

Wells Timberland REIT, Inc.
Form 424B3
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WELLS TIMBERLAND REIT, INC.

SUPPLEMENT NO. 11 DATED NOVEMBER 21, 2008

TO THE PROSPECTUS DATED DECEMBER 14, 2007

This document supplements, and should be read in conjunction with, our prospectus dated December 14, 2007, as supplemented by Supplement No. 1 dated February 11, 2008, Supplement No. 2 dated February 29, 2008, Supplement No. 3 dated April 16, 2008, Supplement No. 4 dated April 23, 2008, Supplement No. 5 dated June 3, 2008, Supplement No. 6 dated July 11, 2008, Supplement No. 7 dated July 31, 2008, Supplement No. 8 dated August 22, 2008, Supplement No. 9 dated August 29, 2008 and Supplement No. 10 dated October 20, 2008 relating to our offering of up to 85,000,000 shares of common stock. Defined terms used in this supplement have the same meanings as set forth in the prospectus. The purpose of this supplement is to disclose:

the status of our initial public offering;

a risk factor related to current economic conditions;

Management's Discussion and Analysis of Financial Condition and Results of Operations similar to that filed in our Quarterly Report on Form 10-Q for the three months and nine months ended September 30, 2008, filed on November 13, 2008; and

our unaudited financial statements as of and for the three months and nine months ended September 30, 2008 as filed in our Quarterly Report on Form 10-Q, filed on November 13, 2008.

Status of Our Initial Public Offering

As of November 17, 2008, we had received aggregate gross offering proceeds, net of discounts, of approximately \$126.0 million from the sale of approximately 12.6 million shares in our initial public offering. As of November 17, 2008, approximately 62.4 million shares remained available for sale to the public under our initial public offering, exclusive of shares available under our distribution reinvestment plan. Our initial public offering will terminate on August 11, 2009.

Risk Factor Related to Current Economic Conditions

The Risk Factors section of the prospectus is hereby supplemented by the following additional risk factor:

Economic conditions may have an impact on our business and financial condition in ways that we currently cannot predict.

The continued credit crisis and related turmoil in the global financial system may have an impact on our business and our financial condition. The credit crisis could have an impact on our interest rate swap agreements if our counterparties are forced to default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. We may be materially and adversely affected in the event of a significant default by one of our counterparties. In addition, depressed economic conditions could influence the levels of consumer spending and have a material adverse effect on our financial condition. Our ability to make future principal and interest payments on our debt depends upon our future performance, which is subject to general economic conditions, industry cycles and financial, business and other factors affecting our

operations, many of which are beyond our control.

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

The following discussion and analysis should be read in conjunction with our accompanying consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2007 included in the prospectus. This discussion contains forward-looking statements, which can be identified with the use of forward-looking terminology such as may, will, intend, or similar words. Actual results may differ from those described in forward-looking statements. For a discussion of the factors that could cause actual results to differ from those anticipated see Risk Factors in the prospectus and Supplement No. 2 dated February 29, 2008, Supplement No. 6 dated July 11, 2008, Supplement No. 9 dated August 29, 2008, Supplement No. 10 dated October 20, 2008 and this Supplement No. 11.

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Overview

We were formed on September 27, 2005 to acquire and operate a diversified portfolio of timberland properties located in the timber-producing regions of the United States and, to a limited extent, in other countries. We generate a substantial majority of our revenue and income by selling the rights to access land and harvest timber to third parties pursuant to supply agreements and through open-market sales, from selling HBU timberland and leasing land-use rights to third parties. We expect to generate additional revenues and income from selling the rights to extract natural resources from timberland other than timber. We have no paid employees and are externally advised and managed by Wells TIMO, a wholly owned subsidiary of Wells Capital.

We began receiving investor proceeds from the sale of our common stock under this offering in May 2007. On July 11, 2007, we raised our minimum offering of \$2.0 million, and thus commenced operations. We began acquiring timber assets in October 2007. In July 2008, we entered into a master purchase agreement (the *Master Purchase Agreement*) with Wells TIMO, Wells-DFH Timberland Nr.88 GmbH & Co. KG, a German closed end fund (the *German Fund*), and Deutsche Fonds Holding AG, a corporation organized under the laws of Germany (the *DFH*). DFH is not, and the German Fund (prior to purchasing shares of common stock under the Master Purchase Agreement) was not, in any way, affiliated with us or our affiliates. Pursuant to the Master Purchase Agreement, we have agreed to sell up to approximately 53.8 million shares of our common stock to the German Fund, at a price per share of \$9.30, for an aggregate purchase price of up to approximately \$500.0 million (the *German Offering*). Our German Offering commenced in July 2008. We continued receiving investor proceeds under this offering and our German Offering (the *Offerings*) through September 30, 2008. Thus, our results of operations for the three months and nine months ended September 30, 2008 and 2007 are indicative of an early-stage enterprise with growing revenues and expenses associated with the acquisition of timber assets, interest expense associated with debt financing on the acquisition of timber assets, and general and administrative expenses associated with the acquisition and operation of timber assets. As of September 30, 2008, we have raised gross offering proceeds of approximately \$116.0 million through the issuance of our common stock and approximately \$42.8 million through the issuance of our preferred stock.

On October 9, 2007, we acquired approximately 322,800 acres of timberland (consisting of approximately 228,100 acres of timberland held in fee simple interests and approximately 94,700 acres of timberland held in long-term leasehold interests) located on the Lower Piedmont and Upper Coastal Plains of East Central Alabama and West Central Georgia (the *Mahrt Timberland*) for a purchase price of approximately \$400.0 million, exclusive of closing costs. We paid for the acquisition of the Mahrt Timberland through the delivery of a promissory note to a subsidiary of MeadWestvaco Corporation (the *MeadWestvaco Subsidiary*) in the amount of approximately \$398.0 million with a maturity date of October 9, 2027 (the *MWV Promissory Note*) and cash for the remainder. The MWV Promissory Note is supported by a deposit account (the *Deposit Account*) and standby letter of credit issued by Wachovia Bank, N.A. (the *Wachovia*) in the amount of approximately \$407.9 million. Interest earned on the Deposit Account is intended to be sufficient to pay interest expense incurred on the MWV Promissory Note. We funded the Deposit Account and paid transaction costs with proceeds obtained through a combination of debt financing (\$372.0 million), the sale of shares of our preferred stock to Wells Real Estate Funds, Inc (the *Wells REF*) (\$32.1 million), and the sale of common stock in this offering (\$18.0 million). The \$372.0 million of debt financing consisted of a first mortgage loan for \$212.0 million with CoBank, ACB serving as lead lender and administrative agent (the *Senior Loan*) and a second mortgage loan, as amended, for \$160.0 million with Wachovia serving as lead lender and administrative agent (the *Mezzanine Loan*).

Our most significant risks and challenges include our ability to raise a sufficient amount of equity that will allow us to repay the loans associated with the Mahrt Timberland acquisition and to further diversify our portfolio of timber assets. To the extent that significant funds are not raised, we may not be able to repay the loans or achieve sufficient diversification to guard against the general economic, industry-specific, financing, and operational risks generally associated with individual investments.

Timber Market Economic Factors Impacting Our Business

Timberland operating performance is influenced by a variety of factors, including the supply of timber; demand for pulp and paper products, lumber, panel and other wood-related products; competition; and changes in timber prices and in harvest levels of timberlands. The demand for lumber, panel and other wood-related products is largely affected by the level of new residential construction activity. The number of housing starts, which is generally considered to be a leading indicator of the general United States economy, dropped to a 17-year low in 2008 as a result of turmoil in the mortgage market, the cost and availability of credit and declines in real estate markets. Many economists are predicting continued

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deterioration in economic conditions in the United States, with the housing market unlikely to recover until late 2009 or early 2010. As a result of declining demand for lumber, panel and other wood-related products, prices for sawtimber have fallen during 2008. In response to the weak lumber market conditions, we are decreasing our sawtimber harvest in order to allow the trees to grow and add value until market conditions improve. Demand for pulp and paper products is generally weaker during periods of slow economic growth. However, pulpwood prices have risen during 2008 due to an increase in demand for pulpwood by papermills. When lumber markets are weak and lumbermills slow down production, they produce fewer by-products, which are a cheap source of pulpwood for papermills. Papermills must then purchase more pulpwood in the timber market to make up for the shortfall, which leads to increased pulpwood prices. To take advantage of higher pulpwood prices, we have increased our pulpwood harvest by increasing the number of acres to be thinned in 2009.

Liquidity and Capital Resources

Overview

We began to sell shares of our common stock to the public under this offering in May 2007 and to the German Fund under our German Offering in July 2008. During the nine months ended September 30, 2008, we have raised proceeds under our Offerings, net of fees, expenses and redemptions of common stock, of approximately \$65.4 million, substantially all of which was used to repay amounts outstanding on the Mezzanine Loan. On August 29, 2008, we issued 10,700 shares of Series B preferred stock to Wells REF in exchange for \$10.7 million, or \$1,000 per share. The proceeds from the sale of the Series B preferred stock was used to repay amounts outstanding on the Mezzanine Loan.

All of the proceeds raised under our Offerings, net of fees, expenses and redemptions of our common stock due to death and qualifying disability, are required to be used to service the Mezzanine Loan, which currently incurs interest at a rate of 11.0%. During the three months ended September 30, 2008, we paid down the Mezzanine Loan by approximately \$31.2 million, which, when added to principal payments made in prior periods, reduced the outstanding principal balance of the Mezzanine Loan to \$81.9 million. On October 15, 2008, we amended the Mezzanine Loan to extend the maturity date from March 2, 2009 to September 30, 2009. In addition, we are required to make principal reduction payments on December 31, 2008, March 31, 2009 and June 30, 2009, reducing the outstanding principal balance to an amount not greater than \$67.0 million, \$45.0 million, and \$25.0 million, respectively. On September 30, 2009, all outstanding principal, interest and any fees or other obligations on the Mezzanine Loan shall be due and payable in full. As of October 31, 2008, the outstanding principal balance on the Mezzanine Loan was approximately \$76.1 million. Net cash flows generated from our operations, including proceeds received from the sale of timber and timberland less a working capital reserve, are required to be used to service the Senior Loan, which matures on September 9, 2010. Once the Mezzanine Loan is repaid in full, future proceeds raised under our Offerings, net of fees, expenses and redemptions of common stock, are required to be used to repay the Senior Loan until achieving a 40% Senior Loan to collateral value ratio.

