

Wells Timberland REIT, Inc.
Form 424B3
August 19, 2010
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FILED PURSUANT TO

RULE 424 (B) (3)

REGISTRATION NO: 333-157087

WELLS TIMBERLAND REIT, INC

SUPPLEMENT NO. 8 DATED AUGUST 19, 2010

TO THE PROSPECTUS DATED AUGUST 6, 2009

This document supplements, and should be read in conjunction with, our prospectus dated August 6, 2009, relating to our offering of up to \$2,200,000,000 of shares of our common stock, as supplemented by Supplement No. 6 dated April 14, 2010 and Supplement No. 7 dated May 26, 2010. 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 public offerings;

information regarding our indebtedness;

declarations of stock dividends;

a revision to the Risk Factors Risks Related to Our Corporate Structure section of the prospectus;

information regarding the renewal of our advisory agreement;

information regarding the election of our directors;

the amendment and restatement of our charter;

the amendment and restatement of our bylaws;

information regarding leadership changes at our dealer manager; and

our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, as filed with the Securities and Exchange Commission on August 12, 2010, which is attached to this supplement as Annex A.

Status of Our Public Offerings

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On August 11, 2006, we commenced our initial public offering of up to 85.0 million shares of common stock, of which 10.0 million shares were reserved for issuance through our distribution reinvestment plan. Our initial public offering ended on August 11, 2009. We raised gross offering proceeds of approximately \$174.9 million from the sale of approximately 17.6 million shares in our initial public offering.

On August 12, 2009, we commenced a follow-on public offering of 220.9 million shares of common stock, of which 20.9 million shares of common stock are being offered under our distribution reinvestment plan. As of August 13, 2010, we had raised gross offering proceeds of approximately \$44.8 million from the sale of approximately 4.4 million shares of common stock under our follow-on offering. As of August 13, 2010, approximately 195.6 million shares remained available for sale to the public in our follow-on offering, exclusive of shares available under our distribution reinvestment plan.

As of August 13, 2010, we had received aggregate gross offering proceeds of approximately \$219.7 million from the sale of approximately 22.0 million shares in our public offerings. After incurring approximately \$18.4 million in selling commissions and dealer manager fees, approximately \$2.6 million in other organization and offering expenses, and funding common stock redemptions of approximately \$1.0 million pursuant to the share redemption program, as of August 13, 2010, we had raised aggregate net offering proceeds available for investment in properties of approximately \$197.7 million, substantially all of which had been invested in timberland properties. Unless extended, our follow-on offering is expected to terminate on August 6, 2011.

Information Regarding Our Indebtedness

As of August 13, 2010, our leverage ratio, or the ratio of total debt to total purchase price of timber assets plus cash and cash equivalents, was approximately 48%. As of August 13, 2010, our debt-to-net assets ratio, defined as total debt as a percentage of our total assets (other than intangibles) less total liabilities, was approximately 104%.

As of August 13, 2010, we had total outstanding indebtedness of approximately \$196.6 million, which consisted of a five-year senior loan, which we refer to as the Mahrt loan, in the original principal amount of \$211.0 million with CoBank, ACB and Wells Fargo Securities, LLC. The proceeds of the Mahrt loan, which was entered into in March 2010, were used to refinance the outstanding balances due on a senior loan and a mezzanine loan

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entered into in October 2007 in connection with our acquisition from MeadWestvaco Corporation of certain timberland and long-term leasehold interests in timberland, along with associated mineral rights and other related assets, which we refer to as the Mahrt Timberland.

Stock Dividends

On August 9, 2010, our board of directors declared a special 2% common stock dividend on the outstanding shares of our common stock to the stockholders of record of such shares as shown on our books at the close of business on August 9, 2010. The special stock dividend was paid on August 16, 2010.

Also, on August 9, 2010, our board of directors declared a daily non-compounding stock dividend in the amount of 0.000054348 shares per day per share on the outstanding shares of our common stock to the stockholders of record of such shares as shown on our books at the close of business on each day during the period commencing on August 10, 2010 and continuing through and including September 15, 2010. This dividend is to be paid on a date during the month of September 2010 as our President may determine.

