

Wells Timberland REIT, Inc.

Form POS AM

April 23, 2009

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As filed with the Securities and Exchange Commission on April 23, 2009

Registration No. 333-129651

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Post-Effective Amendment No. 5**

**to**

**Form S-11**

**REGISTRATION STATEMENT**

**UNDER**

**THE SECURITIES ACT OF 1933**

**OF SECURITIES OF CERTAIN REAL ESTATE COMPANIES**

**Wells Timberland REIT, Inc.**

(Exact name of registrant as specified in its governing instruments)

**6200 The Corners Parkway**

**Norcross, Georgia 30092-3365**

**(770) 449-7800**

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

**Leo F. Wells, III**

**President**

**Wells Timberland REIT, Inc.**

**6200 The Corners Parkway**

**Norcross, Georgia 30092-3365**

**(770) 449-7800**

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

*Copy to:*

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**Lesley H. Solomon**

**Alston & Bird LLP**

**1201 West Peachtree Street**

**Atlanta, Georgia 30309**

**(404) 881-7000**

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

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If any of the Securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box: ☒

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

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

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

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

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 the 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 ☒

Smaller reporting company ☐

(Do not check if a smaller reporting company)

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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This Post-Effective Amendment No. 5 consists of the following:

1. The Registrant's Prospectus dated December 14, 2007 (the "Prospectus");
2. Supplement No. 14 dated April 23, 2009, filed herewith, which will be delivered as an unattached document along with the Prospectus. This Supplement No. 14 supersedes and replaces the following prior supplements to 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 August 29, 2008, Supplement No. 10 dated October 20, 2008, Supplement No. 11 dated November 21, 2008, Supplement No. 12 dated December 23, 2008 and Supplement No. 13 dated April 14, 2009;
3. Part II, included herewith; and
4. Signatures, included herewith.

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# **WELLS TIMBERLAND REIT, INC.**

## **Maximum Offering of 85,000,000 Shares of Common Stock**

## **Minimum Offering of 200,000 Shares of Common Stock**

Wells Timberland REIT, Inc. is a newly organized Maryland corporation formed primarily for the purpose of acquiring timberland properties in the timber-producing regions of the United States and, to a lesser extent, in timber-producing regions outside the United States. We were incorporated in the State of Maryland in September 2005. We intend to qualify as a REIT under the Internal Revenue Code of 1986, as amended, upon the satisfaction of certain organizational and operational requirements and when our board determines that it is in our best interest to elect to qualify as a REIT.

We are offering up to 75,000,000 shares of common stock in our primary offering for \$10.00 per share, with volume discounts available to investors who purchase more than 50,000 shares at any one time. Discounts are also available for other categories of purchasers as described in Plan of Distribution. We are also offering up to 10,000,000 shares to be issued pursuant to our distribution reinvestment plan at a purchase price equal to \$9.55 per share during our primary offering. We reserve the right to reallocate the shares of common stock we are offering between the primary offering and the distribution reinvestment plan. On July 11, 2007, excluding shares purchased by our executive officers, directors and our advisor and its affiliates, we had received and accepted subscriptions in our offering for 234,477 shares of common stock, or \$2,332,845, thereby exceeding the minimum offering. As of December 6, 2007, we had received aggregate gross offering proceeds, net of discounts, of approximately \$36 million from the sale of approximately 3.6 million shares in this offering. As of December 6, 2007, approximately 71.4 million shares remained available for sale to the public, exclusive of shares available under our distribution reinvestment plan.

**This investment involves a high degree of risk. You should purchase these securities only if you can afford the complete loss of your investment. See Risk Factors beginning on page 17 to read about risks you should consider before buying shares of our common stock. These risks include the following:**

There is no public trading market for our common stock. If you are able to sell your shares, you would likely have to sell them at a substantial discount from their public offering price.

We have a very limited operating history, currently own only one property and have not identified any additional properties to acquire with the proceeds from this offering, which make our future performance and the performance of your investment difficult to predict.

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

Our charter limits a person from owning more than 9.8% of our common stock without prior approval of our board of directors. We are dependent upon our advisor and its affiliates to conduct our operations and this offering. Adverse changes in the financial health of our advisor or its affiliates or our relationship with them could cause our operations to suffer.

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

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Our advisor and its affiliates will face conflicts of interest, including significant conflicts in allocating time among us and similar programs sponsored by our sponsor.

The terms of our mezzanine loan agreement prohibit us from paying distributions or redeeming shares (except in cases of death or disability) until we repay the loan in full.

We have not qualified as a REIT and may fail to meet the requirements to qualify as a REIT which could require us to pay additional taxes and reduce our funds available to make distributions to our stockholders.

**Neither the Securities and Exchange Commission, the Attorney General of the State of New York nor any other state securities regulator has approved or disapproved of our common stock, determined if this prospectus is truthful or complete or passed on or endorsed the merits of this offering. Any representation to the contrary is a criminal offense. The use of projections or forecasts in this offering is prohibited. No one is permitted to make any oral or written predictions about the cash benefits or tax consequences you will receive from your investment.**

|                                | Price to<br>Public* | Selling<br>Commissions* | Dealer-<br>Manager Fee* | Net Proceeds<br>(Before<br>Expenses) |
|--------------------------------|---------------------|-------------------------|-------------------------|--------------------------------------|
| Primary Offering               |                     |                         |                         |                                      |
| Per Share                      | \$ 10.00            | \$ 0.70                 | \$ 0.18                 | \$ 9.12                              |
| Total Minimum                  | 2,000,000           | 140,000                 | 36,000                  | 1,824,000                            |
| Total Maximum                  | \$ 750,000,000      | \$ 52,500,000           | \$ 13,500,000           | \$ 684,000,000                       |
| Distribution Reinvestment Plan |                     |                         |                         |                                      |
| Per Share                      | 9.55                |                         |                         | 9.55                                 |
| Total Maximum                  | \$ 95,500,000       | \$                      | \$                      | \$ 95,500,000                        |

\* The selling commissions and all or a portion of the dealer-manager fee will not be charged with regard to shares sold in our primary offering to or for the account of certain categories of purchasers. The reduction in these fees will be accompanied by a corresponding reduction in the per share purchase price. See Plan of Distribution.

The dealer-manager of this offering, Wells Investment Securities, Inc., which is our affiliate, is not required to sell any specific number or dollar amount of shares but will use its best efforts to sell the shares offered. The minimum permitted purchase is generally \$5,000.

December 14, 2007

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**SUITABILITY STANDARDS**

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

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

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

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

**Arizona, Michigan, Missouri, North Carolina, Tennessee and Texas** Investors must have either (1) a net worth of at least \$225,000, or (2) gross annual income of at least \$60,000 and a net worth of at least \$60,000.

**California** Investors who reside in the state of California must have either (1) a net worth of at least \$500,000 or (2) an annual gross income of at least \$65,000 and a net worth of at least \$250,000.

**Iowa** Investors who reside in the state of Iowa must have either (1) a net worth of at least \$250,000 or (2) a net annual income of at least \$70,000 and net worth of at least \$70,000. In addition, investors from the state of Iowa may not invest more than 10% of their liquid net worth in us.

**Kansas** Investors who reside in the state of Kansas must have either (1) a net worth of at least \$250,000 or (2) a net annual income of at least \$70,000 and a net worth of at least \$70,000. The state of Kansas recommends that your aggregate investment in us and similar direct participation investments should not exceed 10% of your liquid net worth, which is defined as that portion of net worth which consists of cash, cash equivalents and readily marketable securities.

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

**Massachusetts and Ohio** Investors must have either (1) a net worth of at least \$250,000 or (2) a net annual income of at least \$70,000 and net worth of at least \$70,000. In either case, your investment in us may not exceed 10% of your liquid net worth.

**Michigan** In addition to the suitability requirements described above for the state of Michigan, the state of Michigan requires that your aggregate investment in us and similar direct participation investments may not exceed 10% of your net worth.

**Minnesota and New Mexico** Investors must have either (1) a net worth of at least \$250,000 or (2) annual gross income of at least \$70,000 and a net worth of at least \$70,000.

**Pennsylvania** In addition to our suitability requirements, investors must have a net worth of at least 10 times their investment in us.

**Washington** Investors who reside in the state of Washington must have either (1) a net worth of at least \$250,000 or (2) a net annual income of at least \$70,000 and a net worth of at least \$70,000.

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

Those selling shares on our behalf must make every reasonable effort to determine that the purchase of shares in this offering is a suitable and appropriate investment for each stockholder based on information provided by the stockholder regarding the stockholder's financial situation and

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investment objectives. See Plan of Distribution Stockholder Suitability for a detailed discussion of the determinations regarding suitability that we require of all those selling shares on our behalf.



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**PROSPECTUS SUMMARY**

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

**Wells Timberland REIT, Inc.**

Wells Timberland REIT, Inc. is a newly organized Maryland corporation formed for the purpose of acquiring timberland properties in the timber-producing regions of the United States. Our portfolio may also include, to a limited extent, investments in timberland located in other countries.

We intend to generate income returns in the form of cash flows from harvesting and selling timber, and from pursuing non-timber related revenue sources. When and where we believe that it is appropriate, we also will seek to generate cash flow from the sale of lands that have a higher and better use. We expect to realize additional long-term returns from the appreciation in the value of our timberland and the standing timber on that land upon the ultimate disposition of our properties. We may also invest in other entities that own timberland or form joint ventures with entities that have complementary investment objectives.

We were incorporated in Maryland on September 27, 2005 and intend to elect to be taxed as a real estate investment trust, or REIT, upon the satisfaction of certain organizational and operational requirements and when our board determines that it is in our best interest to elect to be taxed as a REIT. We do not expect to qualify as a REIT in 2007 or 2008 and cannot give assurances that we will qualify or elect to be taxed as a REIT thereafter. See Management's Discussion and Analysis of Financial Condition and Results of Operations Election of REIT Status. We have no paid employees and are externally advised and managed by Wells Timberland Management Organization, LLC, which we refer to as Wells TIMO or our advisor.

**Our Advisor**

We are advised by Wells TIMO, a Georgia limited liability company formed on July 12, 2006 for the purpose of serving as our advisor. Wells TIMO is a wholly-owned subsidiary of Wells Capital, Inc., our sponsor. We have entered into an advisory agreement with Wells TIMO under which Wells TIMO will manage our daily affairs and make recommendations to our board of directors on all property acquisitions. Jess E. Jarratt, Brian M. Davis, Troy A. Harris, John C. Iverson and Don L. Warden, as officers of our advisor, will make most of the decisions regarding which investments will be recommended for us. Our board of directors must approve or reject all proposed property acquisitions.

**Our Sponsor**

Our advisor is managed by our sponsor, Wells Capital, Inc., which we refer to as Wells Capital. Since its incorporation in Georgia on April 20, 1984, Wells Capital has sponsored or advised public real estate programs on an unspecified property, or "blind pool" basis, that have raised approximately \$11.7 billion of equity from approximately 267,000 investors.

**Investment Objectives**

Our primary investment objectives are:

to preserve and return your capital contributions;

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

to realize capital appreciation upon the ultimate sale of our assets.



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However, we will not be able to pay any cash distributions until we repay our current mezzanine loan or renegotiate its terms, and attain certain financial performance measures under the senior loan. See [Timberland Investments South Central Timberland Financing](#) for a description of the terms of our senior and

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mezzanine loans. See the Business and Policies section of this prospectus for a more complete description of our investment policies and the investment restrictions imposed by our charter.

### **Summary Risk Factors**

An investment in our shares involves significant risk, including the following:

There is no public trading market for our common stock. If you are able to sell your shares, you would likely have to sell them at a substantial discount from their public offering price.

We have a very limited operating history, currently own only one property, and have not identified any additional properties to acquire with the proceeds from this offering. In addition, neither we nor our advisor has substantial experience investing in timberland properties. These factors make our future performance and the performance of your investment difficult to predict.

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

We are dependent upon our advisor and our dealer-manager to conduct our operations and this offering. Adverse changes in the financial health of our advisor or dealer-manager, or our relationship with them could cause our operations to suffer.

We will pay substantial fees and expenses to our advisor, its affiliates and participating broker/dealers, which payments increase the risk that you will not earn a profit on your investment. The fees payable to our advisor during our operational stage are not based on the performance of our investments.

Our advisory agreement was not negotiated on an arm's-length basis and it is possible that an unaffiliated third party would provide similar services at a lower cost. Because our advisory agreement must be renewed on an annual basis, the fees and expenses that we pay to our advisor may be increased in future renewals.

Our advisor and its affiliates will face conflicts of interest relating to (1) allocating time among us and other programs sponsored by our sponsor, and (2) the compensation arrangements between affiliates of our advisor and other Wells programs which may incent our advisor and its affiliates to act other than in our best interest.

The terms of our mezzanine loan agreement prohibit us from paying distributions or redeeming shares (except in cases of death or disability) until we repay this loan in full.

We have not qualified as a REIT and may fail to meet the requirements to qualify as a REIT, which could require us to pay additional taxes and reduce our funds available to make distributions to our stockholders.

### **Our Corporate Structure**

We expect to own substantially all of our properties and other investments through our operating partnership, Wells Timberland Operating Partnership, L.P. (Wells Timberland OP). Wells Timberland OP was formed in November 2005 to acquire properties on our behalf. We are the

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sole general partner of Wells Timberland OP and own approximately 99.99% of its common units. Wells TIMO is the sole limited partner of Wells Timberland OP and owns the remaining approximately 0.01% of the common units. As a result of this structure, we are considered an UPREIT, or Umbrella Partnership Real Estate Investment Trust.

The UPREIT structure is used because a contribution of property directly to a REIT is generally a taxable transaction to the contributing property owner. In an UPREIT structure, a seller of a property who desires to defer taxable gain on the sale of his property may transfer the property to the UPREIT in exchange for common units in the UPREIT and defer taxation of gain until the seller later sells or exchanges his common units. Using an UPREIT structure may give us an advantage in acquiring desired properties from persons who

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may not otherwise sell their properties because of unfavorable tax results. At present, we have no plans to acquire any specific properties in exchange for common units of Wells Timberland OP.

Wells TIMO also owns 100 special units in Wells Timberland OP, representing 100% of this class of limited partnership interest. The special units entitle Wells TIMO to receive certain distributions and redemption payments described under Compensation of our Advisor and its Affiliates only in the event that certain performance-based conditions are satisfied at the time such amounts become payable. The special units do not entitle the holder to any of the rights of a holder of common units, including the right to regular distributions from operations.

Wells Timberland TRS, Inc. is a wholly-owned subsidiary of Wells Timberland OP. We have elected for Wells Timberland TRS to be a taxable REIT subsidiary, or TRS. A TRS is a fully taxable corporation that may earn income that would not be qualifying REIT income if earned directly by us. Our use of a TRS will enable us to engage in non-REIT qualifying business activities, such as the sale of higher and better use properties. We do not anticipate that a substantial portion, if any, of our income will be earned by our TRS.

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The following chart shows the relationship among us and our subsidiaries and the ownership structure of the Wells entities that perform important services for us.

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**Conflicts of Interest**

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

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

Wells TIMO and its affiliates will receive fees regardless of the quality or performance of the investments acquired or the services provided to us;

The compensation arrangements between Wells TIMO and its affiliates and other Wells programs may incent our advisor and its affiliates to act other than in our best interest; and

The advisory agreement between Wells TIMO and us was not negotiated on an arm's-length basis and it is possible that an unaffiliated third party would provide similar services at a lower cost.

Because our advisory agreement must be renewed on an annual basis, the fees and expenses that we pay may be increased in future renewals.

All of our officers and one of our directors, Jess E. Jarratt, will also face these conflicts because of their affiliation with Wells Capital, Wells TIMO, Wells Real Estate Investment Trust II, Inc., which we refer to as Wells REIT II, Institutional REIT, Inc., which we refer to as Institutional REIT and Wells Total Return REIT, Inc., which we refer to as Wells Total Return REIT. Wells REIT II, Institutional REIT and Wells Total Return REIT are separate REITs from us. Wells Capital, Inc., the owner and manager of our advisor, serves as the advisor to Wells REIT II and Institutional REIT and as a subadvisor to Wells Total Return REIT. In addition, all of our officers serve as officers of Wells REIT II, Institutional REIT and Wells Total Return REIT, and one of our directors, E. Nelson Mills, who is one of our independent directors, also serves as a director of Wells REIT II and Institutional REIT. See the Conflicts of Interest section of this prospectus for a detailed discussion of the various conflicts of interest relating to your investment, as well as the procedures that we

have established to mitigate a number of these potential conflicts.

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#### Compensation of the Advisor and its Affiliates

Wells TIMO and its affiliates will receive compensation and reimbursement for services relating to this offering and the investment and management of our assets. In addition, Wells TIMO has received partnership units in our operating partnership, Wells Timberland OP, constituting a separate series of partnership interests with special distribution and redemption rights, which we refer to as the special units. The most significant items of compensation, fees, expenses and other payments that we expect to pay to Wells TIMO and its affiliates are included in the table below. The selling commissions and dealer-manager fee may vary for different categories of purchasers. See Plan of Distribution. This table assumes the shares are sold through distribution channels associated with the highest possible selling commissions and dealer-manager fees and assumes a \$9.55 price for each share sold through our distribution reinvestment plan, which is the price at which the shares will be sold during this offering.

|  |   | Estimated Amount for  |
|--|---|---|
|  |   | Maximum Offering  |
| Type of Compensation                     | Determination of Amount   | (85,000,000 Shares)   |
| Offering Stage                           |   |   |
| Selling Commissions                      | 7% of gross offering proceeds from the primary offering; all selling commissions will be reallocated to participating broker/dealers.   | \$52,500,000  |
| Dealer-Manager Fee                       | Up to 1.8% of gross offering proceeds from the primary offering; a portion of the dealer-manager fee will be reallocated to participating broker/dealers.   | \$13,500,000  |
| Other Organization and Offering Expenses | Up to 1.2% of gross offering proceeds from the primary offering. Wells TIMO will incur or pay our organization and offering expenses (excluding selling commissions and the dealer-manager fee). We will then reimburse Wells TIMO for these amounts up to 1.2% of gross offering proceeds from the primary offering. | \$9,000,000   |
| Operational Stage                        |   |   |
| Asset Management Fees                    | Monthly fee equal to one-twelfth of 1% of the greater of the cost or value of investments.  | Actual amounts are dependent upon the total equity capital we raise, the amount of debt we incur and results of operations and therefore cannot be determined at this time. |
| Other Operating Expenses                 | Reimbursement of our advisor's cost of providing services to us other than personnel costs relating to services for which our advisor earns real estate disposition fees.   | Actual amounts are dependent upon the results of our operations; we cannot determine these amounts at this time.  |

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| Type of Compensation         | Determination of Amount   | Estimated Amount for<br>Maximum Offering<br>(85,000,000 Shares)  |
|------------------------------|---|--|
| Real Estate Disposition Fees | <p align="center"><b>Liquidity Stage</b></p> <p>Up to 2% of the contract price for any property sold for \$20 million or less and up to 1% of the contract price for any property sold for more than \$20 million, in each case as determined by our board of directors (including a majority of our independent directors) based on market norms for the services provided.</p>  | Actual amounts are dependent upon the results of our operations; we cannot determine these amounts at this time. |
| Special Units                | <p>Our advisor will be entitled to receive (1) 15% of specified distributions made upon the disposition of Wells Timberland OP's assets, and/or (2) a one time payment, in the form of a non-interest-bearing promissory note or shares of our common stock (as applicable), in conjunction with the redemption of the special units upon the occurrence of certain liquidity events or upon the occurrence of certain events that result in a termination or non-renewal of the advisory agreement, but in each case only after the holders of common units, including us, have received (or have been deemed to have received), in the aggregate, cumulative distributions equal to their capital contributions (less any amounts received in redemption of their common units) plus a 7% cumulative non-compounded annual pre-tax return on their net capital contributions.</p> | Actual amounts are dependent upon the results of our operations; we cannot determine these amounts at this time. |

In the event that Wells TIMO receives a special unit redemption payment in connection with a listing, it will no longer be eligible to receive a special unit redemption payment upon termination or non-renewal of the advisory agreement or a special unit distribution in connection with the disposition of Wells Timberland OP's assets. Similarly, in the event that Wells TIMO receives a redemption payment in connection with the termination or non-renewal of the advisory agreement without cause, it will no longer be eligible to receive a special unit redemption payment upon listing or a special unit distribution in connection with the disposition of Wells Timberland OP's assets. The fees payable to our advisor during our operational stage are not based on the performance of our investments. See Management Compensation, The Operating Partnership Agreement, Plan of Distribution and Conflicts of Interest for a more detailed description of the fees and expenses payable to our advisor, our dealer-manager and their affiliates, and the conflicts of interest related to these arrangements.



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#### **Description of Investments**

We currently own approximately 228,108 acres of timberland in fee simple and have long-term leasehold interests on another approximately 94,730 acres of timberland, all located on the Lower Piedmont and Upper Coastal Plains of East Central Alabama and West Central Georgia, which we refer to as the South Central Timberland.

We expect to use substantially all of the net proceeds from this offering to acquire timberland properties in the timber-producing regions of the United States, which include the states in the Appalachian, Great Lakes, Northeastern, Northwestern and Southeastern regions. Our portfolio may also include, to a limited extent, investments in timberland located in other countries. We may also invest in entities that own timberland and make or acquire other types of real estate investments, provided that such other investments are consistent with the preservation of our status as a REIT upon our qualification as a REIT.

Our advisor will strive to diversify our portfolio by maturity of the growth stages of the forest. In order to achieve our income objective, the timberland portfolio will, at least initially, be weighted heavily towards more mature forests with a smaller weighting to younger forests. The portfolio also will be diversified geographically, by timber species, by hardwood/softwood and by milling sub-market. We may also attempt to diversify our portfolio of timberland properties by investing in joint ventures with entities that have complementary investment objectives.

#### **Sources of Income**

We intend to generate income primarily by selling to third parties the right to access our land and harvest our timber pursuant to supply agreements and through open market sales. We also anticipate generating revenue by leasing our timberland for certain activities such as extracting underground natural resources, pine straw collection, recreational uses (hunting, fishing, etc.) and other land use rights. In addition, we will continually review our timberland portfolio to identify properties to sell that may have higher and better uses than as commercial timberland. We do not expect that our higher and better use property sales will generate a substantial portion of our revenue and income.

#### **Board of Directors and Executive Officers**

We currently have a five-member board of directors, four of whom are independent of our advisor. All of our officers are affiliated with our advisor, and one of our independent directors, E. Nelson Mills, serves on the boards of two other programs advised by Wells Capital, the owner of our advisor. Our charter, which requires that a majority of our directors be independent of our advisor, provides that our board may establish committees consisting of at least a majority of our independent directors. Our board of directors is responsible for reviewing the performance of our advisor and must approve other matters set forth in our charter. See [Conflicts of Interest](#) [Certain Conflict Resolution Procedures](#). Our directors are elected annually by the stockholders. See [Management](#) [Executive Officers and Directors](#) for a description of the experience of each of our current executive officers and directors.

#### **Leverage**

On August 3, 2007, our subsidiary, Wells Timberland Acquisition, LLC, which we refer to as Wells Timberland Acquisition, entered into a contract with MeadWestvaco Coated Board, Inc. in which we acquired the South Central Timberland. Wells Timberland Acquisition paid a portion of the purchase price for the South Central Timberland by obtaining funds through \$372,000,000 in debt financing arranged by Wachovia Bank, National Association, or Wachovia Bank. The debt financing included two loans, which we refer to as the senior loan and the mezzanine loan, respectively. The senior loan is an adjustable rate first mortgage loan in the amount of \$212,000,000. The mezzanine loan is a fixed rate second mortgage loan in the amount of \$160,000,000. See [Timberland Investments](#) [South Central Timberland](#) [Financing](#).

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**Michigan Rescission Offer**

On September 11, 2007, we received a letter from the Securities Section of the Office of Financial and Insurance Services of the state of Michigan. This letter stated that, based on a description contained in Supplement No. 3 dated August 10, 2007 to our prospectus of the acquisition of the South Central Timberland and the resulting leverage from the senior loan and mezzanine loan agreements entered into by us in connection with the acquisition of the South Central Timberland, we were required to make a rescission offer to Michigan residents who purchased shares of our common stock prior to the filing of Supplement No. 3. On November 28, 2007, we sent letters making a rescission offer to all Michigan investors who purchased shares of our common stock prior to the filing of Supplement No. 5 dated October 30, 2007 to the prospectus. We are required under Michigan law to have the ability to fully fund any rescission offers accepted by the Michigan investors. As of December 13, 2007, one Michigan investor has accepted our rescission offer and requested a refund of \$20,000. If all Michigan investors accept the rescission offer, we will be required to refund to them an aggregate of \$814,647.

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**QUESTIONS AND ANSWERS ABOUT THE OFFERING**

**What is a REIT?**

In general, a real estate investment trust (or REIT) is a company that:

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

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

is required to pay distributions to investors of at least 90% of its annual REIT taxable income (computed without regard to the dividends paid deduction and excluding net capital gain); and

avoids the double taxation treatment of income that would normally result from investments in a corporation because a REIT does not generally pay federal corporate income taxes on the net income it distributes, provided certain income tax requirements are satisfied. However, REITs are subject to numerous organizational and operational requirements. Upon our qualification as a REIT, if we subsequently fail to qualify for taxation as a REIT in any year, our income will be taxed at regular corporate rates, and we may be precluded from qualifying for treatment as a REIT for the four-year period following our failure to qualify. Even if we qualify as a REIT for federal income tax purposes, we may still be subject to state and local taxes on our income and property and to federal income and excise taxes on our undistributed income.

**When will you become qualified 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 for us to qualify for federal income tax treatment as a REIT. Our qualification as a REIT requires compliance with a number of tests imposed by the Internal Revenue Code, including requirements as to organization and ownership, distributions of our income, and the nature and diversification of our income and assets. Our board of directors has determined that it is unlikely that we will qualify as a REIT for the taxable years ending December 31, 2007 or December 31, 2008. We expect that our board of directors will elect for us to be taxed as a REIT for the first taxable year in which (1) we meet the requirements to 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. As of the date of this prospectus, we do not anticipate that we will elect to be taxed as a REIT until our taxable year ending December 31, 2009. However, we cannot give any assurances that we will qualify to be taxed as a REIT in the future, and our board of directors may determine that it is in our best interest to further delay our REIT election. See Management's Discussion and Analysis of Financial Condition and Results of Operations Election of REIT Status.

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

We intend to use substantially all of the net proceeds from this offering to acquire timberland properties in the timber-producing regions of the United States and to repay the senior loan and the mezzanine loan. Our portfolio also may include investments in timberland located in other countries. Depending primarily upon the number of shares we sell in this offering and assuming a \$9.55 per share price for shares sold under our distribution reinvestment plan, we estimate for each share sold in this offering that between \$9.00 and \$9.11 per share will be available for our investments. We will use the remainder of the offering proceeds to pay the costs of the offering, including selling commissions and the dealer-manager fee, and to pay a fee to our advisor for its services in connection with the selection, acquisition and management of properties. If in the future we pay cash distributions, we expect to use substantially all of the net offering proceeds from the sale of shares under our distribution reinvestment plan to repurchase our common stock pursuant to our share redemption plan.

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



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to earn on our real estate investments, and we may be not be able to invest the proceeds in real estate assets promptly.

**What kind of offering is this?**

We are offering up to 85,000,000 shares of common stock on a best efforts basis. We are offering up to 75,000,000 shares of our common stock in our primary offering at \$10.00 per share, with discounts available for certain categories of purchasers as described in Plan of Distribution below. We are also offering 10,000,000 shares of common stock under our distribution reinvestment plan at \$9.55 per share during the primary offering. We may reallocate the total number of shares we are offering between the primary offering and the distribution reinvestment plan. If we sell the maximum offering of 85,000,000 shares, including the shares offered pursuant to our distribution reinvestment plan, the shares sold in this offering would represent 99.98% of our outstanding shares.

**How does a best efforts offering work?**

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

**How long will this offering last?**

This offering will not last beyond August 11, 2008 (two years from the date of our initial prospectus). However, we may continue to offer shares under our distribution reinvestment plan beyond that date and until we have sold the shares allocated pursuant to this offering for purchase pursuant to the plan. In some states, we may not be able to continue the offering for these periods without renewing the registration statement or filing a new registration statement. We may terminate this offering at any time.

**Who can buy shares?**

Generally, you can buy shares only pursuant to this prospectus if you have either (1) a net worth of at least \$45,000 and an annual gross income of at least \$45,000, or (2) a net worth of at least \$150,000. For this purpose, net worth does not include your home, home furnishings or personal automobiles. These minimum levels are higher in certain states, so you should carefully read the more detailed description under Suitability Standards on page i of this prospectus.

**For whom is an investment in our shares recommended?**

An investment in our shares may be appropriate for you if you meet the minimum suitability standards mentioned above, seek to diversify your personal portfolio with a real estate based investment, seek to preserve your capital contribution, seek to receive current income through our payment of distributions, wish to obtain the benefits of potential long-term capital appreciation and are able to hold your investment for a time period consistent with our liquidity plans. We cannot guarantee that we will achieve any of these objectives.

**Are there any special restrictions on the ownership or transfer of shares?**

Yes. Our charter contains restrictions on the ownership of our shares that prevent any one person from owning more than 9.8% in value of the aggregate of our outstanding shares, or more than 9.8% (in value or in number of shares, whichever is more restrictive) of the aggregate of our outstanding common shares, unless exempted by our board of directors. See Description of Shares Restriction on Ownership of Shares. Our charter also limits your ability to transfer your shares to prospective stockholders unless the transfer complies with minimum purchase requirements, which are described at Plan of Distribution Minimum Purchase Requirements.

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#### **Are there any special considerations that apply to employee benefit plans subject to ERISA or other retirement plans that are investing in shares?**

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

#### **Is there any minimum investment required?**

Yes. For your initial purchase of our shares, you must generally invest at least \$5,000. Once you have satisfied the minimum purchase requirement, any additional purchases of our shares must be in amounts of at least \$100, except for additional purchases pursuant to our distribution reinvestment plan. The minimum investment levels may be higher in certain states, so you should carefully read the more detailed description under "Plan of Distribution" "Minimum Purchase Requirements."

#### **How do I subscribe for shares?**

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

#### **Have you achieved a minimum of \$2,000,000 in this offering?**

Yes. As of July 11, 2007, excluding shares purchased by our executive officers, directors and our advisor and its affiliates, we had received and accepted subscriptions in this offering for 234,477 shares of common stock, or \$2,332,845, thereby exceeding the minimum offering. Having raised the minimum offering, the offering proceeds were released by the escrow agent to us and are available for the acquisition of properties and the other purposes disclosed in this prospectus. As of December 6, 2007, we have received aggregate gross offering proceeds, net of discounts, of approximately \$36 million from the sale of approximately 3.6 million shares in this offering. As of December 6, 2007, approximately 71.4 million shares remained available for sale to the public, exclusive of shares available under our distribution reinvestment plan. Notwithstanding our minimum offering of \$2,000,000 in gross offering proceeds, we will not sell any shares to Pennsylvania investors unless we raise a minimum of \$37,500,000 in gross offering proceeds (including sales made to residents of other jurisdictions). Pending satisfaction of this condition, all Pennsylvania subscription payments will be placed in an account held by the escrow agent, U.S. Bank National Association, in trust for Pennsylvania subscribers' benefit, pending release to us. If we have not reached this \$37,500,000 threshold within 120 days of the date that we first accept a subscription payment from a Pennsylvania investor, we will, within 10 days of the end of that 120-day period, notify Pennsylvania investors in writing of their right to receive a refund with interest and without deductions for expenses. If you request a refund within 10 days of receiving that notice, we will arrange for the escrow agent to return promptly by check the funds deposited in the Pennsylvania escrow account and any interest to you. Amounts held in the Pennsylvania escrow account from Pennsylvania investors not requesting a refund will continue to be held for subsequent 120-day periods until we raise at least \$37,500,000 or until the end of the subsequent escrow periods. At the end of each subsequent escrow period, we will again notify you of your right to receive a refund with interest and without deductions for expenses from the day after the expiration of the initial 120-day period.

#### **What are your exit strategies?**

We presently intend to effect a transaction that will provide liquidity to all of our holders of common stock within five to seven years from the completion of our offering stage, which we will view as complete upon the termination of our last public equity offering prior to the listing of our shares on a national securities exchange. However, there can be no assurance that we will effect such a liquidity event within this period or

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at all. Our board of directors expects to make a preliminary determination regarding our liquidity event no later than five years after the completion of our offering stage. The board's decision regarding when and if we effect a liquidity event may include, but is not limited to:

listing our common stock on a national securities exchange; or

our sale or merger in a transaction that provides our stockholders with cash and/or securities of a publicly traded company. In making the decision as to which exit strategy to pursue, our board of directors will try to determine which transaction would result in greater long-term value for our stockholders. We cannot determine at this time the circumstances, if any, under which our board of directors will determine to list our shares on a national securities exchange. However, if we do not list our shares of common stock on a national securities exchange by August 11, 2018 (10 years from the currently anticipated date of completion of our offering stage), our charter requires that we either:

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

commence an orderly liquidation.

If our shares are not listed before August 11, 2018, we are under no obligation to actually sell our portfolio within a specified period of time since the precise timing of the sale will depend upon real estate and financial markets, economic conditions of the areas in which the properties are located, and U.S. federal income tax effects on stockholders that may be applicable in the future. Furthermore, we cannot assure you that we will be able to liquidate our assets, and it should be noted that we will continue in existence until all of our assets are liquidated.

#### **If I buy shares in this offering, how may I later sell them?**

At the time you purchase the shares, they will not be listed for trading on a national securities exchange. In fact, there will not be any public market for the shares when you purchase them, and we cannot be sure if one will ever develop. In addition, our charter imposes restrictions on the ownership of our common stock, which will apply to potential purchasers of your stock. As a result, you may find it difficult to find a buyer for your shares and realize a return on your investment. See **Description of Shares** **Restriction on Ownership of Shares**.

Our board of directors has adopted a share redemption plan that enables stockholders to sell their shares to us under limited circumstances as determined by the board of directors. However, under the terms of the mezzanine credit agreement entered into in connection with the acquisition of the South Central Timberland, we are prohibited from redeeming any shares until the mezzanine loan is repaid in full except for redemptions sought within two years of the death or qualifying disability of a stockholder.

Under the terms of the share redemption plan and following repayment of the mezzanine loan, after you have held your shares for at least one year, you may be able to sell your shares to us pursuant to our share redemption plan. Initially, we will repurchase shares under the share redemption plan at \$9.10 per share. The initial redemption price will remain fixed until one year after we complete our offering stage. See **Description of Shares** **Share Redemption Plan**. Thereafter, we will redeem shares at a price equal to 95% of the estimated per share value of the shares, as estimated by our advisor or another firm chosen for that purpose. The terms of our share redemption plan are more generous for redemptions sought within two years of a stockholder's death or qualifying disability. See **Description of Shares** **Share Redemption Plan**. There are, however, numerous restrictions on your ability to sell your shares to us under the share redemption plan. For example, the dollar amount we pay in connection with all redemptions during any calendar year may not exceed the net proceeds from the sale of shares under the distribution reinvestment plan during the calendar year and any additional amounts reserved for such purpose by our board of directors. In addition, there are other limits on our ability to redeem shares if the redemption is not sought within two years of a stockholder's

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death or qualifying disability. Our board of directors may amend, suspend or terminate our share redemption plan upon 30 days' notice.

**If I buy shares, will I receive distributions and how often?**

As a traditional corporation, we are not required to make any minimum distributions to our stockholders. Notwithstanding the lack of any federal income tax requirement that we do so, we intend to make regular cash distributions to our stockholders typically on a quarterly basis. However, we are prohibited from making any payments or distributions (or setting aside funds for any payments or distributions) to our stockholders until the mezzanine loan that we obtained in connection with the acquisition of the South Central Timberland is repaid in full, although we may seek to renegotiate the terms of the credit agreement prior to full repayment. See *Risk Factors* *Risks Associated with Debt Financing*, *Timberland Investments* *South Central Timberland Financing*, *Description of Shares* *Distributions* and *Description of Shares* *Share Redemption Plan*.

Pursuant to our charter, our board of directors has the authority to determine when and if it is in our best interest to elect for us to be taxed as a REIT. Our board of directors has determined that it is in our best interest to delay our election of REIT status. See *Management's Discussion and Analysis of Financial Condition and Results of Operations* *Election of REIT Status*. If we qualify and elect to be taxed as a REIT in the future, we will be required to make aggregate annual distributions to our stockholders of at least 90% of our REIT taxable income. REIT taxable income is computed without regard to the distributions paid deduction, excludes net capital gain, and does not necessarily equal net income as calculated in accordance with accounting principles generally accepted in the United States (GAAP). It is possible that substantially all of the income we generate from harvesting timber will constitute net capital gain for federal tax purposes. Unlike most existing REITs, therefore, we do not anticipate that the 90% distribution requirement applicable to REITs will require us to distribute substantial amounts of cash in order to remain qualified as a REIT. The actual amount and timing of distributions, if any, will be at the discretion of our board of directors and will depend upon a number of factors discussed in the section *Description of Shares* *Distributions*, including:

our actual results of operations;

the timing of the investment of the net proceeds of this offering; and

whether the income from our harvesting activities is ordinary income or capital gains.

We will be unable to make distributions until the full repayment of the mezzanine loan and the attainment of certain financial performance measures under the senior loan (although we may seek to renegotiate the terms of the credit agreements prior to their full repayment). See *Timberland Investments* *South Central Timberland Financing*. Upon our qualification as a REIT, our board of directors may authorize distributions in excess of those required for us to maintain REIT status, depending on our financial condition and such other factors as our board of directors deems relevant. We have not established a minimum distribution level.

**How will you calculate the payment of distributions to stockholders?**

Once our board authorizes distributions to stockholders, we expect to calculate our quarterly distributions based upon daily record dates so that investors may be entitled to distributions immediately upon purchasing our shares.

**May I reinvest my distributions in shares of Wells Timberland REIT?**

Yes. You may participate in our distribution reinvestment plan by checking the appropriate box on your subscription agreement or by filling out an enrollment form we will provide to you at your request. The purchase price for shares purchased under this plan will be equal to (1) \$9.55 per share during this offering; (2) 95.5% of the offering price in any subsequent public equity offering during such offering; and (3) 95.5% of the most recent offering price for the first 12 months subsequent to the close of our last public equity offering prior to the listing of our shares on a national securities exchange. After that 12-month period, we will publish a per share valuation determined by our advisor or another firm chosen for that purpose, and





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distributions will be reinvested at the price determined by the valuation process. This valuation may bear little relationship to, and will likely exceed, what you might receive for your shares if you tried to sell them or if we liquidated the portfolio. We will not pay any selling commissions or dealer-manager fees in connection with the sale of shares pursuant to our distribution reinvestment plan, and our advisor will not be entitled to any expense reimbursements from the proceeds of these sales.

We may terminate our distribution reinvestment plan at our discretion at any time upon 10 days' prior written notice to you. For more information regarding the distribution reinvestment plan, see [Description of Shares](#) [Distribution Reinvestment Plan](#).

As a result of the acquisition of the South Central Timberland, we are prohibited from making any payments or distributions (or setting aside funds for any payments or distributions) to any of our stockholders until the mezzanine loan we obtained in connection with the acquisition of the South Central Timberland is repaid in full, although we may seek to renegotiate the terms of the credit agreement prior to its full repayment. See [Risk Factors](#) [Risks Associated with Debt Financing](#), [Description of Shares](#) [Distributions](#) and [Description of Shares](#) [Share Redemption Plan](#).

### **Will the distributions I receive be taxable as ordinary income?**

For periods during which we are not taxed as a REIT, a U.S. stockholder will be required to take into account as dividends any distributions made out of our current or accumulated earnings and profits. Dividends distributed to a U.S. stockholder that is taxed as an individual generally should be treated as qualified dividend income, and thus taxed at capital gains rates, for taxable years beginning prior to 2011. To satisfy the holding period requirement, our common stock must be held for at least 61 days during the 121-day period beginning on the date that is 60 days before the ex-dividend date with respect to such dividend. A U.S. stockholder that is a taxable corporation generally should qualify for the dividends received deduction. Distributions in excess of our current and accumulated earnings and profits will reduce the adjusted tax basis of a U.S. stockholder's shares, and any amount in excess of both our current and accumulated earnings and profits and the adjusted tax basis will be treated as capital gain (long-term capital gain if the shares have been held for more than one year).

For periods during which we are taxed as a REIT, we expect that a significant portion of our distributions to our stockholders will be taxed at capital gains rates, which are currently lower for noncorporate U.S. taxpayers than the rates for ordinary income.

### **Will I be notified of how the company and my investment are performing?**

Yes, we will provide you with periodic updates on the performance of our company and your investment in us, including:

Four quarterly investor statements, which will generally include a summary of the amount you have invested, the quarterly distributions declared (if any), and the amount of distributions reinvested under our distribution reinvestment plan, if applicable;

An annual report; and

An annual IRS Form 1099-DIV, if required.

We will provide this information to you via U.S. mail or courier. However, with your permission, we may furnish this information to you by electronic delivery, including, with respect to our annual report, by notice of the posting of our annual report on our affiliated Web site, which is [www.wellsref.com](http://www.wellsref.com). We also will include on this Web site access to our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, our proxy statement and other filings we make with the SEC, which filings will provide you with periodic updates on our company's performance and the performance of your investment.

### **When will I get my detailed tax information?**

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



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**Who can help answer my questions?**

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

Client Services Department

Wells Investment Securities, Inc.

6200 The Corners Parkway

Norcross, Georgia 30092-3365

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

Fax: (770) 243-8198

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

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

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**RISK FACTORS**

*An investment in our common stock involves various risks and uncertainties. You should carefully consider the following risk factors in conjunction with the other information contained in this prospectus before purchasing our common stock.*

**Risks Related to Investing in this Offering**

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

There is no current public trading market for our shares and we have no current plans to apply for listing on any public securities market. Our charter also prohibits the ownership of more than 9.8% in value of our outstanding shares, or more than 9.8% (in value or in number of shares, whichever is more restrictive) of the aggregate of our outstanding common shares, unless exempted by our board of directors, which may inhibit large investors from desiring to purchase your shares. See Description of Shares Restriction on Ownership of Shares. In addition, we have adopted a share redemption plan but we are not permitted to make any redemptions under the plan (except in cases of death or disability) until our mezzanine loan obtained in connection with the South Central Timberland acquisition has been repaid in full. Once we are able to allow share redemptions under our share redemption plan, the plan includes numerous restrictions that will limit your ability to sell your shares. Our board is also free to amend or terminate the plan upon 30 days' notice after our offering is effective. We describe these restrictions in detail under Description of Shares Share Redemption Plan. Therefore, it will be difficult for you to sell your shares promptly or at all. If you are able to sell your shares, you will likely have to sell them at a substantial discount to their public offering price. It is also likely that your shares will not be accepted as the primary collateral for a loan. You should purchase our shares only as a long-term investment because of the illiquid nature of the shares.

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

While we are investing the proceeds of this offering, the continuing high demand for the type of properties we desire to acquire may cause any distributions and the long-term returns of our investors to be lower than they otherwise would. We believe the current market for timberland properties is extremely competitive. We will be competing for these timberland investments with other entities, including traditional corporations and REITs, forestry products companies, real estate limited partnerships, pension funds and their advisors, bank and insurance company investment accounts, individuals and other entities. Many of our competitors have more experience, greater financial resources, and a greater ability to borrow funds to acquire properties than we do. The greater the number of entities and resources competing for timberland properties, the higher the acquisition prices of these properties will be, which could reduce our profitability and our ability to pay distributions to you. We cannot be sure that our advisor will be successful in obtaining suitable investments on financially attractive terms or that, if our advisor makes investments on our behalf, our objectives will be achieved. The more money we raise in this offering, the greater will be our challenge to invest all of the net offering proceeds on attractive terms. If we, through our advisor, are unable to find suitable investments in properties promptly, we will hold the proceeds from this offering in an interest-bearing account or invest the proceeds in short-term, investment-grade investments and may, ultimately, liquidate. Delays we encounter in the selection and acquisition of properties would likely limit our ability to pay distributions to our stockholders and reduce our stockholders' overall returns.

*We have acquired only one property and have not yet identified any additional properties that we will purchase with the proceeds of this offering, which makes your investment more speculative.*

We have acquired only one property and have not yet identified any additional properties that we will make with the proceeds of this offering. Our ability to identify well-performing properties and achieve our investment objectives depends upon the performance of our advisor in the acquisition of our investments and the determination of any financing arrangements. The large size of this offering increases the challenges that

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our advisor will face in investing our net offering proceeds promptly in attractive properties, and the continuing high demand for the type of properties we desire to purchase increases the risk that we may pay too much for the properties that we do purchase. Because of the illiquid nature of our shares, even if we disclose information about our potential investments before we make them, it will be difficult for you to sell your shares promptly or at all.

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

This offering is being made on a best efforts basis, whereby the brokers participating in the offering are only required to use their best efforts to sell our shares and have no firm commitment or obligation to purchase any of the shares. As a result, the amount of proceeds we raise in this offering may be substantially less than the amount we would need to achieve a broadly diversified timberland property portfolio. If we are unable to raise substantially more than the minimum offering amount, we will make fewer investments resulting in less diversification in terms of the number of investments owned, the geographic regions in which our properties are located, and the species and age of the timber located on those properties. In that case, the likelihood of our profitability being affected by the performance of any one of our properties will increase. Additionally, we are not limited in the number or size of our properties or the percentage of net proceeds we may dedicate to a single property. Your investment in our shares will be subject to greater risk to the extent that we lack a diversified portfolio of timberland properties.

***We have a very limited operating history, which makes our future performance and the performance of your investment difficult to predict.***

We have a very limited operating history. We were incorporated in September 2005, and completed our first investment in timberland on October 9, 2007. See *Timberland Investments* *South Central Timberland*. You should not rely upon the past performance of other Wells-sponsored real estate programs. Such past performance was not related to the ownership of timberland property and would not predict our future results. Our lack of operating history significantly increases the risk and uncertainty you face in making an investment in our shares.

***We expect our real estate investments to be concentrated in timberland properties, making us more vulnerable economically than if our investments were diversified.***

We expect to invest primarily in real estate. Within the real estate industry, we intend to acquire and own timberland properties. We are subject to risks inherent in concentrating investments in real estate. The risks resulting from a lack of diversification become even greater as a result of our current business strategy to invest primarily, if not exclusively, in timberland properties. A downturn in the real estate industry generally or the timber or forest products industries specifically could reduce the value of our properties. A downturn in the timber or forest products industries also could prevent our customers from making payments to us and, consequently, would prevent us from meeting debt service obligations or making distributions to our stockholders. The risks we face may be more pronounced than if we diversified our investments outside real estate or outside timberland properties.

***We expect the majority of our income to qualify as capital gains income and, as a result, we may not be required to make substantial distributions.***

As a traditional corporation, we are not required to make any minimum distributions to our stockholders. We intend to qualify as a REIT upon our satisfaction of certain organizational and operational requirements. See *Management's Discussion and Analysis of Financial Condition and Results of Operations* *Election of REIT Status*. REITs are required to distribute 90% of their net taxable REIT ordinary income. However, unlike ordinary income such as rent, the Internal Revenue Code does not require REITs to distribute capital gains income. Accordingly, except with respect to income generated from a timberland property during the first year following our acquisition of that property, we do not believe that the Internal Revenue Code will

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require us to distribute any material amounts of cash to maintain our REIT status once we are qualified as a REIT, given that we expect the majority of our income to come from timber sales and generally to be treated as a capital gain.

***Our cash distributions are not guaranteed and may fluctuate.***

The actual amount and timing of distributions will be determined by our board of directors in its discretion and typically will depend upon the amount of funds available for distribution, which will depend on items such as current and projected cash requirements, tax considerations and restrictive covenants imposed on us by our credit agreements. As a result, our distribution rate and payment frequency may vary from time to time, and we may not make any distributions until we attain certain financial performance measures under the senior loan, and until the mezzanine loan that we obtained in connection with the acquisition of the South Central Timberland is repaid in full. See Description of Shares Share Redemption Plan. Our long-term strategy is to fund the payment of quarterly distributions to our stockholders entirely from our funds from operations. However, during the early stages of our operations, we may need to borrow funds to make cash distributions. In the event that we are unable to consistently fund quarterly distributions to stockholders entirely from our funds from operations, the value of your shares upon the possible listing of our stock, the sale of our assets or any other liquidity event may be reduced. If we do become qualified as a REIT, the aggregate amount of cash distributed in any given year may exceed the amount of our REIT taxable income generated during the year, and the excess amount will be deemed a return of capital.

***The loss of or inability to obtain key personnel of our advisor or its manager could delay or hinder implementation of our investment strategies, which could limit our ability to make distributions and decrease the value of your investment.***

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

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

Our advisor, Wells TIMO, is a newly formed entity that currently has only seven employees and will rely upon the employees of its manager, Wells Capital, to perform many of the services our advisor is required to perform for us. We are dependent on our advisor to select our investments and conduct our operations; thus, adverse changes in the financial health of Wells Capital could hinder our advisor's ability to successfully manage our operations and our portfolio of investments. As a general partner to many Wells-sponsored programs, Wells Capital may have contingent liability for the obligations of such partnerships. Enforcement of

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such obligations against Wells Capital could result in a substantial reduction of its net worth. If such liabilities affected the level of services that Wells Capital could provide on behalf of Wells TIMO, our operations and financial performance could suffer as well, which would limit our ability to make distributions and decrease the value of your investment.

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

Maryland law provides that a director has no liability in that capacity if he performs his duties in good faith, in a manner he reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Our charter provides generally that no independent director will be liable to us or our stockholders for monetary damages and that we will indemnify them for losses unless they are grossly negligent or engage in willful misconduct. We will also indemnify our independent directors for losses related to alleged state or federal securities laws violations unless the allegations are not successfully adjudicated or dismissed with prejudice or unless a properly informed court of competent jurisdiction has not otherwise determined that indemnification should be made. As a result, you and we may have more limited rights against our independent directors than might otherwise exist under common law, which could reduce your and our recovery from these persons if they act in a negligent manner. In addition, we may be obligated to fund the defense costs incurred by our independent directors (as well as by our other directors, officers, employees and agents) in some cases, which would decrease the cash otherwise available for distribution to you.

**Risks Related to Conflicts of Interest**

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

We rely on Wells TIMO, our advisor, for the day-to-day operation of our business. Wells TIMO is a newly formed entity. Until Wells TIMO hires sufficient personnel of its own, which it may never do, it will rely on the personnel of its manager, Wells Capital, to perform many of the services Wells TIMO is required to perform as our advisor. Wells Capital and its affiliates, including Leo F. Wells, III, our President and the President of Wells Capital, Douglas P. Williams, our Executive Vice President and the Executive Vice President of Wells Capital, and Randall D. Fretz, our Senior Vice President and the Senior Vice President of Wells Capital, have interests in other Wells programs and engage in other business activities, including providing advisory services to Wells REIT II, Institutional REIT, Wells Total Return REIT and other Wells-sponsored real estate programs. As a result, they will have conflicts of interest in allocating their time among us and other Wells programs and activities in which they are involved. During times of intense activity in other programs and ventures, they may devote less time and fewer resources to our business than are necessary or appropriate to manage our business. If this occurs, the returns on our investments, and the value of your investment, may decline.

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

Our executive officers and one of our directors, Jess E. Jarratt, are also officers and directors of Wells Capital, our dealer-manager and other affiliated entities and Wells-sponsored programs, and one of our independent directors, E. Nelson Mills, serves on the boards of two other programs advised by Wells Capital, the owner of our advisor. As a result, they owe fiduciary duties to these various entities and their stockholders and limited partners, which fiduciary duties may from time to time conflict with the fiduciary duties that they owe to us and our stockholders. Their loyalties to these other entities could result in actions or inactions that are detrimental to our business, which could hinder the implementation of our business strategy and our investment and operational opportunities. If we do not successfully implement our business strategy, we may



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be unable to generate the cash needed to make distributions to you and to maintain or increase the value of our assets. See [Management](#) for more information regarding our executive officers and directors.

***Wells TIMO and its affiliates, including our officers and one of our directors, will face conflicts of interest caused by compensation arrangements with us and other programs advised by Wells Capital, which could result in actions that are not in the long-term best interest of our stockholders. The amounts payable to Wells TIMO upon termination of the advisory agreement may also influence decisions about terminating Wells TIMO or our acquisition or disposition of investments.***

Under the advisory agreement between us, Wells Timberland OP and Wells TIMO and pursuant to the terms of the special units Wells TIMO owns in Wells Timberland OP, Wells TIMO is entitled to fees and other payments from us and Wells Timberland OP that are structured in a manner intended to provide incentives to Wells TIMO to perform in our best interest and in the best interest of our stockholders. However, because Wells TIMO does not maintain a significant equity interest in us and is entitled to receive substantial minimum compensation regardless of performance, its interests are not wholly aligned with those of our stockholders. As a result, these compensation arrangements could influence our advisor's advice to us, as well as the judgment of the affiliates of Wells TIMO who serve as our officers or directors. Among other matters, the compensation arrangements could affect their judgment with respect to:

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

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

property sales, which entitle Wells TIMO to real estate commissions and possible success-based payments;

the valuation of our timberland properties, which determines the amount of the asset management fee payable to Wells TIMO and affects the likelihood of any success-based payments;

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

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

whether and when we seek to sell the company or our assets, which sale could entitle Wells TIMO to a success-based payment from Wells Timberland OP but could also hinder its sales efforts for other programs if the sales price for the company or its assets results in proceeds less than the amount needed to preserve our stockholders' capital.

Wells TIMO will have considerable discretion with respect to the terms and timing of acquisition and disposition transactions. Considerations relating to its affiliates' compensation from other programs could result in decisions that are not in the best interest of our stockholders, which could hurt our ability to pay you distributions or result in a decline in the value of your investment.

***The fees we pay Wells TIMO under the advisory agreement and the amounts payable to Wells TIMO under the Wells Timberland OP partnership agreement were not determined on an arm's-length basis and therefore may not be on the same terms as those we could negotiate with a third party. Because the advisory agreement must be renewed annually, the fees and other amounts that we pay to Wells***

*TIMO may increase in future renewals.*

Our independent directors rely on information and recommendations provided by Wells TIMO to determine the fees and other amounts payable to Wells TIMO and its affiliates pursuant to the terms of the

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advisory agreement and the special units in Wells Timberland OP. As a result, these fees and payments cannot be viewed as having been determined on an arm's-length basis and we cannot assure you that an unaffiliated third party would not be willing and able to provide to us similar services at a lower price. Please see "Management Compensation" for a description of the fees and other amounts payable to Wells TIMO and its affiliates. Because the advisory agreement must be renewed on an annual basis, our independent directors may increase the fees and other amounts payable to Wells TIMO in future renewals. If the fees and other amounts we pay Wells TIMO are increased, our ability to pay distributions to our stockholders and make investments will be reduced. See "Conflicts of Interest" "Certain Conflict Resolution Procedures" "Other Charter Provisions Relating to Conflicts of Interest" for more information regarding our advisors' compensation.

### **Risks Related to Our Corporate Structure**

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

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

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

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

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

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

limitations on capital structure;

restrictions on specified investments;

prohibitions on transactions with affiliates; and

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

In order to maintain our exemption from regulation under the Investment Company Act, we must engage primarily in the business of buying real estate. If we are unable to invest a significant portion of the proceeds of this offering in properties, we may avoid being required to register as an investment company by



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

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

***You will have limited control over changes in our policies and operations, which increases the uncertainty and risks you face as a stockholder.***

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

***You may not be able to sell your shares under the share redemption plan and, if you are able to sell your shares under the plan, you may not be able to recover the amount of your investment in our shares.***

Our board of directors has adopted a share redemption plan, but there are significant conditions and limitations that would limit your ability to sell your shares under the plan. In addition, our board of directors may amend, suspend or terminate our share redemption plan upon 30 days notice and without stockholder approval.

As a result of the acquisition of the South Central Timberland, we are prohibited from redeeming any shares under our share redemption plan until the mezzanine loan we obtained in connection with the acquisition of the South Central Timberland is repaid in full except for redemptions sought within two years of the death or qualifying disability of the stockholder. Once we are able to allow share redemptions under our share redemption plan, generally, you will have to have held your shares for at least one year in order to participate in our share redemption plan. We will limit the number of shares redeemed pursuant to our share redemption plan as follows: (1) during any calendar year, we will not redeem in excess of 5% of the weighted-average number of shares outstanding during the prior calendar year; and (2) we may not redeem shares on any redemption date to the extent that such redemptions would cause the amount paid for redemptions (other than those following an investor's death or qualifying disability) since the beginning of the then-current calendar year to exceed the sum of (x) the net proceeds from the sale of shares under our distribution reinvestment plan during such period and (y) any additional amounts reserved for such purpose by our board of directors. These limits might prevent us from accommodating all redemption requests made in any year. Initially, we will repurchase shares under our share redemption plan at \$9.10 per share. The initial redemption price will remain fixed until one year after we complete our offering stage. See [Description of Shares](#) [Share Redemption Plan](#). Thereafter, we will redeem shares at a price equal to 95% of the estimated per share value of the shares, as estimated by our advisor or another firm chosen for that purpose. These restrictions will severely limit your ability to sell your shares should you require liquidity and will limit your ability to recover the value you invested. See [Description of Shares](#) [Share Redemption Plan](#) for more information about the share redemption plan.

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

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

the range of offering prices of comparable corporations, including unlisted REITs; and

the recommendation of our dealer-manager.

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

***Because the dealer-manager is one of our affiliates, you will not have the benefit of an independent review of our company or the prospectus customarily undertaken in underwritten offerings; the absence of an independent due diligence review increases the risks and uncertainty you face as a stockholder.***

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

***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 number of authorized shares of stock without stockholder approval. After your purchase in this offering, our board may elect to (1) sell additional shares in this or future public offerings; (2) issue equity interests in private offerings; (3) issue shares of our common stock upon the exercise of the options we may grant to our independent directors or to employees of Wells TIMO or Wells Capital; (4) issue shares to our advisor, its successors or assigns, in payment of an outstanding fee obligation; or (5) issue shares of our common stock to sellers of properties we acquire in connection with an exchange of limited partnership interests of Wells Timberland OP. 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.

***Payment of fees to Wells TIMO and its affiliates will reduce cash available for investment and distribution and increases the risk that you will not be able to recover the amount of your investment in our shares.***

Wells TIMO and its affiliates will perform services for us in connection with the offer and sale of our shares, the selection and acquisition of our investments, the management of our properties and the administration of our other investments. We will pay Wells TIMO and its affiliates substantial fees for these services. Payment of these fees will result in immediate dilution to the value of your investment and will reduce the amount of cash available for investment in properties or distribution to stockholders. As a result of these substantial fees, we expect that for each share sold in this offering, no more than \$9.11 per share will be available for the purchase of properties, depending primarily upon the number of shares we sell and assuming all shares sold under our distribution reinvestment plan are sold for \$9.55 per share. Wells TIMO, as the holder of the special units, also may be entitled to receive a distribution upon the sale of our properties and/or

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a payment in connection with the redemption of the special units upon the earlier to occur of specified events, including the listing of our shares on a national securities exchange or the termination of the advisory agreement. See Management Compensation. These payments to Wells TIMO increase the risk that the amount available for distribution to stockholders upon a liquidation of our portfolio would be less than the purchase price of the shares in this offering. Substantial up-front fees also increase the risk that you will not be able to resell your shares at a profit, even if our shares are listed on a national securities exchange.

***You may be more likely to sustain a loss on your investment because our sponsor does not have as strong an economic incentive to avoid losses as do sponsors who have made more significant equity investments in the companies they organize.***

As of the date of this prospectus, our sponsor had invested approximately \$203,000 in us, primarily by funding the purchase of the following equity interests held by our advisor: (1) 20,000 shares of our common stock at a price of \$10.00 per share; (2) 200 common units in Wells Timberland OP at \$10.00 per unit; and (3) 100 special units in Wells Timberland OP at \$10.00 per unit. Our sponsor transferred its interest in our shares and in the common and special units of Wells Timberland OP to our advisor on December 28, 2006. Our advisor must retain this \$200,000 investment in us for so long as it remains our advisor. If we are successful in raising enough proceeds to be able to reimburse our advisor for the significant organization and offering expenses of this offering, our advisor will have little exposure to loss. Without this exposure, our investors may be at a greater risk of loss because our advisor does not have as much to lose from a decrease in the value of our shares as do those sponsors who make more significant equity investments in the companies they organize.

***Our designation and issuance of preferred stock may limit proceeds payable to the holders of common stock in the event we are liquidated or dissolved prior to the redemption of the preferred stock.***

We have issued, without stockholder approval, 32,128 shares of Series A preferred stock. If we are 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, whether or not declared, before any payment may be made to the holders of our common stock. As a result, the amount of funds holders of our common stock would otherwise receive upon a liquidation or dissolution would be reduced in the event the Series A preferred shares had not been redeemed prior to such an event.

### **Risks Related to Investments in Timberland**

***We will be subject to the credit risk of our anticipated customers. The failure of any of our anticipated customers to make payments due to us under our supply agreements could reduce our distributions to our stockholders.***

We anticipate that the customers who agree to purchase our timber under supply contracts will range in credit quality from high to low. We will assume the full credit risk of these parties, as we will have no payment guarantees under the contract or insurance if one of these parties fails to make payments to us. While we intend to acquire timberland properties in well-developed and active timber markets with access to numerous customers, we may not be successful in this endeavor. Depending upon the location of the timberland properties we acquire and the supply agreements we enter into, our supply agreements may be concentrated among a small number of customers. Even though we may have legal recourse under our contracts, we may not have any practical recourse to recover payments from some of our customers if they default on their obligations to us. Any bankruptcy or insolvency of our customers, or failure or delay by these parties to make payments to us under our agreements, would cause us to lose the revenue associated with these payments and could cause us to reduce the amount of distributions to our stockholders.

***Changes in demand for higher and better use property may reduce our anticipated land sale revenues.***

We anticipate that we will sell portions of our timberland property base from time to time in the event that we determine that certain properties have become more valuable for development, recreation, conservation

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and other uses than for growing timber, which we refer to as higher and better use property. A number of factors, including a slow-down in commercial or residential real estate development or a reduction in the availability of public funding for conservation projects, could reduce the demand for these properties and reduce any revenues that we could realize from our land sale program.

#### ***Large-scale increases in the supply of timber may affect timber prices and reduce our revenues.***

Some governmental agencies, principally the U.S.D.A. Forest Service and the U.S. Department of the Interior's Bureau of Land Management, own large amounts of timberland. If these agencies choose to sell more timber from their timberland holdings than they have been selling in recent years, timber prices could fall and our revenues could be reduced. Any large reduction in the revenues we expect to earn from our timberland investments may reduce the returns, if any, we are able to achieve for our stockholders.

#### ***The cyclical nature of the forest products industry could impair our ability to make distributions to our stockholders.***

Our operating results will be affected by the cyclical nature of the forest products industry. Unlike other REITs that are parties to leases and other contracts providing for relatively stable payments over a period of years, our operating results will depend on prices for timber that can experience significant variation and have been historically volatile. Like other participants in the forest products industry, we have limited direct influence over the timing and extent of price changes for cellulose fiber, timber and wood products. Although some of the supply agreements we will enter into fix the price of our harvested timber for a period of time, these contracts may not protect us from the long-term effects of price declines and may restrict our ability to take advantage of price increases.

The demand for timber and wood products is affected primarily by the level of new residential construction activity, the supply of manufactured timber products, including imports of timber products, and, to a lesser extent, repair and remodeling activity and other commercial and industrial uses. The demand for timber also is affected by the demand for wood chips in the pulp and paper markets and for hardwood in the furniture and other hardwood industries. The demand for cellulose fiber is related to the demand for disposable products such as diapers and feminine hygiene products. These activities are, in turn, subject to fluctuations due to, among other factors:

changes in domestic and international economic conditions;

interest and currency rates;

population growth and changing demographics; and

seasonal weather cycles (for example, dry summers and wet winters).

Decreases in the level of residential construction activity generally reduce demand for logs and wood products. This can result in lower revenues, profits, and cash flows. In addition, increases in the supply of logs and wood products, at both the local and national level, during favorable price environments also can lead to downward pressure on prices. Timber owners generally increase production volumes for logs and wood products during favorable price environments. Such increased production, however, when coupled with even modest declines in demand for these products in general, could lead to oversupply and lower prices. For example, the federal government owns a large amount of timberland. If the federal government chooses to sell more timber than it has been selling in recent years, then timber prices could fall. Additionally, wood products are subject to increasing competition from a variety of substitute products, including nonwood and engineered wood products. Oversupply can result in lower revenues, profits, and cash flows to us and could impair our ability to make distributions to our stockholders.

#### ***Uninsured losses relating to the timberland properties we acquire may reduce our stockholders' returns.***

The volume and value of timber that can be harvested from the timberlands we acquire may be limited by natural disasters such as fire, hurricane, earthquake, insect infestation, drought, disease, ice storms,





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windstorms, flooding and other weather conditions and natural disasters, as well as other causes such as theft, trespass, condemnation or other casualty. We do not intend to maintain insurance for any loss to our standing timber from natural disasters or other causes. Any funds used for such losses may reduce cash available for distributions to our stockholders.

***The forest products industry and the market for timberland properties are highly competitive, which could force us to pay higher prices for our properties or limit the amount of suitable timberland investments we are able to acquire and thereby reduce our profitability and the return on an investment in us.***

The forest products industry is highly competitive in terms of price and quality. We are a newly organized company with limited resources and we do not currently own any timberland. Many of our competitors, both domestic and international, have substantially greater financial and operating resources and are better able to absorb the risks of timberland investing. In recent years, the timberland investment business has experienced increasing competition for the purchase of timberland properties from both commercial and residential real estate developers as a result of urban and suburban expansion. We expect this trend to continue. Many real estate developers have substantially greater financial resources than our company. In addition, many developers tend to use high relative amounts of leverage to acquire development parcels, which we may not be willing or able to incur. Purchases of timberland parcels for development not only reduce the amount of suitable timberland investment properties, but also tend to separate larger, existing timberland properties into smaller units, which have reduced economies of scale and are less desirable for harvesting and the future marketability of the property for timber harvesting or other uses. Competition from real estate developers and others limits the amount of suitable timberland investments available for us to acquire, and any increase in the prices we expect to pay for timberland may reduce the returns, if any, we are able to achieve for our stockholders.

***Harvesting our timber may be subject to limitations which could impair our ability to receive income and make distributions to our stockholders.***

Weather conditions, timber growth cycles, property access limitations, and regulatory requirements associated with the protection of wildlife and water resources may restrict harvesting of timberlands as may other factors, including damage by fire, hurricane, earthquake, insect infestation, disease, prolonged drought and other natural disasters. Furthermore, we may choose to invest in timberlands that are intermingled with sections of federal land managed by the U.S.D.A. Forest Service or other private owners. In many cases, access might be achieved only through a road or roads built across adjacent federal or private land. In order to access these intermingled timberlands, we would need to obtain either temporary or permanent access rights to these lands from time to time. Our revenue, net income and cash flow from our operations will be dependent to a significant extent on the continued ability to harvest timber on our timberland at adequate levels and in a timely manner.

***We face possible liability for environmental clean up costs and wildlife protection laws related to the timberland properties we acquire, which could increase our costs and reduce our profitability and cash distributions to our stockholders.***

We will be subject to regulation under, among other laws, the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response Compensation and Liability Act of 1980, the National Environmental Policy Act, and the Endangered Species Act, as well as comparable state laws and regulations. Violations of various statutory and regulatory programs that apply to our operations could result in civil penalties; damages, including natural resource damages; remediation expenses; potential injunctions; cease-and-desist orders; and criminal penalties.

We may engage in the following activities that are subject to regulation:

forestry activities, including harvesting, planting, and road building use and maintenance;

the generation of air emissions;

the discharge of industrial wastewater and storm water; and



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the generation and disposal of both hazardous and nonhazardous wastes.

Laws and regulations protecting the environment have generally become more stringent in recent years and could become more stringent in the future. Some environmental statutes impose strict liability, rendering a person liable for environmental damage without regard to the person's negligence or fault. While timberland properties do not generally carry as high a risk of environmental contamination as certain other real estate assets such as industrial properties, we may acquire timberlands subject to environmental liabilities, such as cleanup of hazardous substance contamination and other existing or potential liabilities of which we are not aware, even after investigations of the properties. We may not be able to recover any of these liabilities from the sellers of these properties. The cost of these cleanups could therefore increase our operating costs and reduce our profitability and cash available to make distributions to our stockholders. The existence of contamination or liability also may materially impair our ability to use or sell an affected timberland property.

The Endangered Species Act and comparable state laws protect species threatened with possible extinction. A number of species present on timberlands in the United States have been, and in the future may be, protected under these laws, including the northern spotted owl, marbled murrelet, bald eagle, several trout and salmon species in the Northwest; and the red-cockaded woodpecker, bald eagle, wood stork, red hill salamander and flatwoods salamander in the South. Protection of threatened and endangered species may include restrictions on timber harvesting, road building and other forest practices on private, federal and state land containing the affected species. The size of the area subject to restriction will vary depending on the protected species at issue, the time of year and other factors, but can range from less than one to several thousand acres.

We expect that environmental groups and interested individuals will intervene with increasing frequency in the regulatory processes in the states where we intend to seek to acquire timberland properties with the proceeds of this offering. For example, if we acquire timberland property in Washington State, we would be required to file a Forest Practice Application for each unit of timber to be harvested. These applications may be denied or restricted by the regulatory agency or appealed by other parties, including citizens groups. Environmental groups and interested individuals may also appeal individual forest practice applications or file petitions with the Forest Practices Board to challenge the regulations under which forest practices are approved. Appeals or actions of the regulatory agencies could delay or restrict timber harvest activities pursuant to these permits, and delays or harvest restrictions on a significant number of applications could result in increased costs. In addition to intervention in regulatory proceedings, interested groups and individuals may file or threaten to file lawsuits that seek to prevent us from implementing our operating plans. Any lawsuit or even a threatened lawsuit could delay harvesting on our timberlands. Among the remedies that could be enforced in a lawsuit is a judgment entirely preventing or restricting harvesting on a part of our targeted timberland properties.

### ***Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties and reduce distributions to our stockholders.***

Because real estate investments are relatively illiquid, our ability to promptly sell one or more timberland properties in our portfolio in response to changing economic, financial and investment conditions is limited. The real estate market is affected by many factors that are beyond our control, including:

changes in international, national, regional and local economic and market conditions;

changes in interest rates and in the availability, cost and terms of debt financing;

changes in governmental laws and regulations, fiscal policies and zoning ordinances, and the related costs of compliance with laws and regulations, fiscal policies and ordinances;

forestry costs associated with maintaining and managing timberland properties;

changes in operating expenses; and

fires, hurricanes, earthquakes, floods and other natural disasters as well as civil unrest, acts of war and terrorism, each of which may result in uninsured losses.

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As part of our business plan and as necessary, we intend to sell portions of our timberland property holdings during opportunistic times. We plan on selling timberland to third parties who intend to put the timberland to a higher and better use and therefore may be willing to compensate us for the land in excess of prices we would typically receive if the land remained as timber-producing property. In acquiring a timberland property, however, and in entering into long-term supply agreements, we may agree to lock-out provisions that materially restrict us from selling that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These factors and any others that would impede our ability to respond to market opportunities could result in lower distributions to our stockholders than would be available if we were able to quickly respond to such market opportunities.

***If we sell properties and provide financing to purchasers, defaults by the purchasers would decrease our cash flows and limit our ability to make distributions to our stockholders.***

In some instances we may sell our properties by providing financing to purchasers. When we provide financing to purchasers, we will bear the risk that the purchaser may default, which could negatively impact our cash distributions to stockholders. Even in the absence of a purchaser default, the distribution of the proceeds of sales to our stockholders, or our reinvestment of such proceeds in other assets, will be delayed until the promissory notes or other property we may accept upon a sale are actually paid, sold, refinanced, or otherwise disposed of.

***We may be unable to obtain accurate data on the volume and quality of the standing timber on a property that we intend to acquire, which may impair our ability to derive the anticipated benefits from the timberland property.***

The quality and reliability of data concerning timberland properties varies greatly. Professional foresters collect data on species, volumes and quantities of timber on a particular property by conducting cruises through the property. During these cruises, foresters sample timber stands at specified intervals and locations that have been pre-determined by forest statisticians. A cruise that is poorly designed or executed can result in misleading data. In addition, errors in compiling the data may lead to erroneous estimates of the volume and quality of the timber on a particular property. The latest inventory data available at the time of a timberland transaction may be based on cruises that are more than a year old. Timberland cruises are time-consuming and expensive, and, as a result, are not usually conducted on an annual basis. Consequently, timber inventories are often updated without a cruise by subtracting out the volume of timber that was harvested (usually an accurate number) and by adding in the volume of estimated tree growth (usually a less accurate number than the removal number). We may not be able to require an adjustment to the property purchase price from the seller if a post-acquisition cruise reveals a significant difference in timber volumes or quality from the pre-acquisition data. If we are unable to obtain or develop accurate and reliable data related to the timberland in which we invest, then our assumptions, forecasts and valuations relating to those timberlands will be incorrect. As a result, we may not be able to realize the anticipated returns from those timberlands or to sell the property for the price that we anticipated, which could negatively impact our financial condition and our ability to make distributions to stockholders.

***Our estimates of the timber growth rates on our properties may be inaccurate, which would impair our ability to realize expected revenues from those properties.***

We rely upon estimates of the timber growth rates and yield when acquiring and managing our timberland properties. These estimates are central to forecasting our anticipated timber revenues and expected cash flows. Growth rates and yield estimates are developed by forest statisticians using measurements of trees in research plots on a property. The growth equations predict the rate of height and diameter growth of trees so foresters can estimate the volume of timber that may be present in the tree stand at a given age. Tree growth varies by soil type, geographic area and climate. Inappropriate application of growth equations in forest management planning may lead to incorrect estimates of future volumes. If these estimates are incorrect, our ability to manage our timberland in a profitable manner will be diminished, which may interfere with our ability to make distributions to stockholders.