In addition, the Senior Loan and Mezzanine Loan contain restrictive covenants that, among other things, prohibit us from declaring, setting aside funds for, or paying any dividend, distribution, or other payment to our stockholders until the Mezzanine Loan is repaid in full and after reduction of the Senior Loan to a 40% Senior Loan to collateral value ratio. Once the Mezzanine Loan and Senior Loan have been settled in full, future proceeds raised from the sale of our shares under our Offerings will be deemed available for investment in timberland and related assets, and future operating cash flows will be deemed available for distribution to stockholders.

We anticipate that our primary sources of future capital will be derived from the sale of our common stock under our Offerings and from operations through the sale of timberland and rights to access our land and harvest our timber to MeadWestvaco Subsidiary and other third parties. Following the settlement of the Mezzanine Loan and Senior Loan, the amount of cash available for distribution to stockholders and the level of distributions declared will depend primarily upon the amount of cash generated from our operating activities, our determination of funding needs for near-term capital and other debt service requirements, and our expectations of future cash flows.

Short-Term Liquidity and Capital Resources

During the nine months ended September 30, 2008, net operating cash outflows were approximately \$3.6 million, which is primarily comprised of expenditures for interest expense, operating costs, forestry management fees, and general and administrative expenses in excess of receipts for timber and timberland sales, rental income from recreational leases, and interest income. During this period, we generated net proceeds from the sale of timberland of approximately \$4.2 million, approximately \$2.7 million of which was used to pay down the Senior Loan and approximately \$1.5 million of which was used to fund a working capital reserve. During the nine months ended September 30, 2008, we generated net

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cash flows from investing activities of approximately \$1.6 million, which is comprised of escrowed funds released by our lenders in order to fund debt service, partially offset by investments in timber and timberland. During the nine months ended September 30, 2008, we raised proceeds from the sale of common stock under our Offerings, net of commissions and dealer-manager fees, of approximately \$66.5 million, which was used, along with \$10.7 million raised through the sale of our preferred stock, to pay down the Mezzanine Loan by approximately \$67.7 million and to fund a redemption of common stock of approximately \$0.3 million. We expect to utilize the residual cash balance of approximately \$5.2 million as of September 30, 2008 to satisfy current liabilities or reduce indebtedness.

Long-Term Liquidity and Capital Resources

Over the long-term, we expect our primary sources of capital to include proceeds from the sale of our common stock, proceeds from secured or unsecured financings from banks and other lenders, and net cash flows from operations. We expect our principal demands for capital to include funding future acquisitions of timberland, either directly or through investments in joint ventures; capital improvements for such timberland; offering-related costs; operating expenses, including interest expense on any outstanding indebtedness; and distributions.

In determining how and when to allocate cash resources in the future, we will initially consider the source of the cash. Once the Mezzanine Loan is repaid in full and after reduction of the Senior Loan to a 40% Senior Loan to collateral value ratio, we anticipate using cash generated from operations, after payments of periodic operating expenses, interest expense and certain capital expenditures required for our timberland, to pay distributions to stockholders. Therefore, to the extent that cash flows from operations are lower, distributions are anticipated to be lower as well. However, in addition to net cash flows from operations, we may periodically borrow funds on a short-term basis to fund distributions. Once the Mezzanine Loan is repaid in full and after reduction of the Senior Loan to a 40% Senior Loan to collateral value ratio, we anticipate using substantially all net proceeds raised from the sale of our shares under our Offerings to fund future acquisitions of timberland, to fund capital expenditures, and to pay down the Senior Loan and/or future borrowings. Proceeds generated from future debt financings may also be used to fund future acquisitions of timberland and capital expenditures.

If sufficient equity or debt capital is not available, our future investments in timberland will be lower. Our charter precludes us from incurring debt in excess of 300% of our net assets, which we generally expect to approximate 75% of our timber assets before adjustment for noncash reserves, depletion, and amortization; however, we may temporarily exceed this limit upon the approval of a majority of our independent directors. In order to enable us to acquire the Mahrt Timberland, our board of directors authorized us to enter into financing arrangements that allowed us to borrow, in the aggregate, up to 100% of the purchase price of the Mahrt Timberland. In accordance with our charter, our board of directors, including a majority of our independent directors, determined that borrowing in excess of our general leverage limitation of 300% of our net assets was justified in connection with the Mahrt Timberland transaction because of the significance of the portfolio acquired and our expectation that subsequent proceeds raised in this offering will enable us to significantly reduce our overall leverage over time. As of September 30, 2008, our leverage ratio, including the \$398.0 million certificate of deposit and the MWV Promissory Note, was approximately 85%. As a result of this transaction and the possibility that our board of directors may determine that it is in our best interest to pursue similarly leveraged timberland acquisitions in order to enable us to more quickly acquire a diversified portfolio of timberland properties, we are not able to anticipate with any degree of certainty what our leverage ratio will be in the near future. However, over the long-term, we expect our leverage ratio to be no more than 50%. In accordance with our charter, if our board of directors, including a majority of our independent directors, approves any borrowing in excess of our leverage limitation, we will disclose such approval to our stockholders in our next quarterly report, along with an explanation for such excess.

Contractual Obligations and Commitments

We are subject to certain commitments and contingencies with regard to certain transactions. Refer to Notes 5 and 8 of our accompanying consolidated financial statements for further explanations. All of the proceeds raised under our Offerings, net of fees, expenses and redemptions of our common stock for death and qualifying disability, are required to be used to service the Mezzanine Loan, which currently incurs interest at a rate of 11.0%. See *Liquidity and Capital Resources*. Once the Mezzanine Loan is repaid in full, future proceeds raised under our Offerings, net of fees and expenses, are required to be used to service the Senior Loan until achieving a 40% Senior Loan to collateral value ratio.

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Our contractual obligations as of September 30, 2008 will become payable in the following periods:

Contractual Obligations	Total	Payments Due by Period			
		2008	2009-2010	2011-2012	Thereafter
Outstanding debt obligations ^{(1),(2)}	\$ 688,437,242	\$ 14,857,312 ⁽³⁾	\$ 275,600,930 ⁽³⁾	\$	\$ 397,979,000
Operating lease obligations	20,599,359	282,735	4,157,327	3,669,254	12,490,043
Total	\$ 709,036,601	\$ 15,140,047	\$ 279,758,257	\$ 3,669,254	\$ 410,469,043

(1) Amounts include principal payments only. We made interest payments on the Senior Loan and the Mezzanine Loan of approximately \$10.4 million and approximately \$10.0 million, respectively, during the nine months ended September 30, 2008, and expect to pay interest in future periods on outstanding debt obligations based on the rates and terms disclosed in Note 4 to our consolidated financial statements for the year ended December 31, 2007, included in Supplement No. 4 dated April 23, 2008 and in Note 4 to the accompanying consolidated financial statements.

(2) A certificate of deposit in the amount of approximately \$398.0 million will be used to settle approximately \$398.0 million of the outstanding debt obligations on or before October 12, 2027.

(3) The Mezzanine Loan was extended to September 30, 2009 and requires principal reduction payments on December 31, 2008, March 31, 2009 and June 30, 2009, reducing the outstanding principal balance to an amount not greater than \$67.0 million, \$45.0 million, and \$25.0 million, respectively.

Results of Operations*Overview*

This offering was declared effective on August 11, 2006, and we began actively selling shares of our common stock in May 2007. Following the receipt and acceptance of subscriptions for the minimum offering of \$2.0 million on July 11, 2007, we commenced operations and acquired interests in approximately 322,800 acres of timberland in October 2007. Accordingly, the results of operations presented for the three months and nine months ended September 30, 2008 and 2007, are not directly comparable.

Comparison of the three months ended September 30, 2007 versus the three months ended September 30, 2008

Revenue. During the fourth quarter of 2007, we acquired interests in approximately 322,800 acres of timberland with an estimated 11.8 million tons of merchantable timber inventory. For the three months ended September 30, 2008, timber sales were approximately \$9.9 million, timberland sales were approximately \$0.5 million, and other revenues, which consisted primarily of rental income earned under recreational leases, totaled approximately \$0.7 million. Timber sales and other revenues are expected to continue to increase in future periods, as compared to historical periods, as a result of owning the timber assets acquired in 2007 for an entire year.

Operating expenses. For the three months ended September 30, 2008, contract logging and hauling costs, depletion, and cost of timberland sales were approximately \$4.9 million, \$6.0 million, and \$0.3 million, respectively. Asset and forestry management fees, land rent expense, and other operating costs were approximately \$1.7 million, \$0.6 million, and \$0.9 million, respectively, for the three months ended September 30, 2008. Contract logging and hauling costs, asset and forestry management fees, land rent expense, and other operating expenses are expected to continue to increase in future periods, as compared to historical periods, as a result of owning the timber assets acquired in 2007 for an entire year. Depletion expense related to our fee-simple timber assets is expected to decrease due to normalized depletion rates, which occur once timber assets are owned for longer than one year and depletion rates are calculated annually based on the net carrying value of timber, capitalized silviculture costs and total timber volume estimated to be available over the harvest cycle.

General and administrative expenses. General and administrative expenses increased from approximately \$0.7 million for the three months ended September 30, 2007 to approximately \$1.2 million for the three months ended September 30, 2008, primarily due to increases in

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administrative reimbursements payable to Wells TIMO as a result of acquiring the Mahrt Timberland in the fourth quarter of 2007. In connection with owning the Mahrt Timberland for a full year, we anticipate future general and administrative expenses to continue to increase, as compared to historical periods.

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Interest income. For the three months ended September 30, 2008, we earned interest income of approximately \$3.0 million on a certificate of deposit of approximately \$398.0 million and other lender-required escrow accounts. Interest income earned on the certificate of deposit is entirely offset by interest expense incurred on the MWV Promissory Note. We did not have any interest income for the three months ended September 30, 2007. Future levels of interest income will vary, primarily due to changes in amounts required to be escrowed by our lenders and changes in market interest rates during future periods.

Interest expense. During the three months ended September 30, 2008, we incurred interest expense of approximately \$2.9 million on the MWV Promissory Note, approximately \$2.3 million on the Senior Loan, and approximately \$4.8 million on the Mezzanine Loan. We incurred interest expense of approximately \$2,200 for the three months ended September 30, 2007. Our interest expense in future periods will vary based on our level of current and future borrowings, which will depend on the level of equity proceeds raised, the cost of future borrowings, and the opportunity to acquire timber assets fitting our investment objectives.

