655,826 of units in Wells Fund IX were treated as Class A Units, and \$3,344,174 of units were treated as Class B Units. As of December 31, 2002, Wells Fund IX owned interests in the following properties:

<u>Property Name</u>	<u>Location</u>	<u>Property Type</u>	<u>Major Tenant(s)</u>
US Cellular	Madison, WI	four-story office building	US Cellular, a subsidiary of BellSouth Corporation
AT&T Texas Quest	Farmers Branch, TX Irvine, CA	one-story office building two-story office building	TCI Central, Inc. Quest Software, Inc.
Cirrus Logic	Broomfield, CO	two-story office building	Cirrus Logic, Inc.
Ohmeda	Louisville, CO	two-story office building	Ohmeda, Inc.
Alstom Power Knoxville	Knoxville, TN	three-story office building	Alstom Power, Inc.
Iomega	Ogden, UT	one-story office and warehouse building	Iomega Corporation
Interlocken	Broomfield, CO	three-story office building	GAIAM, Inc. and ODS Technologies, L.P.
Avaya	Oklahoma City, OK	one-story office building	Avaya, Inc.

**Wells Fund X** terminated its offering on December 30, 1997, and received gross proceeds of \$27,128,912 representing subscriptions from 1,806 limited partners. \$21,160,992 of the gross proceeds were attributable to sales of Class A Units, and \$5,967,920 were attributable to sales of Class B Units. Limited Partners in Wells Fund X are entitled to change the status of their units from Class A to Class B and vice versa. After taking into effect conversion elections made by limited partners subsequent to their subscriptions for units, as of December 31, 2002, \$23,280,145 of units in Wells Fund X were treated as Class A Units and \$3,848,767 of units were treated as Class B Units. As of December 31, 2002, Wells Fund X owned interests in the following properties:

<u>Property Name</u>	<u>Location</u>	<u>Property Type</u>	<u>Major Tenant(s)</u>
Ohmeda	Louisville, CO	two-story office building	Ohmeda, Inc.
Alstom Power Knoxville	Knoxville, TN	three-story office building	Alstom Power, Inc.
Iomega	Ogden, UT	one-story office and warehouse building	Iomega Corporation
Interlocken	Broomfield, CO	three-story office building	GAIAM, Inc. and ODS Technologies, L.P.
Avaya	Oklahoma City, OK	one-story office building	Avaya, Inc.
Cort Furniture	Fountain Valley, CA	one-story office and warehouse building	Cort Furniture Rental Corporation
Fairchild	Fremont, CA	two-story office and manufacturing building	Fairchild Technologies U.S.A., Inc.

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**Wells Fund XI** terminated its offering on December 30, 1998, and received gross proceeds of \$16,532,802 representing subscriptions from 1,345 limited partners. \$13,029,424 of the gross proceeds were attributable to sales of Class A Units and \$3,503,378 were attributable to sales of Class B Units. Limited Partners in Wells Fund XI are entitled to change the status of their units from Class A to Class B and vice versa. After taking into effect conversion elections made by limited partners subsequent to their subscriptions for units, as of December 31, 2002, \$13,716,060 of units in Wells Fund XI were treated as Class A Units and \$2,816,742 of units were treated as Class B Units. As of December 31, 2002, Wells Fund XI owned interests in the following properties:

<u>Property Name</u>	<u>Location</u>	<u>Property Type</u>	<u>Major Tenant(s)</u>
Ohmeda	Louisville, CO	two-story office building	Ohmeda, Inc.
Alstom Power Knoxville	Knoxville, TN	three-story office building	Alstom Power, Inc.
Iomega	Ogden, UT	one-story office and warehouse building	Iomega Corporation
Interlocken	Broomfield, CO	three-story office building	GAIAM, Inc. and
			ODS Technologies, L.P.
Avaya	Oklahoma City, OK	one-story office building	Avaya, Inc.
Cort Furniture	Fountain Valley, CA	one-story office and warehouse building	Cort Furniture Rental Corporation
Fairchild	Fremont, CA	two-story office and manufacturing building	Fairchild Technologies U.S.A., Inc.
EYBL CarTex	Fountain Inn, SC	two-story manufacturing and office building	EYBL CarTex, Inc.
Sprint	Leawood, KS	three-story office building	Sprint Communications Company L.P.
Johnson Matthey	Wayne, PA	two-story research and development office and warehouse building	Johnson Matthey, Inc.
Gartner	Fort Myers, FL	two-story office building	Gartner Group, Inc.