In addition, on August 9, 2010, our board of directors declared a daily non-compounding stock dividend for the fourth quarter of 2010 in the amount of 0.000054945 shares per day per share on the outstanding shares of common stock to the stockholders of record of such shares as shown on our books at the close of business on each day during the period commencing on September 16, 2010 and continuing through and including December 15, 2010. The fourth quarter dividend is to be paid on a date during the month of December 2010 as our President may determine.

Amendment of Risk Factors Risks Related to Our Corporate Structure

The following risk factor on page 26 of the prospectus with the caption set forth below is hereby revised to read as follows:

Your interest in us will be diluted if we issue additional shares, which could reduce the overall value of your investment.

Potential investors in this offering do not have preemptive rights to any shares we issue in the future. Our charter authorizes us to issue one billion shares of stock, of which 900 million shares are designated as common stock and 100 million are designated as preferred stock. Our board of directors may amend our charter to increase the aggregate number of authorized shares of stock or the number of shares of stock of any class or series that we have authority to issue without stockholder approval. After your purchase in this offering, our board may elect to (1) sell additional shares in this or future public offerings; (2) issue equity interests in private offerings; (3) issue shares of our common stock upon the exercise of the options we may grant to our independent directors or to employees of Wells TIMO or Wells Capital; (4) issue shares to our advisor, its successors or assigns, in payment of an outstanding fee obligation; (5) issue shares of our common stock to sellers of properties we acquire in connection with an exchange of limited partnership interests of Wells Timberland OP; or (6) issue shares of common stock pursuant to stock dividends. To the extent we issue additional equity interests after your purchase in this offering, your percentage ownership interest in us will be diluted. Further, depending upon the terms of such transactions, most notably the offering price per share, which may be less than the price paid per share in any offering under this prospectus, and the value of our properties, existing stockholders also may experience a dilution in the book value of their investment in us.

On August 9, 2010, our board of directors authorized and we declared (1) a 2% common stock dividend to stockholders of record as of August 9, 2010; (2) a common stock dividend in an amount that annualizes to a 2% rate to stockholders of record during the period commencing on August 10, 2010 and continuing through and including September 15, 2010 and (3) a common stock dividend in an amount that annualizes to a 2% rate to stockholders of record during the period commencing on September 16, 2010 and continuing through and including December 15, 2010. If you purchase shares in this offering but were not a stockholder of record for any of the periods noted above for which our board of directors declared a common stock dividend, your interest in us will be diluted as a result of the additional shares issued to those stockholders of record during the periods noted above. Should our board of directors determine to issue additional common stock dividends, and should you purchase shares in the offering after the periods selected by our board as record dates for such common stock dividends, your interest in us will be further diluted.

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Renewal of our Advisory Agreement

Effective July 11, 2010, the advisory agreement among us, Wells Timberland Operating Partnership, L.P. and Wells Timberland Management Organization, LLC was renewed through July 10, 2010 upon terms identical to those of the advisory agreement in effect through July 10, 2010.

Election of Our Directors

At our annual stockholders meeting on August 9, 2010, our stockholders re-elected the following individuals to the board of directors: Jess E. Jarratt, Michael P. McCollum, E. Nelson Mills, Donald S. Moss, Willis J. Potts, Jr and George W. Sands. These directors will serve until the 2011 annual stockholders meeting and until their respective successors are duly elected and qualify.

Amendment and Restatement of Our Charter

On August 9, 2010, at the annual meeting of our stockholders, our stockholders approved the Fifth Articles of Amendment and Restatement to our charter. The Fifth Articles of Amendment and Restatement were filed with the State Department of Assessments and Taxation of Maryland on August 10, 2010, and are effective immediately. Our charter was amended and restated to: (i) expressly permit our board of directors to authorize and us to declare and pay stock dividends to our stockholders; (ii) make revisions requested by a state securities administrator with respect to investor suitability determinations by our sponsor and SEC filings made in connection with any future asset roll-up transactions; and (iii) make certain minor corrections and clarifications.

Amendment and Restatement of Our Bylaws

On August 9, 2010, our board of directors authorized and approved the Third Amended and Restated Bylaws, which amend and restate the Second Amended and Restated Bylaws, adopted by our board of directors on August 5, 2009, as amended to date. Approval by our stockholders of the Fifth Articles of Amendment and Restatement constituted approval of the deletion of the provisions of the First Amendment to the Second Amended and Restated Bylaws, which included certain provisions with respect to investor suitability determinations by our sponsor and SEC filings made in connection with any future roll-up transactions. These provisions are now included in the Fifth Articles of Amendment and Restatement, as discussed above. The Third Amended and Restated Bylaws are effective immediately upon effectiveness of the Fifth Articles of Amendment and Restatement.

