

Wells Timberland REIT, Inc.
Form 424B3
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Table of Contents

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WELLS TIMBERLAND REIT, INC.

SUPPLEMENT NO. 4 DATED AUGUST 23, 2007

TO THE PROSPECTUS DATED APRIL 23, 2007

This document supplements, and should be read in conjunction with, our prospectus dated April 23, 2007, as supplemented by Supplement No. 1 dated May 25, 2007, Supplement No. 2 dated July 13, 2007 and Supplement No. 3 dated August 10, 2007, relating to our initial public offering of up to 85,000,000 shares of common stock. Capitalized terms used in this supplement have the same meanings as set forth in the prospectus. The purpose of this supplement is to disclose:

the status of our initial public offering;

Management's Discussion and Analysis of Financial Condition and Results of Operations similar to that filed in our Quarterly Report on Form 10-Q for the period ended June 30, 2007, filed on August 8, 2007; and

our unaudited financial statements as of and for the three and six months ended June 30, 2007.

Status of Our Initial Public Offering

As of August 17, 2007, we had received aggregate gross offering proceeds, net of discounts, of approximately \$8.8 million from the sale of approximately 881,421 shares in our initial public offering. As of August 17, 2007, approximately 74.1 million shares remained available for sale to the public under our initial offering, exclusive of shares available under our distribution reinvestment plan.

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

The following discussion and analysis should be read in conjunction with our accompanying consolidated financial statements and notes thereto. This discussion contains forward-looking statements, which can be identified with the use of forward-looking terminology such as *may*, *will*, *intend* or similar words. Actual results may differ from those described in forward-looking statements. For a discussion of the factors that could cause actual results to differ from those anticipated, see *Risk Factors* in the prospectus.

On July 11, 2007, we raised our minimum offering of \$2.0 million, and thus commenced operations. Our focus during the six months ended June 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.

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.

Our most significant risks and challenges include our ability to raise a sufficient amount of equity that will allow us to invest in a diversified portfolio. To the extent that significant funds are not raised, we may not be able to achieve sufficient diversification to guard against the general economic, industry-specific, financing, and operational risks generally associated with individual investments.

Liquidity and Capital Resources

Overview

In the future, we anticipate raising capital proceeds from the sale of our common stock under our initial offering and investing such proceeds in acquisitions of timberland. After raising capital under our initial offering and acquiring timberland, we expect our primary source of operating cash flows to be generated from the sale to third parties of timberland and rights to access our land and harvest our timber. The amount of future dividends to be paid to our stockholders will be largely dependent upon, among other things, 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.

Table of Contents

Short-Term Liquidity and Capital Resources

During the six months ended June 30, 2007, net cash outflows from operating activities were approximately \$0.7 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 June 30, 2007, we held cash balances of approximately \$0.3 million, and owed Wells TIMO \$0.1 million for a note payable and \$1.5 million for current and prior period operating expenditures funded on our behalf.

In the future, we intend to raise capital proceeds from the sale of common stock under our initial offering and from third-party borrowings, and to use such capital primarily to fund future acquisitions of timberland. Further, we intend to repay amounts due to Wells Capital upon commencing active operations.

Long-Term Liquidity and Capital Resources

Potential future sources of capital include proceeds from the sale of our common stock, proceeds from secured or unsecured financings from banks and other lenders, and net cash flows from operations. We anticipate funding dividends to our stockholders from net cash flows from operations; however, we may periodically borrow funds on a short-term basis to fund dividends 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 dividends.

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, after payments of periodic operating expenses and certain capital expenditures required for our timberland, is anticipated to be used to pay dividends to stockholders. Therefore, to the extent that cash flows from operations are lower, dividends are anticipated to be lower as well. Substantially all net proceeds generated from the sale of our shares under our initial offering or from debt financing will be available to fund acquisitions of timberland, capital expenditures identified at the time of acquisition, and to pay down outstanding borrowings. If sufficient equity or debt capital is not available, our future investments in timberland will be lower. Our charter precludes us from incurring debt in excess of 300% of our net assets, which we generally expect to approximate 75% of our total assets, before adjustment for noncash reserves and depreciation; however, we may temporarily exceed this limit under some circumstances. Our independent directors have approved our ability to borrow in excess of this threshold up to \$1.8 million of aggregate borrowings or until raising the minimum offering of \$2.0 million from the sale of our common stock, whichever occurs sooner. The independent directors deemed the excess borrowing to be justified by the need for us to pay operating expenses that we incurred prior to raising the minimum offering amount.