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***Changes in assessments, property tax rates and state property tax laws may reduce our net income and our ability to make distributions to our stockholders.***

Our expenses may be increased by assessments of our timberland properties and changes in property tax laws. We generally intend to hold our timberland properties for a substantial amount of time. Property values tend to increase over time, and, as property values increase, the related property taxes generally also increase, which would increase the amount of taxes we pay. In addition, changes to state tax laws or local initiatives could also lead to higher tax rates on our timberland properties. Because each parcel of a large timberland property is independently assessed for property tax purposes, our timberland properties may receive a higher assessment and be subject to higher property taxes. In some cases, the cost of the property taxes may exceed the income that could be produced from that parcel of property if we continue to hold it as timberland. If our timberland properties become subject to higher tax rates, the revenues that we use to pay distributions could be diminished and our stockholders may receive a lower return on their investment.

***Changes in land uses in the vicinity of our timberland properties may increase the amount of the property that we classify as HBU property, and property tax regulations may reduce our ability to realize the values of those HBU properties.***

An increase in the value of other properties in the vicinity of our timberland properties may prompt us to sell parcels of our land as higher and better use, or HBU, properties. Local, county and state regulations may prohibit us from, or penalize us for, selling a parcel of timberland for real estate development. Some states regulate the number of times that a large timberland property may be subdivided within a specified time period, which would also limit our ability to sell our HBU property. In addition, in some states timberland is subject to certain property tax policies that are designed to encourage the owner of the timberland to keep the land undeveloped. These policies may result in lower taxes per acre for our timberland properties as long as they are used for timber purposes only. However, if we sell a parcel of timberland in such states as a HBU property, we may trigger tax penalties, which could require us to repay all of the tax benefits that we have received. Our inability to sell our HBU land on terms that are favorable to us could negatively affect our financial condition and our ability to make distributions to our stockholders.

***We may be unable to properly estimate non-timber revenues from the properties that we acquire, which would impair our ability to acquire attractive properties, as well as our ability to derive the anticipated revenues from those properties.***

When we acquire properties, we likely will expect to realize revenues from timber and non-timber related activities, such as the sale of conservation easements and hunting and recreation leases. Non-timber activities can contribute significantly to the revenues that we derive from a particular property. We will rely on estimates to forecast the amount and extent of revenues from non-timber related activities on our timberland properties. If our estimates concerning the revenue from non-timber related activities are incorrect, we will not be able to realize the projected revenues. If we are unable to realize the level of revenues that we expect from non-timber activities, our revenues from the underlying timberland would be less than expected and our ability to make distributions to our stockholders may be negatively impacted.

***Our international investments will be subject to changes in global market trends that could adversely impact our ability to make distributions to our stockholders.***

A portion of our timberland portfolio may consist of properties located in timber-producing regions outside of the U.S. These international investments could cause our business to be subject to unexpected, uncontrollable and rapidly changing events and circumstances in addition to those experienced in U.S. locations. Adverse changes in the following factors, among others, could have a negative impact on our business, results of operations and ability to make distributions to our stockholders:

effects of exposure to currency other than United States dollars, due to having non-U.S. customers and foreign operations;

regulatory, social, political, labor, or economic conditions in a specific country or region; and

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trade protection laws, policies and measures, and other regulatory requirements affecting trade and investment, including loss or modification of exemptions for taxes and tariffs, and import and export licensing requirements.

**Risks Associated with Debt Financing**

*If we default on the terms of the mezzanine loan or the senior loan obtained by us in connection with the acquisition of the South Central Timberland, stockholders who invest in us prior to the repayment of the mezzanine loan or the senior loan could lose some or all of their investment.*

We borrowed approximately \$160,000,000 to fund a portion of the purchase price of the South Central Timberland in the form of a mezzanine loan, which we must repay on or before October 17, 2008. Additionally, we borrowed \$212,000,000 in the form of a senior loan, which we must repay on or before September 9, 2010. The mezzanine loan is secured by, among other things, a first priority security interest in the funds raised in this offering. The senior loan is secured by, among other things, a second priority security interest in the funds raised in this offering. Our ability to repay the mezzanine loan and the senior loan is dependent upon our success in raising substantial funds pursuant to this offering. If the amount of proceeds we raise in this offering is less than the amount that we need to repay the mezzanine loan and the senior loan, respectively, when due, then we will be in default under the mezzanine loan or the senior loan, as the case may be. If we default on the mezzanine loan, the lenders for such loan will be entitled to all of the proceeds of our offering up to the amount of the mezzanine loan. If we default on the senior loan, the lenders for such loan will be entitled to all of the proceeds of our offering, after repayment of the mezzanine loan, up to the amount of the senior loan. If the lenders under either loan foreclose upon their security interest in a substantial amount of proceeds of our offering, our existing stockholders could lose some or all of their investment and it would be unlikely that we would be able to meet our investment objectives or to raise additional capital in this offering or otherwise in order to continue our operations. We have guaranteed both the senior loan and the mezzanine loan, but on a limited basis that covers only losses incurred by CoBank, ACB or Wachovia Bank due to certain bad acts of the borrowers and related loan parties. The mezzanine loan is also fully guaranteed by Wells Real Estate Funds, Inc.

*The credit agreement for the mezzanine loan obtained by us in connection with the acquisition of the South Central Timberland prohibits us from paying distributions or redeeming shares (except in cases of death or disability) until we repay the loan in full.*

The mezzanine loan contains restrictive covenants that prohibit us from declaring, setting aside funds for, or paying any dividend, distribution or other payment to our stockholders while the loan is outstanding. As a result, we will be unable to make any payments or distributions (or set aside funds for any payments or distributions) to our stockholders until the mezzanine loan is repaid in full. The mezzanine loan has a maturity date of October 17, 2008, and the senior loan has a maturity date of September 9, 2010. Because distributions of at least 90% of REIT taxable income is one of the requirements for REIT qualification, we may not be able to qualify as a REIT until, among other things, the mezzanine loan is repaid in full, or the terms of the credit agreement are amended prior to its full repayment (although no assurance can be made that we may be able to renegotiate the terms of the credit agreement). Additionally, the credit agreement for the mezzanine loan prohibits us from redeeming our stockholders' shares under our share redemption plan until the mezzanine loan has been repaid in full. Until the mezzanine loan has been repaid in full, we are permitted to redeem shares only if the redemption is sought within two years of the death or qualifying disability of a stockholder under the plan.

*We are likely to incur mortgage and other indebtedness, which may increase our business risks and may reduce the value of your investment.*

We have acquired, and in the future may acquire, real properties by borrowing funds. In addition, we may incur mortgage debt and pledge some or all of our real properties as security for that debt to obtain funds to acquire additional real properties. If we become qualified as a REIT, we may also borrow funds if needed to satisfy the REIT tax qualification requirement that we distribute at least 90% of our annual REIT taxable



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income to our stockholders. We may also borrow if we otherwise deem it necessary or advisable to ensure that we maintain our qualification as a REIT for federal income tax purposes.

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

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

If mortgage debt is unavailable at reasonable rates, we may not be able to finance the purchase of properties. If we place mortgage debt on properties, we run the risk of being unable to refinance the properties when the loans become due, or of being unable to refinance on favorable terms. If interest rates are higher when we refinance the properties, our income could be reduced. We may be unable to refinance properties. If any of these events occurs, our cash flow would be reduced. This, in turn, would reduce cash available for distribution to you and may hinder our ability to raise more capital by issuing more stock or by borrowing more money.

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

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

***Increases in interest rates could increase the amount of our debt payments and limit our ability to pay distributions to our stockholders.***

We have incurred significant indebtedness under the terms of the mezzanine loan and the senior loan obtained by us in connection with the acquisition of the South Central Timberland and may incur additional debt in the future. Interest we pay under both the mezzanine loan and the senior loan and any other debt we incur will reduce our cash available for distributions. Additionally, if we incur variable-rate debt, increases in interest rates would increase our interest cost, which would reduce our cash flows and our ability to pay distributions to you. In addition, if we need to repay existing debt during periods of high interest rates, we could be required to sell one or more of our investments in order to repay the debt, which sale at that time might not permit realization of the maximum return on such investments.

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

Our charter does not limit us from incurring debt until our aggregate debt would exceed 300% of our net assets (generally expected to approximate 75% of the cost of our assets before noncash reserves and

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depreciation), unless the excess borrowing over such level is approved by a majority of the independent directors. Our board (including the independent directors) unanimously approved our borrowing in excess of the 300% net assets limitation in order to obtain the mezzanine loan and the senior loan in connection with the acquisition of the South Central Timberland. This borrowing significantly increased our debt levels. These higher debt levels may cause us to incur higher interest charges on any additional debt incurred in the future, will result in higher debt service payments in order to service the higher debt levels, and have been accompanied by additional restrictive covenants such as the prohibition on paying distributions or redeeming shares until the mezzanine loan is repaid in full (except for those redemptions allowed in cases of death or qualifying disability), and until certain financial performance measures are met under the senior loan. See Description of Shares Share Redemption Plan and Timberland Investments South Central Timberland Financing. These factors limit the amount of cash we have available to distribute and could result in a decline in the value of your investment. While we intend to comply with the provisions of our charter which require our independent directors to approve any borrowings in excess of 300% of our net assets, we have not established any fixed percentage of leverage that we will not exceed in the near term, and we cannot assure you that our independent directors will not approve any borrowings in excess of 300% of our net assets in the future. See Business and Policies Borrowing Policies.

#### ***Actions of our joint venture partners could reduce the returns on our joint venture investments and decrease your overall return.***

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

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

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

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

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

### **Federal Income Tax Risks**

#### ***Our determination to delay our election to be taxed as a REIT could result in adverse tax consequences to us and our stockholders.***

We acquired the South Central Timberland on October 9, 2007, and as of such date had not yet qualified as a REIT. We do not expect to qualify to be taxed as a REIT for our taxable years ending December 31, 2007 and December 31, 2008. We may elect to be taxed as a REIT for a future year in which we otherwise qualify to be taxed as a REIT. We refer to the first day of the first taxable year in the future for which we qualify and elect to be taxed as a REIT as our REIT commencement date. If we have a net built-in gain in our assets as of the REIT commencement date and subsequently recognize gain on the disposition of any assets we hold at the REIT commencement date, then we will be subject to tax at the highest regular corporate rate during the 10-year period beginning on the REIT commencement date on the lesser of (A) the excess of the fair market value of the asset disposed of as of the REIT commencement date over our basis in the asset as of the REIT commencement date (the built-in gain with respect to that asset as of the REIT commencement date), (B) the amount of gain we would otherwise recognize on the disposition, or (C) the amount of net built-in gain in our assets as of the REIT commencement date not already recognized during the 10-year period. We would be subject to this tax liability even if we qualify and maintain our status as a REIT. Any recognized built-in gain will retain its character as ordinary income or capital gain and will be taken into account in determining REIT taxable income and our distribution requirement. Any tax on the recognized built-in gain will reduce REIT taxable income. If we elect REIT status in the future, we will have to determine whether we have a net built-

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in gain as of the REIT commencement date. If we do, we may choose not to sell assets we might otherwise sell during the 10-year period in which the built-in gain tax applies in order to avoid the built-in gain tax. The IRS has issued a private letter ruling to another REIT indicating that the built-in gain tax would not apply to sales of timber sold during the 10-year period following its conversion to a REIT. We are not entitled to rely on that ruling and have not requested our own IRS ruling.

In addition, to qualify as a REIT, we cannot have at the end of any REIT taxable year any undistributed earnings and profits that are attributable to a non-REIT taxable year. We will monitor our earnings and profits position to allow us to be in a position to satisfy this requirement if our board of directors determines that we should elect to be taxed as a REIT.

***We have not qualified as a REIT and may fail to meet the requirements to qualify as a REIT, which will require us to pay additional taxes and which could reduce our funds available to make distributions to our stockholders.***

We are not qualified as a REIT currently and are subject to federal and state and local income taxes on our taxable income. Our qualification as a REIT will depend upon our ability to meet, on an ongoing basis, requirements regarding our organization and ownership, distributions of our income, the nature and diversification of our income and assets, and other tests imposed by the Internal Revenue Code. We have no assurances that we will satisfy the requirements for REIT qualification now or in the future. Alston & Bird LLP, our legal counsel, will not review our compliance with the REIT qualification standards on an ongoing basis. Future legislative, judicial or administrative changes to the federal income tax laws could be applied retroactively, which could result in our disqualification as a REIT.

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

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

If you participate in our distribution reinvestment plan, you will be deemed to have received, and for income tax purposes will be taxed on, the amount reinvested in shares of our common stock to the extent the amount reinvested was not a tax-free return of capital. In addition, you will be treated for tax purposes as having received an additional distribution to the extent the shares are purchased at a discount to fair market value. As a result, unless you are a tax-exempt entity, you may have to use funds from other sources to pay your tax liability on the value of the shares of common stock received. See Description of Shares Distribution Reinvestment Plan Tax Consequences of Participation.

***Even if we qualify as a REIT for federal income tax purposes, we may be subject to other tax liabilities that reduce our cash flow and our ability to make distributions to you.***

Even if we become qualified as a REIT for federal income tax purposes, we may be subject to some federal, state and local taxes on our income or property. For example:

In order to qualify as a REIT, we must distribute annually at least 90% of our REIT taxable income to our stockholders (which is determined without regard to the dividends paid deduction or net capital gain). To the extent that we satisfy the distribution requirement but distribute less than 100% of our REIT taxable income, we will be subject to federal corporate income tax on the undistributed income.

We will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions we pay in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years.



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If we have net income from the sale of foreclosure property that we hold primarily for sale to customers in the ordinary course of business or other nonqualifying income from foreclosure property, we must pay a tax on that income at the highest corporate income tax rate.

If we sell a property, other than foreclosure property, that we hold primarily for sale to customers in the ordinary course of business, our gain would be subject to the 100% prohibited transaction tax.

Our taxable REIT subsidiaries will be subject to tax on their taxable income.

***Upon qualification as a REIT, we may be forced to borrow funds during unfavorable market conditions to make distributions to our stockholders, which could increase our operating costs and decrease the value of your investment.***

Once we become qualified as a REIT, we must distribute to our stockholders each year 90% of our REIT taxable income (which is determined without regard to the dividends paid deduction or net capital gain). At times, we may not have sufficient funds to satisfy these distribution requirements and may need to borrow funds to maintain our REIT status and avoid the payment of income and excise taxes. These borrowing needs could result from (1) differences in timing between the actual receipt of cash and inclusion of income for federal income tax purposes, (2) the effect of nondeductible capital expenditures, or (3) the creation of reserves. We may need to borrow funds at times when the market conditions are unfavorable. Such borrowings could increase our costs and reduce the value of our common stock.

***To qualify and maintain our REIT status, we may be forced to forego otherwise attractive opportunities, which could delay or hinder our ability to meet our investment objectives and lower the return on your investment.***

To qualify as a REIT, we must satisfy tests on an ongoing basis concerning, among other things, the sources of our income, nature of our assets and the amounts we distribute to our stockholders. We may be required to make distributions to stockholders at times when it would be more advantageous to reinvest cash in our business or when we do not have funds readily available for distribution. Compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

***The extent of our use of taxable REIT subsidiaries may affect the value of our common stock relative to the share price of other REITs.***

We intend to conduct a portion of our business activities through one or more taxable REIT subsidiaries, or TRSs. A TRS is a fully taxable corporation that may earn income that would not be qualifying REIT income if earned directly by us. Our use of TRSs will enable us to engage in non-REIT qualifying business activities, such as the sale of higher and better use properties. However, under the Internal Revenue Code, no more than 20% of the value of the assets of a REIT may be represented by securities of one or more TRSs. This limitation may affect our ability to increase the size of our non-REIT qualifying operations. Furthermore, because the income earned by our TRSs will be subject to corporate income tax and will not be subject to the requirement to distribute annually at least 90% of our REIT taxable income to our stockholders, our use of TRSs may cause our common stock to be valued differently than the shares of other REITs that do not use TRSs as extensively as we expect to use them.

***Certain of our business activities are potentially subject to the prohibited transaction tax, which could reduce the return on your investment.***

Upon qualification as a REIT, we would be subject to a 100% tax on any net income from prohibited transactions. In general, prohibited transactions are sales or other dispositions of property to customers in the ordinary course of business. Sales by us of higher and better use property at the REIT level could, in certain circumstances, constitute prohibited transactions.

We intend to avoid the 100% prohibited transaction tax upon qualification as a REIT by conducting activities that would be prohibited transactions through one or more TRSs. We may not, however, always be

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able to identify properties that will become part of our dealer land sales business. Therefore, if we sell any higher and better use properties at the REIT level that we incorrectly identify as property not held for sale to customers in the ordinary course of business or that subsequently become properties held for sale to customers in the ordinary course of business, we may be subject to the 100% prohibited transactions tax.

### **Retirement Plan Risks**

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

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

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

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

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

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

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

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

your investment will not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the Internal Revenue Code. Failure to satisfy the fiduciary standards of conduct and other applicable requirements of ERISA and the Internal Revenue Code may result in the imposition of civil and criminal penalties, and can subject the fiduciary to equitable remedies. In addition, if an investment in our shares constitutes a prohibited transaction under ERISA or the Internal Revenue Code, the fiduciary who authorized or directed the investment may be subject to the imposition of excise taxes with respect to the amount invested.

*The annual statement of value that we will send to stockholders subject to ERISA and to certain other plan stockholders is only an estimate and may not reflect the actual value of our shares.*

The annual statement of value will report the estimated value of each share of common stock as of the close of our fiscal year. Our advisor or another firm we choose for this purpose will prepare this annual estimated value of our shares based on the estimated amount that would be received if our assets were sold as of the close of the fiscal year and if the proceeds, together with our other funds, were distributed pursuant to a liquidation. For 12 months after the completion of our last public equity offering prior to the listing of our shares on a national securities exchange, our advisor will use the most recent price paid to acquire a share in that offering (ignoring purchase price discounts for certain categories of purchasers) as its estimated per share value of our shares. After that time, we would publish a per share valuation determined by our advisor or another firm chosen for that purpose. No independent appraisals of our assets will be required during the initial period or at any

time thereafter. You should be aware that:

a value included in the annual statement may not actually be realized by us or by our stockholders upon liquidation;

stockholders may not realize that value if they attempted to sell their shares; and

using the estimated statement of value, or the method used to establish the value, may not comply with any reporting and disclosure or annual valuation requirements under ERISA or other applicable law.

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We will stop providing annual statements of value if our common stock becomes listed for trading on a national securities exchange. See ERISA Considerations Annual Valuation for additional discussion regarding the annual statement of value.

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

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



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### ESTIMATED USE OF PROCEEDS

The following table sets forth information about how we intend to use the estimated proceeds raised in this offering assuming that we sell a minimum of 200,000 shares of common stock, at \$10.00 per share, a midrange point of 37,500,000 shares of common stock, at \$10.00 per share, and the maximum of 75,000,000 shares of common stock, at \$10.00 per share, in our primary offering. We also disclose information below regarding the estimated use of proceeds assuming we sell the maximum number of shares (85,000,000), including 10,000,000 shares of common stock, at \$9.55 per share, pursuant to our distribution reinvestment plan. Many of the figures set forth below represent management's best estimate since they cannot be precisely calculated at this time. Depending primarily on the number of shares we sell in the primary offering and the distribution reinvestment plan, we estimate that approximately 90.0% to 91.1% of our gross offering proceeds, or \$9.00 to \$9.11 per share, respectively, will be used for investments and the repurchase of shares under our share redemption plan, while the remainder will be used to pay offering expenses, including selling commissions and the dealer-manager fee, and to pay a fee to our advisor for its services in connection with the management of our real estate investments. We expect to meet all of our working capital needs out of cash flow from operations. However, to the extent that we have insufficient funds to meet our needs for working capital, we may establish reserves from gross offering proceeds. The allocation of shares sold pursuant to the primary offering and pursuant to the distribution reinvestment plan will affect our gross proceeds and the amount available for investment. We have not given effect to any special sales or volume discounts that could reduce the amount of selling commissions shown below. The figures below reflect that we will not pay commissions or dealer-manager fees in connection with shares issued through our distribution reinvestment plan.

|   | 85,000,000 Shares of Common Stock |       |  |       |                                      |        |  |        |                               |       |
|---|-----------------------------------|-------|--|-------|--------------------------------------|--------|--|--------|-------------------------------|-------|
|   | 200,000 shares<br>(\$10.00/share) |       | Primary Offering<br>37,500,000 shares<br>(\$10.00/share) |       | 75,000,000 shares<br>(\$10.00/share) |        | Distribution<br>Reinvestment Plan<br>10,000,000 shares<br>(\$9.55/share) |        | Total<br>85,000,000<br>shares |       |
|   |                                   |       |  |       |                                      |        |  |        |                               |       |
|   | \$                                | %     | \$   | %     | \$                                   | %      | \$   | %      | \$                            | %     |
| <b>Gross Offering Proceeds</b>                                | 2,000,000                         | 100.0 | 375,000,000  | 100.0 | 750,000,000                          | 100.00 | 95,500,000   | 100.00 | 845,500,000                   | 100.0 |
| <b>Less Offering Expenses</b>                                 |                                   |       |  |       |                                      |        |  |        |                               |       |
| <b>Selling Commissions</b>                                    | 140,000                           | 7.0   | 26,250,000   | 7.0   | 52,500,000                           | 7.0    |  |        | 52,500,000                    | 6.2   |
| <b>Dealer-Manager Fee</b>                                     | 36,000                            | 1.8   | 6,750,000  | 1.8   | 13,500,000                           | 1.8    |  |        | 13,500,000                    | 1.6   |
| <b>Organization and Other Offering Expenses<sup>(1)</sup></b> | 24,000                            | 1.2   | 4,850,000  | 1.2   | 9,000,000                            | 1.2    |  |        | 9,000,000                     | 1.1   |
| <b>Estimated Amount to be Invested<sup>(2)(3)</sup></b>       | 1,800,000                         | 90.0  | 337,850,000  | 90.0  | 675,000,000                          | 90.0   | 95,500,000   | 100.00 | 770,500,000                   | 91.1  |

- (1) Includes all expenses (other than selling commissions and the dealer-manager fee) to be paid by us in connection with the offering, including our legal, accounting, printing, mailing and filing fees, reimbursing the due diligence expenses of broker/dealers, and amounts to reimburse Wells TIMO for the salaries of its employees and other costs in connection with preparing supplemental sales materials, holding educational conferences and attending retail seminars conducted by broker/dealers. Wells TIMO has agreed to reimburse us to the extent organizational and offering expenses incurred by us, other than selling commissions and the dealer-manager fee, exceed 1.2% of the aggregate gross offering proceeds from our primary offering. We will not reimburse Wells TIMO for any organization and offering expenses from proceeds of sales pursuant to our distribution reinvestment plan.
- (2) Amount available for investment will include customary third-party acquisition expenses, such as legal fees and expenses, costs of appraisals, accounting fees and expenses, title insurance premiums and other closing costs and miscellaneous expenses relating to the acquisition of real estate. We estimate that these third-party costs will average 0.5% of the contract purchase prices of property acquisitions.
- (3) The credit agreement for the mezzanine loan obtained by us in connection with the acquisition of the South Central Timberland prohibits us from paying distributions until we repay the loan in full. In addition, the credit agreement for our mezzanine loan prohibits us from redeeming shares until we repay the mezzanine loan in full, except for redemptions sought within two years of the death or qualifying



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disability of a stockholder under the plan. To the extent that we are able to pay any distributions in the future, it is possible that the net proceeds from the sale of shares under our distribution reinvestment plan will be available for investment. However, we expect that all of these proceeds will instead be used to repurchase shares of our common stock under the share redemption plan to the extent permitted under the terms of our credit agreements. See Description of Shares Share Redemption Plan. Until required in connection with the acquisition and development of properties, substantially all of the net proceeds of the offering and, thereafter, our working capital reserves, may be invested in short-term, highly liquid investments including government obligations, bank certificates of deposit, short-term debt obligations and interest-bearing accounts or other authorized investments as determined by our board of directors.

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**MANAGEMENT**

**Board of Directors**

We operate under the direction of our board of directors. The board is responsible for the management and control of our affairs. The board has retained Wells TIMO to manage our day-to-day affairs and the acquisition and disposition of our investments, subject to the board's supervision. Because of the numerous conflicts of interest created by the relationships among us, Wells TIMO and various affiliates, many of the actions taken by the board require the approval of a majority of our independent directors. See Conflicts of Interest.

We have a five-member board of directors, one of whom, Jess E. Jarratt, is affiliated with Wells Capital and its affiliates, and the four remaining directors qualify as independent directors. Our board may change the size of the board, but not to fewer than three board seats. Our charter provides that a majority of the directors must be independent directors, which is defined in our charter pursuant to the requirements of the North American Securities Administrators Association's Statement of Policy Regarding Real Estate Investment Trusts. An independent director is a person who is not one of our officers or employees or an officer or employee of Wells TIMO or its affiliates and has not been so for the previous two years. Serving as a director of, or having an ownership interest in, another Wells-sponsored program will not, by itself, preclude independent director status. One of our independent directors, E. Nelson Mills, may face conflicts of interest because of his affiliations with other programs advised by Wells Capital and its affiliates.

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

A vacancy created by an increase in the number of directors or the death, resignation, removal, adjudicated incompetence or other incapacity of a director may be filled only by a vote of a majority of the remaining directors. As provided in our charter, nominations of individuals to fill the vacancy of a board seat previously filled by an independent director will be made by the remaining independent directors.

Our directors and officers are not required to devote all of their time to our business and are only required to devote the time to our affairs as required by their fiduciary duties to us and as necessary to respond to relevant business conditions. In addition to meetings of the various committees of the board described below, we expect to hold regular board meetings at least quarterly. We do not expect that our directors will be required to devote a substantial portion of their time in discharging their duties to us. Our board is empowered to fix the compensation of all officers that it selects and may pay compensation to directors for services rendered to us in any other capacity.

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

**Committees of the Board of Directors**

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

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#### **Audit Committee**

The audit committee selects the independent public accountants to audit our annual financial statements, reviews with the independent public accountants the plans and results of the audit engagement, approves the audit and nonaudit services provided by the independent public accountants, reviews the independence of the independent public accountants, considers the range of audit and non-audit fees, and reviews the adequacy of our internal accounting controls. Our audit committee currently consists of E. Nelson Mills, Donald S. Moss and Willis J. Potts, Jr.

#### **Nominating and Corporate Governance Committee**

The primary functions of the nominating and corporate governance committee are: (1) identifying individuals qualified to serve on the board of directors and recommending that the board of directors select a slate of director nominees for election by the stockholders at the annual meeting; (2) developing and recommending to the board of directors a set of corporate governance policies and principles and periodically re-evaluating such policies and guidelines for the purpose of suggesting amendments to them if appropriate; and (3) overseeing an annual evaluation of the board of directors and each of the committees of the board of directors. Currently, all of the members of the nominating and corporate governance committee are independent directors.

#### **Executive Officers and Directors**

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

| <b>Name</b>         | <b>Age</b> | <b>Positions</b>                                  |
|---------------------|------------|---|
| Leo F. Wells, III   | 63         | President   |
| Douglas P. Williams | 57         | Executive Vice President, Secretary and Treasurer |
| Randall D. Fretz    | 54         | Senior Vice President                             |
| Jess E. Jarratt     | 50         | Director  |
| Michael P. McCollum | 51         | Independent Director                              |
| E. Nelson Mills     | 46         | Independent Director                              |
| Donald S. Moss      | 72         | Independent Director                              |
| Willis J. Potts, Jr | 60         | Independent Director                              |

*Leo F. Wells, III.* Since our inception in September 2005, Mr. Wells has been our President. He served as one of our directors from inception until June 22, 2007. He served as the President of Piedmont Office Realty Trust, Inc. (formerly Wells Real Estate Investment Trust, Inc.), which we refer to as Piedmont REIT, from 1997 to February 2007, and he has served as a director of Piedmont REIT since 1997, the President and a director of Wells REIT II since 2003, the President and a director of Institutional REIT since 2006 and the President and Chairman of Wells Total Return REIT since March 2007. He has also been the sole stockholder, sole director, President and Treasurer of Wells Real Estate Funds, Inc. since 1997, which directly or indirectly owns Wells Capital, Wells Management Company, Inc., Wells Investment Securities, Wells & Associates, Inc., Wells Development Corporation, Wells Asset Management, Inc., Wells Real Estate Advisory Services, Inc. and Wells TIMO. He has also been the President, Treasurer and sole director of Wells Capital since 1984; Wells Management Company, Inc. since 1983; Wells Development Corporation since it was organized in 1997 to develop real estate properties; and Wells Asset Management, Inc. since it was organized in 1997 to serve as an investment advisor to the Wells Family of Real Estate Funds. Since 1997, Mr. Wells has been a trustee of the Wells Family of Real Estate Funds, an open-end management company organized as an Ohio business trust, which includes as one of its series the Wells S&P REIT Index Fund. Since 2004, he has been President and sole director of Wells Real Estate Advisory Services, Inc. He has been the President, Treasurer and a director of Wells & Associates, Inc., a real estate brokerage and investment company, since it was incorporated in 1978. Mr. Wells serves as the principal broker for Wells & Associates, Inc.

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

On August 26, 2003, Mr. Wells and Wells Investment Securities entered into a Letter of Acceptance, Waiver and Consent (AWC) with the NASD (now FINRA) relating to alleged rule violations. The AWC set forth the NASD's findings that Wells Investment Securities and Mr. Wells had violated conduct rules relating to the provision of noncash compensation of more than \$100 to associated persons of NASD member firms in connection with their attendance at the annual educational and due diligence conferences sponsored by Wells Investment Securities in 2001 and 2002. Without admitting or denying the allegations and findings against them, Wells Investment Securities and Mr. Wells consented in the AWC to various findings by the NASD that are summarized in the following paragraph:

In 2001 and 2002, Wells Investment Securities sponsored conferences attended by registered representatives who sold its real estate investment products. Wells Investment Securities also paid for certain expenses of guests of the registered representatives who attended the conferences. In 2001, Wells Investment Securities paid the costs of travel to the conference and meals for many of the guests and paid the costs of playing golf for some of the registered representatives and their guests. Wells Investment Securities later invoiced registered representatives for the cost of golf and for travel expenses of guests, but was not fully reimbursed for such. In 2002, Wells Investment Securities paid for meals for the guests. Wells Investment Securities also conditioned most of the 2001 conference invitations on attainment by the registered representatives of a predetermined sales goal for Wells Investment Securities products. This conduct violated the prohibitions against payment and receipt of noncash compensation in connection with the sales of these products contained in NASD's Conduct Rules 2710, 2810 and 3060. In addition, Wells Investment Securities and Mr. Wells failed to adhere to all of the terms of their written undertaking made in March 2001 not to engage in the conduct described above, and thereby failing to observe high standards of commercial honor and just and equitable principles of trade in violation of NASD Conduct Rule 2110.

Wells Investment Securities consented to a censure, and Mr. Wells consented to suspension from acting in a principal capacity with an NASD member firm for one year. Wells Investment Securities and Mr. Wells also agreed to the imposition of a joint and several fine in the amount of \$150,000. Mr. Wells' one-year suspension from acting in a principal capacity with Wells Investment Securities ended on October 6, 2004.

*Douglas P. Williams.* Since our inception in September 2005, Mr. Williams has been our Executive Vice President, Secretary and Treasurer. He served as one of our directors from inception until June 22, 2007. From 1999 to 2007, he has also served as Executive Vice President, Secretary and Treasurer and a director of Piedmont REIT. Since 2003, he has served as Executive Vice President, Secretary and Treasurer and a director of Wells REIT II. Since 2006, he has served as Executive Vice President, Secretary, Treasurer and a director of Institutional REIT. Since March 2007, he has served as Executive Vice President, Secretary, Treasurer and a director of Wells Total Return REIT. Since 1999, Mr. Williams has also been a Senior Vice President of Wells Capital and a Vice President, Chief Financial Officer, Treasurer and a director of Wells Investment Securities, our dealer-manager. He has also been a Vice President of Wells Real Estate Funds, Inc. and Wells Asset Management, Inc. since 1999.

From 1996 to 1999, Mr. Williams served as Vice President and Controller of OneSource, Inc., a leading supplier of janitorial and landscape services, where he was responsible for corporate-wide accounting activities and financial analysis. Mr. Williams was employed by ECC International Inc., a supplier to the paper industry and to the paint, rubber and plastic industries, from 1982 to 1995. While at ECC, Mr. Williams served in a number of key accounting positions, including: Corporate Accounting Manager, U.S. Operations; Division Controller, Americas Region; and Corporate Controller, America/ Pacific Division. Prior to joining ECC and for

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one year after leaving ECC, Mr. Williams was employed by Lithonia Lighting, a manufacturer of lighting fixtures, as a Cost and General Accounting Manager and Director of Planning and Control. Mr. Williams started his professional career as an auditor for a predecessor firm of KPMG Peat Marwick LLP. Mr. Williams is a member of the American Institute of Certified Public Accountants and the Georgia Society of Certified Public Accountants and is licensed with FINRA as a financial and operations principal. Mr. Williams received a Bachelor of Arts degree from Dartmouth College and a Master of Business Administration degree from Amos Tuck School of Graduate Business Administration at Dartmouth College.

*Randall D. Fretz.* Since our inception in September 2005, Mr. Fretz has been our Senior Vice President. He has also been a Senior Vice President of Wells Capital since 2002. He has also been the Chief of Staff and a Vice President of Wells Real Estate Funds, Inc. since 2002, a Senior Vice President of Piedmont REIT from 2002 to 2007, a Senior Vice President of Wells REIT II since 2003, a Senior Vice President of Institutional REIT since 2006, a Senior Vice President at Wells Total Return REIT since March 2007 and a director of Wells Investment Securities since 2002. Mr. Fretz is primarily responsible for corporate strategy and planning, advising and coordinating the executive officers of Wells Capital on corporate matters and special projects. Prior to joining Wells Capital in 2002, Mr. Fretz served for seven years as President of U.S. and Canada operations for Larson-Juhl, a world leader in custom art and picture-framing home decor. Mr. Fretz was previously a Division Director at Bausch & Lomb, a manufacturer of optical equipment and products, and also held various senior positions at Tandem International and Lever Brothers. Mr. Fretz holds a Bachelor of Arts degree in Sociology and Bachelor of Physical Education from McMaster University in Hamilton, Ontario. He also earned a Master's of Business Administration degree from the Ivey School of Business in London, Ontario.

*Jess E. Jarratt.* Mr. Jarratt has served as one of our directors since June 22, 2007. He also has served as Senior Vice President of Wells Capital and President of Wells TIMO since March 2007. Mr. Jarratt is responsible for directing and managing all aspects of timberland operations for Wells including timberland acquisitions and dispositions, portfolio and property management, and timberland financing. From February 2006 through February 2007, Mr. Jarratt served as Managing Director of SunTrust Robinson Humphrey's Structured Real Estate Group where he was responsible for structuring and purchasing net leased real estate for SunTrust's dedicated equity account and originating financing vehicles for agricultural and timberland properties. From July 2001 through January 2006, Mr. Jarratt was Managing Director for SunTrust Robinson Humphrey's Capital Markets Origination group where he originated and structured large, multi-capital transactions across SunTrust's Corporate Banking unit. From July 1995 through July 2001, Mr. Jarratt was Group Vice President of SunTrust's AgriFood Group which he founded and grew into a group of 20 professionals and over \$1 billion in assets. From 1988 through July 1995, Mr. Jarratt was Vice President of Rabobank International, a multinational Dutch bank where he led corporate lending activities to U.S. agribusiness companies and timberland and forest products companies. From April 1985 through May 1988, Mr. Jarratt served as one of the original foresters for a predecessor entity to Hancock Timber Resource Group, one of the largest institutional managers of timber in the world. In his role as Timberland Investment Officer, Mr. Jarratt purchased and managed one of the fund's first investments in timberland, including the merchandising of the property's timber. Mr. Jarratt was also instrumental in the development of the financial analysis used to analyze the purchase of timberland by the company. From April 1983 through April 1985, Mr. Jarratt served as a Procurement Forester with the Kirby Lumber Company. His responsibilities in this role included the purchase of enough raw timber to supply a plywood mill, management of various relationships with dealers and suppliers, cruising prospective timber acquisitions and negotiating purchase prices with landowners. Prior to joining Kirby Lumber Company, Mr. Jarratt worked as a Timberland Purchase Forester responsible for building a land base for Nekoosa's Ashdown Arkansas paper mill by originating, cruising, negotiating and closing on timberland purchases. Mr. Jarratt began his career as a Forester with the Texas Forest Service in August 1979 where he worked with private landowners to develop and implement forest management plans. Mr. Jarratt received a Bachelor of Science degree in Forestry from Texas A&M University and a Master of Business Administration degree from the University of North Texas. In addition, Mr. Jarratt is a Certified Management Accountant (CMA) and has completed the Harvard Business School Executive Agribusiness Program. Mr. Jarratt is a member of the Institute of Management Accounting.

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*Michael P. McCollum, Ph.D.* Dr. McCollum is one of our independent directors. He has worked in the forest products industry for the past 25 years. From June 1996 until his retirement in December 2005, Dr. McCollum led the Wood and Fiber Supply Division of Georgia-Pacific Corporation, one of the world's leading manufacturers and distributors of tissue, pulp, paper, packaging, building products and related chemicals, and in January 2001 he became President of the Division. From July 1992 to June 1996, Dr. McCollum served in positions of increasing responsibility at Georgia-Pacific in the areas of forest management, wood and fiber supply, technical support and strategic planning. From February 1984 to July 1992, Dr. McCollum served in various positions at Temple-Inland Inc., a major forest products corporation. From January 1981 to February 1984, Dr. McCollum worked in the Wood Products Division of Manville Forest Products Corporation, a subsidiary of Johns Manville, a Berkshire Hathaway company and a leading manufacturer and marketer of premium-quality building and specialty products. Dr. McCollum received his Bachelor of Science degree in Forestry from the University of Arkansas and received a Ph.D. in Forest Science from Texas A&M University. Dr. McCollum is a member of the Society of American Foresters and has served on the boards of several industry and conservation associations.

*E. Nelson Mills.* Mr. Mills is one of our independent directors. Since 2007, Mr. Mills has served as a director of Wells REIT II. Since 2006, Mr. Mills has served as a director of Institutional REIT. Since December 2004, Mr. Mills has served as the chief financial officer and chief operations officer of Williams Realty Advisors, where he is responsible for financial strategy, design, formation and operation of real estate investment funds. From April 2004 to December 2004, Mr. Mills was a consultant to and the chief financial officer of Timbervest, LLC, an investment manager specializing in timberland investment planning. From September 2000 to April 2004, Mr. Mills served as chief financial officer of Lend Lease Real Estate Investments, Inc. and from August 1998 to August 2000 served as a senior vice president of Lend Lease with responsibility for tax and acquisition planning and administration. Mr. Mills was a tax partner with KPMG LLP from January 1987 to August 1998. Mr. Mills received a Bachelor of Science degree in Business Administration from the University of Tennessee and a Master of Business Administration degree from the University of Georgia. Mr. Mills is also a Certified Public Accountant.

*Donald S. Moss.* Mr. Moss is one of our independent directors. He is also an independent director of Piedmont REIT and a trustee of the Wells Family of Real Estate Funds. Mr. Moss was also an independent director of Wells REIT II from 2003 until 2007. He was employed by Avon Products, Inc. from 1957 until his retirement in 1986. While at Avon, Mr. Moss served in a number of key positions, including Vice President and Controller from 1973 to 1976, Group Vice President of Operations Worldwide from 1976 to 1979, Group Vice President of Sales Worldwide from 1979 to 1980, Senior Vice President International from 1980 to 1983 and Group Vice President Human Resources and Administration from 1983 until his retirement in 1986. Mr. Moss was also a member of the board of directors of Avon Canada, Avon Japan, Avon Thailand, and Avon Malaysia from 1980 to 1983. He formerly was a director of The Atlanta Athletic Club and the National Treasurer and a director of the Girls Clubs of America from 1973 to 1976. Mr. Moss graduated from the University of Illinois where he received a Bachelor of Science degree in Business.

*Willis J. Potts, Jr.* Mr. Potts is one of our independent directors. From June 1999 until his retirement in June 2004, Mr. Potts served as vice president and general manager of Temple-Inland Inc., a major forest products corporation, where he was responsible for all aspects of the management of a major production facility, including timber acquisition, community relations and governmental affairs. From November 1994 to June 1999, Mr. Potts was senior vice president of Union Camp Corporation, where he was responsible for all activities of an international business unit, with revenues of approximately \$1 billion per year including supervision of acquisitions and dispositions of timber and timberland, controllership functions and manufacturing. Mr. Potts is currently the chairman of the board of directors of the Technical Association of the Pulp and Paper Industry (TAPPI), the largest technical association serving the pulp, paper and converting industry, where he is responsible for guiding the development of TAPPI's long-term plans and short-term goals and objectives, including those related to the forest products industry. In 2006, Mr. Potts was appointed to the Board of Regents of The University System of Georgia. Mr. Potts received a Bachelor of Science degree in Industrial Engineering from the Georgia Institute of Technology. He also completed the Executive Program at the University of Virginia.



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| <b>Name</b>          | <b>Fees Earned or Paid in Cash (\$)</b> | <b>Stock Awards (\$)</b> | <b>Option Awards (\$)<sup>(1)</sup></b> | <b>Non-Equity Incentive Plan Compensation (\$)</b> | <b>Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)</b> | <b>All Other Compensation (\$)<sup>(2)</sup></b> | <b>Total (\$)</b> |
|----------------------|---|--------------------------|---|--|---|--|-------------------|
| Jess E. Jarratt      |   |                          |   |  |   |  |                   |
| Michael P. McCollum  | \$ 38,030                               |                          | \$ 6,250                                |  |   |  | \$ 44,280         |
| E. Nelson Mills      | \$ 49,250                               |                          | \$ 6,250                                |  |   |  | \$ 55,500         |
| Donald S. Moss       | \$ 42,000                               |                          | \$ 6,250                                |  |   |  | \$ 48,250         |
| Willis J. Potts, Jr. | \$ 45,250                               |                          | \$ 6,250                                |  |   |  | \$ 51,500         |

- (1) Amounts reflect the amounts recognized for financial statement reporting purposes in fiscal year 2006, computed in accordance with Statement of Financial Accounting Standards No. 123(R) Share-Based Payment (FAS 123R), without taking into consideration a forfeiture assumption, as required by the Securities Exchange Commission for disclosure purposes in this Director Compensation Table. See Note 6 Stockholders Equity on our 2006 Form 10-K for an explanation of the valuation model assumptions used.

Our directors do not hold any stock awards. The aggregate number of option awards outstanding as of fiscal year end for all directors was 10,000.

The following table shows options awarded to each director during 2006, and the aggregate grant date fair value for each award, computed in accordance with Financial Accounting Standards 123R.

| <b>Director</b>      | <b>Grant Date</b> | <b>Option Awards (#)</b> | <b>Grant Date Fair Value of Option Award</b> |
|----------------------|-------------------|--------------------------|--|
| Jess E. Jarratt      |                   |                          |  |
| Michael P. McCollum  | May 25, 2006      | 2,500                    | 6,250  |
| E. Nelson Mills      | February 2, 2006  | 2,500                    | 6,250  |
| Donald S. Moss       | February 2, 2006  | 2,500                    | 6,250  |
| Willis J. Potts, Jr. | February 2, 2006  | 2,500                    | 6,250  |

- (2) During 2006, none of our directors received additional compensation required to be disclosed under this column. Examples of items that would fall under this column: Perquisites and other personal benefits, or property, unless the aggregate amount of such compensation is less than \$10,000; all gross-ups or other amounts reimbursed during the fiscal year for the payment of taxes; for any security of the registrant or its subsidiaries purchased from the registrant or its subsidiaries (through deferral of salary or bonus, or otherwise) at a discount from the market price of such security at the date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the registrant, the compensation cost, if any, computed in accordance with FAS 123R; the amount paid or accrued to any director pursuant to a plan or arrangement in connection with the resignation, retirement or any other termination of such director; or a change in control of the registrant; registrant contributions or other allocations to vested and unvested defined contribution plans; consulting fees earned from, or paid or payable by the registrant and/or its subsidiaries (including joint ventures); the annual costs of payments and promises of payments pursuant to director legacy programs and similar charitable award programs; the dollar value of any insurance premiums paid by, or on behalf of, the registrant during the covered fiscal year with respect to life insurance for the benefit of a director; and the dollar value of any dividends or other earnings paid on stock or option awards, when those amounts were not factored into the grant date fair value for the stock or option award.



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We do not provide compensation for service on our board of directors to any member of our board who is not an independent director. Our independent directors receive an annual retainer of \$18,000. In addition, independent directors receive fees for attending board and committee meetings as follows:

\$2,000 per in-person board meeting;

\$1,500 per in-person committee meeting;

\$250 per telephonic board or committee meeting; and

an additional \$500 to a committee chair for each in-person committee meeting.

However, when a committee meeting occurs on the same day as a board meeting, an additional fee is not paid for attending the committee meeting.

All directors receive reimbursement of reasonable travel expenses incurred in connection with attendance at meetings of the board of directors.

In addition to cash compensation, upon his or her initial appointment to our board, each independent director receives a grant of options to purchase 2,500 shares of our common stock. One-third of the options are immediately exercisable on the date of grant, one-third become exercisable on the first anniversary of the date of grant, and the remaining one-third will become exercisable on the second anniversary of the date of grant. The initial grant of options was anti-dilutive with an exercise price of \$10.00 per share.

Upon each subsequent re-election of the independent director to the board, he or she will receive a subsequent grant of options to purchase 1,000 shares of our common stock. The exercise price for the subsequent options will be the fair market value of the shares on the date of grant. One-third of the subsequent grant of options are immediately exercisable on the date of grant, one-third become exercisable on the first anniversary of the date of grant, and the remaining one-third will become exercisable on the second anniversary of the date of grant.

All stock options granted to our independent directors are granted pursuant to our long-term incentive plan, and are governed by the terms of such plan. The stock options will lapse on the first to occur of (1) the tenth anniversary of the date of grant, or (2) the removal for cause of the independent director as a member of the board of directors. Upon the occurrence of a change in control, or upon termination of the director's service by reason of his or her death, disability or termination without cause, the options will become fully vested and exercisable. Options are generally exercisable in the case of death or disability for a period of one year after death or the termination by reason of disability. No option issued may be exercised if such exercise would jeopardize our status as a REIT under the Internal Revenue Code. The independent directors may not sell, pledge, assign or transfer their options other than by will or the laws of descent or distribution or (except in the case of an incentive stock option) pursuant to a qualified domestic relations order.

### **2005 Long-Term Incentive Plan**

We have adopted a long-term incentive plan. This incentive plan is intended to attract and retain qualified independent directors, advisors and consultants considered essential to our long-range success by offering these individuals an opportunity to participate in our growth through awards in the form of, or based on, our common stock. Although we do not currently intend to hire any employees, any employees we may hire in the future would also be eligible to participate in our long-term incentive plan. The incentive plan authorizes the granting of awards to participants in the following forms:

options to purchase shares of our common stock, which may be nonstatutory stock options or incentive stock options under the Internal Revenue Code;

stock appreciation rights, which give the holder the right to receive the difference between the fair market value per share on the date of exercise over the grant price;

performance awards, which are payable in cash or stock upon the attainment of specified performance goals;

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restricted stock, which is subject to restrictions on transferability and other restrictions set by the board of directors, or a committee of its independent directors;

restricted stock units, which give the holder the right to receive shares of stock, or the equivalent value in cash or other property, in the future, which right is subject to certain restrictions and to risk of forfeiture;

deferred stock units, which give the holder the right to receive shares of stock, or the equivalent value in cash or other property, at a future time;

dividend equivalents, which entitle the participant to payments equal to any dividends paid on the shares of stock underlying an award; and

other stock-based awards at the discretion of the board of directors or a committee of its independent directors, including unrestricted stock grants.

All awards must be evidenced by a written agreement with the participant, which will include the provisions specified by the board of directors or a committee of its independent directors. The maximum number of shares of common stock that may be issued upon the exercise or grant of an award shall not exceed in the aggregate an amount equal to 10% of the outstanding shares of our common stock on the date of grant of any such award. The exercise price of any award shall not be less than the fair market value of our common stock on the date of the grant.

Our board of directors, or a committee of its independent directors, administers the incentive plan, with sole authority (following consultation with our advisor) to select participants, determine the types of awards to be granted, and all of the terms and conditions of the awards, including whether the grant, vesting or settlement of awards may be subject to the attainment of one or more performance goals. No awards will be granted under the plan if the grant, vesting and/or exercise of the awards would jeopardize our status as a REIT under the Internal Revenue Code or otherwise violate the ownership and transfer restrictions imposed under our charter. Unless determined by our board of directors, or a committee of its independent directors, no award granted under the long-term incentive plan will be transferable except through the laws of descent and distribution or (except in the case of an incentive stock option) pursuant to a qualified domestic relations order.

We have established 500,000 shares as the aggregate maximum number of shares to be reserved and available for issuance under the incentive plan. In the event of a corporate transaction that affects our common stock, such as a reorganization, recapitalization, merger, spin-off, split-off, stock dividend, or extraordinary distribution, the share authorization limits of the incentive plan will be adjusted proportionately, and our board of directors, or a committee of its independent directors, will have the sole authority to determine whether and in what manner to equitably adjust the number and type of shares and the exercise prices applicable to outstanding awards under the plan, the number and type of shares reserved for future issuance under the plan, and, if applicable, performance goals applicable to outstanding awards under the plan.

The incentive plan contains provisions concerning the treatment of awards granted under the plan in the event of a participant's death or disability, or upon the occurrence of a change in control of our company. Unless otherwise provided in an award certificate or any special plan document governing an award, upon the participant's death or disability, all of that participant's outstanding options and stock appreciation rights will become fully vested and exercisable, all time-based vesting restrictions on that participant's outstanding awards will lapse, and the payout opportunities attainable under all of that participant's outstanding performance-based awards will vest based on target or actual performance (depending on the time during the performance period in which the date of termination occurs) and the awards will payout on a prorata basis, based on the time elapsed prior to the date of termination.

Unless otherwise provided in an award certificate or any special plan document governing an award, upon the occurrence of a change in control (as defined in the incentive plan) in which awards are not assumed by the surviving entity or otherwise equitably converted or substituted in connection with the change in control in a manner approved by the board or the committee: (1) all outstanding options and stock appreciation rights



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will become fully vested and exercisable; (2) all time-based vesting restrictions on outstanding awards will lapse; and (3) the payout opportunities attainable under all outstanding performance-based awards will vest based on target or actual performance (depending on the time during the performance period in which the change in control occurs) and the awards will payout on a prorata basis, based on the time elapsed prior to the change in control. With respect to awards assumed by the surviving entity or otherwise equitably converted or substituted in connection with a change in control, if within two years after the effective date of the change in control, a participant's employment is terminated without cause or the participant resigns for good reason (as such terms are defined), then: (1) all of that participant's outstanding options and SARs will become fully vested and exercisable; (2) all time-based vesting restrictions on that participant's outstanding awards will lapse; and (3) the payout opportunities attainable under all of that participant's outstanding performance-based awards will vest based on target or actual performance (depending on the time during the performance period in which the date of termination occurs) and the awards will payout on a prorata basis, based on the time elapsed prior to the date of termination.

The incentive plan will automatically expire on February 2, 2016, the tenth anniversary of the date on which it was adopted, unless extended or earlier terminated by the board of directors. The board of directors or the committee may terminate the incentive plan at any time, but termination will have no adverse impact on any award that is outstanding at the time of the termination. The board of directors or the committee may amend the incentive plan at any time, but any amendment would be subject to stockholder approval if, in the reasonable judgment of the board or committee, such approval would be required by any law, regulation or rule applicable to the incentive plan. No termination or amendment of the plan may, without the written consent of the participant, reduce or diminish the value of an outstanding award. The board may amend or terminate outstanding awards, but those amendments may require consent of the participant and, unless approved by the stockholders or otherwise permitted by the anti-dilution provisions of the plan, the exercise price of an outstanding option may not be reduced, directly or indirectly, and the original term of an option may not be extended.

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

Our charter limits the liability of our directors and officers to us and our stockholders for monetary damages and requires us to indemnify our directors, our officers, Wells TIMO and its affiliates for losses they may incur by reason of their service in that capacity. However, we may not indemnify our directors, Wells TIMO or its affiliates unless all of the following conditions are met:

the party seeking exculpation or indemnification has determined, in good faith, that the course of conduct that caused the loss or liability was in our best interest;

the party seeking exculpation or indemnification was acting on our behalf or performing services for us;

in the case of an independent director, the liability or loss was not the result of gross negligence or willful misconduct by the independent director;

in the case of a nonindependent director, Wells TIMO or one of its affiliates, the liability or loss was not the result of negligence or misconduct by the party seeking indemnification or exculpation; and

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

In addition, our charter provides that our limitation of director and officer liability and indemnification of directors and officers are subject to certain conditions set forth under Maryland law. The Maryland General Corporation Law provides that a Maryland corporation may not (a) limit the liability of its directors and officers if such liability results from (1) actual receipt of an improper benefit or profit in money, property or services or (2) active and deliberate dishonesty established by a final judgment as material to the cause of action and (b) indemnify its directors and officers if it is established that (1) the act or omission of the director or officer was material to the matter giving rise to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty, (2) the director or officer actually received an improper personal





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benefit in money, property or services or (3) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful.

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

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

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

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

Our charter further provides that the advancement of funds to our directors and to Wells TIMO and its affiliates for reasonable legal expenses and other costs incurred in advance of the final disposition of a proceeding for which indemnification is being sought is permissible only if all of the following conditions are satisfied:

the proceeding relates to acts or omissions with respect to the performance of duties or services on our behalf;

such person provides us with written affirmation of his good faith belief that he has met the standard of conduct necessary for indemnification;

the legal proceeding was initiated by a third party who is not a stockholder or, if by a stockholder acting in his or her capacity as such, a court of competent jurisdiction approves the advancement; and

the person seeking the advancement undertakes to repay the amount paid or reimbursed by us, together with the applicable legal rate of interest thereon, if it is ultimately determined that such person is not entitled to indemnification.

We also purchase and maintain insurance on behalf of all of our directors and executive officers against liability asserted against or incurred by them in their official capacities with us, whether or not we are required or have the power to indemnify them against the same liability.

### **Our Sponsor**

Our sponsor is Wells Capital. Since its incorporation in Georgia on April 20, 1984, Wells Capital has sponsored or advised public real estate programs on an unspecified property, or blind pool basis, that have raised approximately \$11.7 billion of equity from approximately 267,000 investors. Our advisor is a wholly-owned subsidiary of Wells Capital and Wells Capital is the manager of our advisor. Some of our officers and directors are also officers and directors of Wells Capital.

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

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| <b>Name</b>         | <b>Age</b> | <b>Positions</b>                              |
|---------------------|------------|---|
| Leo F. Wells, III   | 63         | President, Treasurer and sole Director        |
| Douglas P. Williams | 57         | Senior Vice President and Assistant Secretary |
| Stephen G. Franklin | 60         | Senior Vice President                         |
| Randall D. Fretz    | 54         | Senior Vice President                         |
| Jess E. Jarratt     | 50         | Senior Vice President                         |

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

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

From 1984 to 1986, Mr. Franklin took a sabbatical from Emory University and became Executive Vice President and a principal stockholder of Financial Service Corporation (FSC), an independent financial planning broker/dealer. Mr. Franklin and the other stockholders of FSC later sold their interests in FSC to Mutual of New York Life Insurance Company.

In addition to the directors and executive officers listed above, Wells Capital employs personnel who have extensive experience in the types of services that our advisor will be providing to us, including arranging financing for the acquisition of properties, negotiating contracts, and preparing and overseeing budgets. Our advisor will rely on employees of Wells Capital, its manager, to perform services on its behalf for us to the extent that our advisor does not employ personnel with the relevant experience necessary for such services.

### ***Legal Proceedings***

On March 12, 2007, a stockholder of Piedmont REIT, a program sponsored by Wells Capital, filed a purported class action and derivative complaint against, among others, Piedmont REIT, the officers and directors of Piedmont REIT, Wells Real Estate Funds, Inc. and certain of its affiliates, including Wells Capital, the owner of our advisor.

The complaint attempts to assert class action claims on behalf of those persons who receive and are entitled to vote on a proxy statement for Piedmont REIT that was filed with the SEC on February 26, 2007, as amended. The complaint alleges, among other things, that (1) the consideration to be paid as part of a proposed merger agreement to acquire certain affiliates of Wells Real Estate Funds is excessive; and (2) the proxy statement contains false and misleading statements or omits to state material facts. Additionally, the complaint seeks to, among other things, obtain (1) certification of the class action; (2) a judgment declaring the proxy statement false and misleading; (3) unspecified monetary damages; (4) nullification of any stockholder approvals obtained during the proxy process; (5) nullification of the merger proposal and the merger agreement; (6) restitution for disgorgement of profits, benefits and other compensation for wrongful conduct and fiduciary breaches; (7) the nomination and election of new independent directors, and the retention of a new financial advisor to assess the advisability of Piedmont REIT's strategic alternatives; and (8) the payment of reasonable attorneys' fees and experts' fees.

Piedmont REIT and Wells Real Estate Funds believe that the allegations contained in the complaint are without merit and intend to vigorously defend this action. Due to the uncertainties inherent in the litigation process, it is not possible to predict the ultimate outcome of this matter at this time; however, as with any litigation, the risk of financial loss does exist. Any financial loss incurred by Wells Real Estate Funds which

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adversely affects the financial health of Wells Capital or its affiliates, including our advisor, could hinder our advisor's ability to successfully manage our operations and assets.

On August 24, 2007, two stockholders of Piedmont REIT filed a purported derivative complaint against, among others, Wells Capital and certain officers and directors of Piedmont REIT. The complaint seeks, among other things, a judgment declaring that the defendants committed breaches of their fiduciary duties and were unjustly enriched at the expense of Piedmont REIT; monetary damages equal to the amount by which Piedmont REIT was damaged by the defendants; an order awarding Piedmont REIT restitution from the defendants and ordering disgorgement of all profits and benefits obtained by the defendants from their wrongful conduct and fiduciary breaches; an order rescinding the internalization transaction; and the establishment of a constructive trust upon any benefits improperly received by the defendants as a result of their wrongful conduct.

Wells Capital and the other defendants who are named in the complaint believe that the allegations contained in the complaint are without merit and intend to vigorously defend this action. Due to the uncertainties inherent in the litigation process, it is not possible to predict the ultimate outcome of this matter at this time; however, as with any litigation, the risk of financial loss does exist. Any financial loss incurred by our advisor which adversely affects the financial health of Wells Capital or its affiliates could hinder our advisor's ability to successfully manage our operations and assets.

**Our Advisor**

Our advisor, Wells Timberland Management Organization, LLC or Wells TIMO, is a newly formed Georgia limited liability company and a wholly-owned subsidiary of Wells Capital. Wells TIMO has contractual and fiduciary responsibilities to us and our stockholders. Wells TIMO's sole manager is Wells Capital, and Wells Capital has appointed officers of Wells TIMO to manage its day-to-day operations. The officers of Wells TIMO are as follows:

| <b>Name</b>     | <b>Age</b> | <b>Position</b>                            |
|-----------------|------------|--|
| Jess E. Jarratt | 50         | President                                  |
| Brian M. Davis  | 38         | Vice President, Finance and Administration |
| Troy A. Harris  | 37         | Vice President, Timberland Acquisitions    |
| John C. Iverson | 61         | Vice President and Controller              |
| Don L. Warden   | 38         | Director of Operations                     |

The background of Mr. Jarratt is described in the Management Executive Officers and Directors section of this prospectus.

*Brian M. Davis.* Brian M. Davis joined Wells TIMO as Vice President, Finance and Administration, in October, 2007. He is responsible for all day-to-day financial and accounting management and the overall coordination of the company's financial systems and functions for Wells Timberland REIT. Prior to joining Wells, Mr. Davis was a Client Manager for the Asset Based Lending Group at Atlanta-based SunTrust Bank, responsible for the origination and structuring of asset-based lending relationships developed from SunTrust's existing client base and prospects. Mr. Davis previously held positions with CoBank, ACB, of Denver, Colorado, as Capital Markets Officer, and with SunTrust as Client Manager for the AgriFoods Specialty Lending Group. Mr. Davis received his Bachelor of Business Administration and Master of Business Administration from Ohio University.

*Troy A. Harris.* Troy A. Harris joined Wells TIMO as Vice President, Timberland Acquisitions, in June 2007. In this capacity, he is responsible for directing property acquisitions for us. Prior to joining Wells, Mr. Harris was Director of Land Acquisitions for Pennsylvania-based Danzer Forestland Inc., responsible for that group's timberland acquisition activities, identifying and evaluating significant high quality hardwood timberland properties with potential for long-term sustainable management. Mr. Harris previously held positions with Timbervest, LLC, as Director of Portfolio Analysis and Investment Manager, and with Union Camp and International Paper, as a Land Manager, Procurement Forester and Senior Timberland Auditor. Mr. Harris holds a bachelor's degree in Forestry from Auburn University and a Master of Business

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Administration degree from the University of Georgia. He serves on the Board of Directors of the Forest Landowners Association and chairs its TIMO/REIT Task Force. He is a Registered Forester, a Certified Forester and a member of the Society of American Foresters, where he recently served as the president of the Chattahoochee Chapter.

*John C. Iverson.* Since January 2007, Mr. Iverson has served as the Vice President and Controller of Wells TIMO. Mr. Iverson is responsible for timber and general accounting, all period financial reporting, SEC reporting, internal controls and compliance, and is the principal contact for internal and external auditors. From 1972 until joining Wells TIMO in 2007, Mr. Iverson was the Controller of Financial Reporting for Georgia-Pacific Corporation's Wood & Fiber Procurement Division. At Georgia-Pacific, Mr. Iverson was responsible for establishing and tracking the financial, tax and real estate bases for Georgia-Pacific's nearly 6 million acres of timberland assets. Mr. Iverson also served as Chairman of the Board of Directors of Georgia-Pacific's newly chartered GPC Credit Association. During his tenure, the GPC Credit Association grew to more than \$30 million in assets. From 1966 to 1970, Mr. Iverson served in the submarine service of the U.S. Navy. Mr. Iverson received a Bachelor of Business Administration degree in Accounting from Augusta State University.

*Don L. Warden.* Don L. Warden joined the Wells TIMO as Director of Operations in July 2007. Mr. Warden is responsible for the operations of the Wells TIMO, including directing the closings for acquisition, disposition, and finance transactions; coordinating board and corporate reporting efforts; and managing Higher and Better Use (HBU) initiatives and transactions. Prior to joining the Wells Timberland Management Organization, Mr. Warden served as Director of Operations for the Capital Markets Department of Wells Real Estate Funds. In this capacity, Mr. Warden directed the closings for approximately \$2 billion in commercial real estate transactions. Mr. Warden previously held positions with Mirant, as Senior Business Analyst, and with Accenture as a Consultant. From 1989 to 1994, Mr. Warden served as an Infantry and Signal Officer in the U.S. Army. Mr. Warden holds a bachelor's degree in Political Science from Southern Illinois University.

### **The Advisory Agreement**

As a newly formed entity, we do not believe our asset base or the income generated by these assets will initially be large enough to support a fully integrated staff of employees. As a result, we are required to either (1) hire our own personnel and incur operating losses until our assets and income grow to the size needed to support a fully integrated staff, (2) do without certain services or (3) retain a third party to provide management services. Our board of directors has elected the third option. We have entered into an advisory agreement with Wells TIMO to serve as our advisor with responsibility to oversee and manage our day-to-day operations and to perform other duties including the following:

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

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

at the direction of our management, prepare all reports and regulatory filings, including those required by federal and state securities laws;

arrange for financing and refinancing of properties;

enter into supply agreements, service contracts and leases for our properties;

review and analyze the properties' operating and capital budgets;

generate an annual budget for us;

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

if a transaction requires approval by the board of directors, deliver to the board of directors all documents requested by the board in its evaluation of the proposed transaction;

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actively oversee the management of our properties for purposes of meeting our investment objectives;

perform cash management services;

perform transfer agent functions; and

engage our agents.

The fees payable to Wells TIMO under the advisory agreement are described in detail at Management Compensation below. We also describe in that section (1) our obligation to reimburse Wells TIMO for organization and offering expenses, administrative and management services and payments made by Wells TIMO to third parties in connection with potential acquisitions, and (2) Wells TIMO's obligation to reimburse us for any operating expenses incurred in excess of certain limitations set forth in our charter.

The term of the current advisory agreement ends on August 11, 2008 and may be renewed for an unlimited number of successive one-year periods upon mutual consent of Wells TIMO and us. As a result, the amount of compensation and other fees payable to the advisor may be increased or decreased in future renewals of the advisory agreement. See Conflicts of Interest Certain Conflict Resolution Procedures.

The advisory agreement may be terminated without cause by a majority of our independent directors or by Wells TIMO upon 60 days' written notice. In the event that the advisory agreement between us and Wells TIMO is terminated, Wells TIMO will be required to cooperate with us and take all reasonable steps requested by our board of directors to provide for the orderly transition of advisory services to a successor advisor. Upon a termination of the advisory agreement with Wells TIMO, our board of directors will select a successor advisor that the board of directors has determined possesses sufficient qualifications to perform the advisory services and will be required to determine that the compensation that we will pay the successor advisor is reasonable in relation to the nature and quality of the services to be performed for us and within the limits prescribed in our charter. In the event of a termination of the advisory agreement (other than for cause as defined in the advisory agreement), the holder of the special units will receive a one-time payment in the amount that would have been distributed with respect to the special units if Wells Timberland OP sold all of its real property assets for their then fair market values as determined by an appraisal and distributed the proceeds in accordance with the limited partnership agreement of Wells Timberland OP.

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

**Initial Investment by Our Sponsor**

Wells Capital purchased 20,000 shares of our common stock for \$200,000, constituting 100% of our outstanding capital stock prior to the sale of any shares in this offering, and subsequently transferred all of its shares to Wells TIMO. Wells TIMO may not sell any of these shares during the period it serves as our advisor. In the event that our advisor ceases to be our advisor, it will sell its initial investment in us to the successor advisor. Although Wells Capital and its affiliates are not prohibited from acquiring additional shares of our common stock, neither Wells Capital nor its affiliates currently has any options or warrants to acquire any shares. Wells Capital also purchased 200 common units in Wells Timberland OP at a purchase price of \$10.00 per unit, which it subsequently transferred to Wells TIMO. As a result, Wells TIMO holds a 1% limited partner interest in Wells Timberland OP prior to the sale of any shares in this offering. Wells Capital also acquired 100 special units for which it paid \$10.00 per unit and which it subsequently transferred to Wells TIMO. Wells TIMO may not vote any shares it owns in any vote for the election of directors or any vote regarding the approval or termination of any contract with Wells TIMO or any of its affiliates.

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#### **Dealer-Manager**

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

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

Wells Real Estate Funds, Inc. is the sole stockholder of Wells Investment Securities. The current directors and executive officers of Wells Investment Securities are:

| <b>Name</b>         | <b>Age</b> | <b>Positions</b>                            |
|---------------------|------------|---|
| Thomas E. Larkin    | 49         | President                                   |
| Douglas P. Williams | 57         | Vice President, CFO, Treasurer and Director |
| Randall D. Fretz    | 54         | Director                                    |

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

*Thomas E. Larkin.* Mr. Larkin is President of Wells Investment Securities, Inc. Mr. Larkin joined Wells in 2003 and directs the national sales effort. Prior to joining Wells, Mr. Larkin was an Executive Vice President of Ronald Blue & Co., where he was responsible for supervising approximately 80 financial professionals. In this capacity, he significantly increased both corporate revenue and assets under management. Mr. Larkin began his career at Ronald Blue in 1994 as a Branch Manager and Recruiter and progressively held positions of greater responsibility in sales management during his tenure with the company. From 1986 to 1994, Mr. Larkin was with Advanced Cardiovascular Systems Inc., where he served as Sales Representative, Southeastern Sales Manager, and eventually Director of Sales. Mr. Larkin received his Bachelor of Science degree in Biology from Valparaiso University. He holds the Series 2, 7, 24, 63, and 65 securities licenses.

#### ***Regulatory Investigation***

In August 2003, Wells Investment Securities, Inc. and Leo F. Wells, III submitted a Letter of Acceptance, Waiver and Consent to the NASD (now FINRA) in which the company was censured and fined \$150,000, jointly and severally with Mr. Wells. Mr. Wells was also suspended in his NASD principal association capacity for one year. Without admitting or denying the allegations, Wells Investment Securities and Mr. Wells consented to the sanctions and findings that they provided noncash compensation worth more than \$100 to registered representatives and failed to adhere to previous undertakings made not to engage in noncash compensation activities. Mr. Wells' submission began October 6, 2003, and concluded at the close of business October 5, 2004. See also Management Executive Officers and Directors.

#### **Management Decisions**

The primary responsibility for the management decisions of Wells TIMO and its affiliates, including the selection of investment properties to be recommended to our board of directors, the negotiation for these investments, asset-management decisions and property dispositions, will reside in Jess E. Jarratt and John C. Iverson. Our board of directors, including a majority of the independent directors, must approve all real property acquisitions and dispositions, as well as the financing of any such acquisitions. We expect that the board of directors will form an investment committee to which it will delegate the authority to approve all real property acquisitions and dispositions with a purchase or sale price below a certain amount, including the financing of any such acquisitions, other than any transaction with an affiliate of our advisor. Any such investment committee will be comprised of at least a majority of independent directors.