Leadership Changes at our Dealer Manager

On June 25, 2010, John F. Kleinsteuber resigned as President of our dealer manager, Wells Investment Securities, Inc. Thomas E. Larkin, the Chief Executive Officer and Chairman of Wells Investment Securities, Inc. replaced Mr. Kleinsteuber as President.

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ANNEX A

QUARTERLY REPORT ON FORM 10-Q

FOR THE

QUARTERLY PERIOD ENDED JUNE 30, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2010

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____

Commission file number 000-53193

WELLS TIMBERLAND REIT, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation or organization)

20-3536671
(I.R.S. Employer Identification Number)

6200 The Corners Parkway

Norcross, Georgia 30092

(Address of principal executive offices)

(Zip Code)

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(770) 449-7800

(Registrant's telephone number, including area code)

N/A

(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files)

Yes No

[Not yet applicable to the registrant]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (check one).

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of shares outstanding of the registrant's only

class of common stock, as of July 31, 2010: 21,874,358 shares

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FORM 10-Q

WELLS TIMBERLAND REIT, INC.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q of Wells Timberland REIT, Inc. and subsidiaries (Wells Timberland REIT, we, our, or us) other than historical facts may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934 (the Exchange Act). We intend for all such forward-looking statements to be covered by the applicable safe harbor provisions for forward-looking statements contained in those acts. Such statements include, in particular, statements about our plans, strategies, and prospects and are subject to certain risks and uncertainties, as well as known and unknown risks, which could cause actual results to differ materially from those projected or anticipated. Therefore, such statements are not intended to be a guarantee of our performance in future periods. Such forward-looking statements can generally be identified by our use of forward-looking terminology such as may, will, expect, intend, anticipate, estimate, believe, continue, or other similar words. Re cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date that this report is filed with the Securities and Exchange Commission (SEC). We make no representations or warranties (express or implied) about the accuracy of any such forward-looking statements contained in this report, and we do not intend to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Any such forward-looking statements are subject to unknown risks, uncertainties, and other factors and are based on a number of assumptions involving judgments with respect to, among other things, future economic, competitive, and market conditions, all of which are difficult or impossible to predict accurately. To the extent that our assumptions differ from actual results, our ability to meet such forward-looking statements, including our ability to generate positive cash flow from operations, make distributions to stockholders, and maintain the value of our real estate properties, may be significantly hindered. See Item 1A herein, as well as Item 1A in Wells Timberland REIT s Annual Report on Form 10-K for the year ended December 31, 2009, for a discussion of some of the risks and uncertainties that could cause actual results to differ materially from those presented in our forward-looking statements. The risk factors described herein and in our Annual Report on Form 10-K for the year ended December 31, 2009 are not the only ones we face, but do represent those risks and uncertainties that we believe are material to us. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also harm our business.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The information furnished in the accompanying consolidated balance sheets and related consolidated statements of operations, stockholders equity, and cash flows reflects all normal and recurring adjustments that are, in management's opinion, necessary for a fair and consistent presentation of the aforementioned financial statements.

The accompanying consolidated financial statements should be read in conjunction with the condensed notes to Wells Timberland REIT's consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this quarterly report on Form 10-Q and with Wells Timberland REIT's Annual Report on Form 10-K for the year ended December 31, 2009. Wells Timberland REIT's results of operations for the three months and six months ended June 30, 2010 are not necessarily indicative of the operating results expected for the full year.