**Wells Fund XII** terminated its offering on March 21, 2001, and received gross proceeds of \$35,611,191 representing subscriptions from 1,333 limited partners. \$26,888,608 of the gross proceeds were attributable to sales of cash-preferred units and \$8,722,583 were attributable to sales of tax-preferred units. Limited Partners in Wells Fund XII are entitled to change the status of their units from cash-preferred to tax-preferred and vice versa. After taking into effect conversion elections made by limited partners subsequent to their subscriptions for units, as of

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December 31, 2002, \$28,563,961 of units in Wells Fund XII were treated as cash-preferred units and \$7,047,229 of units were treated as tax-preferred units. As of December 31, 2002, Wells Fund XII owned interests in the following properties:

<i><u>Property Name</u></i>	<i><u>Location</u></i>	<i><u>Property Type</u></i>	<i><u>Major Tenant(s)</u></i>
EYBL CarTex	Fountain Inn, SC	two-story manufacturing and office building	EYBL CarTex, Inc.
Sprint	Leawood, KS	three-story office building	Sprint Communications Company L.P.
Johnson Matthey	Wayne, PA	two-story research and development office and warehouse building	Johnson Matthey, Inc.
Gartner	Fort Myers, FL	two-story office building	Gartner Group, Inc.
Siemens	Troy, MI	three-story office building	Siemens Automotive Corporation
AT&T Oklahoma	Oklahoma City, OK	one-story office building and a two-story office building	AT&T Corp.
Comdata	Brentwood, TN	three-story office building	Comdata Network, Inc.

**Wells Fund XIII** began its offering on March 29, 2001. As of December 31, 2002, Wells Fund XIII had received gross proceeds of \$27,232,886 representing subscriptions from 1,170 limited partners. Limited partners in Wells Fund XIII are entitled to change the status of their units from cash preferred to tax preferred and vice versa. After taking into effect conversion elections made by limited partners subsequent to their subscription for units, as of December 31, 2002, \$19,215,466 of units in Wells Fund XIII were treated as cash-preferred units, and \$4,252,654 of units were treated as tax-preferred units. As of December 31, 2002, \$22,018,166 of the gross proceeds were attributable to sales of cash-preferred units and \$5,214,720 were attributable to sales of tax-preferred units. As of December 31, 2002, Wells Fund XIII owned interests in the following properties:

<i><u>Property Name</u></i>	<i><u>Location</u></i>	<i><u>Property Type</u></i>	<i><u>Major Tenant(s)</u></i>
AmeriCredit	Orange Park, FL	two-story office building	AmeriCredit Financial
ADIC	Parker, CO	two connected one-story office and assembly buildings	Services Corporation Advanced Digital
John Wiley Indianapolis	Fishers, Indiana	four-story office building	Information Corporation John Wiley & Sons, Inc.

**Wells REIT I** terminated its first offering on December 19, 1999, and received gross proceeds of \$132,181,919. Wells REIT I terminated its second offering on December 19, 2000, and received gross proceeds of \$175,229,193. Wells REIT I terminated its third offering on July 26, 2002, and received gross proceeds of \$1,282,976,865. Wells REIT I commenced its fourth public offering of shares of common stock on July 26, 2002. As of December 31, 2002, Wells REIT I had received gross proceeds of \$587,134,594. Accordingly, as of December 31, 2002,

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Wells REIT I had received aggregate gross offering proceeds of \$2,156,998,116 from the sale of 215,699,812 shares of its common stock to 58,136 investors. As of December 31, 2002, Wells REIT I owned interests in the following properties:

<u>Property Name</u>	<u>Location</u>	<u>Property Type</u>	<u>Major Tenant(s)</u>
Alstom Power Knoxville	Knoxville, TN	three-story office building	Alstom Power, Inc.
Ohmeda	Louisville, CO	two-story office building	Ohmeda, Inc.
Interlocken	Broomfield, CO	three-story office building	GAIAM, Inc. and ODS Technologies, L.P.
Iomega	Ogden, UT	one-story office and warehouse building	Iomega Corporation
Avaya	Oklahoma City, OK	one-story office building	Avaya, Inc.
Fairchild	Fremont, CA	one-story office and warehouse building	Fairchild Technologies U.S.A., Inc.
Cort Furniture	Fountain Valley, CA	two-story office and manufacturing building	Cort Furniture Rental Corporation
Eisenhower Blvd Tampa	Tampa, FL	four-story office building	IBM
AT&T Pennsylvania	Harrisburg, PA	four-story office building	Pennsylvania Cellular Telephone Corp.
Matsushita	Lake Forest, CA	two-story office building	Matsushita Avionics Systems Corporation
EYBL CarTex	Fountain Inn, SC	two-story manufacturing and office building	EYBL CarTex, Inc.
Sprint	Leawood, KS	three-story office building	Sprint Communications Company, L.P.
Alstom Power Richmond	Midlothian, VA	four-story office building	Alstom Power, Inc.
Johnson Matthey	Wayne, PA	research and development, office and warehouse building	Johnson Matthey, Inc.
Videojet Technologies Chicago	Wood Dale, IL	two-story office, assembly and manufacturing building	Videojet Technologies, Inc.
Gartner	Ft. Myers, FL	two-story office building	The Gartner Group, Inc.
Cinemark	Plano, TX	five-story office building	Cinemark USA, Inc. The Coca-Cola Company
Metris Tulsa	Tulsa, OK	three-story office building	Metris Direct, Inc.
Dial	Scottsdale, AZ	two-story office building	Dial Corporation



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<u>Property Name</u>	<u>Location</u>	<u>Property Type</u>	<u>Major Tenant(s)</u>
ASML	Tempe, AZ	two-story office building	ASM Lithography, Inc.
Motorola Tempe	Tempe, AZ	two-story office building	Motorola, Inc.
Siemens	Troy, MI	three-story office building	Siemens Automotive Corp.
Avnet	Tempe, AZ	two-story office building	Avnet, Inc.
Delphi	Troy, MI	three-story office building	Delphi Automotive Systems, LLC
Quest	Irvine, CA	two-story office building	Quest Software, Inc.
Motorola Plainfield	S. Plainfield, NJ	three-story office building	Motorola, Inc.
Stone & Webster	Houston, TX	six-story office building	Stone & Webster, Inc. SYSCO Corporation
Metris Minnesota	Minnetonka, MN	nine-story office building	Metris Direct, Inc.
AT&T Oklahoma	Oklahoma City, OK	one-story office building and a two-story office building	AT&T Corp.  Jordan Associates, Inc.
Comdata	Brentwood, TN	three-story office building	Comdata Network, Inc.
AmeriCredit	Orange Park, FL	two-story office building	AmeriCredit Financial Services Corporation
State Street	Quincy, MA	seven-story office building	SSB Realty, LLC
IKON	Houston, TX	two one-story office buildings	IKON Office Solutions, Inc.
Nissan	Irving, TX	three-story office building	Nissan Motor Acceptance Corporation
Ingram Micro	Millington, TN	one-story office and warehouse building	Ingram Micro, L.P.
Lucent	Cary, NC	four-story office building	Lucent Technologies, Inc.
ADIC	Parker, CO	two one-story office and assembly buildings	Advanced Digital Information Corporation
Convergys	Tamarac, FL	two-story office building	Convergys Customer Management Group, Inc.
Windy Point I	Schaumburg, IL	seven-story office building	TCI Great Lakes, Inc. The Apollo Group, Inc. Global Knowledge Network Various other tenants
Windy Point II	Schaumburg, IL	eleven-story office building	Zurich American Insurance Company, Inc.