Interest rate risk instruments. We recognized a net loss on our interest rate swaps that do not qualify for hedge accounting treatment of approximately \$0.6 million for the three months ended September 30, 2008, primarily due to the fact that the variable interest rate incurred on our Senior Loan was lower than the contractual interest rate of the related interest rate swap during the three months ended September 30, 2008. We expect that future gains and losses on our interest rate swaps that do not qualify for hedge accounting treatment will fluctuate primarily as a result of changes in market interest rates and changes in the economic outlook for future market rates.

Net loss. We incurred a net loss for the three months ended September 30, 2008 of approximately \$12.1 million, primarily as a result of incurring interest expense, net of interest income, of \$7.0 million in connection with borrowings used to finance the purchase of the Mahrt Timberland, incurring \$6.0 million of depletion expense and incurring a loss on interest rate swaps of approximately \$0.6 million related to our hedging of interest rate risk. We opted to leverage the Mahrt Timberland acquisition with substantial short-term and medium-term borrowings as a result of sourcing this acquisition in advance of raising investor proceeds under this offering. As we normalize depletion and continue to raise equity under our Offerings to repay the Mezzanine Loan and the Senior Loan, we anticipate decreases in depletion and interest expense, which are expected to reduce future net losses. Our loss per share available to common stockholders for the three months ended September 30, 2008 was \$1.26. We incurred a net loss for the three months ended September 30, 2007 of approximately \$0.7 million, as a result of general and administrative expenses of approximately \$0.7 million. Our loss per share available to common stockholders for the three months ended September 30, 2007 was \$0.76.

Comparison of the nine months ended September 30, 2007 versus the nine months ended September 30, 2008

Revenue. During the fourth quarter of 2007, we acquired interests in approximately 322,800 acres of timberland with an estimated 11.8 million tons of merchantable timber inventory. For the nine months ended September 30, 2008, timber sales were approximately \$30.4 million, timberland sales were approximately \$4.5 million, and other revenues, which consisted primarily of rental income earned under recreational leases, totaled approximately \$2.0 million. Timber sales and other revenues are expected to continue to increase in future periods, as compared to historical periods, as a result of owning the timber assets acquired in 2007.

Operating expenses. For the nine months ended September 30, 2008, contract logging and hauling costs, depletion, and cost of timberland sold were approximately \$15.1 million, \$16.5 million, and \$2.8 million, respectively. Asset and forestry management fees, land rent expense, and other operating costs were approximately \$5.1 million, \$1.9 million, and \$2.4 million, respectively, for the nine months ended September 30, 2008. Contract logging and hauling costs, asset and forestry management fees, land rent expense, and other operating expenses are expected to continue to increase in future periods, as compared to historical periods, as a result of owning the timber assets acquired in 2007 for an entire year. Depletion expense related to our fee-simple timber assets is expected to decrease due to normalized depletion rates, which occur once timber assets are owned for longer than one year and depletion rates are calculated annually based on the net carrying value of timber, capitalized silviculture costs and total timber volume estimated to be available over the harvest cycle.

General and administrative expenses. General and administrative expenses increased from approximately \$1.3 million for the nine months ended September 30, 2007 to approximately \$3.6 million for the nine months ended September 30, 2008, primarily due to increases in administrative reimbursements payable to Wells TIMO as a result of

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acquiring the Mahrt Timberland in the fourth quarter of 2007. In connection with owning the Mahrt Timberland for a full year, we anticipate future general and administrative expenses to continue to increase, as compared to historical periods.

Interest income. For the nine months ended September 30, 2008, we earned interest income of approximately \$10.8 million on a certificate of deposit of approximately \$398.0 million and other lender-required escrow accounts. Interest income earned on the certificate of deposit is mostly offset by interest expense incurred on the MWV Promissory Note. We did not have any interest income for the nine months ended September 30, 2007. Future levels of interest income will vary, primarily due to changes in amounts required to be escrowed by our lenders and changes in market interest rates during future periods.

Interest expense. During the nine months ended September 30, 2008, we incurred interest expense of approximately \$10.7 million on the MWV Promissory Note, approximately \$7.7 million on the Senior Loan, and \$15.5 million on the Mezzanine Loan. We incurred interest expense of approximately \$4,400 for the nine months ended September 30, 2007. Our interest expense in future periods will vary based on our level of current and future borrowings, which will depend on the level of equity proceeds raised, the cost of future borrowings, and the opportunity to acquire timber assets fitting our investment objectives.

Interest rate risk instruments. We recognized a net loss on our interest rate swaps that do not qualify for hedge accounting treatment of approximately \$2.8 million for the nine months ended September 30, 2008, primarily due to the fact that the variable interest rate incurred on our Senior Loan was lower than the contractual interest rate of the related interest rate swap during the first nine months of 2008. We expect that future gains and losses on our interest rate swaps that do not qualify for hedge accounting treatment will fluctuate primarily as a result of additional changes in market interest rates and changes in the economic outlook for future market rates.

Net loss. We incurred a net loss for the nine months ended September 30, 2008 of approximately \$36.3 million, primarily as a result of incurring interest expense, net of interest income, of \$23.1 million in connection with borrowings used to finance the purchase of the Mahrt Timberland, incurring \$16.5 million of depletion expense and incurring a loss on interest rate swaps of approximately \$2.8 million related to our hedging of interest rate risk. We opted to leverage the Mahrt Timberland acquisition with substantial short-term and medium-term borrowings as a result of sourcing this acquisition in advance of raising investor proceeds under this offering. As we normalize depletion and continue to raise equity under our Offerings to repay the Mezzanine Loan and the Senior Loan, we anticipate decreases in depletion and interest expense, which are expected to reduce future net losses. Our loss per share available to common stockholders for the nine months ended September 30, 2008 was \$4.98. We incurred a net loss for the nine months ended September 30, 2007 of approximately \$1.3 million, as a result of general and administrative expenses of \$1.3 million. Our loss per share available to common stockholders for the nine months ended September 30, 2007 was \$4.22.

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The discussion below is presented to enhance the reader's understanding of our liquidity, ability to generate cash and satisfy lender requirements. Earnings before Interest, Taxes, Depletion, and Amortization (EBITDA) is a non-GAAP measure of our operating cash-generating capacity and should not be viewed as an alternative to net income or cash from operations as a measurement of our operating performance. For the three months and nine months ended September 30, 2008, EBITDA was approximately \$2.3 million and \$7.8 million higher than the same periods during the prior year due to the acquisition of the Mahrt Timberland in October 2007 and its subsequent operations. Wells Timberland REIT, Inc.'s reconciliation of net loss to EBITDA for the three months and nine months ended September 30, 2008 and 2007 follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
Net loss	\$ (12,113,248)	\$ (683,013)	\$ (36,314,942)	\$ (1,326,245)
Add:				
Unrealized gain on interest rate swaps that do not qualify for hedge accounting treatment ⁽¹⁾	(683,432)		(318,180)	
Interest expense ⁽¹⁾⁽²⁾	6,319,101	2,184	20,246,156	4,415
Depletion	5,973,688		16,485,770	
Amortization ⁽¹⁾	2,137,243		6,408,757	
EBITDA	\$ 1,633,352	\$ (680,829)	\$ 6,507,561	\$ (1,321,830)

⁽¹⁾ For the purpose of the above reconciliation, amortization includes amortization of deferred financing costs, amortization of intangible lease assets, and amortization of major road costs, which are included in either interest expense, gain (loss) on interest rate swaps, land rent expense, or other operating expenses in the accompanying consolidated statements of operations for the three months and nine months ended September 30, 2008.

⁽²⁾ Excludes interest expense of approximately \$2.9 million and approximately \$10.4 million for the three months and nine months ended September 30, 2008, respectively, incurred on the MWV Promissory Note, as amounts are entirely offset by interest income earned on a certificate of deposit.

A non-cash expense critical to our operations is the non-cash cost of timberland sold. For the three months and nine months ended September 30, 2008, non-cash cost of timberland sold was approximately \$0.2 million and \$2.6 million, respectively. EBITDA plus non-cash cost of timberland sold for the three and nine months ended September 30, 2008 totaled \$1.9 million and \$9.1 million, respectively.

Election as a REIT

Pursuant to our charter, our board of directors has the authority to determine when and if it is in our best interest to elect to qualify for federal income tax treatment as a real estate investment trust (REIT). We expect that our board of directors will elect for us to qualify as a REIT for the first taxable year in which (1) we would otherwise qualify to be taxed as a REIT and (2) we generate substantial taxable income such that REIT status would be in the best interest of our stockholders. Due to our acquisition of the Mahrt Timberland on October 9, 2007 and restrictions imposed by the Senior Loan and the Mezzanine Loan, our board of directors believes that we will most likely not elect to be taxed as a REIT for the taxable year ending December 31, 2008. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of the REIT's ordinary taxable income to stockholders. If we qualify as a REIT for federal income tax purposes, we generally will not be subject to federal income tax on taxable income that we distribute to our stockholders. If we subsequently fail to qualify as a REIT in any taxable year, we will then be subject to federal income taxes 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 during which qualification is lost unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to stockholders. However, we believe that we are organized and intend to conduct our operations in such a manner as to qualify for treatment as a REIT for federal income tax purposes, upon a determination by our board of directors that election of REIT status is in the best interests of our stockholders.

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Inflation

In connection with the acquisition of the Mahrt Timberland, we entered into a master stumpage agreement and a fiber supply agreement (the Timber Agreements) with MeadWestvaco Subsidiary. The Timber Agreements provide that we will sell to MeadWestvaco Subsidiary specified amounts of timber subject to bi-annual market pricing adjustments and monthly fuel pricing adjustments, which are intended to protect us from, and mitigate the risk of, the impact of inflation. The price of timber has generally increased with increases in inflation. Because of our brief operating history, we have not noticed a significant impact from inflation or changing prices on our net sales or revenues, nor on income from continuing operations.

Application of Critical Accounting Policies

Our accounting policies have been established to conform to 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.

A discussion of the accounting policies that management deems critical because they may require complex judgment in their application or otherwise require estimates about matters that are inherently uncertain, is provided below:

Timber, Timberlands, and Depletion

Timber and timberlands, including logging roads, are stated at cost less accumulated depletion for timber harvested and accumulated road amortization. We capitalize timber and timberland purchases and reforestation costs and other costs associated with the planting and growing of timber, such as site preparation, growing or purchases of seedlings, planting, fertilization, herbicide application, and the thinning of tree stands to improve growth. Timber carrying costs, such as real estate taxes, insect control, wildlife control, leases of timberlands, and forestry management personnel salaries and fringe benefits, are expensed as incurred. Costs of major roads are capitalized and amortized over their estimated useful lives. Costs for roads built to access a single logging site are expensed as incurred.