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#### MANAGEMENT COMPENSATION

We have no paid employees. Wells TIMO, our advisor, and its affiliates are responsible for the management of our day-to-day affairs. The following table summarizes all of the compensation and fees payable to Wells TIMO and its affiliates in this offering, including amounts to reimburse their costs in providing services, as well as the compensation payable to our independent directors. The compensation payable to any timber managers our advisor may engage is not included in this table, since it would be paid by our advisor and not by us. The selling commissions and dealer-manager fee may vary for different categories of purchasers. See Plan of Distribution. The compensation and fees payable to Wells TIMO are subject to the terms and conditions of our advisory agreement, which must be renewed on an annual basis. As a result, the compensation and fees payable to Wells TIMO may be increased or decreased in future renewals of the advisory agreement. Our board of directors, including a majority of the independent directors, must approve of any new fees or any charges to the existing compensation arrangements described below. Our board is required to exercise its fiduciary duties to ensure that the proposed fee structure is fair and reasonable. See Conflicts of Interest Certain Conflict Resolution Procedures Other Charter Provisions Relating to Conflicts of Interest. This table assumes the shares are sold through distribution channels associated with the highest possible selling commissions and dealer-manager fees and a \$9.55 purchase price for shares sold under our distribution reinvestment plan.

| Form of Compensation<br>and Entity Receiving           | Determination of Amount  | Estimated Amount for<br>Maximum Offering <sup>(1)</sup>   |
|--|--|---|
| <i>Organization and Offering Stage</i>                 |  |   |
| Selling Commissions                                    | 7% of gross offering proceeds from the primary offering, before reallowance of commissions earned by participating broker/dealers. Wells Investment Securities, our dealer-manager, will reallow 100% of commissions earned to participating broker/dealers.   | \$52,500,000  |
| Wells Investment Securities <sup>(2)</sup>             |  |   |
| Dealer-Manager Fee                                     | 1.8% of gross offering proceeds from the primary offering, before reallowance to participating broker/dealers. Wells Investment Securities will reallow a portion of its dealer-manager fee to participating broker/dealers. See Plan of Distribution.   | \$13,500,000  |
| Wells Investment Securities <sup>(2)</sup>             |  |   |
| Reimbursement of Organization<br>and Offering Expenses | Up to 1.2% of gross offering proceeds from the primary offering. Wells TIMO will incur or pay our organization and offering expenses (excluding selling commissions and the dealer-manager fee). We will then reimburse Wells TIMO for these amounts up to 1.2% gross offering proceeds from the primary offering. | \$9,000,000   |
| Wells TIMO <sup>(3)</sup>                              |  |   |
| <i>Acquisition and Operations Stage</i>                |  |   |
| Asset Management Fee                                   | Monthly fee equal to one-twelfth of 1% of the greater of cost or value of investments.   | Actual amounts are dependent upon the total equity capital we raise, the amount of debt we incur and results of operations and therefore cannot be determined at this time. |
| Wells TIMO <sup>(4)</sup>                              |  |   |
| Other Operating Expenses <sup>(5)</sup>                | We will reimburse the expenses incurred by Wells TIMO in connection with its provision of services, including related personnel, rent, utilities and information technology costs. We will not reimburse   | Actual amounts are dependent upon results of operations and therefore cannot be determined at this time.  |



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| Form of Compensation<br>and Entity Receiving                                | Determination of Amount   | Estimated Amount for<br>Maximum Offering <sup>(1)</sup>   |
|---|---|---|
| Independent Director Compensation <sup>(6)</sup>                            | <p>for personnel costs in connection with services for which Wells TIMO receives real estate disposition fees, or costs associated with hiring or retaining timber managers. Our operating expenses will not exceed the greater of (1) 2% of our average invested assets or (2) 25% of our net income.</p> <p>We will pay our independent directors: (1) \$2,000 for each in-person board meeting, (2) \$1,500 for each in- person committee meeting, (3) \$250 for each telephonic board or committee meeting and (4) an additional \$500 to each committee chair for each in-person committee meeting. When committee meetings occur on the same day as board meetings, no additional committee meeting attendance fee is payable. All directors will receive reimbursement of reasonable out-of-pocket expenses incurred in connection with attendance at meetings. Each independent director also receives (1) an initial grant of options upon his appointment to the board to purchase 2,500 shares of our common stock and (2) an additional grant of options upon each subsequent re-election to purchase 1,000 shares of our common stock. Option grants will be exercisable at the greater of \$10 per share or the fair market value of the shares on the date of grant.</p> | <p>Actual amounts are dependent upon the total number of board and committee meetings that each independent director attends and the future value of our common stock upon the exercise of options granted.</p> |
| Real Estate Disposition Fees<br>Wells TIMO or its Affiliates <sup>(7)</sup> | <p style="text-align: center;"><b>Liquidity Stage</b></p> <p>For substantial assistance in connection with the sale of properties, we will pay Wells TIMO or its affiliates an amount as determined by our board of directors to be appropriate based on market norms and not to exceed (1) for any property sold for \$20 million or less, 2% of the contract price of the property sold and (2) for any property sold for more than \$20 million, 1% of the contract price of the property sold; provided, however, in no event may the real estate commissions paid to Wells TIMO, its affiliates and unaffiliated third parties exceed 6% of the contract sales price.</p>  | <p>Actual amounts are dependent upon results of operations and therefore cannot be determined at this time.</p>   |
| Special Units<br>Wells TIMO <sup>(8)(9)</sup>                               | <p>So long as the special units remain outstanding, the holder of the special units will receive 15% of the net sales proceeds received by Wells Timberland OP on dispositions of its assets after the</p>  |   |

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| Form of Compensation   | Estimated Amount for            |
|--|---------------------------------|
| and Entity Receiving   | Maximum Offering <sup>(1)</sup> |
| Determination of Amount  |                                 |
| <p>holders of common units, including us, have received in the aggregate, cumulative distributions with respect to their common units equal to their capital contributions (less any amounts received in redemption of their common units) plus a 7% cumulative non-compounded annual pre-tax return on their net capital contributions.</p>   |                                 |
| <p>In addition, the special units will be redeemed by Wells Timberland OP, resulting in a one-time payment to the holder of the special units upon the earliest to occur of the following events:</p>  |                                 |
| <p>(1) The listing of our common stock on a national securities exchange, which we refer to as a listing event.</p>  |                                 |
| <p>(2) The termination or non-renewal of the advisory agreement which we refer to as a termination event, (a) not for cause, as defined in the advisory agreement, (b) in connection with a merger, sale of assets or transaction involving us pursuant to which a majority of our directors then in office are replaced or removed, (c) by our advisor for good reason, as defined in the advisory agreement, or (d) by us or Wells Timberland OP other than for cause.</p>   |                                 |
| <p>Upon a listing event, the one-time payment to the holder of the special units will be paid in the form of shares of our common stock with a market value equal to the amount that would have been distributed with respect to the special units as described above if Wells Timberland OP had distributed to the holders of units upon liquidation an amount equal to the market value of the listed shares. The market value of the listed shares shall be equal to the average closing price or, if the average closing price is not available, the average of bid and asked prices, for the 30-day period beginning 150 days after such listing event.</p> |                                 |
| <p>Upon a termination event (other than for cause, as defined in the advisory agreement), the one-time payment to the holder of the special units will be the amount that would have been distributed with respect to the special units as described above if Wells Timberland OP</p>  |                                 |

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| Form of Compensation  | Estimated Amount for            |
|---|---------------------------------|
| and Entity Receiving  | Maximum Offering <sup>(1)</sup> |
| Determination of Amount   |                                 |
| <p>sold all of its assets for their then fair market values (as determined by appraisal, except for cash and those assets which can be readily marked to market), paid all of its liabilities and distributed any remaining amount to the holders of units in liquidation of Wells Timberland OP. Upon a termination event for cause, the one-time payment to the holder of the special units will be \$1.</p> <p>Upon a termination event (other than for cause), the one-time payment to the holder of the special units will be made in the form of a non-interest-bearing promissory note that will be repaid using the entire net proceeds from each sale of Wells Timberland OP's assets in connection with or following the occurrence of the particular event. Payments may not be made under a promissory note issued in connection with a termination event until either (a) the closing of asset sales that result in aggregate, cumulative distributions to the holders of our common units (solely with respect to their common units), including us, in an amount equal to their capital contributions (less amounts paid to redeem their common units) plus a 7% cumulative non-compounded annual pre-tax return on their net capital contributions or (b) a listing event, each of which we refer to as a subsequent liquidity event. In addition, the amount of the promissory note issued in connection with a termination event will be subject to reduction as of the date of the subsequent liquidity event by an amount that will ensure that, in connection with the subsequent liquidity event, the holder of the promissory note does not receive in excess of 15% of the distributions of net sales proceeds that are made or are deemed to be made after holders of our common units (solely with respect to their common units), including us, have received or are deemed to have received aggregate, cumulative distributions equal to their capital contributions (less amounts paid to redeem their common units) plus a 7% cumulative non-compounded annual pre-tax return on their net capital contributions.</p> |                                 |

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| Form of Compensation   | Estimated Amount for            |
|--|---------------------------------|
| and Entity Receiving   | Maximum Offering <sup>(1)</sup> |
| Determination of Amount  |                                 |
| Upon a listing event after a termination event the promissory note would be cancelled in exchange for shares of common stock equal in market value to the outstanding balance of the promissory note.  |                                 |
| Except as described above, the holder of the special units shall not be entitled to receive any redemption or other payment from us or Wells Timberland OP with respect to the special units, including any participation in the quarterly distributions we may make in the future to our stockholders. In addition, it is possible that certain of our stockholders would receive more or less than the 7% cumulative non-compounded annual pre-tax return on net contributions described above prior to the commencement of distributions to the holder of the special units or the redemption of the special units. |                                 |

- (1) The estimated maximum dollar amounts are based on the sale of the maximum of 85 million shares to the public, including 10 million shares through our distribution reinvestment plan.
- (2) Selling commissions and, in some cases, all or a portion of the dealer-manager fee will not be charged with regard to shares sold to or for the account of certain categories of purchasers. See Plan of Distribution.
- (3) These organization and offering expenses include all expenses (other than selling commissions and the dealer-manager fee) to be paid by us in connection with this offering, including our legal, accounting, printing, mailing and filing fees, due diligence expense reimbursements to broker/dealers and amounts to reimburse Wells TIMO for the salaries of its employees and other costs in connection with preparing supplemental sales materials, the cost of educational conferences held by us (including travel, meal and lodging costs of registered representatives of broker/dealers) and certain of the attendance fees and cost reimbursements for representatives of our dealer-manager and our advisor to attend retail seminars conducted by broker/dealers. The portion of these organization and offering expenses for which we (as opposed to Wells TIMO) would be responsible could not be increased above 1.2% of our gross offering proceeds without entering into a new or an amended advisory agreement, which under our charter would require the approval of a majority of our independent directors. We will not reimburse Wells TIMO for any organization and offering expenses from proceeds of sales pursuant to our distribution reinvestment plan.
- (4) The asset management fee is based on the actual amount invested on our behalf in properties, including any incurred or assumed indebtedness related to the properties, plus, with respect to joint ventures, the actual amount invested on our behalf in the joint venture plus our share of capital improvements, if applicable, made by the joint venture from cash flows generated by the joint venture, until such time as our advisor has estimated the value of all interests we hold in properties or joint ventures for ERISA reporting purposes. After such time, our asset management fee will be based on the greater of the amount as calculated above or the aggregate value of our interest in properties and joint ventures as established in connection with the most recent estimated valuation for ERISA fiduciaries. In performing the valuation, our advisor, or an unaffiliated appraiser chosen by our advisor, will consider the volume of timber on the timberland when it was originally acquired, subsequent biological growth of the timber, any timber losses from harvesting or otherwise, and the market value of timber then current at the time of the valuation. The asset management fee is payable, at the election of our advisor, either in cash or, subject to the ownership limitations in our charter, in shares of



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our common stock. If the fee is paid in shares, the shares will be valued at a price equal to the average closing price of the shares over the 10 trading days immediately preceding the date of such election, if the shares are then listed on a national securities exchange at such time. If the shares are not listed on a national securities exchange at such time, then the shares will be valued at a price equal to the fair market value for the shares on the date of the advisor's election to receive the fee in the form of shares as determined in good faith by our board of directors, including a majority of our independent directors.

- (5) Wells TIMO must reimburse us the amount by which our aggregate annual total operating expenses exceed the greater of 2% of our average invested assets or 25% of our net income unless a majority of our independent directors has determined that such excess expenses were justified based on unusual and nonrecurring factors. Average invested assets means the average monthly book value of our assets for a specified period before deducting depreciation, bad debts or other noncash reserves. Total operating expenses means all costs and expenses paid or incurred by us, as determined under GAAP, that are in any way related to our operation, including advisory fees, but excluding (a) the expenses of raising capital such as organization and offering expenses, legal, audit, accounting, underwriting, brokerage, listing, registration and other fees, printing and other such expenses, and taxes incurred in connection with the issuance, distribution, transfer, registration and stock exchange listing of our stock; (b) interest payments; (c) taxes; (d) noncash expenditures such as depreciation, amortization and bad debt reserves; (e) reasonable incentive fees based on the gain from the sale of our assets; and (f) acquisition fees, acquisition expenses (including expenses relating to potential acquisitions that we do not close), real estate disposition fees on the resale of property and other expenses connected with the acquisition, disposition, management and ownership of real estate interests or other property (including the costs of foreclosure, insurance premiums, legal services, maintenance, repair and improvement of property). Within 60 days after the end of any of our fiscal quarters for which total operating expenses for the 12 months then-ended exceeded the limitation, we will send to our stockholders a written disclosure, together with an explanation of the factors the independent directors considered in arriving at the conclusion that the excess expenses were justified.
- (6) Although we anticipate that we will pay most of the compensation payable to independent directors during our acquisition and operations stage, we will also compensate our independent directors for their service during our organization and offering stage and our liquidity stage.
- (7) Although we are most likely to pay real estate disposition fees to Wells TIMO or an affiliate in the event of our liquidation, these fees also may be earned during our acquisition and operations stage.
- (8) If at any time our shares become listed on a national securities exchange, we will negotiate in good faith with Wells TIMO a fee structure appropriate for an entity with a perpetual life. A majority of our independent directors must approve the new fee structure negotiated with Wells TIMO. In negotiating a new fee structure, our independent directors must consider all of the factors these directors deem relevant, including but not limited to:

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

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

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

additional revenues realized by Wells TIMO through its relationship with us;

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



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

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

- (9) Under our charter, we could not amend Wells Timberland OP's partnership agreement to increase these success-based payments without the approval of a majority of our independent directors, and any increase would have to be reasonable. Our charter provides that such payments are presumptively reasonable if the amount does not exceed 15% of the balance of such net proceeds after investors have received a return on their net capital contributions and a 6% per year cumulative, noncompounded return.

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

The following table sets forth the beneficial ownership of our common stock and Series A preferred stock as of November 30, 2007 by (1) any person who is known by us to be the beneficial owner of more than 5% of the outstanding shares, (2) our directors, (3) our executive officers and (4) all of our directors and executive officers as a group.

| Name of Beneficial Owners   | Shares Beneficially Owned |            |
|---|---------------------------|------------|
|   | Shares                    | Percentage |
| <b>Common Stock</b>   |                           |            |
| Wells Timberland Management Organization, LLC <sup>(1)</sup>            | 20,000                    | *          |
| Leo F. Wells, III, President <sup>(1)</sup>                             | 102,237                   | 2.84%      |
| Douglas P. Williams, Executive Vice President, Secretary, and Treasurer | 1,096                     | *          |
| Jess E. Jarratt   | 2,741                     | *          |
| Randall D. Fretz, Senior Vice President                                 | 548                       | *          |
| Michael P. McCollum <sup>(2)</sup>                                      | 1,666                     | *          |
| E. Nelson Mills <sup>(2)</sup>  | 1,666                     | *          |
| Donald S. Moss <sup>(2)</sup>   | 1,666                     | *          |
| Willis J. Potts, Jr. <sup>(2)</sup>                                     | 1,666                     | *          |
| All directors and executive officers as a group (8 persons)             | 133,287                   | 3.7%       |
| <b>Series A Preferred Stock</b>   |                           |            |
| Wells Real Estate Funds, Inc. <sup>(1)</sup>                            | 32,128                    | 100%       |
| Leo F. Wells, III <sup>(1)</sup>  | 32,128                    | 100%       |

\* Less than 1%

(1) As the sole stockholder of Wells Real Estate Funds, Inc., which directly or indirectly owns Wells Capital, Inc., the sole owner of Wells Timberland Management Organization, LLC, Mr. Wells may be deemed the beneficial owner of the shares held by Wells Timberland Management Organization, LLC. Wells Timberland Management Organization, LLC also holds 200 common units in Wells Timberland OP and 100 special units in Wells Timberland OP. Mr. Wells is also deemed to be the beneficial owner of 32,128 shares of Series A preferred stock held by Wells Real Estate Funds, Inc.

(2) Includes shares issuable upon the exercise of options which are immediately exercisable.

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**CONFLICTS OF INTEREST**

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

**Our Sponsor's Interests in Other Wells Real Estate Programs**

***General***

Wells Capital and its affiliates are general partners and advisors of other Wells programs, including programs that have investment objectives similar to ours, and we expect that they will organize other such partnerships and programs in the future. None of these programs, however, have invested in timberland. Wells Capital and such affiliates have legal and financial obligations with respect to these programs that are similar to the obligations that our advisor and its affiliates have to us.

Wells Capital and its affiliates have sponsored the following 18 public real estate programs with substantially identical investment objectives as ours:

1. Wells Real Estate Fund I
2. Wells Real Estate Fund II
3. Wells Real Estate Fund II-OW
4. Wells Real Estate Fund III, L.P.
5. Wells Real Estate Fund IV, L.P.
6. Wells Real Estate Fund V, L.P.
7. Wells Real Estate Fund VI, L.P.
8. Wells Real Estate Fund VII, L.P.
9. Wells Real Estate Fund VIII, L.P.
10. Wells Real Estate Fund IX, L.P.
11. Wells Real Estate Fund X, L.P.
12. Wells Real Estate Fund XI, L.P.
13. Wells Real Estate Fund XII, L.P.
14. Wells Real Estate Fund XIII, L.P.
15. Wells Real Estate Fund XIV, L.P.
16. Wells Real Estate Investment Trust, Inc.
17. Wells Real Estate Investment Trust II, Inc.

18. Institutional REIT, Inc.

***Allocation of Time of our Sponsor's Personnel***

We rely on Wells TIMO, our advisor, for the day-to-day operation of our business pursuant to an advisory agreement. Wells TIMO was recently formed for the purpose of serving as our advisor. As of the date of this prospectus, Wells TIMO has only two employees. As a result, Wells TIMO will rely on employees of its manager and parent company, Wells Capital, to perform its advisory services for us, until such time, if ever, as Wells TIMO has sufficient personnel of its own. As a result of its interests in other Wells programs and the fact that it has also engaged and will continue to engage in other business activities, Wells Capital and its

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affiliates will have conflicts of interest in allocating their time between the services to be performed for us on behalf of Wells TIMO and the other Wells programs and activities in which they are involved. However, Wells Capital believes that it and its affiliates have sufficient personnel to allow Wells TIMO to discharge fully its responsibilities to us, while at the same time to fulfill their responsibilities to all of the other Wells programs and ventures in which they are involved.

### **Receipt of Fees and Other Compensation by Wells TIMO and its Affiliates**

Wells TIMO and its affiliates will receive substantial fees and other payments from us. During the offering stage, a significant portion of the fees and payments will be payable directly out of offering proceeds. These compensation arrangements could influence our advisor's advice to us, as well as the judgment of the affiliates of Wells TIMO who serve as our officers or directors. Among other matters, the compensation arrangements could affect their judgment with respect to:

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

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

the valuation of our timberland properties, which determines the amount of the asset management fee payable to Wells TIMO and affects the likelihood of any success-based payments;

property sales, which entitle Wells TIMO to real estate disposition fees and possible success-based sale payments;

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

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

whether and when we apply to list our common shares on a national securities exchange, which listing could entitle Wells TIMO to a success-based payment upon the redemption of the special units of Wells Timberland OP that it holds, which is due upon listing, but also could adversely affect its sales efforts for other programs depending on the price at which the shares trade; and

whether and when we seek to sell our company or our assets, which sale could entitle Wells TIMO to a success-based payment on the special units of Wells Timberland OP that it holds, but could also adversely affect its sales efforts for other programs depending upon the sales price for our company or our assets.

Wells TIMO, however, has a fiduciary duty to us. If Wells TIMO fails to act in our best interest, it will have violated its fiduciary duty to us.

The advisory fees paid to Wells TIMO will be paid irrespective of the quality or performance of the investments acquired or the services provided during the term of the advisory agreement. See Certain Conflict Resolution Procedures.

### **Fiduciary Duties Owed by Affiliates of Our Advisor to Other Entities**

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Our executive officers also are officers and/or directors of:

Wells REIT II, Institutional REIT and Wells Total Return REIT;

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

Wells Investment Securities, our dealer-manager.

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Donald S. Moss, one of our independent directors, is a trustee of Wells Family of Real Estate Funds, a mutual fund registered under the Investment Company Act of 1940, as amended. E. Nelson Mills, one of our independent directors, is a director of Wells REIT II and Institutional REIT.

As a result, these persons owe fiduciary duties to these various entities and their stockholders, which fiduciary duties may from time to time conflict with the fiduciary duties they owe to us. See **Management** **Executive Officers and Directors**.

### **Affiliated Dealer-Manager**

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

### **Certain Conflict Resolution Procedures**

#### ***Independent Directors***

Our independent directors are empowered to resolve potential conflicts of interest. Serving on the board of, or owning an interest in, another Wells-sponsored program will not, by itself, preclude a person from being named an independent director. The independent directors, who are authorized to retain their own legal advisor and financial advisor, are empowered to act on any matter permitted under Maryland law if the matter at issue is such that the exercise of independent judgment by Wells TIMO affiliates could reasonably be compromised. Those conflict-of-interest matters that the board cannot delegate to a committee under Maryland law must be acted upon by both the board of directors and a majority of our independent directors. Among the matters we expect our independent directors to act upon are:

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

public offerings of securities;

transactions with affiliates;

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

whether and when we apply to list our shares of common stock on a national securities exchange; and

whether and when we seek to sell our company or our assets.

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

In addition to providing for our independent directors to act together to resolve potential conflicts, our charter contains many other restrictions relating to conflicts of interest including the following:

**Advisor Compensation.** The independent directors evaluate at least annually whether the compensation that we contract to pay to Wells TIMO and its affiliates is reasonable in relation to the nature and quality of services performed and whether that such compensation is within the limits prescribed by our charter. The independent directors supervise the performance of Wells TIMO and its affiliates to determine that the provisions of our compensation arrangements are being carried out, and whether or not to increase or decrease the amount of compensation payable to

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Wells TIMO. The independent directors base their evaluation of Wells TIMO on the factors set forth below as well as any other factors that they deem relevant:

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

the success of Wells TIMO in generating appropriate investment opportunities;

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



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

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

the performance of our investment portfolio; and

the quality of our portfolio relative to the investments generated by Wells TIMO for its own account and for its other clients. We can pay Wells TIMO a real estate disposition fee in connection with the sale of a property only if it provides a substantial amount of the services in the effort to sell the property. If Wells TIMO does provide substantial assistance, we will pay it or its affiliates an amount as determined by our board of directors, including a majority of our independent directors, to be appropriate based on market norms and not to exceed (1) for any property sold at a price of \$20 million or less, 2% of the contract price of the property sold and (2) for any property sold at a price greater than \$20.0 million, 1% of the contract price of the property sold. However, in no event may the aggregate real estate disposition fees paid to Wells TIMO, its affiliates and unaffiliated third parties exceed 6% of the contract sales price.

*Term of Advisory Agreement.* Each contract for the services of our advisor may not exceed one year, although there is no limit on the number of times that the contract with a particular advisor may be renewed. Either a majority of our independent directors or our advisor may terminate our advisory agreement with Wells TIMO without cause or penalty on 60 days' written notice. In the event our advisory agreement with Wells TIMO is terminated and a successor advisor is appointed, our board of directors must determine that the successor advisor possesses sufficient qualifications to perform the services described in the advisory agreement and that the compensation we will pay to the successor advisor will be reasonable in relation to the services provided. For information regarding the redemption payment that may be payable by Wells Timberland OP to our advisor upon termination of the advisory agreement in connection with the redemption of special units held by our advisor, see Management Compensation.

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

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

*No Limitation on Other Business Activities.* Our charter does not prohibit Wells TIMO, our directors or officers or any of their affiliates from engaging, directly or indirectly, in any other business or from owning interests in any other business ventures, including business ventures involved in the acquisition, ownership, management or sale of timberland or other types of properties.

*Limitation on Operating Expenses.* Wells TIMO must reimburse us the amount by which our aggregate annual total operating expenses exceed the greater of 2% of our average invested assets or 25% of our net income unless our independent directors have determined that such excess expenses were justified based on unusual and nonrecurring factors. Within 60 days after the end of any of our fiscal quarters for which total operating expenses for the 12 months then-ended exceeded the limitation, we will send to our stockholders a written disclosure, together with an explanation of the factors the independent directors considered in arriving at the conclusion that the excess expenses were justified. Average invested assets means the average monthly

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book value of our assets for a specified period before deducting depreciation, bad debts or other noncash reserves. Total operating expenses means all costs and expenses paid or incurred by us, as determined under GAAP, that are in any way related to our operation, including advisory fees, but excluding (a) the expenses of raising capital such as organization and offering expenses, legal, audit, accounting, underwriting, brokerage, listing, registration and other fees, printing and other such expenses and taxes incurred in connection with the issuance, distribution, transfer, registration and stock exchange listing of our stock; (b) interest payments; (c) taxes; (d) noncash expenditures such as depreciation, amortization and bad debt reserves; (e) reasonable incentive fees based on the gain from the sale of our assets; and (f) acquisition fees, acquisition expenses, real estate disposition fees on the resale of property and other expenses connected with the acquisition, disposition, management and ownership of real estate interests or other property (including the costs of foreclosure, insurance premiums, legal services, maintenance, repair and improvement of property).

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

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

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

*Reports to Stockholders.* Our charter requires that we prepare an annual report and deliver it to our stockholders within 120 days after the end of each fiscal year commencing with the fiscal year ended December 31, 2007. Among the matters that must be included in the annual report are:

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

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

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

a report from our independent directors that our policies are in the best interests of our stockholders and the basis for such determination; and

separately stated, full disclosure of all material terms, factors and circumstances surrounding any and all transactions involving us and our advisor, a director or any affiliate thereof during the year, including commentary by our independent directors following the independent directors' examination of these matters regarding the fairness of the transactions.

*Voting of Shares Owned by Affiliates.* Wells TIMO and our non-independent directors or officers or any of their affiliates who acquire shares of our common stock may not vote their shares regarding (1) the removal of any of Wells TIMO's affiliates or (2) any transaction between them and us.

*Ratification of Charter Provisions.* Our board of directors, including a majority of our independent directors, has reviewed and ratified our charter, as required by our charter.



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***Allocation of Investment Opportunities***

Since our company is the only Wells program to date formed for the purpose of investing primarily in timberland, we do not expect that Wells TIMO or the Wells Capital personnel who perform services for us on behalf of Wells TIMO will face substantial conflicts in allocating, among us and other Wells programs, investment opportunities that are suitable for us, at least until such time, if ever, as another Wells program is formed for the purpose of investing in timberland.

In the event that Wells TIMO manages another program in the future for which timberland investments are suitable, Wells TIMO will be required to present each investment opportunity it identifies to the program for which the investment opportunity is most suitable. This determination is made by Wells TIMO. However, our advisory agreement with Wells TIMO requires that Wells TIMO make this determination in a manner that is fair without favoring any other Wells-sponsored program. In determining the Wells-sponsored program for which an investment opportunity would be most suitable, Wells TIMO will consider the following factors:

the investment objectives and criteria of each program;

the cash requirements of each program;

the effect of the acquisition both on diversification of each program's investments by type of property and geographic area and, if applicable, on diversification of the lessees of its properties;

the policy of each program relating to leverage of properties;

the anticipated cash flow of each program;

the income tax effects of the purchase on each program;

the size of the investment; and

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

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

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



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**INDUSTRY OVERVIEW**

**General**

Prior to 1986, most privately-owned timberland in the United States was held by forest products companies, families and individuals. Since the passage in 1986 of regulations under the Employee Retirement Income Security Act of 1974 (ERISA), much of the corporate-owned timberland in the country has been sold to public and private (non-corporate) investors through timberland investment management organizations, called TIMOs, or through REITs. This shift has been driven by two primary factors: (1) forest products companies responding to pressure from the investment community to better utilize their capital by selling their timberlands and reinvesting in their manufacturing facilities, and (2) investors' demand for investment alternatives to stocks and bonds.

Investor demand for interests in timberland enterprises is attributable to the associated benefits such investments can provide to a diversified investment portfolio. Returns on timberland investments have historically had a low correlation with the returns on many other investment assets, such as stocks and bonds. This means that timberland returns generally have not moved in a manner consistent with the returns realized by the rest of the market, and therefore may be an effective tool in diversifying exposure to the market as a whole. Timberland returns also generally are less volatile than the returns from many other investments that produce similar levels of return. The National Council of Real Estate Investment Fiduciaries, or NCREIF, publishes the NCREIF Timberland Index, which reports returns for institutional timberland investments. The NCREIF Timberland Index has been positively correlated with inflation, which means that an investment in timberland enterprises may be effective in reducing the negative effects of inflation, as timberland investments tend to maintain their value even during inflationary periods. Further, when allocating funds among investment asset classes, the addition of timberland to a given portfolio generally will increase the returns from that portfolio for a given level of risk.

In a timberland investment, the timberland owner generally realizes two types of returns— income returns and appreciation returns. Most income returns from timberland investments are directly attributable to revenues from timber harvests. Trees are sold as a variety of products. Smaller trees are sold as pulpwood, larger trees are sold as sawtimber— also referred to as sawlogs, and the largest trees might be sold as veneer logs or as poles— for use as telephone poles, for example.

The minimum size for pulpwood trees and logs depends on local markets. The markets usually specify a minimum diameter for the small end of the pulpwood log— often three or four inches. Standing trees, however, are measured at a point 4.5 feet off the ground, called diameter at breast height, or DBH, where the tree will be larger than at the small end. In order for the small end of a log to meet the minimum size, the minimum DBH of a tree used for pulpwood would need to be about four or five inches.

As with pulpwood, the specifications for sawtimber vary by species and local markets, but the minimum size of the small end of the log may be six to eleven inches. In some markets, smaller sawlogs, called chip-n- saw logs, are processed on special equipment that creates chips from the rounded outsides of the logs and lumber from the core.

Timberland owners have some control over the timing of timber harvests, and may be able to reduce harvests during periods of low timber prices, and to increase harvests during periods of high timber prices— in each case, to take advantage of then prevailing market prices. Timberland owners also can apply silvicultural treatments to increase the growth rates of the trees and the quality of the wood that those trees produce. Silviculture is the science of manipulating timber stands to improve tree growth. Silviculture treatments may include preparing the land for planting trees, controlling weeds and undesirable tree species, and applying fertilizer. Foresters balance the cost of applying such treatments with the benefits received in the form of higher timber volumes on the tree stand. The proper application of silviculture treatments can increase the percentage of sawtimber-sized trees found in a given tree stand at harvest time, and can reduce the number of years between harvests.

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A good forest manager can also increase income returns from timberland properties through careful marketing and selling of the harvested timber to ensure that it is sold for its highest and best use. For example, managers can endeavor to make sure that all trees that can be sold as sawtimber, actually are sold as sawtimber rather than sending some of these higher quality trees to pulp mills, where they will receive a lower price. Many markets contain specialty mills that require logs of particular sizes, species and qualities, and these specialty mills may be willing to pay a higher price for logs meeting the prescribed criteria. Timberland owners whose forest managers provide significant, dependable volumes of wood to a mill usually receive a premium for their wood.

Many timberland parcels can provide additional income returns from non-timber revenue sources, such as recreation leases or conservation easements. In much of the United States, the most common and profitable form of recreation lease is the hunting rights lease. Hunting clubs may lease thousands of acres of a single timberland property that has little other recreational value. In other areas, the demand for recreation land may be so high that the land is more valuable as camp lots or resorts (for example, hotels and golf courses), and the forest owner might classify the land as HBU property. In such a case, the forest owner may realize greater returns by selling the land for development, or by selling the development rights to a conservation organization or a state agency via a conservation easement. There are a myriad of other sources of non-timber income that may be available to a timberland owner. In the South, for example, timberland owners often can sell pine straw (pine needles) to be used as landscaping mulch. Cattle grazing leases, maple syrup leases and minerals are some other possible income sources.

In addition to income returns, timberland owners can realize appreciation in the value of land and the related timber inventory, and from the sale of individual parcels of HBU land that have a higher and better use than growing timber. HBU land sales generally provide cash to the seller at the time of sale.

There is some tradeoff between income and appreciation returns, and it is important that a timberland owner work to strike a delicate and deliberate balance between these returns in order to maximize the overall returns from its portfolio of properties. For example, if timber is not harvested on a particular property because then prevailing timber prices are low, current income returns are reduced. However, the potential for appreciation returns from that property will increase as the value of the property and the timber on that property increase (due to growth in the size and volume of the trees). Conversely, when timber prices are high, the pace of timber harvesting may be accelerated, which provides greater income returns in the current period, but, because the timber inventory is being reduced, reduces the value of the timberland, and thus the potential for appreciation returns.

### **Supply and Demand Dynamics**

Investment returns from a timberland investment are derived largely from the revenue obtained from harvesting timber on the property. The remainder of the return is based on appreciation in land value and non-timber revenues. The demand for timber is derived from the demand for products made from that timber.

For example, according to the U.S. Forest Service, 60% of the softwood lumber produced in the United States is used in new housing construction. As a result, the market for softwood sawlogs is highly influenced by housing starts. Housing starts are generally considered to be a leading indicator of the general United States economy, so softwood lumber demand, and, therefore, demand for softwood sawlogs, is usually higher during periods of strong economic growth. Structural panels, such as softwood plywood and oriented strand board, or OSB (made from a variety of species), are used in the same construction markets as softwood lumber and the demand for these products also is highly influenced by housing starts. Plywood mills use large, higher-value veneer logs, while OSB plants provide alternative outlets for pulpwood material. Hardwood lumber is used in a variety of end products, including flooring, furniture and cabinets. The markets for these products also are related to the general housing markets, but usually lag housing starts, as these products are installed after the exterior of the house has been completed.

Pulpwood is used to produce paper, such as writing paper, newsprint, magazine paper and tissue; paperboard, such as boxes and shipping containers; and non-woven products, such as diapers and other absorbent products. Demand for newsprint and paper for magazines is usually stronger during good economic

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times, reflecting the demand for advertising space in publications. Paperboard demand generally is stronger during good economic times, as well, because more products are being shipped during stronger economic periods.

Demand for paper and forest products and, therefore, timber generally is higher during periods of strong economic growth. However, while demand for these products is usually weaker during periods of slow economic growth, some segments of the timber industry and paper and forest products industries are less affected by economic downturns than are some other industries.

Another important use of softwood lumber and structural panels is in repair and remodeling, the market for which is somewhat counter-cyclical, as demand for repair and remodeling products often increases as new construction slows. These alternative uses of softwood lumber and panels help to reduce the decline in lumber and log demand when housing starts drop. The demand for tissues and non-woven products generally does not fluctuate with economic conditions as much as other paper and paperboard products. In addition, export markets are available for most products, including logs themselves, which provide other outlets when domestic markets are poor.

For pulp-based products that are more closely tied to the general economy for example, newsprint and shipping containers the demand for the final product often is more volatile than the demand for the pulpwood used to make the product. Many of the mills producing these products keep consuming wood and producing pulp even when the markets for their end products are unfavorable. Because of the complexities of the production process, and the high fixed costs involved in building and operating pulp and paper mills, these mills usually run 24 hours a day, year-round. These mills can decrease the speed of their paper machines and adjust their production and utilization rates only within a limited range. They will curtail production and stop buying wood only when markets are extremely poor. In contrast, sawmills and panel plants can add or eliminate shifts or vacations as markets expand and contract, and, as a result, the demand for wood by such facilities tends to fluctuate more as the demand for their products changes.

There are times when demand for sawlogs remains high even when lumber prices are low. In some areas, particularly the U.S. Pacific Northwest and areas in the South and Canada, pulp mills use sawmill chips as their primary source of fiber. In producing square lumber from round logs, sawmills are left with the rounded slabs from the outside of the log. These slabs are chipped into small pieces and sold to local pulp mills as sawmill chips. There are times when poor lumber markets reduce lumber production enough that the pulp mills face a shortage of sawmill chips, and the price of sawmill chips increases in response. At such times, the revenue that sawmills receive from chip sales may offset any losses they incur from producing lumber, and, as a result, some sawmills keep operating even though lumber markets are poor. This results in the creation and maintenance of a level of demand for sawlogs that is not otherwise related to the demand for lumber.

Ideally, timberland owners would have access to a variety of mills producing different products and using both pulpwood and sawtimber thus providing demand for logs of a variety of different species, sizes and qualities located in the immediate vicinity of the timberland property, thus reducing transportation and other costs. If the mills serve different markets with their products, the risk of all of those mills curtailing production at the same time is reduced, and there should be a market for some timber at all times.

From a supply perspective, weather is an important factor. Most regions of the country, and the world, have a season where logging is difficult or impossible. Logging operations in the Northeast are usually suspended for four to six weeks in the spring when the snow melts and the ground is saturated with water. Most of the South sees rainy conditions in the winter, which halts logging in some areas. Timber harvesting is usually halted in western mountain areas due to heavy winter snows. Fire danger can halt logging during the summer in the West, and sometimes in the South. These factors can limit the supply of logs available to mills at particular times of the year. Timberland owners who can deliver logs when mills are running short can command a premium price for their wood. These owners will manage and hold in reserve certain tracts that are accessible in bad weather so they can continue to harvest and transport wood when others cannot.

The availability of loggers to harvest timber is becoming a concern in some parts of the United States. This may limit the ability of a timberland owner to have timber harvested as and when the owner desires.



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The demand for HBU parcels is based on factors unrelated to demand for paper and forest products. The volume and value of timber on an HBU property and the demand for timber in the neighborhood is irrelevant to the market for HBU property. The size and location of the parcels is critical, and the location of those parcels ultimately will determine their appropriate use. Some parcels near urban areas may be suitable for suburban residential development, while those in recreation areas may be suitable for recreational developments, including resorts and vacation homes. The value of these parcels depends upon these types of local markets.

### **Stages of Biological Growth**

One of the principal factors to consider in evaluating and operating timberland is the age, or biological growth stage, of the trees that comprise the timber on the timberland. While any single stand of planted trees will contain trees of the same age, it is important to understand that not all trees in a stand are exactly the same size. As with any biological organism, there is a natural variation in size among trees of the same age.

Young forests contain trees that have no commercial or merchantable value and devote most of their growth effort into achieving greater height rather than width. Width is a very important trait in the merchantability of a harvested tree. These forests contain stands of trees that range in size from seedlings – trees that have been just planted or are one to two years old – to trees that are nearly large enough to be used as pulpwood. Stands comprised of young trees tend to be more susceptible to fire damage, but are less susceptible to wind, insect and disease damage than are mature stands. Depending on the investment region and the species of tree, young stands are generally defined as those that range from zero to 15 years old in the South, or from zero to 30 years old in the Northeast. An investment in timberland that is comprised mostly of young forests will provide little short-term income return, but generally is less expensive to purchase than timberlands comprised of trees that are more mature. If held long enough, timberland comprised of young forests should provide significant long-term appreciation returns.

Adolescent forests contain trees that range from those that have just crossed the threshold into merchantability, to those that are approaching sawtimber size. Trees in this age group have slowed in adding height, but they continue to grow rapidly in diameter. While many of the stands comprised of adolescent trees could be harvested to provide short-term income returns, the overall income returns generally will be greater if a timber owner waits until the trees are bigger. These stands range in age from 15 to 20 years old in the South to 30 to 50 years old in the Northeast. An investment in timberland that is comprised of adolescent forests will provide some short-term and long-term income returns, depending upon when the trees are harvested, and also should provide the potential for appreciation returns as the trees continue to grow and increase in value.

Mature forests contain many trees that generally have ceased growing in terms of height, and instead concentrate their growth efforts on adding girth. Many such trees in a stand will meet the specifications to be considered sawtimber. For example, a southern pine stand might be considered mature at age 20 or 25, but not all the trees in such a stand will be of sawtimber size. In fact, 20 percent to 50 percent of the trees in such a stand might be pulpwood trees. Timberland comprised of mature trees can provide significant short-term income returns, but offer little future appreciation returns, as the value of the timberland may actually decline as the trees are cut and the tree stands are replanted or naturally regenerated. Mature trees are less susceptible to damage from fires than are younger trees, but are more susceptible to insects and disease, as well as severe winds and other natural forces.

Forests in the United States contain a mix of softwoods, including trees with needles, such as spruce or pine, and hardwoods, including trees with leaves, such as oak or maple. Most softwood forests in the United States owned by institutional investors (i.e., TIMOs or REITs) are managed as plantations, where the trees within a stand are all planted in rows and harvested at the same time, and then the stand is replanted. The trees within the resulting tree stand therefore will be of the same age and roughly the same size. Conversely, most United States hardwood forests are managed as non-plantation forests, meaning that not all of the trees within a stand are harvested at once. These are all-aged stands that contain trees from each age group. As a result, the trees within any particular stand tend to be of varying sizes. Harvests are conducted at intervals of ten to 20 years. Hardwood forest harvests remove mature and poor-quality trees and leave behind a stand that

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will be ready for another harvest in ten to 20 years. The harvested trees are usually replaced through natural regeneration.

Large tracts of timberland rarely contain stands that are comprised of trees that are of a uniform age or size. Most large timberland properties historically have been managed so that some trees are harvested each year to provide wood or create steady annual cash flows. Stands of different ages are scattered across those properties. It may be impractical to extract all of the stands of a single age group from a large timberland property to create a timberland investment property of uniformly aged stands, because this approach would result in a property comprised of small, widely dispersed parcels, which is difficult and inefficient to manage.

### **Biological Growth Compared to Value Growth**

Each year, trees grow both in terms of height and width. As a result, assuming that timber prices remain constant and that no trees are harvested, a timberland property will become more valuable each year simply because the trees within that property have become larger. However, during certain growth stages in the life of a tree stand, the value of the timber may increase significantly during a very short period of time. One such period of time is when the young trees begin to achieve pulpwood size, and suddenly transition from having no merchantable value to becoming potentially worth \$4.00 to \$8.00 per ton. Another such period of time occurs when pulpwood trees reach chip-n-saw size. Southern pine chip-n-saw prices may be two to four times those for pulpwood trees. Another value increase occurs when trees can be sold as larger sawlogs, which might be worth twice as much as chip-n-saw material. The growth in the value of a tree stand is directly tied to the age and size of the trees within that tree stand, and thus it is important for timberland owners to understand the effects that biological stages of tree growth have on the value of the underlying timberland.

### **Market Opportunity**

While timberland owners which historically have comprised the United States forest products industry have sold much of their timberland holdings, many opportunities for investments in U.S. timberland still remain. In recent years, a large portion of institutional investment in timberland has come in the form of pooled funds, which have a finite term and generally sell their timberland holdings at the end of the investment period. Generally, several of these funds terminate each year, creating an opportunity for other investors to purchase the timberlands that the funds sell. These properties can be particularly attractive to timberland investors because most of the TIMOs which historically have operated these properties have rigorously sold any HBU parcels over the course of their investments, meaning that these timberlands will contain relatively fewer HBU acres than other properties. In addition to institutional timberland ownership, there are many older family-owned timberlands comprised of hundreds or thousands of acres. These older family-owned properties represent another potential source of attractive timberland for acquisition.

Institutional investors which have invested in timberland through separate accounts generally are not under any imposed time constraints to sell their timberland investments, but frequently analyze and rebalance their portfolios. These rebalancing efforts often include decisions to sell some or all of their timberland holdings, which creates another potential opportunity for the acquisition of timberland on favorable terms.

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**BUSINESS AND POLICIES**

**Our Business**

The focus of our business is to invest in timberland, and to manage that investment in order to provide attractive short- and long-term returns to our investors. We intend to generate income returns in the form of cash flows from harvesting and selling timber, and from pursuing non-timber related revenue sources. When and where we believe that it is appropriate, we also will seek to generate cash flow from the sale of HBU lands. We expect to realize additional long-term returns from the appreciation in the value of our timberland and the standing timber on that land upon the ultimate disposition of our properties. We may also invest in other entities that own timberland or form joint ventures with entities that have complementary investment objectives.

**Investment Objectives**

Our primary investment objectives are:

to preserve and return your capital contribution;

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

to realize capital appreciation upon the ultimate sale of our assets.

However, we will not be able to pay any cash distributions until we repay the mezzanine loan or renegotiate its terms, and upon the attainment of certain financial performance measures under the senior loan. See [Timberland Investments](#) [South Central Timberland](#) [Financing](#) for a description of the terms of our senior and mezzanine loans.

**Investment Strategy**

Our strategy is to acquire and manage a diversified portfolio of timberland properties that are:

comprised of trees from different age classes;

located in a variety of different geographic regions; and

comprised of a variety of species of trees.

*Age Class Diversification.* Age class diversification allows us to make adjustments to our short- and long-term income returns by investing in forests of an age group that will provide cash flows for distribution to stockholders.

The market for younger forests is less competitive than the market for older forests. Forests comprised of younger trees tend to generate less cash flow in the near-term than do mature forests, and are generally less expensive to purchase because there is less merchantable timber on them. Generally, there also are fewer timberland investors focused on long-term strategies that are interested in acquiring properties comprised of younger trees. Timberland owners in need of high short-term revenues often are anxious to sell their properties comprised of younger trees, and to reinvest the proceeds from those sales to purchase properties comprised of older trees that offer greater short-term income returns. While forests comprised of older trees can generate greater income returns in the near-term, the competition to purchase such forests is stronger, and the prices are generally higher.

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Rather than focusing on properties comprised of trees of any particular age class, we will focus our property acquisition efforts on properties that are comprised of forests of a variety of different age classes, thus enabling us to better manage our short- and long-term income and appreciation returns. Our initial property acquisitions likely will be focused on forests comprised of older trees, in an effort to generate some income for initial distributions to investors. We also will seek to acquire forests comprised of younger and adolescent forests that can provide long-term income returns after our forests comprised of older trees have

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been harvested. At all times, we will seek to acquire properties on terms that are favorable to us, and to seek a balance between short- and long-term returns.

*Geographic Diversification.* By pursuing a property acquisition approach that includes the goal of geographic diversification, we will seek to mitigate the risk of our operations being dependent on one particular market. Geographic diversification will expose our operations to the risks of a number of different markets, both because of the geographic distance between the timberland properties and because different regions are home to different forest types and species mixes.

We intend to apply our geographic diversification approach on both a micro and a macro level. On a micro level, we believe that our timberland properties should not be located in a single mill procurement basket. This distance is based upon the average distance over which harvested trees must be hauled. While the average log haul varies somewhat by region, in most areas of the United States, logs usually are transported no more than 60 to 90 miles. Our geographic spacing on a micro basis will enable us to participate in different wood markets, which will help to protect our portfolio from the risk of a single mill closure. This geographic spacing also reduces the risk that a large percentage of the portfolio will be damaged by a single hurricane, ice storm, fire, or insect or disease outbreak.

On a macro level, locating investment properties in different regions of the United States lessens our dependence on regional economic and other conditions. This approach also provides exposure to different species of trees and to different export markets. For example, Texas and South Carolina are hundreds of miles apart, but the primary species of tree in which timberland owners invest in both States is southern pine. While local markets may be different in these states, the difference between those markets does not provide as much diversification as would be offered by investments in Texas and Washington. The Pacific Northwest's primary investment species are Douglas-fir and western hemlock, and its export market is stronger than the export market existing in Texas. We may also invest, to a lesser extent, in properties located in international timber-producing regions such as Canada and certain South American countries. We will strive to diversify our portfolio so that following the investment of the net proceeds raised during our offering stage, no more than 30% of the fair market value of the assets in our portfolio will be represented by investments outside the United States. We currently anticipate that the actual amount invested outside the United States will not exceed 20% of the fair market value of the portfolio we acquire with the net proceeds raised during our offering stage.

*Species Diversification.* By owning properties comprised of different species of trees, we also will mitigate the risks of being dependent on the overall market for any particular species of tree. Some of our investments will be in hardwood forests. Hardwood product (and timber) markets differ greatly from softwood product (and timber) markets and may provide attractive income returns when softwood markets are poor, and vice-versa.

### **Operational Strategy**

We believe that the fundamental basis for a successful timberland investment is the successful acquisition of timberland on favorable terms. An acquisition price that is too high can reduce returns, and, in extreme cases, no level of good forest and investment management can offset the initial costs. As a result, we intend to conduct a thorough due diligence evaluation of each timberland investment opportunity we consider, including evaluating and verifying the inventory data and developing an understanding of the timber markets in the vicinity of the property.

After we acquire a timberland property and identify and retain qualified forest managers, we will focus on operating the property to produce attractive short- and long-term income and appreciation returns, in light of our overall portfolio of properties. One component of this management approach entails growing and harvesting as much wood as possible in the context of supply and demand for wood in the local wood markets. However, a competing component of this approach entails managing the timber inventory on each property, so that each property will be attractive to a potential buyer. We will seek to balance these two strategies in a manner that optimizes the returns to stockholders consistent with our investment objectives.

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#### **Joint Venture Investments**

In order to diversify our portfolio of assets, we may enter into joint ventures, partnerships, co-tenancies and other co-ownership arrangements or participations with other timberland investors for the purpose of owning and managing timberland. In determining whether to invest in a particular joint venture, Wells TIMO will evaluate the timberland property that the joint venture owns or is being formed to own under the same criteria described elsewhere in this prospectus for the selection of our real estate property investments. We may enter into joint ventures with other Wells programs only if our independent directors approve the transaction as being fair and reasonable to us.

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

#### **Borrowing Policies**

We have borrowed, and in the future may, borrow funds to make investments and we intend to do so as necessary to facilitate their purchase, subject to certain limitations described below. By operating on a leveraged basis, we expect that we will have more funds available for investments. This will generally allow us to make more investments than would otherwise be possible, potentially resulting in enhanced investment returns and a more diversified portfolio. However, our use of leverage increases the risk of default on loan payments and the resulting foreclosure on a particular property. In addition, lenders may have recourse to assets other than those specifically securing the repayment of the indebtedness.

We intend to employ greater amounts of leverage during the initial phase of this offering in order to enable us to purchase properties more quickly and therefore generate distributions for our stockholders sooner. Following this initial phase, we intend to use subsequent proceeds raised in this offering to significantly reduce our overall leverage. Our policies do not limit the amount we may borrow with respect to any individual property. We currently anticipate that after we have raised at least \$750 million of gross offering proceeds, our overall leverage will not exceed 40% of the fair market value of our assets.

Under our charter, we have a limitation on borrowing that precludes us from borrowing in excess of 300% of the value of our net assets, which we refer to as our net assets limitation. Net assets for purposes of this calculation is defined to be our total assets (other than intangibles), valued at cost prior to deducting depreciation, reserves for bad debts and other noncash reserves, less total liabilities, calculated quarterly by us on a basis consistently applied. Our net assets limitation is generally expected to limit our borrowing to approximately 75% of the cost of our properties before noncash reserves and depreciation. However, we may temporarily borrow in excess of our net assets limitation if such excess is approved by a majority of our independent directors and disclosed to stockholders in our next quarterly report, along with an explanation for such excess.

In order to enable us to acquire the South Central 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 South Central 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 South Central 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. While the senior loan and the mezzanine loan we obtained in connection with the acquisition of the South Central Timberland has increased our overall leverage ratio, the issuance and sale of \$32,128,000 of preferred stock to Wells Real Estate Funds, Inc., the indirect parent company of Wells TIMO, is not a borrowing for the purposes of calculating our leverage ratio. As a result of this transaction and the possibility that our board of directors may determine that

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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 for the foreseeable future. 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.

Our advisor will use its best efforts to obtain financing on the most favorable terms available to us and will seek to refinance properties during the term of a loan only in limited circumstances, such as when a decline in interest rates makes it beneficial to prepay an existing loan, when an existing loan matures, or if an attractive investment becomes available and the proceeds from the refinancing can be used to purchase such investment. The benefits of any such refinancing may include an increased cash flow resulting from reduced debt service requirements, an increase in distributions from proceeds of the refinancing and an increase in diversification and assets owned if all or a portion of the refinancing proceeds are reinvested.

### **Disposition Policies**

While we expect to hold each property for an extended period, we will periodically analyze each property to determine whether it should be held or sold based on our expectations for timber and land markets in the vicinity. We may determine to sell a timberland property based upon a variety of factors, including the following:

a change in the best use of the property, such that it becomes classified as HBU property;

an opportunity to reinvest in a more attractive timberland investment; or

a need to rebalance our investment portfolio among age classes, species or geographic regions.

We may reinvest the proceeds of property sales in investments that we believe are consistent with our investment objectives. See **Investment Objectives** above.

### **Our Higher and Better Use Land Sales**

Large tracts of timberland often contain areas that can provide a greater economic value if they are used for purposes other than growing trees. These areas may include lakefront and riverfront acreage, acreage in proximity to urban areas and acreage that is attractive to developers. We intend to implement a program designed to regularly identify and sell such areas. Some of these areas, especially those that include waterfront acreage, often have restrictions and limitations on timber harvesting, making them relatively unattractive to us as timberland parcels. The sale of these parcels will generate short-term income returns, which we may distribute to our stockholders or reinvest in replacement timberland acres. Distributions to stockholders would provide greater cash to those investors on a short-term basis, but would reduce the level of returns in future years, as we would have fewer acres to harvest and fewer acres from which we could expect to receive appreciation returns. Conversely, our reinvestment in replacement timberland acres would reduce the level of short-term returns, but provide the potential for greater long-term returns from timber harvests and sales of the properties.

We also may pursue, if and as available to us, opportunities to swap our HBU parcels for other timberland in like-kind exchange programs that provide favorable tax treatment. Depending on the relative values of timberland and HBU land in the area, we would expect to receive several timberland acres for each HBU acre that we are able to exchange.

Several large timberland owners have found that, on average, HBU lands comprise 10-20% of their total timberland holdings. Many of these large landowners have been selling their HBU lands, which should reduce the risk that we acquire timberland that includes a high percentage of HBU lands. As a result, we will seek to pay timberland prices, rather than HBU land prices, for the land that we acquire, and to simultaneously reduce the volume of HBU lands that we will need to dispose of in the future.





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**Investment Limitations**

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

borrow in excess of our net assets limitation (described in Borrowing Policies above), which is generally expected to approximate 75% of the cost of our properties before noncash reserves and depreciation, unless approved by a majority of our independent directors;

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

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

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

invest in equity securities unless a majority of our independent directors approves such investment as being fair, competitive and commercially reasonable;

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

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

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

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

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

issue options or warrants to Wells TIMO, our directors, our sponsor, or any of their affiliates except on the same terms as such options or warrants are sold to the general public;

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pay acquisition fees and acquisition expenses which aggregate in excess of 6% of the contract purchase price of any investment in real property, or, in the case of a mortgage, 6% of the funds advanced, unless a majority of our directors (including a majority of our independent directors) not otherwise interested in the transaction approve fees and expenses in excess of this limit following a determination that the transaction is commercially competitive, fair and reasonable to us; or

make any investment that we believe will be inconsistent with our objectives of qualifying and remaining qualified as a REIT, unless our board of directors determines that REIT qualification is not in our best interest.

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

### **Changes in Investment Objectives and Limitations**

Our charter requires that the independent directors review our investment policies at least annually to determine that the policies we are following are in the best interests of our stockholders. Each determination and the basis therefor are required to be set forth in the minutes of the meetings of our directors and in an

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annual report delivered to our stockholders. The methods of implementing our investment policies also may vary as new investment techniques are developed. The methods of implementing our investment objectives and policies, except as otherwise provided in our organizational documents, may be altered by a majority of our directors, including a majority of the independent directors, without the approval of the stockholders. Our investment objectives themselves and the other investment policies and limitations specifically set forth in our charter, however, may only be amended by a vote of the stockholders holding a majority of our outstanding shares.

### **Issuing Securities for Property**

Subject to limitations contained in our charter and other organizational documents, we may issue, or cause to be issued, shares of our stock or limited partnership units in Wells Timberland OP in any manner (and on such terms and for such consideration) in exchange for property. We do not intend that any shares issued in exchange for property will be registered as part of this offering, but any such shares may be registered at a future date. Existing stockholders have no preemptive rights to purchase shares or limited partnership units in any future offering, including securities we may offer in exchange for property, and any such offering might cause a dilution of a stockholder's initial investment.

### **Acquisitions of Our Common Stock**

We have authority to purchase or otherwise reacquire our shares of our common stock and any of our other securities. We have no present intention of repurchasing any of our shares except pursuant to our share redemption plan, and we would only take such action in conformity with applicable federal and state laws and the requirements for qualifying as a REIT under the Internal Revenue Code.

### **Liquidity Event**

We presently intend to effect a transaction that will provide liquidity to all of our holders of common stock within five to seven years from the completion of our offering stage, which we will view as complete upon the termination of our last public equity offering prior to the listing of our shares on a national securities exchange. However, there can be no assurance that we will effect such a liquidity event within this period or at all. Our board of directors expects to make a preliminary determination regarding when to pursue our liquidity event and the type of transaction to pursue no later than five years after the termination of our offering stage. We expect that our liquidity event will be, but it is not limited to, one of the following types of transactions:

listing our common stock on a national securities exchange; or

a sale or merger of our company in a transaction that provides our stockholders with cash or securities of a publicly traded company. In making the decision as to which exit strategy to pursue, our board of directors will try to determine which transaction would result in greater long-term value for our stockholders. We cannot determine at this time the circumstances, if any, under which our board of directors will determine to list our shares. However, if we do not list our shares of common stock on a national securities exchange by August 11, 2018 (10 years from the currently anticipated date of completion of our offering stage), our charter requires that we either:

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

commence an orderly liquidation.

If our shares are not listed before August 11, 2018, we are under no obligation to actually sell our portfolio within a specified time period since the precise timing will depend upon real estate and financial markets, economic conditions of the areas in which the properties are located, and U.S. federal income tax effects on stockholders, which may be applicable in the future. Furthermore, we cannot assure you that we will be able to liquidate our assets, and it should be noted that we will continue in existence until all of our assets are liquidated.



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**TIMBERLAND INVESTMENTS**

**South Central Timberland**

On August 3, 2007, our subsidiary, Wells Timberland Acquisition, LLC, which we refer to as Wells Timberland Acquisition, entered into a contract with MeadWestvaco Coated Board, Inc., which we refer to as MeadWestvaco Subsidiary. MeadWestvaco Subsidiary is an unaffiliated third party and subsidiary of MeadWestvaco Corporation. Pursuant to the contract, we agreed to acquire all of the ownership interests in Timberlands II, LLC, a newly formed entity wholly owned by MeadWestvaco Subsidiary, which owned certain timberland and long-term leasehold interests, along with associated mineral rights and other related assets, which we refer to as the South Central Timberland.

On October 9, 2007, MWV SPE, LLC, a newly formed and wholly-owned subsidiary of Wells Timberland Acquisition, which we refer to as MWV SPE LLC, acquired 100% of the outstanding membership interests in Timberlands II, LLC, thereby acquiring the South Central Timberland, for a purchase price of \$400,000,000, exclusive of customary closing costs. The purchase price was paid by the delivery of a promissory note in the amount of \$397,979,000 and with a maturity date of October 9, 2027, or the MWV promissory note, and the remaining portion of the purchase price was paid by delivery of cash. We previously deposited a non-refundable amount of \$5,000,000 into an escrow account that was applied to the purchase price and closing costs.

The South Central Timberland consists of approximately 228,108 acres of timberland owned in fee simple and long-term leasehold interests with varying remaining terms relating to the use and occupancy of another approximately 94,730 acres of timberland, all located on the Lower Piedmont and Upper Coastal Plains of East Central Alabama and West Central Georgia. Of the estimated 11.8 million tons of merchantable timber inventory on the South Central Timberland, approximately 6.7 million tons, or approximately 57%, is pine. The remaining merchantable timber contains various hardwood species. The South Central Timberland contains plantations of different age classes ranging from one to 75 years. No significant mineral rights have been identified on the South Central Timberland. We intend to enter into a higher-and-better use program for a portion of the South Central Timberland in the future; however, we have not yet identified which portion of the South Central Timberland will be included in this program. Based on the current condition of the South Central Timberland, we do not anticipate significant capital expenditures for improvement or development of the South Central Timberland at this time.

Our purchase of the South Central Timberland was subject to the following two agreements, which we collectively refer to as the timber agreements: (1) a master stumpage agreement by and among Timberlands II, LLC, MeadWestvaco Subsidiary and Wells TRS Harvesting Operations, LLC, which we refer to as Wells TRS Harvesting, a wholly-owned subsidiary of Wells Timberland TRS, Inc., and (2) a fiber supply agreement by and among MeadWestvaco Subsidiary, MeadWestvaco Corporation and Wells TRS Harvesting. The master stumpage agreement provides that Timberlands II, LLC will sell specified amounts of timber and make available certain portions of the South Central Timberland to Wells TRS Harvesting 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 TRS Harvesting at an initial price of \$25.00 to \$63.00 per ton of timber, depending upon the type of timber. The fiber supply agreement is subject to pricing adjustments after August 14, 2008. 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 Timberlands II, LLC with a reliable consumer for the wood products from the South Central Timberland.

In connection with the timber agreements, on October 9, 2007, Timberlands II, LLC and Wells TRS Harvesting entered into a timberland operating agreement with Forest Resource Consultants, Inc., an unaffiliated third party, which we refer to as FRC. Pursuant to the terms of the operating agreement,

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Timberlands II, LLC retained FRC as a consultant to manage and operate the South Central Timberland and the related timber operations including ensuring delivery of timber to MeadWestvaco Subsidiary in compliance with the timber agreements. Wells TRS Harvesting retained FRC to act as its manager. In consideration for rendering the services described in the operating agreement, Timberlands II, LLC and Wells TRS Harvesting will pay FRC an annual base fee and an incentive fee equal to five percent of net revenues generated by the South Central Timberland calculated before payment of fees to Wells TIMO, our external advisor, reimbursement fees, depletion or income taxes. Such fees may be reasonably allocated between Timberlands II, LLC and Wells TRS Harvesting based on the services rendered to each entity.

### ***Financing***

Wells Timberland Acquisition paid a portion of the purchase price for the South Central Timberland by delivery of the MWV promissory note. Interest on the purchase note is payable quarterly and accrues at a LIBO rate plus .05%. The purchase note is supported by a standby letter of credit issued by Wachovia Bank in the amount of \$407,928,475. A reimbursement obligation owed by Wells Timberland Acquisition to Wachovia Bank with respect to such letter of credit is fully secured by a pledge of a deposit account at Wachovia Bank, which we refer to as the deposit account. The interest on the deposit account is intended to be sufficient to pay interest on the MWV promissory note.

Wells Timberland Acquisition obtained funds to fund the deposit account and to pay transaction costs through a combination of (1) \$372,000,000 of debt financing arranged by Wachovia Bank, (2) \$32,128,000 from the issuance and sale of 32,128 shares of our Series A preferred stock to Wells Real Estate Funds, Inc., and (3) \$18,027,751 of funds raised through this offering.

Wells Timberland Acquisition and Timberlands II, LLC, which we collectively refer to as the borrowers, entered into a debt financing arrangement with CoBank, ACB and Wachovia Bank on October 9, 2007. The debt financing includes two loans, which we refer to as the senior loan and the mezzanine loan, respectively.

The senior loan is a first mortgage loan in the amount of \$212,000,000 for which CoBank, ACB is the administrative agent and collateral agent. The senior loan has a maturity date of September 9, 2010 and is secured by a first mortgage on the South Central Timberland, a senior security interest in a revenue account controlled by CoBank, ACB, which will hold all revenue generated by the South Central Timberland, and a second security interest in all funds raised through this offering. The senior loan is also secured by a first priority lien on all other assets of the borrowers and Wells TRS Harvesting, including rights under the timber agreements. Finally, the senior loan is secured by the ownership interests in Wells TRS Harvesting.

The senior loan accrues interest at an adjustable rate based upon a one, two or three month LIBOR plus a margin that varies based upon the ratio of the amount of the senior loan to the value of collateral at the time of determination. Such rate would increase by 2% per year during the existence of an event of default. The senior loan may be voluntarily prepaid at any time, and is subject to mandatory prepayment from the proceeds of sales or other dispositions of timber and the South Central Timberland and, after repayment of the mezzanine loan, from proceeds of this offering. The credit agreement for the senior loan contains various affirmative and negative covenants customary for loans of this type, including a minimum debt service coverage ratio. The terms of the senior loan permit us to make distributions upon the attainment of a ratio of less than 40% of the amount of the senior loan to the value of the collateral at the time of determination.

The mezzanine loan is a second mortgage loan in the amount of \$160,000,000 for which Wachovia Bank is the administrative agent and collateral agent. The mezzanine loan has a maturity date of October 17, 2008 and is secured by a second mortgage in the South Central Timberland, a second security interest in the revenue account, and a first security interest in all funds raised through this offering prior to the repayment of the mezzanine loan. The mezzanine loan is also secured by a second priority lien on all other assets of the borrowers and Wells TRS Harvesting, including rights under the timber agreements. Finally, the mezzanine loan is secured by the ownership interests in the borrowers.

The mezzanine loan accrues interest at a fixed rate of 9% per year. Such rate would increase by 2% per year during the existence of an event of default. The mezzanine loan may be voluntarily prepaid at any time

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but requires payment of a prepayment fee that decreases from 9.45% to 0.65% of the amount prepaid during the term of the loan, depending upon the date of prepayment. The mezzanine loan is subject to mandatory reductions totaling \$40,000,000 not later than February 29, 2008 and totaling \$64,000,000 not later than April 30, 2008. Additionally, the mezzanine loan is subject to mandatory prepayment from the proceeds of this offering and, after reduction of the senior loan to a 40% senior loan to collateral value ratio, from the proceeds of sales or other dispositions of timber and the South Central Timberland. All such mandatory prepayments are subject to the prepayment fee described above.

As a result of executing the MWV promissory note and the credit agreements and funding the related deposit account on October 9, 2007 in connection with our acquisition of the South Central Timberland, we are exposed to interest rate changes. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, we have entered into interest rate swap agreements, and we may enter into other interest rate swaps, caps, or other arrangements in order to mitigate our interest rate risk on a related financial instrument. We do not enter into derivative or interest rate transactions for speculative purposes. All of our debt was entered into for other than trading purposes. We manage our ratio of fixed to floating rate debt with the objective of achieving a mix that we believe is appropriate in light of anticipated changes in interest rates. We closely monitor interest rates and will continue to consider the sources and terms of our borrowing facilities to determine whether we have appropriately guarded ourselves against the risk of increasing interest rates in future periods. The weighted-average interest rate of our fixed and variable rate debt at October 31, 2007 was 6.36%.

As discussed above, the interest on the deposit account is intended to be sufficient to pay interest on the MWV promissory note; however, the variable rates on the deposit account and the MWV promissory note reset five days apart. Therefore, in order to hedge our exposure to changing interest rates during these five days, we entered into an interest rate swap agreement with JP Morgan Chase Bank, N.A., which we refer to as JP Morgan. The interest rate swap agreement has an effective date of October 9, 2007 and terminates October 9, 2027. Under the terms of the interest rate swap agreement, we will pay to JP Morgan an amount equal to the interest earned by the deposit account and will receive from JP Morgan an amount equal to the interest incurred by the MWV promissory note. As such, any differential in the interest earned by the deposit account and incurred by the MWV promissory note resulting from a mismatching of the LIBOR reset dates has been transferred to JP Morgan for the full term of the MWV promissory note.

The terms of the senior loan agreement required us to enter into an interest rate protection agreement. As such, we entered into an interest rate swap agreement with Wachovia Bank to hedge exposure to changing interest rates. The interest rate swap agreement has an effective date of October 16, 2007 and runs through the senior loan maturity date. From October 16, 2007 through October 24, 2008, the notional amount covered by the interest rate swap agreement equals \$212.0 million. From October 25, 2008 through the senior loan maturity date, the notional amount covered by the interest rate swap agreement equals \$106.0 million. Under the terms of the interest rate swap agreement, from October 16, 2007 to October 24, 2008, we will pay interest at a fixed rate of 4.905% per annum and receive LIBOR-based interest payments based on \$212.0 million of the senior loan. From October 25, 2008 through the senior loan maturity date, we will pay interest at a fixed rate of 4.905% per annum and receive LIBOR-based interest payments based on \$106.0 million of the senior loan. The interest rate swap effectively fixes our interest rate on the senior loan at 6.405% through October 24, 2008. From October 25, 2008 through the senior loan maturity date, the interest rate swap effectively fixes our interest rate on \$106.0 million of the senior loan at 6.405%. The remaining amount outstanding under the senior loan will bear interest at LIBOR plus margin.

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We have guaranteed both the senior loan and the mezzanine loan, but on a limited basis that covers only losses incurred by CoBank, ACB or Wachovia Bank due to certain bad acts of the borrowers and related loan parties. The mezzanine loan is also fully guaranteed by Wells Real Estate Funds, Inc.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**General**

We were formed on September 27, 2005 as a Maryland corporation that intends to acquire timberland properties in the timber-producing regions of the United States and, to a limited extent, in other countries. We intend to generate the substantial majority of our revenue and income by selling to third parties the right to access our land and harvest our timber, primarily pursuant to supply agreements and through open-market sales. We also anticipate generating revenue and income from selling timberland considered by third parties to have a higher-and-better use, leasing land-use rights, and permitting others to extract natural resources other than timber. We anticipate funding the acquisition of timberland with equity or debt, or a combination thereof, the allocation of which will primarily depend upon the availability of these resources relative to the timing and availability of suitable investment opportunities.

On July 11, 2007, we raised our minimum offering of \$2.0 million, and thus commenced operations. Our focus during the nine months ended September 30, 2007 was to identify real estate investments that meet our investment criteria and to secure financing alternatives so that we would be ready to take advantage of real estate acquisition opportunities even before raising significant proceeds. On August 3, 2007, we entered into a purchase and sale agreement with MeadWestvaco Coated Board, Inc., a subsidiary of MeadWestvaco Corporation, for the purchase of approximately 228,000 acres of timberland and approximately 95,000 acres of leasehold interests in timberland located in the states of Alabama and Georgia for approximately \$400.0 million, exclusive of customary transaction costs. We closed the South Central Timberland acquisition on October 9, 2007. The purchase price was paid by the delivery of the MWV promissory note, and the remaining portion of the purchase price was paid by the delivery of cash. The MWV promissory note is supported by a deposit account and standby letter of credit issued by Wachovia Bank in the amount of \$407.9 million. We obtained funds to fund the deposit account and to pay transaction costs through a combination of (1) \$372.0 million of debt financing arranged by Wachovia Bank, (2) \$32.1 million from the issuance and sale of 32,128 shares of our preferred stock to Wells Real Estate Funds, Inc., and (3) \$18.0 million of proceeds from the sale of common stock in this offering.

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

Our advisor also may, but is not required to, establish reserves from gross offering proceeds, out of cash flow generated by operating properties or out of nonliquidating net sales proceeds from the sale of our properties. Working capital reserves are typically utilized for nonoperating expenses. Alternatively, a lender may require its own formula for escrow of working capital reserves.

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

**Election of REIT Status**

Pursuant to our charter, our board of directors has the authority to determine when and if it is in our best interest to elect for us to qualify for federal income tax treatment as a real estate investment trust, or a REIT. Our qualification as a REIT requires compliance with a number of tests imposed by the Internal Revenue Code, including requirements as to organization and ownership, distributions of at least 90% of our ordinary

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taxable income to stockholders, and the nature and diversification of our income and assets. As a result of the structure of the South Central Timberland acquisition, including the installment note issued by MWV SPE, LLC to MeadWestvaco, we expect that we will not meet the requirements to qualify as a REIT for the taxable years ending December 31, 2007 or December 31, 2008. In addition, we are restricted from making distributions to our stockholders until the mezzanine loan has been repaid in full and until we have attained certain financial performance measures under the senior loan. See *Timberland Investments South Central Timberland Financing*. Accordingly, our board of directors has determined that it is unlikely that we will elect to be taxed as a REIT for the taxable years ending December 31, 2007 or December 31, 2008. The board of directors determined that it is in our best interest to potentially delay our election of REIT status because we may not otherwise have had the opportunity to acquire the South Central Timberland under the acquisition terms required by MeadWestvaco Subsidiary if we were constrained by the need to elect REIT status for the taxable years ending December 31, 2007 or December 31, 2008. Our board of directors believes that the acquisition of the South Central Timberland allows us to own and operate high quality, well managed and very significant timberland assets that may ultimately benefit our investment portfolio consistent with our investment objectives. For these reasons, the board of directors concluded that the potential for delay in our REIT status is warranted in view of the relative benefits of the South Central Timberland acquisition and its potential benefit to stockholders.

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. As of the date of this prospectus, we do not anticipate that we will elect to be taxed as a REIT until, at the earliest, our taxable year ending December 31, 2009. However, we cannot give any assurances that we will qualify to be taxed as a REIT in the future, and it is possible that we may engage in other timberland acquisition transactions in the future which will cause our board of directors to determine that it is in our best interest to further delay our REIT election. For a description of the requirements for election as a REIT, certain consequences of failure to qualify as a REIT and other federal income tax considerations, please see *Federal Income Tax Considerations*.

If we qualify as a REIT for federal income tax purposes, we generally will not be subject to federal income tax on income that we distribute to our stockholders. If we subsequently fail to qualify as a REIT in any taxable year, we will then be subject to federal income tax on our taxable income at regular corporate rates and may not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year in which our qualification is denied unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially and adversely affect our net income and net cash available for distribution to stockholders. However, we believe we are organized and operate in such a manner as to qualify for treatment as a REIT for federal income tax purposes.

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

## **Liquidity and Capital Resources**

### ***Overview***

Effective July 11, 2007, we began to raise capital through the sale of our common stock under our initial offering. We have primarily used the proceeds from these sales of common stock, net of offering costs and other expenses, to fund a portion of the South Central Timberland acquisition. Other than future capital raised in connection with our initial offering, we expect our primary source of future cash flows to be generated from the sale of timberland and rights to access our land and harvest our timber to MeadWestvaco and other third parties. The amount of future distributions to be paid to our stockholders will be largely dependent upon,

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among other things, satisfaction of the senior loan and the mezzanine loan, the amount of cash generated from our operating activities, our expectations of future cash flows, and our determination of near-term cash needs for capital expenditures and debt repayments.

Our principal demands for funds will be for property acquisitions, either directly or through investment interests, for the payment of operating expenses and distributions, and for the payment of interest on our outstanding indebtedness. Generally, cash needs for items other than property acquisitions will be met from operations, and cash needs for property acquisitions will be funded by public offerings of our shares and debt. However, there may be a delay between the sale of our shares and our purchase of properties, which could result in a delay in the benefits to our stockholders, if any, of returns generated from our investment operations. In an attempt to avoid this delay, we have been in discussions with potential lenders to arrange a bridge financing facility. Our advisor will evaluate potential property acquisitions and engage in negotiations with sellers and lenders on our behalf. After a purchase contract is executed that contains specific terms, the property will not be purchased until the successful completion of due diligence, which includes review of the title insurance commitment, an appraisal and an environmental analysis. In some instances, the proposed acquisition will require the negotiation of final binding agreements, which may include financing documents. During this period, we may decide to temporarily invest any unused proceeds from the offering in certain investments that could yield lower returns than the properties. These lower returns may affect our ability to make distributions.

***Short-Term Liquidity and Capital Resources***

During the nine months ended September 30, 2007, net cash outflows from operating activities were approximately \$1.5 million and represent payments for administrative costs and advance payments for directors and officers insurance premiums. Our net operating cash outflows were financed by Wells TIMO and its affiliates. As of September 30, 2007, we held cash balances of approximately \$12.2 million, and owed Wells TIMO \$2.4 million for current and prior period operating expenditures funded on our behalf. We generated net cash flows from financing activities of approximately \$18.6 million during the nine months ended September 30, 2007 as a result of raising proceeds from the sale of common stock in this offering, net of commissions, dealer-manager fees, and other offering costs of approximately \$1.9 million. We used net cash flows from financing activities and cash on hand to partially fund the South Central Timberland acquisition on October 9, 2007.

We intend to continue to generate capital from the sale of common stock under our initial offering, and to use such capital primarily to service the senior and mezzanine loans. Both loans contain restrictive covenants that prohibit us from declaring, setting aside funds for, or paying any dividend, distribution or other payment to our stockholders while the loans are outstanding. As a result, we will be unable to make any payments or distributions to our stockholders until the mezzanine loan is repaid in full and upon the attainment of certain financial performance measures under the senior loan. The mezzanine loan has a maturity date of October 17, 2008, and the senior loan has a maturity date of September 9, 2010.

***Long-Term Liquidity and Capital Resources***

We expect that our primary sources of capital over the long term will include proceeds from the sale of our common stock, proceeds from secured or unsecured financings from banks and other lenders, and net cash flows from operations. After the mezzanine loan is repaid and upon the attainment of financial performance measures, we anticipate funding distributions to our stockholders from net cash flows from operations; however, we may periodically borrow funds on a short-term basis to fund distributions as well. We expect our principal demands for capital to include funding 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. Substantially all cash raised from operations is anticipated to be used to pay distributions to stockholders after payments of periodic operating expenses, certain capital expenditures required for our

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timberland, full repayment of the mezzanine loan and the attainment of certain financial performance measures under the senior loan. Therefore, to the extent that cash flows from operations are lower, distributions are anticipated to be lower as well. Substantially all net proceeds generated from the sale of our shares under our initial offering will be available to pay down outstanding borrowings, including the senior and mezzanine loans, and to fund future acquisitions of timberland and capital expenditures identified at the time of acquisition. Proceeds generated from debt financing may also be used to fund future acquisitions of timberland and capital expenditures identified at the time of acquisition.

If sufficient equity or debt capital is not available, our future investments in timberland will be lower. Our charter does not limit us from incurring debt until our aggregate debt would exceed 300% of our net assets (generally expected to approximate 75% of the cost of our assets before noncash reserves and depreciation), though we may exceed this limit if the excess is approved by a majority of our independent directors and disclosed to stockholders in our next quarterly report, along with an explanation for the excess. In order to enable us to acquire the South Central Timberland, 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 South Central 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. See Risk Factors Risks Associated with Debt Financing. These higher debt levels may cause us to incur higher interest charges on any additional debt incurred in the future, have resulted in higher debt service payments, and have been accompanied by restrictive covenants. These factors have limited the amount of cash we have available to distribute and could result in a decline in the value of your investment.