Table of Contents**WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	(Unaudited)	
	June 30, 2010	December 31, 2009
Assets:		
Cash and cash equivalents	\$ 6,973,397	\$ 5,636,878
Restricted cash and cash equivalents	8,399,646	7,955,701
Accounts receivable	1,144,485	992,750
Prepaid expenses and other assets	911,388	690,596
Deferred financing costs, less accumulated amortization of \$120,209 and \$9,873,172 as of June 30, 2010 and December 31, 2009, respectively	2,087,711	867,857
Timber assets, at cost:		
Timber and timberlands, net (Note 3)	348,091,923	354,761,315
Intangible lease assets, less accumulated amortization of \$454,014 and \$370,793 as of June 30, 2010 and December 31, 2009, respectively	582,839	666,060
Total assets	\$ 368,191,389	\$ 371,571,157
Liabilities:		
Accounts payable and accrued expenses	\$ 2,641,377	\$ 2,808,318
Due to affiliates (Note 7)	22,769,146	19,470,549
Other liabilities	5,137,414	4,926,182
Notes payable:		
Senior loan (Note 4)	199,973,457	201,852,588
Mezzanine loan (Note 4)		14,988,709
Total liabilities	230,521,394	244,046,346
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 June 30, 2010 and December 31, 2009	39,573,597	38,219,379
8.5% Series B preferred stock, \$1,000 liquidation preference; 11,500 shares issued and outstanding as of June 30, 2010 and December 31, 2009	13,205,705	12,720,973
Common stock, \$0.01 par value; 900,000,000 shares authorized; 21,656,918 and 19,460,028 shares issued and outstanding as of June 30, 2010 and December 31, 2009, respectively	216,569	194,601
Additional paid-in capital	185,504,532	167,627,870
Accumulated deficit	(100,830,408)	(91,238,012)
Total stockholders equity	137,669,995	127,524,811
Total liabilities and stockholders equity	\$ 368,191,389	\$ 371,571,157

See accompanying notes.

Table of Contents**WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

	(Unaudited)		(Unaudited)	
	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues:				
Timber sales	\$ 9,842,724	\$ 11,258,679	\$ 19,607,449	\$ 21,009,700
Timberland sales	3,000	144,498	3,000	5,024,208
Other revenues	1,014,185	873,231	2,502,330	1,692,995
	10,859,909	12,276,408	22,112,779	27,726,903
Expenses:				
Contract logging and hauling costs	5,164,530	5,526,807	10,305,252	10,127,923
Depletion	3,015,912	4,525,655	7,323,342	8,653,024
Cost of timberland sales	1,560	65,943	1,560	3,416,263
General and administrative expenses	1,194,838	861,289	2,378,759	1,893,769
Asset and forestry management fees:				
Related-party	992,303	992,407	1,984,607	1,990,119
Other	715,327	768,940	1,433,054	1,543,065
Land rent expense	500,629	568,243	1,072,559	1,163,679
Other operating expenses	756,184	743,617	1,395,706	1,253,540
	12,341,283	14,052,901	25,894,839	30,041,382
Operating loss	(1,481,374)	(1,776,493)	(3,782,060)	(2,314,479)
Other income (expense):				
Interest income	1,468	6,855	2,097	24,623
Interest expense	(2,310,763)	(2,677,038)	(4,584,891)	(5,806,561)
Loss on interest rate swaps	(960,387)	(379,030)	(1,227,542)	(1,273,565)
	(3,269,682)	(3,049,213)	(5,810,336)	(7,055,503)
Net loss	(4,751,056)	(4,825,706)	(9,592,396)	(9,369,982)
Dividends to preferred stockholders	(924,555)	(907,602)	(1,838,950)	(1,805,229)
Net loss available to common stockholders	\$ (5,675,611)	\$ (5,733,308)	\$ (11,431,346)	\$ (11,175,211)
Per-share information basic and diluted:				
Net loss available to common stockholders	\$ (0.27)	\$ (0.36)	\$ (0.56)	\$ (0.75)
Weighted-average common shares outstanding basic and diluted	21,038,887	15,715,827	20,517,432	14,897,626

See accompanying notes.