Depletion, or costs attributed to timber harvested, is charged against income as trees are harvested. Fee-simple timber tracts owned for longer than one year are pooled together for depletion calculation purposes. Depletion rates are determined at least annually by dividing (a) the sum of (i) net carrying value of the timber, which equals the original cost of the timber less previously recorded depletion, and (ii) capitalizable silviculture costs incurred and expected to be incurred on specific sites already planned and approved, by (b) the total timber volume estimated to be available over the harvest cycle. The capitalized silviculture cost is limited to the expenditures that relate to establishing stands of timber. For each timber tract owned less than one year, depletion rates are determined by dividing the acquisition cost attributable to its timber by the volume of timber acquired. Net carrying value of the timber and timberlands is used to compute the gain or loss in connection with timberland sales. No book basis is allocated to the sale of conservation easements.

We continually monitor events and changes in circumstances that could indicate that the carrying amounts of our timber assets may not be recoverable. When indicators of potential impairment are present that suggest that the carrying amounts of timber assets may not be recoverable, we assess the recoverability of these assets by determining whether the carrying value will be recovered through the undiscounted future operating cash flows expected from the use of the asset and its eventual disposition. Impairment losses would be recognized for (i) long-lived assets used in our operations when the carrying value of such assets exceeds the undiscounted cash flows estimated to be generated from the future operations of those assets, and (ii) long-lived assets held for sale when the carrying value of such assets exceeds an amount equal to their fair value less selling costs. Estimated fair values are calculated based on the following information in order of preference, dependent upon availability: (i) recently quoted market prices, (ii) market prices for comparable properties, or (iii) the present value of undiscounted cash flows, including estimated salvage value. We intend to use one harvest cycle for the purpose of evaluating the recoverability of timber and timberlands used in our operations. Future cash flow estimates are based on probability-weighted projections for a range of possible outcomes and are discounted at the risk-free rates of interest. We consider assets to be held for sale at the point at which a sale contract is executed and the buyer has made a

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nonrefundable earnest money deposit against the contracted purchase price. We have determined that there has been no impairment of our long-lived assets to date.

Allocation of Purchase Price of Acquired Assets

Upon the acquisition of timberland properties, we allocate the purchase price to tangible assets, consisting of timberland, timber, and identified intangible assets and liabilities, which may include values associated with in-place leases or supply agreements, based in each case on our estimate of their fair values.

The fair values of timberland and timber are determined based on available market information and estimated cash flow projections that utilize appropriate discount factors and capitalization rates. Estimates of future cash flows are based on a number of factors including the historical operating results, known and anticipated trends, and market and economic conditions. The values are then allocated to timberland and timber based on our determination of the relative fair value of these assets.

The in-place ground leases with us as the lessee have value associated with effective contractual rental rates that are below market rates. Such values are calculated based on the present value (using a discount rate that reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place lease and (ii) our estimate of fair market lease rates for the corresponding in-place lease, measured over a period equal to the remaining terms of the leases. The capitalized above-market and below-market in-place lease values are recorded as intangible lease assets and are amortized as adjustments to land rent expense over the remaining terms of the respective leases.

Revenue Recognition

Revenue from the sale of timber is recognized when the following criteria are met: (i) persuasive evidence of an agreement exists, (ii) legal ownership and the risk of loss is transferred to the purchaser, (iii) price and quantity is determinable, and (iv) collectibility is reasonably assured. Our primary sources of revenue are recognized as follows:

- (1) For delivered sales contracts, which include amounts billed for logging and hauling of timber, revenues are recognized upon delivery to the customer.
- (2) For pay-as-cut contracts, the purchaser acquires the right to harvest specified timber on a tract, at an agreed-upon price per unit. Payments and contract advances are recognized as revenue as the timber is harvested based on the contracted sale rate per unit.
- (3) For lump-sum sale contracts, the purchaser generally pays the purchase price upon execution of the contract. Title to the timber and risk of loss transfers to the buyer at the time the contract is consummated. Revenues are recognized upon receipt of the purchase price. When the contract expires, ownership of the remaining standing timber reverts to us; however, adjustments are not made to the revenues previously recognized. Any extensions of time will be negotiated under a new or amended contract.
- (4) Revenues from the sale of higher and better use timberland and non-strategic timberlands are recognized when title passes and full payment or a minimum down payment is received and full collectibility is assured. If a down payment of less than the minimum down payment is received at closing, we will record revenue based on the installment method or other acceptable method.

Related Parties

Transactions and Agreements

We have engaged Wells TIMO and its affiliates to perform certain services under agreements which require us to pay fees and reimbursements to Wells TIMO or its affiliates, including asset management and disposition fees, selling commissions and dealer-manager fees, as well as subject to certain limitations, reimbursements of organization and offering costs, and certain operating costs. See Note 8 to our accompanying consolidated financial statements for a detailed discussion of our related-party agreements and the related transactions, fees and reimbursements.

Index to Financial Statements*Assertions of Legal Actions against Related Parties*

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

On August 24, 2007, two stockholders of Piedmont REIT filed a derivative complaint styled *Donald and Donna Goldstein, Derivatively on behalf of Defendant Wells Real Estate Investment Trust, Inc. v. Leo F. Wells, III, et al.*, in the Superior Court of Fulton County, Georgia, on behalf of Piedmont REIT against, among others, Wells Capital, certain affiliates of Wells REF, and certain of our officers and directors who formerly served as officers and directors of Piedmont REIT prior to the closing of the Piedmont REIT internalization transaction on April 16, 2007. The complaint alleges, among other things, that the consideration paid by Piedmont REIT as part of its internalization transaction was excessive; that the defendants breached their fiduciary duties to Piedmont REIT; and that the internalization transaction unjustly enriched the defendants. The complaint seeks, among other things, a judgment declaring that the defendants have committed breaches of their fiduciary duties and were unjustly enriched at the expense of Piedmont REIT; monetary damages equal to the amount by which Piedmont REIT has been damaged by the defendants; an order awarding Piedmont REIT restitution from the defendants and ordering disgorgement of all profits and benefits obtained by the defendants from their wrongful conduct and fiduciary breaches; an order rescinding the internalization transaction; and the establishment of a constructive trust upon any benefits improperly received by the defendants as a result of their wrongful conduct. On October 19, 2007, the court verbally granted the defendants' motion for a protective order (and entered a written order on October 24, 2007) staying discovery until the court rules on the defendants' motion to dismiss the complaint. On October 31, 2007, the defendants filed their motion to dismiss the plaintiffs' derivative complaint. On December 19, 2007, the court entered an order allowing the plaintiffs to take limited written discovery on the issue of derivative demand, but the discovery stay entered in October 2007 otherwise remains in effect. The defendants responded to the limited discovery requested by the plaintiffs. On January 10, 2008, the plaintiffs filed an amended complaint, which contains substantially the same counts against the same defendants as the original complaint with certain additional factual allegations based primarily on events occurring after the original complaint was filed. In addition, the plaintiffs have responded to a motion to dismiss this lawsuit. A hearing on the motion to dismiss was held on February 22, 2008, and on March 13, 2008, the Court granted the motion to dismiss. On April 11, 2008, the plaintiffs filed a notice to appeal the Court's judgment granting the defendants' motion to dismiss. The appeal is currently pending in the Georgia Court of Appeals.

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Commitments and Contingencies

We are subject to certain commitments and contingencies with regard to certain transactions. Refer to Note 5 and Note 8 of our accompanying consolidated financial statements for further explanation. Examples of such commitments and contingencies include:

MeadWestvaco Timber Agreements;

Litigation;

Advisory Agreement; and

Dealer-Manager Agreement.

Subsequent Event

Subsequent to September 30, 2008, we sold additional shares of common stock as more fully explained in this Supplement No. 11 under the heading Status of Our Initial Public Offering.

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	(Unaudited) September 30, 2008	December 31, 2007
Assets:		
Cash and cash equivalents	\$ 5,240,380	\$ 1,474,780
Restricted cash and cash equivalents	11,450,599	13,808,547
Certificate of deposit	397,979,000	397,979,000
Accounts receivable	60,516	117,303
Prepaid expenses and other assets	6,278,224	8,458,914
Deferred financing costs, less accumulated amortization of \$8,195,173 and \$1,912,732 as of September 30, 2008 and December 31, 2007, respectively	1,727,666	8,010,107
Timber assets, at cost:		
Timber and timberlands, net (Note 3)	379,428,580	397,719,538
Intangible lease assets, less accumulated amortization of \$162,742 and \$37,912 as of September 30, 2008 and December 31, 2007, respectively	874,111	998,941
Total assets	\$ 803,039,076	\$ 828,567,130
Liabilities:		
Accounts payable and accrued expenses	\$ 6,360,302	\$ 6,794,825
Due to affiliates (Note 8)	10,128,392	4,106,380
Other liabilities	5,242,299	5,044,927
Notes payable:		
MWV promissory note	397,979,000	397,979,000
Senior loan (Note 4)	208,600,930	212,000,000
Mezzanine loan (Note 4)	81,857,312	149,598,170
Total liabilities	710,168,235	775,523,302
Commitments and Contingencies (Note 5)		
Stockholders Equity:		
Preferred stock, \$0.01 par value; 100,000,000 shares authorized:		
8.5% Series A preferred stock, \$1,000 liquidation preference; 32,128 shares issued and outstanding as of September 30, 2008 and December 31, 2007	34,802,049	32,757,620
8.5% Series B preferred stock, \$1,000 liquidation preference; 10,700 and 0 shares issued and outstanding as of September 30, 2008 and December 31, 2007 (Note 6)	10,782,229	
Common stock, \$0.01 par value; 900,000,000 shares authorized; 11,594,687 and 4,320,101 shares issued and outstanding as of September 30, 2008 and December 31, 2007, respectively	115,947	43,201
Additional paid-in capital	101,500,631	38,258,080
Accumulated deficit	(54,330,015)	(18,015,073)
Total stockholders equity	92,870,841	53,043,828
Total liabilities and stockholders equity	\$ 803,039,076	\$ 828,567,130

See accompanying notes.