### **Results of Operations**

As of the date of this prospectus, we have completed the acquisition and lease of the South Central Timberland. See Timberland Investments South Central Timberland. The timberland acquired is stocked with a wide diversity of timber. The land tracts include an estimated 11.8 million tons of merchantable timber, with significant amounts of sawtimber and pulpwood. Most of the timber is pine. We plan to generate income through the sale of timber-harvesting rights, as well as by leasing land-use rights. We have a master stumpage agreement and a long-term fiber supply agreement with affiliates of MeadWestvaco to provide fiber to its paperboard mill in Cottonton, Alabama. Except for this acquisition, we have commenced no significant operations because we are in our organizational and development stage. Our management is not aware of any material trends or uncertainties, other than national economic conditions affecting real estate generally, that may reasonably be expected to have a material impact, favorable or unfavorable, on revenues or income from the acquisition and operations of real properties, other than those referred to in this prospectus.

Our results of operations are not indicative of those expected in future periods. Due to our acquisition of the South Central Timberland on October 9, 2007, we expect to generate future timber revenues, net of cost of sales, selling expenses, general and administrative expenses, and interest expense. We also expect to acquire additional interests in timberland in the future. 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.

### **Inflation**

The price of timber has generally increased with increases in inflation.

### **Critical Accounting Policies**

Our accounting policies have been established to conform with GAAP. The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If management's judgment or

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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.

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

#### ***Merchantable Inventory and Depletion Costs as Determined by Forestry Timber Harvest Models***

Significant assumptions and estimates are used in the recording of timberland inventory cost and depletion. Merchantable standing timber inventory will be estimated annually, using industry-standard computer software. The inventory calculation will take into account growth, in-growth (annual transfer of oldest pre-merchantable age class into the merchantable inventory), timberland sales and the annual harvest.

The age at which timber is considered merchantable will be reviewed periodically and updated for changing harvest practices, future harvest age profiles, and biological growth factors. A managed forest will have an age/class distribution target which determines its harvest rotation cycle. The harvest cycle can generally be defined as the optimum number of years it takes to grow a stand of trees from the point of establishment to its targeted age/class distribution as dictated by the silvicultural management plan applied. The amount by which a timber asset is reduced through harvest is called depletion. The depletion rate on tracts held less than one year, will be determined by dividing the original timber cost by the original timber volume. For each management area, timber tracts held one year or longer will be pooled together and the depletion rates will be calculated at least annually. This long term depletion rate is calculated by taking the current timber asset dollar basis and adding to it the pre-merchantable asset amount and then dividing this sum by the sum of the current units with the projected units expected to be harvested over the remaining harvest cycle added to it. The records of pre-merchantable timber capitalized through acquisitions and the records for reforestation expenditures capitalized will be maintained for each year, recording acres planted or acquired, stems per acre, and costs of planting and tending. Changes in the assumptions and/or estimations used in these calculations may affect our results, in particular, timber inventory and depletion costs. Factors that can impact timber volume include weather changes, losses due to natural causes, differences in actual versus estimated growth rates and changes in the age when timber is considered merchantable.

#### ***Impairment of Long-Lived Assets***

We evaluate our ability to recover our net investment in long-lived assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 requires recognition of an impairment loss in connection with long-lived assets used in a business when the carrying value (net book value) of such assets exceeds the estimated future undiscounted cash flows attributable to such assets over their expected useful life. Impairment losses are measured by the extent to which the carrying value of a group of assets exceeds the fair value of such assets at a given point in time. When the fair values of the assets are not available, we estimate the fair values by using the discounted expected future cash flows attributable to the assets. The cash flows are discounted at the risk-free rates of interest. Future cash flow estimates are based on probability-weighted projections for a range of possible outcomes. Furthermore, SFAS No. 144 requires recognition of an impairment loss in connection with long-lived assets held for sale when the carrying value of such assets exceeds an amount equal to their fair value less selling costs.

Our assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable through future operations. SFAS No. 144 requires that

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long-lived assets be grouped and evaluated for impairment at the lowest level for which there are independent cash flows, as discussed below.

(1) *Timber and Timberlands Used in Our Business.* SFAS No. 144 provides that for assets used in a business, an impairment loss is recorded only when the carrying value of such assets is not recoverable through future operations. The recoverability test is based on undiscounted future cash flows over the expected life of the assets. We intend to use one harvest cycle for evaluating the recoverability of our timber and timberlands.

(2) *Timber and Timberlands Held for Sale.* SFAS No. 144 provides that an impairment loss is recognized for long-lived assets held for sale when the carrying value of such asset exceeds an amount equal to its fair value less selling costs. An asset is generally considered to be held for sale when we have committed to plan to sell the asset, the asset is available for immediate sale in its present condition, we have initiated an active program to locate a buyer, and the sale is expected to close within one year.

### ***Realizability of Recorded and Unrecorded Tax Assets and Liabilities***

To realize tax benefits associated with our status as a REIT will require extensive tax planning and in many cases will depend upon events in the future and our strategy in structuring transactional terms and conditions. As a result, the effective tax rate and amount of taxes paid during various fiscal periods may vary greatly.

As a REIT, if certain requirements are met, only the taxable REIT subsidiaries will be subject to corporate income taxes.

### ***Revenue Recognition***

Revenue from the sale of timber is recognized when the following criteria are met: (1) persuasive evidence of an agreement exists, (2) delivery has occurred, (3) our price to the buyer is fixed and determinable, and (4) collectibility is reasonably assured.

Real estate sales of timberland will be recorded when title passes and full payment or a minimum down payment, generally defined as 25% of the gross sale price, 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.

### ***Related-Party***

#### ***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 3 to our accompanying consolidated financial statements for a detailed discussion of our related-party agreements and the related transactions, fees, and reimbursements.

#### ***Legal Actions Against Related Parties***

On March 12, 2007, a stockholder of Piedmont REIT filed a putative class action and derivative complaint, styled *Washtenaw County Employees Retirement System v. Wells Real Estate Investment Trust, Inc., et al.*, in the United States District Court for the District of Maryland against, among others, Piedmont REIT, Wells Capital, Leo F. Wells, III, and certain affiliates of Wells Real Estate Funds and certain officers and directors of Wells Timberland REIT who formerly served as officers and directors of Piedmont REIT prior to the closing of the internalization transaction on April 16, 2007. The complaint alleges, among other things,

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violations of the federal proxy rules and breaches of fiduciary duty arising from the Piedmont REIT internalization transaction and the related proxy statement filed with the SEC on February 26, 2007, as amended. The complaint seeks, among other things, unspecified monetary damages and nullification of the Piedmont REIT internalization transaction. On April 9, 2007, the District Court denied the plaintiff's motion for an order enjoining the internalization transaction. On April 17, 2007, the Court granted the defendants' motion to transfer venue to the United States District Court for the Northern District of Georgia, and the case was docketed in the Northern District of Georgia on April 24, 2007. On June 7, 2007, the court granted a motion to designate the class lead plaintiff and class co-lead counsel. On June 27, 2007, the plaintiff filed an amended complaint, which attempts to assert class action claims on behalf of those persons who received and were entitled to vote on the Piedmont REIT proxy statement filed with the SEC on February 26, 2007 and derivative claims on behalf of Piedmont REIT. On July 9, 2007, the court denied the plaintiff's motion for expedited discovery related to an anticipated motion for a preliminary injunction. On August 13, 2007, the defendants filed a motion to dismiss the amended complaint. The motion to dismiss has been fully briefed and is now pending before the court. Wells Capital and 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 could hinder Wells TIMO's ability to successfully manage our operations and portfolio of investments.

On August 24, 2007, two stockholders of Piedmont REIT filed a putative 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 Wells Capital, Leo F. Wells, III, Douglas P. Williams, Randall D. Fretz, Donald A. Miller, Michael R. Buchanan, Richard W. Carpenter, Bud Carter, William H. Keogler, Jr., Donald S. Moss, Neil H. Strickland, W. Wayne Woody, and Robert E. Bowers. The complaint alleges, among other things, that the consideration paid by Piedmont REIT as part of the internalization transaction was excessive; that the defendants breached their fiduciary duties to Piedmont REIT; and that the internalization transaction unjustly enriched the defendants. The complaint seeks, among other things, a judgment declaring that the defendants committed breaches of their fiduciary duties and were unjustly enriched at the expense of Piedmont REIT; monetary damages equal to the amount by which Piedmont REIT was damaged by the defendants; an order awarding Piedmont REIT restitution from the defendants and ordering disgorgement of all profits and benefits obtained by the defendants from their wrongful conduct and fiduciary breaches; an order rescinding the internalization transaction; and the establishment of a constructive trust upon any benefits improperly received by the defendants as a result of their wrongful conduct. On October 19, 2007, the Court granted the defendants' motion for a protective order 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, which is currently pending before the Court. Wells Capital and 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 could hinder Wells TIMO's ability to successfully manage our operations and portfolio of investments.

### **Commitments and Contingencies**

#### ***South Central Timberland***

As of September 30, 2007, we were party to a purchase and sale agreement with MeadWestvaco Coated Board, Inc. a subsidiary of MeadWestvaco Corporation, for the purchase of approximately 228,000 acres of timberland and approximately 95,000 acres of leasehold interests in timberland located in the states of Alabama and Georgia for a purchase price of approximately \$400.0 million. Pursuant to the agreement, we deposited \$5.0 million into an escrow account to be applied to the purchase price payable to MeadWestvaco at closing.

On October 9, 2007, we acquired the South Central Timberland for a purchase price of approximately \$400.0 million, exclusive of customary transaction costs. The purchase price was paid by the delivery of a promissory note in the amount of \$397.9 million, and the remaining portion of the purchase price was paid in cash, including the \$5.0 million earnest money deposit. The MWV promissory note bears interest at the LIBOR plus 0.05% and matures on October 9, 2027. The MWV promissory note is supported by a standby

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letter of credit issued by Wachovia and deposit account in the amount of \$407.9 million. We obtained funds to fund the deposit account and to pay transaction costs through a combination of (1) \$372.0 million of debt financing arranged by Wachovia, (2) \$32.1 million from the issuance and sale of 32,128 shares of our preferred stock to Wells Real Estate Funds, Inc., as discussed in note 6, and (3) \$18.0 million of funds raised through our initial public offering.

The South Central Timberland is subject to a fiber supply agreement whereby we are required to provide and MeadWestvaco is required to purchase specified amounts of timber. The initial term of this agreement is October 9, 2007 through December 31, 2032, subject to extension and early termination provisions.

**Subsequent Event**

In addition to closing on the South Central Timberland transaction as noted above, from October 1, 2007 through October 31, 2007, we raised approximately \$7.9 million through the issuance of approximately 0.8 million shares of common stock under our initial public offering. As of October 31, 2007, approximately 74.2 million shares remained available for sale to the public under our initial public offering, exclusive of shares available under our distribution reinvestment plan.



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#### **PRIOR PERFORMANCE SUMMARY**

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

*The Prior Performance Tables contained in this prospectus, beginning on page F-33, set forth information as of the dates indicated regarding certain of these Wells public programs as to: (1) experience in raising and investing funds (Table I); (2) compensation to sponsor (Table II); (3) annual operating results of prior programs (Table III); and (4) sales or disposals of properties (Table V).*

#### **Prior Public Programs**

Our sponsor, Wells Capital, has served as a general partner of a total of 15 completed publicly offered real estate limited partnerships, five of which completed their public offerings in the last 10 years. These five limited partnerships and the year in which each of their offerings was completed are:

1. Wells Real Estate Fund X, L.P. (1997)
2. Wells Real Estate Fund XI, L.P. (1998)
3. Wells Real Estate Fund XII, L.P. (2001)
4. Wells Real Estate Fund XIII, L.P. (2003)
5. Wells Real Estate Fund XIV, L.P. (2005)

Our sponsor and its affiliates have also sponsored three real estate investment trusts prior to this offering. Piedmont Office Realty Trust, Inc. (formerly known as Wells Real Estate Investment Trust, Inc.), which we refer to as Piedmont REIT, has completed four public offerings of shares of its common stock. Wells Real Estate Investment Trust II, Inc., which we refer to as Wells REIT II, has completed one public offering of shares of its common stock and is currently offering shares of its common stock pursuant to a second public offering which commenced on November 10, 2005. Institutional REIT, Inc., which we refer to as Institutional REIT, is currently offering shares of its common stock pursuant to a registration statement which was declared effective by the SEC on January 11, 2007, had not sold any shares or engaged in active operations as of December 31, 2006. As such, data for Institutional REIT is not included in the information presented on prior public programs sponsored by our sponsor.

Wells Capital and its affiliates have previously sponsored each of the above-described limited partnerships and REITs on an unspecified property or "blind-pool" basis. As of December 31, 2006, the total amount of funds raised from investors in these above-described completed or ongoing public offerings was approximately \$8.3 billion, and the total number of investors in such programs was approximately 242,000. The investment objectives of each of these Wells programs are substantially identical to our investment objectives of (1) providing current income through the payment of cash distributions, (2) preserving and returning stockholders' capital contributions and (3) realizing capital appreciation upon the ultimate sale of our assets. We cannot assure you that any of the Wells public programs will ultimately be successful in meeting their investment objectives. For more information regarding the operating results of Wells-sponsored public programs, see Table III beginning on page F-37 of this prospectus.

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As of December 31, 2006, these seven Wells-sponsored public programs had acquired 175 properties. The table below gives further information about these properties by region.

| Location           | Number | Properties Purchased                        |
|--------------------|--------|---|
|                    |        | As a Percentage of Aggregate Purchase Price |
| Southeast          | 27     | 9.4%  |
| Mideast            | 28     | 18.2  |
| Northeast          | 26     | 21.1  |
| Mountain           | 16     | 3.9   |
| Southwest          | 23     | 10.1  |
| West North Central | 6      | 3.5   |
| East North Central | 29     | 22.6  |
| Pacific            | 20     | 11.2  |
| Total              | 175    | 100.0%                                      |

As of December 31, 2006, the aggregate dollar amount of the acquisition and development costs of the 175 properties purchased by these seven Wells-sponsored public programs was approximately \$8.4 billion. Of the aggregate amount, 100% was spent on commercial property, with 99.5% spent on acquiring or developing office or industrial buildings and 0.5% spent on acquiring or developing hotels. Of the aggregate amount, 97.3% was spent on acquired properties and 2.7% on properties under construction or constructed by the programs. Of the aggregate amount, 49.5% were single-tenant office or industrial buildings and 51.5% were multi-tenant office or industrial buildings.

Following is a table showing a breakdown of the aggregate amount of the acquisition and development costs of the properties purchased by these seven Wells public programs as of December 31, 2006:

| Type of Property     | Existing | Construction |
|----------------------|----------|--------------|
| Office Buildings     | 94.6%    | 2.7%         |
| Industrial Buildings | 2.2      | 0.0          |
| Hotels               | 0.5      | 0.0          |

From the inception of the first Wells public program through December 31, 2006, the Wells public programs had sold 41 properties and one outparcel of land.

All of the properties purchased in which a Wells public partnership owned any interest were purchased without borrowing any additional funds. However, certain properties acquired by Piedmont REIT and Wells REIT II were subject to existing mortgages, and in connection with each of these acquisitions Piedmont REIT and Wells REIT II, respectively, assumed its share of the debt. Table VI contained in Part II of the registration statement, of which this prospectus is a part, gives additional information relating to certain properties acquired within the last three years ended December 31, 2006 by certain Wells public programs, including applicable mortgage financing on properties purchased.

In addition to the real estate programs sponsored by Wells Capital discussed above, our sponsor is also sponsoring two index mutual funds that invest in various stocks. The Wells S&P REIT Index Fund is a mutual fund that seeks to provide investment results corresponding to the performance of the S&P REIT Index by investing in the REIT stocks included in the S&P REIT Index. The Wells S&P REIT Index Fund began its offering on January 12, 1998, and as of December 31, 2006, the fund had raised approximately \$631.3 million in offering proceeds from approximately 20,000 investors. The Wells Dow Jones Wilshire Global RESI Index Fund is a mutual fund that seeks to provide investment results corresponding to the performance of the Dow Jones Wilshire Global Real Estate Securities Index by investing in stocks included in the Dow Jones Wilshire Global Real Estate Securities Index. The Wells Dow Jones Wilshire Global RESI Index Fund began its



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offering on December 29, 2006, and as of December 31, 2006, had raised approximately \$2 million in offering proceeds from approximately five investors.

**Prior Private Programs**

In addition to the public real estate programs sponsored by Wells Capital and its affiliates described above, Wells has sponsored a total of 13 private real estate programs.

Wells Management Company, Inc., an affiliate of our sponsor, sponsors private placements for a series of limited liability companies pursuant to a Section 1031 exchange program. As of December 31, 2006, there have been 12 such offerings, which raised a total of \$163 million from 232 investors. The investment objectives of each of these Wells-sponsored Section 1031 exchange programs are substantially identical to our investment objectives.

Wells Management Company, Inc. is also sponsoring a private placement of limited liability company interests in Wells Mid-Horizon Value-Added Fund I, LLC ( Wells Mid-Horizon Fund ). On September 15, 2005, an offering of up to 150,000 shares of investor member interests in Wells Mid-Horizon Fund commenced under a private placement to accredited investors. Wells Mid-Horizon Fund was formed to invest primarily in commercial office and industrial real estate properties that provide opportunities to enhance their value through development, operations, re-leasing, property improvements or other means. As of December 31, 2006, Wells Mid-Horizon Fund had received approximately \$23.5 million in proceeds from 298 investors. As of December 31, 2006, Wells Mid-Horizon Fund had acquired one property.

As of December 31, 2006, these 13 Wells-sponsored private programs had acquired an aggregate of 13 properties. The table below gives further information about these properties.

| Location           | Number | Properties Purchased                        |
|--------------------|--------|---|
|                    |        | As a Percentage of Aggregate Purchase Price |
| Southeast          | 3      | 21.2%                                       |
| Mideast            | 0      | 0.0   |
| Northeast          | 0      | 0.0   |
| Mountain           | 1      | 9.6   |
| Southwest          | 2      | 16.9  |
| West North Central | 1      | 9.5   |
| East North Central | 5      | 34.2  |
| Pacific            | 1      | 8.6   |
| Total              | 13     | 100.0%                                      |

As of December 31, 2006, the aggregate dollar amount of the acquisition and development costs of the 13 properties purchased by these Wells-sponsored private programs was \$48.0 million. Of the aggregate amount, 100% was spent on commercial property, all of which was spent on acquiring or developing office or industrial buildings. Of the aggregate amount, 100% was spent on acquired properties. Of the aggregate amount, approximately 73.7% were single-tenant office or industrial buildings and 26.3% were multi-tenant office or industrial buildings.

From the inception of the first Wells private program through December 31, 2006, none of the Wells private programs have sold any properties. We cannot assure you that any of the Wells private programs will ultimately be successful in meeting their investment objectives.

**Adverse Business Developments or Conditions**

Wells-sponsored programs have occasionally been adversely affected by the cyclical nature of the real estate market. Some Wells programs invested funds in properties at the high end of a real estate cycle,



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resulting in sales of such properties for less than their purchase price. In the past, Wells programs have only sold properties for less than their purchase price in order to maximize the overall return to investors when one or more of the following factors was present:

market conditions caused an ongoing deterioration of a property's value and the sale price of the property, though lower than the purchase price, was the highest price reasonably expected;

costs required to re-lease a property to levels that would allow for a sales price greater than the original purchase price would exceed the benefit of the higher sales price; and

the costs savings at the liquidation of a portfolio by selling a property as a part of a portfolio sale at lower than the property's purchase price outweighs costs that would be incurred in order to sell that property individually at greater than purchase price.

The following four properties have been sold by the Wells programs for less than their original purchase prices:

| <b>Date of Sale</b> | <b>Property Name</b>   | <b>Purchase Price</b> | <b>Gross Sale Price</b> | <b>Wells Program Owners</b>      |
|---------------------|------------------------|-----------------------|-------------------------|----------------------------------|
| October 1, 2001     | Cherokee Commons       | \$ 8,907,596          | \$ 8,660,000            | Wells Real Estate Fund I         |
|                     |                        |                       |                         | Wells Real Estate Fund II        |
|                     |                        |                       |                         | Wells Real Estate Fund II-OW     |
|                     |                        |                       |                         | Wells Real Estate Fund VI, L.P.  |
|                     |                        |                       |                         | Wells Real Estate Fund VII, L.P. |
| September 30, 2002  | Greenville Center      | \$ 3,820,520          | \$ 2,400,000            | Wells Real Estate Fund III, L.P. |
| September 11, 2003  | Cort Furniture         | \$ 6,566,430          | \$ 5,770,000            | Wells Real Estate Fund X, L.P.   |
|                     |                        |                       |                         | Wells Real Estate Fund XI, L.P.  |
| April 29, 2004      | Stockbridge Village II | \$ 2,945,262          | \$ 2,740,385            | Wells Real Estate Fund V, L.P.   |

Wells Real Estate Fund VI, L.P.

Sales of properties at less than the purchase price could adversely affect the value of an investment in a Wells program. In addition, some Wells public programs have owned properties that have experienced long periods of time when no tenants were paying rent. This reduction in revenues resulted in less cash from operations available for distribution to investors. However, such occurrences have been sporadic. For more information regarding the operating results of Wells-sponsored public programs, see Table III beginning on page F-37 of this prospectus.

**Table of Contents****Index to Financial Statements****Summary of Recent Acquisitions by Wells Prior Programs**

During 2004, 2005 and 2006, Wells-sponsored programs acquired 73 properties, for which the property type, location and method of financing are summarized below. Table VI contained in Part II of the registration statement, of which this prospectus is a part, provides additional information relating to these acquisitions.

**Property Type**

|              |    |
|--------------|----|
| Office       | 66 |
| Distribution | 0  |
| Warehouse    | 4  |
| Hotel        | 1  |
| Mixed use    | 2  |

|       |    |
|-------|----|
| Total | 73 |
|-------|----|

**Method of Financing**

|                              |    |
|------------------------------|----|
| All cash                     | 50 |
| All debt                     | 0  |
| Combination of cash and debt | 23 |

|       |    |
|-------|----|
| Total | 73 |
|-------|----|

**Location**

|                    |    |
|--------------------|----|
| Southeast          | 10 |
| Mideast            | 10 |
| Northeast          | 13 |
| Mountain           | 3  |
| Southwest          | 8  |
| West North Central | 4  |
| East North Central | 18 |
| Pacific            | 7  |

|       |    |
|-------|----|
| Total | 73 |
|-------|----|

**Additional Information**

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Potential investors are encouraged to examine the Prior Performance Tables in this prospectus beginning on page F-33 for more detailed information regarding the prior experience of our sponsor and its affiliates. In addition, upon request, prospective investors may obtain from Wells Capital without charge copies of offering materials and any reports prepared in connection with any of the Wells public programs, including a copy of the most recent Annual Report on Form 10-K filed with the SEC. For a reasonable fee, we also will furnish upon request copies of the exhibits to any such Form 10-K. Any such request should be directed to Wells Capital. Additionally, Table VI contained in Part II of our registration statement, of which this prospectus is a part, gives certain additional information relating to properties acquired by the Wells public programs. We will furnish, without charge, copies of such table upon request.



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**FEDERAL INCOME TAX CONSIDERATIONS**

The following summary describes the material federal income tax considerations to us and our stockholders relating to our business and investments in our shares. This summary describes taxation of us and our stockholders based on our current status as a taxable C corporation and describes the taxation of REITs and their stockholders in the event that we qualify, and elect to be taxed, as a REIT in the future. The summary is not intended to represent a detailed description of the federal income tax consequences applicable to a particular stockholder in view of such stockholder's particular circumstances, nor is it intended to represent a detailed description of the federal income tax consequences applicable to certain types of stockholders subject to special treatment under the federal income tax laws (such as insurance companies, financial institutions, broker/dealers and, except to the extent discussed below, tax-exempt organizations and non-U.S. persons). This summary does not address state, local or non-U.S. tax considerations. Also, this summary deals only with stockholders who hold our common stock as capital assets within the meaning of Section 1221 of the Code.

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

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

**Taxation of Our Company as a C Corporation**

We are currently a taxable C corporation. We have not elected to be taxed as a REIT and do not expect to qualify, or elect to be taxed, as a REIT for the taxable years ending December 31, 2007 and December 31, 2008. There is no assurance that we ever will qualify, and elect to be taxed, as a REIT. The tax rules that will apply to us for any periods in which we qualify and elect to be taxed as a REIT are described below in Federal Income Taxation of Our Company as a REIT.

As a C corporation, we are subject to federal income tax (and alternative minimum tax and state and local income taxes) on our taxable income, including our distributive share of income, gains, and losses from Wells Timberland OP. We will not be entitled to deduct any dividends we distribute for federal or state and local income tax purposes. Thus, while we are a C corporation, our income is subject to double taxation, at the corporate level as we pay tax on our taxable income and at the shareholder level on dividends we distribute.

**Taxation of Wells Timberland OP**

An organization that is classified as a partnership for federal income tax purposes is not subject to federal income tax itself, although it must file an annual information return. Under current Treasury regulations, a domestic entity that has two or more members and that is not organized as a corporation under U.S. federal or state law will generally be classified as a partnership for U.S. federal income tax purposes unless it elects to be treated as a corporation. The general partner will not elect to have Wells Timberland OP classified as a corporation for U.S. federal income tax purposes. An entity that would otherwise be classified as a partnership for federal income tax purposes may nonetheless be taxable as a corporation if it is a publicly traded partnership (as defined in the Code) that fails to meet certain gross income tests. As general partner of Wells Timberland OP, we intend to use reasonable commercial efforts to avoid having Wells Timberland OP become a publicly traded partnership that is taxed as a corporation. Thus, we expect that Wells Timberland OP will be

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treated as a partnership for U.S. federal income tax purposes. The balance of this summary assumes that Wells Timberland OP will be treated as a partnership for U.S. federal income tax purposes.

#### **Taxation of Taxable U.S. Stockholders**

This section describes the taxation of Taxable U.S. Stockholders for periods in which we are not taxed as a REIT. The taxation of Taxable U.S. Stockholders for any periods in which we are taxed as a REIT are described below in Taxation of Taxable U.S. Stockholders if We Qualify and Elect To Be Taxed as a REIT.

When we use the term U.S. Stockholder, we mean a beneficial owner of our common stock that for federal income tax purposes:

- (1) is a citizen or resident of the United States;
- (2) is a corporation (including an entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States or any of its political subdivisions;
- (3) is an estate, the income of which is subject to federal income taxation regardless of its source; or
- (4) is a trust, provided that (1) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (2) the trust properly elects to be taxed as a U.S. trust.

If an entity classified as a partnership for federal income tax purposes holds our stock, the tax treatment of a partner will depend on the status of the partner and on the activities of the partnership. Partners of partnerships holding our stock should consult their tax advisors.

#### ***Dividends***

A U.S. Stockholder will be required to take into account as dividends any distributions made out of our current or accumulated earnings and profits. A U.S. Stockholder that is a taxable corporation generally should qualify for the dividends received deduction if our common stock is held for at least 46 days during the 90-day period beginning on the date that is 45 days before the stock becomes ex-dividend with regard to such dividend.

Dividends paid to a U.S. Stockholder that is taxed as an individual generally should be treated as qualified dividend income, and thus taxed at capital gains rates, for taxable years beginning prior to 2011 if the holding period requirement is satisfied and the stockholder does not elect to treat the dividends as investment income for purposes of the investment interest limitations. To satisfy the holding period requirement, our common stock must be held for at least 61 days during the 121-day period beginning on the date that is 60 days before the ex-dividend date with respect to such dividend.

Distributions in excess of our current and accumulated earnings and profits will reduce the adjusted tax basis of a U.S. Stockholder's shares, and any amount in excess of both our current and accumulated earnings and profits and the adjusted tax basis will be treated as capital gain (long-term capital gain if the shares have been held for more than one year).

Taxable distributions and gain from the disposition of common stock will not be treated as passive activity income; U.S. Stockholders generally will not be able to apply any passive activity losses against such income. In addition, gain from the disposition of common stock generally will be treated as investment income for purposes of the investment interest limitations. Dividends also will be treated as investment income for the purpose of electing stockholders who elect not to have capital gains treatment apply to such dividends.

#### ***Disposition of Common Stock***

In general, a U.S. Stockholder's gain or loss realized upon a taxable disposition of our common stock will be a long-term capital gain or loss if the U.S. stockholder has held the common stock for more than one



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year, and otherwise a short-term capital gain or loss. The maximum federal income tax rate on long-term capital gains recognized by individuals is generally 15% for taxable years beginning prior to 2011. For federal income tax purposes, short-term capital gains of individuals are taxed at ordinary income rates. All capital gains of C corporations are generally taxed at regular corporate income tax rates.

In general, a U.S. Stockholder will realize gain or loss upon a disposition of our common stock in an amount equal to the difference between the sum of the fair market value of any property and the amount of cash received in such disposition and the U.S. Stockholder's adjusted tax basis in the disposed stock. A U.S. Stockholder's adjusted tax basis in his or her common stock generally will equal the U.S. Stockholder's acquisition cost, less any distributions in excess of our current and accumulated earnings and profits. Additionally, any loss realized on a sale, exchange or redemption of common shares may be disallowed under "wash sale" rules to the extent the shares disposed of are replaced with other common shares during a period beginning 30 days before, and ending 30 days after, the date of disposition.

### **Taxation of Tax-Exempt Stockholders**

Tax-exempt entities that are subject to taxation on their "unrelated business taxable income" will not be taxed on distributions with respect to our common stock or gains from disposition of our common stock if the tax-exempt entity does not otherwise use our common stock in an unrelated trade or business or borrow (or be deemed to borrow) to acquire such stock. If a tax-exempt stockholder were to finance the acquisition of our common stock with debt, a portion of the dividends the stockholder received with respect to our common stock and gain on the sale of our common stock, could constitute unrelated business taxable income.

### **Special Tax Considerations for Non-U.S. Stockholders**

The rules governing federal income taxation of nonresident alien individuals, foreign corporations, and other non-U.S. Stockholders are complex. This section is only a summary of some of such rules applicable during periods in which we are taxed as a REIT. The taxation of Taxable U.S. Stockholders for any periods in which we are taxed as a REIT are described below in "Special Tax Considerations for Non-U.S. Stockholders if We Qualify and Elect To Be Taxed as a REIT." **We urge non-U.S. Stockholders to consult their own tax advisors to determine the impact of federal, state and local, and non-U.S. tax laws on ownership of our common stock, including any reporting requirements.**

In general, non-U.S. Stockholders will be subject to regular federal income tax with respect to any dividends and gains that are "effectively connected" with the non-U.S. Stockholder's conduct of a trade or business in the United States. A corporate non-U.S. Stockholder that receives income that is (or is treated as) effectively connected with a U.S. trade or business also may be subject to the branch profits tax, which is imposed in addition to regular federal income tax at the rate of 30%, subject to reduction under an applicable tax treaty. Effectively connected income must meet various certification requirements to be exempt from withholding. The following discussion will apply to non-U.S. Stockholders whose income from their investments in our stock is not effectively connected with the conduct of a U.S. trade or business (except to the extent that the FIRPTA rules discussed below treat such income as effectively connected income).

We will withhold 30% of the gross amount of any distribution to a non-U.S. Stockholder out of our current or accumulated earnings and profits unless an applicable tax treaty reduces this tax. A distribution in excess of our earnings and profits will be treated first as a return of capital that will reduce a non-U.S. Stockholder's basis in his or her common stock (but not below zero) and then as gain from the disposition of such stock, the tax treatment of which is described under the rules discussed below with respect to dispositions of common stock. In addition, we are required to withhold 10% of distributions in excess of our current and accumulated earnings and profits at any time that we are a "United States real property holding corporation" (which we expect to be). If the amount of tax withheld by us with respect to a distribution to a non-U.S. Stockholder exceeds the stockholder's U.S. tax liability, the non-U.S. Stockholder may file for a refund of such excess from the IRS.

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We expect to withhold federal income tax at the rate of 30% on all distributions (including distributions that later may be determined to have been in excess of current and accumulated earnings and profits) made to a non-U.S. Stockholder, unless:

a lower treaty rate applies and the non-U.S. Stockholder files with us an IRS Form W-8BEN evidencing eligibility for that reduced treaty rate; or

the non-U.S. Stockholder files with us an IRS Form W-8ECI claiming that the distribution is income effectively connected with the non-U.S. Stockholder's trade or business so that no withholding tax is required.

Gain from a disposition of our common stock by a non-U.S. Stockholder generally will be subject to federal income taxation unless our common stock does not constitute a U.S. real property interest within the meaning of FIRPTA. We expect our common stock to be a U.S. real property interest at all times that we are not a REIT and our stock is not publicly traded. Gain on the sale of common stock that is subject to taxation under FIRPTA must be reported by the non-U.S. Stockholder on a U.S. federal income tax return and is subject to the same treatment as a U.S. Stockholder with respect to the gain (subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals). Our shares are not currently publicly traded, and we can give you no assurance that our shares will ever be publicly traded on an established securities exchange or that we will qualify for an exception for gains from dispositions of shares of a REIT that is a domestically controlled qualified investment entity. Even if our common stock is not a U.S. real property interest, a nonresident alien individual's gains from the sale of our common stock will be taxable if the nonresident alien individual is present in the United States for 183 days or more during the taxable year and certain other conditions apply, in which case the nonresident alien individual will be subject to a 30% tax on his or her U.S.-source capital gains.

A purchaser of common stock that is not publicly traded from a non-U.S. Stockholder will be required to withhold 10% of the purchase price and remit this amount to the IRS.

If a non-U.S. Stockholder has shares of our common stock redeemed by us, such non-U.S. Stockholder will be treated as if such non-U.S. Stockholder sold the redeemed shares if all of such non-U.S. Stockholder's shares of our common stock are redeemed or if such redemption is not essentially equivalent to a dividend within the meaning of Section 302(b)(1) of the Internal Revenue Code or substantially disproportionate within the meaning of Section 302(b)(2) of the Internal Revenue Code. If a redemption is not treated as a sale of the redeemed shares, it will be treated as a dividend distribution. Non-U.S. Stockholders should consult with their tax advisors regarding the taxation of any particular redemption of our shares.

Upon the death of a nonresident alien individual, that individual's common stock will be treated as part of his or her U.S. estate for purposes of the U.S. estate tax, except as may be otherwise provided in an applicable estate tax treaty.

A non-U.S. Stockholder that is eligible for a reduced rate of U.S. federal withholding tax or other exclusion from withholding under an income tax treaty but that did not timely provide required certifications or other requirements, or that has received a distribution subject to withholding in excess of the amount properly treated as a dividend, may obtain a refund or credit of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS.

**Federal Income Taxation of Our Company as a REIT**

We have not elected to be taxed as a REIT and do not expect to qualify, or elect to be taxed, as a REIT for the taxable years ending December 31, 2007 and December 31, 2008. There is no assurance that we ever will qualify, and elect to be taxed, as a REIT. The balance of this summary describes the rules for qualifying to be taxed as a REIT and the tax consequences to us and our stockholders if we qualify, and elect to be taxed, as a REIT.

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



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sections that govern the federal income tax treatment of a REIT and its stockholders. This summary is qualified in its entirety by the applicable Code provisions, relevant rules and regulations, and administrative and judicial interpretations of Code provisions and regulations.

If we qualify, and elect to be taxed, as a REIT, we generally would not be subject to federal income tax on the income that we distribute to our stockholders each year. To the extent that we are not subject to income tax on the income we distribute, we would avoid double taxation, or taxation at both the corporate and stockholder levels, which generally results from owning stock in a corporation. However, we would be subject to federal tax in the following circumstances:

We would be taxed at regular corporate rates on our undistributed REIT taxable income, including undistributed net capital gains.

We could elect to retain and pay income tax on our net long-term capital gain. In that case, a U.S. stockholder would be taxed on its proportionate share of our undistributed long-term capital gain (to the extent that we make a timely designation of such gains to our stockholders) and would receive a credit or refund for its proportionate share of the tax we paid.

We could be subject to the alternative minimum tax on our items of tax preference.

We would be subject to tax at the highest corporate income tax rate on net income from foreclosure property (generally property we acquire through foreclosure or after default on a loan secured by the property or a lease of the property) held primarily for sale to customers in the ordinary course of business and other nonqualifying income from foreclosure property.

We would be subject to a 100% tax on any net income from prohibited transactions (which are, in general, certain sales or other dispositions of property, other than foreclosure property, that is held primarily for sale to customers in the ordinary course of business).

If we fail to satisfy either the 75% gross income test or the 95% gross income test (discussed below) but have nonetheless maintained our qualification as a REIT because we have met certain other requirements, we would be subject to a 100% tax on the net income attributable to the greater of (a) the amount by which we fail the 75% gross income test or (b) the amount by which we fail the 95% gross income test, in either case multiplied by a fraction intended to reflect our profitability.

If we (1) fail to satisfy the REIT asset tests (discussed below) and continue to qualify as a REIT because we meet certain other requirements, we would have to pay a tax equal to the greater of \$50,000 or the highest corporate income tax rate multiplied by the net income generated by the nonqualifying assets during the period of time we failed to satisfy the asset tests or (2) if we fail to satisfy REIT requirements other than the gross income tests and the asset tests and continue to qualify as a REIT because we meet other requirements, we would have to pay \$50,000 for each other failure.

If we fail to distribute each year at least the sum of:

- (1) 85% of our REIT ordinary income for such year;
- (2) 95% of our REIT capital gain net income for such year; and
- (3) any undistributed taxable income from prior periods,

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we would be subject to a 4% excise tax on the excess of the required distribution over the sum of (a) the amounts actually distributed and (b) retained amounts on which we pay income tax at the corporate level.

If at the time we first become a REIT, the aggregate value of our assets exceeds our aggregate basis in such assets and we subsequently recognize gain on the disposition of any such asset during the 10-year period beginning on the date on which we first became a REIT, or if we acquire assets from a C corporation in a merger or other transaction in which our initial basis in the assets is determined by reference to the transferor corporation's basis in the assets, the fair market value of the assets acquired in any such transaction exceeds the aggregate basis of such assets, and we subsequently recognize gain



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on the disposition of any such asset during the 10-year period beginning on the date on which we acquired the asset, then we generally will be subject to tax at the highest regular corporate income tax rate on the lesser of the amount of gain that we recognize at the time of the sale or disposition and the amount of gain that we would have recognized if we had sold the asset at the time we acquired the asset, which is referred to as the Built-In Gain Rules. Because we are currently a C corporation and will have acquired substantial assets before such time, if any, that we qualify and elect to be taxed as a REIT, the Built-in Gain Rules could limit our operational flexibility or otherwise reduce the benefits of taxation as a REIT.

We will be subject to a 100% tax on transactions with our taxable REIT subsidiaries if such transactions are not at arm's length.

### **Requirements for Qualification**

To qualify as a REIT, we must elect to be treated as a REIT and must meet the requirements, discussed below, relating to our organization, sources of income, the nature of assets and amount of distributions.

#### ***Organizational Requirements***

The Internal Revenue Code defines a REIT as a corporation, trust or association that:

- (1) is managed by one or more trustees or directors;
- (2) uses transferable shares or transferable certificates to evidence beneficial ownership;
- (3) would be taxable as a domestic corporation but for Sections 856 through 860 of the Internal Revenue Code;
- (4) is neither a financial institution nor an insurance company within the meaning of the applicable provisions of the Internal Revenue Code;
- (5) has at least 100 persons as beneficial owners;
- (6) during the last half of each taxable year, not more than 50% of the value of its outstanding stock is owned, directly or indirectly, by five or fewer individuals, as defined in the Internal Revenue Code to include certain entities;
- (7) files an election or continues such election to be taxed as a REIT on its return for each taxable year; and
- (8) meets other tests described below, including with respect to the nature of its assets and income and the amount of its distributions.

The Internal Revenue Code provides that conditions (1) through (4) must be met during the entire taxable year and that condition (5) must be met during at least 335 days of a taxable year of 12 months or during a proportionate part of a taxable year of less than 12 months. For purposes of condition (6), an individual generally includes a supplemental unemployment compensation benefit plan, a private foundation or a portion of a trust permanently set aside or used exclusively for charitable purposes but does not include a qualified pension plan or profit-sharing trust. We do not currently satisfy condition (6). If we comply with all the requirements for ascertaining the ownership of our outstanding stock in a taxable year and have no reason to know that we have violated condition (6), we will be deemed to have satisfied condition (6) for that taxable year.

In addition, a corporation generally may not elect to become a REIT unless its taxable year is the calendar year. We satisfy this requirement. Finally, a REIT cannot have retained any C corporation earnings and profits at the end of any REIT taxable year. If we elect to be taxed as a REIT in the future, we will have to determine whether we have any retained earnings and profits from years prior to the first year for which we would be taxed as a REIT and, if so, make arrangements to promptly distribute any such earnings and profits.

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If a REIT owns a corporate subsidiary that is a qualified REIT subsidiary, the separate existence of that subsidiary will be disregarded for federal income tax purposes. Generally, a qualified REIT subsidiary is a corporation, other than a taxable REIT subsidiary, all of the capital stock of which is owned by the REIT. All assets, liabilities and items of income, deduction and credit of the qualified REIT subsidiary will be treated as assets, liabilities and items of income, deduction and credit of the REIT itself. Thus, in applying the requirements described herein, any qualified REIT subsidiary that we own will be ignored for federal income tax purposes and all assets, liabilities and items of income, deduction and credit of such subsidiary will be treated as our assets, liabilities and items of income, deduction and credit, although the subsidiary may be subject to state and local income tax in some states. Unincorporated domestic entities that are wholly owned by a REIT, including single-member limited liability companies, also are generally disregarded as separate entities for federal income tax purposes, including for purposes of the REIT income and asset tests.

A REIT is also permitted to own up to 100% of the stock of one or more taxable REIT subsidiaries. The subsidiary and the REIT must jointly elect to treat the subsidiary as a taxable REIT subsidiary. In addition, if a taxable REIT subsidiary owns, directly or indirectly, securities representing 35% or more of the vote or value of a subsidiary corporation, that subsidiary will automatically be treated as a taxable REIT subsidiary of the parent REIT. A taxable REIT subsidiary is subject to federal income tax, and state and local income taxes where applicable, as a regular C corporation.

Generally, a taxable REIT subsidiary may earn income that would not be qualifying income under the REIT income tests if earned directly by the parent REIT. If we elect to be taxed as a REIT, we will determine whether we should conduct through one or more taxable REIT subsidiaries, certain activities that will produce nonqualifying income for the gross income tests or may be subject to the prohibited transaction tax, such as the sale of higher and better use properties and, if so, make timely elections. However, several provisions regarding the arrangements between a REIT and its taxable REIT subsidiary ensure that the taxable REIT subsidiary will be subject to an appropriate level of federal income tax. For example, the Internal Revenue Code limits the ability of a taxable REIT subsidiary to deduct interest payments in excess of a certain amount made to its parent REIT. In addition, the Internal Revenue Code imposes a 100% tax on transactions between a taxable REIT subsidiary and its parent REIT or the REIT's lessees that are not conducted on an arm's-length basis. Moreover, the value of securities of taxable REIT subsidiaries held by the REIT cannot be worth more than 20% of the REIT's total asset value.

In the case of a REIT that is a partner in a partnership, the REIT will be deemed to own its proportionate share (based on its capital interest in the partnership and any debt securities issued by such partnership held by the REIT) of the assets of the partnership and will be deemed to be entitled to the income of the partnership attributable to such share. The character of the assets and gross income of the partnership retain the same character in the hands of the REIT. Thus, our proportionate share of the assets, liabilities and items of income of Wells Timberland OP will be treated as our assets, liabilities and items of income for purposes of applying and meeting the various REIT requirements. In addition, Wells Timberland OP's proportionate share of the assets, liabilities and items of income with respect to any partnership (including any limited liability company treated as a partnership) in which it holds an interest would be considered assets, liabilities and items of income of Wells Timberland OP for purposes of applying and meeting the various REIT requirements.

### ***Income Tests***

A REIT must meet two gross income requirements annually. First, a REIT must derive directly or indirectly at least 75% of its gross income (excluding gross income from prohibited transactions) from investments relating to real property, including investments in other REITs or mortgages on real property (including rents from real property and, in certain circumstances, interest), and, as discussed below, income from certain temporary investments. Second, a REIT must derive at least 95% of its gross income (excluding gross income from prohibited transactions) from the real property investments described in the preceding sentence as well as from dividends, interest or gain from the sale or disposition of stock or securities.

Prior to investing amounts received from the issuance of our stock and certain securities in real property assets, a REIT may invest in liquid assets such as government securities or certificates of deposit, but earnings

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from those types of assets are qualifying income under the 75% gross income test only for one year from the receipt of proceeds. Accordingly, to the extent that a REIT has not invested the offering proceeds in properties prior to the expiration of this one-year period, in order to satisfy the 75% gross income test, it may invest the offering proceeds in less liquid investments such as certain mortgages and mortgage pass-throughs or shares in other REITs. If we elect to be taxed as a REIT, we intend to trace offering proceeds received for purposes of determining the one-year period for new capital investments. The IRS has not issued any rulings or regulations under the provisions of the Internal Revenue Code governing new capital investments, so there can be no assurance that the IRS would agree with this method.

*Timber-Cutting Contracts.* The income from our timber-cutting contracts generally would be treated as rents from real property or as capital gain from the sale of real property for purposes of the gross income tests if we retain an economic interest in the timber, depending on whether we have a holding period of more than one year in the property. Section 631(b) of the Internal Revenue Code provides that if the owner of timber held for more than one year disposes of such timber under any contract by virtue of which it retains an economic interest in such timber, the gain or loss realized will be treated as capital gain or loss. An owner of timber retains an economic interest in such timber under a timber-cutting contract if the amount of the payment for the timber depends solely on the actual quantity of timber cut.

We generally will retain an economic interest under our timber-cutting contracts. The income from the timber-cutting contracts for the timberlands we initially acquire will not qualify for capital gains treatment under Section 631(b) of the Internal Revenue Code for the first year after closing this offering, because we will not have held the timber for more than one year at the time we dispose of it. The income from any such timber-cutting contracts with unrelated persons will be treated as rents from real property (ordinary income) for purposes of the gross income tests, but any such timber-cutting contracts with related persons would not be qualifying income. Any gain from our timber-cutting contracts with respect to timber we held for more than one year will qualify as gain from the sale of real property for purposes of the gross income tests and for capital gain treatment under Section 631(b) of the Internal Revenue Code.

*Rents from Real Property.* We do not expect to receive a substantial amount of rental income, other than the income from our timber-cutting contracts with respect to timber we have not held for more than one year that will be treated as rents from real property. However, we do anticipate receiving small amounts of rental income from hunting leases, bee-keeping leases, leases for the use of real property to extract minerals and to erect and maintain billboards on property adjacent to certain public thoroughfares and the rental of rights-of-way through certain properties.

Rents that we receive or that we are deemed to receive will qualify as rents from real property in satisfying the gross income requirements described above only if several conditions are met. First, the amount of rent must not be based in whole or in part on the income or profits of any person but can be based on a fixed percentage of gross receipts or gross sales. Second, rent received from a lessee will not qualify as rents from real property if we own, or are treated as owning, 10% or more of (1) the total combined voting power of all classes of voting stock of a corporate lessee, (2) the total value of shares of all classes of stock of a corporate lessee or (3) the interests in total assets or net profits in any lessee which is an entity that is not a corporation. Third, rent attributable to personal property is generally excluded from rents from real property, except where such personal property is leased in connection with such real property and the rent attributable to such personal property is less than or equal to 15% of the total rent received under the lease. Finally, amounts that are attributable to services furnished or rendered in connection with the rental of real property, whether or not separately stated, will not constitute rents from real property unless such services are customarily provided in the geographic area in connection with the rental of space for occupancy only and are not otherwise considered rendered to the occupant of the property. Customary services that are not provided to a particular lessee (e.g., furnishing heat and light, the cleaning of public entrances and the collection of trash) can be provided directly by the REIT. Where, however, such services are provided primarily for the convenience of the lessees or are provided to such lessees, such services must be provided by an independent contractor or a taxable REIT subsidiary. In the event that an independent contractor provides such services, the REIT must adequately compensate such independent contractor, the REIT must not derive any income from the independent contractor and neither the independent contractor nor certain of its stockholders may, directly

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or indirectly, own more than 35% of the REIT, taking into consideration the applicable attributed ownership. Our rental income should not cease to qualify as rents from real property merely because we perform a *de minimis* amount of services for lessees of a property that are not usually and customarily provided and are considered rendered to the occupant. The income from these services will be considered *de minimis* if the value of such services (valued at not less than 150% of our direct cost of performing such services) is less than 1% of the total income derived from such property, and such *de minimis* services income will not be treated as rents from real property. While it is not expected that we will receive a substantial amount of rental income (other than income from timber-cutting contracts that is treated as rental income), if we elect to be taxed as a REIT, we will take steps to ensure that such rental income qualifies as rents from real property or otherwise does not jeopardize our REIT status.

**Interest.** The term interest, as defined for purposes of both gross income tests, generally excludes any amount that is based in whole or in part on the income or profits of any person. However, an amount received or accrued generally will not be excluded from the term interest solely by being based on a fixed percentage or percentages of receipts or sales. Interest on debt secured by mortgages on real property or on interests in real property generally is qualifying income for purposes of the 75% gross income test. However, if the highest principal amount of a loan outstanding during a taxable year exceeds the fair market value of the real property securing the loan as of the date of the REIT agreed to originate or acquire the loan, a portion of the interest income from such loan will not be qualifying income for purposes of the 75% gross income test, but will be qualifying income for purposes of the 95% gross income test.

**Dividends.** Our share of any dividends received from any corporation (including any taxable REIT subsidiary, but excluding any REIT) in which we own an equity interest will qualify for purposes of the 95% gross income test but not for purposes of the 75% gross income test. Our share of any dividends received from any other REIT in which we own an equity interest will be qualifying income for purposes of both gross income tests.

**Hedging Transactions.** From time to time, we may enter into hedging transactions with respect to one or more of our assets or liabilities. Our hedging activities may include entering into interest rate swaps, caps, and floors, options to purchase these items, and futures and forward contracts. To the extent that we enter into an interest rate swap or cap contract, option, futures contract, forward rate agreement, or any similar financial instrument to hedge our indebtedness incurred or to be incurred to acquire or carry real estate assets, including mortgage loans, any periodic income or gain from the disposition of that contract attributable to the carrying or acquisition of the real estate assets should be qualifying income for purposes of the 95% gross income test but not the 75% gross income test. To the extent that we hedge with other types of financial instruments or for other purposes, the income from those transactions is not likely to be treated as qualifying income for purposes of either gross income test. We intend to structure any hedging transactions in a manner that does not jeopardize our status as a REIT.

**Prohibited Transactions.** A REIT will incur a 100% tax on the net income derived from any sale or other disposition of property, other than foreclosure property, that the REIT holds primarily for sale to customers in the ordinary course of a trade or business. Whether a REIT holds an asset primarily for sale to customers in the ordinary course of a trade or business depends, however, on the facts and circumstances in effect from time to time, including those related to a particular asset. Income from timber sold pursuant to timber-cutting contracts that will be treated as rents from real property or capital gain under Section 631(b) of the Internal Revenue Code will not be treated as gain from the sale of property held for sale in our ordinary course of business.

To avoid the imposition of the prohibited transaction test, if we elect to be taxed as a REIT, we intend to sell most or all of our higher and better use properties through a taxable REIT subsidiary. In addition, to the extent we sell any higher and better use properties held at the REIT level, we will attempt to comply with the terms of safe-harbor provisions in the federal income tax laws prescribing when an asset sale will not be characterized as a prohibited transaction. We cannot assure you, however, that we will always be able to identify properties that will become part of our dealer land sales business, that we will avoid owning property at the REIT level that may be characterized as property that we hold primarily for sale to customers

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in the ordinary course of a trade or business, or that we can comply with the safe-harbor provisions when we sell property held at the REIT level.

*Failure to Satisfy Gross Income Tests.* If we fail one or both of the 75% and 95% gross income tests for any taxable year, we may nevertheless qualify as a REIT for that year if we are eligible for relief under the Internal Revenue Code. This relief generally will be available if: (1) our failure to meet such gross income tests is due to reasonable cause and not to willful neglect; and (2) we properly disclose the failure to the IRS. We, however, cannot state whether in all circumstances we would be entitled to the benefit of this relief provision. For example, if we fail to satisfy the gross income tests because nonqualifying income that we intentionally receive exceeds the limits on such income, the IRS could conclude that our failure to satisfy the tests was not due to reasonable cause. As discussed above in Federal Income Taxation of Our Company as a REIT, even if this relief provision applies, a 100% tax would be imposed on the greater of the amount by which we fail the 75% gross income test or the amount by which we fail the 95% gross income test, in either case multiplied by a fraction intended to reflect our profitability.

### ***Asset Tests***

At the close of each quarter of our taxable year, a REIT must also satisfy four tests relating to the nature and diversification of its assets. First, at least 75% of the value of a REIT's total assets must be represented by real estate assets, cash and cash items (including receivables) and government securities. Second, not more than 25% of the value of a REIT's total assets may consist of securities (other than those securities includible in the 75% asset test). Third, except for stock or securities of REITs, qualified REIT subsidiaries, taxable REIT subsidiaries, equity interests in partnerships and other securities that qualify as real estate assets for purposes of the 75% asset test: (1) the value of any one issuer's securities owned by a REIT may not exceed 5% of the value of the REIT's total assets; (2) a REIT may not own more than 10% of any one issuer's outstanding voting securities; and (3) a REIT may not own more than 10% of the value of the outstanding securities of any one issuer. Fourth, no more than 20% of the value of a REIT's total assets may be represented by securities of one or more taxable REIT subsidiaries.

Securities for purposes of the asset tests may include debt securities. The 10% value limitation will not apply, however, to (1) any security qualifying for the straight-debt exception discussed below, (2) any loan to an individual or an estate; (3) any rental agreement described in Section 467 of the Internal Revenue Code, other than with a related person; (4) any obligation to pay qualifying rents from real property; (5) certain securities issued by a State or any political subdivision thereof, the District of Columbia, a foreign government, or any political subdivision thereof, or the Commonwealth of Puerto Rico; (6) any security issued by a REIT; and (7) any other arrangement that, as determined by the Secretary of the Treasury, is excepted from the definition of a security. For purposes of the 10% value test, any debt instrument issued by a partnership (other than straight debt or another excluded security) will not be considered a security issued by the partnership if at least 75% of the partnership's gross income is derived from sources that would qualify for the 75% REIT gross income test and any debt instrument issued by a partnership (other than straight debt or other excluded security) will not be considered a security issued by the partnership to the extent of the REIT's interest as a partner in the partnership. There are special look-through rules for determining a REIT's share of securities held by a partnership in which the REIT holds an interest.

The straight-debt exception starts with the definition of straight debt in Section 1361 of the Internal Revenue Code (as modified) but permits certain contingent payments. The timing of payments of principal or interest may be contingent if such contingency causes specified limited changes to the debt's effective yield to maturity or the REIT does not hold more than \$1 million (by face amount or issue price) of the issuer's debt instruments and not more than 12 months of unaccrued interest can be required to be prepaid on such debt instruments. In addition, the time or amount of payments may be contingent if such contingency arises only upon default or upon the issuer's exercise of a prepayment right and such contingencies are consistent with customary commercial practice.

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The straight-debt exception will not apply to any securities issued by a corporation or partnership if the REIT and any controlled taxable REIT subsidiaries also own securities of such issuer that would not qualify for the straight-debt exception and that are worth more than 1% of the issuer's outstanding securities.

After initially meeting the asset tests at the close of any quarter, a REIT will not lose its status as a REIT for failure to satisfy the asset tests at the end of a later quarter solely by reason of changes in asset values. If the failure to satisfy the asset tests results from an acquisition of securities or other property during a quarter, the REIT can cure the failure by disposing of a sufficient amount of nonqualifying assets within 30 days after the close of that quarter. Even after the 30-day cure period, if the REIT fails the 5% securities limitation or either of the 10% securities limitations, the REIT may avoid disqualification as a REIT by disposing of a sufficient amount of nonqualifying assets to cure the violation if the assets causing the violation do not exceed the lesser of 1% of the REIT's assets at the end of the relevant quarter or \$10 million, provided that, in either case, the disposition occurs within six months following the last day of the quarter in which the REIT first identified the violation. For other violations of any of the REIT asset tests due to reasonable cause, a REIT may avoid disqualification as a REIT after the 30-day cure period by taking certain steps, including the disposition of sufficient nonqualifying assets within the six-month period described above to meet the applicable asset test, paying a tax equal to the greater of \$50,000 or the highest corporate tax rate multiplied by the net income generated by the nonqualifying assets during the period of time that the assets were held as nonqualifying assets and filing a schedule with the IRS that describes the nonqualifying assets.

If we elect to be taxed as a REIT, we intend to maintain adequate records of the value of our assets to ensure compliance with the asset tests and to take such other actions within 30 days after the close of any quarter as necessary to cure any noncompliance.

### **Annual Distribution Requirements**

To qualify for taxation as a REIT, a REIT must meet the following annual distribution requirements. A REIT must make distributions (other than capital gain distributions and deemed distributions of retained capital gain) to its stockholders in an amount at least equal to:

- (1) the sum of (a) 90% of its REIT taxable income (computed without regard to the dividends paid deduction and by excluding its net capital gain) and (b) 90% of the net income, if any, from foreclosure property in excess of the excise tax on income from foreclosure property, minus
- (2) the sum of certain items of noncash income.

A REIT must pay these distributions in the taxable year to which they relate. Distributions paid in the subsequent year, however, will be treated as if distributed in the prior year for purposes of such prior year's 90% distribution requirement if (1) the distributions were declared in October, November or December, the distributions were payable to stockholders of record on a specified date in such month, and the distributions were actually distributed during January of the subsequent year; or (2) the distributions were declared before the REIT timely filed its federal income tax return for such year, the distributions were paid in the 12-month period following the close of the prior year and not later than the first regular distribution payment after such declaration, and the REIT elected on its tax return for the prior year to have a specified amount of the subsequent distribution treated as if distributed in the prior year.

If a REIT disposes of any asset that is subject to the Built-In Gain Rules during the applicable 10-year period, the REIT will be required to distribute at least 90% of the Built-In Gain (after tax), if any, recognized on the disposition of the asset.

A REIT will pay federal income tax on taxable income, including net capital gain, that it does not distribute to stockholders. Furthermore, if a REIT fails to distribute during a calendar year, or by the end of January following the calendar year in the case of distributions with declaration and record dates falling in the last three months of the calendar year, at least the sum of:

85% of our REIT ordinary income for such year,

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95% of our REIT capital gain net income for such year, and

any undistributed taxable income from prior periods,  
the REIT will incur a 4% nondeductible excise tax on the excess of such required distribution over the amounts it actually distributes.

A REIT may elect to retain and pay income tax on the net long-term capital gain it receives in a taxable year. See Taxation of Taxable U.S. Stockholders Distributions to Taxable U.S. Stockholders. If a REIT so elect, it will be treated as having distributed any such retained amount for purposes of the 4% nondeductible excise tax described above. For these purposes, distributions that are declared in October, November or December of the relevant taxable year, are payable to stockholders of record on a specified date in such month and are actually distributed during January of the subsequent year are treated as distributed in the prior year.

If we elect to be taxed as a REIT, we intend to make timely distributions sufficient to satisfy the annual distribution requirements and to avoid the 4% excise tax. In this regard, Wells Timberland OP's partnership agreement will authorize us, as the sole general partner of Wells Timberland OP, to take such steps as may be necessary to cause Wells Timberland OP to distribute to its partners an amount sufficient to permit us to meet these distribution requirements. We expect that our REIT taxable income would be less than our cash flow due to the allowance of cost depletion in computing REIT taxable income. It is possible that we may not have sufficient cash or other liquid assets from time to time to meet the 90% distribution requirement or to distribute such greater amount as may be necessary to avoid income and excise tax. In such event, we may find it necessary to borrow funds to pay the required distribution or, if possible, pay taxable stock dividends in order to meet the distribution requirement.

In order for a REIT to deduct distributions to stockholders, such distributions must not be preferential within the meaning of Section 562(c) of the Internal Revenue Code. Every holder of a particular class of stock must be treated the same as every other holder of shares of such class, and no class of stock may be treated otherwise than in accordance with its distribution rights as a class.

In the event that a REIT is subject to an adjustment to its REIT taxable income (as defined in Section 860(d)(2) of the Internal Revenue Code) resulting from an adverse determination by either a final court decision, a closing agreement between the REIT and the IRS under Section 7121 of the Internal Revenue Code, an agreement as to tax liability between the REIT and an IRS district director or a statement by the REIT attached to an amendment or supplement to its federal income tax return, the REIT may be able to correct any resulting failure to meet the 90% annual distribution requirement by paying deficiency dividends to its stockholders that relate to the adjusted year but that are paid in the subsequent year. To qualify as a deficiency dividend, the distribution must be made within 90 days of the adverse determination and the REIT must satisfy certain other procedural requirements. If the statutory requirements of Section 860 of the Internal Revenue Code are satisfied, a deduction is allowed for any deficiency dividend subsequently paid by the REIT to offset an increase in its REIT taxable income resulting from an adverse determination. The REIT, however, would be required to pay statutory interest on the amount of any deduction taken for deficiency dividends to compensate for the deferral of the tax liability.

### **Earnings and Profits**

Throughout the remainder of this discussion, we frequently will refer to earnings and profits. Earnings and profits is a concept used extensively throughout corporate tax law but it is undefined in the Internal Revenue Code. Each corporation maintains an earnings and profits account that helps to measure whether a distribution originates from corporate earnings or from other sources. Distributions generally decrease earnings and profits while income generally increases earnings and profits. If a corporation has positive earnings and profits, distributions generally will be considered to come from corporate earnings. If a corporation has no earnings and profits, distributions generally will be considered a return of capital and then capital gain. At the close of any taxable year, a REIT cannot have accumulated earnings and profits attributable to any non-REIT year and remain qualified as a REIT. Accordingly, if we elect to be taxed as a REIT, we will have to

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determine whether we have any retained earnings and profits from years prior to the first year for which we would be taxed as a REIT and, if so, make arrangements to promptly distribute any such earnings and profits.

### **Statutory Relief**

If a REIT fails to satisfy one or more of the requirements for qualification as a REIT, other than the income tests and asset tests discussed above, the REIT will not lose its status as a REIT if its failure was due to reasonable cause and not willful neglect, and we pay a penalty of \$50,000 for each such failure.

### **Taxable REIT Subsidiaries**

As described above, a REIT may own up to 100% of the stock of one or more taxable REIT subsidiaries. A taxable REIT subsidiary is a fully taxable corporation that may earn income that would not be qualifying income if earned directly by a REIT. A corporation will not qualify as a TRS if it directly or indirectly operates or manages any hotels or health care facilities or provides rights to any brand name under which any hotel or health care facility is operated.

A REIT and its corporate subsidiary must elect for the subsidiary to be treated as a taxable REIT subsidiary. A corporation of which a qualifying taxable REIT subsidiary directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a subsidiary. Overall, no more than 20% of the value of a REIT's assets may consist of securities of one or more taxable REIT subsidiaries, and no more than 25% of the value of a REIT's assets may consist of the securities of taxable REIT subsidiaries and other assets that are not qualifying assets for purposes of the 75% asset test.

The taxable REIT subsidiary rules limit the deductibility of interest paid or accrued by a taxable REIT subsidiary to a REIT to assure that the taxable REIT subsidiary is subject to an appropriate level of corporate taxation. Further, the rules impose a 100% tax on transactions between a taxable REIT subsidiary and the REIT or the REIT's lessees that are not conducted on an arm's-length basis.

### **Taxation of U.S. Stockholders if We Qualify and Elect To Be Taxed as a REIT**

For any taxable year for which we qualify for taxation as a REIT, amounts distributed to taxable U.S. Stockholders will be taxed as discussed below.

### ***Distributions Generally***

Distributions to U.S. Stockholders, other than capital gain dividends (which are discussed below) will constitute taxable dividends up to the amount of our positive current or accumulated earnings and profits. Dividends received from REITs are generally not eligible to be taxed at the preferential qualified dividend income rates currently applicable to individuals who receive dividends from taxable C corporations. However, there are exceptions: Individual stockholders are taxed at such rates on dividends designated by and received from REITs to the extent that the dividends are attributable to (1) income that the REIT previously retained in a prior year and on which it was subject to corporate level tax; (2) dividends received by the REIT from taxable corporations (including taxable REIT subsidiaries); or (3) income from sales of appreciated property subject to the Built-In Gain Rules. Because a REIT is not subject to tax on income distributed to its stockholders, the distributions made to corporate stockholders are not eligible for the dividends received deduction. To the extent that we make a distribution in excess of our positive current or accumulated earnings and profits, the distribution will be treated first as a tax-free return of capital (reducing the tax basis in the U.S. Stockholder's shares of our common stock) and then the distribution in excess of the tax basis will be taxable as gain realized from the sale of the common stock. Distributions we declare in October, November or December of any year payable to stockholders of record on a specified date in any such month are treated as both paid by us and received by the stockholders on December 31 of that year, provided that we actually pay the distributions during January of the following calendar year. Stockholders are not allowed to include on their own federal income tax returns any of our tax losses.



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#### ***Capital Gain Distributions***

Distributions to U.S. Stockholders that we properly designate as capital gain dividends will be treated as long-term capital gains (to the extent they do not exceed our actual net capital gain) for the taxable year without regard to the period for which the U.S. Stockholder has held the stock. However, corporate U.S. Stockholders may be required to treat up to 20% of certain capital gain dividends as ordinary income. Capital gain dividends are not eligible for the dividends received deduction for corporations. In the case of individuals, long-term capital gains are generally taxable at maximum federal rates of 15% (through 2010), except that capital gains attributable to the sale of depreciable real property held for more than 12 months are subject to a 25% maximum federal income tax rate to the extent of previously claimed depreciation deductions.

We may elect to retain and pay federal income tax on any net long-term capital gain. In this instance, U.S. Stockholders will include in their income their proportionate share of the undistributed long-term capital gain. The U.S. Stockholders also will be deemed to have paid their proportionate share of tax on such long-term capital gain and, therefore, will receive a credit or refund for the amount of such tax. In addition, the basis of the U.S. Stockholders' shares will be increased in an amount equal to the excess of the amount of capital gain included in his or her income over the amount of tax he or she is deemed to have paid.

#### ***Certain Dispositions of Shares***

In general, U.S. Stockholders will realize capital gain or loss on the sale of common stock equal to the difference between (1) the amount of cash and the fair market value of any property received by the U.S. Stockholder on such disposition and (2) the U.S. Stockholder's adjusted basis of such common stock. Losses incurred on the sale or exchange of our common stock that a U.S. Stockholder holds for less than six months (after applying certain holding period rules) will be treated as long-term capital loss to the extent of any capital gain dividend the stockholder has received with respect to those shares.

The applicable tax rate will depend on the U.S. Stockholder's holding period in the asset (generally, if the U.S. Stockholder has held the asset for more than one year, it will produce long-term capital gain) and the U.S. Stockholder's tax bracket. The IRS has the authority to prescribe, but has not yet prescribed, regulations that would apply a capital gain tax rate of 25% (which is generally higher than the long-term capital gain tax rates for noncorporate stockholders) to a portion of the capital gain realized by a noncorporate stockholder on the sale of common stock that would correspond to our unrecaptured Section 1250 gain. U.S. Stockholders should consult with their own tax advisors with respect to their capital gain tax liability. In general, any loss recognized by a U.S. Stockholder upon the sale or other disposition of common stock that the U.S. Stockholder has held for six months or less, after applying the holding period rules, will be treated as long-term capital loss to the extent of distributions received by the U.S. Stockholder from us that were required to be treated as long-term capital gains.

If a U.S. Stockholder has shares of our common stock redeemed by us, such U.S. Stockholder will be treated as if such U.S. Stockholder sold the redeemed shares if all of such U.S. Stockholder's shares of our common stock are redeemed or if such redemption is not essentially equivalent to a dividend within the meaning of Section 302(b)(1) of the Internal Revenue Code or substantially disproportionate within the meaning of Section 302(b)(2) of the Internal Revenue Code. If a redemption is not treated as a sale of the redeemed shares, it will be treated as a dividend distribution. U.S. Stockholders should consult with their tax advisors regarding the taxation of any particular redemption of our shares.

#### ***Passive Activity Loss and Investment Interest Limitations***

U.S. Stockholders may not treat distributions we make to them or any gain from disposing of our common stock as passive activity income. Therefore, U.S. Stockholders will not be able to apply any passive losses against such income. Distributions we pay (to the extent they do not constitute a return of capital) generally will be treated as investment income for purposes of the investment interest limitation. Net capital gain from the disposition of our common stock (or capital gain dividends) generally will be excluded from investment income unless the stockholder elects to have such gain taxed at ordinary income rates.

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#### **Taxation of Tax-Exempt Stockholders if We Qualify and Elect To Be Taxed as a REIT**

Distributions we make to a tax-exempt employee pension trust or most other types of domestic tax- exempt stockholder generally will not constitute unrelated business taxable income (UBTI), unless the tax- exempt stockholder has borrowed to acquire or carry our shares of our common stock. Qualified trusts that hold more than 10% (by value) of the shares of pension-held REITs may be required to treat a certain percentage of such REIT's distributions as UBTI. We expect that our ownership limitations will prevent us from becoming a pension-held REIT, unless our board of directors grants qualified plan waivers from our ownership limitations.

#### **Special Tax Considerations for Non-U.S. Stockholders if We Qualify and Elect To Be Taxed as a REIT**

The rules governing United States income taxation of non-U.S. Stockholders (beneficial owners of shares of our common stock who are not U.S. Stockholders) are complex. We intend the following discussion to be only a summary of these rules. Prospective non-U.S. Stockholders should consult with their own tax advisors to determine the impact of federal, state, local and non-U.S. tax laws on an investment in our common stock, including any reporting requirements.

In general, non-U.S. Stockholders will be subject to regular federal income tax with respect to their investment in us if the income from the investment is effectively connected with the non-U.S. Stockholder's conduct of a trade or business in the United States. A corporate non-U.S. Stockholder that receives income that is (or is treated as) effectively connected with a U.S. trade or business also may be subject to the branch profits tax, which is imposed in addition to regular federal income tax at the rate of 30%, subject to reduction under a tax treaty, if applicable. Effectively connected income must meet various certification requirements to be exempt from withholding. The following discussion will apply to non-U.S. Stockholders whose income from their investments in us is not effectively connected (except to the extent that the FIRPTA rules discussed below treat such income as effectively connected income).

A distribution payable out of our current or accumulated earnings and profits that is not attributable to gain from the sale or exchange by us of a United States real property interest and that we do not designate as a capital gain distribution will be subject to federal income tax, required to be withheld by us, equal to 30% of the gross amount of the distribution, unless an applicable tax treaty reduces this tax. A distribution in excess of our earnings and profits will be treated first as a return of capital that will reduce a non-U.S. Stockholder's basis in his or her common stock (but not below zero) and then as gain from the disposition of such stock, the tax treatment of which is described under the rules discussed below with respect to dispositions of common stock.

As long as our stock is not regularly traded on an established securities market in the United States, distributions by us that are attributable to gain from the sale or exchange of a United States real property interest will be taxed to a non-U.S. Stockholder under the Foreign Investment in Real Property Tax Act of 1980 (FIRPTA). Such distributions are taxed to a non-U.S. Stockholder as if the distributions were gains effectively connected with a United States trade or business. Accordingly, a non-U.S. Stockholder will be taxed at the normal capital gain rates applicable to a U.S. Stockholder (subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals). Such distributions also may be subject to a 30% branch profits tax when made to a foreign corporation that is not entitled to an exemption or reduced branch profits tax rate under a tax treaty. If our shares of common stock are ever regularly traded on an established securities market in the United States, then, with respect to distributions by us that are attributable to gain from the sale or exchange of a United States real property interest, a non-U.S. Stockholder who does not own more than 5% of our common stock at any time during the taxable year: (1) will be taxed on such capital gain dividend as if the distribution was an ordinary dividend, (2) will generally not be required to report distributions received from us on U.S. federal income tax returns and (3) will not be subject to a branch profits tax with respect to such distribution. Currently, our shares are not publicly traded, and we can give you no assurance that our shares will ever be publicly traded on an established securities exchange.

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It should be emphasized that the income we receive under timber-cutting contracts subject to Section 631(b) of the Internal Revenue Code will be characterized for federal income tax purposes as gain from the sale or other disposition of real property and that we will withhold at the 35% rate on distributions to non-U.S. stockholders attributable to such gain realized in respect of such timber-cutting contracts. Accordingly, an investment in our common stock may be less favorable than investments in REITs, the income of which is not primarily gains from timber sales.

Although the law is not clear on this matter, it appears that amounts designated by us as undistributed capital gains in respect of the common stock generally should be treated with respect to non-U.S. Stockholders in the same manner as actual distributions by us of capital gain dividends. Under that approach, the non-U.S. Stockholder would be able to offset as a credit against his or her resulting federal income tax liability an amount equal to his or her proportionate share of the tax paid by us on the undistributed capital gains and to receive from the IRS a refund to the extent his or her proportionate share of this tax paid by us was to exceed his or her actual federal income tax liability.

Although tax treaties may reduce our withholding obligations, we generally will be required to withhold tax from distributions to non-U.S. Stockholders, and remit to the IRS 35% of designated capital gain dividends (or, if greater, 35% of the amount of any distributions that could be designated as capital gain dividends) and 30% of ordinary dividends paid out of earnings and profits. In addition, if we designate prior distributions as capital gain dividends, subsequent distributions, up to the amount of such prior distributions that we designated as capital gain dividends, will be treated as capital gain dividends for purposes of withholding. In addition, we may be required to withhold 10% of distributions in excess of our current and accumulated earnings and profits. If the amount of tax withheld by us with respect to a distribution to a non-U.S. Stockholder exceeds the stockholder's United States tax liability, the non-U.S. Stockholder may file for a refund of such excess from the IRS.

We expect to withhold federal income tax at the rate of 30% on all distributions (including distributions that later may be determined to have been in excess of current and accumulated earnings and profits) made to a non-U.S. Stockholder, unless:

- a lower treaty rate applies and the non-U.S. Stockholder files with us an IRS Form W-8BEN evidencing eligibility for that reduced treaty rate;

- the non-U.S. Stockholder files with us an IRS Form W-8ECI claiming that the distribution is income effectively connected with the non-U.S. Stockholder's trade or business so that no withholding tax is required; or

- the distributions are treated for FIRPTA withholding tax purposes as attributable to a sale of a U.S. real property interest, in which case tax will be withheld at a 35% rate.