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<i><u>Property Name</u></i>	<i><u>Location</u></i>	<i><u>Property Type</u></i>	<i><u>Major Tenant(s)</u></i>
Vertex Sarasota	Sarasota, FL	three-story office building	Vertex Tax Technology Enterprises LLC
Transocean Houston	Houston, TX	six-story office building	Transocean Deepwater Offshore Drilling, Inc. Newpark Drilling Fluids, Inc.
Novartis Atlanta	Duluth, GA	four-story office building	Novartis Ophthalmics, Inc.
Dana Kalamazoo	Kalamazoo, MI	two-story office and industrial building	Dana Corporation
Dana Detroit	Farmington Hills, MI	three-story office and research and development building	Dana Corporation
Travelers Express Denver	Lakewood, CO	two one-story office buildings	Travelers Express Company, Inc.
Agilent Atlanta	Alpharetta, GA	two-story office building	Agilent Technologies, Inc. Koninklijke Philips Electronics N.V.
BellSouth Ft. Lauderdale	Ft. Lauderdale, FL	one-story office building	BellSouth Advertising and Publishing Corporation
Experian/TRW	Allen, TX	two two-story office buildings	Experian Information Solutions, Inc.
Agilent Boston	Boxborough, MA	three-story office building	Agilent Technologies, Inc.
TRW Denver	Aurora, CO	three-story office building	TRW, Inc.
MFS Phoenix	Phoenix, AZ	three-story office building	Massachusetts Financial Services Company
ISS Atlanta	Atlanta, GA	two five-story office buildings	Internet Security Systems, Inc.
PacifiCare San Antonio	San Antonio, TX	two-story office building	PacifiCare Health Systems, Inc.
Kerr-McGee	Houston, TX	four-story office building	Kerr-McGee Oil & Gas Corporation
BMG Greenville	Greenville, SC	two one-story distribution facilities	BMG Marketing, Inc. and BMG Music
Kraft Atlanta	Suwanee, GA	one-story office building	Kraft Foods North America, Inc. and PerkinElmer Instruments, LLC
Nokia Dallas	Irving, TX	three office buildings	Nokia, Inc.

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<i>Property Name</i>	<i>Location</i>	<i>Property Type</i>	<i>Major Tenant(s)</i>
Harcourt Austin	Austin, TX	seven-story office building	Harcourt, Inc.
IRS Long Island	Holtsville, NY	two-story office building and one-story daycare facility	U.S. Internal Revenue Service
AmeriCredit Phoenix	Chandler, AZ	three-story office building	AmeriCredit Financial Services, Inc.
KeyBank Parsippany	Parsippany, NJ	four-story office building	KeyBank U.S.A., N.A. and Gemini Technology Services
Allstate Indianapolis	Indianapolis, IN	one-story office building	Allstate Insurance Company
Federal Express Colorado Springs	Colorado Springs, CO	three-story office building	Federal Express Corporation
EDS Des Moines	Des Moines, IA	one-story office and distribution building	EDS Information Services, L.L.C.
Intuit Dallas	Plano, TX	two-story office building	Intuit, Inc.
Daimler Chrysler Dallas	Westlake, TX	two-story office building	Daimler Chrysler Services
			North America LLC
NASA	Washington, DC	two nine-story office buildings	NASA and The Office of the Comptroller of the Currency
Capital One Richmond	Glen Allen, VA	three three-story office buildings	Capital One Services, Inc.
Caterpillar Nashville	Nashville, TN	11-story office building	Caterpillar Financial Services Corporation
John Wiley Indianapolis	Fishers, IN	four-story office building	John Wiley & Sons, Inc.
Nestle	Glendale, CA	20-story office building	Nestle USA, Inc.