Results of Operations

As of June 30, 2007, we had not received and accepted the minimum subscription of \$2.0 million and, accordingly, did not engage in active operations during the periods presented. Our net losses of \$643,232 for the six months ended June 30, 2007, and of \$197,530 for the six months ended June 30, 2006, are comprised of administrative costs primarily related to salaries, directors compensation, and other professional fees.

Our results of operations are not indicative of those expected in future periods. After raising equity proceeds under our initial offering, we expect to acquire interests in timberland and to subsequently generate timber revenues, net of cost of sales, selling expenses, general and administrative expenses, and interest expense, in the future.

Election as a REIT

Pursuant to our charter, our board of directors has the authority to determine when and if it is in our best interest to elect to qualify for federal income tax treatment as a REIT. We expect that the our board of directors will elect for us to qualify as a REIT for the first taxable year in which (i) we would otherwise qualify to be taxed as a REIT and (ii) we generate substantial taxable income such that REIT status would be in the best interest of our stockholders. If we complete the MeadWestvaco Timberland acquisition, as discussed in Subsequent Events below, our board of directors currently

Table of Contents

believes that we most likely will not elect to be taxed as a REIT for the taxable year ending December 31, 2007. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of the REIT's ordinary taxable income to stockholders. As a REIT, we generally will not be subject to federal income tax on taxable income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we will then be subject to federal income taxes on our taxable income 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. Such an event could materially adversely affect our net income and net cash available for distribution to stockholders. However, we believe that we are organized and operate in such a manner as to qualify for treatment as a REIT for federal income tax purposes.

Application of Critical Accounting Policies

Our accounting policies have been established to conform to GAAP. The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If management's judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied or different amounts of assets, liabilities, revenues, and expenses would have been recorded, thus resulting in a different presentation of the financial statements or different amounts reported in the financial statements. Additionally, other companies may utilize different estimates that may impact comparability of our results of operations to those of companies in similar businesses.

A discussion of the accounting policies that we intend to adopt upon commencing active operations, and which management deems critical because they may require complex judgment in their application or otherwise require estimates about matters that are inherently uncertain, is provided below.

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

Significant assumptions and estimates are used in the recording of timber and timberland inventory cost and depletion. Merchantable standing timber inventory will be estimated at least 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 SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144), which 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

Table of Contents

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

Our Relationship with Wells REIT and the Impact of Its Internalization Transaction on Us

Wells Real Estate Investment Trust, Inc. (Wells REIT) is a separate REIT from us that was sponsored by WREF. WREF is the sole stockholder of Wells Investment Securities (our dealer-manager) and Wells Capital, which is the sole stockholder of Wells TIMO. Prior to December 15, 2006, we and Wells REIT shared a common advisor. We also shared with Wells REIT three of the same executive officers and three of the same directors. On February 2, 2007, Wells REIT entered into the merger agreement relating to the internalization transaction described below.

On April 16, 2007, Wells REIT acquired entities affiliated with Wells Real Estate Funds. Wells REIT entered into the merger in order to internalize advisory, asset management, property management, and other services previously provided to Wells REIT by WREF and its

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affiliates. As a result of the internalization transaction, 81 employees of WREF and its affiliates became employees of Wells REIT. These employees did not provide significant services to us. Following the internalization transaction, WREF and its affiliates have 351 employees. WREF and its affiliates are seeking successors to some of the personnel who became employees of Wells REIT in the internalization transaction, including Robert E. Bowers, the former chief financial officer of WREF.

Table of Contents

In connection with the Wells REIT internalization transaction, three of our executive officers and two of our former board members resigned from their respective positions with Wells REIT. In addition, on May 9, 2007, Leo F. Wells, III, resigned as chairman of the board of directors of Wells REIT. As a result, we and Wells REIT share no common officers and only one common director. Donald S. Moss remains one of our independent directors and one of the directors of the board of directors of Wells REIT.

Assertion of Litigation Against Related Parties

On March 12, 2007, a stockholder of Wells REIT filed a putative class action and derivative complaint, *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, Wells REIT, Wells Capital, Mr. Leo F. Wells, III and certain affiliates of WREF and certain officers, one current director and two former directors of ours who formerly served as officers and directors of Wells REIT prior to the closing of the internalization transaction on April 16, 2007. The complaint alleges, among other things, violations of the federal proxy rules and breaches of fiduciary duty arising from the Wells 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 Wells 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 Northern District of Georgia, and the case was docketed in the Northern District of Georgia on April 24, 2007. The plaintiff filed an amended class action and derivative complaint on June 27, 2007. The amended complaint attempts to assert class action claims on behalf of those persons who received and were entitled to vote on the Wells REIT proxy statement filed with the SEC on February 26, 2007 and derivative claims on behalf of Wells REIT. The defendants have until August 13, 2007 to respond. On July 9, 2007, the court denied the plaintiff's motion for expedited discovery related to an anticipated motion for a preliminary injunction, noting that the alleged conduct could be evaluated through the normal path of litigation. 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 their ability to successfully manage our operations.