Gain from a disposition of common stock by a non-U.S. Stockholder generally will be subject to federal income taxation unless our common stock does not constitute a U.S. real property interest within the meaning of FIRPTA. Our common stock will not constitute a U.S. real property interest if we are a domestically controlled qualified investment entity. A REIT is a domestically controlled qualified investment entity if at all times during a specified testing period less than 50% in value of its shares is held directly or indirectly by non-U.S. Stockholders. We currently anticipate that we will be a domestically controlled qualified investment entity and, therefore, that the sale of our common stock will not be subject to taxation under FIRPTA. We cannot assure non-U.S. Stockholders, however, that we will be a domestically controlled qualified investment entity. If we were not a domestically controlled qualified investment entity, a non-U.S. Stockholder's sale of common stock would be subject to tax under FIRPTA as a sale of a U.S. real property interest, unless the common stock were regularly traded on an established securities market and the selling stockholder owned no more than 5% of the common stock throughout the applicable testing period. If the gain on the sale of common stock was subject to taxation under FIRPTA, the non-U.S. Stockholder would be subject to the same treatment as a U.S. Stockholder with respect to the gain (subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals). However, even if our common stock is not a U.S. real property interest, a nonresident alien individual's gains from the sale of our

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common stock will be taxable if the nonresident alien individual is present in the United States for 183 days or more during the taxable year and certain other conditions apply, in which case the nonresident alien individual will be subject to a 30% tax on his or her U.S.-source capital gains.

A purchaser of common stock from a non-U.S. Stockholder will not be required to withhold under FIRPTA on the purchase price if the purchased common stock is regularly traded on an established securities market or if we are a domestically controlled qualified investment entity. Otherwise, the purchaser of common stock from a non-U.S. Stockholder may be required to withhold 10% of the purchase price and remit this amount to the IRS. Currently, our shares are not publicly traded, and we can give you no assurance that our shares will ever be publicly traded on an established securities exchange or that we will be a domestically controlled qualified investment entity.

If a non-U.S. Stockholder has shares of our common stock redeemed by us, such non-U.S. Stockholder will be treated as if such non-U.S. Stockholder sold the redeemed shares if all of such non-U.S. Stockholder's shares of our common stock are redeemed or if such redemption is not essentially equivalent to a dividend within the meaning of Section 302(b)(1) of the Internal Revenue Code or substantially disproportionate within the meaning of Section 302(b)(2) of the Internal Revenue Code. If a redemption is not treated as a sale of the redeemed shares, it will be treated as a dividend distribution. Non-U.S. Stockholders should consult with their tax advisors regarding the taxation of any particular redemption of our shares.

Upon the death of a nonresident alien individual, that individual's common stock will be treated as part of his or her U.S. estate for purposes of the U.S. estate tax, except as may be otherwise provided in an applicable estate tax treaty.

**Information Reporting Requirements and Backup Withholding Tax**

***U.S. Stockholders***

In general, information reporting requirements will apply to payments of distributions on our common stock and to payments of the proceeds of the sale of our common stock, unless an exception applies. Further, under certain circumstances, U.S. Stockholders may be subject to backup withholding on payments made with respect to, or cash proceeds of a sale or exchange of, our common stock. Backup withholding will apply only if:

- (1) the payee fails to furnish his or her taxpayer identification number (which, for an individual, would be his or her Social Security number) to the payor as required;
- (2) the IRS notifies the payor that the taxpayer identification number furnished by the payee is incorrect;
- (3) the IRS has notified the payee that such payee has failed to properly include reportable interest and dividends in the payee's return or has failed to file the appropriate return and the IRS has assessed a deficiency with respect to such underreporting; or
- (4) the payee has failed to certify to the payor, under penalties of perjury, that the payee is not subject to withholding.

In addition, backup withholding will not apply with respect to payments made to certain exempt recipients, such as corporations and tax-exempt organizations. U.S. Stockholders should consult their own tax advisors regarding their qualifications for exemption from backup withholding and the procedure for obtaining such an exemption.

Backup withholding is not an additional tax. Rather, the amount of any backup withholding with respect to a payment to a U.S. Stockholder will be allowed as a credit against the U.S. Stockholder's federal income tax liability and may entitle the stockholder to a refund, provided that the stockholder furnishes the required information to the IRS.

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***Non-U.S. Stockholders***

Generally, information reporting will apply to payments of distributions on our common stock and backup withholding may apply, unless the payee certifies that he or she is not a U.S. person or otherwise establishes an exemption.

The payment of the proceeds from the disposition of our common stock to or through the U.S. office of a U.S. or foreign broker will be subject to information reporting and, possibly, backup withholding, unless the non-U.S. Stockholder certifies as to his or her non-U.S. status or otherwise establishes an exemption and provided that the broker does not have actual knowledge that the stockholder is a U.S. person or that the conditions of any other exemption are not, in fact, satisfied. The proceeds of the disposition of our common stock by a non-U.S. Stockholder to or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, if the broker is a U.S. person, a controlled foreign corporation for U.S. tax purposes or a foreign person whose gross income is 50% or more from all sources for specified periods and is from activities that are effectively connected with a U.S. trade or business, information reporting generally will apply, unless the broker has documentary evidence as to the non-U.S. Stockholder's foreign status and has no actual knowledge to the contrary.

Applicable Treasury regulations provide presumptions regarding the status of stockholders when payments to the stockholders cannot be reliably associated with appropriate documentation provided to the payor. These Treasury regulations require some stockholders to have provided new certifications with respect to payments made after December 31, 2000. Because the application of these Treasury regulations varies depending on the stockholder's particular circumstances, non-U.S. Stockholders should consult their tax advisors with regard to U.S. information reporting and backup withholding.

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**ERISA CONSIDERATIONS**

The following is a summary of some considerations associated with an investment in our shares by a qualified employee pension benefit plan or an individual retirement account (IRA). This summary is based on provisions of the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code, each as amended through the date of this prospectus, and the relevant regulations, opinions and other authority issued by the Department of Labor and the IRS. We cannot assure you that there will not be adverse tax or labor decisions or legislative, regulatory or administrative changes that would significantly modify the statements expressed herein. Any such changes may apply to transactions entered into prior to the date of their enactment.

Each fiduciary of an employee pension benefit plan subject to ERISA (such as a profit-sharing, Section 401(k) or pension plan) or any other retirement plan or account subject to Section 4975 of the Internal Revenue Code, such as an IRA, seeking to invest plan assets in our shares must, taking into account the facts and circumstances of each such plan or IRA (each, a Benefit Plan ), consider, among other matters:

whether the investment is consistent with the applicable provisions of ERISA and the Internal Revenue Code;

whether, under the facts and circumstances pertaining to the Benefit Plan in question, the fiduciary's responsibility to the plan has been satisfied;

whether the investment will produce unrelated business taxable income (UBTI) to the Benefit Plan (see Federal Income Tax Considerations Taxation of U.S. Stockholders Treatment of Tax-Exempt Stockholders ); and

the need to value the assets of the Benefit Plan annually.

Under ERISA, a plan fiduciary's responsibilities include the following duties:

to act solely in the interest of plan participants and beneficiaries and for the exclusive purpose of providing benefits to them, as well as defraying reasonable expenses of plan administration;

to invest plan assets prudently;

to diversify the investments of the plan, unless it is clearly prudent not to do so;

to ensure sufficient liquidity for the plan;

to ensure the plan investments are made in accordance with plan documents; and

to consider whether an investment would constitute or give rise to a prohibited transaction under ERISA or the Internal Revenue Code. ERISA also requires that the assets of an employee benefit plan be held in trust and that the trustee, or a duly authorized named fiduciary or investment manager, have exclusive authority and discretion to manage and control the assets of the plan.

**Prohibited Transactions**

Section 406 of ERISA and Section 4975 of the Internal Revenue Code prohibit specified transactions involving the assets of a Benefit Plan that are between the plan and any party-in-interest or disqualified person with respect to that Benefit Plan, unless an administrative or statutory exemption applies. These transactions are prohibited regardless of how beneficial they may be for the Benefit Plan. Prohibited transactions include the sale, exchange or leasing of property, and the lending of money or the extension of credit, between a Benefit Plan and a party-in-interest or disqualified person. The transfer to (or use by or for the benefit of) a party-in-interest or disqualified person of any assets of a Benefit Plan is also prohibited, as is the furnishing of services between a plan and a party-in-interest. A fiduciary of a Benefit Plan is also prohibited from engaging in self-dealing, acting for a person who has an interest adverse to the plan in connection with a transaction involving the plan or receiving any consideration for its own account from a

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party dealing with the plan in a transaction involving plan assets. Furthermore, Section 408 of the Internal Revenue Code states that assets of an IRA trust may not be commingled with other property except in a common trust fund or common investment fund.

**Plan Asset Considerations**

In order to determine whether an investment in our shares by a Benefit Plan creates or gives rise to the potential for either prohibited transactions or a commingling of assets as referred to above, a fiduciary must consider whether an investment in our shares will cause our assets to be treated as assets of the investing Benefit Plan. Neither ERISA nor the Internal Revenue Code defines the term "plan assets"; however, regulations promulgated by the Department of Labor provide guidelines as to whether, and under what circumstances, the underlying assets of an entity will be deemed to constitute assets of a Benefit Plan when the plan invests in that entity (Plan Assets Regulation). Under the Plan Assets Regulation, the assets of corporations, partnerships or other entities in which a Benefit Plan makes an equity investment will generally be deemed to be assets of the Benefit Plan, unless the entity satisfies one of the exceptions to this general rule. As discussed below, we have received an opinion of counsel that, based on the Plan Assets Regulation, it is more likely than not that our underlying assets would not be deemed to be "plan assets" of Benefit Plans investing in our shares, assuming the conditions set forth in the opinion are satisfied, based upon the fact that at least one of the specific exemptions set forth in the Plan Assets Regulation is satisfied, as determined under the criteria set forth below.

Specifically, the Plan Assets Regulation provides that the underlying assets of REITs will not be treated as assets of a Benefit Plan investing therein if the interest the Benefit Plan acquires is a "publicly offered security." A publicly offered security must be:

sold as part of a public offering registered under the Securities Act of 1933, as amended, and be part of a class of securities registered under the Securities Exchange Act of 1934, as amended, within a specified time period;

part of a class of securities that is owned by 100 or more persons who are independent of the issuer and one another; and

freely transferable.

Our shares are being sold as part of an offering of securities to the public pursuant to an effective registration statement under the Securities Act, and are part of a class that will be registered under the Securities Exchange Act within the specified period. In addition, we will have well in excess of 100 independent stockholders. Thus, both the first and second criteria of the "publicly offered security" exception will be satisfied.

Whether a security is "freely transferable" depends upon the particular facts and circumstances. For example, our shares are subject to certain restrictions on transferability intended to ensure that we continue to qualify for federal income tax treatment as a REIT. The regulation provides, however, that where the minimum investment in a public offering of securities is \$10,000 or less, the presence of a restriction on transferability intended to prohibit transfers that would result in a termination or reclassification of the entity for state or federal tax purposes will not ordinarily affect a determination that such securities are "freely transferable." The minimum investment in our shares is less than \$10,000; thus, the restrictions imposed in order to maintain our status as a REIT should not cause the shares to be deemed not to be "freely transferable."

In the event that our underlying assets were treated by the Department of Labor as the assets of investing Benefit Plans, our management would be treated as fiduciaries with respect to each Benefit Plan stockholder, and an investment in our shares might constitute an ineffective delegation of fiduciary responsibility to Wells TMO, our advisor, and expose the fiduciary of the Benefit Plan to co-fiduciary liability under ERISA for any breach by Wells TMO of the fiduciary duties mandated under ERISA. Further, if our assets are deemed to be "plan assets," an investment by an IRA in our shares might be deemed to result in an impermissible commingling of IRA assets with other property.



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If Wells TIMO or its affiliates were treated as fiduciaries with respect to Benefit Plan stockholders, the prohibited transaction restrictions of ERISA and the Internal Revenue Code would apply to any transaction involving our assets. These restrictions could, for example, require that we avoid transactions with persons who are affiliated with or related to us or our affiliates or require that we restructure our activities in order to obtain an administrative exemption from the prohibited transaction restrictions. Alternatively, we might have to provide Benefit Plan stockholders with the opportunity to sell their shares to us or we might dissolve.

If a prohibited transaction were to occur, the Internal Revenue Code imposes an excise tax equal to 15% of the amount involved and authorizes the IRS to impose an additional 100% excise tax if the prohibited transaction is not corrected in a timely manner. These taxes would be imposed on any disqualified person who participates in the prohibited transaction. In addition, Wells TIMO and possibly other fiduciaries of Benefit Plan stockholders subject to ERISA who permitted the prohibited transaction to occur or who otherwise breached their fiduciary responsibilities (or a nonfiduciary participating in a prohibited transaction) could be required to restore to the Benefit Plan any profits they realized as a result of the transaction or breach and make good to the Benefit Plan any losses incurred by the Benefit Plan as a result of the transaction or breach. With respect to an IRA that invests in our shares, the occurrence of a prohibited transaction involving the individual who established the IRA, or his or her beneficiary, would cause the IRA to lose its tax-exempt status under Section 408(e)(2) of the Internal Revenue Code.

We have obtained an opinion from counsel that it is more likely than not that our shares will be deemed to constitute publicly offered securities and, accordingly, that it is more likely than not that our underlying assets should not be considered plan assets under the Plan Assets Regulation, assuming the offering takes place as described in this prospectus. If our underlying assets are not deemed to be plan assets, the problems discussed in the immediately preceding three paragraphs are not expected to arise.

### **Other Prohibited Transactions**

Regardless of whether the shares qualify for the publicly offered security exception of the Plan Assets Regulation, a prohibited transaction could occur if we, Wells TIMO, any selected broker/dealer or any of their affiliates is a fiduciary (within the meaning of Section 3(21) of ERISA) with respect to any Benefit Plan purchasing our shares. Accordingly, unless an administrative or statutory exemption applies, shares should not be purchased by a Benefit Plan with respect to which any of the above persons is a fiduciary. A person is a fiduciary with respect to a Benefit Plan under Section 3(21) of ERISA if, among other things, the person has discretionary authority or control with respect to the Benefit Plan or plan assets, or provides investment advice for a fee with respect to plan assets. Under a regulation issued by the Department of Labor, a person shall be deemed to be providing investment advice if that person renders advice as to the advisability of investing in our shares and that person regularly provides investment advice to the Benefit Plan pursuant to a mutual agreement or understanding (written or otherwise) (1) that the advice will serve as the primary basis for investment decisions, and (2) that the advice will be individualized for the Benefit Plan based on its particular needs.

### **Annual Valuation**

A fiduciary of an employee benefit plan subject to ERISA is required to determine annually the fair market value of each asset of the plan as of the end of the plan's fiscal year and to file a report reflecting that value with the Department of Labor. When the fair market value of any particular asset is not available, the fiduciary is required to make a good faith determination of that asset's fair market value, assuming an orderly liquidation at the time the determination is made. In addition, a trustee or custodian of an IRA must provide an IRA participant with a statement of the value of the IRA each year. In discharging its obligation to value assets of a plan, a fiduciary subject to ERISA must act consistently with the relevant provisions of the plan and the general fiduciary standards of ERISA.

Unless and until our shares are listed on a national securities exchange, we do not expect that a public market for our shares will develop. To date, neither the IRS nor the Department of Labor has promulgated regulations specifying how a plan fiduciary should determine the fair market value of shares when the fair

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market value of such shares is not determined in the marketplace. Therefore, to assist fiduciaries in fulfilling their valuation and annual reporting responsibilities, we intend to have our advisor prepare annual reports of the estimated value of our shares.

Eventually, we may engage a third-party valuation firm to value our shares; however, we intend to use our advisor's estimate until the completion of our offering stage. (We will view our offering stage as complete upon the termination of our last public equity offering prior to the listing of our shares on a national securities exchange. For purposes of this definition, we do not consider a public equity offering to include offerings on behalf of selling stockholders or offerings related to a distribution reinvestment plan, employee benefit plan or the redemption of interests in Wells Timberland OP.) Furthermore, until we have completed our offering stage, our advisor has indicated that it intends to use the most recent price paid to acquire a share in our offering (ignoring purchase price discounts for certain categories of purchasers) as its estimated per share value of our shares. Although this approach to valuing our shares has the advantage of avoiding the cost of paying for appraisals or other valuation services, the estimated value may bear little relationship and will likely exceed what you might receive for your shares if you tried to sell them or if we liquidated our portfolio.

After 12 months from completion of our offering stage, we will publish a valuation of our shares as determined by our advisor or another firm chosen for that purpose, which estimate will be based upon a number of assumptions that may not be accurate or complete. We do not currently anticipate obtaining appraisals for our properties and, accordingly, the estimates should not be viewed as an accurate reflection of the fair market value of our properties nor will they represent the amount of net proceeds that would result from an immediate sale of our properties. For these reasons, the estimated valuations should not be utilized for any purpose other than to assist plan fiduciaries in fulfilling their annual valuation and reporting responsibilities. Even after our advisor no longer uses the most recent offering price as the estimated value of our shares, you should be aware of the following:

the estimated values may not be realized by us or by you upon liquidation (in part because estimated values do not necessarily indicate the price at which assets could be sold and because the estimates may not take into account the expenses of selling our assets);

you may not realize these values if you were to attempt to sell your shares; and

the estimated values, or the method used to establish values, may not comply with the ERISA or IRA requirements described above.

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**DESCRIPTION OF SHARES**

Our charter authorizes the issuance of one billion shares of stock, of which 900 million shares are designated as common stock with a par value of \$0.01 per share, and 100 million shares are designated as preferred stock with a par value of \$0.01 per share, of which 35,000 shares have been classified as Series A preferred stock. In addition, our board of directors may amend our charter without stockholder approval to increase or decrease the number of our authorized shares.

As of December 6, 2007, approximately 3.6 million shares of our common stock were issued and outstanding, and 32,128 shares of our Series A preferred stock were issued and outstanding.

**Common Stock**

Except as may otherwise be specified in the terms of any class or series of common stock, the holders of common stock are entitled to one vote per share on all matters voted on by stockholders, including election of our directors. Our charter does not provide for cumulative voting in the election of our directors. Therefore, the holders of a majority of the outstanding common shares can elect our entire board of directors. Subject to any preferential rights of any outstanding series of preferred stock, including the Series A preferred stock discussed below, the holders of common stock are entitled to such distributions as may be authorized from time to time by our board of directors and declared by us out of legally available funds and, upon liquidation, are entitled to receive all assets available for distribution to our stockholders. Holders of shares of common stock will not have preemptive rights, which means that you will not have an automatic option to purchase any new shares that we issue.

**Preferred Stock**

Our charter authorizes our board of directors to classify and reclassify any unissued shares of our common and preferred stock into one or more classes or series of stock, and to issue such classified or reclassified stock, without stockholder approval. Our board of directors must determine the relative rights, preferences and privileges of each class or series of stock so issued, which may be more beneficial than the rights, preferences and privileges attributable to the common stock. The issuance of such stock could have the effect of delaying, deferring or preventing a change in control. Our board of directors has no present plans to issue preferred stock, but may do so at any time in the future without stockholder approval.

***Series A Preferred Stock***

Our charter does not require us to obtain the consent of the holders of the Series A preferred stock for any corporate action, and the holders of the Series A preferred stock do not have any voting rights or powers except with respect to (1) the creation of any class of capital stock senior to the Series A preferred stock, (2) an increase in the number of authorized shares of Series A preferred stock and (3) any amendment of the rights, preferences or privileges relating to the Series A preferred stock. Dividends will accrue on the Series A preferred stock daily at a rate of 8.5% per year, subject to adjustments in the event of a stock dividend, split, combination or other similar recapitalization with respect to the Series A preferred stock. If declared by us and authorized by our board of directors, accruing dividends on the Series A preferred stock are payable on September 30, 2010 and on September 30 of each year thereafter. The Series A preferred stock is not convertible into shares of our common stock. If we are liquidated or dissolved, the holders of the Series A preferred stock are entitled to receive the issue price of \$1,000 per share plus any accrued and unpaid dividends, whether or not declared, before any payment may be made to the holders of our common stock or any other class or series of our capital stock ranking junior on liquidation to the Series A preferred stock.

The shares of Series A preferred stock were sold to Wells Real Estate Funds, Inc. without registration under the Securities Act of 1933, as amended, in reliance on the exemption from such registration requirements provided by such act for transactions not involving any public offering. As a result, the shares of Series A preferred stock are subject to restrictions on resale.

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#### **Uncertificated Shares**

Our charter provides that until our shares are listed on a national securities exchange, we will not issue shares in certificated form. We maintain a stock ledger that contains the name and address of each stockholder and the number of shares that the stockholder holds. With respect to uncertificated stock, we will continue to treat the stockholder registered on our stock ledger as the owner of the shares until the new owner delivers a properly executed form to us, which form we will provide to any registered holder upon request.

#### **Meetings and Special Voting Requirements**

An annual meeting of the stockholders will be held each year, no earlier than 30 days after delivery of our annual report. Special meetings of stockholders may be called by our board of directors, a majority of the independent directors, the president or the chief executive officer, or by our secretary upon the written request of stockholders entitled to cast at least 10% of the votes entitled to be cast on any issue proposed to be considered at the special meeting. The presence in person or by proxy of stockholders entitled to cast a majority of all the votes entitled to be cast at the meeting constitutes a quorum. Unless otherwise provided by the Maryland General Corporation Law or our charter, the affirmative vote of a majority of all votes cast is necessary to take stockholder action, except that the affirmative vote of a majority of the shares of stock present in person or by proxy at a meeting is required to elect a director.

Our charter provides that the concurrence of the board is not required in order for the stockholders to elect or remove directors. However, we have been advised that Maryland law does require board approval in order to amend our charter or dissolve. Without the approval of the holders of shares entitled to cast a majority of all the votes entitled to be cast on the matter, the board of directors may not:

amend the charter to adversely affect the rights, preferences and privileges of the stockholders;

amend charter provisions relating to director qualifications, fiduciary duties, liability and indemnification, conflicts of interest, investment policies or investment restrictions;

cause our liquidation or dissolution after our initial investment in property;

sell all or substantially all of our assets other than in the ordinary course of business; or

cause our merger or reorganization.

Wells TIMO is selected and approved as our advisor annually by our directors. While the stockholders do not have the ability to vote to replace Wells TIMO or to select a new advisor, stockholders do have the ability, by the affirmative vote of a majority of the shares entitled to vote on such matter, to remove a director from our board.

#### **Restriction on Ownership of Shares**

##### ***Ownership Limit***

In order for us to qualify as a REIT, during the last half of each taxable year, not more than 50% of the value of our outstanding shares may be owned, directly or indirectly, by five or fewer individuals, as defined in the Internal Revenue Code to include certain entities. In addition, the outstanding shares must be owned by 100 or more persons independent of us and each other during at least 335 days of a 12-month taxable year or during a proportionate part of a shorter taxable year. Each of the requirements specified in the two preceding sentences shall not apply until after the first taxable year for which we make an election to be taxed as a REIT. We may prohibit certain acquisitions and transfers of shares so as to ensure our continued qualification as a REIT under the Internal Revenue Code. However, we cannot assure you that this prohibition will be effective.

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Our charter contains limitations on ownership that prohibit any person or group of persons from acquiring, directly or indirectly, beneficial ownership of more than 9.8% in value of our outstanding shares, or more than 9.8% (in value or in number of shares, whichever is more restrictive) of our outstanding common shares, unless exempted by our board of directors. Our charter also provides that our board of directors may,

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subject to certain conditions, exempt an excepted holder, by establishing a limitation on the excepted holder's share ownership. Pursuant to Wells Real Estate Funds, Inc.'s purchase of 32,128 shares of our preferred stock, Wells Real Estate Funds, Inc. currently holds in excess of 9.8% of the value of our aggregate outstanding capital stock. At such level, we would not satisfy the REIT qualification requirement that five or fewer individuals not directly or indirectly own more than 50% (by value) of our stock. Our board has named Wells Real Estate Funds, Inc. as an excepted holder and has limited Wells Real Estate Funds, Inc.'s share ownership to 68% of the value of the outstanding shares of our capital stock. However, when our board of directors granted the waiver to Wells Real Estate Funds, Inc. to own in excess of 9.8% of the aggregate value of the Issuer's outstanding capital stock, it conditioned such waiver upon Wells Real Estate Funds, Inc. agreeing that if, at such time as our board determines to elect to qualify as REIT for any fiscal year, Wells Real Estate Funds, Inc.'s ownership of the Series A preferred stock would cause us not to qualify as a REIT, such shares of Series A preferred stock will automatically be transferred to a charitable trust in accordance with our charter. Our charter provides that any transfer of shares that would violate our share ownership limitations is null and void and the intended transferee will acquire no rights in such shares, unless the transfer is approved by our board of directors based upon receipt of information that such transfer would not violate the provisions of the Internal Revenue Code for qualification as a REIT.

Our charter further prohibits (1) any person from owning shares of our stock that would result in our being closely held under Section 856(h) of the Internal Revenue Code or otherwise cause us to fail to qualify as a REIT and (2) any person from transferring shares of our stock if the transfer would result in our stock being owned by fewer than 100 persons. Any person who acquires or intends to acquire shares of our stock that may violate any of these restrictions, or who is the intended transferee of shares of our stock that are transferred to the trust, as described below, is required to give us immediate notice and provide us with such information as we may request in order to determine the effect of the transfer on our status as a REIT. The above restrictions will not apply if our board of directors determines that it is no longer in our best interest to continue to qualify as a REIT.

Our board of directors, in its sole discretion, may exempt a person from these limits. However, the board may not exempt any person whose ownership of our outstanding stock would result in our being closely held within the meaning of Section 856(h) of the Internal Revenue Code or otherwise would result in our failing to qualify as a REIT. In order to be considered by the board for exemption, a person also must not own, directly or indirectly, an interest in any lessee of our property (or a lessee of any entity which we own or control) that would cause us to own, directly or indirectly, more than a 9.9% interest in the lessee. The person seeking an exemption must represent to the satisfaction of the board that it will not violate these two restrictions. The person also must agree that any violation or attempted violation of these restrictions will result in the automatic transfer of the shares of stock causing the violation to a trust. The board of directors may require a ruling from the Internal Revenue Service or an opinion of counsel in order to determine or ensure our status as a REIT.

Any attempted transfer of our stock which, if effective, would result in our stock being owned by fewer than 100 persons will be null and void. Any attempted transfer of our stock which, if effective, would result in violation of the ownership limits discussed above or in our being closely held under Section 856(h) of the Internal Revenue Code or otherwise failing to qualify as a REIT, will cause the number of shares causing the violation (rounded to the nearest whole share) to be automatically transferred to a trust for the exclusive benefit of one or more charitable beneficiaries, and the proposed transferee will not acquire any rights in the shares. The automatic transfer will be deemed to be effective as of the close of business on the business day prior to the date of the transfer. Shares of our stock held in the trust will be issued and outstanding shares. The proposed transferee will not benefit economically from ownership of any shares of stock held in the trust, will have no rights to distributions and no rights to vote or other rights attributable to the shares of stock held in the trust. The trustee of the trust will have all voting rights and rights to dividends or other distributions with respect to shares held in the trust. These rights will be exercised for the exclusive benefit of the charitable beneficiary. Any dividend or other distribution paid prior to our discovery that shares of stock have been transferred to the trust will be paid by the recipient to the trustee upon demand. Any dividend or other distribution authorized but unpaid will be paid when due to the trustee. Any dividend or distribution paid to

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the trustee will be held in trust for the charitable beneficiary. Subject to Maryland law, the trustee will have the authority (1) to rescind as void any vote cast by the proposed transferee prior to our discovery that the shares have been transferred to the trust and (2) to recast the vote in accordance with the desires of the trustee acting for the benefit of the charitable beneficiary. However, if we have already taken irreversible corporate action, then the trustee will not have the authority to rescind and recast the vote.

Within 20 days of receiving notice from us that shares of our stock have been transferred to the trust, the trustee will sell the shares to a person designated by the trustee, whose ownership of the shares will not violate the above ownership limitations. Upon the sale, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the proposed transferee and to the charitable beneficiary as follows. The proposed transferee will receive the lesser of (1) the price paid by the proposed transferee for the shares or, if the proposed transferee did not give value for the shares in connection with the event causing the shares to be held in the trust (e.g., a gift, devise or other similar transaction), the market price (as defined in our charter) of the shares on the day of the event causing the shares to be held in the trust and (2) the price received by the trustee from the sale or other disposition of the shares. Any net sales proceeds in excess of the amount payable to the proposed transferee will be paid immediately to the charitable beneficiary. If, prior to our discovery that shares of our stock have been transferred to the trust, the shares are sold by the proposed transferee, then (1) the shares shall be deemed to have been sold on behalf of the trust and (2) to the extent that the proposed transferee received an amount for the shares that exceeds the amount he was entitled to receive, the excess shall be paid to the trustee upon demand.

In addition, shares of our stock held in the trust will be deemed to have been offered for sale to us, or our designee, at a price per share equal to the lesser of (1) the price per share in the transaction that resulted in the transfer to the trust (or, in the case of a devise or gift, the market price at the time of the devise or gift) and (2) the market price on the date we, or our designee, accept the offer. We will have the right to accept the offer until the trustee has sold the shares. Upon a sale to us, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the proposed transferee.

All certificates representing shares of our stock will bear a legend referring to the restrictions described above, although we do not plan to issue shares in certificated form unless and until our shares are listed on a national securities exchange.

Every owner of more than 5% (or such lower percentage as required by the Internal Revenue Code or the regulations promulgated thereunder) of our stock, within 30 days after the end of each taxable year, is required to give us written notice, stating his name and address, the number of shares of each class and series of our stock which he beneficially owns, and a description of the manner in which the shares are held. Each such owner shall provide us with such additional information as we may request in order to determine the effect, if any, of his beneficial ownership on our status as a REIT and to ensure compliance with the ownership limits. In addition, each stockholder shall upon demand be required to provide us with such information as we may request in good faith in order to determine our status as a REIT and to comply with the requirements of any taxing authority or governmental authority or to determine such compliance.

These ownership limits could delay, defer or prevent a transaction or a change in control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

### ***Suitability Standards and Minimum Purchase Requirements***

Our charter requires that purchasers of our stock meet standards regarding (1) net worth and/or income and (2) minimum purchase amounts. These standards are described under Suitability Standards on page i of this prospectus and below at Plan of Distribution Minimum Purchase Requirements. As a result, the requirements regarding suitability and minimum purchase amounts, which are applicable until our shares of common stock are listed on a national securities exchange, may make it more difficult for you to sell your shares.

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#### **Distributions**

As a result of the acquisition of the South Central Timberland, we are currently prohibited from making any payments or distributions (or setting aside funds for any payments or distributions) to any of our stockholders until the mezzanine loan we obtained in connection with the acquisition of the South Central Timberland is repaid in full, and upon the attainment of certain financial performance measures under the senior loan, although we may seek to renegotiate the terms of the credit agreements prior to their full repayment. Because distribution of at least 90% of REIT taxable income is one of the requirements for REIT qualification, we may not be able to qualify as a REIT until, among other things, the mezzanine loan is repaid in full. We will seek to invest the proceeds of this offering in a manner that will allow us to achieve our investment objectives, including the objective of paying future distributions to stockholders. However, prospective investors should not invest in this offering in the event they are seeking substantial cash distributions during the initial years of our operations. See **Risk Factors Our Cash Distributions Are Not Guaranteed and May Fluctuate**. Once we are able to make distributions, we intend that distributions will be paid on a quarterly basis regardless of the frequency with which such distributions are declared. Distributions will be paid to investors who are stockholders as of the record dates selected by our board of directors. Once we commence making distributions, we expect to calculate our quarterly distributions based upon daily record dates so that our investors will be entitled to be paid distributions immediately upon purchasing our shares. We expect to make quarterly distribution payments following such calculation.

Once we qualify as a REIT, we will be required to make distributions sufficient to satisfy the requirements for qualification as a REIT for tax purposes. Generally, income distributed as distributions will not be taxable to us under the Internal Revenue Code if we distribute at least 90% of our REIT taxable income (computed without regard to the dividends paid deduction and excluding net capital gain). See **Federal Income Tax Considerations Annual Distribution Requirements**.

Except with respect to the first year following our acquisition of a timberland property, as a result of tax treatment provided to certain timber sale contracts under the Internal Revenue Code, substantially all of our income will constitute net capital gain for federal tax purposes. Unlike most existing REITs, therefore, we do not anticipate, except with respect to the first year following our acquisition of a timberland property, that the 90% distribution requirement applicable to REITs will require us to distribute any material amounts of cash in order to remain qualified as a REIT. Notwithstanding the lack of any federal income tax requirement that we do so, we intend to make distributions to our stockholders based on a methodology to be adopted by our board of directors. Generally after the first year following our acquisition of a timberland property, we expect these distributions to be treated as capital gain dividends. The actual amount and timing of distributions, if any, will be at the discretion of our board of directors and will depend upon a number of factors, including:

our actual results of operations;

the timing of the investment of the net proceeds of this offering; and

whether the income from our harvesting activities is ordinary income or capital gains.

As a result of the tax treatment provided to certain timber sale contracts under the Internal Revenue Code, we expect, except in the first year following our acquisition of a timberland property, that a significant portion of our distributions to our stockholders will be taxed at capital gains rates, which are lower for noncorporate U.S. taxpayers than the rates for ordinary income.

Because we may receive income from harvesting timber at various times during our fiscal year, distributions may not reflect our income earned in that particular distribution period but may be made in anticipation of cash flow that we expect to receive during a later quarter and may be made in advance of actual receipt of funds in an attempt to make distributions relatively uniform. We may borrow money, issue securities or sell assets in order to make distributions. Distributions paid from borrowings or sources other than cash from operations will constitute a return of capital, which will reduce your basis in your shares of our common stock.



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We are not prohibited from distributing our own securities in lieu of making cash distributions to stockholders, provided that the securities so distributed to stockholders are readily marketable. Stockholders who receive marketable securities in lieu of cash distributions may incur transaction expenses in liquidating the securities.

### **Distribution Reinvestment Plan**

We have adopted a distribution reinvestment plan that allows you to have distributions otherwise distributable to you invested in additional shares of our common stock. The actual amount and timing of distributions we will pay to stockholders will be at the discretion of our board of directors and will depend upon a number of factors, including the timing of our investment of the net proceeds of this offering and our actual results of operations. However, as a result of the acquisition of the South Central Timberland, we are prohibited from making any payments or distributions (or setting aside funds for any payments or distributions) to any of our stockholders until the mezzanine loan we obtained in connection with the acquisition of the South Central Timberland is repaid in full, although we may seek to renegotiate the terms of the credit agreement prior to its full repayment. See *Description of Shares* *Distributions*. The following discussion summarizes the principal terms of this plan. The full text of our distribution reinvestment plan is included as Appendix B to this prospectus.

#### ***Eligibility***

All of our stockholders are eligible to participate in our distribution reinvestment plan except for restrictions imposed by us, if any, in order to comply with the securities laws of various jurisdictions. We may elect to deny your participation in this plan if you reside in a jurisdiction or foreign country where, in our judgment, the burden or expense of compliance with applicable securities laws makes your participation impracticable or inadvisable.

At any time prior to the listing of our shares on a national stock exchange, you can only continue to participate in our distribution reinvestment plan if you continue to meet the suitability standards and if you are able to make the other investor representations set forth in the then-current prospectus and subscription agreement. Participants must agree to notify us promptly when they no longer meet these standards. See the *Suitability Standards* section of this prospectus (on page i of this prospectus) and the form of subscription agreement attached hereto as Appendix A. Participants must agree to notify us promptly when they no longer meet these standards.

#### ***Election to Participate***

Assuming you are eligible, you may elect to participate in our distribution reinvestment plan by completing the subscription agreement or other approved enrollment form available from the dealer-manager or a participating broker/dealer. Your participation in the plan will begin with the next distribution made after receipt of your enrollment form. Once enrolled, you may generally continue to purchase shares under our distribution reinvestment plan until we have sold all of the shares registered in this offering, have terminated this offering or have terminated the plan. We may extend the term of the distribution reinvestment plan beyond the term of this offering. You can choose to have all or a portion of your distributions reinvested through our distribution reinvestment plan. You also may change the percentage of your distributions that will be reinvested at any time if you complete a new enrollment form or other form provided for that purpose. Any election to increase your level of participation must be made through your participating broker/dealer or investment adviser or, if you purchase shares in this offering other than through a participating broker/dealer or investment adviser, through the dealer-manager.

#### ***Stock Purchases***

Shares will be purchased under our distribution reinvestment plan on the quarterly distribution payment dates. The purchase of fractional shares is a permissible and likely result of the reinvestment of distributions under the plan.

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The purchase price per share will be equal to (1) \$9.55 per share during this offering; (2) 95.5% of the offering price in any subsequent public equity offering during such offering; and (3) 95.5% of the most recent offering price for the first 12 months subsequent to the close of our last public offering of shares prior to the listing of our shares on a national securities exchange. After that 12-month period, we will publish a per share valuation determined by our advisor or another firm chosen for that purpose, and distributions will be reinvested at the price determined by the valuation process. (For these purposes, we do not consider a public equity offering to include (1) offerings on behalf of selling stockholders, (2) offerings related to a distribution reinvestment plan or employee benefit plan or (3) the redemption of interests in Wells Timberland OP.) The valuation determined by our advisor or another firm chosen for that purpose may bear little relationship to and will likely exceed what you might receive for your shares if you tried to sell them or if we liquidated the portfolio.

### ***Excluded Distributions***

Our board of directors may designate that certain cash distributions attributable to net proceeds from the sale of one or more of our properties or other investments will be excluded from distributions that may be reinvested in shares under our distribution reinvestment plan. If all or a portion of a distribution of proceeds attributable to a sale transaction is determined by our board to be an excluded distribution, the excluded amounts will be paid in cash to all stockholders, including distribution reinvestment plan participants, and will not be reinvested in our shares pursuant to our distribution reinvestment plan.

### ***Account Statements***

Our dealer-manager or a participating broker/dealer will provide a confirmation of your quarterly purchases under the distribution reinvestment plan. The dealer-manager or participating broker/dealer will provide the confirmation to you or your designee within five business days after the end of the quarterly distribution period, which confirmation is to disclose the following information:

each distribution reinvested for your account during the quarter;

the date of the reinvestment; and

the number and price of the shares purchased by you.

### ***Fees and Commissions***

We will not pay selling commissions or a dealer-manager fee on shares sold under our distribution reinvestment plan. We will not reimburse Wells TIMO for any organization and offering expenses from proceeds of sales pursuant to our distribution reinvestment plan. The amount that would have been paid as selling commissions and dealer-manager fees if the shares sold pursuant to our distribution reinvestment plan had been sold pursuant to our primary offering will be retained and used by us. Therefore, the net proceeds to us for sales under our distribution reinvestment plan will be greater than the net proceeds to us for sales pursuant to our primary offering, at least during our offering stage and for all periods in which the estimated value of a share of our common stock is at least \$10 per share. The economic benefits resulting from the increased net proceeds per share for purchases pursuant to our distribution reinvestment plan will inure to the benefit of all of our stockholders.

### ***Voting***

You may vote all shares acquired through our distribution reinvestment plan.

### ***Tax Consequences of Participation***

If you elect to participate in our distribution reinvestment plan and are subject to federal income taxation, you will incur a tax liability for distributions allocated to you even though you have elected not to receive the distributions in cash but rather to have the distributions withheld and reinvested pursuant to the plan. Specifically, you will be treated as if you have received the distribution from us in cash and then applied such



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distribution to the purchase of additional shares. In addition, to the extent you purchase shares through our distribution reinvestment plan at a discount to their fair market value, you will be treated for tax purposes as receiving an additional distribution equal to the amount of the discount. The purchase price per share will be at the following discounts: (1) \$9.55 per share during this offering, (2) 95.5% of the offering price in any subsequent public equity offering during such offering, and (3) 95.5% of the most recent offering price for the first 12 months subsequent to the close of our last public equity offering prior to the listing of our shares on a national securities exchange. Therefore, at least until this offering is complete, participants in our distribution reinvestment plan will be treated for federal income tax purposes as having received a dividend of \$10.00 for each \$9.55 reinvested by them under the plan (or if shares in the most recent offering were offered at a price other than \$10.00 per share, then the deemed distribution would be equal to such per share amount and the amount reinvested would be 95.5% of such amount). You will be taxed on the amount of such distribution as a dividend to the extent such distribution is from current or accumulated earnings and profits, unless we have designated all or a portion of the distribution as a capital gain dividend. See **Federal Income Tax Considerations** **Taxation of U.S. Stockholders and Distributions Generally**. We will withhold 28% of the amount of dividends or distributions paid if you fail to furnish a valid taxpayer identification number, fail to properly report interest or distributions, or fail to certify that you are not subject to withholding.

***Termination of Participation***

You may terminate your participation in our distribution reinvestment plan at any time by providing us with written notice. For your termination to be effective for a particular distribution, we must have received your notice of termination at least 10 business days prior to the last day of the quarterly distribution period to which the distribution relates. Any transfer of your shares will effect a termination of the participation of those shares in the distribution reinvestment plan. We will terminate your participation to the extent that a reinvestment of your distributions in our shares would cause you to exceed the ownership limitation contained in our charter.

***Amendment or Termination of Plan***

We may amend or terminate our distribution reinvestment plan for any reason at any time, but any amendment that adversely affects the rights or obligations of a participant (as determined in the sole discretion of our board of directors) will take effect only upon 10 days' prior written notice to participants.

***Share Redemption Plan***

Our board of directors has adopted a share redemption plan that enables our stockholders to sell their shares to us in limited circumstances. Our board of directors may, however, choose to amend its provisions without stockholder approval. Our share redemption plan permits you to sell your shares back to us after you have held them for at least one year, subject to the significant conditions and limitations described below.

As a result of the acquisition of the South Central Timberland, we are prohibited from redeeming any shares under our share redemption plan (other than redemptions sought within two years of the death or qualifying disability of the stockholder) until the mezzanine loan we obtained in connection with the acquisition of the South Central Timberland is repaid in full and until we attain certain financial performance measures under the senior loan.

Any redemptions made under the share redemption plan will be funded through the proceeds of the distribution reinvestment plan. The mezzanine loan contains restrictive covenants that prohibit us from declaring, setting aside funds for, or paying any dividend, distribution or other payment to our stockholders while the loan is outstanding. As a result, we will be unable to make any payments or distributions (or set aside funds for any payments or distributions) to our stockholders until the mezzanine loan is repaid in full. If investors do not subscribe for the distribution reinvestment plan because they do not expect distributions to be paid in the near term, then it will become more difficult for shares to be redeemed by us than for other Wells REITs or non-traded REIT products.

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Initially, the price at which we will repurchase your stock under the share redemption plan will be \$9.10 unless the shares were being redeemed in connection with the death or qualifying disability of a stockholder in which case the price may be greater. The initial redemption price will remain fixed for one year after we complete the offering stage. Thereafter, the redemption price will equal 95% of the estimated per share value of our shares, as estimated by our advisor or another firm chosen for that purpose. We will view our offering stage as complete upon the termination of our initial public equity offering that is followed by a one-year period during which we do not engage in another public equity offering. For purposes of the share redemption plan, we will exclude from the definition of "public equity offering" certain issuances by us as described under "ERISA Considerations" Annual Valuation. We will report the redemption price to you in the annual report that we will file with the SEC and deliver to you and in the three quarterly reports that we also are required to file with the SEC. These restrictions will severely limit your ability to sell your shares should you require liquidity and will limit your ability to recover the value you invested.

Our share redemption plan will limit the number of shares redeemed pursuant to our share redemption plan as follows: (1) during any calendar year, we will not redeem in excess of 5% of the weighted-average number of shares outstanding during the prior calendar year; and (2) we may not redeem shares on any redemption date to the extent that such redemptions will cause the amount paid for redemptions since the beginning of the then-current calendar year to exceed the sum of (x) the net proceeds from the sale of shares under our distribution reinvestment plan during such period and (y) any additional amounts reserved for such purpose by our board of directors. These limits might prevent us from accommodating all redemption requests made in any year. In addition, if investors do not elect to participate in our distribution reinvestment plan, it will become more difficult for shares to be redeemed. See "Risk Factors" Risks Associated with Debt Financing.

We will redeem shares on the last business day of each month. Requests for redemption must be received at least five business days before that date in order for us to repurchase the shares that month. If we cannot purchase all shares presented for redemption in any month, we will attempt to honor redemption requests on a pro rata basis. We will deviate from pro rata purchases in two minor ways: (1) if a pro rata redemption would result in a stockholder owning less than half of the applicable minimum amount described in "Plan of Distribution" Minimum Purchase Requirements, then we would redeem all of that stockholder's shares; and (2) if a pro rata redemption would result in a stockholder owning more than half but less than all of the applicable minimum amount, then we would not redeem any shares that would reduce that stockholder's holdings below the applicable minimum amount. In the event that a stockholder redeems all of his or her shares, there will be no holding period requirement for shares purchased pursuant to our distribution reinvestment plan.

If we do not completely satisfy a stockholder's redemption request at month-end because the request was not received in time or because of the restrictions on the number of shares we may redeem under the plan, we will treat the unsatisfied portion of the redemption request as a request for redemption in the following month unless the stockholder withdraws his or her request before the next date for redemptions. Any stockholder could withdraw a redemption request upon written notice to the address provided below before the date for redemption.

In several respects we may treat redemptions sought within two years of the death or qualifying disability of a stockholder differently from other redemptions. First, there is no one-year holding requirement. Second, if redemption is sought until one year after we complete our offering stage, the redemption price will be 100% of the amount paid for the shares. Thereafter, the redemption price will be 100% of the price at which we sold the share or 95% of the estimate of our per share value, whichever is greater. Finally, redemptions sought within two years of death or qualifying disability are subject only to the overall limitation that, during any calendar year, aggregate redemptions may not exceed 100% of the net proceeds from our distribution reinvestment plan during the calendar year and any additional amounts reserved for such purpose by our board of directors.

Qualifying stockholders who desire to redeem their shares need to give written notice to Wells Investment Securities, our dealer-manager, at 6200 The Corners Parkway, Norcross, Georgia 30092-3365, Attn: Client

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Services. Wells Investment Securities is responsible for all services to be performed in connection with the share redemption plan, although it might outsource clerical duties to our advisor.

Our board of directors may amend, suspend or terminate the program upon 30 days' notice. We will notify you of such developments (1) in the quarterly reports mentioned above or (2) by means of a separate mailing to you, accompanied by disclosure in a current or periodic report under the Securities Exchange Act of 1934. During this offering, we will also include this information in a prospectus supplement or post-effective amendment to the registration statement, as then required under federal securities laws.

Our share redemption plan will provide stockholders only a limited ability to redeem shares for cash until a secondary market develops for the shares, at which time the plan will terminate.

No such market presently exists, and we cannot assure you that any market for your shares will ever develop.

### **Registrar and Transfer Agent**

Wells Capital, a registered transfer agent, will serve as the registrar and transfer agent for our common stock.

### **Restrictions on Roll-Up Transactions**

In connection with any proposed transaction considered a "Roll-up Transaction" (defined below) involving us and the issuance of securities of an entity, which we refer to as a "Roll-up Entity," that would be created or would survive after the successful completion of the Roll-up Transaction, an appraisal of all properties will be obtained from a competent independent appraiser. The properties will be appraised on a consistent basis, and the appraisal will be based on the evaluation of all relevant information and will indicate the value of the properties as of a date immediately preceding the announcement of the proposed Roll-up Transaction. The appraisal will assume an orderly liquidation of properties over a 12-month period. The terms of the engagement of the independent appraiser will clearly state that the engagement is for our benefit and the benefit of our stockholders. A summary of the appraisal, indicating all material assumptions underlying the appraisal, will be included in a report to stockholders in connection with any proposed Roll-up Transaction.

A "Roll-up Transaction" is a transaction involving the acquisition, merger, conversion or consolidation, directly or indirectly, of us and the issuance of securities of a Roll-up Entity. This term does not include:

a transaction involving our securities that have been listed for at least 12 months on a national securities exchange; or

a transaction involving the conversion to corporate, trust, or association form of only us if, as a consequence of the transaction, there will be no significant adverse change in stockholder voting rights, the term of our existence, compensation to Wells TIMO or our investment objectives.

In connection with a proposed Roll-up Transaction, the person sponsoring the Roll-up Transaction must offer to stockholders who vote "no" on the proposal the choice of:

(1) accepting the securities of the Roll-up Entity offered in the proposed Roll-up Transaction; or

(2) one of the following:

(A) remaining as stockholders of us and preserving their interests therein on the same terms and conditions as existed previously; or

(B) receiving cash in an amount equal to the stockholder's pro rata share of the appraised value of our net assets.

We are prohibited from participating in any proposed Roll-up Transaction:

that would result in the stockholders having democracy rights in a Roll-up Entity that are less than those provided in our charter and described elsewhere in this prospectus, including rights with respect

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to the election and removal of directors, annual reports, annual and special meetings, amendment of our charter, and dissolution of us;

that includes provisions that would operate to materially impede or frustrate the accumulation of shares by any purchaser of the securities of the Roll-up Entity, except to the minimum extent necessary to preserve the tax status of the Roll-up Entity, or that would limit the ability of an investor to exercise the voting rights of its securities of the Roll-up Entity on the basis of the number of shares held by that investor;

in which investors' rights of access to records of the Roll-up Entity will be less than those provided in our charter and described in the section of this prospectus entitled "Description of Shares," "Meetings and Special Voting Requirements;" or

in which any of the costs of the Roll-up Transaction would be borne by us if the Roll-up Transaction is not approved by the stockholders.



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**CERTAIN PROVISIONS OF MARYLAND LAW AND  
OF OUR CHARTER AND BYLAWS**

**Business Combinations**

Under Maryland law, business combinations between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

any person who beneficially owns 10% or more of the voting power of the corporation's shares; or

an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then-outstanding voting stock of the corporation.

A person is not an interested stockholder under the statute if the board of directors approved in advance the transaction by which he otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the five-year prohibition, any business combination between the Maryland corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and

two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Our board of directors has adopted a resolution providing that any business combination between us and any other person is exempted from this statute, provided that such business combination is first approved by our board. This resolution, however, may be altered or repealed in whole or in part at any time. If this resolution is repealed, the statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

**Control Share Acquisitions**

Maryland law provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquiror, by officers or by directors who are employees of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

one-tenth or more but less than one-third,

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one-third or more but less than a majority, or

a majority or more of all voting power.

Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the board of directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders' meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may redeem for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to redeem control shares is subject to certain conditions and limitations. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders' meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The control share acquisition statute does not apply (1) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction, or (2) to acquisitions approved or exempted by the charter or bylaws of the corporation.

Our bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions of shares of our stock by any person. There can be no assurance that this provision will not be amended or eliminated at any time in the future.

### **Subtitle 8**

Subtitle 8 of Title 3 of the Maryland General Corporation Law permits a Maryland corporation with a class of equity securities registered under the Securities Exchange Act of 1934 and at least three independent directors to elect to be subject, by provision in its charter or bylaws or a resolution of its board of directors and notwithstanding any contrary provision in the charter or bylaws, to any or all of five provisions:

a classified board,

a two-thirds vote requirement for removing a director,

a requirement that the number of directors be fixed only by vote of the directors,

a requirement that a vacancy on the board be filled only by the remaining directors and for the remainder of the full term of the class of directors in which the vacancy occurred, and

a majority requirement for the calling of a special meeting of stockholders.

Through provisions in our charter and bylaws unrelated to Subtitle 8, we vest in our board of directors the exclusive power to fix the number of directorships. We do not intend to elect to be subject to any of the provisions of Subtitle 8 that would conflict with the North American Securities Administrators Association's Statement of Policy Regarding Real Estate Investment Trusts as long as our shares of common stock are

not listed on any national securities exchange and are subject to the policy statement.

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**Advance Notice of Director Nominations and New Business**

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of individuals for election to the board of directors and the proposal of business to be considered by stockholders may be made only (1) pursuant to our notice of the meeting, (2) by or at the direction of the board of directors or (3) by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice procedures of the bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of individuals for election to the board of directors at a special meeting may be made only (1) pursuant to our notice of the meeting, (2) by or at the direction of the board of directors, or (3) provided that the board of directors has determined that directors will be elected at the meeting by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

**Anti-takeover Effect of Certain Provisions of Maryland Law and of the Charter and Bylaws**

The business combination provisions and the control share acquisition provisions of Maryland law, any provisions of our charter electing to be subject to Subtitle 8 in the future, and the advance notice provisions of our bylaws could delay, defer or prevent a transaction or a change in control of our company that might involve a premium price for stockholders or otherwise be in their best interest.

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**THE OPERATING PARTNERSHIP AGREEMENT**

**General**

Wells Timberland Operating Partnership, L.P., which we refer to as Wells Timberland OP, was formed in November 2005 to acquire, own and operate properties on our behalf. As a result of this structure, we are considered to be an umbrella partnership real estate investment trust, or UPREIT. An UPREIT is a structure REITs often use to acquire real property from owners on a tax-deferred basis (the sellers can generally accept partnership units and defer taxable gain otherwise required to be recognized by them upon the disposition of their properties). Such owners also may desire to achieve diversity in their investment and other benefits afforded to stockholders in a REIT. For purposes of satisfying the asset and income tests for qualification as a REIT for tax purposes, the REIT's proportionate share of the assets and income of Wells Timberland OP will be deemed to be assets and income of the REIT.

We expect that substantially all of our assets will be held by Wells Timberland OP. We are the sole general partner of Wells Timberland OP and, as of the date of this prospectus, we own a 99.99% partnership interest. Wells TIMO owns a .01% partnership interest, and also owns 100 special units. As the sole general partner, we have the exclusive power to manage and conduct the business of Wells Timberland OP.

The following is a summary of material provisions of the limited partnership agreement of Wells Timberland OP. This summary is qualified by the specific language in the limited partnership agreement. You should refer to the actual limited partnership agreement for more detail. You may request a copy of the partnership agreement, at no cost, by writing or telephoning us as set forth below at [Where You Can Find More Information](#).

**Capital Contributions**

As we accept subscriptions for shares, we will transfer all of the net proceeds of the offering to Wells Timberland OP as a capital contribution; however, we will be deemed to have made capital contributions in the amount of the gross offering proceeds of the sale of shares to investors, regardless of any purchase price discounts applicable to such sales and without reduction for the selling commissions and other costs associated with the offering. If Wells Timberland OP requires additional funds at any time in excess of capital contributions made by us and Wells TIMO or from borrowing, we may borrow funds from a financial institution or other lender and lend such funds to Wells Timberland OP on the same terms and conditions as are applicable to our borrowing of such funds. If Wells Timberland OP issues additional units to any new or existing partner in exchange for cash capital contributions, the contributor will receive a number of limited partnership units and a percentage interest in Wells Timberland OP calculated based on the amount of the capital contribution and the value of Wells Timberland OP at the time of such contribution. In addition, we are authorized to cause Wells Timberland OP to issue partnership interests for less than fair market value if we conclude in good faith that such issuance is in the best interest of Wells Timberland OP and us.

**Operations**

The limited partnership agreement of Wells Timberland OP provides that, so long as we remain qualified as a REIT, Wells Timberland OP is to be operated in a manner that will enable us to satisfy the requirements for being classified as a REIT for tax purposes. As a general partner of Wells Timberland OP, we also are empowered to do anything to ensure that Wells Timberland OP will not be classified as a publicly traded partnership for purposes of Section 7704 of the Internal Revenue Code. Classification as a publicly traded partnership could result in Wells Timberland OP being taxed as a corporation, rather than as a partnership.

**Distributions and Allocations of Profits and Losses**

The limited partnership agreement provides that, except as provided below with respect to the special units, Wells Timberland OP will distribute cash flow from operations to its partners in accordance with their relative percentage interests on at least a quarterly basis in amounts that we, as general partner, determine. As

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a common unit holder, we will receive distributions from Wells Timberland OP that we will then distribute to our stockholders.

The effect of these distributions will be that a holder of one common unit of Wells Timberland OP will receive the same amount of annual cash flow distributions as the amount of annual distributions paid to the holder of one of our shares.

Similarly, the limited partnership agreement provides that taxable income is allocated to the partners of Wells Timberland OP in accordance with their relative percentage interests. Subject to compliance with the provisions of Sections 704(b) and 704(c) of the Internal Revenue Code and corresponding Treasury Regulations, the effect of these allocations will be that a holder of one common unit of Wells Timberland OP will be allocated taxable income for each taxable year in an amount equal to the amount of taxable income to be recognized by a holder of one of our shares. Losses, if any, will generally be allocated among the partners (other than the holder of the special units) in accordance with their respective percentage interests in Wells Timberland OP. Losses cannot be passed through to our stockholders.

If Wells Timberland OP liquidates, debts and other obligations must be satisfied before the partners may receive any distributions. Any distributions to partners then will be made to partners in accordance with their respective positive capital account balances.

The holder of the special units will be entitled to distributions from Wells Timberland OP in an amount equal to 15% of net sales proceeds received by Wells Timberland OP on dispositions of its properties and real estate related investments after the other holders of common units, including us, have received, in the aggregate, cumulative distributions equal to their capital contributions (less any amounts received in redemption of their common units) plus a 7% cumulative, non-compounded annual pre-tax return on their net capital contributions.

There will be a corresponding allocation of realized (or, in the case of redemption, unrealized) profits of Wells Timberland OP made to the owner of the special units in connection with the amounts payable with respect to the special units, including amounts payable upon redemption of the special units, and those amounts will be payable only out of realized (or, in the case of redemption, unrealized) profits of Wells Timberland OP.

Depending on various factors, including the date on which shares of our common stock are purchased and the price paid for such shares of common stock, each individual stockholder may receive more or less than a return of the original issue price for such stockholder's shares plus the 7% cumulative noncompounded annual pre-tax return on their net contributions described above prior to the commencement of distributions to the owner of the special units.

### **Rights, Obligations and Powers of the General Partner**

As Wells Timberland OP's general partner, we generally have complete and exclusive discretion to manage and control Wells Timberland OP's business and to make all decisions affecting its assets. This authority generally includes, among other things, the authority to:

acquire, purchase, own, operate, lease and dispose of any real property and any other property;

construct buildings and make other improvements on owned or leased properties;

authorize, issue, sell, redeem or otherwise purchase any debt or other securities;

borrow money;

make or revoke any tax election;

maintain insurance coverage in amounts and types as we determine is necessary;

retain employees or other service providers;



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form or acquire interests in joint ventures; and

merge, consolidate or combine Wells Timberland OP with another entity.

Wells Timberland OP will pay all the administrative and operating costs and expenses it incurs in acquiring and operating real properties. Wells Timberland OP also will pay all of our administrative costs and expenses, and such expenses will be treated as expenses of Wells Timberland OP. Such expenses will include:

all expenses relating to our formation and continuity of existence;

all expenses relating to the public offering and registration of our securities;

all expenses associated with the preparation and filing of our periodic reports under federal, state or local laws or regulations;

all expenses associated with our compliance with applicable laws, rules and regulations; and

all of our other operating or administrative costs incurred in the ordinary course of business.

The only costs and expenses we may incur for which we will not be reimbursed by Wells Timberland OP will be costs and expenses relating to properties we may own outside of Wells Timberland OP. We will pay the expenses relating to such properties directly.

### **Redemption Rights**

The limited partners of Wells Timberland OP have the right to cause Wells Timberland OP to redeem their common units for cash in an amount equal to the value of an equivalent number of our shares, or, at our option, we may purchase their common units for cash or by issuing one share of our common stock for each common unit redeemed. These redemption rights may not be exercised, however, if and to the extent that the delivery of shares upon such exercise would:

result in any person owning shares in excess of the ownership limit in our charter (unless exempted by our board of directors);

result in our shares being owned by fewer than 100 persons;

result in us being closely held within the meaning of Section 856(h) of the Internal Revenue Code; or

cause us to own 10% or more of the ownership interests in a lessee within the meaning of Section 856(d)(2)(B) of the Internal Revenue Code.

Furthermore, limited partners who hold common units may exercise their redemption rights only after their common units have been outstanding for one year. A limited partner may not deliver more than two redemption notices each calendar year and may not exercise a redemption right for less than 1,000 common units, unless such limited partner holds less than 1,000 units. In that case, he must exercise his redemption right for all of his units.

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The special units will be redeemed for a specified amount upon the earlier to occur of the listing of our common shares on a national securities exchange or the termination or non-renewal of the advisory agreement. See Management Compensation.

### **Change in General Partner**

We are generally not allowed to withdraw as the general partner of Wells Timberland OP or transfer our general partnership interest in Wells Timberland OP (except to a wholly-owned subsidiary). The principal exception to this is if we merge with another entity and (1) the holders of a majority of partnership units (including those we hold) approve the transaction; (2) the limited partners receive or have the right to receive an amount of cash, securities or other property equal in value to the amount they would have received if they had exercised their exchange rights immediately before such transaction; (3) we are the surviving entity and our stockholders do not receive cash, securities, or other property in the transaction; or (4) the successor entity contributes substantially all of its assets to Wells Timberland OP in return for an interest in Wells Timberland

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OP and agrees to assume all obligations of the general partner of Wells Timberland OP. If we voluntarily seek protection under bankruptcy or state insolvency laws, or if we are involuntarily placed under such protection for more than 90 days, we would be deemed to be automatically removed as the general partner. Otherwise, the limited partners have no right to remove us as general partner.

### **Transferability of Interests**

With certain exceptions, the limited partners may not transfer their interests in Wells Timberland OP, in whole or in part, without our written consent as the general partner. In addition, pursuant to our charter, Wells TIMO may not transfer its interest in Wells Timberland OP as long as it is acting as our advisor.

### **Amendment of Limited Partnership Agreement**

An amendment to the limited partnership agreement requires the consent of the holders of a majority of the partnership units (including the partnership units we hold). Additionally, we, as general partner, must approve any amendment. However, certain amendments require the consent of the holders of a majority of the partnership units (excluding the partnership units we or one of our affiliates holds). Such amendments include:

any amendment affecting the redemption right to the detriment of the limited partners (except for certain business combinations where we merge with another entity and leave Wells Timberland OP in existence to hold all the assets of the surviving entity);

any amendment that would adversely affect the limited partners' rights to receive distributions, except for amendments we make to create and issue preferred partnership units;

any amendment that would alter how we allocate profits and losses, except for amendments we make to create and issue preferred partnership units; and

any amendment that would impose on the limited partners any obligation to make additional capital contributions.

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**PLAN OF DISTRIBUTION**

**General**

We are publicly offering a maximum of 85 million shares through Wells Investment Securities, our

dealer-manager, a registered broker/dealer affiliated with Wells TIMO, our advisor. Of this amount, we are offering 75 million shares in our primary offering at a price of \$10.00 per share (except as noted below) on a best efforts basis, which means that the dealer-manager must use only its best efforts to sell the shares and has no firm commitment or obligation to purchase any of the shares. We are offering the remaining 10 million shares through our distribution reinvestment plan at a purchase price equal to (1) \$9.55 per share during this offering; (2) 95.5% of the offering price in any subsequent public equity offering during such offering; and (3) 95.5% of the most recent public offering price for the first 12 months subsequent to the close of our last public equity offering prior to the listing of our shares on a national securities exchange. After that 12-month period, we will publish a per share valuation determined by our advisor or another firm chosen for that

purpose, and distributions will be reinvested at the price determined by the valuation process. Our primary offering will terminate by August 11, 2008; thereafter, we may continue to offer shares in this offering only through our distribution reinvestment plan. We reserve the right to terminate this offering at any time. Prior to the conclusion of this offering, if any of the shares initially allocated to the distribution reinvestment plan remain unsold after meeting anticipated obligations under the distribution reinvestment plan, we may decide to sell some or all of such remaining shares to the public as part of the primary offering. Similarly, prior to the conclusion of this offering, if all of the shares initially allocated to the distribution reinvestment plan have been purchased but shares initially allocated to our primary offering remain unsold and we anticipate additional demand for shares under our distribution reinvestment plan, we may choose to reallocate some or all of the remaining shares initially allocated to the primary offering to the distribution reinvestment plan.

Our board of directors determined the offering price of \$10.00 per share based on consideration of the offering price of shares offered by similar corporations (including those qualified as REITs) and the administrative convenience to us and investors of the share price being an even dollar amount. This price bears no relationship to the value of our assets or other established criteria for valuing shares. We have had very limited operations as of the date of this prospectus. We currently own only one property and have not identified any additional properties to acquire with the proceeds of this offering.

**Compensation of Dealer-Manager and Participating Broker/Dealers**

Except as provided below, Wells Investment Securities, our dealer-manager and affiliate, will receive selling commissions of 7% of the gross offering proceeds for shares sold in our primary offering. In addition, except as described below, the dealer-manager will receive 1.8% of the gross offering proceeds as compensation for acting as the dealer-manager and for expenses incurred in connection with marketing our shares and paying the employment costs of the dealer-manager's wholesalers. Out of its dealer-manager fee, the dealer-manager may pay salaries and sales-based compensation to its wholesalers in the aggregate amount of up to 0.75% of the gross offering proceeds. We will not pay selling commissions or a dealer-manager fee for shares sold pursuant to our distribution reinvestment plan. We will not pay referral or similar fees to any accountants, attorneys or other persons in connection with the distribution of the shares.

We currently expect the dealer-manager to utilize two channels to sell our shares in our primary offering, each of which has a different selling commission and dealer-manager fee structure. The dealer-manager may authorize other broker/dealers who are members of FINRA, which we refer to as participating broker/dealers, to sell our shares. Our first distribution channel involves (1) those participating broker/dealers compensated solely on a commission basis for the sale and (2) sales through investment advisory representatives affiliated with a participating broker/dealer in which the representative is compensated for investment advisory services on a fee-for-service basis. Our second distribution channel will be sales through independent investment advisers (i.e., investment advisers not affiliated with a broker/dealer).

In the event of the sale of shares in our primary offering by a participating broker/dealer involving a registered representative compensated on a commission basis for the sale, the dealer-manager will reallocate its

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selling commissions in an amount equal to 7% of the gross offering proceeds attributable to the participating broker/dealer.

In the event of the sale of shares in our primary offering through an investment advisory representative affiliated with a participating broker/dealer in which the representative is compensated on a fee-for-service basis by the investor, the dealer-manager will waive its right to a commission, and we will sell such shares for \$9.30 per share, reflecting that selling commissions in the amount of \$0.70 per share will not be payable.

The dealer-manager may reallocate to a participating broker/dealer a portion of the dealer-manager fee earned on the proceeds raised by the participating broker/dealer. This reallocation would generally be in the form of a marketing fee, which fee will not exceed 1% of the gross sales of the broker/dealer.

In the event of the sale of shares in our primary offering through an independent investment advisor, the dealer-manager will waive its right to a selling commission and will reduce the dealer-manager fee to .8% of gross offering proceeds. We will sell such shares for \$9.20 per share, reflecting that selling commissions in the amount of \$0.70 per share will not be payable and that the dealer-manager fee will be reduced from 1.8% to .8%, or by approximately \$0.10 per share. At the request of certain participating broker/dealers, our dealer-manager may agree to reduce its dealer-manager fee and to reduce or waive the selling commissions in connection with sales made through such participating broker/dealers. The net proceeds to us would not be affected by such fee reductions.

In addition to the compensation described above, we will also reimburse the dealer-manager and its affiliates for some of their costs in connection with the offering as described in the table below, which table sets forth the nature and estimated amount of all items viewed as underwriting compensation by FINRA, assuming we sell all of the shares offered by this prospectus. To show the maximum amount of dealer-manager and participating broker/dealer compensation that we may pay in this offering, this table assumes that all shares are sold through distribution channels associated with the highest possible selling commissions and dealer-manager fee.

#### Dealer-Manager and Participating Broker/Dealer Compensation

|  |               |
|--|---------------|
| Dealer-manager fee (maximum)   | \$ 13,500,000 |
| Selling commissions (maximum)  | 52,500,000    |
| Salary allocations of sales managers and their support personnel <sup>(1)(2)</sup> | 405,000       |
| Expense reimbursements for retail seminars <sup>(1)(3)(4)</sup>                    | 2,060,000     |
| Expense reimbursements for educational conferences <sup>(1)(4)(5)</sup>            | 700,000       |
| Legal fees allocable to dealer-manager <sup>(1)(4)</sup>                           | 125,000       |
| Reimbursement of due diligence expenses <sup>(1)(4)(6)</sup>                       | 25,000        |
| Total  | \$ 69,315,000 |

(1) Amounts shown are estimates.

(2) These costs are borne by Wells TIMO and are not reimbursed by us.

(3) These amounts consist primarily of reimbursements for travel, meals, lodging and attendance fees incurred by employees of Wells Investment Securities, Wells TIMO or one of their affiliates to attend retail seminars sponsored by participating broker/dealers.

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- (4) Subject to the cap on organization and offering expenses described below, we will reimburse Wells Investment Securities or its affiliates for these expenses. In some cases, these payments will serve to reimburse Wells Investment Securities for amounts it has paid to participating broker/dealers for the items noted.
- (5) These amounts consist of expense reimbursements for actual costs incurred in connection with attending educational conferences hosted by us. The expenses consist of the travel, meals and lodging of (a) representatives of participating broker/dealers and (b) wholesalers and other FINRA-registered personnel associated

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with Wells Investment Securities. All conferences will be held in the vicinity of our headquarters, which is in Norcross, Georgia, unless FINRA permits a conference in another location.

- (6) We may reimburse the dealer-manager for reimbursements it may make to broker/dealers for reasonable bona fide due diligence expenses up to a maximum of 0.5% of our gross offering proceeds. In many cases, however, a marketing fee agreement between the dealer-manager and the participating broker/dealer will provide that neither we nor the dealer-manager will be obligated to reimburse the due diligence expenses of the participating broker/dealer. Because of those marketing fee arrangements, we expect the total amount of our reimbursement of bona fide due diligence expenses of broker/dealers will be far less than the 0.5% of gross offering proceeds permitted by FINRA.

As required by the rules of FINRA, total underwriting compensation will not exceed 10% of our gross offering proceeds, except for bona fide due diligence expenses, which will not exceed 0.5% of our gross offering proceeds. FINRA and many states also limit our total organization and offering expenses to 15% of gross offering proceeds. With Wells TIMO's obligation to reimburse us to the extent the organization and offering expenses (other than the dealer-manager fee, selling commissions) exceed 1.2% of the gross offering proceeds from our primary offering (Wells TIMO will not be entitled to any such reimbursement from proceeds of sales under our distribution reinvestment plan), our total organization and offering expenses are capped at 10% of the gross proceeds of our primary offering, as shown in the following table:

#### **Organization and Offering Expenses**

| <b>Expense</b>                               | <b>Maximum Percent<br/>of Gross Offering<br/>Proceeds</b> |
|--|---|
| Selling commissions                          | 7.0%  |
| Dealer-manager fee                           | 1.8   |
| All other organization and offering expenses | 1.2   |
| <b>Total</b>                                 | <b>10.0%</b>  |

To the extent permitted by law and our charter, we will indemnify the participating broker/dealers and the dealer-manager against some civil liabilities, including certain liabilities under the Securities Act and liabilities arising from breaches of our representations and warranties contained in the dealer-manager agreement. See Management Limited Liability and Indemnification of Directors, Officers, Employees and Other Agents.

We may sell shares in our primary offering to participating broker/dealers, their retirement plans, their representatives and their family members, IRAs and qualified plans of their representatives for \$9.30 per share, reflecting that selling commissions in the amount of \$0.70 per share will not be payable in consideration of the services rendered by such broker/dealers and representatives in the offering. For purposes of this discount, we consider a family member to be a spouse, parent, child, sibling, mother- or father-in-law, son- or daughter-in-law, or brother- or sister-in-law. The net proceeds to us from such sales made net of commissions will be substantially the same as the net proceeds we receive from other sales of shares.

Our directors and officers and directors, officers and employees of Wells TIMO or its affiliates may purchase shares in our primary offering at a discount. Except for the share ownership limitations contained in our charter, there is no limit on the number of shares that we may sell to those individuals. The purchase price for such shares shall be \$9.12 per share reflecting the fact that selling commissions in the amount of \$0.70 per share and dealer-manager fees in the amount of \$0.18 per share will not be payable in connection with such sales. The net proceeds to us from such sales made net of commissions will be substantially the same as the net proceeds we receive from other sales of shares. Directors, officers and employees of Wells TIMO and its affiliates are expected to hold their shares purchased as stockholders for investment and not with a view toward distribution. Any shares sold to these persons will not be included in calculating our minimum offering requirement.

An investor purchasing more than 50,000 shares at any one time through a single participating broker/dealer will be eligible for a discount on the purchase price of the shares above 50,000. The selling commission





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payable to the participating broker/dealer will be commensurately reduced. The following table shows the discounted price per share and reduced selling commissions payable for volume discounts.

| Shares Purchased   | Commission Rate | Price per Share |
|--------------------|-----------------|-----------------|
| 1 to 50,000        | 7.0%            | \$ 10.00        |
| 50,001 to 100,000  | 6.0             | 9.90            |
| 100,001 to 200,000 | 5.0             | 9.80            |
| 200,001 to 300,000 | 4.0             | 9.70            |
| 300,001 to 400,000 | 3.0             | 9.60            |
| 400,001 to 500,000 | 2.0             | 9.50            |
| 500,001 and up     | 1.0             | 9.40            |

The reduced selling price per share and selling commissions are applied to the incremental shares falling within the indicated range only. All commission rates are calculated assuming a \$10.00 price per share. Thus, for example, an investment of \$1,249,996 would result in a total purchase of 126,020 shares as follows:

50,000 shares at \$10.00 per share (total: \$500,000) and a 7% commission;

50,000 shares at \$9.90 per share (total: \$495,000) and a 6% commission; and

26,020 shares at \$9.80 per share (total: \$254,996) and a 5% commission.