Selected financial information for Wells REIT I is summarized below:

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Gross Revenues	\$ 139,969,246	\$ 49,308,802	\$ 23,373,206	\$ 6,495,395	\$ 395,178
Net Income	\$ 60,866,964	\$ 21,723,967	\$ 8,552,967	\$ 3,884,649	\$ 334,034
Dividends per \$1,000 Invested	\$ 75	\$ 76	\$ 73	\$ 70	\$ 31

The information set forth above should not be considered in any way indicative of results to be expected from us. All of the properties acquired by the above Wells public programs, except for those acquired solely by Wells REIT I, were purchased and developed on an all cash basis.

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Potential investors are encouraged to examine the Prior Performance Tables in this prospectus for more detailed information regarding the prior experience of Wells Capital and its affiliates. In addition, upon request, prospective investors may obtain from Wells Capital without charge copies of offering materials and any reports prepared in connection with any of the Wells public programs, including a copy of the most recent Annual Report on Form 10-K filed with the SEC. For a reasonable fee, we will also furnish upon request copies of the exhibits to any such Form 10-K. Any such request should be directed to Wells Capital. Additionally, Table VI contained in Part II of the registration statement, which is not part of this prospectus, gives certain additional information relating to properties acquired by the Wells public programs. We will furnish, without charge, copies of such table upon request.

**FEDERAL INCOME TAX CONSIDERATIONS**

The following summary describes the material federal income tax considerations to us and our stockholders relating to this registration statement and the treatment of us as a REIT. The summary is not intended to represent a detailed description of the federal income tax consequences applicable to a particular stockholder in view of such stockholders particular circumstances, nor is it intended to represent a detailed description of the federal income tax consequences applicable to certain types of stockholders subject to special treatment under the federal income tax laws (such as insurance companies, financial institutions, broker-dealers, and, except to the extent discussed below, tax-exempt organizations and non-U.S. persons). This summary does not address state, local or non-U.S. tax considerations. Also, this summary deals only with our stockholders that hold common stock as capital assets within the meaning of Section 1221 of the Internal Revenue Code (the Code).

We base the information in this section on the current Code, current, temporary and proposed Treasury regulations, the legislative history of the Code and current administrative interpretations of the Internal Revenue Service (the IRS), including its practices and policies as endorsed in private letter rulings, which are not binding on the IRS, and existing court decisions. Future legislation, regulations, administrative interpretations and court decisions could change current law or adversely affect existing interpretations of current law. Any change could apply retroactively. We have not obtained any rulings from the IRS concerning the tax treatment of the matters discussed below. Thus, it is possible that the IRS could challenge the statements in this discussion, which do not bind the IRS or the courts, and that a court could agree with the IRS.

**Each investor is advised to consult his or her own tax advisor regarding the tax consequences to him or her of the purchase, ownership and sale of the offered stock, including the federal, state, local, foreign and other tax consequences of such purchase, ownership, or sale and of potential changes in applicable tax laws.**

**Federal Income Taxation of the Company**

Beginning with our taxable year that will end December 31, 2003, we intend to elect to be taxed as a REIT under Sections 856 through 860 of the Code. We believe that beginning with that taxable year we have been organized and have operated in a manner to qualify for taxation as a REIT under the Code, and we intend to continue to operate in such a manner. We can provide no assurance, however, that we have operated or will operate in a manner so as to qualify or remain qualified as a REIT.

The sections of the Code relating to qualification and operation as a REIT are highly technical and complex. The following discussion sets forth the material aspects of the Code



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sections that govern the federal income tax treatment of a REIT and its stockholders. This summary is qualified in its entirety by the applicable Code provisions, relevant rules and regulations and administrative and judicial interpretations of Code provisions and regulations. We have not requested a ruling from the IRS with respect to any issues relating to our qualification as a REIT. Therefore, we can provide no assurance that the IRS will not challenge our REIT status.

Alston & Bird LLP has acted as tax counsel to us in connection with this offering. Alston & Bird LLP is of the opinion that based on our proposed method of operation, we are in a position to qualify for taxation as a REIT for the taxable year that will end December 31, 2003. Alston & Bird's opinion is ba