Commitments and Contingencies

As of June 30, 2007, Wells TIMO had incurred organization and offering expenses on our behalf of approximately \$1.9 million, of which we will reimburse Wells TIMO up to 1.2% of total gross capital raised from the sale of our common stock to the public. To the extent that organization and offering costs exceed 1.2% of gross offering proceeds we will not be obligated to reimburse Wells TIMO for such costs. See Note 3 to our accompanying consolidated financial statements for further discussion of the terms of the Advisory Agreement.

Subsequent Events

Escrow

As of July 11, 2007, we had received and accepted subscriptions in our initial public offering sufficient to exceed the minimum offering of \$2.0 million. Having raised the minimum offering, the offering proceeds were released by the escrow agent to us and are available for use in the acquisition of properties and other operating activities.

Sale of Shares of Common Stock

From July 1, 2007 through July 31, 2007, we raised approximately \$5.8 million net of discounts through the issuance of approximately 589,000 shares of common stock under our initial offering. As of July 31, 2007, approximately 74.4 million shares remained available for sale to the public under the initial offering, exclusive of shares available under our distribution reinvestment plan.

MeadWestvaco Timberland Acquisition

On August 3, 2007, we, through a wholly owned subsidiary, entered into a purchase and sale agreement with MeadWestvaco Coated Board, Inc., a subsidiary of MeadWestvaco Corporation, for the purchase of 322,856 acres of timberland located in the states of Alabama and Georgia that is currently owned by MeadWestvaco. Under the terms of the

Table of Contents

agreement, we will pay a purchase price of \$400,000,000 for the timberland property. We also expect to pay approximately \$13,000,000 for estimated transfer taxes, due diligence and closing costs. Pursuant to the agreement, we deposited \$5,000,000 into an escrow account which will be applied to the purchase price payable to MeadWestvaco at closing.

The timberland property will be subject to a supply agreement with MeadWestvaco whereby MeadWestvaco will pay us to supply it with timber. We intend to finance the purchase of the timberland property through debt financing or a combination of debt financing and funds raised through its initial public offering. We anticipate that the closing of the acquisition of the timberland will occur in the third quarter of 2007; however, closing will be subject to certain conditions, including obtaining the above-described debt financing, and there can be no assurance that we will be able to complete the acquisition.

Table of Contents

INDEX OF FINANCIAL STATEMENTS

	Page
Wells Timberland REIT, Inc. and Subsidiaries June 30, 2007	
<u>Consolidated Balance Sheets as of June 30, 2007 (unaudited) and December 31, 2006</u>	F-2
<u>Consolidated Statements of Loss for the Three Months Ended June 30, 2007 (unaudited) and 2006 (unaudited) and for the Six Months Ended June 30, 2007 (unaudited) and 2006 (unaudited)</u>	F-3
<u>Consolidated Statements of Stockholder s Equity for the Year Ended December 31, 2006 and for the Six Months Ended June 30, 2007 (unaudited)</u>	F-4
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2007 (unaudited) and 2006 (unaudited)</u>	F-5
<u>Condensed Notes to Consolidated Financial Statements (unaudited)</u>	F-6

F-1

Table of Contents

WELLS TIMBERLAND REIT, INC.
CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
	June 30,	December 31,
	2007	2006
Assets:		
Cash and cash equivalents	\$ 316,812	\$ 202,829
Deferred expenses	169,760	
Prepaid expenses	42,835	126,078
Total assets	\$ 529,407	\$ 328,907
Liabilities:		
Due to affiliate	\$ 1,502,450	\$ 776,918
Note payable to affiliate	114,000	
Total liabilities	1,616,450	776,918
Commitments and Contingencies		
Minority Interest		
Stockholder's Equity:		
Common stock, \$0.01 par value; 900 million shares authorized, 20,000 shares issued and outstanding	200	200
Additional paid-in capital	225,000	220,800
Accumulated deficit	(1,312,243)	(669,011)
Total stockholder's deficit	(1,087,043)	(448,011)
Total liabilities, minority interest, and stockholder's equity	\$ 529,407	\$ 328,907

See accompanying notes.