**Subscription Procedures**

To purchase shares in this offering, you must complete a subscription agreement, a sample of which is contained in this prospectus as Appendix A. Unless you are a resident of Pennsylvania, your check should be made payable to Wells Timberland REIT, Inc. If you are a resident of Pennsylvania, your check should be made payable to U.S. Bank, as escrow agent for WTREIT until we have received aggregate gross proceeds from this offering of at least \$37.5 million, after which time it may be made payable to Wells Timberland REIT, Inc. After you have satisfied the \$5,000 minimum purchase requirement, additional purchases must be in increments of \$100, except for purchases made pursuant to our distribution reinvestment plan. Subscriptions will be effective only upon our acceptance, and we reserve the right to reject any subscription in whole or in part. Subscription payments will be deposited into an account in our name at such time as we have accepted or rejected the subscription. Subscriptions will be accepted or rejected within 30 days of receipt by us and, if rejected, all funds shall be returned to the rejected subscribers within 10 business days. You will receive a confirmation of your purchase. We generally admit stockholders on a daily basis.

You are required to represent in the Subscription Agreement that you have received a copy of this prospectus. In order to ensure that you have had sufficient time to review this prospectus, we will refund your subscription amount upon written request if we receive your request within five business days of your receipt of this prospectus. To revoke your subscription and receive a refund of your subscription amount, send your written request (including the date upon which you completed your subscription agreement or received this prospectus, as applicable) to the following address:

Client Services Department

Wells Real Estate Funds, Inc.

6200 The Corners Parkway

Norcross, Georgia 30092-3365

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

Fax: (770) 243-8198

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

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

Investors who desire to purchase shares in this offering at regular intervals may be able to do so through their participating broker/dealer or, if they are investing in this offering other than through a participating broker/dealer, through the dealer-manager by completing an automatic investment plan enrollment form.

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Participation in the automatic investment plan is limited to investors who have already met the minimum purchase requirement in this offering of \$5,000. The minimum periodic investment is \$100 per month.

We will provide a confirmation of your monthly purchases under the automatic investment plan within five business days after the end of each month. The confirmation will disclose the following information:

the amount of the investment;

the date of the investment; and

the number and price of the shares purchased by you.

We will pay dealer-manager fees and selling commissions in connection with sales under the automatic investment plan to the same extent that we pay those fees and commissions on shares sold in the primary offering outside of the automatic investment plan.

You may terminate your participation in the automatic investment plan at any time by providing us with written notice. If you elect to participate in the automatic investment plan, you must agree that if at any time you fail to meet the applicable investor suitability standards or cannot make the other investor representations set forth in the then-current prospectus and subscription agreement, you will promptly notify us in writing of that fact and your participation in the plan will terminate. See the **Suitability Standards** section of this prospectus (on page i) and the form of subscription agreement attached hereto as Appendix A.

**Stockholder Suitability**

Those selling shares on our behalf have the responsibility to make every reasonable effort to determine that the purchase of shares in this offering is a suitable and appropriate investment based on information provided by the prospective stockholder regarding such person's financial situation and investment objectives. In making this determination, those selling shares on our behalf have a responsibility to ascertain that the prospective stockholder:

meets the minimum income and net worth standards set forth under **Suitability Standards** on page i of this prospectus;

can reasonably benefit from an investment in our shares based on the prospective stockholder's overall investment objectives and portfolio structure;

is able to bear the economic risk of the investment based on the prospective stockholder's overall financial situation;

is in a financial position appropriate to enable the prospective stockholder to realize to a significant extent the benefits described in this prospectus of an investment in the shares; and

has an apparent understanding of:

the fundamental risks of the investment;

the risk that the stockholder may lose the entire investment;

the lack of liquidity of the shares;

the restrictions on transferability of the shares;

the restrictions on stockholder distributions prior to the repayment of the mezzanine loan and the attainment of certain financial performance measures under the senior loan;

the background and qualifications of Wells TIMO and its affiliates; and

the tax consequences of the investment.

Relevant information for this purpose will include at least the age, investment objectives, investment experience, income, net worth, financial situation and other investments of the prospective stockholder, as well as any other pertinent factors. Those selling shares on our behalf must maintain, for a six-year period, records

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of the information used to determine that an investment in shares is suitable and appropriate for each stockholder.

**Minimum Purchase Requirements**

For your initial investment in our shares, you must invest at least \$5,000, except as described below. In order to satisfy the minimum purchase requirement for retirement plans, unless otherwise prohibited by state law, a husband and wife may jointly contribute funds from their separate IRAs, provided that each such contribution is made in increments of \$100. You should note that an investment in our shares will not, in itself, create a retirement plan and that, in order to create a retirement plan, you must comply with all applicable provisions of the Internal Revenue Code.

Unless and until our shares of common stock are listed on a national securities exchange, you may not transfer your shares in a manner that causes you or your transferee to own fewer than the number of shares required for the minimum purchase described above, except in the following circumstances: transfers by gift; transfers by inheritance; intrafamily transfers; family dissolutions; transfers to affiliates; and by operation of law.

**Special Notice to Pennsylvania Investors**

Because the minimum offering of our common stock is less than \$37.5 million, Pennsylvania investors are cautioned to evaluate carefully our ability to fully accomplish our stated objectives and to inquire as to the current dollar volume of our subscription proceeds. Notwithstanding our \$2 million minimum offering amount for all other jurisdictions, we will not sell any shares to Pennsylvania investors unless we raise a minimum of \$37.5 million in gross offering proceeds (including sales made to residents of other jurisdictions). Pending satisfaction of this condition, all Pennsylvania subscription payments will be placed in an account held by the escrow agent, U.S. Bank, National Association, in trust for Pennsylvania subscribers' benefit, pending release to us. If we have not reached this \$37.5 million threshold within 120 days of the date that we first accept a subscription payment from a Pennsylvania investor, we will, within 10 days of the end of that 120-day period, notify Pennsylvania investors in writing of their right to receive refunds with interest and without deductions for expenses. If a Pennsylvania investor requests a refund within 10 days of receiving that notice, we will arrange for the escrow agent to return promptly by check the funds deposited in the Pennsylvania escrow account, along with any interest, on behalf of that subscriber. Amounts held in the Pennsylvania escrow account from Pennsylvania investors not requesting a refund will continue to be held for subsequent 120-day periods until we raise at least \$37.5 million or until the end of the subsequent escrow periods. At the end of each subsequent escrow period, we will again notify Pennsylvania investors of their right to receive refunds with interest, along with any interest, from the day after the expiration of the initial 120-day period.

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**LEGAL MATTERS**

The validity of the shares of our common stock being offered hereby has been passed upon for us by Venable LLP, Baltimore, Maryland. The statements under the caption "Federal Income Tax Considerations" as they relate to federal income tax matters have been reviewed by Alston & Bird LLP, Atlanta, Georgia, and Alston & Bird LLP has opined as to certain income tax matters relating to an investment in our shares. Alston & Bird LLP has also represented Wells TIMO, our advisor, and Wells Investment Securities, our dealer-manager, in other matters and may continue to do so in the future.

**EXPERTS**

[Intentionally omitted. See updated "Experts" language on page 18 of Supplement No. 14 dated April 23, 2009 to our Prospectus dated December 14, 2007.]

**WHERE YOU CAN FIND MORE INFORMATION**

We have filed a registration statement on Form S-11 with the SEC with respect to the shares of our common stock to be issued in this offering. This prospectus is a part of that registration statement and, as allowed by SEC rules, does not include all of the information you can find in the registration statement or the exhibits to the registration statement. For additional information relating to us, we refer you to the registration statement and the exhibits to the registration statement. Statements contained in this prospectus as to the contents of any contract or document referred to are necessarily summaries of such contract or document and in each instance, if the contract or document is filed as an exhibit to the registration statement, we refer you to the copy of the contract or document filed as an exhibit to the registration statement.

As a result of the effectiveness of the registration statement, we are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and, under that Act, we will file annual, quarterly and special reports, proxy statements and other information with the SEC. We will furnish our stockholders by mail (or, where permitted, by electronic delivery and notification) with annual reports containing consolidated financial statements certified by an independent registered public accounting firm. The registration statement and our filings with the SEC are available to the public at the SEC's Internet site at <http://www.sec.gov>. You also may read and copy any filed document at the SEC's public reference room in Washington, D.C. at 100 F Street, N.E., Room 1580, Washington, D.C. Please call the SEC at (800) SEC-0330 for further information about the public reference room.

You may also request a copy of these filings at not cost, by writing or telephoning us at:

Client Services Department

Wells Real Estate Funds, Inc.

6200 The Corners Parkway

Norcross, Georgia 30092-3365

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

One of our affiliates also maintains an Internet site at <http://www.wellsref.com> at which there is additional information about us and our affiliates. The contents of that site are not incorporated by reference in or otherwise a part of this prospectus.

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PRIOR PERFORMANCE TABLES**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

[Intentionally omitted. See page F-2 of our Annual Report on Form 10-K for the year ended December 31, 2008, as amended by Amendment No. 1 filed April 14, 2009, which is incorporated by reference into Supplement No. 14 dated April 23, 2009 to our Prospectus dated December 14, 2007.]

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**WELLS TIMBERLAND REIT, INC.**

**CONSOLIDATED BALANCE SHEETS**

**AS OF DECEMBER 31, 2006 AND DECEMBER 31, 2005**

|   | <b>December 31,<br/>2006</b> | <b>December 31,<br/>2005</b> |
|---|------------------------------|------------------------------|
| <b>Assets:</b>  |                              |                              |
| Cash and cash equivalents   | \$ 202,829                   | \$ 203,000                   |
| Prepaid expenses and other assets   | 126,078                      |                              |
| Total assets  | \$ 328,907                   | \$ 203,000                   |
| <b>Liabilities:</b>   |                              |                              |
| Due to affiliate  | \$ 776,918                   |                              |
| <i>Commitments and Contingencies</i>  |                              |                              |
| <i>Minority Interest in Operating Partnership</i>   |                              | 3,000                        |
| <i>Stockholder s (Deficit) Equity:</i>  |                              |                              |
| Common stock, \$0.01 par value; 900 million shares authorized, 20,000 shares issued and outstanding | 200                          | 200                          |
| Additional paid-in capital  | 220,800                      | 199,800                      |
| Accumulated deficit   | (669,011)                    |                              |
| Total stockholder s (deficit) equity  | (448,011)                    | 200,000                      |
| Total liabilities, minority interest, and stockholder s (deficit) equity                            | \$ 328,907                   | \$ 203,000                   |

*See accompanying notes.*

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**WELLS TIMBERLAND REIT, INC.**

**CONSOLIDATED STATEMENTS OF LOSS**

**FOR THE YEAR ENDED DECEMBER 31, 2006 AND**

**THE PERIOD NOVEMBER 10, 2005 (DATE OF INCEPTION)**

**THROUGH DECEMBER 31, 2005**

|   | Year Ended<br>December 31,<br>2006 | Period From<br>November 10, 2005<br>(Date of Inception)<br>through<br>December 31, 2005 |
|---|------------------------------------|---|
| <b>REVENUES:</b>  | \$                                 | \$  |
| <b>EXPENSES:</b>  |                                    |   |
| General and administrative  | (672,011)                          |   |
| Loss before minority interest                                       | (672,011)                          |   |
| Minority interest in loss of operating partnership                  | 3,000                              |   |
| <b>NET LOSS</b>   | \$ (669,011)                       | \$  |
| <b>Per-share information basic and diluted:</b>                     |                                    |   |
| Net loss allocated to common stockholder                            | \$ (33.45)                         | \$  |
| <b>Weighted-average common shares outstanding basic and diluted</b> | 20,000                             | 20,000  |

*See accompanying notes.*

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WELLS TIMBERLAND REIT, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDER S EQUITY (DEFICIT)

FOR YEAR ENDED DECEMBER 31, 2006 AND

FOR THE PERIOD FROM NOVEMBER 10, 2005 (DATE OF INCEPTION)

THROUGH DECEMBER 31, 2005

|   | Common Stock |        | Additional | Accumulated  | Total         |
|---|--------------|--------|------------|--------------|---------------|
|   | Shares       | Amount | Paid-In    | Deficit      | Stockholder s |
|   |              | \$     | Capital    |              | Equity        |
|   |              |        |            |              | (Deficit)     |
| <b>BALANCE, November 10, 2005 (date of inception)</b> |              | \$     | \$         | \$           | \$            |
| Issuance of common stock                              | 20,000       | 200    | 199,800    |              | 200,000       |
| <b>BALANCE, December 31, 2005</b>                     | 20,000       | 200    | 199,800    |              | 200,000       |
| Net loss  |              |        |            | (669,011)    | (669,011)     |
| Amortization of stock options                         |              |        | 21,000     |              | 21,000        |
| <b>BALANCE, December 31, 2006</b>                     | 20,000       | \$ 200 | \$ 220,800 | \$ (669,011) | \$ (448,011)  |

*See accompanying notes.*

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**WELLS TIMBERLAND REIT, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEAR ENDED DECEMBER 31, 2006 AND**
**FOR THE PERIOD FROM NOVEMBER 10, 2005 (DATE OF INCEPTION)**
**THROUGH DECEMBER 31, 2005**

|   | Year Ended<br>December 31,<br>2006 | Period From<br>November 10,<br>2005<br>(Date of<br>Inception)<br>Through<br>December 31,<br>2005 |
|---|------------------------------------|--|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                |                                    |  |
| Net loss  | \$ (669,011)                       | \$   |
| Adjustments to reconcile net loss to net cash used in operating activities: |                                    |  |
| Minority interest in loss of operating partnership                          | (3,000)                            |  |
| Stock-based compensation expense  | 21,000                             |  |
| Increase in prepaid expenses  | (126,078)                          |  |
| Net cash used in operating activities                                       | (777,089)                          |  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                |                                    |  |
| Due to affiliate  | 776,918                            |  |
| Issuance of common stock  |                                    | 200,000  |
| Contribution from minority interest partner                                 |                                    | 3,000  |
| Net cash provided by financing activities                                   | 776,918                            | 203,000  |
| <b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>                 | <b>(171)</b>                       | <b>203,000</b>   |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                         | <b>203,000</b>                     |  |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>                               | <b>\$ 202,829</b>                  | <b>\$ 203,000</b>  |
| <b>SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITY:</b>               |                                    |  |
| Amortization of stock options   | \$ 21,000                          | \$   |

*See accompanying notes.*

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**WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2006 AND PERIOD ENDED DECEMBER 31, 2005**

**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" ). Prior to November 20, 2006, Wells Timberland REIT was known as Wells Timber Real Estate Investment Trust, Inc. Prior to November 9, 2005, Wells Timberland REIT was known as Wells Real Estate Investment Trust IV, Inc. Substantially all of Wells Timberland REIT's business is expected to be conducted through Wells Timberland Operating Partnership, L.P. ( "Wells Timberland OP" ), a Delaware limited partnership formed on November 9, 2005. Wells Timberland OP was formerly known as Wells Timberland Operating Partnership, L.P. With respect to Wells Timberland OP, 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 Capital, Inc. ( "Wells Capital" ) was the sole limited partner of Wells Timberland OP and contributed \$2,000 and \$1,000 to Wells Timberland OP for 200 common units and 100 special partnership units, respectively. On December 28, 2006, Wells Capital transferred its interest in Wells Timberland OP to Wells Timberland Management Organization, LLC ( "Wells TIMO" ). Unless otherwise noted, references to Wells Timberland REIT herein shall include Wells Timberland REIT, Wells Timberland OP, and Wells Timberland TRS, Inc. ( "Wells Timberland TRS" ). Wells Timberland TRS was formerly known as Wells Timberland TRS, Inc. Wells Timberland REIT has not engaged in active operations to date.

Wells Timberland REIT and Wells Timberland OP have executed an agreement with Wells Capital (as amended and restated, the "Advisory Agreement" ), under which Wells Capital will perform 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. Wells Capital assigned its rights and duties under the Advisory Agreement to Wells TIMO on December 15, 2006.

Wells Timberland REIT expects to acquire timberland properties in the timber-producing regions of the United States and, to a limited extent, in other countries. Wells Timberland REIT intends to generate a substantial majority of its 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. Wells Timberland REIT expects to generate additional revenues and income from selling high-quality timberland, selling the rights to extract natural resources from timberland other than timber, and leasing land-use rights to third parties.

As of December 31, 2006 and December 31, 2005, Wells Timberland REIT and Wells Timberland OP have neither purchased nor contracted to purchase any assets, nor has Wells TIMO identified any assets in which there is a reasonable probability that Wells Timberland REIT or Wells Timberland OP will invest.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation and Principles of Consolidation***

The consolidated financial statements of Wells Timberland REIT have been prepared in accordance with accounting principles generally accepted in the United States ( "GAAP" ) and shall include the accounts of any variable interest entity ( "VIE" ) in which Wells Timberland REIT or its subsidiaries is deemed the primary beneficiary. With respect to entities that are not VIEs, Wells Timberland REIT's consolidated financial statements shall also include the accounts of any entity in which Wells Timberland REIT or its subsidiaries owns a controlling financial interest and any limited partnership in which Wells Timberland REIT or its subsidiaries owns a controlling general partnership interest. In determining whether a controlling interest exists, Wells Timberland REIT considers, among other factors, the ownership of voting interests, protective rights and participatory rights of the investors.

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

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**WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.

***Use of Estimates***

The preparation of the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States ( GAAP ) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

***Cash and Cash Equivalents***

Wells Timberland REIT considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents may include cash and short-term investments. Short-term investments are stated at cost, which approximates fair value and may consist of investments in money market accounts. There are no restrictions on the use of Wells Timberland REIT's cash balances as of December 31, 2006 or December 31, 2005.

***Prepaid Expenses***

Prepaid expenses are primarily comprised of prepayments of directors and officers insurance premiums, which are amortized on a straight-line basis over the term of the respective policy. Balances without a future economic benefit are written off as they are identified.

***Stock-based Compensation***

Statement of Financial Accounting Standards ( SFAS ) No. 123 (Revised 2004), *Share-Based Payment* ( SFAS 123R ), which replaces SFAS No. 123, *Accounting and Disclosure for Stock-Based Compensation*, and supersedes Accounting Principles Board ( APB ) Opinion No. 25, *Accounting for Stock Issued to Employees*, was adopted on January 1, 2006 and applies to all transactions involving the issuance of equity securities, including, among others, common stock and stock options, in exchange for goods and services. Pursuant to SFAS 123-R, Wells Timberland REIT recognizes the fair value of stock options granted to directors or employees over the respective weighted-average vesting periods by charging general and administrative expenses and recording additional paid-in capital.

***Per Share Information***

Basic earnings (loss) per share is calculated based on the weighted average number of common shares outstanding during the period. Dilutive earnings per common share includes the Wells Timberland REIT outstanding stock options, if dilutive. See the consolidated statements of loss for a computation of basic and diluted earnings (loss) per share. Since Wells Timberland REIT reported a loss for the twelve months ended December 31, 2006, the common stock equivalents were excluded from the computation of diluted earnings per share.

***Income Taxes***

Wells Timberland REIT is organized as a C Corporation for the year ended December 31, 2006 and the period November 10, 2005 (date of inception) through December 31, 2005 and, accordingly, is subject to federal income taxes for the periods presented. 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





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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.

On January 1, 2006, Wells Timberland REIT formed Wells Timberland TRS, a wholly-owned subsidiary organized as a Delaware corporation. Wells Timberland REIT intends to treat Wells Timberland TRS as a taxable REIT subsidiary. Wells Timberland REIT may perform additional, non-customary services through Wells Timberland TRS, including any real estate or non-real estate related services; however, any earnings related to such services will be subject to federal and state income taxes. In addition, for Wells Timberland REIT to qualify as a REIT, Wells Timberland REIT's investment in Wells Timberland TRS may not exceed 20% of value of the total assets of Wells Timberland REIT.

Wells Timberland REIT intends to elect to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, and intends to operate as such beginning with its taxable period ending December 31, 2007. 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.

***Recent Accounting Pronouncements***

In May 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections – a Replacement of APB Opinion No. 20 and FASB Statement No. 3* (SFAS No. 154). SFAS No. 154 generally requires retrospective application for reporting a change in accounting principle, unless alternative transition methods are explicitly stated in a newly adopted accounting principle. Additionally, SFAS No. 154 requires that errors be corrected by restating previously issued financial statements. SFAS No. 154 is effective for fiscal years beginning after December 15, 2005. Wells Timberland REIT adopted SFAS No. 154 on January 1, 2006 and the adoption had no effect on its consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Wells Timberland REIT adopted FIN 48 on January 1, 2007 and is currently evaluating the impact of adopting FIN 48 on its consolidated financial statements.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. This statement clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability. SFAS No. 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data. SFAS No. 157 applies whenever other standards require assets or liabilities to be measured at fair value. This statement is effective in fiscal years beginning after November 15, 2007. Wells Timberland REIT believes that the adoption of this standard on January 1, 2008, will not have a material effect on its consolidated financial statements.

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**WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3. Related-Party Transactions**

***Advisory Agreement***

Wells Timberland REIT and Wells Timberland OP entered into the Advisory Agreement with Wells Capital as of November 9, 2005, which became effective on August 11, 2006 and which was amended and restated as of August 24, 2006. Wells Capital assigned its rights and duties under the Advisory Agreement to Wells TIMO on December 15, 2006. Pursuant to the Advisory Agreement, Wells TIMO is entitled to specified fees for certain services, including, among other services, the investment of capital proceeds and management of day-to-day operations.

Under the terms of the Advisory Agreement, organization and offering costs are incurred by Wells TIMO on behalf of Wells Timberland REIT. Such costs include legal and accounting fees, printing costs, and other offering expenses, and specifically exclude sales or underwriting commissions. Upon raising at least \$2 million from the sale of common stock to the public in its initial offering, Wells Timberland REIT will become obligated to reimburse Wells TIMO for organization and offering costs equal to the lesser of actual costs incurred or 1.2% of the total gross offering proceeds raised. To the extent that organization and offering costs exceed 1.2% of gross offering proceeds or if Wells Timberland REIT does not raise at least \$2 million in its initial offering on or before August 11, 2007, all organization and offering costs will be incurred by Wells TIMO and not by Wells Timberland REIT. For the year ended December 31, 2006 and for the period ended November 10, 2005 (date of inception) through December 31, 2005, Wells TIMO had incurred aggregate organization and offering expenses on behalf of Wells Timberland REIT of approximately \$1,453,000 and \$591,000, respectively.

Under the terms of the Advisory Agreement, Wells Timberland REIT will pay a monthly asset management fee equal to one-twelfth of 1% of the greater of (1) the gross cost of all investments made on behalf of Wells Timberland REIT and (2) the aggregate value of such investments. Wells TIMO anticipates that it will engage experienced timber management companies to assist Wells TIMO with certain of its responsibilities under the Advisory Agreement, including investing in timberland, managing day-to-day operations, and selling timber on the behalf of Wells Timberland REIT. Any timber managers would perform these services under contracts with Wells TIMO and would be compensated by Wells TIMO under the terms of such contracts.

Wells Timberland REIT will reimburse Wells TIMO for all costs and expenses Wells TIMO incurs in fulfilling its duties as the asset portfolio manager. These costs and expenses may include 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. Wells TIMO will allocate its reimbursable costs of providing these services among Wells Timberland REIT and the various affiliated public real estate investment programs (the Wells Real Estate Funds) based on time spent on each entity by individual personnel.

Wells Timberland REIT will pay a fee to Wells TIMO for services related to the disposition of investment properties. When Wells Timberland REIT sells a property, if Wells TIMO provided a substantial amount of services in connection with the sale (as determined by Wells Timberland REIT's independent directors), it will pay Wells TIMO a fee equal to (1) for each property sold at a contract price up to \$20 million, up to 2% of the sales price, and (2) for each property sold at a contract price in excess of \$20 million, up to 1% 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 (1) 6% of the sales price of each property or (2) the level of real estate commissions customarily

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

charged in light of the size, type, and location of the property. As of the date of this prospectus, Wells TIMO has not earned any such fees with regard to Wells Timberland REIT.

The Advisory Agreement has a one-year term that began on August 11, 2006, the effective date of the Advisory Agreement, and renews for successive one-year terms upon the mutual consent of the parties. Wells Timberland REIT may terminate the Advisory Agreement without penalty upon 60 days' written notice. If Wells Timberland REIT terminates the Advisory Agreement, Wells Timberland REIT will pay Wells TIMO all unpaid reimbursements of expenses and all earned but unpaid fees. In addition, if the Advisory Agreement is terminated without cause, the special units of limited partnership held by Wells TIMO will be redeemed for the payments described below under Note 5. Wells Timberland REIT and Wells TIMO agreed to amend The Advisory Agreement on March 23, 2007 to reduce the monthly asset management fee from one-twelfth of 1.25% to one-twelfth of 1%, of the greater of (1) the gross cost of all investments made on behalf of Wells Timberland REIT and (2) the aggregate value of such investments.

***Dealer-Manager Agreement***

Wells Timberland REIT has executed a 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 offering. For these services, WIS shall earn a fee of up to 7% of the gross offering proceeds from the sale of the shares of Wells Timberland REIT. Additionally, WIS will earn a dealer-manager fee of 1.8% of the gross offering proceeds at the time the shares are sold. Some or all of the fees under the dealer-manager agreement will be re-allowed to participating broker/dealers. Dealer-manager fees apply only to the sale of shares in the primary offering, and do not apply to the sale of shares under Wells Timberland REIT's distribution reinvestment plan (the "DRP").

***Due to Affiliate***

As of December 31, 2006, due to affiliate represents amounts due to Wells Capital for operating expenditures funded on behalf of Wells Timberland REIT pursuant to the Advisory Agreement. The due to affiliate is non-interest bearing and has no specific maturity date but Wells Timberland REIT intends to repay this amount upon commencing active operations.

***Conflicts of Interest***

Wells Capital, the parent company and manager of Wells TIMO also is a general partner or advisor of the various Wells Real Estate Funds. Until such time, if ever, as Wells TIMO hires sufficient personnel of its own to perform the services under the Advisory Agreement, it will rely upon employees of Wells Capital to perform many of its obligations. 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 advisory agreement, Wells Capital may encounter conflicts of interests 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, three members of the board of Wells Timberland REIT also serve on the boards of three other REITs sponsored by Wells Capital and will encounter certain conflicts of interest regarding investment and operations decisions.

**4. Minority Interest**

On November 9, 2005, Wells Timberland OP issued 20,000 common units to Wells Timberland REIT and 200 common units to Wells Capital in exchange for \$200,000 and \$2,000, respectively. The common units that were purchased by Wells Timberland REIT and were purchased by Wells Capital represent limited partnership interests in Wells Timberland OP of approximately 99% and 1%, respectively.



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Limited partners holding common units representing limited partnership interests in Wells Timberland OP have the option to redeem such units after the units have been held for one year. Unless Wells Timberland REIT exercises its right to purchase common units of Wells Timberland OP for shares of its common stock, Wells Timberland OP would redeem such units with cash.

On November 9, 2005, Wells Timberland OP also issued 100 special units to Wells Capital for \$1,000. The holder of special units does not participate in the profits and losses of Wells Timberland OP. Amounts payable to the holder of the special units, if any, will depend on the amount of net sales proceeds received from property dispositions or the market value of Wells Timberland REIT's shares upon listing, or the fair market value of Wells Timberland REIT's assets upon the termination of the Advisory Agreement without cause. See Notes 3 and 5.

On December 28, 2006, Wells Capital transferred to Wells TIMO all of its common units and special units of Wells Timberland OP.

**5. Special Units**

Wells TIMO, the Advisor, is the holder of the special units of limited partnership interest in Wells Timberland OP. So long as the special units remain outstanding, Wells TIMO will be entitled to distributions from Wells Timberland OP in an amount equal to 15% of net sales proceeds received by Wells Timberland OP on dispositions of its properties and real estate related investments after the other holders of common units, including us, have received, in the aggregate, cumulative distributions equal to their capital contributions (less any amounts received in redemption of their common units) plus a 7% cumulative, non-compounded annual pre-tax return on their net capital contributions.

In addition, the special units will be redeemed by Wells Timberland OP, resulting in a one-time payment to the holder of the special units, upon the earliest to occur of the following events:

- (1) the listing of Wells Timberland REIT's common stock on a national securities exchange (the Listing Liquidity Event); or
- (2) the termination or nonrenewal of the Advisory Agreement (a Termination Event).

As holder of the special units, Wells TIMO will be entitled to distributions from Wells Timberland OP in the event of a Listing Liquidity Event in an amount equal to 15% of net sales proceeds received by Wells Timberland OP if Wells Timberland REIT had liquidated its properties and real estate related investments for an amount equal to the market value of the listed shares after the holders of common units, including us, have received, in the aggregate, cumulative distributions equal to their capital contributions (less any amounts received in redemption of their common units) plus a 7% cumulative, non-compounded annual pre-tax return on their net capital contributions.

In the event of redemption upon listing, Wells Timberland OP would pay the redemption amount in the form of shares of common stock of Wells Timberland REIT.

The redemption payment due upon a Termination Event, other than a termination for cause, is equal to the aggregate amount of net sales proceeds that would have been distributed to the holder of the special units as described above if, on the date of the occurrence of the Termination Event, all assets of Wells Timberland OP had been sold for their then fair market values and all liabilities of Wells Timberland OP had been satisfied in full according to their terms. In the event of a Termination Event without cause, Wells Timberland OP would make the one-time payment in the form of a noninterest-bearing promissory note in an amount equal to the redemption amount. The promissory note will be repaid from net proceeds of the sale of Wells Timberland OP's assets in connection with or following the Termination Event. In the event of a Listing Liquidity Event subsequent to a Termination Event, the promissory note would be cancelled in exchange for

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shares of Wells Timberland REIT's common stock equal in market value to the outstanding balance of the promissory note.

In the event Wells Timberland REIT terminates the Advisory Agreement for cause, which includes fraud, criminal conduct, willful misconduct, willful or grossly negligent breach of fiduciary duty and a material breach of the Advisory Agreement by Wells TIMO, Wells Timberland OP would redeem the special units for \$1.00.

**6. Stockholder's Equity**

***General***

As of December 27, 2006 and December 31, 2005, 20,000 shares of common stock had been issued to Wells Capital. On December 28, 2006, Wells Capital transferred such shares to Wells TIMO.

All of the common shares have a par value of \$0.01 per share and entitle the holder, subject to the rights of holders of any series of preferred shares, to one vote per share on all matters upon which the stockholder is entitled to vote, to receive dividends and other distributions as authorized by the board of directors in accordance with the Maryland General Corporation Law and to all rights of a stockholder pursuant to the Maryland General Corporation Law. The common stock has no preferences or preemptive, conversion or exchange rights.

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. As of December 31, 2006 and December 31, 2005, Wells Timberland REIT has not issued any shares of preferred stock.

***Stock Incentive Plan***

Wells Timberland REIT has adopted a long-term incentive plan, which will be used to attract and retain qualified independent directors, employees, advisors, and consultants, as applicable, subject to certain limitations. A total of 500,000 shares of common stock have been authorized and reserved for issuance under the stock incentive plan, of which 100,000 of such common shares are reserved for issuance to independent directors.

The exercise price of any award shall not be less than the fair market value of the common stock on the date of the grant. Wells Timberland REIT's board of directors or a committee of its independent directors administers the incentive plan, with sole authority (following consultation with Wells TIMO) to select participants, determines the types of awards to be granted, and all of the terms and conditions of the awards, including whether the grant, vesting or settlement of awards may be subject to the attainment of one or more performance goals. No awards will be granted under the plan if the grant, vesting and/or exercise of the awards would jeopardize Wells Timberland REIT's status as a REIT under the Internal Revenue Code or otherwise violate the ownership and transfer restrictions imposed under Wells Timberland REIT's charter. Unless determined by Wells Timberland REIT's board of directors or a committee of its independent directors, no award granted under the long-term incentive plan will be transferable except through the laws of descent and distribution.

In addition to cash compensation, upon the appointment of an independent director to Wells Timberland REIT's board, each director receives a grant of options to purchase 2,500 shares of Wells Timberland REIT's common stock. Of the options granted, one-third are immediately exercisable on the date of grant, one-third will become exercisable on the first anniversary of the date of grant, and the remaining one-third will become exercisable on the second anniversary of the date of grant. These initial grants of options are anti-dilutive with



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an exercise price of \$10.00 per share. Upon each subsequent re-election of the independent director to the board, he or she will receive a subsequent grant of options to purchase 1,000 shares of Wells Timberland REIT's common stock. The exercise price for the subsequent options will be the greater of (1) \$10.00 per share or (2) the fair market value of the shares on the date of grant.

During 2006, Wells Timberland REIT issued 2,500 options to each of the independent directors appointed to Wells Timberland REIT's board. As of December 31, 2006, approximately 3,333 of the 10,000 shares issued were exercisable, and the weighted-average contractual remaining life of the exercisable options was approximately 9.4 years. In accordance with SFAS No. 123R, Wells Timberland REIT estimated the fair value of each stock option granted in 2006 as of the respective grant date using the Black-Scholes-Merton model with the following assumptions:

|                                 | <b>Options granted on<br/>May 25, 2006</b> | <b>Options granted on<br/>February 2, 2006</b> |
|---------------------------------|--|--|
| Risk-free rate                  | 4.86%                                      | 4.42%  |
| Projected future dividend yield | 3.00%                                      | 3.00%  |
| Expected life of the options    | 5.5 years                                  | 5.5 years                                      |
| Volatility                      | 0.272                                      | 0.283  |

As none of the options described above have been exercised, Wells Timberland REIT does not have relevant historical data on which to base an estimate of the expected life of the independent director options. The expected life of such options has been estimated to equal one-half of the sum of the contractual term (10 years), plus the weighted-average vesting period (one year). As Wells Timberland REIT's common stock is not publicly traded, Wells Timberland REIT does not have relevant historical data on which to base an estimate of volatility in the value of such options. The volatility of such options has been estimated to equal the average fluctuations in historical stock prices of companies that are similar to Wells Timberland REIT other than being publicly traded. Based on the above assumptions, the fair value of the options granted during the year ended December 31, 2006 equals approximately \$25,000 and is being amortized to compensation expense over the weighted-average vesting period of one year.

***Distribution Reinvestment Plan***

Wells Timberland REIT has adopted the DRP, a distribution reinvestment plan through which stockholders may elect to reinvest an amount equal to the distributions declared on their shares of common stock into shares of Wells Timberland REIT's common stock in lieu of receiving cash distributions. Shares may be purchased under the DRP for a price equal to: (1) during Wells Timberland REIT's initial offering, \$9.55 per share; (2) during any subsequent public equity offering, 95.5% of the offering price per share in such offering; and (3) for the first 12 months subsequent to the close of Wells Timberland REIT's last public equity offering prior to the listing of its shares on a national securities exchange, 95.5% of the most recent offering price per share. After that 12-month period, Wells Timberland REIT will publish a per-share valuation determined by Wells TMO or another firm chosen for that purpose, and distributions will be reinvested at a price equal to the most recently published per-share estimated value. Participants in the DRP may purchase fractional shares so that 100% of the distributions may be used to acquire additional shares of Wells Timberland REIT's common stock.



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The board of directors of Wells Timberland REIT has adopted a share redemption plan. The plan allows stockholders who hold their shares for more than one year to sell their shares back to Wells Timberland REIT, subject to certain limitations and penalties. The share redemption plan provides that Wells Timberland REIT may repurchase a stockholder's common stock for \$9.10 per share during Wells Timberland REIT's initial offering.

The initial redemption price is expected to remain fixed until one year after Wells Timberland REIT completes its initial offering or any subsequent public equity offerings (other than secondary offerings or offerings related to a distribution reinvestment plan, employee benefit plan or the issuance of shares upon redemption of interests in Wells Timberland OP).

Thereafter, the redemption price would equal 95% of the per-share value of Wells Timberland REIT as estimated by Wells TIMO or another firm chosen by the board of directors for that purpose.

Redemptions sought within two years of the death or qualifying disability of a stockholder do not require a one-year holding period, and the redemption price is the amount paid for the share until one year after completion of the above-mentioned offering stage. Thereafter, the redemption price would be the higher of the amount paid for the shares or 95% of the per-share net asset value as estimated by Wells TIMO or another firm chosen by Wells Timberland REIT's board of directors for that purpose.

The shares redeemed under the plan, other than upon the death or qualifying disability of a stockholder, could not exceed the lesser of (1) the amount redeemable from the sum of net proceeds from the sale of shares through the DRP plus any additional amounts reserved for redemptions by Wells Timberland REIT's board of directors, or (2) in any calendar year, 5% of the weighted-average common shares outstanding during the preceding year. The board of directors could amend or terminate the share redemption plan upon 30 days' notice or prior to satisfaction of either of the preconditions to adoption noted above.

**7. Income Taxes**

Wells Timberland REIT's income tax basis net income for the year ended December 31, 2006, and for the period ended November 10, 2005 (date of inception) through December 31, 2005:

|   | 2006         | 2005 |
|---|--------------|------|
| Net loss, GAAP basis  | \$ (669,011) | \$   |
| Decrease in net loss resulting from:  |              |      |
| Expenses for financial reporting purposes in excess of expenses for income tax purposes | 669,011      |      |
| Net loss, income tax basis  | \$           | \$   |

For income tax purposes, all of the expenses incurred by Wells Timberland REIT to date are characterized as start-up and organization costs and, accordingly have been capitalized. Wells Timberland REIT will be eligible to amortize these costs over 15 years beginning at the point at which it commences active operations. As Wells Timberland REIT intends to elect to be taxed as a REIT beginning with the year ending December 31, 2007, and REITs are generally not subject to federal income taxes to the extent that their taxable income is distributed to their stockholders, management does not believe that Wells Timberland REIT's deferred tax asset will be realized. Accordingly, Wells Timberland REIT has provided a valuation allowance



**Table of Contents****Index to Financial Statements****WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

for the entire amount of its deferred tax asset. The components of Wells Timberland REIT's deferred tax asset, net, as of December 31, 2006 and 2005 are provided below:

|   | 2006       | 2005 |
|---|------------|------|
| Start-up and organization costs capitalized for income tax purposes | \$ 225,683 | \$   |
| Valuation allowance   | (225,683)  |      |
| Deferred tax asset, net   | \$         | \$   |

As of December 31, 2006, the tax basis carrying value of Wells Timberland REIT's total assets was \$971,681. The difference between the federal statutory tax rate and effective tax rate relates primarily to the state statutory rates, meals and entertainment, and valuation allowance.

**8. Quarterly Financial Data**

Presented below is a summary of the quarterly financial information for the year ended December 31, 2006 unaudited:

|                                      | 2006 (Unaudited) |             |              |              |
|--------------------------------------|------------------|-------------|--------------|--------------|
|                                      | First            | Second      | Third        | Fourth       |
| Revenues                             | \$ 0             | \$ 0        | \$ 0         | \$ 0         |
| Net loss                             | \$ (108,957)     | \$ (88,573) | \$ (254,019) | \$ (217,462) |
| Basic and diluted earnings per share | \$ (5.45)        | \$ (4.43)   | \$ (12.70)   | \$ (10.87)   |

**9. Economic Dependency**

Wells Timberland REIT has engaged Wells TIMO and Wells Investment Securities, Inc. ( WIS ), an affiliate of Wells TIMO, to provide certain services essential to us, including asset management services, supervision of the management of our properties, asset acquisition and disposition services, the sale of shares of our common stock, as well as other administrative responsibilities for Wells Timberland REIT, including accounting services, stockholder communications, and investor relations. 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 Real Estate Funds, Inc. ( WREF ). The operations of Wells Capital and WIS represent substantially all of the business of WREF. Accordingly, Wells Timberland REIT focuses on the financial condition of WREF when assessing the financial condition of Wells Capital, Wells TIMO and WIS. In the event that WREF was 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 WREF will be largely dependent upon the amount of fees earned by Wells TIMO, Wells Capital and their affiliates based on, among other things, the level of investor proceeds raised from the sale of common stock of WREF sponsored investment products. As of December 31, 2006, we believe that WREF 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.

## Edgar Filing: Wells Timberland REIT, Inc. - Form POS AM

Wells Timberland REIT will also be dependent upon the ability of Wells Timberland REIT timber customers to pay their contractual amounts as they become due. The inability of a customer to pay future supply agreement amounts would have a negative impact on Wells Timberland REIT results of operations.

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**WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. Commitments and Contingencies**

Wells Timberland REIT is not subject to any material litigation nor, to management's knowledge, is any material litigation currently threatened against Wells Timberland REIT.

**11. Subsequent Events**

In March 2007, Wells Timberland Management Organization, LLC, a wholly-owned subsidiary of Wells Capital retained Mr. Jess E. Jarratt as its President. See Management Our Sponsor for biographical information about Mr. Jarratt.

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**WELLS TIMBERLAND REIT, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**AS OF DECEMBER 31, 2006**

**AND SEPTEMBER 30, 2007**

|   | (Unaudited)<br>September 30,<br>2007 | December 31,<br>2006 |
|---|--------------------------------------|----------------------|
| <b>Assets:</b>  |                                      |                      |
| Cash and cash equivalents   | \$ 12,231,810                        | \$ 202,829           |
| Earnest money (Note 8)  | 5,000,000                            |                      |
| Prepaid expenses and other assets   | 456,832                              | 126,078              |
| <b>Total assets</b>   | <b>\$ 17,688,642</b>                 | <b>\$ 328,907</b>    |
| <b>Liabilities:</b>   |                                      |                      |
| Accounts payable and accrued expenses   | \$ 108,577                           | \$                   |
| Due to affiliates   | 2,410,535                            | 776,918              |
| <b>Total liabilities</b>  | <b>2,519,112</b>                     | <b>776,918</b>       |
| <b>Commitments and Contingencies</b>  |                                      |                      |
| <b>Stockholders' Equity:</b>  |                                      |                      |
| Common stock, \$0.01 par value; 900 million shares authorized,<br>1,901,971 shares issued and outstanding | 19,020                               | 200                  |
| Additional paid-in capital  | 17,145,766                           | 220,800              |
| Accumulated deficit   | (1,995,256)                          | (669,011)            |
| <b>Total stockholders' equity</b>   | <b>15,169,530</b>                    | <b>(448,011)</b>     |
| <b>Total liabilities, minority interest, and stockholders' equity</b>                                     | <b>\$ 17,688,642</b>                 | <b>\$ 328,907</b>    |

*See accompanying notes.*

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WELLS TIMBERLAND REIT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF LOSS

FOR THE THREE MONTHS AND

THE NINE MONTHS ENDED SEPTEMBER 30, 2006

AND SEPTEMBER 30, 2007

|   | (Unaudited)<br>Three Months Ended<br>September 30, |                     | (Unaudited)<br>Nine Months Ended<br>September 30, |                     |
|---|--|---------------------|---|---------------------|
|   | 2007   | 2006                | 2007  | 2006                |
| <b>Revenues</b>   | \$   | \$                  | \$  | \$                  |
| <b>Expenses:</b>  |  |                     |   |                     |
| General and administrative  | (683,013)  | (254,019)           | (1,326,245)                                       | (451,549)           |
| <b>Net loss</b>   | <b>\$ (683,013)</b>                                | <b>\$ (254,019)</b> | <b>\$ (1,326,245)</b>                             | <b>\$ (451,549)</b> |
| <b>Per-share information basic and diluted:</b>                     |  |                     |   |                     |
| Net loss allocated to common stockholders                           | \$ (0.76)  | \$ (12.70)          | \$ (4.22)   | \$ (22.58)          |
| <b>Weighted-average common shares outstanding basic and diluted</b> | <b>893,070</b>                                     | <b>20,000</b>       | <b>314,221</b>                                    | <b>20,000</b>       |

*See accompanying notes.*

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**WELLS TIMBERLAND REIT, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)**
**FOR YEAR ENDED DECEMBER 31, 2006 AND**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 (UNAUDITED)**

|   | Common Stock     |                  | Additional           | Accumulated           | Total                |
|---|------------------|------------------|----------------------|-----------------------|----------------------|
|   | Shares           | Amount           | Paid-In              | Deficit               | Stockholders         |
|   |                  |                  | Capital              |                       | Equity               |
|   |                  |                  |                      |                       | (Deficit)            |
| <b>Balance, December 31, 2005</b>   | 20,000           | \$ 200           | \$ 199,800           | \$                    | \$ 200,000           |
| Net loss  |                  |                  |                      | (669,011)             | (669,011)            |
| Amortization of stock options   |                  |                  | 21,000               |                       | 21,000               |
| <b>Balance, December 31, 2006</b>   | 20,000           | 200              | 220,800              | (669,011)             | (448,011)            |
| <b>Issuance of common stock</b>   | <b>1,881,971</b> | <b>18,820</b>    | <b>18,800,891</b>    |                       | <b>18,819,711</b>    |
| Commissions and discounts on<br>stock sales and related dealer-manager fees |                  |                  | (1,656,135)          |                       | (1,656,135)          |
| <b>Other offering costs</b>   |                  |                  | <b>(223,990)</b>     |                       | <b>(223,990)</b>     |
| Net loss  |                  |                  |                      | (1,326,245)           | (1,326,245)          |
| <b>Amortization of stock options</b>  |                  |                  | <b>4,200</b>         |                       | <b>4,200</b>         |
| <b>Balance, September 30, 2007</b>  | <b>1,901,971</b> | <b>\$ 19,020</b> | <b>\$ 17,145,766</b> | <b>\$ (1,995,256)</b> | <b>\$ 15,169,530</b> |

*See accompanying notes.*



**Table of Contents****Index to Financial Statements****WELLS TIMBERLAND REIT, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006****AND SEPTEMBER 30, 2007**

|   | <b>(Unaudited)</b>       |              |
|---|--------------------------|--------------|
|   | <b>Nine Months Ended</b> |              |
|   | <b>September 30,</b>     |              |
|   | <b>2007</b>              | <b>2006</b>  |
| <b>Cash Flows from Operating Activities:</b>                                |                          |              |
| Net loss  | \$ (1,326,245)           | \$ (451,549) |
| Stock-based compensation expense  | 4,200                    | 14,700       |
| Adjustments to reconcile net loss to net cash used in operating activities: |                          |              |
| Increase in prepaid expenses and other assets                               | (330,754)                | (129,998)    |
| Increase in accounts payable  | 108,577                  |              |
| Net cash used in operating activities                                       | (1,544,222)              | (566,847)    |
| <b>Cash Flows from Investing Activities:</b>                                |                          |              |
| Earnest money paid  | (5,000,000)              |              |
| <b>Cash Flows from Financing Activities:</b>                                |                          |              |
| Due to affiliates   | 1,448,436                | 566,847      |
| Issuance of common stock  | 18,665,801               |              |
| Commissions on stock sales and related dealer-manager fees                  | (1,319,905)              |              |
| Other offering costs  | (221,129)                |              |
| Net cash provided by financing activities                                   | 18,573,203               | 566,847      |
| Net increase in cash and cash equivalents                                   | 12,028,981               |              |
| Cash and cash equivalents, beginning of period                              | 202,829                  | 203,000      |
| Cash and cash equivalents, end of period                                    | \$ 12,231,810            | \$ 203,000   |
| <b>Supplemental Disclosure of Noncash Financing Activity:</b>               |                          |              |
| Amortization of stock options   | \$ 4,200                 | \$ 14,700    |
| Discounts applied to issuance of common stock                               | \$ 153,910               | \$           |
| Commissions on stock sales and related dealer-manager fees due to affiliate | \$ 182,320               | \$           |
| Other offering costs due to affiliates                                      | \$ 2,861                 | \$           |

*See accompanying notes.*

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**WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2007 (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" ). Prior to November 20, 2006, Wells Timberland REIT was known as Wells Timber Real Estate Investment Trust, Inc. Prior to November 9, 2005, Wells Timberland REIT was known as Wells Real Estate Investment Trust IV, Inc. Substantially all of Wells Timberland REIT's business is expected to be 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 Capital, Inc. ( "Wells Capital" ) is the sole limited partner of Wells Timberland OP and has contributed \$2,000 and \$1,000 to Wells Timberland OP for 200 common units and 100 special partnership units, respectively. On December 28, 2006, Wells Capital transferred its interest in Wells Timberland OP to Wells Timberland Management Organization, LLC ( "Wells TIMO" ). Unless otherwise noted, references to Wells Timberland REIT herein shall include Wells Timberland REIT, Wells Timberland OP, and Wells Timberland TRS, Inc. ( "Wells Timberland TRS" ).

Wells Timberland REIT and Wells Timberland OP have executed an agreement with Wells Capital (as amended and restated, the "Advisory Agreement" ), under which Wells Capital will perform 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. Wells Capital assigned its rights and duties under the Advisory Agreement to Wells TIMO on December 15, 2006.

Wells Timberland REIT expects to acquire timberland properties in the timber-producing regions of the United States and, to a limited extent, in other countries. Wells Timberland REIT intends to generate a substantial majority of its 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. Wells Timberland REIT expects to generate additional revenues and income from selling high-quality timberland, selling the rights to extract natural resources from timberland other than timber, and leasing land-use rights to third parties.

On August 11, 2006, Wells Timberland REIT commenced its initial public offering of up to 85 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. As of July 11, 2007, Wells Timberland REIT had received and accepted subscriptions in its initial public offering sufficient to exceed its minimum offering of \$2.0 million. Having raised the minimum offering, the offering proceeds were released by the escrow agent to Wells Timberland REIT and, as of September 30, 2007, were available for use by Wells Timberland REIT for the acquisition of properties and other operating activities.

As of September 30, 2007, Wells Timberland REIT has raised gross offering proceeds from the sale of common stock under the initial public offering of approximately \$19.0 million. After deductions from such gross offering proceeds for payments of acquisition fees of selling commissions and dealer-manager fees of approximately \$1.6 million, other organization and offering expenses of approximately \$0.2 million, Wells Timberland REIT had received aggregate net offering proceeds of approximately \$17.2 million.

Wells Timberland REIT's stock is not listed on a public securities exchange. However, Wells Timberland REIT's charter requires that in the event Wells Timberland REIT's stock is not listed on a national securities exchange by August 2018, Wells Timberland REIT must either seek stockholder approval of an extension or amendment of this listing deadline or 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

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**WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 and Principles of Consolidation***

The consolidated financial statements of Wells Timberland REIT have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission, 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 of America ( 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's consolidated financial statements include the accounts of any variable interest entity ( VIE ) in which Wells Timberland REIT or its subsidiaries is deemed the primary beneficiary. With respect to entities that are not VIEs, Wells Timberland REIT's consolidated financial statements also shall include the accounts of any entity in which Wells Timberland REIT or its subsidiaries own a controlling financial interest and any limited partnership in which Wells Timberland REIT or its subsidiaries own a controlling general partnership interest. In determining whether a controlling interest exists, Wells Timberland REIT considers, among other factors, the ownership of voting interests, protective rights, and participatory rights of the investors.

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.

***Use of Estimates***

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

***Cash and Cash Equivalents***

Wells Timberland REIT considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents may include cash and short-term investments. Short-term investments are stated at cost, which approximates fair value and may consist of investments in money market accounts. There are no restrictions on the use of Wells Timberland REIT's cash balances as of September 30, 2007 or December 31, 2006.

***Prepaid Expenses***

Prepaid expenses represent costs incurred in connection with securing financing from third-party lenders and prepayments of directors' fees and directors and officers' insurance premiums. Once financing is secured, associated costs will be capitalized and amortized on a straight-line basis over the term of the related financing arrangement. Prepayments of directors' fees and insurance premiums will be expensed in the periods to which the services relate. Balances without a future economic benefit are written off as they are identified.



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**WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Income Taxes***

Wells Timberland REIT was organized as a C Corporation for the taxable years ended December 31, 2006 and 2005 and, accordingly, was 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. For the nine months ended September 30, 2007, Wells Timberland REIT has incurred \$1.3 million of net operating losses. As such, a deferred tax asset has been established of \$0.8 million and \$0.2 million as of September 30, 2007 and December 31, 2006, respectively. Management does not believe that Wells Timberland REIT's deferred tax asset will be realized and therefore has provided a full valuation allowance for the entire amount of its deferred tax asset as of September 30, 2007 and December 31, 2006.

Pursuant to Wells Timberland REIT's charter, Wells Timberland REIT's 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 Wells Timberland REIT board of directors will elect for Wells Timberland REIT to qualify as a REIT for the first taxable year in which (1) Wells Timberland REIT would otherwise qualify to be taxed as a REIT and (2) Wells Timberland REIT generates substantial taxable income such that REIT status would be in the best interest of Wells Timberland REIT stockholders. Due to Wells Timberland REIT's acquisition of the timberland on October 9, 2007, as discussed in Note 8, Wells Timberland REIT's board of directors believes that Wells Timberland REIT will most likely not elect to be taxed as a REIT for the taxable year ending December 31, 2007 or December 31, 2008. 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.

On January 1, 2006, Wells Timberland REIT formed Wells Timberland TRS, a wholly-owned subsidiary organized as a Delaware corporation. Wells Timberland REIT has elected to treat Wells Timberland TRS as a taxable REIT subsidiary. Wells Timberland REIT may perform additional, noncustomary services through Wells Timberland TRS, including any real estate or nonreal estate-related services; however, any earnings related to such services will be subject to federal and state income taxes. In addition, for Wells Timberland REIT to qualify as a REIT, Wells Timberland REIT's investment in Wells Timberland TRS may not exceed 20% of value of the total assets of Wells Timberland REIT.

***Recent Accounting Pronouncements***

In July 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* ( FIN 48 ), which clarifies the relevant criteria and approach for the recognition, derecognition, and measurement of uncertain tax positions. FIN 48 will be effective for Wells Timberland REIT beginning January 1, 2007. The adoption of FIN 48 did not have a material effect on Wells Timberland REIT's consolidated financial statements.

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## WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In September 2006, the 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. SFAS 157 will be effective for Wells Timberland REIT beginning January 1, 2008. Wells Timberland REIT is currently assessing the provisions and evaluating the financial impact of SFAS 157 on its consolidated financial statements.

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 choose 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 will be effective for Wells Timberland REIT beginning January 1, 2008. Wells Timberland REIT is currently assessing the provisions and evaluating the financial statement impact of SFAS 159 on its consolidated financial statements.

In June 2007, the American Institute of Certified Public Accountants ( AICPA ) issued Statement of Position ( SOP ) 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*, which provides guidance for determining which entities fall within the scope of the AICPA Audit and Accounting Guide for Investment Companies and requires additional disclosures for certain of those entities. The FASB has voted to indefinitely defer the effective date of SOP 07-01. Wells Timberland REIT has deferred the process of evaluating the provisions of SOP 07-1 and related impact on its consolidated financial statements and accompanying notes.

### 3. Related-Party Transactions

#### *Advisory Agreement*

Wells Timberland REIT and Wells Timberland OP entered into the Advisory Agreement with Wells Capital as of November 9, 2005, which became effective on August 11, 2006 and was amended and restated as of August 24, 2006 and March 23, 2007. Wells Capital assigned its rights and duties under the Advisory Agreement to Wells TIMO on December 15, 2006. This Advisory Agreement was renewed on August 21, 2007 and is effective through August 11, 2008. Pursuant to the Advisory Agreement, Wells TIMO is entitled to specified fees for certain services, including, among other services, the investment of capital proceeds and management of day-to-day operations.

Under the terms of the Advisory Agreement, organization and offering costs are incurred by Wells TIMO on behalf of Wells Timberland REIT. Such costs include legal and accounting fees, printing costs, and other offering expenses, and specifically exclude sales or underwriting commissions. Having raised the minimum offering of at least \$2.0 million from the sale of common stock to the public in its initial offering, Wells Timberland REIT has become obligated to reimburse Wells TIMO for organization and offering costs equal to the lesser of actual costs incurred or 1.2% of the total gross offering proceeds raised. 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. As of September 30, 2007 and December 31, 2006, Wells TIMO and its affiliates have incurred aggregate organization and offering expenses on behalf of Wells Timberland REIT of approximately \$2.5 million and \$1.4 million, respectively.

Under the terms of the Advisory Agreement, Wells Timberland REIT will pay to Wells TIMO a monthly asset management fee equal to one-twelfth of 1% of the greater of (1) the gross cost of all investments made on behalf of Wells Timberland REIT and (2) the aggregate value of such investments. Wells TIMO anticipates that it will engage experienced timber management companies to assist Wells TIMO with certain of its responsibilities under the Advisory Agreement, including investing in timberland, managing day-to-day operations, and selling timber harvesting rights on behalf of Wells Timberland REIT. Any timber managers would perform these services under contracts with Wells TIMO and would be compensated by Wells TIMO.

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**WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

under the terms of such contracts. As of September 30, 2007, Wells TIMO has not earned any such fee in regards to Wells Timberland REIT.

Wells Timberland REIT will reimburse Wells TIMO for all costs and expenses Wells TIMO incurs in fulfilling its duties as the asset portfolio manager. These costs and expenses may include 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. As of September 30, 2007, Wells Timberland REIT has incurred approximately \$0.8 million of such fees, which are included in due to affiliates.

Wells Timberland REIT will pay a fee to Wells TIMO for services related to the disposition of investment properties. When Wells Timberland REIT sells a property, if Wells TIMO provided a substantial amount of services in connection with the sale (as determined by Wells Timberland REIT's independent directors), it will pay Wells TIMO a fee equal to (1) for each property sold at a contract price up to \$20.0 million, up to 2.0% of the sales price, and (2) 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 (1) 6.0% of the sales price of each property, or (2) the level of real estate commissions customarily charged in light of the size, type, and location of the property. As of September 30, 2007, Wells TIMO has not earned any such fees with regard to Wells Timberland REIT.

The current Advisory Agreement has a one-year term that began on August 11, 2007, the effective date of the Advisory Agreement, and renews for successive one-year terms upon the mutual consent of the parties. Wells Timberland REIT may terminate the Advisory Agreement without penalty upon 60 days' written notice. If Wells Timberland REIT terminates the Advisory Agreement, Wells Timberland REIT will pay Wells TIMO all unpaid reimbursements of expenses and all earned but unpaid fees. In addition, if the Advisory Agreement is terminated without cause, the special units of limited partnership held by Wells TIMO will be redeemed for the payments described below under Note 4.

***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 offering. For these services, WIS shall earn a fee of up to 7.0% of the gross offering proceeds from the sale of the shares of Wells Timberland REIT. Additionally, WIS will earn a dealer-manager fee of 1.8% of the gross offering proceeds at the time the shares are sold. Some or all of the fees under the dealer-manager agreement will be re-allocated 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 (the "DRP"). As of September 30, 2007, Wells Timberland REIT has incurred approximately \$1.6 million in fees to WIS.

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The detail of amounts due to affiliates is provided below as of September 30, 2007 and December 31, 2006:

|  | September 30,<br>2007 | December 31,<br>2006 |
|--|-----------------------|----------------------|
| Administrative reimbursements due to Wells TIMO      | \$ 2,225,354          | \$ 776,918           |
| Commissions and dealer-manager fees due to WIS       | 182,320               |                      |
| Other offering cost reimbursements due to Wells TIMO | 2,861                 |                      |
|  | \$ 2,410,535          | \$ 776,918           |

***Conflicts of Interest***

Wells Capital, the parent company and manager of Wells TIMO, also is a general partner or advisor of the various affiliated public real estate investment programs ( Wells Real Estate Funds ). Until such time, if ever, as Wells TIMO hires sufficient personnel of its own to perform the services under the Advisory Agreement, it will rely upon employees of Wells Capital to perform many of its obligations. 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 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 a second independent member of Wells Timberland REIT's board of directors also serves on the board of two other REITs sponsored by Wells Capital and, accordingly, may encounter certain conflicts of interest regarding investment and operations decisions.

**4. Minority Interest**

On November 9, 2005, Wells Timberland OP issued 20,000 common units to Wells Timberland REIT and 200 common units to Wells Capital in exchange for \$200,000 and \$2,000, respectively. On December 28, 2006, Wells Capital transferred to Wells TIMO all of its common units and special units of Wells Timberland OP. The common units held by Wells Timberland REIT and Wells TIMO represent limited partnership interests in Wells Timberland OP of approximately 99% and 1%, respectively.

Limited partners holding common units representing limited partnership interests in Wells Timberland OP have the option to redeem such units after the units have been held for one year. Unless Wells Timberland REIT exercises its right to purchase common units of Wells Timberland OP for shares of its common stock, Wells Timberland OP would redeem such units with cash.

On November 9, 2005, Wells Timberland OP also issued 100 special units to Wells Capital for \$1,000. The holder of special units does not participate in the profits and losses of Wells Timberland OP. Amounts payable to the holder of the special units, if any, will depend on the amount of net sales proceeds received from property dispositions or the market value of Wells Timberland REIT's shares upon listing, or the fair market value of Wells Timberland REIT's assets upon the termination of the Advisory Agreement without cause. See Note 3.



**5. Special Units**

Wells TIMO, the Advisor, is the holder of the special units of limited partnership interest in Wells Timberland OP. So long as the special units remain outstanding, Wells TIMO will be entitled to distributions from Wells Timberland OP in an amount equal to 15% of net sales proceeds and any debt repayment received

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**WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

by Wells Timberland OP on dispositions of its timberland and real estate-related investments after the other holders of common units, including Wells TIMO, have received, in the aggregate, cumulative distributions equal to their capital contributions (less any amounts received in redemption of their common units) plus a 7% cumulative, noncompounded annual pre-tax return on their net capital contributions.

In addition, the special units will be redeemed by Wells Timberland OP, resulting in a one-time payment to the holder of the special units, upon the earliest to occur of the following events:

- (1) the listing of Wells Timberland REIT's common stock on a national securities exchange (the Listing Liquidity Event); or
- (2) the termination or nonrenewal of the Advisory Agreement (a Termination Event).

As holder of the special units, Wells TIMO will be entitled to distributions from Wells Timberland OP in the event of a Listing Liquidity Event in an amount equal to 15% of net sales proceeds received by Wells Timberland OP if Wells Timberland REIT had liquidated its properties and real estate-related investments for an amount equal to the market value of the listed shares after the holders of common units, including us, have received, in the aggregate, cumulative distributions equal to their capital contributions (less any amounts received in redemption of their common units) plus a 7% cumulative, noncompounded annual pre-tax return on their net capital contributions.

In the event of a redemption upon listing, Wells Timberland OP would pay the redemption amount in the form of shares of common stock of Wells Timberland REIT. The redemption payment due upon a Termination Event, other than a termination for cause, is equal to the aggregate amount of net sales proceeds that would have been distributed to the holder of the special units as described above if, on the date of the occurrence of the Termination Event, all assets of Wells Timberland OP has been sold for their then fair market values and all liabilities of Wells Timberland OP had been satisfied in full according to their terms. In the event of a Termination Event without cause, Wells Timberland OP would make the one-time payment in the form of a noninterest-bearing promissory note in an amount equal to the redemption amount. The promissory note will be repaid from net proceeds of the sale of Wells Timberland OP's assets in connection with or following the Termination Event. In the event of a Listing Liquidity Event subsequent to a Termination Event, the promissory note would be cancelled in exchange for shares of Wells Timberland REIT's common stock equal in market value to the outstanding balance of the promissory note.

In the event Wells Timberland REIT terminates the Advisory Agreement for cause, which includes fraud, criminal conduct, willful misconduct, willful or grossly negligent breach of fiduciary duty, and a material breach of the Advisory Agreement by Wells TIMO, Wells Timberland OP would redeem the special units for \$1.00 per unit.

**6. Stockholders' Equity**

***General***

Wells Timberland REIT's charter authorizes it to issue 1.0 billion shares of capital stock, consisting of 900.0 million common shares and 100.0 million preferred shares, each as defined by the charter. The common shares have a par value of \$0.01 per share and entitle the holders to one vote per share on all matters upon which stockholders are entitled to vote, to receive dividends and other distributions (subject to any preferential rights of any shares of preferred stock that may be issued in the future) as authorized by the board of directors in accordance with the Maryland General Corporation Law and to all rights of a stockholder pursuant to the Maryland General Corporation Law. The common stock has no preferences or preemptive, conversion or exchange rights. As of September 30, 2007, Wells Timberland REIT has issued 1.9 million shares of common stock, including 20,000 shares of common stock to Wells Capital, which were subsequently transferred to Wells TIMO on December 28, 2006. 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



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 September 24, 2007, Wells Timberland REIT's board of directors unanimously approved the designation, issuance and sale of up to 35,000 shares of Series A preferred stock to Wells Real Estate Funds, Inc. ( WREF ) for the purchase price of \$1,000 per share. On October 9, 2007, Wells Timberland REIT issued 32,128 shares of Series A preferred stock to WREF in exchange for approximately \$32.1 million, or \$1,000 per share.

Wells Timberland REIT's charter does not require it to obtain the consent of the holders of the Series A preferred stock for any corporate action, and the holders of the Series A preferred stock do not have any voting rights or powers except with respect to (1) the creation of any class of capital stock senior to the Series A preferred stock, (2) an increase in the number of authorized shares of Series A preferred stock and (3) any amendment of the rights, preferences or privileges relating to the Series A preferred stock. Dividends will accrue on the Series A preferred stock daily at a rate of 8.5% per year, subject to adjustments in the event of a stock dividend, split, combination or other similar recapitalization with respect to the Series A preferred stock. If declared by Wells Timberland REIT and authorized by its board of directors, accruing dividends on the Series A preferred stock are payable on September 30, 2010 and on September 30 of each year thereafter. The Series A 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 Series A preferred stock are entitled to receive the issue price of \$1,000 per share plus any accrued and unpaid dividends, whether or not declared, before any payment may be made to the holders of Wells Timberland REIT's common stock or any other class or series of our capital stock ranking junior on liquidation to the Series A preferred stock.

The shares of Series A preferred stock were sold to Wells Real Estate Funds, Inc. without registration under the Securities Act of 1933, as amended, in reliance on the exemption from such registration requirements provided by such act for transactions not involving any public offering. As a result, the shares of Series A preferred stock are subject to restrictions on resale.

***Stock Incentive Plan***

Wells Timberland REIT has adopted a long-term incentive plan, which will be used to attract and retain qualified independent directors, employees, advisors, and consultants, as applicable, subject to certain limitations. A total of 500,000 shares of common stock have been authorized and reserved for issuance under the stock incentive plan, of which 100,000 of such common shares are reserved for issuance to independent directors.

The exercise price of any award shall not be less than the fair market value of the common stock on the date of the grant. Wells Timberland REIT's board of directors or a committee of its independent directors administers the incentive plan, with sole authority (following consultation with Wells TIMO) to select participants; determines the types of awards to be granted; and all of the terms and conditions of the awards, including whether the grant, vesting, or settlement of awards may be subject to the attainment of one or more performance goals. No awards will be granted under the plan if the grant, vesting, and/or exercise of the awards would jeopardize Wells Timberland REIT's status as a REIT under the Internal Revenue Code or otherwise violate the ownership and transfer restrictions imposed under Wells Timberland REIT's charter. Unless determined by Wells Timberland REIT's board of directors or a committee of its independent directors, no award granted under the long-term incentive plan will be transferable except through the laws of descent and distribution.

In addition to cash compensation, upon the appointment of an independent director to Wells Timberland REIT's board, each director receives a grant of options to purchase 2,500 shares of Wells Timberland REIT's common stock. Of the options granted, one-third are immediately exercisable on the date of grant, one-third

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

will become exercisable on the first anniversary of the date of grant, and the remaining one-third will become exercisable on the second anniversary of the date of grant. These initial grants of options are anti-dilutive with an exercise price of \$10.00 per share. Upon each subsequent re-election of the independent director to the board, he or she will receive a subsequent grant of options to purchase 1,000 shares of Wells Timberland REIT's common stock. The exercise price for the subsequent options will be the greater of (1) \$10.00 per share, or (2) the fair market value of the shares on the date of grant.

***Distribution Reinvestment Plan***

Wells Timberland REIT has adopted the DRP, a distribution reinvestment plan through which stockholders may elect to reinvest an amount equal to the distributions declared on their shares of common stock into shares of Wells Timberland REIT's common stock in lieu of receiving cash distributions. Shares may be purchased under the DRP for a price equal to: (1) during Wells Timberland REIT's initial offering, \$9.55 per share; (2) during any subsequent public equity offering, 95.5% of the offering price per share in such offering; and (3) for the first 12 months subsequent to the close of Wells Timberland REIT's last public equity offering prior to the listing of its shares on a national securities exchange, 95.5% of the most recent offering price per share. After that 12-month period, Wells Timberland REIT will publish a per-share valuation determined by Wells TMO or another firm chosen for that purpose, and distributions will be reinvested at a price equal to the most recently published per-share estimated value. Participants in the DRP may purchase fractional shares so that 100% of the distributions may be used to acquire additional shares of Wells Timberland REIT's common stock.

***Share Redemption Plan***

The board of directors of Wells Timberland REIT has adopted a share redemption plan. The plan allows stockholders who hold their shares for more than one year to sell their shares back to Wells Timberland REIT, subject to certain limitations and penalties. The share redemption plan provides that Wells Timberland REIT may repurchase a stockholder's common stock for \$9.10 per share during Wells Timberland REIT's initial offering. However, the terms of the mezzanine loan obtained in connection with the acquisition of South Central Timberland prohibit Wells Timberland REIT from redeeming any Wells Timberland REIT stockholders' shares under its share redemption plan until the loan is repaid in full (see Note 8). However, the lenders under the senior loan agreement and the mezzanine loan agreement have agreed to amend the credit agreements to permit us to redeem shares if the redemption is sought within two years of the death or qualifying disability of a stockholder under the plan, and to allow all redemptions under the plan once the mezzanine loan has been repaid in full and upon the attainment of certain financial performance measures under the senior loan.

The initial redemption price is expected to remain fixed until one year after Wells Timberland REIT completes its initial offering or any subsequent public equity offerings (other than secondary offerings or offerings related to a distribution reinvestment plan, employee benefit plan, or the issuance of shares upon redemption of interests in Wells Timberland OP). Thereafter, the redemption price would equal 95% of the per-share value of Wells Timberland REIT as estimated by Wells TMO or another firm chosen by the board of directors for that purpose.

Redemptions sought within two years of the death or qualifying disability of a stockholder do not require a one-year holding period, and the redemption price is the amount paid for the share until one year after completion of the above-mentioned offering stage. Thereafter, the redemption price would be the higher of the amount paid for the shares or 95% of the per-share net asset value as estimated by Wells TMO or another firm chosen by Wells Timberland REIT's board of directors for that purpose.

The shares redeemed under the plan, other than upon the death or qualifying disability of a stockholder, shall not exceed the lesser of (1) the amount redeemable from the sum of net proceeds from the sale of shares

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**WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

through the DRP plus any additional amounts reserved for redemptions by Wells Timberland REIT's board of directors, or (2) in any calendar year, 5% of the weighted-average common shares outstanding during the preceding year. The board of directors could amend or terminate the share redemption plan upon 30 days' notice or prior to satisfaction of either of the preconditions to adoption noted above.

**7. Economic Dependency**

Wells Timberland REIT has engaged Wells TIMO and WIS, an affiliate of Wells TIMO, to provide certain services essential to Wells Timberland REIT, including asset management services, supervision of the management of Wells Timberland REIT's properties, asset acquisition and disposition services, the sale of shares of Wells Timberland REIT common stock, as well as other administrative responsibilities for Wells Timberland REIT, 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 WREF. The operations of Wells Capital and WIS represent substantially all of the business of WREF. Accordingly, Wells Timberland REIT focuses on the financial condition of WREF when assessing the financial condition of Wells Capital, Wells TIMO, and WIS. In the event that WREF 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 WREF will be largely dependent upon the amount of fees earned by Wells TIMO, Wells Capital, WIS, and their affiliates based on, among other things, the level of investor proceeds raised from the sale of common stock of WREF-sponsored investment products. In addition, WREF guarantees unsecured debt of \$160 million held by Wells Timberland REIT (see Note 8). As of September 30, 2007, we believe that WREF 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.

**8. Commitments and Contingencies**

***South Central Timberland***

As of September 30, 2007, Wells Timberland REIT was party to a purchase and sale agreement (as amended, the "Agreement") with MeadWestvaco Coated Board, Inc. ("MeadWestvaco"), a subsidiary of MeadWestvaco Corporation, for the purchase of approximately 228,000 acres of timberland and approximately 95,000 acres of leasehold interests in timberland located in the states of Alabama and Georgia (the "South Central Timberland") for a purchase price of \$400.0 million, exclusive of customary transaction costs. Pursuant to the Agreement, Wells Timberland REIT deposited \$5.0 million into an escrow account to be applied to the purchase price payable to MeadWestvaco at closing.

On October 9, 2007, Wells Timberland REIT acquired the South Central Timberland for a purchase price of approximately \$400.0 million, exclusive of customary closing costs. The purchase price was paid by the delivery of a promissory note in the amount of \$397.9 million (the "MWV Promissory Note"), and the remaining portion of the purchase price was paid in cash, including the \$5.0 million earnest money deposit. The MWV Promissory Note bears interest at a LIBOR plus 0.05% and matures on October 9, 2027. The MWV Promissory Note is supported by a standby letter of credit issued by Wachovia Bank, N.A. ("Wachovia") and deposit account in the amount of \$407.9 million (the "Deposit Account"). Wells Timberland REIT obtained funds to fund the deposit account and to pay transaction costs through a combination of (1) \$372.0 million of debt financing arranged by Wachovia (the "Wachovia Loans"), (2) \$32.1 million from the issuance and sale of 32,128 shares of Wells Timberland REIT preferred stock to WREF, as discussed in Note 6, and (3) \$18.0 million of funds raised through Wells Timberland REIT's initial public offering. The



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Wachovia Loans consist of a first mortgage loan in the amount of \$212.0 million (the Senior Loan ) and a second mortgage loan in the amount of \$160.0 million (the Mezzanine Loan ). The Senior Loan matures on September 9, 2010 and bears interest at an adjustable rate based on one, two or three month London Interbank Offer Rate ( LIBOR ) plus a margin that varies based upon the ratio of the amount of the Senior Loan to the value of South Central Timberland at the time of determination. The Mezzanine Loan matures on October 17, 2008, bears interest at 9.0% and is guaranteed by WREF.

The South Central Timberland is subject to a fiber supply agreement whereby Wells Timberland REIT is required to provide and MeadWestvaco is required to purchase specified amounts of timber. The initial term of this agreement is October 9, 2007 through December 31, 2032, subject to extension and early termination provisions.

***Litigation***

Wells Timberland REIT is not subject to any material litigation nor, to management's knowledge, is any material litigation currently threatened against Wells Timberland REIT.