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	(Unaudited)	
	Six Months Ended	
	June 30,	
	2010	2009
Cash Flows from Operating Activities:		
Net loss	\$ (9,592,396)	\$ (9,369,982)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depletion	7,323,342	8,653,024
Unrealized gain on interest rate swaps	(1,269,022)	(1,299,767)
Other amortization	101,743	93,140
Stock-based compensation expense	8,333	
Noncash interest expense	988,066	712,991
Basis of timberland sold	763	3,228,363
Basis of timber on terminated lease		84,375
Changes in assets and liabilities:		
Increase in accounts receivable	(151,735)	(831,292)
Increase in prepaid expenses and other assets	(220,792)	(13,688)
Decrease in accounts payable and accrued expenses	(166,941)	(934,578)
Increase in due to affiliates	3,219,899	2,722,348
Increase in other liabilities	1,480,254	1,541,376
Net cash provided by operating activities	1,721,514	4,586,310
Cash Flows from Investing Activities:		
Investment in timber, timberland, and related assets	(673,235)	(680,844)
Net funds invested in escrow accounts	(443,945)	(217,198)
Net cash used in investing activities	(1,117,180)	(898,042)
Cash Flows from Financing Activities:		
Financing costs paid	(2,207,920)	
Proceeds from notes payable	211,000,000	
Repayments of mezzanine loan	(14,988,709)	(25,737,639)
Repayments of senior loan	(201,852,588)	(6,203,984)
Repayments of Mahrt loan	(11,026,543)	
Issuance of common stock	21,988,813	31,676,499
Redemption of common stock	(281,000)	(72,198)
Other offering costs paid	(140,663)	
Commissions on stock sales and related dealer-manager fees paid	(1,759,205)	(2,616,776)
Net cash provided by (used in) financing activities	732,185	(2,954,098)
Net increase in cash and cash equivalents	1,336,519	734,170
Cash and cash equivalents, beginning of period	5,636,878	4,120,091
Cash and cash equivalents, end of period	\$ 6,973,397	\$ 4,854,261

See accompanying notes.

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WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 (unaudited)

1. Organization

Wells Timberland REIT, Inc. (Wells Timberland REIT) was formed on September 27, 2005 as a Maryland corporation that has elected to be taxed as a real estate investment trust (REIT) for federal income tax purposes. 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 99.99% of its common partnership 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. 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 (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 7).

As of June 30, 2010, Wells Timberland REIT owned approximately 223,300 acres of timberland and held long-term leasehold interests in approximately 85,000 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 REIT 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 (HBU) timberland, and leasing land-use rights to third parties. Wells Timberland REIT also generates additional revenues and income from selling the rights to extract natural resources, other than timber, from its timberland.

On August 11, 2006, Wells Timberland REIT commenced its initial public offering (the Initial Public Offering) of up to 85.0 million shares of common stock, of which 75.0 million shares were offered in the primary offering for \$10.00 per share and 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. 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 amount of \$2.0 million on July 11, 2007. Wells Timberland REIT stopped offering shares for sale under the Initial Public Offering on August 11, 2009. Wells Timberland REIT raised gross offering proceeds of approximately \$174.9 million from the sale of approximately 17.6 million shares under the Initial Public Offering.

On August 6, 2009, Wells Timberland REIT commenced its follow-on offering (the Follow-On Offering) of up to 220.9 million shares of common stock, of which 200.0 million shares are offered in a primary offering for \$10.00 per share and 20.9 million shares of common stock are reserved for issuance through Wells Timberland REIT's distribution reinvestment plan for \$9.55 per share, pursuant to a Registration Statement filed on Form S-11 under the Securities Act. Wells Timberland REIT began accepting subscriptions under the Follow-On Offering on August 12, 2009. As of June 30, 2010, Wells Timberland

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REIT has raised gross offering proceeds from the sale of common stock under the Follow-On Offering of approximately \$41.3 million. Unless extended, the Follow-On Offering is expected to terminate on August 6, 2011.

As of June 30, 2010, Wells Timberland REIT has raised gross offering proceeds from the sale of common stock under the Initial Public Offering and the Follow-On Offering (the "Public Offerings") of approximately \$216.1 million. After deductions from such gross offering proceeds for payments of selling commissions and dealer-manager fees of approximately \$18.0 million, other organization and offering costs of approximately \$0.4 million, and common stock redemptions of approximately \$0.8 million under the share redemption plan, Wells Timberland REIT had received aggregate net offering proceeds of approximately \$196.9 million, which was used to partially fund the Mahrt Timberland acquisition and pay down acquisition-related debt. As of June 30, 2010, Wells Timberland REIT has incurred other organization and offering costs of approximately \$2.6 million, approximately \$2.2 million of which is deferred by the terms of Wells Timberland REIT's loan agreement until after reduction of the mortgage to a 30% loan-to-collateral value ratio.