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WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	(Unaudited) Three Months Ended September 30, 2008		(Unaudited) Nine Months Ended September 30, 2007	
Revenues:				
Timber sales	\$ 9,923,794	\$	\$ 30,429,926	\$
Timberland sales	466,564		4,490,837	
Other revenues	688,445		2,031,648	
	11,078,803		36,952,411	
Expenses:				
Contract logging and hauling costs	4,902,061		15,057,206	
Depletion	5,973,688		16,485,770	
Cost of timberland sales	266,533		2,824,113	
General and administrative expenses	1,247,798	680,829	3,597,740	1,321,830
Asset and forestry management fees:				
Related-party	1,000,646		3,006,436	
Other	719,116		2,144,795	
Land rent expense	617,556		1,858,232	
Other operating expenses	867,166		2,435,269	
	15,594,564	680,829	47,409,561	1,321,830
Operating loss	(4,515,761)	(680,829)	(10,457,150)	(1,321,830)
Other income (expense):				
Interest income	3,013,960		10,825,040	
Interest expense	(9,999,915)	(2,184)	(33,901,940)	(4,415)
Loss on interest rate swaps	(611,532)		(2,780,892)	
	(7,597,487)	(2,184)	(25,857,792)	(4,415)
Net loss	(12,113,248)	(683,013)	(36,314,942)	(1,326,245)
Dividends to preferred stockholders	(768,679)		(2,126,658)	
Net loss available to common stockholders	\$ (12,881,927)	\$ (683,013)	\$ (38,441,600)	\$ (1,326,245)
Per-share information basic and diluted:				
Net loss available to common stockholders	\$ (1.26)	\$ (0.76)	\$ (4.98)	\$ (4.22)
Weighted-average common shares outstanding basic and diluted	10,213,715	893,070	7,724,274	314,221

See accompanying notes

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WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)

FOR THE YEAR ENDED DECEMBER 31, 2007

AND THE NINE MONTHS ENDED SEPTEMBER 30, 2008 (UNAUDITED)

	Common Stock		Preferred Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders Equity (Deficit)
	Shares	Amount	Shares	Amount			
Balance, December 31, 2006	20,000	\$ 200		\$	\$ 220,800	\$ (669,011)	\$ (448,011)
Issuance of common stock	4,300,101	43,001			42,958,007		43,001,008
Issuance of preferred stock			32,128	32,128,000			32,128,000
Dividends on preferred stock				629,620	(629,620)		
Commissions and discounts on stock sales and related dealer-manager fees					(3,784,089)		(3,784,089)
Other offering costs					(511,218)		(511,218)
Net loss						(17,346,062)	(17,346,062)
Amortization of stock options					4,200		4,200
Balance, December 31, 2007	4,320,101	43,201	32,128	32,757,620	38,258,080	(18,015,073)	53,043,828
Issuance of common stock	7,304,586	73,046			72,972,441		73,045,487
Redemption of common stock	(30,000)	(300)			(299,700)		(300,000)
Issuance of preferred stock			10,700	10,700,000			10,700,000
Dividends on preferred stock				2,126,658	(2,126,658)		
Commissions and discounts on stock sales and related dealer-manager fees					(6,427,613)		(6,427,613)
Other offering costs					(875,919)		(875,919)
Net loss						(36,314,942)	(36,314,942)
Balance, September 30, 2008	11,594,687	\$ 115,947	42,828	\$ 45,584,278	\$ 101,500,631	\$ (54,330,015)	\$ 92,870,841

See accompanying notes.

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WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	(Unaudited)	
	Nine Months Ended	
	September 30,	
	2008	2007
Cash Flows from Operating Activities:		
Net loss	\$ (36,314,942)	\$ (1,326,245)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depletion	16,485,770	
Unrealized gain on interest rate swaps	(318,180)	
Other amortization	126,316	
Noncash interest expense	6,282,441	
Stock-based incentive compensation expense		4,200
Basis of timberland sold	2,568,538	
Changes in assets and liabilities:		
Decrease in accounts receivable	56,787	
Decrease (increase) in prepaid expenses and other assets	1,973,876	(330,754)
(Decrease) increase in accounts payable and accrued expenses	(434,523)	108,577
Increase in due to affiliates	5,264,222	
Increase in other liabilities	722,366	
Net cash used in operating activities	(3,587,329)	(1,544,222)
Cash Flows from Investing Activities:		
Earnest money paid		(5,000,000)
Investment in timber, timberland, and related assets	(764,835)	
Release of escrowed funds by lenders	2,357,948	
Net cash provided by (used in) investing activities	1,593,113	(5,000,000)
Cash Flows from Financing Activities:		
Repayments of mezzanine loan	(67,740,858)	
Repayments of senior loan	(3,399,070)	
Due to affiliates		1,448,436
Issuance of common stock	72,795,407	18,665,801
Issuance of preferred stock	10,700,000	
Redemption of common stock	(300,000)	
Commissions on stock sales and related dealer-manager fees paid	(6,295,663)	(1,319,905)
Other offering costs		(221,129)
Net cash provided by financing activities	5,759,816	18,573,203
Net increase in cash and cash equivalents	3,765,600	12,028,981
Cash and cash equivalents, beginning of period	1,474,780	202,829
Cash and cash equivalents, end of period	\$ 5,240,380	\$ 12,231,810

See accompanying notes.

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WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

(unaudited)

1. Organization

Wells Timberland REIT, Inc. (Wells Timberland REIT) was formed on September 27, 2005 as a Maryland corporation that intends to qualify as a real estate investment trust (REIT) but has not yet qualified or elected to be taxed as a REIT. Wells Timberland REIT engages in the acquisition and ownership of timberland located throughout the United States. Substantially all of Wells Timberland REIT's business is conducted through Wells Timberland Operating Partnership, L.P. (Wells Timberland OP), a Delaware limited partnership formed on November 9, 2005, of which Wells Timberland REIT is the sole general partner, possesses full legal control and authority over its operations, and owns 99% of its common units. Wells Timberland Management Organization, LLC (Wells TIMO), a wholly owned subsidiary of Wells Capital, Inc. (Wells Capital), is the sole limited partner of Wells Timberland OP. In addition, Wells Timberland OP formed Wells Timberland TRS, Inc. (Wells Timberland TRS), a wholly owned subsidiary organized as a Delaware corporation, on January 1, 2006 (see Note 2). Unless otherwise noted, references herein to Wells Timberland REIT shall include Wells Timberland REIT and all of its subsidiaries, including Wells Timberland OP, and the subsidiaries of Wells Timberland OP and Wells Timberland TRS. Under an agreement (as amended and restated, the Advisory Agreement), Wells TIMO performs certain key functions on behalf of Wells Timberland REIT and Wells Timberland OP, including, among others, the investment of capital proceeds and management of day-to-day operations (see Note 8).

As of September 30, 2008, Wells Timberland REIT owned approximately 226,300 acres of timberland and held long-term leasehold interests in approximately 92,300 acres of additional timberland, all of which is located on the Lower Piedmont and Upper Coastal Plains of East Central Alabama and West Central Georgia (the Mahrt Timberland). Wells Timberland acquired the Mahrt Timberland on October 9, 2007. Wells Timberland REIT generates the majority of its revenues from selling the rights to access land and harvest timber to third parties pursuant to supply agreements and through open-market sales, selling higher and better use timberlands (HBU), and leasing land-use rights to third parties. Wells Timberland REIT expects to generate additional revenues and income from selling the rights to extract natural resources, other than timber, from timberland. Wells Timberland REIT holds various credit facilities outstanding as of September 30, 2008, which require interest and certain mandatory principal reduction payments that are payable during 2008 and 2009 (see Note 4). Wells Timberland REIT expects to generate sufficient cash flow from operations and future equity offerings to meet all such required principal and interest payment requirements.

On August 11, 2006, Wells Timberland REIT commenced its initial public offering (Initial Public Offering) of up to 85.0 million shares of common stock, of which 10.0 million shares were reserved for issuance through Wells Timberland REIT's distribution reinvestment plan, pursuant to a Registration Statement filed on Form S-11 under the Securities Act of 1933. On January 17, 2008, the board of directors of Wells Timberland REIT approved an extension of the termination date of the Initial Public Offering from August 11, 2008 to August 11, 2009. Wells Timberland REIT began actively selling its common shares in May 2007. Wells Timberland REIT commenced operations after receiving and accepting subscriptions in its Initial Public Offering equal to the minimum offering of \$2.0 million on July 11, 2007. As of September 30, 2008, Wells Timberland REIT has raised gross offering proceeds from the sale of common stock under the Initial Public Offering of approximately \$116.0 million. After deductions from such gross offering proceeds for payments of selling commissions and dealer-manager fees of approximately \$10.2 million, other organization and offering expenses of approximately \$1.4 million, and common stock redemptions of approximately \$0.3 million under the share redemption plan, Wells Timberland REIT had received aggregate net offering proceeds of approximately \$104.1 million.

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On July 11, 2008, Wells Timberland REIT entered into a master purchase agreement (the "Master Purchase Agreement") with Wells TIMO, Wells-DFH Timberland Nr.88 GmbH & Co. KG, a German closed end fund (the "German Fund"), and Deutsche Fonds Holding AG, a corporation organized under the laws of Germany ("DFH"). DFH was not, and the German Fund (prior to purchasing shares of common stock under the Master Purchase Agreement) was not, in any way affiliated with Wells Timberland REIT or its affiliates. Pursuant to the Master Purchase Agreement, Wells Timberland REIT has agreed to sell up to approximately 53.8 million shares (the "Shares") of Wells Timberland REIT's common stock to the German Fund, at a price per share of \$9.30, for an aggregate purchase price of up to approximately \$500.0 million (the "German Offering"). In Wells Timberland REIT's Initial Public Offering, shares of Wells Timberland REIT's common stock are typically sold to investors at a price per share of \$10.00 and, after the application of the 7.0% sales commission and the 1.8% dealer manager fee, Wells Timberland REIT receives net proceeds (before expenses) of \$9.12 per share. In the German Offering, Wells Timberland REIT is selling shares of its common stock to the German Fund at a price per share of \$9.30. The German Fund will not pay the sales commission or the dealer-manager fee in connection with the German Offering; however, Wells Timberland REIT will pay DFH a distribution fee of 1.0% of the gross proceeds that it receives from the German Offering. As a result, in respect of those shares of Wells Timberland REIT's common stock sold in the German Offering, Wells Timberland REIT will receive net proceeds (before expenses) of \$9.21 per share, which is greater than the \$9.12 per share that Wells Timberland REIT receives in its Initial Public Offering after deducting the sales commission and dealer manager fee. The German Fund's right to purchase Shares pursuant to the Master Purchase Agreement will continue until the earlier to occur of (i) the sale of all of the Shares offered thereby, or (ii) December 31, 2008. The German Offering is being conducted pursuant to Regulation S under the Securities Act of 1933, as amended, and is separate and in addition to Wells Timberland REIT's Initial Public Offering. As of September 30, 2008, Wells Timberland REIT has received net proceeds from the German Offering of approximately \$5,000.