**9. Subsequent Event**

In addition to closing on the South Central Timberland transaction as noted above, from October 1, 2007 through October 31, 2007, Wells Timberland REIT raised approximately \$7.9 million through the issuance of approximately 0.8 million shares of common stock under its initial public offering. As of October 31, 2007, approximately 74.2 million shares remained available for sale to the public under the initial public offering, exclusive of shares available under Wells Timberland REIT's distribution reinvestment plan.



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#### **PRIOR PERFORMANCE TABLES**

The following Prior Performance Tables ( Tables ) provide information relating to real estate investment programs sponsored by Wells Capital, Inc. and its affiliates ( Wells Public Programs ), which have investment objectives similar to Wells Timberland REIT, Inc. Except for Piedmont Office Realty Trust, Inc. (formerly known as Wells Real Estate Investment Trust, Inc.) ( Piedmont REIT ) and Wells Real Estate Investment Trust II, Inc. ( Wells REIT II ), all of the Wells Public Programs have used equity capital, and no acquisition indebtedness, to acquire their properties.

The Wells Public Programs which we have determined have investment objectives similar to ours were those programs that stated the following investment objectives: (1) the provision of current income to the stockholders through the payment of cash distributions, (2) the preservation and return of capital contributions to such stockholders and (3) the realization of growth in the value of the properties acquired upon the ultimate sale of such properties. We consider that programs with these stated objectives had investment objectives similar to ours, although we will make investments in different types of properties from those which the Wells Public Programs acquired.

Prospective investors should read these Tables carefully, together with the summary information concerning the Wells Public Programs as set forth in the Prior Performance Summary section of this prospectus.

*Investors in Wells Timberland REIT will not own any interest in the other Wells Public Programs and should not assume that they will experience returns, if any, comparable to those experienced by investors in other Wells Public Programs.*

Our advisor will rely on the personnel of its manager, Wells Capital, for many of the services related to the acquisition, operation, maintenance and resale of the real estate properties owned by Wells Timberland REIT. The financial results of other Wells Public Programs thus may provide some indication of Wells Capital's performance of its obligations during the prior periods covered.

The following tables are included herein:

**Table I** Experience in Raising and Investing Funds

**Table II** Compensation to Sponsor

**Table III** Annual Operating Results of Wells Public Programs

**Table IV** Results of Completed Programs has been omitted since none of the Wells Public Programs have been liquidated

**Table V** Sales or Disposals of Properties

Additional information relating to the acquisition of properties by the Wells Public Programs is contained in Table VI, which is included in Part II of the registration statement that Wells Timberland REIT has filed with the SEC. Copies of any or all information will be provided to prospective investors at no charge upon request.

**Acquisition Fees** , as used in the Tables, shall mean fees and commissions paid by a Wells Public Program in connection with its purchase or development of a property, except development fees paid to a person not affiliated with the Wells Public Program or with a general partner or advisor of the Wells Public Program in connection with the actual development of a project after acquisition of the land by the Wells Public Program.

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**TABLE I**  
**EXPERIENCE IN RAISING AND INVESTING FUNDS**  
**(UNAUDITED)**

*This Table provides a summary of the experience of the sponsor of Wells Public Programs for which offerings have been completed since December 31, 2003 which have investment objectives similar to Wells Timberland REIT. The investment objectives of each of these Wells Public Programs have included some or all of the following: (1) the provision of current income to the stockholders through the payment of cash distributions, (2) the preservation and return of capital contributions to such stockholders and (3) the realization of growth in the value of the properties acquired upon the ultimate sale of such properties. Information is provided with regard to the manner in which the proceeds of the offerings have been applied. Also set forth is information pertaining to the timing and length of these offerings and the time period over which the proceeds have been invested in the properties. All figures are as of December 31, 2006.*

|   | <b>Wells Real<br/>Estate<br/>Fund XIV,<br/>L.P.</b> | <b>Wells Real<br/>Estate<br/>Investment<br/>Trust, Inc.</b> | <b>Wells Real<br/>Estate<br/>Investment<br/>Trust II, Inc.</b> |
|---|---|---|--|
| Dollar Amount Offered   | \$ 45,000,000 <sup>(4)</sup>                        | \$ 5,991,150,000 <sup>(5)</sup>                             | \$ 12,600,000,000 <sup>(6)</sup>                               |
| Dollar Amount Raised  | \$ 34,741,238 <sup>(4)</sup>                        | \$ 5,227,264,630 <sup>(5)</sup>                             | \$ 2,856,027,868 <sup>(6)</sup>                                |
| Percentage Amount Raised  | 100.0% <sup>(4)</sup>                               | 100.0% <sup>(6)</sup>                                       | 100.0% <sup>(6)</sup>  |
| Less Offering Expenses Selling<br>Commissions and Discounts <sup>(1)</sup>                          | 9.5%  | 9.5%  | 9.5%   |
| Organizational Expenses   | 3.0%  | 1.1%  | 1.5%   |
| Reserves <sup>(2)</sup>   | 0.0%  | 0.0%  | 0.0%   |
| Percent Available for Investment  | 87.5%   | 89.4%   | 89.0%  |
| Acquisition and Development Costs Prepaid<br>Items and Fees related to Purchase of<br>Property      | 0.0%  | 0.0%  | 0.0%   |
| Cash Down Payment   | 84.0%   | 83.1%   | 86.4%  |
| Acquisition Fees <sup>(3)</sup>   | 3.5%  | 3.5%  | 2.0%   |
| Development and Construction Costs  | 0.0%  | 2.8%  | 0.6%   |
| Reserve for Payment of Indebtedness   | 0.0%  | 0.0%  | 0.0%   |
| Total Acquisition and Development Cost  | 87.5%   | 89.4%   | 89.0%  |
| Percent Leveraged   | 0.0%  | 27.0%   | 24.1%  |
| Date Offering Began   | 05/14/03  | <sup>(5)</sup>  | <sup>(6)</sup>   |
| Length of Offering  | 24 mo.  | <sup>(5)</sup>  | <sup>(6)</sup>   |
| Months to Invest 90% of Amount Available<br>for Investment (Measured from Beginning<br>of Offering) | 10 mo.  | <sup>(5)</sup>  | <sup>(6)</sup>   |
| Number of Investors as of 12/31/06  | 647   | 109,000   | 91,000   |

(1) Includes selling commissions, discounts and dealer-manager fees, including those reallocated to participating broker/dealers.

(2) Does not include general partner contributions held as part of reserves.

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- (3) Includes acquisition fees, real estate commissions, general contractor fees and/or architectural fees paid to advisor or affiliates of the general partners.
- (4) The total dollar amount registered and available to be offered was \$45 million. Wells Real Estate Fund XIV, L.P. closed its offering on April 30, 2005, and the total dollar amount raised was \$34,741,238.
- (5) These amounts include proceeds raised in Piedmont REIT's first, second, third and fourth public offerings and sales pursuant to its dividend reinvestment plan offered under a registration statement filed on

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Form S-3, which became effective on April 5, 2004. Piedmont REIT began its first offering on January 30, 1998 and closed its first offering on December 19, 1999. The total dollar amount registered and available to be offered in the fourth offering was \$165.0 million. The total dollar amount raised in the first offering was \$132,181,919. Piedmont REIT invested 90% of the amount available for investment in its first offering within 21 months. Piedmont REIT began its second offering on December 20, 1999 and closed its second offering on December 19, 2000. The total dollar amount registered and available to be offered in the second offering was \$230.0 million. The total dollar amount raised in the second offering was \$175,229,193. Piedmont REIT invested 90% of the amount available for investment in its second offering within 10 months. Piedmont REIT began its third offering on December 20, 2000 and closed its third offering on July 26, 2002. The total dollar amount registered and available to be offered in the third offering was \$1.35 billion. Piedmont REIT invested 90% of the amount available for investment in its third offering within 21 months. The total dollar amount raised in its third offering was \$1,282,976,862. Piedmont REIT began its fourth offering on July 26, 2002 and closed its fourth offering on July 7, 2004. The total dollar amount registered and available to be offered in the fourth offering was \$3.3 billion. The total dollar amount raised in the fourth offering was \$3,225,125,063. Piedmont REIT invested 90% of the amount available for investment in its fourth offering within 18 months. The total dollar amount registered and available to be offered in the dividend reinvestment plan was \$1 billion. The total dollar amount raised through the dividend reinvestment plan was \$411,751,593.

- (6) These amounts include proceeds raised in Wells REIT II first and second public offerings. Wells REIT II began its first offering on December 1, 2003 and closed its first offering on November 26, 2005. The total dollar amount registered and available to be offered in the first offering was \$7.85 billion. The total dollar amount raised in the first offering was \$1,952,284,699. Wells REIT II invested 90% of the amount available for investment in its first offering within 8 months. Wells REIT II began its second offering on November 10, 2005 and was currently offering shares under this second offering as of December 31, 2006. The total dollar amount registered and available to be offered in the second offering was \$4.75 billion. The total dollar amount raised in the second offering as of December 31, 2006 was \$903,743,169.

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**TABLE II**  
**COMPENSATION TO SPONSOR**  
**(UNAUDITED)**

*The following sets forth the compensation received by Wells Capital, inc. and its affiliates, including compensation paid out of offering proceeds and compensation paid in connection with the ongoing operations of Wells Public Programs having similar or identical investment objectives to Wells Timberland REIT the offerings of which have been completed since December 31, 2003. All figures are as of December 31, 2006.*

|  | <b>Wells Real<br/>Estate<br/>Fund XIV,<br/>L.P.</b> | <b>Wells Real<br/>Estate<br/>Investment<br/>Trust, Inc.<sup>(1)</sup></b> | <b>Wells Real<br/>Estate<br/>Investment<br/>Trust II, Inc.</b> |
|--|---|---|--|
| Date Offering Commenced  | 05/14/03  | 12/20/00  | 12/1/03  |
| Dollar Amount Raised   | \$ 34,741,238                                       | \$ 5,227,264,633  | \$ 2,856,027,868   |
| Amount paid to Sponsor from Proceeds of Offering:  |   |   |  |
| Selling Commission <sup>(2)</sup>  | \$ 459,000  | \$ 52,272,646   | \$ 28,560,279  |
| Acquisition Fees   |   |   |  |
| Real Estate Commissions  |   |   |  |
| Acquisition and Advisory Fee <sup>(3)</sup>  | \$ 1,215,943  | \$ 178,983,613  | \$ 57,120,557  |
| Dollar Amount of Cash Generated from Operations<br>Before Deducting Payments to Sponsor <sup>(4)</sup> | \$ 4,806,000  | \$ 1,441,074,069  | \$ 234,460,967   |
| Amount Paid to Sponsor from Operations:  |   |   |  |
| Property Management Fee and Leasing Commissions  | \$ 236,000  | \$ 49,074,253   | \$ 991,327   |
| Asset Management Fee   |   | \$ 40,008,690   | \$ 33,401,213  |
| Reimbursements   | \$ 188,000  | \$ 31,354,310   | \$ 9,208,397   |
| General Partner Distributions  |   |   |  |
| Other  |   |   |  |
| Dollar Amount of Property Sales Payments to Sponsors:  |   |   |  |
| Cash   |   |   |  |
| Notes  |   |   |  |
| Amount Paid to Sponsor from Property Sales and Refinancing:  |   |   |  |
| Real Estate Commissions  |   |   |  |
| Incentive Fees   |   |   |  |
| Other  |   |   |  |

(1) These amounts include proceeds raised in Piedmont REIT's first, second, third and fourth public offerings and sales pursuant to its dividend reinvestment plan offered under a registration statement filed on Form S-3, which became effective on April 5, 2004. Piedmont REIT began its first offering on January 30, 1998 and closed its first offering on December 19, 1999. The total dollar amount raised in the first offering was \$132,181,919. Piedmont REIT began its second offering on December 20, 1999 and closed its second offering on December 19, 2000. The total dollar amount raised in the second offering was \$175,229,193. Piedmont REIT began its third offering on December 20, 2000 and closed its third offering on July 26, 2002. The total dollar amount raised in its third offering was \$1,282,976,862. Piedmont REIT began its fourth offering on July 26, 2002 and closed its fourth offering on July 7, 2004. The total dollar amount raised in the fourth offering was \$3,225,125,063. The total dollar amount raised through the dividend reinvestment plan was \$411,751,593.

(2) Includes net selling commissions paid to Wells Investment Securities, Inc. in connection with the offering that were not reallocated to participating broker/dealers.

- (3) Fees paid to the general partners or their affiliates for acquisition and advisory services in connection with the review and evaluation of potential real property acquisitions.

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**TABLE III**  
**OPERATING RESULTS OF PRIOR PROGRAMS**  
**(UNAUDITED)**

*The following five tables set forth operating results of Wells Public Programs, the offerings of which have been completed since December 31, 2003. The information relates only to public programs with investment objectives similar to Wells Timberland REIT. All figures are as of December 31 of the year indicated.*

**TABLE III**  
**OPERATING RESULTS OF PRIOR PROGRAMS**  
**(UNAUDITED)**

**WELLS REAL ESTATE FUND XIV, L.P.**

|   | <b>2006</b>  | <b>2005</b>    | <b>2004</b>  | <b>2003</b>  |
|---|--------------|----------------|--------------|--------------|
| Gross Revenues <sup>(1)</sup>   | \$ 2,214,420 | \$ 1,508,479   | \$ 480,724   | \$ 31,420    |
| Profit on Sale of Properties <sup>(1)</sup>   |              |                |              |              |
| Less: Operating Expenses <sup>(2)</sup>   | 694,487      | 415,511        | 191,525      | 84,349       |
| Depreciation & Amortization <sup>(3)</sup>  | 1,103,842    | 585,177        |              |              |
| Net Income GAAP Basis <sup>(4)</sup>  | \$ 416,091   | \$ 507,791     | \$ 289,199   | \$ (52,929)  |
| Taxable Income: Operations  | \$ 1,489,764 | \$ 1,263,502   | \$ 673,416   | \$ 41,334    |
| Cash Generated (Used By):   |              |                |              |              |
| Operations  | 2,202,765    | 1,695,836      | 714,196      | (67,404)     |
| Net Sale Proceeds from Joint Ventures   |              |                |              |              |
|   | 2,202,765    | 1,695,830      | 714,196      | (67,404)     |
| Less Cash Distributions to Investors:   |              |                |              |              |
| Operating Cash Flow   | 2,088,112    | 1,402,622      | 686,351      |              |
| Return of Capital   |              |                |              |              |
| Undistributed Cash Flow from Prior Year Operations  |              |                |              |              |
| Cash Surplus (Deficiency) after Cash Distributions of Special Items<br>(not including sales and financing): | 114,653      | 293,214        | 27,845       | (67,404)     |
| Source of Funds:  |              |                |              |              |
| General Partner Contributions   |              |                |              |              |
| Increase in Limited Partner Contributions   |              | 4,236,155      | 14,938,545   | 15,162,434   |
|   | 114,653      | 4,529,369      | 14,966,390   | 15,095,030   |
| Use of Funds:   |              |                |              |              |
| Sales Commissions and Offering Expenses   |              | 621,400        | 1,610,813    | 1,659,167    |
| Return of Original Limited Partner's Investment   |              |                |              |              |
| Property Acquisition and Deferred Project Costs   | 4,215,771    | 11,804,575     | 4,634,071    | 9,641,316    |
| Cash Surplus (Deficiency) after Cash Distributions and Special<br>Items                                     | (4,101,118)  | \$ (7,896,606) | \$ 8,721,506 | \$ 3,794,447 |
| Net Income and Distributions Data per \$1,000 Invested:   |              |                |              |              |

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## Net Income on GAAP Basis

### Ordinary Income (Loss):

|                      |    |       |    |       |    |       |    |      |
|----------------------|----|-------|----|-------|----|-------|----|------|
| Cash Preferred Units | \$ | 85    | \$ | 70    | \$ | 63    | \$ | 12   |
| Tax Preferred Units  |    | (208) |    | (141) |    | (105) |    | (22) |

### Recapture

### Capital Gain (Loss):

### Tax and Distribution Data per \$1,000 Invested:

### Federal Income Tax Results:

### Ordinary Income (loss):

|                      |      |      |      |     |
|----------------------|------|------|------|-----|
| Cash Preferred Units | 82   | 68   | 60   | 15  |
| Tax Preferred Units  | (74) | (52) | (41) | (7) |

### Recapture

### Capital Gain (Loss):

### Cash Preferred Units

### Tax Preferred Units

### Deferred Gain:

### Capital

### Ordinary

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|  | 2006 | 2005 | 2004 | 2003 |
|--|------|------|------|------|
| Cash Distributions to Investors:                             |      |      |      |      |
| Source (on GAAP Basis):                                      |      |      |      |      |
| Investment Income to Cash Preferred Units                    | 82   | 64   | 56   | 15   |
| Return of Capital to Cash Preferred Units                    |      |      |      |      |
| Return of Capital to Tax Preferred Units                     |      |      |      |      |
| Source (on Cash Basis):                                      |      |      |      |      |
| Sales to Cash Preferred Units                                |      |      |      |      |
| Sales to Tax Preferred Units                                 |      |      |      |      |
| Refinancing  |      |      |      |      |
| Operations to Cash Preferred Units                           | 82   | 64   | 56   | 15   |
| Other  |      |      |      |      |
| Source (on a Priority Distribution Basis) <sup>(5)</sup> :   |      |      |      |      |
| Investment Income to Cash Preferred Units                    | 82   | 64   | 56   | 15   |
| Return of Capital to Cash Preferred Units                    |      |      |      |      |
| Investment Income to Preferred Units                         |      |      |      |      |
| Return of Capital to Tax Preferred Units                     |      |      |      |      |
| Amount (in Percentage Terms) Remaining Invested in Program   |      |      |      |      |
| Properties at the end of the Last Year Reported in the Table | 100% |      |      |      |

- (1) Includes \$18,205 of equity in earnings of joint ventures in 2003; \$427,890 of equity in earnings of joint ventures in 2004; \$510,288 in equity in earnings of joint ventures in 2005; and \$560,990 in equity of earnings of joint ventures in 2006. As of December 31, 2006, the occupancy percentage of all properties owned by Wells Real Estate Fund XIV, L.P. was 100%.
- (2) Includes partnership administrative expenses.
- (3) Included in equity in earnings of joint ventures in gross revenues is depreciation of \$85,391 for 2003; \$708,782 for 2004; \$684,660 for 2005; and \$692,970 for 2006.
- (4) In accordance with the partnership agreement, net income or loss, depreciation and amortization are allocated \$57,392 to Cash Preferred Limited Partners, \$(109,860) to Tax Preferred Limited Partners, and \$(461) to the General Partners for 2003; \$992,650 to Cash Preferred Limited Partners, \$(703,451) to Tax Preferred Limited Partners and \$0 to the General Partners for 2004; \$1,761,888 to Cash Preferred Limited Partners, \$(1,254,097) to Tax Preferred Limited Partners and \$0 to the General Partners in 2005 and \$2,212,221 to Cash Preferred Limited Partners, \$(1,796,130) to Tax Preferred Limited Partners and \$0 to the General Partners in 2006.
- (5) Pursuant to the terms of the partnership agreement, an amount equal to the cash distributions paid to Cash Preferred Limited Partners is payable as priority distributions out of net proceeds from the sale of partnership properties to Tax Preferred Limited Partners. Such distributions are characterized as return of capital distributions to Tax Preferred Limited Partners. As of December 31, 2006, the aggregate amount of such priority distributions payable to Tax Preferred Limited Partners was \$0.00 per unit.

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**TABLE III**

**OPERATING RESULTS OF PRIOR PROGRAMS**

**(UNAUDITED)**

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

|  | 2006                                     | 2005       | 2004        | 2003       | 2002        |
|--|--|------------|-------------|------------|-------------|
|  | (In thousands, except per share amounts) |            |             |            |             |
| Gross Revenues <sup>(1)</sup>  | \$ 583,918                               | \$ 593,963 | \$ 564,625  | \$ 327,965 | \$ 100,515  |
| Operating Income from Discontinued Operations                        | 4,626                                    | 12,358     | 34,517      | 26,597     | 17,205      |
| Profit on Sale of Properties   | 27,922                                   | 177,678    | 11,489      |            |             |
| Less: Operating Expenses   | 324,476                                  | 300,541    | 257,703     | 135,676    | 30,207      |
| Depreciation and Amortization <sup>(2)</sup>                         | 158,666                                  | 154,323    | 143,206     | 98,201     | 27,659      |
| Net Income GAAP Basis  | \$ 133,324                               | \$ 329,135 | \$ 209,722  | \$ 120,685 | \$ 59,854   |
| Taxable Income: Operations   | \$ 201,001                               | \$ 365,290 | \$ 230,670  | \$ 153,511 | \$ 80,521   |
| Cash Generated (Used By):  |  |            |             |            |             |
| Operations   | 276,204                                  | 271,494    | 329,818     | 237,238    | 111,960     |
| Sales  | 111,778                                  | 756,768    | 40,506      | 2,409      |             |
| Financing  | 207,498                                  | 146,130    | 193,679     | (26,046)   | 150,071     |
|  | 595,480                                  | 1,174,392  | 564,003     | 213,601    | 262,031     |
| Less Cash Distributions to Investors:                                |  |            |             |            |             |
| Operating Cash Flow  | 269,575                                  | 286,643    | 326,372     | 219,121    | 104,996     |
| Return of Capital  |  | 748,526    |             |            |             |
| Cash Surplus (Deficiency) after Cash Distributions                   |  |            |             |            |             |
| Special Items (not including sales and financing):                   | 325,905                                  | 139,223    | 237,631     | (5,520)    | 157,035     |
| Issuance of common stock   | 150,379                                  | 159,459    | 194,942     | 2,531,345  | 1,340,293   |
| Redemptions of common stock  | (178,907)                                | (215,015)  | (96,806)    | (43,690)   | (15,362)    |
| Deferred financing costs paid and other                              | (1,038)                                  | (984)      | (10,473)    | (8,346)    | (1,674)     |
| Proceeds from master leases  | 963                                      |            |             |            |             |
| Repurchase of shares upon settlement                                 |  |            | (12,842)    |            |             |
|  | 297,302                                  | 82,683     | 312,452     | 2,473,789  | 1,480,292   |
| Use of Funds:  |  |            |             |            |             |
| Sales Commissions and Offering Expenses                              | 3,747                                    | 8,301      | 32,877      | 254,926    | 140,488     |
| Return of Investors Investment                                       |  |            |             |            |             |
| Property Acquisitions and Deferred Project Costs                     | 297,602                                  | 64,550     | 292,778     | 2,186,787  | 1,361,016   |
| Contributions to joint ventures                                      | 795                                      | 528        | 395         | 24,059     | 8,910       |
| Cash Surplus (Deficiency) after Cash Distributions and Special Items | \$ (4,842)                               | \$ 9,304   | \$ (13,598) | \$ 8,017   | \$ (30,122) |
| Tax and Distribution Data Per \$1,000 Invested Federal               |  |            |             |            |             |
| Income Tax Results:  |  |            |             |            |             |
| Ordinary Income (Loss):  |  |            |             |            |             |
| Operations   | \$ 29                                    | \$ 15      | \$          | \$         | \$          |
| Recapture  | 1  | 3          |             |            |             |
| Return of capital  | 11                                       | 50         |             |            |             |
| Capital Gain (Loss)  | 3  | 10         |             |            |             |
| Deferred Gain:   |  |            |             |            |             |
| Capital  |  |            |             |            |             |

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|  |                      |     |    |    |    |
|--|----------------------|-----|----|----|----|
| Ordinary   |                      |     |    |    |    |
| Cash Distributions to Investors:                             |                      |     |    |    |    |
| Source (on GAAP Basis):                                      |                      |     |    |    |    |
| Investment Income  | 58                   | 61  | 70 | 70 | 76 |
| Return of capital  |                      | 162 |    |    |    |
| Source (on Cash Basis):                                      |                      |     |    |    |    |
| Sales  | 15                   | 34  | 2  |    |    |
| Refinancing  |                      |     |    |    |    |
| Operations   | 38                   | 61  | 49 | 49 | 53 |
| Return of capital  | 5                    | 128 | 19 | 21 | 23 |
| Other  |                      |     |    |    |    |
| Amount (in Percentage Terms) Remaining Invested in Program   |                      |     |    |    |    |
| Properties at the end of the Last Year Reported in the Table | 83.8% <sup>(3)</sup> |     |    |    |    |

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- (1) Includes \$4,700 in equity in earnings of joint ventures in 2002; \$4,751 in equity in earnings of joint ventures in 2003; \$6,634 in equity in earnings of joint ventures in 2004; \$14,765 in equity in earnings of joint ventures in 2005; and \$2,197 in equity in earnings of joint ventures in 2006.
- (2) Included in equity in earnings of joint ventures in gross revenues is depreciation and amortization of \$2,818 for 2002; \$3,730 for 2003; \$4,160 for 2004; \$2,777 for 2005; and \$2,558 for 2006.
- (3) Piedmont REIT disposed of 27 properties during 2005 and distributed the net sales proceeds to stockholders in the amount of \$1.62 per share. This special distribution reduced the amount of program proceeds invested in properties to 83.8%.

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**TABLE III**

**OPERATING RESULTS OF PRIOR PROGRAMS**

**(UNAUDITED)**

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

|  | 2006                                     | 2005       | 2004      | 2003    |
|--|--|------------|-----------|---------|
|  | (In thousands, except per share amounts) |            |           |         |
| Gross Revenues <sup>(1)</sup>  | \$ 336,190                               | \$ 173,565 | 53,622    |         |
| Profit on Sale of Properties   |  |            |           |         |
| Less: Operating Expenses   | 195,128                                  | 93,329     | 38,700    |         |
| Depreciation and Amortization <sup>(2)</sup>                               | 131,187                                  | 67,715     | 19,484    |         |
| Net Income GAAP Basis  | \$ 9,875                                 | \$ 12,521  | (4,562)   |         |
| Taxable Income: Operations   | \$ 76,187                                | \$ 43,376  | 3,879     |         |
| Cash Generated (Used By):  |  |            |           |         |
| Operations   | 151,084                                  | 76,351     | 22,722    | (44)    |
| Sales  |  |            |           |         |
| Financing  | (60,911)                                 | 231,687    | 235,987   |         |
|  | 90,173                                   | 308,038    | 258,709   | (44)    |
| Less Cash Distributions to Investors:                                      |  |            |           |         |
| Operating Cash Flow  | 140,260                                  | 80,586     | 16,613    |         |
| Return of Capital  |  |            |           |         |
| Cash Surplus (Deficiency) after Cash Distributions                         |  | (50,087)   | 227,452   | 242,096 |
| Special Items (not including sales and financing):                         |  |            |           |         |
| Issuance of common stock   | 859,961                                  | 1,194,594  | 790,270   |         |
| Redemptions of common stock  | (32,421)                                 | (15,320)   | (690)     |         |
| Deferred financing costs paid and other                                    | (1,626)                                  | (3,650)    | (6,382)   |         |
|  | 775,827                                  | 1,403,076  | 1,025,294 |         |
| Use of Funds:  |  |            |           |         |
| Sales Commissions and Offering Expenses                                    | 82,601                                   | 126,971    | 84,917    |         |
| Return of Investors Investment   |  |            |           |         |
| Property Acquisitions and Deferred Project Costs                           | 682,478                                  | 1,262,128  | 919,658   |         |
| Contributions to joint ventures  |  |            |           |         |
| Cash Surplus (Deficiency) after Cash Distributions and Special Items       | \$ 10,748                                | \$ 13,977  | 20,719    | (44)    |
| Tax and Distribution Data Per \$1,000 Invested Federal Income Tax Results: |  |            |           |         |
| Ordinary Income (Loss):  |  |            |           |         |
| Operations   | \$ 17                                    | \$ 17      | 3         |         |
| Recapture  |  |            |           |         |
| Return of capital  | 15                                       | 14         | 6         |         |
| Capital Gain (Loss)  |  |            |           |         |
| Deferred Gain:   |  |            |           |         |

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|  |      |    |    |
|--|------|----|----|
| Capital  |      |    |    |
| Ordinary   |      |    |    |
| Cash Distributions to Investors:                             |      |    |    |
| Source (on GAAP Basis):                                      |      |    |    |
| Investment Income  | 60   | 60 | 49 |
| Return of capital  |      |    |    |
| Source (on Cash Basis):                                      |      |    |    |
| Sales  |      |    |    |
| Refinancing  |      |    |    |
| Operations   | 32   | 33 | 12 |
| Return of capital  | 28   | 27 | 37 |
| Other  |      |    |    |
| Amount (in Percentage Terms) Remaining Invested in Program   |      |    |    |
| Properties at the end of the Last Year Reported in the Table | 100% |    |    |

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**TABLE V**  
**SALES OR DISPOSALS OF PROPERTIES**  
**(UNAUDITED)**

The following Table sets forth sales or other disposals of properties by Wells Public Programs within the most recent three fiscal years. The information relates to only public programs with investment objectives similar to Wells Timberland REIT. All figures are as of December 31, 2006.

| Property   | Date<br>Acquired | Date of<br>Sale | Selling Price, Net of Closing Costs and GAAP<br>Adjustments |   |  |  | Total                      | Cost of Properties Including Closing and Soft<br>Costs |   |            | Excess<br>(Deficiency)<br>of Property<br>Operating<br>Cash<br>Receipts<br>Over Cash<br>Expenditures |
|--|------------------|-----------------|---|---|--|--|----------------------------|--|---|------------|---|
|  |                  |                 | Cash<br>Received<br>Net of<br>Closing<br>Costs              | Mortgage<br>Balance<br>at Time<br>of Sale | Purchase<br>Money<br>Mortgage<br>Taken<br>Back by<br>Program | Adjustments<br>Resulting<br>from<br>Application<br>of GAAP |                            | Original<br>Mortgage<br>Financing                      | Total<br>Acquisition<br>Cost, Capital<br>Improvement,<br>Closing and<br>Soft Costs <sup>(1)</sup> | Total      |   |
| Stockbridge Village<br>II, Stockbridge, GA                 | 11/12/93         | 04/29/04        | 2,705,451   |   |  |  | 2,705,451 <sup>(1)</sup>   |  | 3,075,946   | 3,075,946  |   |
| Stockbridge Village<br>III, Stockbridge,<br>GA             | 04/01/94         | 04/29/04        | 2,909,853   |   |  |  | 2,909,853 <sup>(2)</sup>   |  | 3,034,378   | 3,034,378  |   |
| Stockbridge Village<br>I Expansion,<br>Stockbridge, GA     | 06/07/95         | 04/29/04        | 4,108,277   |   |  |  | 4,108,277 <sup>(3)</sup>   |  | 3,222,355   | 3,222,355  |   |
| Hannover Center,<br>Clayton County,<br>GA                  | 04/01/96         | 04/29/04        | 1,703,431   |   |  |  | 1,703,431 <sup>(4)</sup>   |  | 1,682,069   | 1,682,069  |   |
| Stockbridge Village<br>Shopping Center,<br>Stockbridge, GA | 04/04/91         | 04/29/04        | 12,024,223  |   |  |  | 12,024,223 <sup>(5)</sup>  |  | 10,639,795  | 10,639,795 |   |
| 5104 Eisenhower<br>Boulevard<br>Building, Tampa,<br>FL     | 12/31/98         | 06/03/04        | 30,514,310  |   |  |  | 30,514,310 <sup>(6)</sup>  |  | 24,162,456  | 24,162,456 |   |
| Peachtree Place II,<br>Norcross, GA                        | 01/01/85         | 06/18/04        | 857,826   |   |  |  | 857,826 <sup>(7)</sup>     |  | 1,295,536   | 1,295,536  |   |
| Brookwood Grill,<br>Roswell, GA                            | 01/31/90         | 07/01/04        | 2,318,115   |   |  |  | 2,318,115 <sup>(8)</sup>   |  | 2,114,124   | 2,114,124  |   |
| 880 Holcomb<br>Bridge, Roswell,<br>GA                      | 01/31/90         | 07/01/04        | 6,889,379   |   |  |  | 6,889,379 <sup>(9)</sup>   |  | 7,171,261   | 7,171,261  |   |
| Johnson Matthey<br>Building, Wayne,<br>PA                  | 08/17/99         | 10/05/04        | 9,675,000   |   |  |  | 9,675,000 <sup>(10)</sup>  |  | 8,392,077   | 8,392,077  |   |
| 15253 Bake<br>Parkway, Irvine,<br>CA                       | 01/10/97         | 12/02/04        | 11,892,035  |   |  |  | 11,892,035 <sup>(11)</sup> |  | 10,579,865  | 10,579,865 |   |
| Marathon Building,<br>Appleton, WI                         | 09/16/94         | 12/29/04        | 9,927,330   |   |  |  | 9,927,330 <sup>(12)</sup>  |  | 9,333,483   | 9,333,483  |   |
| Alstom Power<br>Knoxville Building,<br>Knoxville, TN       | 12/10/96         | 03/15/05        | 11,646,089  |   |  |  | 11,646,089 <sup>(13)</sup> |  | 8,133,347   | 8,133,347  |   |
|  | 12/28/00         | 04/13/05        | 21,307,577  |   |  |  | 21,307,577 <sup>(14)</sup> |  | 15,973,132  | 15,973,132 |   |

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AT&T Oklahoma  
Building,  
Oklahoma City,  
OK

|  |          |          |             |                             |            |            |
|--|----------|----------|-------------|-----------------------------|------------|------------|
| AT&T<br>Pennsylvania,<br>Harrisburg, PA        | 02/04/99 | 04/13/05 | 8,524,584   | 8,524,584 <sup>(15)</sup>   | 13,173,835 | 13,173,835 |
| Allstate<br>Indianapolis,<br>Indianapolis, IN  | 09/27/02 | 04/13/05 | 15,790,699  | 15,790,699 <sup>(16)</sup>  | 11,398,100 | 11,398,100 |
| Alstom Power<br>Richmond,<br>Midlothian, VA    | 07/22/99 | 04/13/05 | 15,646,879  | 15,646,879 <sup>(17)</sup>  | 10,911,372 | 10,911,372 |
| AmeriCredit<br>Building, Orange<br>Park, FL    | 07/16/01 | 04/13/05 | 14,301,802  | 14,301,802 <sup>(18)</sup>  | 13,063,258 | 13,063,258 |
| ASML, Tempe, AZ                                | 03/29/00 | 04/13/05 | 20,883,739  | 20,883,739 <sup>(19)</sup>  | 18,124,318 | 18,124,318 |
| Bank Of America,<br>Brea, CA                   | 12/18/03 | 04/13/05 | 114,069,409 | 114,069,409 <sup>(20)</sup> | 92,928,622 | 92,928,622 |
| Capital One<br>Richmond I, Glen<br>Allen, VA   | 11/26/02 | 04/13/05 | 10,033,685  | 10,033,685 <sup>(21)</sup>  | 8,989,934  | 8,989,934  |
| Capital One<br>Richmond II, Glen<br>Allen, VA  | 11/26/02 | 04/13/05 | 11,314,581  | 11,314,581 <sup>(22)</sup>  | 10,464,969 | 10,464,969 |
| Capital One<br>Richmond III, Glen<br>Allen, VA | 11/26/02 | 04/13/05 | 11,315,903  | 11,315,903 <sup>(23)</sup>  | 10,374,378 | 10,374,378 |
| Daimler Chrysler<br>Dallas, Westlake,<br>TX    | 09/30/02 | 04/13/05 | 31,962,415  | 31,962,415 <sup>(24)</sup>  | 26,206,605 | 26,206,605 |
| Dana Detroit,<br>Farmington Hills,<br>MI       | 03/29/02 | 04/13/05 | 30,211,213  | 30,211,213 <sup>(25)</sup>  | 24,883,938 | 24,883,938 |
| Dana Kalamazoo,<br>Kalamazoo, MI               | 03/29/02 | 04/13/05 | 20,997,036  | 20,997,036 <sup>(26)</sup>  | 19,255,544 | 19,255,544 |
| Dial, Scottsdale,<br>AZ                        | 03/29/00 | 04/13/05 | 21,683,256  | 21,683,256 <sup>(27)</sup>  | 14,886,573 | 14,886,573 |

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| Property   | Date Acquired | Date of Sale | Selling Price, Net of Closing Costs and GAAP Adjustments |                                  |   |  | Total                      | Cost of Properties Including Closing and Soft Costs |  |            | Excess (Deficiency) of Property Operating Cash Receipts Over Cash Expenditures |
|--|---------------|--------------|--|----------------------------------|---|--|----------------------------|---|--|------------|--|
|  |               |              | Cash Received Net of Closing Costs                       | Mortgage Balance at Time of Sale | Purchase Money Mortgage Taken Back by Program | Adjustments Resulting from Application of GAAP |                            | Original Mortgage Financing                         | Total Acquisition Cost, Capital Improvement, Closing and Soft Costs <sup>(1)</sup> | Total      |  |
| EDS Des Moines, Des Moines, IA                     | 09/27/02      | 04/13/05     | 33,735,843   |                                  |   |  | 33,735,843 <sup>(28)</sup> |   | 27,659,014   | 27,659,014 |  |
| Experian/TRW, Allen, TX                            | 05/01/02      | 04/13/05     | 46,742,128   |                                  |   |  | 46,742,128 <sup>(29)</sup> |   | 37,147,417   | 37,147,417 |  |
| Gartner Building, Fort Myers, FL                   | 09/20/99      | 04/13/05     | 12,396,859   |                                  |   |  | 12,396,859 <sup>(25)</sup> |   | 9,181,850  | 9,181,850  |  |
| Gartner Parking Deck, Fort Myers, FL               | 09/30/04      | 04/13/05     | 1,135,876  |                                  |   |  | 1,135,876 <sup>(11)</sup>  |   | 933,251  | 933,251    |  |
| Ikon, Houston, TX                                  | 09/07/01      | 04/13/05     | 26,587,092   |                                  |   |  | 26,587,092 <sup>(32)</sup> |   | 21,639,972   | 21,639,972 |  |
| Ingram Micro, Millington, TN                       | 09/26/01      | 04/13/05     | 27,654,696   |                                  |   |  | 27,654,696 <sup>(33)</sup> |   | 21,923,060   | 21,923,060 |  |
| ISS Atlanta, Atlanta, GA                           | 07/01/02      | 04/13/05     | 61,374,003   |                                  |   |  | 61,374,003 <sup>(34)</sup> |   | 42,424,206   | 42,424,206 |  |
| ISS Atlanta III, Atlanta, GA                       | 07/01/03      | 04/13/05     | 14,815,427   |                                  |   |  | 14,815,427 <sup>(35)</sup> |   | 8,818,753  | 8,818,753  |  |
| John Wiley Building, Fishers, IN                   | 12/12/02      | 04/13/05     | 21,427,599   |                                  |   |  | 21,427,599 <sup>(36)</sup> |   | 18,316,778   | 18,316,778 |  |
| Kerr Mcgee, Houston, TX                            | 07/29/02      | 04/13/05     | 21,760,086   |                                  |   |  | 21,760,086 <sup>(37)</sup> |   | 14,081,555   | 14,081,555 |  |
| Kraft Atlanta, Suwanee, GA                         | 07/31/02      | 04/13/05     | 16,452,223   |                                  |   |  | 16,452,223 <sup>(38)</sup> |   | 12,150,948   | 12,150,948 |  |
| Lucent, Cary, NC                                   | 09/28/01      | 04/13/05     | 22,213,160   |                                  |   |  | 22,213,160 <sup>(39)</sup> |   | 18,760,392   | 18,760,392 |  |
| Metris Tulsa, Tulsa, OK                            | 02/11/00      | 04/13/05     | 13,008,856   |                                  |   |  | 13,008,856 <sup>(40)</sup> |   | 13,261,072   | 13,261,072 |  |
| Nissan, Irving, TX                                 | 09/19/01      | 04/13/05     | 59,881,046   |                                  |   |  | 59,881,096 <sup>(41)</sup> |   | 38,519,092   | 38,519,092 |  |
| Pacificare San Antonio, San Antonio, TX            | 07/12/02      | 04/13/05     | 19,670,204   |                                  |   |  | 19,670,204 <sup>(42)</sup> |   | 15,287,669   | 15,287,669 |  |
| Transocean Houston, Houston, TX                    | 03/15/02      | 04/13/05     | 22,855,716   |                                  |   |  | 22,855,716 <sup>(43)</sup> |   | 22,928,458   | 22,928,458 |  |
| Travelers Express Denver, Lakewood, CO             | 04/10/02      | 04/13/05     | 11,519,192   |                                  |   |  | 11,519,192 <sup>(44)</sup> |   | 10,993,334   | 10,993,334 |  |
| Tanglewood Commons (shopping center), Clemmons, NC | 05/31/95      | 04/21/05     | 11,236,283   |                                  |   |  | 11,236,283 <sup>(45)</sup> |   | 7,745,425  | 7,745,425  |  |
| 4400 Cox Road, Richmond, VA                        | 07/01/92      | 06/21/05     | 6,308,796  |                                  |   |  | 6,308,796 <sup>(46)</sup>  |   | 6,349,364  | 6,349,364  |  |
| CH2M Hill Building, Gainesville, FL                | 01/01/96      | 12/07/05     | 7,935,259  |                                  |   |  | 7,935,259 <sup>(47)</sup>  |   | 5,843,204  | 5,843,204  |  |

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|   |          |          |            |                            |            |            |
|---|----------|----------|------------|----------------------------|------------|------------|
| IRS Daycare,<br>Holtsville, NY                          | 09/16/02 | 03/22/06 | 3,605,461  | 3,605,461 <sup>(48)</sup>  | 2,569,948  | 2,569,948  |
| Heritage Place<br>(office), Tucker,<br>GA               | 09/4/86  | 05/10/06 | 4,028,043  | 4,028,043 <sup>(49)</sup>  | 7,862,538  | 7,862,538  |
| 10407 Centurion<br>Pkwy North,<br>Jacksonville,<br>FL   | 06/8/92  | 05/15/06 | 10,370,779 | 10,370,779 <sup>(50)</sup> | 11,260,183 | 11,260,183 |
| BellSouth<br>Building,<br>Jacksonville, FL              | 04/25/95 | 05/15/06 | 12,846,928 | 12,846,928 <sup>(51)</sup> | 8,722,587  | 8,722,587  |
| Northrop<br>Grumman,<br>Aurora, CO                      | 05/29/02 | 07/6/06  | 44,896,765 | 44,896,765 <sup>(52)</sup> | 16,754,413 | 16,754,413 |
| Paces Pavilion,<br>Atlanta, GA                          | 12/27/85 | 11/6/06  | 4,065,700  | 4,065,700 <sup>(53)</sup>  | 5,673,586  | 5,673,586  |
| FedEx Excess<br>Land Parcel,<br>Colorado<br>Springs, CO | 09/27/02 | 11/20/06 | 1,114,831  | 1,114,831 <sup>(54)</sup>  | 1,900,000  | 1,900,000  |
| Frank Russell,<br>Tacoma, WA                            | 01/9/04  | 12/15/06 | 61,863,807 | 61,863,807 <sup>(55)</sup> | 51,995,443 | 51,995,443 |
| 1315 West<br>Century Drive,<br>Louisville, CO           | 02/13/98 | 12/22/06 | 8,059,625  | 8,059,625 <sup>(56)</sup>  | 10,718,611 | 10,718,611 |

(1) Includes taxable gain from this sale in the amount of \$204,519, all of which is allocated to capital gain.

(2) Includes taxable gain from this sale in the amount of \$1,831,250, all of which is allocated to capital gain.

(3) Includes taxable gain from this sale in the amount of \$1,465,912, all of which is allocated to capital gain.

(4) Includes taxable gain from this sale in the amount of \$337,421, all of which is allocated to capital gain.

(5) Includes taxable gain from this sale in the amount of \$4,050,688, all of which is allocated to capital gain.

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(6) Includes taxable gain from this sale in the amount of \$7,684,705, all of which is allocated to capital gain.

(7) Includes taxable gain from this sale in the amount of \$347,537, all of which is allocated to capital gain.

(8) Includes taxable gain from this sale in the amount of \$665,199, all of which is allocated to capital gain.

(9) Includes taxable gain from this sale in the amount of \$1,164,002, all of which is allocated to capital gain.

(10) Includes taxable gain from this sale in the amount of \$2,114,572, all of which is allocated to capital gain.

(11) Includes taxable gain from this sale in the amount of \$1,699,607, all of which is allocated to capital gain.

(12) Includes taxable gain from this sale in the amount of \$2,753,041, all of which is allocated to capital gain.

(13) Includes taxable gain from this sale in the amount of \$4,290,651, all of which is allocated to capital gain.

(14) Includes taxable gain from this sale in the amount of \$6,798,154, all of which is allocated to capital gain.

(15) Includes a taxable loss from this sale \$(2,634,299).

(16) Includes taxable gain from this sale in the amount of \$5,144,469, all of which is allocated to capital gain.

(17) Includes taxable gain from this sale in the amount of \$5,242,003, all of which is allocated to capital gain.

(18) Includes taxable gain from this sale in the amount of \$2,304,984, all of which is allocated to capital gain.

(19) Includes taxable gain from this sale in the amount of \$5,092,422, all of which is allocated to capital gain.

(20) Includes taxable gain from this sale in the amount of \$18,896,175, all of which is allocated to capital gain.

(21) Includes taxable gain from this sale in the amount of \$1,557,153, all of which is allocated to capital gain.

(22) Includes taxable gain from this sale in the amount of \$1,397,465, all of which is allocated to capital gain.

(23) Includes taxable gain from this sale in the amount of \$1,497,835, all of which is allocated to capital gain.

(24) Includes taxable gain from this sale in the amount of \$7,273,433, all of which is allocated to capital gain.

(25) Includes taxable gain from this sale in the amount of \$6,892,438, all of which is allocated to capital gain.

(26) Includes taxable gain from this sale in the amount of \$2,972,661, all of which is allocated to capital gain.

(27) Includes taxable gain from this sale in the amount of \$8,345,282 all of which is allocated to capital gain.

(28) Includes taxable gain from this sale in the amount of \$7,806,011 all of which is allocated to capital gain.

(29) Includes taxable gain from this sale in the amount of \$11,999,840 all of which is allocated to capital gain.

(30) Includes taxable gain from this sale in the amount of \$4,155,567 all of which is allocated to capital gain.

(31) Includes taxable gain from this sale in the amount of \$187,625 all of which is allocated to capital gain.

(32) Includes taxable gain from this sale in the amount of \$6,545,326 all of which is allocated to capital gain.

(33) Includes taxable gain from this sale in the amount of \$7,664,259 all of which is allocated to capital gain.

(34) Includes taxable gain from this sale in the amount of \$21,673,281 all of which is allocated to capital gain.

(35) Includes taxable gain from this sale in the amount of \$4,961,842 all of which is allocated to capital gain.

(36) Includes taxable gain from this sale in the amount of \$4,157,855 all of which is allocated to capital gain.

(37) Includes taxable gain from this sale in the amount of \$6,946,994 all of which is allocated to capital gain.

(38) Includes taxable gain from this sale in the amount of \$4,924,013 all of which is allocated to capital gain.

(39) Includes taxable gain from this sale in the amount of \$4,481,579 all of which is allocated to capital gain.

(40) Includes taxable gain from this sale in the amount of \$1,305,941 all of which is allocated to capital gain.

(41) Includes taxable gain from this sale in the amount of \$19,209,804 all of which is allocated to capital gain.

(42) Includes taxable gain from this sale in the amount of \$5,229,866 all of which is allocated to capital gain.

(43) Includes taxable gain from this sale in the amount of \$1,626,903 all of which is allocated to capital gain.

(44) Includes taxable gain from this sale in the amount of \$1,356,025 all of which is allocated to capital gain.

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(45) Includes taxable gain from this sale in the amount of \$4,821,336 all of which is allocated to capital gain.

(46) Includes taxable gain from this sale in the amount of \$1,003,858 all of which is allocated to capital gain.

(47) Includes taxable gain from this sale in the amount of \$3,478,342 all of which is allocated to capital gain.

(48) Includes taxable gain from this sale in the amount of \$1,117,752, of which \$900,460 is allocated to capital gain and \$217,292 is allocated to unrecaptured Section 1250 gain.

(49) Includes taxable loss from this sale in the amount of \$1,899,816 all of which is allocated to ordinary loss.

(50) Includes taxable gain from this sale in the amount of \$1,169,557 all of which is allocated to capital gain.

(51) Includes taxable gain from this sale in the amount of \$5,569,044 all of which is allocated to capital gain.

(52) Includes taxable gain from this sale in the amount of \$11,321,758, of which \$8,799,448 is allocated to capital gain and \$2,522,310 is allocated to unrecaptured Section 1250 gain.

(53) Includes taxable gain from this sale in the amount of \$795,430 all of which is allocated to capital gain.

(54) Resulted in a taxable long-term capital loss on sale of \$785,169.

(55) Includes taxable gain from this sale in the amount of \$11,223,449, of which \$7,521,308 is allocated to capital gain and \$3,702,141 is allocated to unrecaptured Section 1250 gain.

(56) Includes taxable loss from this sale in the amount of \$1,211,841, all of which is allocated to ordinary loss.

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**Appendix A   Subscription Agreement (Sample) with Instructions**

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### **Appendix B Distribution Reinvestment Plan**

Wells Timberland REIT, Inc., a Maryland corporation (the "Company"), pursuant to its Articles of Incorporation, as amended and restated to date (the "Articles"), has adopted a Distribution Reinvestment Plan (the "Plan"), the terms and conditions of which are set forth below.

**1. Reinvestment of Distributions.** As agent for stockholders ("Stockholders") of the Company who purchase shares of the Company's common stock (the "Shares") pursuant to the Company's initial public offering (the "Initial Offering") or any future public offering (a "Future Offering") and who elect to participate in the Plan (the "Participants"), the Company will apply all distributions (other than "Excluded Distributions" as defined below) declared and paid in respect of the Shares held by each Participant (the "Distributions"), including Distributions paid with respect to any full or fractional Shares acquired under the Plan, to the purchase of the Shares for such Participants directly, if permitted under state securities laws and, if not, through the dealer-manager or participating dealers for the public offering of Shares registered in the Participant's state of residence. As used in this Plan, the term "Excluded Distributions" shall mean those cash distributions relating to net proceeds of the sale of one or more properties or other investments designated as Excluded Distributions by the board of directors of the Company, which shall be paid to Plan participants in cash and shall not be deemed "Distributions" for purposes of Plan reinvestments.

**2. Procedure for Participation.** Any Stockholder who has received a prospectus that includes the offer of shares registered for sale under the Plan pursuant to a registration statement filed with the Securities and Exchange Commission (the "SEC"), may elect to become a Participant by completing and executing the subscription agreement in the form included in the prospectus, an enrollment form or any other appropriate authorization form as may be available from the Company, the dealer-manager or a participating dealer. Participation in the Plan will begin with the next Distribution payable after receipt of a Participant's subscription, enrollment or authorization, provided it is received on or prior to the last day of the fiscal month or quarter, as the case may be, to which such Distribution relates. Shares will be purchased under the Plan on the date that Distributions are paid by the Company. Each Participant agrees that if, at any time prior to the listing of the Shares on a national stock exchange, he or she fails to meet the suitability requirements for making an investment in the Shares or cannot make the other representations or warranties set forth in the subscription agreement, he or she will promptly so notify the Company in writing.

**3. Purchase of Shares.** Participants will acquire Shares from the Company at a price per share equal to (1) during the Initial Offering, \$9.55 per share; (2) during the period of any Future Offering, 95.5% of the offering price in such offering; and (3) for the first 12 months subsequent to the close of the Company's last public equity offering prior to the listing of the Company's Shares on a national securities exchange, 95.5% of the most recent offering price. After that 12-month period, the Company will publish a per Share estimated valuation and distributions will be reinvested at a price equal to the most recently published per Share estimated value. (For these purposes, a "public equity offering" does not include offerings on behalf of selling stockholders, offerings related to a distribution reinvestment plan or employee benefit plan or the redemption of interests in Wells Timberland Operating Partnership, L.P.) Participants in the Plan also may purchase fractional Shares so that 100% of the Distributions will be used to acquire Shares. However, a Participant will not be able to acquire Shares under the Plan to the extent such purchase would cause it to exceed the Ownership Limit (as defined in the Articles) or otherwise would cause a violation of the share ownership restrictions set forth in the Articles.

Shares to be distributed by the Company in connection with the Plan may be, but are not required to be, supplied from: (a) Shares which were registered for the Plan in the Initial Offering, (b) Shares subsequently registered by the Company with the SEC for use in the Plan (a "Secondary Registration"), or (c) Shares purchased by the Company for the Plan in a secondary market (if available) or on a national stock exchange (if listed) (collectively, the "Secondary Market").

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Shares purchased on the Secondary Market will be purchased at the then-prevailing market price, which price will be used for purposes of issuing Shares in the Plan. Shares acquired by the Company on the Secondary Market or registered in a Secondary Registration for use in the Plan may be at prices lower or higher than the Share price, which will be paid for the Shares purchased pursuant to the Initial Offering.

If the Company acquires Shares in the Secondary Market for use in the Plan, the Company shall use reasonable efforts to acquire Shares for use in the Plan at the lowest price then reasonably available. However, the Company does not in any respect guarantee or warrant that the Shares so acquired and purchased by the Participant in the Plan will be at the lowest possible price. Further, irrespective of the Company's ability to acquire Shares in the Secondary Market or to complete a Secondary Registration for shares to be used in the Plan, the Company is in no way obligated to do either, in its sole discretion.

**4. TAXES. IT IS UNDERSTOOD THAT REINVESTMENT OF DISTRIBUTIONS DOES NOT RELIEVE A PARTICIPANT OF ANY INCOME TAX LIABILITY THAT MAY BE PAYABLE ON THE DISTRIBUTIONS.**

**5. Share Certificates.** The ownership of the Shares purchased through the Plan will be in book-entry form unless and until the Company issues certificates for its outstanding common stock.

**6. Reports.** The Company shall provide each Participant with an individualized quarterly report on his or her investment, including the purchase date(s), purchase price and number of Shares owned, as well as the dates of distribution and amounts of Distributions paid during the period covered by the report.

**7. Commissions and Other Charges.** The Company will not pay selling commissions or dealer-manager fees in connection with Shares sold pursuant to the Plan. In addition, the Company will not reimburse its advisor for organization and offering expenses from the proceeds of any such sales.

**8. Termination by Participant.** A Participant may terminate participation in the Plan at any time, without penalty, by delivering to the Company a written notice 10 business days prior to the distribution payment date. Prior to listing of the Shares on a national securities exchange, any transfer of Shares by a Participant to a non-Participant will terminate participation in the Plan with respect to the transferred Shares. If a Participant terminates Plan participation, the Company will ensure that the terminating Participant's account will reflect the number of shares in his or her account. Upon termination of Plan participation, Distributions will be paid in cash.

**9. Amendment or Termination of the Plan by the Company.** The Board of Directors of the Company may by majority vote (including a majority of the Independent Directors, as defined in the Articles) amend or terminate the Plan for any reason; provided that any amendment that adversely affects the rights or obligations of a Participant (as determined in the sole discretion of the board of directors) shall take effect only upon 10 days' written notice to the Participants.

**10. Liability of the Company.** The Company shall not be liable for any act done in good faith, or for any good faith omission to act, including, without limitation, any claims or liability: (a) arising out of failure to terminate a Participant's account upon such Participant's death prior to receipt of notice in writing of such death; and (b) with respect to the time and the prices at which Shares are purchased or sold for a Participant's account. To the extent that indemnification may apply to liabilities arising under the Securities Act of 1933, as amended, or the securities law of a particular state, the Company has been advised that, in the opinion of the SEC and certain state securities commissioners, such indemnification is contrary to public policy and, therefore, unenforceable.

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We have not authorized any dealer, salesperson or other individual to give any information or to make any representations that are not contained in this prospectus. If any such information or statements are given or made, you should not rely upon such information or representation. This prospectus does not constitute an offer to sell any securities other than those to which this prospectus relates, or an offer to sell, or a solicitation of an offer to buy, to any person in any jurisdiction where such an offer or solicitation would be unlawful. This prospectus speaks as of the date set forth below. You should not assume that the delivery of this prospectus or that any sale made pursuant to this prospectus implies that the information contained in this prospectus will remain fully accurate and correct as of any time subsequent to the date of this prospectus.

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Appendix B Distribution Reinvestment

Plan

See Risk Factors beginning on page 17 to read about risks you should consider before buying shares of our common stock.

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# **WELLS TIMBERLAND REIT, INC.**

**Maximum Offering of**

**85,000,000 Shares**

**of Common Stock**

**Minimum Offering of**

**200,000 Shares**

**of Common Stock**

**P R O S P E C T U S**

# **WELLS INVESTMENT SECURITIES, INC.**

December 14, 2007





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**WELLS TIMBERLAND REIT, INC**

**SUPPLEMENT NO. 14 DATED APRIL 23, 2009**

**TO THE PROSPECTUS DATED DECEMBER 14, 2007**

This document supplements, and should be read in conjunction with, our prospectus dated December 14, 2007, relating to our offering of up to 85,000,000 shares of common stock. This Supplement No. 14 supersedes and replaces 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, Supplement No. 10 dated October 20, 2008, Supplement No. 11 dated November 21, 2008, Supplement No. 12 dated December 23, 2008 and Supplement No. 13 dated April 14, 2009. 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;

changes to the suitability standards for investors;

a description of our current portfolio;

selected financial data;

information regarding our indebtedness;

information regarding our distributions;

our performance    Adjusted EBITDA;

compensation paid to our advisor;

the sale by our operating partnership of Wells Timberland Acquisition, LLC to Wells Real Estate Funds, Inc.;

amendments to the terms of our mezzanine loan;

our entry into an amended and restated master purchase agreement with respect to the German offering;

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our entry into a carbon storage agreement;

an update to our Risk Factors disclosure;

a clarification regarding share ownership and transfer restrictions;

the amendment of our charter;

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

the amended and restated advisory agreement;

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

additional disclosures regarding Federal Income Tax Considerations;

a clarification regarding our share redemption plan;

an update regarding our rescission offer to Michigan residents;

an update to the table of contents to our prospectus;

a change to our Experts section of our prospectus;

incorporation of certain documents by reference;

an amended subscription agreement;

an update to our Prior Performance Summary disclosure in our prospectus; and

an update to our Prior Performance Tables disclosure in our prospectus.

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**Status of Our Initial Public Offering**

As of April 15, 2009, we had received aggregate gross offering proceeds, net of discounts, of approximately \$151.0 million from the sale of approximately 15.2 million shares in our initial public offering. As of April 15, 2009, approximately 59.8 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, unless extended in accordance with applicable regulations. On January 17, 2008, our board of directors extended the termination date of our initial public offering from August 11, 2008 to August 11, 2009. Accordingly, all references to the termination of this offering are revised to state that this offering will terminate by August 11, 2009.

**Suitability Standards**

The Suitability Standards section of the prospectus is hereby supplemented and updated with the following special suitability standards:

**Alaska** Investors who reside in the state of Alaska must have either (1) a net worth of at least \$250,000 or (2) an annual gross income of at least \$70,000 and a net worth of at least \$70,000.

**California** Investors who reside in the state of California must have either (1) a net worth of at least \$250,000 or (2) a net annual income of at least \$70,000 and a net worth of at least \$70,000. In either case, a California resident's investment may not exceed 10% of his/her liquid net worth.

**Indiana** Investors who reside in the state of Indiana must have either (1) a net worth of at least \$250,000 or (2) an annual gross income of at least \$70,000 and a net worth of at least \$70,000.

**North Carolina** Investors who reside in the state of North Carolina must have either (1) a net worth of at least \$250,000 or (2) an annual gross income of at least \$70,000 and a net worth of at least \$70,000.

**Oregon** Investors who reside in the state of Oregon must have either (1) a net worth of at least \$250,000 or (2) a net annual income of at least \$70,000 and a net worth of at least \$70,000. In either case, an Oregon resident's investment may not exceed 10% of his/her liquid net worth.

**Pennsylvania** Investors who reside in the state of Pennsylvania must have either (1) a net worth of at least \$500,000 or (2) an annual gross income of at least \$140,000 and a net worth of at least \$140,000.

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**Description of Current Portfolio**

We engage in the acquisition and ownership of timberland located throughout the United States and, to a limited extent, investments in timberland located in other countries. When and where we believe that it is appropriate, we also will seek to generate cash flow from the sale of higher and better use, or HBU, timberland. As of April 15, 2009, we owned interests in approximately 313,800 acres of timberland (consisting of approximately 223,400 acres of timberland owned in fee simple and approximately 90,400 acres of timberland held in leasehold interest) located on the Lower Piedmont and Upper Coastal Plains of East Central Alabama and West Central Georgia, which we refer to herein as the Mahrt Timberland or, in our prospectus, the South Central Timberland. Since our acquisition of the Mahrt Timberland in October 2007, we have sold approximately 4,717 acres of HBU timberland and our leasehold interests in approximately 4,400 acres of timberland have expired. As of April 15, 2009, the Mahrt Timberland consisted of an estimated 11.5 million tons of merchantable timber inventory with age classes ranging from one to 75 years. Of the estimated 11.5 million tons of merchantable timber, approximately 6.9 million tons, or 61%, is pine. The Mahrt Timberland's remaining merchantable timber consists of various hardwood species. Since our acquisition, we also have increased production levels and harvesting plans to fully capture the value of the Mahrt Timberland. In 2008, we planted approximately 2.5 million trees and have planted another 3.5 million trees in 2009. On average, we harvest and deliver more than 1,000 truckloads of timber each week from the Mahrt Timberland.

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The following selected financial data for the years ended December 31, 2008, 2007, 2006, and the period from the filing of our initial Registration Statement on Form S-11 with the SEC on November 10, 2005 (date of inception) through December 31, 2005, should be read in conjunction with the consolidated financial statements and related notes in Item 8. Financial Statements and Supplementary Data in our Annual Report on Form 10-K for the year ended December 31, 2008, as amended by Amendment No. 1 filed on April 14, 2009, which we refer to as the 2008 Annual Report and which is incorporated into this supplement by reference.

|   | 2008                          | As of December 31,              |              |                     |
|---|-------------------------------|---------------------------------|--------------|---------------------|
|   |                               | 2007                            | 2006         | 2005                |
| Total assets                                | \$ 390,986,924 <sup>(1)</sup> | \$ 828,567,130                  | \$ 328,907   | \$ 203,000          |
| Total liabilities                           | \$ 298,712,216                | \$ 775,523,302                  | \$ 776,918   |                     |
| Total stockholders' equity (deficit)        | \$ 92,274,708                 | \$ 53,043,828                   | \$ (448,011) | \$ 203,000          |
|   |                               | For the Year Ended December 31, |              |                     |
|   | 2008                          | 2007                            | 2006         | 2005 <sup>(2)</sup> |
| Total revenues                              | \$ 48,271,055                 | \$ 8,273,933                    |              |                     |
| Net loss                                    | \$ (53,274,682)               | \$ (17,346,062)                 | \$ (669,011) |                     |
| Net loss available to common stockholders   | \$ (56,317,035)               | \$ (17,975,682)                 | \$ (669,011) |                     |
| Adjusted EBITDA <sup>(3)</sup>              | \$ 8,261,499                  | \$ (306,026)                    | \$ (669,011) |                     |
| Cash flows used in operating activities     | \$ (6,593,970)                | \$ (3,434,342)                  | \$ (777,089) |                     |
| Cash flows used in investing activities     | \$ 3,000,109                  | \$ (419,106,990)                |              |                     |
| Cash flows provided by financing activities | \$ 6,239,172                  | \$ 423,813,283                  | \$ 776,918   | \$ 203,000          |
| Per-share data - basic and diluted:         |                               |                                 |              |                     |
| Net loss available to common stockholders   | \$ (6.30)                     | \$ (17.73)                      | \$ (33.45)   | \$                  |
| Weighted-average common shares outstanding  | 8,937,431                     | 1,014,108                       | 20,000       | 20,000              |

(1) Total assets decreased significantly from December 31, 2007 to December 31, 2008 due to the disposition of two wholly owned subsidiaries on December 18, 2008 with total assets, as of December 31, 2007, of approximately \$400.6 million. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview in our 2008 Annual Report for more information.

(2) Represents the period from November 10, 2005 (date of inception) through December 31, 2005.

(3) See Our Performance - Adjusted EBITDA below for the definition and information regarding why we present Adjusted EBITDA and for a reconciliation of this non-GAAP financial measure to net loss.

**Information Regarding Our Indebtedness**

As of April 6, 2009, our leverage ratio, or the ratio of total debt to total purchase price of timber assets plus cash and cash equivalents, was approximately 63%. As of April 6, 2009, 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 211%. As of April 6, 2009, we had total outstanding indebtedness of approximately \$258.8 million, which consisted of \$204.7 million outstanding under a first mortgage loan, which we refer to as the senior loan, in the original principal amount of \$212.0 million with CoBank, ACB, and \$54.1 million outstanding under a second mortgage loan, which we refer to as the mezzanine loan, in the original principal amount of \$160.0 million with Wachovia Bank, National Association, which we refer to as Wachovia Bank. The senior loan bears interest at an adjustable rate based on one-, two-, or three-month LIBOR plus a margin that varies based upon the ratio of the



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amount outstanding on the loan to the value of the Mahrt Timberland at the time of determination. The mezzanine loan currently incurs interest at an annual rate of 11.0%. Both the senior loan and the mezzanine loan were entered into in October 2007 in connection with our acquisition from MeadWestvaco Corporation of the Mahrt Timberland.

**Information Regarding Our Distributions**

The agreements for both the senior loan and the mezzanine loan entered into in connection with the acquisition of the Mahrt Timberland contain restrictive covenants that prohibit us from declaring, setting aside funds for, or paying any dividend, distribution, or other payment to our stockholders while the mezzanine loan is outstanding and until we have achieved certain financial performance measures under the senior loan. As a result, we have been and will be unable to make any payments or distributions to our stockholders until the mezzanine loan is repaid in full and after reduction of the senior loan to a 40% loan-to-collateral value ratio (as described in the senior loan agreement). We have therefore made no distributions to our stockholders as of the date of this supplement.

**Our Performance    Adjusted EBITDA**

The discussion below is presented to enhance your understanding of our liquidity, ability to generate cash, and ability to satisfy lender requirements. Earnings from Continuing Operations before Interest, Taxes, Depletion, and Amortization, or EBITDA is a non-GAAP measure of our operating cash-generating capacity. EBITDA is defined by the SEC; however, we have excluded certain other expenses due to their noncash nature, and we refer to this measure as Adjusted EBITDA. As such, Adjusted EBITDA as defined may not be comparable to similarly titled measures reported by other companies. Adjusted EBITDA should not be viewed as an alternative to net income or cash from operations as a measurement of our operating performance, as it excludes certain expenses related to fixed-asset investments required to generate revenues. Due to our significant amount of debt, management views operating income as the most appropriate earnings measure of our underlying timber operations. Management considers Adjusted EBITDA to be an important measure of our financial condition and cash-generating ability due to the significant amount of fixed assets subject to depletion and the significant amount of financing subject to interest and amortization expense. Our credit agreements contain a minimum debt service coverage ratio based on Adjusted EBITDA since the measure is representative of adjusted income available for interest payments.

For the year ended December 31, 2008, Adjusted EBITDA was approximately \$8.6 million higher than the prior year due to the acquisition of the Mahrt Timberland in October 2007 and its subsequent operations. Our reconciliation of net loss to Adjusted EBITDA for the years ended December 31, 2008, 2007 and 2006 follows:

|  | 2008            | 2007            | 2006         |
|--|-----------------|-----------------|--------------|
| Net loss   | \$ (53,274,682) | \$ (17,346,062) | \$ (669,011) |
| Add:   |                 |                 |              |
| Loss on sale of subsidiaries   | 4,696,944       |                 |              |
| Unrealized loss on interest rate swaps that do not qualify for hedge accounting treatment <sup>(1)</sup> | 3,144,022       | 3,696,229       |              |
| Interest expense <sup>(2)</sup>  | 25,257,254      | 7,276,171       |              |
| Depletion  | 21,513,106      | 4,116,992       |              |
| Amortization   | 6,924,855       | 1,950,644       |              |
| Adjusted EBITDA  | \$ 8,261,499    | \$ (306,026)    | \$ (669,011) |

- (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

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interest expense, gain (loss) on interest rate swaps, land rent expense, or other operating expenses in the accompanying consolidated statements of operations for the year ended December 31, 2008.

- (2) Excludes interest expense of approximately \$14.1 million and \$4.9 million for the years ended December 31, 2008 and 2007, respectively, incurred on the MWV promissory note, as amounts are entirely offset by interest income earned on a certificate of deposit.

A noncash expense critical to our operations is the noncash cost of timberland sold. For the year ended December 31, 2008, noncash cost of timberland sold was approximately \$2.6 million. Adjusted EBITDA plus the noncash cost of timberland sold for the year ended December 31, 2008 totaled approximately \$10.9 million.

**Compensation Paid to Our Advisor**

The Management Compensation section (as well as the disclosure under Prospectus Summary Compensation of the Advisor and its Affiliates ) of our prospectus dated December 14, 2007, is hereby supplemented by the following:

| Type of Compensation                                | Amounts Incurred<br>Inception to<br>December 31, 2008 |
|---|---|
| <b>Organization and Offering Stage:</b>             |   |
| Selling Commissions                                 | \$ 9,395,620  |
| Dealer Manager Fee                                  | \$ 2,416,004  |
| Reimbursement of Organization and Offering Expenses | \$ 1,604,546  |
| <b>Acquisition and Operations Stage:</b>            |   |
| Asset Management Fee                                | \$ 4,678,009  |
| Reimbursement of Other Operating Expenses           | \$ 5,641,517  |
| Independent Director Compensation                   | \$ 554,530  |
| <b>Liquidity Stage:</b>                             |   |
| Real Estate Disposition Fee                         | \$ 89,816   |
| Special Units (Incentive Fee)                       | \$  |

As of December 31, 2008, fees and reimbursements accrued but not yet paid was approximately \$12.8 million, representing administrative reimbursements, operating expenses, asset management fees and other offering cost reimbursements due to Wells Timberland Management Organization, LLC, which we refer to as Wells TIMO, and commissions and dealer-manager fees due to Wells Investment Securities, Inc.

**Sale of Wells Timberland Acquisition, LLC**

As disclosed in the prospectus, on October 9, 2007, MWV SPE, LLC, which we refer to as MWV SPE, a wholly owned subsidiary of Wells Timberland Acquisition, LLC, which we refer to as Wells Timberland Acquisition, our wholly owned subsidiary, acquired 100% of the outstanding membership interests in Timberlands II, LLC, which we refer to as Timberlands II, a subsidiary of MeadWestvaco Corporation that owned the Mahrt Timberland. We paid a purchase price of \$400.0 million, exclusive of customary closing costs.

The purchase price was paid by delivery by MWV SPE of a promissory note in the amount of \$398.0 million, which we refer to as the purchase note, and the remaining portion of the purchase price was paid by delivery of cash. The purchase note is supported by a standby letter of credit issued by Wachovia Bank in the amount of \$407,928,475. A reimbursement obligation owed by Wells Timberland Acquisition to Wachovia Bank with respect to such letter of credit is fully secured by a pledge of a deposit account at Wachovia Bank. The interest on the deposit account is intended to be sufficient to pay interest on the purchase note.

To fund the deposit account, we entered into a debt financing arrangement with CoBank, ACB and Wachovia Bank that included the senior loan and the mezzanine loan.





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On October 15, 2008, MWV SPE transferred to Wells Timberland Acquisition 100% of the outstanding membership interests in Timberlands II, which resulted in Timberlands II being a direct wholly owned subsidiary of Wells Timberland Acquisition.

On December 18, 2008, Wells Timberland Operating Partnership, L.P., which we refer to as Wells Timberland OP or our operating partnership, entered into an Assignment and Assumption Agreement with Wells Timberland Acquisition, pursuant to which Wells Timberland Acquisition transferred 100% of the outstanding membership interests of Timberlands II to Wells Timberland OP, except for the security interests granted to Wachovia Bank, as administrative agent for various lending institutions pursuant to a pledge agreement dated October 9, 2007.

On December 18, 2008, and in connection with the transfer of 100% of the outstanding membership interests of Timberlands II to Wells Timberland OP, Wells Timberland OP entered into a purchase and sale agreement with Wells Real Estate Funds, Inc., which we refer to as Wells REF, the ultimate parent of our advisor, Wells TIMO, pursuant to which Wells Timberland OP sold 100% of the outstanding membership interests in Wells Timberland Acquisition to Wells REF for the purchase price of approximately \$2.0 million.

As a result of the sale of Wells Timberland Acquisition to Wells REF, neither we nor any of our subsidiaries is an obligor on the purchase note and neither we nor any of our subsidiaries holds the deposit account. The disposition of Wells Timberland Acquisition and, indirectly, MWV SPE and the deposit account, removes certain impediments to our ability to qualify to be taxed as a REIT.

In connection with the sale of Wells Timberland Acquisition, we entered into an amendment to the credit agreement for the senior loan to remove Wells Timberland Acquisition as a borrower and to add Wells Timberland OP as a borrower. We also entered into a fourth amendment to the terms of the mezzanine loan agreement, whereby Wells Timberland Acquisition was removed as a borrower under the mezzanine loan agreement, and Wells Timberland OP was added as a borrower. Also in connection with this fourth amendment to the mezzanine loan, Wells Timberland OP agreed to pledge 100% of the membership interests in Timberlands II owned by it to Wachovia Bank.

**Amendments to Mezzanine Loan**

On March 30, 2009, we entered into a fifth amendment to the terms of the mezzanine loan we obtained in connection with our acquisition of the Mahrt Timberland, for which Wachovia Bank is the administrative agent. The parties to the mezzanine loan had previously entered into four other amendments.

Pursuant to the fifth amendment of the mezzanine loan, the parties agreed to extend the maturity date of the mezzanine loan from September 30, 2009 to April 30, 2010. In addition, the fifth amendment provides that we shall make principal reduction payments on each of June 30, 2009, September 30, 2009 and December 31, 2009, reducing the outstanding principal balance to an amount not greater than \$45.0 million, \$30.0 million, and \$15.0 million, respectively. On April 30, 2010, all outstanding principal, interest and any fees or other obligations on the mezzanine loan shall be due and payable in full. The mezzanine loan currently incurs interest at an annual rate of 11.0%, and this interest rate was not affected by the fifth amendment. For information regarding our outstanding indebtedness under the mezzanine loan and the senior loan, please see the discussion under **Information Regarding Our Indebtedness** above.