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 "2008 Fund"), and Deutsche Fonds Holding AG, a corporation organized under the laws of Germany ("DFH"). DFH was not, and the 2008 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. On April 8, 2009, Wells Timberland REIT entered into an amended and restated master purchase agreement (the "Amended Master Purchase Agreement") with Wells TIMO, DFH, the 2008 Fund and Wells-DFH Materia Nr.88 GmbH & Co. KG, a German closed-end fund (the "2009 Fund"). Pursuant to the Amended Master Purchase Agreement, Wells Timberland REIT has agreed to sell up to 53.8 million shares of its common stock that were not sold to the 2008 Fund to the 2009 Fund, at a price per share of \$9.30, for an aggregate purchase price of up to \$500.0 million (the "German Offering"). In Wells Timberland REIT's Follow-On 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 2009 Fund at a price per share of \$9.30. The 2009 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 Follow-On Offering after deducting the sales commission and dealer-manager fee. Wells Timberland REIT may increase, in its sole discretion, the size of the German Offering up to a maximum of approximately 107.5 million shares of its common stock to accommodate any additional German closed-end fund(s) or other investment vehicles that may become a party to the Amended Master Purchase Agreement in the future (together with the 2009 Fund, the "Funds"). The Funds' right to purchase shares pursuant to the Amended Master Purchase Agreement will continue until the earlier of (i) the sale of all of the shares contemplated thereby or (ii) December 31, 2010. The German Offering is being conducted pursuant to Regulation S under the Securities Act and is separate and in addition to Wells Timberland REIT's Follow-On Offering. As of June 30, 2010, Wells Timberland REIT had received net proceeds of \$5,000 from the sale of its common stock under the German Offering.

Wells Timberland REIT has offered up to approximately 11.4 million shares of its common stock, of which approximately 10.4 million shares are offered in a primary offering to non-U.S. persons at a price per share of \$9.65 and up to approximately 1.0 million shares of common stock are reserved for issuance through an unregistered distribution reinvestment plan at a price per share equal to \$9.55, in a private placement pursuant to Regulation S under the Securities Act (the "2010 German Offering") (see Note 5). In Wells Timberland REIT's Follow-On Offering, shares of Wells Timberland REIT's common stock are typically

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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 2010 German Offering, Wells Timberland REIT is selling shares of its common stock at a price per share of \$9.65. No sales commission or dealer manager fee is payable in connection with the 2010 German Offering; however, Wells Timberland REIT will pay a transaction fee to Viscardi AG, a corporation organized under the laws of Germany (Viscardi), of \$0.25 per share purchased in the 2010 German Offering and a structuring agent fee to Wells Germany GmbH, a limited partnership organized under the laws of Germany (Wells Germany), of \$0.20 per share (see Note 5 and Note 7). As a result, in respect of those shares of Wells Timberland REIT's common stock sold in the 2010 German Offering, Wells Timberland REIT will receive net proceeds (before expenses) of \$9.20 per share, which is greater than the \$9.12 per share that Wells Timberland REIT receives in its Follow-On Offering after deducting the sales commission and dealer manager fee. In addition to the transaction fee, Wells Timberland REIT will pay an annual fee to Viscardi of \$0.02 per share purchased in the 2010 German Offering (see Note 5). The 2010 German Offering will continue until the earlier of (i) the sale of all of the shares contemplated thereby or (ii) December 31, 2010. Discounts are available to certain investors. As of June 30, 2010, Wells Timberland REIT had not sold any common stock under the 2010 German Offering.

Wells Timberland REIT's common stock is not listed on a national securities exchange. Wells Timberland REIT's charter requires that in the event its 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 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.

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, 2009.

Interest Rate Swap Agreements

Wells Timberland REIT has entered into interest rate swaps agreements to hedge its exposure to changing interest rates on variable rate debt instruments. Wells Timberland REIT does not enter into derivative or interest rate transactions for speculative purposes; however, certain of its derivatives may not qualify for

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hedge accounting treatment. Wells Timberland REIT records the fair value of its interest rate swaps as either prepaid expenses and other assets or other liabilities in the accompanying consolidated balance sheets. Changes in the fair value of the effective portion of interest rate swaps that are designated as hedges are recorded as other comprehensive loss in the accompanying consolidated statement of stockholders' equity. The ineffective portion of the hedge, if any, is recognized in current earnings during the period of change in fair value. Changes in the fair value of interest rate swaps that do not qualify for hedge accounting treatment are recorded as gain or loss on interest rate swaps in the accompanying consolidated statements of operations. Amounts received or paid under interest rate swaps are recorded as gain or loss on interest rate swaps as incurred.