Wells Timberland REIT's common stock is not listed on a national securities exchange. Wells Timberland REIT's charter requires that in the event Wells Timberland REIT's common stock is not listed on a national securities exchange by August 11, 2018, Wells Timberland REIT must either (i) seek stockholder approval of an extension or amendment of this listing deadline or (ii) seek stockholder approval to begin liquidating investments and distributing the resulting proceeds to the stockholders. In the event that Wells Timberland REIT seeks stockholder approval for an extension or amendment to this listing date and does not obtain it, Wells Timberland REIT will then be required to seek stockholder approval to liquidate. In this circumstance, if Wells Timberland REIT seeks and does not obtain approval to liquidate, Wells Timberland REIT will not be required to list or liquidate and could continue to operate indefinitely as an unlisted company.

2. Summary of Significant Accounting Policies*Basis of Presentation*

The consolidated financial statements of Wells Timberland REIT have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"), including the instructions to Form 10-Q and Article 10 of Regulation S-X and do not include all of the information and footnotes required by accounting principles generally accepted in the United States ("GAAP") for complete financial statements. In the opinion of management, the statements for these unaudited interim periods presented include all adjustments, which are of a normal and recurring nature, necessary for a fair and consistent presentation of the results for such periods. Results for these interim periods are not necessarily indicative of results for a full year.

Wells Timberland REIT owns a controlling financial interest in Wells Timberland OP and Wells Timberland TRS and, accordingly, includes the accounts of these entities in its consolidated financial statements. The financial statements of Wells Timberland OP and Wells Timberland TRS are prepared using accounting policies consistent with those used by Wells Timberland REIT. All significant intercompany balances and transactions have been eliminated in consolidation.

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For further information, refer to the financial statements and footnotes included in Wells Timberland REIT's Annual Report on Form 10-K for the year ended December 31, 2007.

Income Taxes

Wells Timberland REIT is organized as a C Corporation and, accordingly, is subject to federal income taxes for those periods. Wells Timberland REIT accounts for income taxes in accordance with Statement of Financial Accounting Standard (SFAS) No. 109, *Accounting for Income Taxes*, whereby deferred taxes are provided for based upon the differences between the financial statement and income tax basis of assets and liabilities using currently enacted tax laws and the tax rates expected to be in effect when such taxes are incurred or recovered. Deferred tax expenses or benefits are recognized in the financial statements according to the changes in deferred assets or liabilities between years. Valuation allowances are established to reduce deferred tax assets when it becomes more likely than not that such assets, or portions thereof, will not be realized.

Pursuant to Wells Timberland REIT's charter, the board of directors has the authority to determine when and if it is in Wells Timberland REIT's best interest to elect to qualify for federal income tax treatment as a REIT. Wells Timberland REIT expects that the board of directors will elect for Wells Timberland REIT to qualify as a REIT for the first taxable year in which (i) Wells Timberland REIT would otherwise qualify to be taxed as a REIT and (ii) Wells Timberland REIT generates substantial taxable income such that REIT status would be in the best interest of its stockholders. To qualify as a REIT, Wells Timberland REIT must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of Wells Timberland REIT's ordinary taxable income to stockholders. As a REIT, Wells Timberland REIT generally will not be subject to federal income tax on taxable income it distributes to stockholders. If Wells Timberland REIT fails to qualify as a REIT in any taxable year, it will then be subject to federal income taxes on its 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 during which qualification is lost unless the Internal Revenue Service grants Wells Timberland REIT relief under certain statutory provisions.

Wells Timberland REIT intends, upon its qualification as and election to be taxed as a REIT, to treat Wells Timberland TRS as a taxable REIT subsidiary. At the point in time at which Wells Timberland REIT elects to be treated as a REIT, it may be beneficial for Wells Timberland REIT to perform certain non-customary services, including real estate or non-real estate related services, through Wells Timberland TRS. Earnings from services performed through Wells Timberland TRS are subject to federal and state income taxes irrespective of the dividends paid deduction available to REITs for federal income tax purposes. In addition, for Wells Timberland REIT to qualify as a REIT, Wells Timberland REIT's investment in Wells Timberland TRS may not exceed 25% of the value of the total assets of Wells Timberland REIT.

Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures required for fair value measurements under GAAP. SFAS 157 emphasizes that fair value is a market-based measurement, as opposed to a transaction-specific measurement. In February 2008, the FASB issued Staff Position No. SFAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* (FSP 157-1). FSP 157-1, which is effective upon the initial adoption of SFAS 157, excludes SFAS Statement No. 13, *Accounting for Leases* (SFAS 13), as well as other accounting pronouncements that address fair value measurements on lease classification or measurement under SFAS 13, from the scope of SFAS 157. In February 2008, the FASB issued Staff Position No. SFAS 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2). FSP 157-2 delays the effective date of SFAS 157 for all nonrecurring nonfinancial assets and liabilities until fiscal years beginning after November 15, 2008. Accordingly, FSP 157-2 will be effective for Wells Timberland REIT beginning January 1, 2009. On October 10, 2008, the FASB issued Staff Position No. SFAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* (FSP 157-3).

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FSP 157-3 includes guidance for how companies should value illiquid assets under the fair value accounting method prescribed in SFAS No. 157, *Fair Value Measurements* (SFAS 157), but does not change any of the provisions of SFAS 157. FSP 157-3 is effective upon issuance on October 10, 2008, and retrospective application is prohibited. Wells Timberland REIT does not expect the provisions of FSP 157-3 will have a material effect on its consolidated financial statements. All other aspects of SFAS 157 are effective for Wells Timberland REIT beginning January 1, 2008.

Fair value is defined by SFAS 157 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Depending on the nature of the asset or liability, various techniques and assumptions can be used to estimate fair value. SFAS 157 defines the following fair value hierarchy:

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

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

Level 3 Assets or liabilities for which significant valuation assumptions are not readily observable in the market; instruments valued based on the best available data, some of which is internally-developed, and considers risk premiums that a market participant would require.

Wells Timberland REIT applied the provisions of SFAS 157 in recording its interest rate swaps at fair value. The valuation of the interest rate swaps was determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities.

The following table presents information about Wells Timberland REIT assets and liabilities measured at fair value on a recurring basis as of September 30, 2008, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Fair Value Measurements as of September 30, 2008			
	Total	Level 1	Level 2	Level 3
Assets:				
Interest rate swap	\$ 140,436	\$	\$ 140,436	\$
Liabilities:				
Interest rate swap	\$ 3,518,485	\$	\$ 3,518,485	\$

Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 permits entities to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 was adopted by Wells Timberland REIT effective January 1, 2008. Wells Timberland REIT did not elect the fair value options available under this statement.

In November 2007, the Emerging Issues Task Force (EITF) issued Issue No. 07-6, *Accounting for the Sale of Real Estate Subject to the Requirements of FASB Statement No. 66, Accounting for Sales of Real Estate, When the Agreement Includes a Buy-Sell Clause* (Issue No 07-6). Under Issue No. 07-6, the EITF reached a consensus that a buy-sell clause does not, in and of itself, constitute a prohibited form of continuing involvement that would prevent partial gain recognition. However, a buy-sell clause may be considered a form of prohibited continuing involvement if it includes (a) an option for the buyer to require the seller to repurchase the interest or (b) an option for the seller to require the buyer to sell the interest back to the seller. Issue No. 07-6 was effective for Wells Timberland REIT beginning January 1, 2008. The implementation of Issue No. 07-6 did not have a material effect on Wells Timberland REIT's consolidated financial statements.

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In December 2007, the FASB issued SFAS No. 141(R), *Business Combination* (SFAS 141(R)). SFAS 141(R) requires, among other things, for (i) transaction costs to be expensed as incurred and (ii) preacquisition contingencies, such as environmental or legal issues, to be recorded at fair value as of the acquisition date. SFAS 141(R) will be effective for Wells Timberland REIT beginning January 1, 2009. Wells Timberland REIT is currently assessing the provisions and evaluating the financial impact of SFAS 141(R) on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160). SFAS 160 requires, among other things, for (i) noncontrolling ownership interests to be classified as equity, instead of as a minority interest component of mezzanine equity, and (ii) earnings from noncontrolling interests to be included in earnings from consolidated subsidiaries with an additional disclosure of the allocation of such earnings between controlling and noncontrolling interests on the face of the statement of operations. SFAS 160 will be effective for Wells Timberland REIT beginning January 1, 2009. Wells Timberland REIT is currently assessing the provisions and evaluating the financial impact of SFAS 160 on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment to FASB Statement No. 133* (SFAS 161). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities. The additional disclosures include descriptions of how and why the entity uses derivative instruments, how such instruments are accounted for under FASB Statement No. 133, and how derivative instruments affect the entity's financial position, financial performance, and cash flows. SFAS 161 will be effective for Wells Timberland REIT beginning January 1, 2009, with early adoption encouraged. Wells Timberland REIT is currently assessing the provisions and evaluating the financial impact of SFAS 161 on its consolidated financial statements.

Reclassifications

Certain prior period amounts, as reported, have been reclassified to conform to the current period financial statement presentation.

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During the three months and nine months ended September 30, 2008, Wells Timberland REIT sold approximately 160 acres and 1,760 acres of timber and timberland for approximately \$0.5 million and \$4.5 million, respectively. The basis in timber and timberland sold was approximately \$0.2 million and \$2.5 million for the three months and nine months ended September 30, 2008, respectively. As of September 30, 2008 and December 31, 2007, timber and timberlands consisted of the following, respectively:

	As of September 30, 2008		
	Gross	Depletion	Net
Timber	\$ 228,360,239	\$ 16,485,770	\$ 211,874,469
Timberlands	167,554,111		167,554,111
Timber and Timberlands	\$ 395,914,350	\$ 16,485,770	\$ 379,428,580

	As of December 31, 2007		
	Gross	Depletion	Net
Timber	\$ 232,987,663	\$ 4,116,992	\$ 228,870,671
Timberlands	168,848,867		168,848,867
Timber and Timberlands	\$ 401,836,530	\$ 4,116,992	\$ 397,719,538

4. Notes Payable

During the three months and nine months ended September 30, 2008, Wells Timberland REIT engaged in the following significant activities with respect to its notes payable:

Wells Timberland REIT paid down the mezzanine loan by approximately \$31.2 million and \$67.7 million, respectively, which, when added to principal payments made in prior periods, reduced the aggregate outstanding principal balance of the mezzanine loan to \$81.9 million.