Table of Contents**WELLS TIMBERLAND REIT, INC.****CONSOLIDATED STATEMENTS OF LOSS**

	(Unaudited)		(Unaudited)	
	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues	\$	\$	\$	\$
Expenses:				
General and administrative	(406,424)	(88,573)	(643,232)	(197,530)
Net loss	\$ (406,424)	\$ (88,573)	\$ (643,232)	\$ (197,530)
Per-share information basic and diluted:				
Net loss allocated to common stockholders	\$ (20.32)	\$ (4.43)	\$ (32.16)	\$ (9.88)
Weighted-average common shares outstanding basic and diluted	20,000	20,000	20,000	20,000

See accompanying notes

Table of Contents

WELLS TIMBERLAND REIT, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)
FOR THE YEAR ENDED DECEMBER 31, 2006
AND THE SIX MONTHS ENDED JUNE 30, 2007 (UNAUDITED)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders Equity (Deficit)
	Shares	Amount			
Balance, December 31, 2005	20,000	\$ 200	\$ 199,800	\$	\$ 200,000
Net loss				(669,011)	(669,011)
Amortization of stock options			21,000		21,000
Balance, December 31, 2006	20,000	200	220,800	(669,011)	(448,011)
Net loss				(643,232)	(643,232)
Amortization of stock options			4,200		4,200
Balance, June 30, 2007	20,000	\$ 200	\$ 225,000	\$ (1,312,243)	\$ (1,087,043)

See accompanying notes.

Table of Contents**WELLS TIMBERLAND REIT, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	(Unaudited)	
	Six Months Ended June 30,	
	2007	2006
Cash Flows from Operating Activities:		
Net loss	\$ (643,232)	\$ (197,530)
Stock-based compensation expense	4,200	8,400
Adjustments to reconcile net loss to net cash used in operating activities:		
Increase in deferred expenses	(169,760)	
Decrease (increase) in prepaid expenses	83,243	(207,997)
Net cash used in operating activities	(725,549)	(397,127)
Cash Flows from Financing Activities:		
Due to affiliate	725,532	397,127
Proceeds from note payable to affiliate	114,000	
Net cash provided by financing activities	839,532	397,127
Net increase in cash and cash equivalents	113,983	
Cash and cash equivalents, beginning of period	202,829	203,000
Cash and cash equivalents, end of period	\$ 316,812	\$ 203,000
Supplemental Disclosure of Noncash Financing Activity:		
Amortization of stock options	\$ 4,200	\$ 8,400

See accompanying notes.

Table of Contents

WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 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 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 June 30, 2007, 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 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 U.S. generally accepted accounting principles (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

Table of Contents

WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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 June 30, 2007 or December 31, 2006.

Prepaid Expenses

Prepaid expenses primarily represent prepayments of directors' fees and directors and officers insurance premiums, which will be expensed in the periods to which the services relate. Balances without a future economic benefit are written off as they are identified.

Income Taxes

Wells Timberland REIT was organized as a C Corporation for all taxable years ended December 31, 2006 and prior 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 six months ended June 30, 2007, Wells Timberland REIT has incurred \$643,232 of net operating losses. As such, a deferred tax asset has been established of \$467,412 and \$225,683 as of June 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 June 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 (i) Wells Timberland REIT would otherwise qualify to be taxed as a REIT and (ii) Wells Timberland REIT generate

Table of Contents**WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

substantial taxable income such that REIT status would be in the best interest of Wells Timberland REIT stockholders. If Wells Timberland REIT completes the MeadWestvaco Timberland acquisition, as discussed in note 9 below, Wells Timberland REIT's board of directors currently believes that Wells Timberland REIT will most likely not elect to be taxed as a REIT for the taxable year 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.

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.

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 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. SOP 07-1 will be effective for Wells Timberland REIT beginning January 1, 2008. Wells Timberland REIT is currently in 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. 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.

Table of Contents

WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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 \$2.0 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, all organization and offering costs will be incurred by Wells TIMO and not by Wells Timberland REIT. As of June 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 \$1.9 million and \$1.4 million, 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 (i) the gross cost of all investments made on behalf of Wells Timberland REIT and (ii) 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 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 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 (i) for each property sold at a contract price up to \$20.0 million, up to 2.0% of the sales price, and (ii) for each property sold at a contract price in excess of \$20.0 million, up to 1.0% of the sales price. The precise amount of the fee within the preceding limits will be determined by Wells Timberland REIT's board of directors, including a majority of the independent directors, based on the level of services provided and market norms. The real estate disposition fee may be in addition to real estate commissions paid to third parties. How