As of June 30, 2010 and December 31, 2009, Wells Timberland REIT recognized the fair value of interest rate swaps of approximately \$2.5 million and \$3.8 million, respectively, in other liabilities. The detail of loss on interest rate swaps is provided below for the three months and six months ended June 30, 2010 and 2009, respectively:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Noncash gain on interest rate swaps	\$ 291,507	\$ 964,797	\$ 1,269,022	\$ 1,299,767
Net payments on interest rate swaps	(1,251,894)	(1,343,827)	(2,496,564)	(2,573,332)
Loss on interest rate swaps	\$ (960,387)	\$ (379,030)	\$ (1,227,542)	\$ (1,273,565)

Income Taxes

Wells Timberland REIT has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"), and has operated as such beginning with its taxable year ended December 31, 2009. Wells Timberland REIT was taxed as a C corporation for the years ended December 31, 2008 and 2007, and, accordingly, was subject to federal income taxes for those periods. To qualify to be taxed as a REIT, Wells Timberland REIT must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of its ordinary taxable income to its stockholders. As a REIT, Wells Timberland REIT generally is not subject to federal income tax on taxable income it distributes to stockholders. Wells Timberland REIT is subject to certain state and local taxes related to the operations of timberland properties in certain locations, which have been provided for in the accompanying consolidated financial statements.

As of January 1, 2009, the beginning of the taxable year in which Wells Timberland REIT qualified for and elected to be taxed as a REIT, or its REIT commencement date, Wells Timberland REIT had net built-in gains on its timber assets of approximately \$37.5 million. Wells Timberland REIT elected not to take such net built-in gains into income immediately prior to its REIT commencement date, but rather subsequently recognize gain on the disposition of any timber assets it holds at the REIT commencement date, if disposed of within the ten-year period beginning on the REIT commencement date. Wells Timberland REIT will be subject to tax on such net built-in gains at the highest regular corporate rate during the ten-year period beginning on the REIT commencement date on the lesser of (a) the excess of the fair market value of the timber assets disposed of as of the REIT commencement date over its basis in the timber assets as of the REIT commencement date (the built-in gain with respect to that timberland as of the REIT commencement date); (b) the amount of gain Wells Timberland REIT would otherwise recognize on the disposition; or (c) the amount of net built-in gain in its timber assets as of the REIT commencement date not already recognized during the ten-year period. At December 31, 2009, Wells Timberland REIT had federal and state net operating loss carryforwards of approximately \$67.7 million and \$60.6 million, respectively. Such net operating loss carryforwards may be utilized, subject to certain limitations, to offset future taxable income, including net built-in gains.

Wells Timberland REIT has elected to treat Wells Timberland TRS as a taxable REIT subsidiary. Wells Timberland REIT may perform certain non-customary services, including real estate or non-real-estate

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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 continue to qualify to be taxed 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.

Deferred tax assets and liabilities represent temporary differences between the financial reporting basis and the tax basis of assets and liabilities based on the enacted rates expected to be in effect when the temporary differences reverse. Deferred tax expenses or benefits are recognized in the financial statements according to the changes in deferred tax 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.

Fair Value Measurements

Wells Timberland REIT estimates the fair value of its assets and liabilities (where currently required under GAAP) consistent with the provisions of the accounting standard for fair value measurements and disclosures. Under this guidance, fair value is defined 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. While various techniques and assumptions can be used to estimate fair value depending on the nature of the asset or liability, the accounting standard for fair value measurements and disclosures provides the following fair value technique parameters and hierarchy, depending upon availability:

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

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

Level 3 Assets or liabilities for which significant valuation assumptions are not readily observable in the market; 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 the accounting standard for fair value measurements and disclosures 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's assets and liabilities measured at fair value on a recurring basis as of June 30, 2010 and December 31, 2009 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Fair Value Measurements as of June 30, 2010			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Interest rate swaps	\$ 2,510,260	\$	\$ 2,510,260	\$
	Fair Value Measurements as of December 31, 2009			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Interest rate swaps	\$ 3,779,282	\$	\$ 3,779,282	\$