On October 15, 2008, Wells Timberland REIT amended the mezzanine loan to extend the maturity date from March 2, 2009 to September 30, 2009. In addition, the amended mezzanine loan agreement provides that Wells Timberland REIT shall make principal reduction payments on each of December 31, 2008, March 31, 2009 and June 30, 2009, reducing the outstanding principal balance to an amount not greater than \$67.0 million, \$45.0 million, and \$25.0 million, respectively. On September 30, 2009, all outstanding principal, interest and any fees or other obligations on the mezzanine loan shall be due and payable in full.

In connection with amending the mezzanine loan, and as an inducement to Wachovia Bank, N.A. (Wachovia) amending the terms of the mezzanine loan, Wells Real Estate Funds, Inc. (Wells REF), the guarantor of the mezzanine loan, agreed to (i) amend a separate outstanding loan from Wachovia to Wells REF and, among other things, extend the maturity date, (ii) pay an amendment fee to Wachovia consisting of approximately \$0.1 million in cash and 600 shares of Wells Timberland REIT's preferred stock held by Wells REF and (iii) pledge the remaining 42,228 shares of Wells Timberland REIT preferred stock held by Wells REF to Wachovia as security for Wells REF's guaranty of the mezzanine loan. Wells REF had previously acquired the shares of Wells Timberland REIT's preferred stock, which accrue an 8.5% per annum dividend, for \$1,000 per share.

Because Wells REF agreed to the foregoing in connection with and as an inducement to Wachovia amending the terms of the mezzanine loan, Wells Timberland REIT has agreed that, after the mezzanine loan has been repaid in full, Wells Timberland REIT will repay to Wells REF an amount in cash equal to the amendment fee, subject to the availability of proceeds from Wells Timberland REIT's Initial Public Offering. Under the terms of the senior loan, Wells Timberland REIT cannot

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make such repayment until it has achieved certain financial performance measures, including the reduction of the outstanding principal amount of the senior loan to an amount that is less than 40% of the value of Wells Timberland REIT's assets securing the senior loan.

The credit agreement for the senior loan contains mandatory prepayment requirements from proceeds generated from dispositions of timber and timberland less a working capital reserve. During the three months and nine months ended September 30, 2008, Wells Timberland REIT paid down the senior loan by approximately \$0.6 million and \$3.4 million, respectively, and funded the working capital reserve by approximately \$0.2 million and \$2.8 million, respectively with proceeds from timber and timberland sales.

During the nine months ended September 30, 2008, Wells Timberland REIT made interest payments on the senior loan and the mezzanine loan of approximately \$10.4 million and approximately \$10.0 million, respectively. Wells Timberland REIT made interest payments of approximately \$4,400 during the nine months ended September 30, 2007.

5. Commitments and Contingencies

MeadWestvaco Timber Agreements

In connection with its acquisition of the Mahrt Timberland, Wells Timberland REIT entered into a master stumpage agreement and a fiber supply agreement (collectively, the Timber Agreements) with a wholly owned subsidiary of MeadWestvaco Corporation (MeadWestvaco Subsidiary). The master stumpage agreement provides that Wells Timberland REIT will sell specified amounts of timber and make available certain portions of the Mahrt Timberland to Wells Timberland TRS for harvesting at \$0.10 per ton of qualifying timber purchased by MeadWestvaco Subsidiary plus a portion of the gross proceeds received from MeadWestvaco Subsidiary under the fiber supply agreement. The fiber supply agreement provides that MeadWestvaco Subsidiary will purchase specified amounts of timber, including pine pulpwood, hardwood pulpwood, chip-n-saw, and pine sawlogs, from Wells Timberland TRS at specified prices per ton of timber, depending upon the type of timber. The fiber supply agreement is subject to market pricing adjustments after August 14, 2008 based on the Timber Mart-South average price change for pine pulpwood. The initial term of the Timber Agreements is October 9, 2007 through December 31, 2032, subject to extension and early termination provisions. The Timber Agreements ensure a long-term source of supply of wood fiber products for MeadWestvaco Subsidiary in order to meet its paperboard and lumber production requirements at specified mills and provide Wells Timberland REIT with a reliable consumer for the wood products from the Mahrt Timberland.

Litigation

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

6. Series B Preferred Stock

Wells Timberland REIT is authorized to issue one or more series of preferred shares, par value of \$0.01 per share. Prior to the issuance of such shares, the board of directors shall have the power from time to time to classify or reclassify, in one or more series, any unissued shares constituting such series and the designation, preferences, conversion, and other rights, voting powers, restrictions, limitations as to dividends, and other distributions, qualifications, and terms and conditions of redemption of such shares.

At a meeting held on August 28, 2008, Wells Timberland REIT's board of directors unanimously approved the designation, issuance, and sale of up to 15,000 shares of Wells Timberland REIT's Series B preferred stock to Wells REF for the purchase price of \$1,000 per share. On August 29, 2008, Wells Timberland

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REIT issued 10,700 shares of Series B preferred stock to Wells REF in exchange for approximately \$10.7 million, or \$1,000 per share. The proceeds from the sale of the Series B preferred stock were used to fund a portion of a principal payment under the mezzanine loan agreement. Dividends will accrue on the Series B preferred stock at the rate per annum of 8.5% of the Series B issue price, subject to adjustments in the event of a stock dividend, split, combination, or other similar recapitalization with respect to the Series B preferred stock. If authorized by Wells Timberland REIT's board of directors, accruing dividends on the Series B preferred stock are payable on September 30, 2010 and on September 30 of each year thereafter. Wells Timberland REIT's Series B preferred stock is not convertible into shares of Wells Timberland REIT's common stock. If Wells Timberland REIT is liquidated or dissolved, the holders of the preferred stock are entitled to receive the issue price of \$1,000 per share plus any accrued and unpaid dividends before any payment may be made to the holders of Wells Timberland REIT's common stock or any other class or series of Wells Timberland REIT's capital stock ranking junior on liquidation to the Series B preferred stock. The Series B preferred stock ranks in parity with Wells Timberland REIT's Series A preferred stock with respect to dividends and payments upon a dissolution of Wells Timberland REIT. As of September 30, 2008, dividends payable on the Series B preferred stock of approximately \$82,000 are included in preferred stock in the accompanying consolidated statements of stockholders' equity (deficit).

7. Supplemental Disclosures of Noncash Activities

Outlined below are significant noncash investing and financing transactions for the nine months ended September 30, 2008 and 2007:

	Nine months ended September 30,	
	2008	2007
Other offering costs due to affiliate	\$ 875,919	\$ 2,861
Discounts applied to issuance of common stock	\$ 250,080	\$ 153,910
Dividends accrued on preferred stock	\$ 2,126,658	\$
Commissions on stock sales and related dealer-manager fees due to affiliates	\$	\$ 182,320
Amortization of stock options	\$	\$ 4,200

8. Related-Party Transactions*Advisory Agreement*

Wells Timberland REIT and Wells Timberland OP are party to the Advisory Agreement with Wells TIMO, a wholly-owned subsidiary of Wells Capital.

Pursuant to the Advisory Agreement, Wells TIMO is entitled to the following fees and reimbursements:

Reimbursement of organization and offering costs paid by Wells TIMO and its affiliates on behalf of Wells Timberland REIT, not to exceed 1.2% of gross offering proceeds. To the extent that organization and offering costs exceed 1.2% of gross offering proceeds, all organization and offering costs will be incurred by Wells TIMO and not by Wells Timberland REIT.

Monthly asset management fees equal to one-twelfth of 1.0% of the greater of (i) the gross cost of all investments made on behalf of Wells Timberland REIT or (ii) the aggregate value of such investments. Wells TIMO may engage experienced timber management companies to assist Wells TIMO with certain of its asset management responsibilities under the Advisory Agreement, including investing in timberland and selling timber on behalf of Wells Timberland REIT. Any timber asset managers would perform these

services under contracts with Wells TIMO and would be compensated by Wells TIMO under the terms of such contracts.

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Reimbursement for all costs and expenses Wells TIMO incurs in fulfilling its duties as the asset portfolio manager, including wages and salaries and other employee-related expenses of Wells TIMO'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 the services they provide.

For any property sold by Wells Timberland REIT, if Wells TIMO provided a substantial amount of services in connection with the sale (as determined by Wells Timberland REIT's independent directors), Wells Timberland REIT will pay Wells TIMO a fee equal to (i) for each property sold at a contract price up to \$20.0 million, up to 2.0% of the sales price, and (ii) for each property sold at a contract price in excess of \$20.0 million, up to 1.0% of the sales price. The precise amount of the fee within the preceding limits will be determined by Wells Timberland REIT's board of directors, including a majority of the independent directors, based on the level of services provided and market norms. The real estate disposition fee may be in addition to real estate commissions paid to third parties. However, the total real estate commissions (including such disposition fee) may not exceed the lesser of (i) 6.0% of the sales price of each property or (ii) the level of real estate commissions customarily charged in light of the size, type, and location of the property.

On July 11, 2008, Wells Timberland REIT amended and restated the Advisory Agreement (the "Amended Advisory Agreement"). The Amended Advisory Agreement amends certain definitions in order to provide for the reimbursement of expenses to Wells TIMO by Wells Timberland REIT in connection with offerings of Wells Timberland REIT's common stock that are exempt from the registration provisions of the Securities Act of 1933. The Amended Advisory Agreement has a one-year term that began on July 11, 2008, the effective date of the Amended Advisory Agreement, and renews for successive one-year terms upon the mutual consent of the parties. Wells Timberland REIT may terminate the Amended Advisory Agreement without penalty upon 60 days' written notice. If Wells Timberland REIT terminates the Amended Advisory Agreement, it will pay Wells TIMO all unpaid reimbursements of expenses and all earned but unpaid fees. In addition, if the Amended Advisory Agreement is terminated without cause, the special units of limited partnership held by Wells TIMO will be redeemed. For further information on the special units, including redemption payments, refer to the consolidated financial statements and accompanying notes included in Wells Timberland REIT's Annual Report on Form 10-K for the year ended December 31, 2007.