Additionally, in connection with the third amendment to the mezzanine loan, which was entered into on October 15, 2008, and as an inducement to Wachovia Bank amending the terms of the mezzanine loan, Wells REF, the mezzanine loan's guarantor, agreed to (1) amend a separate outstanding loan from Wachovia Bank to Wells REF to, among other things, extend the maturity date, (2) pay an amendment fee to Wachovia Bank consisting of \$127,500 in cash and 600 shares of our preferred stock held by Wells REF and (3) pledge the

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remaining 42,228 shares of our preferred stock held by Wells REF to Wachovia Bank as security for Wells REF's guaranty of the mezzanine loan. Wells REF had previously acquired the shares of our 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 Bank amending the terms of the mezzanine loan, we have agreed that, after the mezzanine loan has been repaid in full, we will repay to Wells REF an amount in cash equal to the amendment fee, subject to the availability of proceeds from an equity offering by us. Under the terms of our \$212.0 million senior loan, we cannot make such repayment until we have 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 our assets securing the senior loan.

Because the repayment of the amendment fee to Wells REF is a related party transaction, our board of directors, including a majority of our independent directors, determined that the repayment of the amendment fee to Wells REF was fair and reasonable to us and on terms and conditions not less favorable to us than those available from unaffiliated third parties.

**Entry into an Amended and Restated Master Purchase Agreement with Respect to the German Offering**

**Overview of the Transaction**

On July 11, 2008, we previously entered into a master purchase agreement with our advisor, Wells TIMO, Wells-DFH Timberland Nr.88 GmbH & Co. KG, a German closed end fund, which we refer to as the 2008 Fund, and Deutsche Fonds Holding AG, a corporation organized under the laws of Germany, which we refer to as DFH. Pursuant to the master purchase agreement, we agreed to sell up to 53,763,441 shares of our common stock to the 2008 Fund, at a price per share of \$9.30, for an aggregate purchase price of up to \$500.0 million. The 2008 Fund's right to purchase shares pursuant to the master purchase agreement expired on December 31, 2008.

On April 8, 2009, we entered into an amended and restated master purchase agreement with our advisor, DFH, the 2008 Fund and Wells-DFH Materia Nr.88 GmbH & Co. KG, a German closed-end fund, which we refer to as the 2009 Fund. Pursuant to the amended and restated master purchase agreement, we have agreed to sell up to 53,763,441 shares of our common stock to the 2009 Fund, at a price per share of \$9.30, for an aggregate purchase price of up to \$500.0 million, which we refer to as the German Offering. We may increase, in our sole discretion, the size of the German Offering up to a maximum of 107,526,881 shares of our common stock to accommodate any additional German closed-end fund(s) or other investment vehicles that may become a party to the amended and restated master purchase agreement in the future, and we refer to such funds, together with the 2009 Fund, as the Funds. The Funds' right to purchase shares pursuant to the amended and restated master purchase agreement will continue until the earlier of (1) our sale of all of our shares contemplated thereby or (2) December 31, 2010.

During the offering period, the Funds may purchase some or all of the shares offered pursuant to the amended and restated master purchase agreement in one or more subscriptions, in each case by signing and delivering to us a subscription agreement relating to each such purchase. The Funds are not required to purchase any shares of our common stock in the German Offering, and we do not, and cannot, make any assurances that the Funds will purchase any minimum number of shares of our common stock, or that the German Offering will result in our receipt of any minimum amount of proceeds.

In connection with the German Offering, Wells Germany GmbH, a limited partnership organized under the laws of Germany, which we refer to as Wells Germany, has performed, and in the future will continue to perform, certain services for the Funds. Wells REF indirectly owns a minority interest in Wells Germany and will receive compensation for services provided to the Funds by Wells Germany as described under Compensation in Connection with the German Offering below.

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#### **Terms of the German Offering**

The German Offering is an unregistered offering being made solely to the Funds, which are non-U.S. persons, pursuant to Regulation S under the Securities Act of 1933, as amended, which we refer to as the Securities Act, and is different and separate from our ongoing initial public offering. The following description highlights the principal terms of the German Offering.

#### ***Voting Agreement***

As a condition to purchasing shares of our common stock in the German Offering, the Funds must enter into a voting agreement with us (as part of the amended and restated master purchase agreement to purchase shares of our common stock) regarding the voting rights of their shares, and deliver to us an irrevocable proxy, so that, in some cases, we can vote their shares on their behalf, in accordance with this voting agreement. In summary, the voting agreement provides as follows:

If and when the Funds collectively own 50.0% or more of our total outstanding shares of common stock, we will vote all of the Funds' shares of common stock in a manner that supports the vote cast by our other stockholders. Specifically, we will vote all of the Funds' shares of common stock for or against any matter upon which a stockholder vote is required in proportion to the number of votes cast for or against such matter by our other stockholders.

During any period beginning on the date when the Funds collectively own less than 50.0% but greater than or equal to 30.0% of our total outstanding shares of common stock, which we refer to as the minority ownership date, and ending on the date that is the earlier of either of (1) the date that the Funds collectively own less than 30.0% of our total outstanding shares of common stock or (2) the date that is the three year anniversary of the minority ownership date, which we refer to as the termination date, we will continue to vote the Funds' shares of common stock in a manner that supports the vote cast by our other stockholders, as described above, in respect of the following matters:

the election of directors to our board of directors;

the ratification of our independent auditors;

any proposed amendments to our charter that (x) are not material to the Funds' interests as stockholders of the Company; and/or (y) are necessary or appropriate to ensure that our charter complies with the regulatory requirements or comments of the SEC, the Financial Industry Regulatory Authority, any of the States or other jurisdictions in which we sell, or seek to sell, any of our securities, or the applicable policies and guidelines of the North American Securities Administrators Association (including, without limitation, its Statement of Policy Regarding Real Estate Investment Trusts); and

any other matters the outcome of which could not reasonably be expected to have a material and adverse effect on the Funds' interest as stockholders of the Company.

With respect to all other matters requiring a vote of our stockholders during this period, the Funds are entitled to freely vote their shares of common stock at the discretion of the Funds' managing limited partners. Among other things, the Funds will be free to vote their shares in respect of all material corporate decisions and all proposed strategic transactions, such as a sale or merger of our company, a sale of all or substantially all of our assets, and any decision regarding the extension or modification of the liquidity deadline set forth in our charter.

The voting agreement will terminate upon the earlier to occur of (1) the termination date or (2) July 31, 2013.



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In all cases where the Funds are entitled to freely vote their shares, the managing limited partner of each Fund will vote such Fund's shares of common stock in a single block, such that all of the Funds' shares will be voted for or against any particular matter that is being voted upon by our stockholders.

### ***Purchase Price***

In our initial public offering, shares of our 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, we receive net proceeds (before expenses) from our initial public offering of \$9.12 per share. In the German Offering, we are selling shares of our 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, we will pay DFH a distribution fee of 1.0% of the gross proceeds that we receive from the German Offering. As a result, in respect of those shares of our common stock sold in the German Offering, we will receive net proceeds (before expenses) from shares sold in our German Offering of \$9.21 per share, which is greater than the \$9.12 per share that we receive in our initial public offering after deducting the sales commission and dealer manager fee.

### ***Compliance Services***

To the extent that we request the assistance of the Funds in connection with ongoing regulatory compliance needs beyond those services that the Funds have already agreed to perform under the master purchase agreement, we have agreed to reimburse the Funds for their reasonable out of pocket expenses incurred by the Funds in assisting us in such compliance efforts.

### ***Use of Proceeds***

In the event that the 2009 Fund purchases all of the shares of common stock pursuant to the amended and restated master purchase agreement, we expect our net proceeds from those sales to be approximately \$495.0 million, based upon an offering price of \$9.30 per share, and after deducting the 1.0% distribution fee paid to DFH of \$5.0 million. However, the 2009 Fund is not required to purchase any shares of our common stock in the German Offering, and we do not, and cannot, make any assurances that the 2009 Fund will purchase any minimum number of shares of our common stock, or that the German Offering will result in our receipt of any minimum amount of proceeds.

After paying the 1.0% distribution fee to DFH, we presently expect to use substantially all of the net proceeds from the German Offering for any of the following purposes:

to repay outstanding indebtedness under our mezzanine loan related to the acquisition of the Mahrt Timberland;

to repay outstanding principal and interest due under our senior loan related to the acquisition of the Mahrt Timberland until our loan-to-value ratio is equal to 40% or less;

to pay fees and expenses due to our advisor and its affiliates;

to pay any operating and other expenses in connection with the German Offering;

to make regular debt payments on our senior loan;

to acquire additional timberland properties; and

for other general corporate purposes.

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**Plan of Distribution**

The sale of shares of common stock in the German Offering is being made solely to the Funds. The 2009 Fund has represented to us that it and each of its equity owners are not U.S. persons as defined in Rule 902(k) of Regulation S under the Securities Act. Offers and sales of shares of common stock in the German Offering are not being made through Wells Investment Securities, Inc., the dealer-manager for our initial public offering, and are not subject to the dealer-manager fee described in the prospectus relating to our initial public offering; however, we will pay DFH a distribution fee equal to 1.0% of the gross proceeds that we receive from the German Offering. To the extent that the Company requires additional information regarding the Funds or their equity owners, Wells TIMO shall reimburse the Funds or DFH, as the case may be, for its actual out of pocket expenses incurred by the Funds in assisting us in such compliance efforts. No underwriters or placement agents are involved in the German Offering, and no commissions or other remuneration will be paid by us in connection with such selling activities, except as otherwise described herein.

**Compensation in Connection with the German Offering**

As discussed under Overview of the Transaction above, Wells Germany has performed, and in the future will continue to perform, certain services for the Funds, and as such has entered into a services agreement with DFH and the 2009 Fund outlining these services, which are primarily related to the organization of the 2009 Fund's prospectus and the facilitation of tax and other operational requirements that the 2009 Fund and its investor have within the United States. These services in no way relate to the distribution of the 2009 Fund's partnership interests, which will be the sole responsibility of DFH.

As a component of this services agreement, DFH and Wells Germany will earn certain fees and reimbursements related to the subscriptions in the 2009 Fund, and will equally share in the profitability of these fees and reimbursements. Wells REF indirectly owns a minority interest in Wells Germany, and as such, will participate in the profitability earned by Wells Germany in proportion to its minority interest.

In the event that the 2009 Fund purchases the maximum number of shares made available to it under the master purchase agreement, resulting in our receipt of aggregate gross proceeds of \$500.0 million, Wells REF will receive approximately \$5.0 million in connection with its ownership interest in Wells Germany. However, the 2009 Fund is not required to purchase any shares of our common stock in the German Offering, and we do not, and cannot, make any assurances that the 2009 Fund will purchase any minimum number of shares of our common stock, or that the German Offering will result in our receipt of any minimum amount of proceeds.

**Entry into a Carbon Storage Agreement**

On March 19, 2009, Timberlands II entered into a carbon storage agreement with Carbon TreeBank, LLC, which we refer to as CTB, which is an aggregator and facilitator of private timberland carbon offsets. The carbon storage agreement provides that Timberlands II will participate in the Keeping Forests in Forests carbon dioxide offset and mitigation program facilitated by CTB by managing portions of our timberland for the purpose of the storage of atmospheric carbon. CTB agreed to purchase carbon dioxide offset credits until December 31, 2011, subject to demand under the Keeping Forests in Forests program, at a price based on the average monthly strike price of carbon credits traded on the Chicago Climate Exchange for the preceding calendar year.



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**Update to Risk Factors**

The disclosure in the section "Risk Factors" is hereby amended and supplemented as set forth below:

**Risks Related to Our Corporate Structure**

The risk factor with the heading set forth below is hereby revised to read as follows:

***Our designation and issuance of preferred stock may limit proceeds payable to the holders of common stock in the event we are liquidated or dissolved prior to the redemption of the preferred stock.***

We have issued, without shareholder approval, 32,128 shares of Series A preferred stock and 10,700 shares of Series B preferred stock. If we are liquidated or dissolved, the holders of the Series A and Series B preferred stock are each entitled to receive the issue price of \$1,000 per share, plus any accrued and unpaid dividends, whether or not declared, before any payment may be made to the holders of our common stock. As a result, the amount of funds holders of our common stock would otherwise receive upon a liquidation or dissolution would be reduced in the event the Series A or Series B preferred shares had not been redeemed prior to such an event.

**Risks Associated with Debt Financing**

The risk factors with the headings set forth below are hereby revised to read as follows:

***If we default on the terms of the mezzanine loan or the senior loan obtained by us in connection with the acquisition of the Mahrt Timberland, stockholders who invest in us prior to the repayment of the mezzanine loan or the senior loan could lose some or all of their investment.***

We borrowed approximately \$160,000,000 to fund a portion of the purchase price of the Mahrt Timberland in the form of a mezzanine loan, which we must repay on or before April 30, 2010. Additionally, we borrowed \$212,000,000 in the form of a senior loan, which we must repay on or before September 9, 2010. The mezzanine loan is secured by, among other things, a first priority security interest in the funds raised in this offering. The senior loan is secured by, among other things, a second priority security interest in the funds raised in this offering. Our ability to repay the mezzanine loan and the senior loan is dependent upon our success in raising substantial funds pursuant to this offering. If the amount of proceeds we raise in this offering is less than the amount that we need to repay the mezzanine loan and the senior loan, respectively, when due, then we will be in default under the mezzanine loan or the senior loan, as the case may be. If we default on the mezzanine loan, the lenders for such loan will be entitled to all of the proceeds of our offering up to the amount of the mezzanine loan. If we default on the senior loan, the lenders for such loan will be entitled to all of the proceeds of our offering, after repayment of the mezzanine loan, up to the amount of the senior loan. If the lenders under either loan foreclose upon their security interest in a substantial amount of proceeds of our offering, our existing stockholders could lose some or all of their investment and it would be unlikely that we would be able to meet our investment objectives or to raise additional capital in this offering or otherwise in order to continue our operations. We have guaranteed both the senior loan and the mezzanine loan, but on a limited basis that covers only losses incurred by CoBank, ACB or Wachovia Bank due to certain bad acts of the borrowers and related loan parties. The mezzanine loan is also fully guaranteed by Wells REF.

***The credit agreement for the mezzanine loan obtained by us in connection with the acquisition of the Mahrt Timberland prohibits us from paying distributions or redeeming shares (except in cases of death or disability) until we repay the loan in full.***

The mezzanine loan contains restrictive covenants that prohibit us from declaring, setting aside funds for, or paying any dividend, distribution or other payment to our stockholders while the loan is outstanding. As a result, we will be unable to make any payments or distributions (or set aside funds for any payments or distributions) to

our stockholders until the mezzanine loan is repaid in full. The mezzanine loan has a maturity date of April 30,

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2010, and the senior loan has a maturity date of September 9, 2010. Because distributions of at least 90% of REIT taxable income is one of the requirements for REIT qualification, we may not be able to qualify as a REIT until, among other things, the mezzanine loan is repaid in full, or the terms of the credit agreement are amended prior to its full repayment (although no assurance can be made that we may be able to renegotiate the terms of the credit agreement). Additionally, the credit agreement for the mezzanine loan prohibits us from redeeming our stockholders shares under our share redemption plan until the mezzanine loan has been repaid in full. Until the mezzanine loan has been repaid in full, we are permitted to redeem shares only if the redemption is sought within two years of the death or qualifying disability of a stockholder under the plan.

### **Risk 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.

### **Risks Related to the German Offering**

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

*Although the 2009 Fund is subject to a voting agreement, the 2009 Fund (and all Funds that may become a party in the future to the voting agreement) may freely vote its shares of common stock in many important circumstances, and the voting agreement will terminate upon the occurrence of certain events.*

As a condition to purchasing shares of common stock in the German Offering, the 2009 Fund entered into a voting agreement as described above under *Voting Agreement*, and any Fund that desires to purchase common stock in the future must become a party to the voting agreement. If the 2009 Fund subscribes for the maximum number of shares of common stock we have agreed to sell to it pursuant to the master purchase agreement by December 31, 2009, it will likely hold a majority of our total outstanding shares of common stock for some period of time, and perhaps indefinitely. As a result of the 2009 Fund's majority ownership, the 2009 Fund (and any Fund that may become a party to the voting agreement in the future) will be subject to the voting agreement, pursuant to which we will vote the Funds' shares for or against any matter that requires a vote of our stockholders in proportion to the number of votes cast for or against such matter by our other stockholders. However, if the Funds collectively own less than 50.0% of our total outstanding shares of common stock, then they generally will be free to vote its shares of common stock on all matters, at the discretion of its managing limited partner, except for those limited matters described above under *Voting Agreement*. Among other things, the Funds will be free to vote their shares in respect of all material corporate decisions and all proposed strategic transactions, such as a sale or merger of our company, a sale of all or substantially all of our assets, and any decision regarding the extension or modification of the liquidity deadline set forth in our charter. The managing limited partner of the 2009 Fund (and equivalent authority for any Fund that may purchase shares in the future) will vote the shares in a single block, which may result in the Funds having the controlling vote in many cases. In

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addition, the voting agreement will terminate upon the occurrence of those events described above under *Voting Agreement*, after which the Funds will be entitled to freely vote their shares, regardless of its level of ownership at that time.

*The 2009 Fund (and any Fund that may purchase shares in the future) may not have the same interests as our other stockholders.*

As a German limited partnership, the 2009 Fund (and any Fund that may purchase shares in the future) may have different objectives and voting preferences than our other stockholders. As described in the immediately preceding risk factor, as well as in the section above entitled *Voting Agreement*, notwithstanding the voting agreement, the Funds will be entitled to freely vote their shares on all matters, at the discretion of its managing limited partner, except for those limited matters described above under *Voting Agreement*. As a result, if the 2009 Fund has different interests than our other stockholders, we may be unable to pursue opportunities that would otherwise be in our other stockholders' best interests.

### **Clarification Regarding Share Ownership and Transfer Restrictions**

In connection with our acquisition from MeadWestvaco Corporation of the Mahrt Timberland, our board of directors determined in September 2007 that it was not in our best interests at that time to elect REIT status. As a result of this determination by our board of directors, the restrictions in our charter prohibiting any person from (1) acquiring directly or indirectly, beneficial ownership of more than 9.8% in value of our outstanding shares, or more than 9.8% (in value or in number of shares, whichever is more restrictive) of our outstanding common shares, (2) owning shares of our stock that would result in our being "closely held" under Section 856(h) of the Internal Revenue Code or otherwise cause us to fail to qualify as a REIT and (3) transferring shares of our stock if the transfer would result in our stock being owned by fewer than 100 persons, ceased to be effective. These restrictions were designed to enable us to meet the stock ownership requirements for REIT qualification.

Our board of directors made the determination not to elect REIT status at the time of the Mahrt Timberland acquisition because it believed that the acquisition was in our stockholders' best interests and that we would not have had the opportunity to make the acquisition if we were constrained by the need to elect REIT status. In particular, there were certain aspects of the financing of the acquisition that prevented us from qualifying as a REIT, including (1) a required installment note and related deposit account and (2) the acquisition by Wells REF of 32,128 shares of our Series A preferred stock, which would have resulted in violations of the limitations in our charter on any person beneficially owning more than 9.8% in value of our outstanding shares and on any person owning shares of our stock that would result in our being "closely held" under Section 856(h) of the Internal Revenue Code.

First, the purchase price for the Mahrt Timberland was paid by delivery by our former subsidiary, MWV SPE of the purchase note in the amount of approximately \$398.0 million and the remaining portion of the purchase price was paid in cash. The purchase note was supported by a standby letter of credit issued by Wachovia Bank in the amount of approximately \$408.0 million. A reimbursement obligation owed by our former subsidiary, Wells Timberland Acquisition, to Wachovia Bank with respect to such letter of credit is fully secured by a pledge of a deposit account at Wachovia Bank. The interest on the deposit account was intended to be sufficient to pay interest on the purchase note. To fund the deposit account, we entered into a debt financing arrangement with CoBank, ACB and Wachovia Bank that included the senior loan and the mezzanine loan.

On December 18, 2008, Wells Timberland OP, sold 100% of the outstanding membership interests in Wells Timberland Acquisition to Wells REF for the purchase price of approximately \$2.0 million. At the time of the sale, MWV SPE was a wholly owned subsidiary of Wells Timberland Acquisition. As a result of the sale of Wells Timberland Acquisition to Wells REF, neither we nor any of our subsidiaries is an obligor on the purchase note and neither we nor any of our subsidiaries holds the deposit account. The disposition of Wells Timberland

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Acquisition and, indirectly, MWE SPE, the purchase note and the deposit account removed certain impediments to our ability to qualify to be taxed as a REIT.

Second, in order to obtain the financing from Wachovia Bank to complete the acquisition of the Mahrt Timberland, including obtaining the senior and mezzanine loans referred to above, we were required to raise equity proceeds in addition to those that had been raised in our initial public offering. In order to raise such proceeds, we issued to Wells REF 32,128 shares of our newly designated Series A preferred stock at \$1,000 per share, for gross proceeds of \$32.1 million. As a result of such acquisition, Wells REF's beneficial ownership of our outstanding capital stock would have resulted in violations of the limitations in our charter on any person beneficially owning more than 9.8% in value of our outstanding shares and on any person owning shares of our stock that would result in our being closely held under Section 856(h) of the Internal Revenue Code. Because our board of directors determined that electing REIT status was not then in our best interests, these limitations were no longer in effect and therefore were not applicable to the acquisition of the Series A preferred stock by Wells REF. However, at the time that Wells REF acquired the Series A preferred stock, it represented to us that if, at such time as our board determines to elect to qualify as a REIT for any fiscal year, Wells REF's ownership of the Series A preferred stock would cause us not to qualify as a REIT, such shares of Series A preferred stock would automatically be transferred to a charitable trust.

Our board of directors has determined that it is now in our best interests to elect to be taxed as a REIT commencing with the taxable year ending December 31, 2009 if we otherwise qualify to be taxed as a REIT for such year. As a result, on March 24, 2009 our board of directors approved articles of amendment and restatement to our charter that would reinstate and amend the share ownership and transfer restrictions set forth in our charter and recommended that such amendment be approved by our stockholders at the next annual meeting of stockholders scheduled for August 5, 2009. If approved, the board will also waive the share ownership restrictions for Wells REF and Leo F. Wells, the sole shareholder of Wells REF and our President, so long as their ownership of our shares would not cause us to be closely held under Section 856(h) of the Internal Revenue Code or otherwise cause us to fail to qualify as a REIT. If shares beneficially owned by Mr. Wells or Wells REF would cause us to be closely held or otherwise fail to qualify as a REIT, their excess shares will be transferred to a charitable trust. As of March 31, 2009, Mr. Wells and Wells REF beneficially owned in excess of 9.8% in value of our outstanding shares. However, we expect their beneficial ownership to decrease as we raise proceeds in our initial public offering and the German Offering. No other stockholder owned more than 1% in value of our outstanding shares as of March 31, 2009. Our board of directors has also agreed to waive the share ownership restrictions for the 2009 Fund acquiring shares in the German Offering, if necessary, based on certain representations and covenants made by the 2009 Fund. In addition, for REIT qualification purposes, the closely held test will not apply during the first year that we elect to be taxed as a REIT, which our board of directors expects to be 2009.

Unless and until an amendment to our charter becomes effective, the share ownership and transfer restrictions in our charter will not be in effect.

**Amendment of Our Charter**

As noted above in *Status of Our Initial Public Offering*, on January 17, 2008, our board of directors approved an extension of the termination date of this offering from August 11, 2008 to August 11, 2009. Our charter previously stated that if our shares were not listed on a national securities exchange by the tenth anniversary of the termination of our initial public offering, we were required to either seek stockholder approval of an extension of this listing deadline or commence an orderly liquidation. The extension of this offering resulted in an extension of the date by which we must have listed our shares or commenced an orderly liquidation to August 11, 2019. However, our board of directors recommended and, at our 2008 annual meeting, our stockholders approved an amendment to our charter fixing August 11, 2018 as the date by which we must list our shares, seek stockholder approval of an extension of the listing deadline or commence an orderly liquidation.

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**Designation, Issuance and Sale of Series B Preferred Stock**

The Description of Shares Preferred Stock section of the prospectus is hereby supplemented to disclose that we have classified 15,000 unissued shares of our preferred stock as Series B Preferred Stock, which we refer to as the Series B preferred stock, 10,700 of which have been issued to Wells REF.

At a meeting held on August 28, 2008, our board of directors unanimously approved the designation, issuance and sale of up to 15,000 shares of Series B preferred stock to Wells REF for the purchase price of \$1,000 per share. On August 29, 2008, we issued 10,700 shares of Series B preferred stock to Wells REF for a total purchase price of \$10.7 million. 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 with Wachovia Bank and our affiliates. Dividends will accrue on the Series B preferred stock daily at a rate of 8.5% per year, 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 declared by us and authorized by our 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. The Series B preferred stock is not convertible into shares of our common stock. If we are liquidated or dissolved, the holders of the Series B preferred stock are entitled to receive the issue price of \$1,000 per share plus any accrued and unpaid dividends, whether or not declared, before any payment may be made to the holders of our common stock or any other class or series of our capital stock ranking junior on liquidation to the Series B preferred stock. The Series B preferred stock ranks on parity with our Series A preferred stock with respect to dividends and payments upon a dissolution of our company. Our charter does not require us to obtain the consent of the holders of the preferred stock for any corporate action, and the holders of the preferred stock do not have any voting rights or powers except with respect to (1) the creation of any class of capital stock senior to the Series B preferred stock, (2) an increase in the number of authorized shares of Series B preferred stock and (3) any amendment of the rights, preferences or privileges relating to the Series B preferred stock.

The shares of Series B preferred stock were sold to Wells REF without registration under the Securities Act, in reliance on the exemption from such registration requirements provided by such act for transactions not involving any public offering. As a result, the shares of Series B preferred stock are subject to restrictions on resale.

**Amended and Restated Advisory Agreement**

On July 11, 2008, we amended and restated the advisory agreement, which we refer to as the amended advisory agreement, by and among us, Wells Timberland OP and Wells TIMO. The amended advisory agreement amends certain definitions in order to provide for the reimbursement of expenses to Wells TIMO by us in connection with offerings of our common stock that are exempt from the registration provisions of the Securities Act. The amended advisory agreement is effective through July 11, 2009, although any party may terminate the amended advisory agreement without cause or penalty upon providing 60 days written notice.

**Formation of the Operations Committee**

On December 19, 2007, our board of directors approved the formation of an operations committee. The primary functions of the operations committee are: (1) maintaining and developing each of the operations committee member's understanding of the complexities of timberland management and timber harvesting, (2) maintaining and developing each of the operations committee member's experience in supervising our operations related to timberland management and timber harvesting and developing procedures designed to promote the accountability of the officers regarding results of operations, (3) preparing and developing materials designed to inform and educate those members of our board of directors who do not have the experience and understanding of timberland management and timber harvesting of the issues and complexities involved and (4) performing such other duties as our board of directors may determine are necessary and appropriate and may delegate to the operations committee. Our operations committee currently consists of E. Nelson Mills, Donald S. Moss, Willis J. Potts, Jr., Michael P. McCollum and Jess E. Jarratt.

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**Federal Income Tax Considerations**

The following is hereby inserted into the prospectus under the heading Federal Income Tax Considerations :

While we have not yet qualified or elected to be taxed as a REIT, we intend to elect to be taxed as a REIT in the future if we would otherwise qualify to be taxed as a REIT. REIT qualification requires ongoing satisfaction of various requirements in the Internal Revenue Code regarding the diversity of our ownership, the nature of our gross income and assets, and our distributions. These requirements are amended by Congress from time to time. Two recently enacted bills have contained important changes to the REIT requirements.

On May 22, 2008, the Food Conservation and Energy Act of 2008 (the Farm Bill ) was enacted into law after the House and Senate overrode President Bush's veto. The Farm Bill contains a number of provisions relating to timber REITs. While all the provisions are favorable, for budgetary reasons, they all sunset and would apply only to our taxable year ending December 31, 2009 if we otherwise were to qualify as a REIT for such year. There is no assurance that these provisions will be extended or made permanent. The REIT provisions in the Farm Bill are summarized as follows:

Timber sale gains under sections 631(a) (provided that the timber is cut by a taxable REIT subsidiary) and 631(b) are qualifying income for purposes of the 75% and 95% gross income tests, without regard to how long the timber was held. Any such sales are not subject to the prohibited transaction tax.

Mineral royalty income of a qualifying timber REIT, i.e., a REIT in which more than 50% of its assets consists of real property held in connection with a trade or business of producing timber, is treated as qualifying income for purposes of the 95% gross income test.

A qualifying timber REIT is permitted to own taxable REIT subsidiary securities representing up to 25% of the value of the REIT's assets (up from 20%).

The holding period requirement for the safe harbor for avoiding the prohibited transaction tax is reduced to two years for certain conservation sales of timber property.

On July 30, 2008, President Bush signed into law the Housing and Economic Recovery Act of 2008 (the Housing Act ) which includes a number of REIT provisions. The new provisions relate to (1) foreign currency issues, (2) limitations on holding taxable REIT subsidiary securities, (3) prohibited transactions, and (4) special rules for health care and lodging facilities (which we do not expect to ever be relevant to us).

The Housing Act contains a number of provisions relating to foreign currency gains (generally gains that are attributable to exchange rate changes involving a currency other than the REIT's functional currency) and gives Treasury general authority to determine that other types of income may be disregarded in applying the 75% gross income test and/or the 95% gross income test or may be treated as qualifying income in applying the 75% gross income test and/or the 95% gross income test. We have not made any investments outside the United States and do not presently have any foreign currency issues. However, one of the Housing Act provisions relating to foreign currency affects the treatment of hedging generally. Income from properly identified transactions that hedge indebtedness incurred or to be incurred to acquire or carry real estate assets has been treated as nonqualifying income for purposes of the 75% gross income test but has been disregarded for purposes of the 95% gross income test. Under the Housing Act, such income is also disregarded for purposes of the 75% gross income test.

The Housing Act made several modifications to the safe harbor for avoiding the 100% prohibited transaction tax imposed on dealer sales. First, the Housing Act reduces the minimum holding period in the safe harbor from four years to two years. The special two-year rule for timber enacted in the Farm Bill generally is eliminated. Second, for REITs that cannot satisfy the seven sales limit,

the Housing

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Act changes the alternative limit of 10% of the adjusted basis of the REIT's assets to the higher of 10% of the fair market value or adjusted basis of the REIT's assets. Third, the Housing Act clarifies that gain from sales qualifying for the safe harbor is not treated as capital gain unless it would otherwise qualify as capital gain.

The Housing Act expands the limitation on holdings of securities of taxable REIT subsidiaries from 20% to 25% of a REIT's gross assets. The expansion applies permanently and to all REITs, rather than the temporary targeted provision in the Farm Bill.

#### **Clarification Regarding Our Share Redemption Plan**

The following is hereby inserted into the prospectus under the heading "Description of Shares" "Share Redemption Plan" :

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

#### **Michigan Rescission Offer**

The disclosure under "Prospectus Summary" "Michigan Rescission Offer" of our prospectus is hereby updated to state that the rescission offers we previously made in a letter dated November 28, 2007 to all Michigan investors who purchased shares of our common stock prior to the filing of Supplement No. 5 dated October 30, 2007 to the prospectus terminated on December 31, 2007. One Michigan investor initially accepted our rescission offer but subsequently withdrew the acceptance. As a result, we have not refunded the subscriptions of any Michigan investors.

#### **Update to the Table of Contents to Our Prospectus**

The "Management" heading listed in the table of contents to our prospectus is hereby updated to include a subheading for the "Legal Proceedings" subsection of the "Management" section of our prospectus and a subheading for the "Regulatory Investigation" subsection of the "Management" section of our prospectus.

#### **Experts**

The "Experts" section of our prospectus is replaced by the following:

The financial statements incorporated in this Prospectus by reference from the Company's Annual Report on Form 10-K/A for the year ended December 31, 2008 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report incorporated herein by reference. Such financial statements have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.



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**Incorporation of Certain Documents by Reference**

The following section is hereby inserted into the prospectus under the heading Incorporation of Certain Documents by Reference :

**INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

We have filed a registration statement on Form S-11 with the SEC with respect to the shares of our common stock to be issued in the offering. This prospectus is a part of that registration statement and, as allowed by SEC rules, does not include all of the information you can find in the registration statement or the exhibits to the registration statement. For additional information relating to us, we refer you to the registration statement and the exhibits to the registration statement. Statements contained in this prospectus as to the contents of any contract or document referred to are necessarily summaries of such contract or document and in each instance, if the contract or document is filed as an exhibit to the registration statement, we refer you to the copy of the contract or document filed as an exhibit to the registration statement.

We file annual, quarterly and special reports, proxy statements and other information with the SEC. We furnish our stockholders by mail (or, where permitted, by electronic delivery and notification) with annual reports containing consolidated financial statements certified by an independent registered public accounting firm. The registration statement is, and all of these filings with the SEC are, available to the public over the Internet at the SEC's web site at <http://www.sec.gov>. You may also read and copy any filed document at the SEC's public reference room in Washington, D.C. at 100 F. Street, N.E., Room 1580, Washington D.C. 20549. Please call the SEC at (800) SEC-0330 for further information about the public reference room. You can also access documents that are incorporated by reference into this prospectus at <http://www.wellstimberland.com>. There is additional information about us and our affiliates at our web site, but unless specifically incorporated by reference herein as described in the paragraphs below, the contents of that site are not incorporated by reference in or otherwise a part of this prospectus.

We have elected to incorporate by reference certain information into this prospectus. By incorporating by reference, we are disclosing important information to you by referring you to documents we have filed separately with the SEC. The information incorporated by reference is deemed to be part of this prospectus, except for information incorporated by reference that is superseded by information contained in this prospectus. The following documents filed with the SEC are incorporated by reference in this prospectus (Commission File No. 333-129651), except for any document or portion thereof deemed to be furnished and not filed in accordance with SEC rules:

Annual Report on Form 10-K for the fiscal year ended December 31, 2008 filed with the SEC on March 30, 2009, as amended by Amendment No. 1 filed with the SEC on April 14, 2009;

Current Reports on Form 8-K filed with the SEC on January 16, 2009, March 20, 2009 and April 10, 2009.

We will provide to each person to whom this prospectus is delivered, upon request, a copy of any or all of the information that we have incorporated by reference into this prospectus but not delivered with this prospectus. To receive a free copy of any of the documents incorporated by reference in this prospectus, other than exhibits, unless they are specifically incorporated by reference in those documents, call or write us at 6200 The Corners Parkway, Norcross, Georgia 30092, 770-449-7800. The information relating to us contained in this prospectus does not purport to be comprehensive and should be read together with the information contained in the documents incorporated or deemed to be incorporated by reference in this prospectus.

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### **Subscription Agreement**

A revised form of subscription agreement is attached to this supplement. The revised form supersedes and replaces the form included in the prospectus as Appendix A.

### **Updated Prior Performance Summary Disclosure**

The Prior Performance Summary section of the prospectus is hereby updated and superseded by the following:

#### **PRIOR PERFORMANCE SUMMARY**

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

*The Prior Performance Tables contained in this supplement set forth information as of the dates indicated regarding certain of these Wells public programs as to: (1) experience in raising and investing funds (Table I); (2) compensation to sponsor (Table II); (3) annual operating results of prior programs (Table III); (4) results of completed programs (Table IV) and (5) sales or disposals of properties (Table V).*

#### **Prior Public Programs**

##### ***Overview***

Our sponsor, Wells Capital, has served as a general partner of a total of 15 completed publicly offered real estate limited partnerships, three of which completed their public offerings in the last 10 years. These three limited partnerships and the year in which each of their offerings was completed are:

1. Wells Real Estate Fund XII, L.P. (2001)
2. Wells Real Estate Fund XIII, L.P. (2003)
3. Wells Real Estate Fund XIV, L.P. (2005)

Our sponsor and its affiliates have also sponsored three real estate investment trusts prior to this offering. Piedmont Office Realty Trust, Inc. (formerly known as Wells Real Estate Investment Trust, Inc.), which we refer to as Piedmont REIT, has completed four public offerings of shares of its common stock. Wells Real Estate Investment Trust II, Inc., which we refer to as Wells REIT II, has completed two public offerings of shares of its common stock and is currently offering shares of its common stock pursuant to a third public offering which commenced on November 11, 2008. Institutional REIT, Inc., which we refer to as Institutional REIT, offered shares of its common stock pursuant to a registration statement that was declared effective by the SEC on January 11, 2007. On March 25, 2008, Institutional REIT deregistered the shares of its common stock in the registration statement, none of which were sold pursuant to such registration statement. As such, data for Institutional REIT are not included in the information presented on prior public programs sponsored by our sponsor.

Wells Capital and its affiliates have previously sponsored each of the above-described limited partnerships and REITs on an unspecified property or blind-pool basis. As of December 31, 2008, the total amount of funds raised from investors in these above-described completed or ongoing public offerings was approximately \$10.0 billion, and the total number of investors in such programs was approximately 233,000. The investment

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objectives of each of these Wells programs are substantially identical to our investment objectives of (1) providing current income through the payment of cash distributions, (2) preserving and returning stockholders' capital contributions and (3) realizing capital appreciation upon the ultimate sale of our assets. We cannot assure you that any of the Wells public programs will ultimately be successful in meeting their investment objectives. For more information regarding the operating results of Wells-sponsored public programs, see Table III.

***Office and Industrial Property Public Programs***

As of December 31, 2008, the three real estate limited partnerships and two office and industrial property real estate investment trusts sponsored by Wells had acquired 182 properties. The table below gives further information about these properties by region.

| Location           | Properties Purchased |   |
|--------------------|----------------------|---|
|                    | Number               | As a Percentage of Aggregate Purchase Price |
| Southeast          | 29                   | 14.8%                                       |
| Mideast            | 30                   | 16.7  |
| Northeast          | 30                   | 22.5  |
| Northwest          | 1                    | 0.3   |
| Mountain           | 13                   | 4.4   |
| Southwest          | 22                   | 8.4   |
| West North Central | 7                    | 3.2   |
| East North Central | 31                   | 19.4  |
| Pacific            | 19                   | 10.3  |
| Total              | 182                  | 100.0%                                      |

As of December 31, 2008, the aggregate dollar amount of the acquisition and development costs of the 182 properties purchased by these five Wells-sponsored public programs was approximately \$10.1 billion. Of the aggregate amount, 100% was spent on commercial property, with 99.6% spent on acquiring or developing office or industrial buildings and 0.4% spent on acquiring or developing hotels. Of the aggregate amount, 97.0% was spent on acquired properties and 3.0% on properties under construction or constructed by the programs. Of the aggregate amount, 44.0% were single-tenant office or industrial buildings and 56.0% were multi-tenant office or industrial buildings.

Following is a table showing a breakdown of the aggregate amount of the acquisition and development costs of the properties purchased by these five Wells public programs as of December 31, 2008:

| Type of Property     | Existing | Construction |
|----------------------|----------|--------------|
| Office Buildings     | 95.0%    | 3.0%         |
| Industrial Buildings | 1.6      | 0.0          |
| Hotels               | 0.4      | 0.0          |

From the inception of the first Wells public program through December 31, 2008, the Wells public programs had sold 47 properties and two outparcels of land.

All of the properties purchased by a Wells-sponsored public limited partnership were purchased without borrowing any additional funds. However, certain properties acquired by Piedmont REIT and Wells REIT II were subject to existing mortgages, and in connection with each of these acquisitions Piedmont REIT and Wells REIT II, respectively, assumed its share of the debt. Table VI contained in Part II of the registration statement, of which this supplement is a part, gives additional information relating to certain properties acquired within the last three years ended December 31, 2008 by certain Wells public programs, including applicable mortgage financing on properties purchased.



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#### ***Timberland Property Public Program***

As of December 31, 2008, Wells Timberland REIT owned interests in approximately 317,700 acres of timberland located on the Lower Piedmont and Upper Coastal Plains of East Central Alabama and West Central Georgia (the Mahrt Timberland, formerly known as the South Central Timberland). Wells Timberland REIT owned fee-simple interests in approximately 226,300 acres of the Mahrt Timberland and held long-term leasehold interests in approximately 91,400 acres of the Mahrt Timberland. As of December 31, 2008, Wells Timberland REIT timberlands contained an estimated 11.0 million tons of merchantable timber inventory, approximately 6.3 million tons of which was pine, and the remainder was comprised of various hardwood species. As of December 31, 2008, Wells Timberland REIT timberlands contained plantations of different age classes ranging from one to 75 years. Wells Timberland REIT acquired the Mahrt Timberland on October 9, 2007 for a purchase price of approximately \$400.0 million, exclusive of closing costs. Wells Timberland REIT financed the purchase of the Mahrt Timberland with a combination of cash and debt. As of December 31, 2008, Wells Timberland REIT had sold approximately 1,760 acres of higher and better use (HBU) property for approximately \$4.5 million. Wells Timberland REIT's cost basis in HBU sold was approximately \$2.5 million.

#### ***Mutual Fund Public Programs***

In addition to the real estate programs sponsored by Wells Capital discussed above, our sponsor is also sponsoring two index mutual funds that invest in various stocks. The Wells Dow Jones Wilshire U.S. REIT Index Fund is a mutual fund that seeks to provide investment results corresponding to the performance of the Dow Jones Wilshire REIT Index by investing in the REIT stocks included in the Dow Jones Wilshire REIT Index. The Wells Dow Jones Wilshire U.S. REIT Index Fund (formerly known as the Wells S&P REIT Index Fund) began its offering on March 2, 1998, and as of December 31, 2008, the fund had raised approximately \$728.1 million in offering proceeds from approximately 20,000 investors. The Wells Dow Jones Wilshire Global RESI Index Fund is a mutual fund that seeks to provide investment results corresponding to the performance of the Dow Jones Wilshire Global Real Estate Securities Index by investing in stocks included in the Dow Jones Wilshire Global Real Estate Securities Index. The Wells Dow Jones Wilshire Global RESI Index Fund began its offering on December 29, 2006, and as of December 31, 2008, had raised approximately \$63.1 million in offering proceeds from approximately 3,200 investors.

#### ***Prior Private Programs***

In addition to the public real estate programs sponsored by Wells Capital and its affiliates described above, Wells has sponsored a total of 13 private real estate programs.

Wells Management Company, Inc., an affiliate of our sponsor, sponsors private placements for a series of limited liability companies pursuant to a Section 1031 exchange program. As of December 31, 2008, there have been 12 such offerings, which raised a total of \$194.4 million from 317 investors. The investment objectives of each of these Wells-sponsored Section 1031 exchange programs are substantially identical to our investment objectives.

Wells Management Company, Inc. is also sponsoring a private placement of limited liability company interests in Wells Mid-Horizon Value-Added Fund I, LLC (Wells Mid-Horizon Fund). On September 15, 2005, an offering of up to 150,000 shares of investor member interests in Wells Mid-Horizon Fund commenced under a private placement to accredited investors. Wells Mid-Horizon Fund was formed to invest primarily in commercial office and industrial real estate properties that provide opportunities to enhance their value through development, operations, re-leasing, property improvements or other means. The offering was terminated on September 15, 2008, at which time Wells Mid-Horizon Fund had received approximately \$51.9 million in proceeds from 596 investors. As of December 31, 2008, Wells Mid-Horizon Fund had acquired four properties.

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As of December 31, 2008, these 13 Wells-sponsored private programs had acquired an aggregate of 16 properties. The table below gives further information about these properties.

| Location           | Number | Properties Purchased<br>As a Percentage<br>of Aggregate<br>Purchase Price |
|--------------------|--------|---|
| Southeast          | 3      | 18.7%   |
| Mideast            | 0      | 0.0   |
| Northeast          | 1      | 4.1   |
| Mountain           | 1      | 7.5   |
| Southwest          | 3      | 19.9  |
| West North Central | 1      | 8.8   |
| East North Central | 6      | 34.2  |
| Pacific            | 1      | 6.8   |
| Total              | 16     | 100.0%  |

As of December 31, 2008, the aggregate dollar amount of the acquisition and development costs of the 16 properties purchased by these Wells-sponsored private programs was \$289.0 million. Of the aggregate amount, 100% was spent on commercial property, all of which was spent on acquiring or developing office or industrial buildings. Of the aggregate amount, 100% was spent on acquired properties. Of the aggregate amount, approximately 62.5% were single-tenant office or industrial buildings and 37.5% were multi-tenant office or industrial buildings.

From the inception of the first Wells private program through December 31, 2008, the Wells private programs have not sold any properties. We cannot assure you that any of the Wells private programs will ultimately be successful in meeting their investment objectives.

### Adverse Business Developments or Conditions

Wells-sponsored programs have occasionally been adversely affected by the cyclical nature of the real estate market. Some Wells programs invested funds in properties at the high end of a real estate cycle, resulting in sales of such properties for less than their purchase price. In the past, Wells programs have only sold properties for less than their purchase price in order to maximize the overall return to investors when one or more of the following factors was present:

market conditions caused an ongoing deterioration of a property's value and the sale price of the property, though lower than the purchase price, was the highest price reasonably expected;

costs required to re-lease a property to levels that would allow for a sales price greater than the original purchase price would exceed the benefit of the higher sales price; and

the cost savings at the liquidation of a portfolio by selling a property as a part of a portfolio sale at lower than the property's purchase price outweighs costs that would be incurred in order to sell that property individually at greater than purchase price.

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The following six properties have been sold by the Wells programs for less than their original purchase prices:

| Date of Sale       | Property Name          | Purchase Price | Gross Sale Price | Wells Program Owners               |
|--------------------|------------------------|----------------|------------------|------------------------------------|
| October 1, 2001    | Cherokee Commons       | \$8,907,596    | \$8,660,000      | Wells Real Estate Fund I           |
|                    |                        |                |                  | Wells Real Estate Fund II          |
|                    |                        |                |                  | Wells Real Estate Fund II-OW       |
|                    |                        |                |                  | Wells Real Estate Fund VI, L.P.    |
|                    |                        |                |                  | Wells Real Estate Fund VII, L.P.   |
| September 30, 2002 | Greenville Center      | \$3,820,520    | \$2,400,000      | Wells Real Estate Fund III, L.P.   |
| September 11, 2003 | Cort Furniture         | \$6,566,430    | \$5,770,000      | Wells Real Estate Fund X, L.P.     |
|                    |                        |                |                  | Wells Real Estate Fund XI, L.P.    |
| April 29, 2004     | Stockbridge Village II | \$2,945,262    | \$2,740,385      | Wells Real Estate Fund V, L.P.     |
|                    |                        |                |                  | Wells Real Estate Fund VI, L.P.    |
| January 25, 2007   | Black Oak Plaza        | \$4,562,689    | \$3,554,971      | Wells Real Estate Fund I, L.P.     |
| January 31, 2007   | Iomega Building        | \$5,934,250    | \$4,685,151      | Wells Real Estate Fund IX, L.P.    |
|                    |                        |                |                  | Wells Real Estate Fund X, L.P.     |
|                    |                        |                |                  | Wells Real Estate Fund XI, L.P.    |
|                    |                        |                |                  | Piedmont Office Realty Trust, Inc. |

Sales of properties at less than the purchase price could adversely affect the value of an investment in a Wells program. In addition, some Wells public programs have owned properties that have experienced long periods of time when no tenants were paying rent. This reduction in revenues resulted in less cash from operations available for distribution to investors. However, such occurrences have been sporadic. For more information regarding the operating results of Wells-sponsored public programs, see Table III.

### Summary of Recent Acquisitions by Wells Prior Programs

#### Office and Industrial Property Programs

During 2006, 2007 and 2008, Wells-sponsored office and industrial property programs acquired 29 properties, for which the property type, location and method of financing are summarized below. Table VI contained in Part II of the registration statement, of which this supplement is a part, provides additional information relating to these acquisitions.

| Property Type |    |
|---------------|----|
| Office        | 28 |
| Distribution  | 0  |
| Warehouse     | 1  |
| Hotel         | 0  |
| Mixed use     | 0  |

|       |    |
|-------|----|
| Total | 29 |
|-------|----|

**Method of Financing**

|                              |    |
|------------------------------|----|
| All cash                     | 25 |
| All debt                     | 0  |
| Combination of cash and debt | 4  |

|       |    |
|-------|----|
| Total | 29 |
|-------|----|

**Location**

|                    |   |
|--------------------|---|
| Southeast          | 6 |
| Mideast            | 4 |
| Northeast          | 7 |
| Mountain           | 2 |
| Southwest          | 3 |
| West North Central | 1 |
| East North Central | 4 |
| Pacific            | 2 |

|       |    |
|-------|----|
| Total | 29 |
|-------|----|



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#### ***Timberland Property Public Program***

On October 9, 2007, Wells Timberland REIT acquired the Mahrt Timberland for a purchase price of approximately \$400.0 million, exclusive of closing costs. Wells Timberland REIT financed the purchase of the Mahrt Timberland with a combination of cash and debt. At the time of acquisition, the Mahrt Timberland contained an estimated 11.6 million tons of merchantable timber inventory with age classes ranging from one to 75 years.

#### **Prior Program Liquidity Events**

Our sponsor, Wells Capital, or one of its affiliates, has previously sponsored 17 public programs, including two REITs. Each of these programs stated in its prospectus filed with the SEC a date by which the program might be liquidated. Of these 17 prior programs, five liquidated ahead of their expected liquidity date, 11 have not yet reached their respective liquidity dates, and one has delayed its liquidity date, as described below.

The five programs that liquidated prior to their anticipated liquidity date did so after the disposition of all their interests in real property and other assets and after a distribution to the holders of their securities of the proceeds of the liquidation, pursuant to the agreements governing each program.

The earliest liquidation date for the 11 offerings that have not yet reached their anticipated liquidity date is December 31, 2014, and none of these 11 offerings have determined to extend its liquidation date.

Piedmont REIT sought and has received stockholder approval to extend the date by which it must commence an orderly process of liquidation if its shares were not listed on a securities exchange from January 30, 2008 to July 30, 2009. Piedmont REIT also received stockholder approval to grant to its board of directors the sole discretion to further extend the liquidation date to January 30, 2011. Piedmont REIT has reported that its board of directors made the recommendation to its stockholders to extend its liquidity date based on its assessment of volatility in the public real estate securities market, fundamentals of the office real estate market, the prices that could be obtained in a sales transaction for Piedmont REIT and discussions with its financial advisor regarding the long-term potential values of Piedmont REIT.

#### **Additional Information**

Potential investors are encouraged to examine the Prior Performance Tables in this supplement for more detailed information regarding the prior experience of our sponsor and its affiliates. In addition, upon request, prospective investors may obtain from Wells Capital, without charge, copies of offering materials and any reports prepared in connection with any of the Wells public programs, including a copy of the most recent Annual Report on Form 10-K filed with the SEC. For a reasonable fee, we also will furnish upon request copies of the exhibits to any such Form 10-K. Any such request should be directed to Wells Capital. Additionally, Table VI contained in Part II of our registration statement, of which this supplement is a part, gives certain additional information relating to properties acquired by the Wells public programs. We will furnish, without charge, copies of such table upon request.

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**Updated Prior Performance Tables**

The Prior Performance Tables section of the prospectus is hereby updated and superseded by the following:

**PRIOR PERFORMANCE TABLES**

The following Prior Performance Tables ( Tables ) provide information relating to real estate investment programs sponsored by our advisor and its affiliates ( Wells Public Programs ) which have investment objectives similar to Wells Timberland REIT, Inc. ( Wells Timberland REIT ). Except for Piedmont Office Realty Trust, Inc. ( Piedmont REIT, formerly known as Wells Real Estate Investment Trust, Inc.) and Wells Real Estate Investment Trust II, Inc. ( Wells REIT II ), all of the Wells Public Programs have used equity capital, and no acquisition indebtedness, to acquire their properties.

The Wells Public Programs which we determined have investment objectives similar to ours were those programs that stated the following investment objectives: (i) the provision of current income to the stockholders through the payment of cash distributions, (ii) the preservation and return of capital contributions to such stockholders and (iii) the realization of growth in the value of the properties acquired upon the ultimate sale of such properties. We consider that programs with these stated objectives had investment objectives similar to ours, although we will make investments in different types of properties from those which the Wells Public Programs acquired.

Prospective investors should read these Tables carefully, together with the summary information concerning the Wells Public Programs as set forth in the Prior Performance Summary section of this supplement.

*Investors in Wells Timberland REIT will not own any interest in the other Wells Public Programs and should not assume that they will experience returns, if any, comparable to those experienced by investors in other Wells Public Programs.*

Our advisor will rely on the personnel of its manager, Wells Capital, for many of the services related to the acquisition, operation, maintenance and resale of the real estate properties owned by Wells Timberland REIT. The financial results of other Wells Public Programs thus may provide some indication of Wells Capital's performance of its obligations during the prior periods covered.

The following tables are included herein:

**Table I** Experience in Raising and Investing Funds

**Table II** Compensation to Sponsor

**Table III** Annual Operating Results of Wells Public Programs

**Table IV** Results of Completed Programs

**Table V** Sales or Disposals of Properties

Additional information relating to the acquisition of properties by the Wells Public Programs is contained in Table VI, which is included in Part II of the registration statement that Wells Timberland REIT has filed with the SEC. Copies of any or all information will be provided to prospective investors at no charge upon request.

**Acquisition Fees** , as used in the Tables, shall mean fees and commissions paid by a Wells Public Program in connection with its purchase or development of a property, except development fees paid to a person not affiliated with the Wells Public Program or with a general partner or advisor of the Wells Public Program in connection with the actual development of a project after acquisition of the land by the Wells Public Program.

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**TABLE I**  
**EXPERIENCE IN RAISING AND INVESTING FUNDS**  
**(UNAUDITED)**

*This Table provides a summary of the experience of the sponsor of Wells Public Programs for which offerings have been completed since December 31, 2005 which have investment objectives similar to Wells Timberland REIT. The investment objectives of each of these Wells Public Programs have included some or all of the following: (1) the provision of current income to the stockholders through the payment of cash distributions, (2) the preservation and return of capital contributions to such stockholders and (3) the realization of growth in the value of the properties acquired upon the ultimate sale of such properties. Information is provided with regard to the manner in which the proceeds of the offerings have been applied. Also set forth is information pertaining to the timing and length of these offerings and the time period over which the proceeds have been invested in the properties. All figures are as of December 31, 2008.*

|   | <b>Wells Real<br/>Estate Investment<br/>Trust II, Inc.</b> |
|---|--|
| Dollar Amount Offered   | \$ 16,350,000,000 <sup>(4)</sup>                           |
| Dollar Amount Raised  | \$ 4,657,769,705 <sup>(4)</sup>                            |
| Percentage Amount Raised  | 100.0% <sup>(4)</sup>                                      |
| Less Offering Expenses  |  |
| Selling Commissions and Discounts <sup>(1)</sup>  | 9.5%   |
| Organizational Expenses   | 1.3%   |
| Reserves <sup>(2)</sup>   | 0.0%   |
| Percent Available for Investment  | 89.2%  |
| Acquisition and Development Costs Prepaid Items and Fees related to Purchase of Property      | 0.0%   |
| Cash Down Payment   | 84.4%  |
| Acquisition Fees <sup>(3)</sup>   | 2.0%   |
| Development and Construction Costs  | 2.8%   |
| Reserve for Payment of Indebtedness   | 0.0%   |
| Total Acquisition and Development Cost  | 89.2%  |
| Percent Leveraged   | 25.1%  |
| Date Offering Began   | (4)  |
| Length of Offering  | (4)  |
| Months to Invest 90% of Amount Available for Investment (Measured from Beginning of Offering) | (4)  |
| Approximate Number of Investors as of 12/31/08  | 119,100  |

(1) Includes selling commissions, discounts and dealer-manager fees, including those reallocated to participating broker/dealers.

(2) Does not include general partner contributions held as part of reserves.

(3) Includes acquisition fees, real estate commissions, general contractor fees and/or architectural fees paid to advisor or affiliates of the general partners.

(4) These amounts include Wells Real Estate Investment Trust II, Inc.'s first, second, and third offerings. Wells Real Estate Investment Trust II, Inc. began its first offering on December 1, 2003 and closed its first offering on November 26, 2005. The total dollar amount registered

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and available to be offered in the first offering was \$7.85 billion. The total dollar amount raised in the first offering was \$1,971,312,150. It took Wells Real Estate Investment Trust II, Inc. 21 months to invest 90% of the amount available for investment in its first offering. Wells Real Estate Investment Trust II, Inc. began its second offering on November 10, 2005 and closed its second offering on November 10, 2008. The total dollar amount registered and available to be offered in the second offering was \$4.75 billion. The total dollar amount raised in the second offering

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was \$2,576,010,745. It took Wells Real Estate Investment Trust II, Inc. 25 months to invest 90% of the amount available for investment in its second offering. Wells Real Estate Investment Trust II, Inc. began its third offering on November 11, 2008 and was currently offering shares under this third offering as of December 31, 2008. The total dollar amount registered and available to be offered in the third offering is \$3.75 billion. The total dollar amount raised in the third offering was \$110,446,810 as of December 31, 2008.

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**TABLE II**  
**COMPENSATION TO SPONSOR**  
**(UNAUDITED)**

*The following sets forth the compensation received by our advisor and its affiliates, including compensation paid out of offering proceeds and compensation paid in connection with the ongoing operations of Wells Public Programs having similar or identical investment objectives the offerings of which have been completed since December 31, 2005. All figures are as of December 31, 2008.*

|  | <b>Wells Real<br/>Estate<br/>Investment<br/>Trust II, Inc.</b> |
|--|--|
| Date Offering Commenced  | 12/1/03  |
| Dollar Amount Raised   | \$ 4,657,769,705   |
| Amount paid to Sponsor from Proceeds of Offering:                                    |  |
| Selling Commissions <sup>(1)</sup>   | \$ 46,577,697  |
| Acquisition Fees   |  |
| Real Estate Commissions  |  |
| Acquisition and Advisory Fees <sup>(2)</sup>   | \$ 93,155,394  |
| Dollar Amount of Cash Generated from Operations Before Deducting Payments to Sponsor | \$ 672,705,294   |
| Amount Paid to Sponsor from Operations:  |  |
| Property Management Fee and Leasing Commissions                                      | \$ 1,384,610   |
| Asset Management Fee   | \$ 90,372,840  |
| Reimbursements   | \$ 27,730,978  |
| General Partner Distributions  |  |
| Other  |  |
| Dollar Amount of Property Sales Payments to Sponsors:                                |  |
| Cash   |  |
| Notes  |  |
| Amount Paid to Sponsor from Property Sales and Refinancing:                          |  |
| Real Estate Commissions  |  |
| Incentive Fees   |  |
| Other  |  |

- (1) Includes net selling commissions paid to Wells Investment Securities, Inc. in connection with the offering that were not reallocated to participating broker/dealers.
- (2) Fees paid to the general partners or their affiliates for acquisition and advisory services in connection with the review and evaluation of potential real property acquisitions.

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**TABLE III**  
**OPERATING RESULTS OF PRIOR PROGRAMS**  
**(UNAUDITED)**

*The following three tables set forth operating results of Wells Public Programs, offerings of which have been completed since December 31, 2003. The information relates only to public programs with investment objectives similar to ours. All figures are as of December 31 of the year indicated.*

**WELLS REAL ESTATE FUND XIV, L.P.**

|  | 2008         | 2007         | 2006           | 2005           | 2004         |
|--|--------------|--------------|----------------|----------------|--------------|
| Gross Revenues <sup>(1)</sup>  | \$ 2,075,145 | \$ 2,279,224 | \$ 2,214,420   | \$ 1,508,479   | \$ 480,724   |
| Profit on Sale of Properties <sup>(2)</sup>  |              | 2,689,832    |                |                |              |
| Less: Operating Expenses <sup>(3)</sup>  | 854,621      | 764,171      | 694,487        | 415,511        | 191,525      |
| Depreciation & Amortization <sup>(4)</sup>   | 1,108,848    | 1,109,774    | 1,103,842      | 585,177        |              |
| Net Income GAAP Basis <sup>(5)</sup>   | \$ 111,676   | \$ 3,095,111 | \$ 416,091     | \$ 507,791     | \$ 289,199   |
| Taxable Income: Operations   | \$ 1,083,527 | \$ 3,566,300 | \$ 1,489,730   | \$ 1,263,502   | \$ 673,416   |
| Cash Generated (Used By):  |              |              |                |                |              |
| Operations   | 1,444,695    | 1,916,176    | 2,202,765      | 1,695,836      | 714,196      |
| Net Sale Proceeds from Joint Ventures  |              | 9,336,163    |                |                |              |
|  | 1,444,695    | 11,252,339   | 2,202,765      | 1,695,830      | 714,196      |
| Less Cash Distributions to Investors:  |              |              |                |                |              |
| Operating Cash Flow  | 1,011,669    | 1,962,973    | 2,088,112      | 1,402,622      | 686,351      |
| Net Sale Proceeds  |              | 9,290,000    |                |                |              |
| Return of Capital  |              |              |                |                |              |
| Undistributed Cash Flow from Prior Year Operations   |              |              |                |                |              |
| Cash Surplus (Deficiency) after Cash Distributions of Special Items (not including sales and financing): | 433,026      | (634)        | 114,653        | 293,214        | 27,845       |
| Source of Funds:   |              |              |                |                |              |
| General Partner Contributions  |              |              |                |                |              |
| Increase in Limited Partner Contributions  |              |              |                | 4,236,155      | 14,938,545   |
|  | 433,026      | (634)        | 114,653        | 4,529,369      | 14,966,390   |
| Use of Funds:  |              |              |                |                |              |
| Sales Commissions and Offering Expenses  |              |              |                | 621,400        | 1,610,813    |
| Return of Original Limited Partner's Investment  |              |              |                |                |              |
| Property Acquisition and Deferred Project Costs <sup>(6)</sup>   | 67,698       | 35,252       | 4,215,771      | 11,804,575     | 4,634,071    |
| Cash Surplus (Deficiency) after Cash Distributions and Special Items                                     | \$ 365,328   | \$ (35,886)  | \$ (4,101,118) | \$ (7,896,606) | \$ 8,721,506 |
| Net Income and Distributions Data per \$1,000 Invested:  |              |              |                |                |              |
| Net Income on GAAP Basis   |              |              |                |                |              |
| Ordinary Income (Loss):  |              |              |                |                |              |
| Cash Preferred Units   | \$ 54        | \$ 72        | \$ 85          | \$ 70          | \$ 63        |
| Tax Preferred Units  | (159)        | 143          | (208)          | (141)          | (105)        |
| Recapture  |              |              |                |                |              |

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## Capital Gain (Loss):

### Tax and Distribution Data per \$1,000 Invested:

#### Federal Income Tax Results:

#### Ordinary Income (loss):

|                      |      |      |      |      |      |
|----------------------|------|------|------|------|------|
| Cash Preferred Units | 59   | 68   | 82   | 68   | 60   |
| Tax Preferred Units  | (59) | (62) | (74) | (52) | (41) |

#### Recapture

#### Capital Gain (Loss):

|                      |     |
|----------------------|-----|
| Cash Preferred Units | 8   |
| Tax Preferred Units  | 251 |

#### Deferred Gain:

#### Capital

#### Ordinary



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|  | 2008 | 2007 | 2006 | 2005 | 2004 |
|--|------|------|------|------|------|
| Cash Distributions to Investors:                             |      |      |      |      |      |
| Source (on GAAP Basis):                                      |      |      |      |      |      |
| Investment Income to Cash Preferred Units                    | 23   | 70   | 82   | 64   | 56   |
| Net Sale Proceeds to Cash Preferred Units                    |      | 214  |      |      |      |
| Net Sale Proceeds to Tax Preferred Units                     |      | 438  |      |      |      |
| Return of Capital to Cash Preferred Units                    |      |      |      |      |      |
| Return of Capital to Tax Preferred Units                     |      |      |      |      |      |
| Source (on Cash Basis):                                      |      |      |      |      |      |
| Sales to Cash Preferred Units                                |      |      |      |      |      |
| Sales to Tax Preferred Units                                 |      |      |      |      |      |
| Refinancing  |      |      |      |      |      |
| Operations to Cash Preferred Units                           | 23   | 70   | 82   | 64   | 56   |
| Net Sale Proceeds to Cash Preferred Units                    |      | 214  |      |      |      |
| Net Sale Proceeds to Tax Preferred Units                     |      | 438  |      |      |      |
| Other  |      |      |      |      |      |
| Source (on a Priority Distribution Basis) <sup>(7)</sup> :   |      |      |      |      |      |
| Investment Income to Cash Preferred Units                    | 23   | 70   | 82   | 64   | 56   |
| Net Sale Proceeds to Cash Preferred Units                    |      | 214  |      |      |      |
| Net Sale Proceeds to Tax Preferred Units                     |      | 438  |      |      |      |
| Return of Capital to Cash Preferred Units                    |      |      |      |      |      |
| Investment Income to Preferred Units                         |      |      |      |      |      |
| Return of Capital to Tax Preferred Units                     |      |      |      |      |      |
| Amount (in Percentage Terms) Remaining Invested in Program   |      |      |      |      |      |
| Properties at the end of the Last Year Reported in the Table | 100% |      |      |      |      |

(1) Includes \$427,890 of equity in earnings of joint venture in 2004; includes \$510,288 in equity in earnings of joint ventures in 2005; includes \$560,990 in equity of earnings of joint venture in 2006; includes \$278,491 in equity of earnings in of joint ventures in 2007; and includes \$270,034 in equity of earnings in of joint ventures in 2008 excluding Wells Real Estate Fund XIV, L.P. s allocated gain from the sale of properties. As of December 31, 2008, the occupancy percentage of all properties owned by Wells Real Estate Fund XIV, L.P. was 100%.

(2) Represents gain allocated to Wells Real Estate XIV, L.P. through its ownership in Fund XIII and Fund XIV Associates.

(3) Includes partnership administrative expenses.

(4) Included in equity in earnings of joint ventures in gross revenues is depreciation of \$708,782 for 2004; \$684,660 for 2005; \$692,970 for 2006; \$394,338 for 2007, and \$298,680 for 2008.

(5) In accordance with the partnership agreement, net income or loss, depreciation and amortization are allocated \$992,650 to Cash Preferred Limited Partners, \$(703,451) to Tax Preferred Limited Partners and \$0 to the General Partners for 2004; \$1,761,888 to Cash Preferred Limited Partners, \$(1,254,097) to Tax Preferred Limited Partners and \$0 to the General Partners in 2005; \$2,212,221 to Cash Preferred Limited Partners, \$(1,796,130) to Tax Preferred Limited Partners and \$0 to the General Partners in 2006; \$1,907,531 to Cash Preferred Limited Partners, \$1,187,580 to Tax Preferred Limited Partners and \$0 to the General Partners in 2007; and \$1,420,183 to Cash Preferred Limited Partners, \$(1,309,149) to Tax Preferred Limited Partners, and \$642 to the General Partners for 2008.

(6) Includes investments in joint venture.

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- (7) Pursuant to the terms of the partnership agreement, an amount equal to the cash distributions paid to Cash Preferred Limited Partners is payable as priority distributions out of net proceeds from the sale of partnership properties to Tax Preferred Limited Partners. Such distributions are characterized as return of capital distributions to Tax Preferred Limited Partners. As of December 31, 2008, the aggregate amount of such priority distributions payable to Tax Preferred Limited Partners was \$0.56 per unit.

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**TABLE III**

**OPERATING RESULTS OF PRIOR PROGRAMS**

**(UNAUDITED)**

**PIEDMONT OFFICE REALTY TRUST, INC.**

(in thousands, except per-shares amounts)

|  | 2006 <sup>(1)</sup> | 2005       | 2004        | 2003       | 2002        |
|--|---------------------|------------|-------------|------------|-------------|
| Gross Revenues <sup>(2)</sup>  | \$ 584,044          | \$ 593,963 | \$ 564,625  | \$ 327,965 | \$ 100,515  |
| Operating Income from Discontinued Operations                        | 4,626               | 12,358     | 34,517      | 26,597     | 17,205      |
| Profit on Sale of Properties   | 27,922              | 177,678    | 11,489      |            |             |
| Less: Operating Expenses   | 318,246             | 300,541    | 257,703     | 135,676    | 30,207      |
| Depreciation and Amortization <sup>(3)</sup>                         | 165,022             | 154,323    | 143,206     | 98,201     | 27,659      |
| Net Income GAAP Basis  | \$ 133,324          | \$ 329,135 | \$ 209,722  | \$ 120,685 | \$ 59,854   |
| Taxable Income: Operations   | \$ 201,001          | \$ 365,290 | \$ 230,670  | \$ 153,511 | \$ 80,521   |
| Cash Generated (Used By):  |                     |            |             |            |             |
| Operations   | 278,948             | 271,494    | 329,818     | 237,238    | 111,960     |
| Sales  | 111,778             | 756,768    | 40,506      | 2,409      |             |
| Financing  | 207,498             | 146,130    | 193,679     | (26,046)   | 150,071     |
|  | 598,224             | 1,174,392  | 564,003     | 213,601    | 262,031     |
| Less Cash Distributions to Investors:                                |                     |            |             |            |             |
| Operating Cash Flow  | 269,575             | 286,643    | 326,372     | 219,121    | 104,996     |
| Return of Capital  |                     | 748,526    |             |            |             |
| Cash Surplus (Deficiency) after Cash Distributions                   | 328,649             | 139,223    | 237,631     | (5,520)    | 157,035     |
| Special Items (not including sales and financing):                   |                     |            |             |            |             |
| Issuance of common stock   | 150,379             | 159,459    | 194,942     | 2,531,345  | 1,340,293   |
| Redemptions of common stock  | (178,907)           | (215,015)  | (96,806)    | (43,690)   | (15,362)    |
| Deferred financing costs paid and other                              | (1,038)             | (984)      | (10,473)    | (8,346)    | (1,674)     |
| Proceeds from master leases  | 963                 |            |             |            |             |
| Repurchase of shares upon settlement                                 |                     |            | (12,842)    |            |             |
|  | 300,046             | 82,683     | 312,452     | 2,473,789  | 1,480,292   |
| Use of Funds:  |                     |            |             |            |             |
| Sales Commissions and Offering Expenses                              | 3,747               | 8,301      | 32,877      | 254,926    | 140,488     |
| Return of Investors Investment                                       |                     |            |             |            |             |
| Property Acquisitions and Deferred Project Costs                     | 300,346             | 64,550     | 292,778     | 2,186,787  | 1,361,016   |
| Contributions to joint ventures                                      | 795                 | 528        | 395         | 24,059     | 8,910       |
| Cash Surplus (Deficiency) after Cash Distributions and Special Items | \$ (4,842)          | \$ 9,304   | \$ (13,598) | \$ 8,017   | \$ (30,122) |
| Tax and Distribution Data Per \$1,000 Invested                       |                     |            |             |            |             |
| Federal Income Tax Results:  |                     |            |             |            |             |
| Ordinary Income (Loss):  |                     |            |             |            |             |

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|                                  |    |    |    |     |    |    |    |
|----------------------------------|----|----|----|-----|----|----|----|
| Operations                       | \$ | 29 | \$ | 15  | \$ | \$ | \$ |
| Recapture                        |    | 1  |    | 3   |    |    |    |
| Return of capital                |    | 11 |    | 50  |    |    |    |
| Capital Gain (Loss)              |    | 3  |    | 10  |    |    |    |
| Deferred Gain:                   |    |    |    |     |    |    |    |
| Capital                          |    |    |    |     |    |    |    |
| Ordinary                         |    |    |    |     |    |    |    |
| Cash Distributions to Investors: |    |    |    |     |    |    |    |
| Source (on GAAP Basis):          |    |    |    |     |    |    |    |
| Investment Income                |    | 58 |    | 61  |    | 70 | 76 |
| Return of capital                |    |    |    | 162 |    |    |    |
| Source (on Cash Basis):          |    |    |    |     |    |    |    |
| Sales                            |    | 15 |    | 34  |    | 2  |    |
| Refinancing                      |    |    |    |     |    |    |    |
| Operations                       |    | 38 |    | 61  |    | 49 | 53 |
| Return of capital                |    | 5  |    | 128 |    | 19 | 23 |
| Other                            |    |    |    |     |    |    |    |

Amount (in Percentage Terms) Remaining Invested in  
Program Properties at the end of the Last Year Reported in the  
Table

83.8%<sup>(4)</sup>

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- (1) On April 16, 2007, Piedmont Office Realty Trust, Inc. became self-advised and terminated its advisory agreement with Wells. As such, 2006 is the final year in which we disclose Piedmont Office Realty Trust Inc. s operating results.
- (2) Includes \$4,700 in equity in earnings of joint ventures in 2002; \$4,751 in equity in earnings of joint ventures in 2003; \$6,634 in equity in earnings of joint ventures in 2004; \$14,765 in equity in earnings of joint ventures in 2005; and \$2,197 in equity in earnings of joint ventures in 2006.
- (3) Included in equity in earnings of joint ventures in gross revenues is depreciation and amortization of \$2,818 for 2002; \$3,730 for 2003; \$4,160 for 2004; \$2,777 for 2005; and \$2,558 for 2006.
- (4) Piedmont Office Realty Trust, Inc. disposed of 27 properties during 2005 and used the net sales proceeds to make a special distribution to shareholders. The special distribution was in the amount of \$1.62 per share. This special distribution reduced the amount of program proceeds invested in properties to 83.8%.

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**TABLE III**  
**OPERATING RESULTS OF PRIOR PROGRAMS**  
**(UNAUDITED)**  
**WELLS REAL ESTATE INVESTMENT TRUST II, INC.**

(in thousands, except per-shares amounts)

|                               | <b>2008</b> | <b>2007</b> | <b>2006</b> | <b>2005</b> | <b>2004</b> |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|
| Gross Revenues                | \$ 564,833  | \$ 442,169  | \$ 335,421  | \$ 173,565  | \$ 53,622   |
| Profit on Sale of Properties  |             |             |             |             |             |
| Less: Operating Expenses      | 372,403     | 270,008     | 192,175     | 93,329      | 38,700      |
| Depreciation and Amortization | 215,108     | 176,829     | 131,978     | 67,715      | 19,484      |
| Net Income GAAP Basis         | \$ (22,678) | \$ (4,668)  | \$ 11,268   | \$ 12,521   | \$ (4,562)  |