Under the terms of the Amended Advisory Agreement, Wells Timberland REIT is required to reimburse Wells TIMO for certain organization and offering costs up to the lesser of actual expenses or 1.2% of gross offering proceeds raised. As of September 30, 2008, Wells Timberland REIT has charged to additional paid-in capital cumulative organization and other offering costs of approximately \$1.4 million related to the Initial Public Offering, which represents approximately 1.2% of cumulative gross proceeds raised by Wells Timberland REIT under the Initial Public Offering. As of September 30, 2008 and December 31, 2007, Wells TIMO and its affiliates have incurred aggregate organization and offering expenses on behalf of Wells Timberland REIT of approximately \$3.8 million and \$2.7 million, respectively.

The mezzanine and senior loans contain restrictive covenants that prohibit Wells Timberland REIT from paying monthly asset management fees, administrative expense reimbursements and a substantial portion of organization and offering cost reimbursements to Wells TIMO until the mezzanine loan is repaid in full and after reduction of the senior loan to a 40% senior loan to collateral value ratio. These amounts are recorded as due to affiliates in the accompanying consolidated balance sheets.

Dealer-Manager Agreement

Wells Timberland REIT has executed a dealer-manager agreement (the "Dealer-Manager Agreement"), whereby Wells Investment Securities, Inc. ("WIS"), an affiliate of Wells Capital, will perform the dealer-manager function for Wells Timberland REIT's Initial Public Offering. For these services, WIS earns a commission of up to 7.0% of the gross offering proceeds from the sale of Wells Timberland REIT's shares, of which substantially all is re-allowed to participating broker dealers. Wells Timberland REIT pays no commissions on shares issued under its distribution reinvestment plan.

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Additionally, WIS earns a dealer-manager fee of 1.8% of the gross offering proceeds at the time the shares are sold. A portion of the dealer-manager fee will be re-allowed to participating broker/dealers. Dealer-manager fees apply to the sale of shares in the primary offering only, and do not apply to the sale of shares under Wells Timberland REIT's distribution reinvestment plan.

Related-Party Costs

Pursuant to the terms of the agreements described above, Wells Timberland REIT incurred the following related-party costs for the three months and nine months ended September 30, 2008 and 2007, respectively:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Commissions ⁽¹⁾⁽²⁾	\$ 1,789,609	\$ 680,829	\$ 5,112,834	\$ 1,321,830
Administrative reimbursements	673,847	680,829	1,998,729	1,321,830
Dealer-manager fees ⁽¹⁾	460,185		1,314,729	
Asset management fees	1,000,646		3,006,436	
Disposition fees	9,331		89,816	
Other offering costs ⁽¹⁾	305,464		875,919	
Total	\$ 4,239,082	\$ 680,829	\$ 12,398,463	\$ 1,321,830

⁽¹⁾ Commissions, dealer-manager fees, and other offering costs are charged against stockholders' equity as incurred.

⁽²⁾ Substantially all commissions have been re-allowed to participating broker/dealers through September 30, 2008.

Due to Affiliates

The detail of amounts due to affiliates is provided below as of September 30, 2008 and December 31, 2007:

	September 30, 2008	December 31, 2007
Administrative reimbursements due to Wells TIMO	\$ 5,273,812	\$ 3,016,025
Asset management fees due to Wells TIMO	3,677,634	671,198
Other offering cost reimbursements due to Wells TIMO	1,166,008	290,089
Commissions and dealer-manager fees due to WIS	10,938	129,068
Total	\$ 10,128,392	\$ 4,106,380

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Conflicts of Interest

As of September 30, 2008, Wells TIMO had ten employees. Until such time, if ever, as Wells TIMO hires sufficient personnel of its own to perform the services under the Amended Advisory Agreement, it will rely upon employees of Wells Capital, the parent company and manager of Wells TIMO, to perform many of its obligations. Wells Capital also is a general partner or advisor of various affiliated public real estate investment programs (Wells Real Estate Funds). As such, in connection with serving as a general partner or advisor for Wells Real Estate Funds and managing Wells TIMO s activities under the Amended Advisory Agreement, Wells Capital may encounter conflicts of interest with regard to allocating human resources and making decisions related to investments, operations, and disposition-related activities for Wells Timberland REIT and Wells Real Estate Funds.

Additionally, one of the independent members of Wells Timberland REIT s board of directors also serves on the board of another REIT sponsored by Wells Capital and, accordingly, may encounter certain conflicts of interest regarding investment and operations decisions.

Economic Dependency

Wells Timberland REIT engaged Wells TIMO and WIS to provide certain services essential to Wells Timberland REIT, including asset management services, supervision of the management of properties owned by Wells Timberland REIT, asset acquisition and disposition services, the sale of shares of Wells Timberland REIT s common stock, as well as other administrative responsibilities, including accounting services, stockholder communications, and investor relations. Wells TIMO and WIS are dependent on Wells Capital to provide certain services that are essential to their operations. These agreements are terminable by either party upon 60 days written notice. As a result of these relationships, Wells Timberland REIT is dependent upon Wells Capital, Wells TIMO, and WIS.

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

Future net income generated by Wells REF will be largely dependent upon the amount of fees earned by Wells Capital, Wells TIMO, WIS, and Wells Management based on, among other things, the level of real estate assets managed, the amount of investor proceeds raised and the volume of future acquisitions and dispositions of real estate assets by Wells Timberland REIT and other Wells REF-sponsored investment products. As of September 30, 2008, Wells Timberland REIT believes that Wells REF generates adequate cash flow from operations and has adequate liquidity available in the form of cash on hand and current receivables to meet its current and future obligations as they become due.

Wells REF guarantees the mezzanine loan held by Wells Timberland REIT, which had an outstanding principal balance of approximately \$76.1 million as of October 31, 2008 (see Note 4).

9. Subsequent Event

Sale of Shares of Common Stock

From October 1, 2008 through October 31, 2008, Wells Timberland REIT raised approximately \$7.4 million through the issuance of approximately 0.7 million shares of common stock under the Initial Public Offering. As of October 31, 2008, approximately 62.7 million shares remained available for sale to the public, exclusive of shares available under Wells Timberland REIT s distribution reinvestment plan. No proceeds were raised from the issuance of common stock under the German Offering from October 1, 2008 through October 31, 2008. As of October 31, 2008, approximately 53.8 million shares remained available for sale to the German Fund under the German Offering.

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SUPPLEMENTAL INFORMATION The prospectus of Wells Timberland REIT, Inc. consists of this sticker, the prospectus dated December 14, 2007, Supplement No. 1 dated February 11, 2008, Supplement No. 2 dated February 29, 2008, Supplement No. 3 dated April 16, 2008, Supplement No. 4 dated April 23, 2008, Supplement No. 5 dated June 3, 2008, Supplement No. 6 dated July 11, 2008, Supplement No. 7 dated July 31, 2008, Supplement No. 8 dated August 22, 2008, Supplement No. 9 dated October August 29, 2008, Supplement No. 10 dated October 20, 2008 and Supplement No. 11 dated November 21, 2008.

Supplement No. 1 includes:

the status of our initial public offering;

the extension of our initial public offering;

the formation of an operations committee of our board of directors;

an update regarding our rescission offer to Michigan residents;

changes to the suitability standards for investors in the state of North Carolina; and

an amended subscription agreement.

Supplement No. 2 includes:

the status of our initial public offering; and

an amendment to the terms of the financing for our purchase of the Mahrt Timberland.

Supplement No. 3 includes:

the status of our initial public offering;

an update to the table of contents to our prospectus;

a clarification regarding current limitations on our ability to elect REIT status;

a clarification regarding the special escrow procedures for investors in the state of Pennsylvania; and

changes to the suitability standards for investors in the state of Pennsylvania.

Supplement No. 4 includes:

the status of our initial public offering;

A change to the Experts section of our prospectus;

Updated Prior Performance Summary disclosure in our prospectus;

Updated prior performance tables;

Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2007; and

Our consolidated financial statements as of December 31, 2007 and 2006, together with our results of operations, stockholders' equity and cash flows for the years ended December 31, 2007 and 2006 and for the period from November 10, 2005 (Date of Inception) through December 31, 2006.

Supplement No. 5 includes:

the status of our initial public offering;

Management's Discussion and Analysis of Financial Condition and Results of Operations similar to that in our Quarterly Report on Form 10-Q for the period ended March 31, 2008, filed on May 14, 2008; and

our unaudited financial statements as of and for the three months ended March 31, 2008.

Supplement No. 6 includes:

the status of our initial public offering; and

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our entry into a master purchase agreement with respect to the offering of up to 53,763,441 shares of common stock to a German closed end fund pursuant to Regulation S under the Securities Act, which we refer to herein as the German offering. The German offering is an unregistered offering being made solely to a non- U.S. person, and is separate and in addition to our ongoing, concurrent public offering.

Supplement No. 7 includes:

the status of our initial public offering;

Increased suitability standards for investors in the States of Alaska, California, Indiana, North Carolina and Oregon;

Additional liquidity disclosures regarding programs sponsored by our sponsor; and

A clarification regarding our share redemption plan.

Supplement No. 8 includes:

the status of our initial public offering;

the amended and restated Advisory Agreement;

the amendment of our charter;

additional disclosures regarding Federal Income Tax Considerations ;

Management's Discussion and Analysis of Financial Condition and Results of Operations similar to that filed in our Quarterly Report on Form 10-Q for the three months and six months ended June 30, 2008, filed on August 13, 2008; and

our unaudited financial statements as of and for the three months and six months ended June 30, 2008 as filed in our Quarterly Report on Form 10-Q, filed on August 13, 2008.

Supplement No. 9 includes:

the status of our initial public offering;

the designation, issuance and sale of Series B preferred stock; and

the limited waiver of the restrictions on ownership of our shares pursuant to our charter.

Supplement No. 10 includes:

the status of our initial public offering;

an update regarding our timberland investments; and

an amendment to the terms of our mezzanine loan.

Supplement No. 11 includes:

the status of our initial public offering;

a risk factor related to current economic conditions;

Management's Discussion and Analysis of Financial Condition and Results of Operations similar to that filed in our Quarterly Report on Form 10-Q for the three months and nine months ended September 30, 2008, filed on November 13, 2008; and

our unaudited financial statements as of and for the three months and nine months ended September 30, 2008 as filed in our Quarterly Report on Form 10-Q, filed on November 13, 2008.