

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

SUPPLEMENT NO. 7 DATED MAY 26, 2010

TO THE PROSPECTUS DATED AUGUST 6, 2009

This document supplements, and should be read in conjunction with, our prospectus dated August 6, 2009, relating to our offering of up to \$2,200,000,000 of shares of our common stock, as supplemented by Supplement No. 6 dated April 14, 2010. Defined terms used in this supplement have the same meanings as set forth in the prospectus. The purpose of this supplement is to disclose:

the status of our public offerings;

information regarding our indebtedness;

our election to be taxed as a REIT;

a revision of the tax considerations section of our prospectus; and

our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, as filed with the Securities and Exchange Commission on May 13, 2010, which is attached to this supplement as Annex A.

Status of Our Public Offerings

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

On August 12, 2009, we commenced a follow-on public offering of 220.9 million shares of common stock, of which 20.9 million shares of common stock are being offered under our distribution reinvestment plan. As of May 24, 2010, we had raised gross offering proceeds of approximately \$36.3 million from the sale of approximately 3.6 million shares of common stock under our follow-on offering. As of May 24, 2010, approximately 196.4 million shares remained available for sale to the public in our follow-on offering, exclusive of shares available under our distribution reinvestment plan.

As of May 24, 2010, we had received aggregate gross offering proceeds of approximately \$211.1 million from the sale of approximately 21.1 million shares in our public offerings. After incurring approximately \$17.7 million in selling commissions and dealer manager fees, approximately \$2.5 million in other organization and offering expenses, and funding common stock redemptions of approximately \$0.7 million pursuant to the share redemption program, as of May 24, 2010, we had raised aggregate net offering proceeds available for investment in properties of approximately \$190.2 million, substantially all of which had been invested in timberland properties. Unless extended, our follow-on offering is expected to terminate on August 6, 2011.

Information Regarding Our Indebtedness

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As of May 24, 2010, our leverage ratio, or the ratio of total debt to total purchase price of timber assets plus cash and cash equivalents, was approximately 50%. As of May 24, 2010, our debt-to-net assets ratio, defined as total debt as a percentage of our total assets (other than intangibles) less total liabilities, was approximately 114%.

As of May 24, 2010, we had total outstanding indebtedness of approximately \$206.2 million, which consisted of five-year senior loan, which we refer to as the Mahrt loan, in the original principal amount of \$211.0 million with CoBank, ACB and Wells Fargo Securities, LLC. The proceeds of the Mahrt loan, which was entered into in March 2010, were used to refinance the outstanding balances due on a senior loan and a mezzanine loan entered into in October 2007 in connection with our acquisition from MeadWestvaco Corporation of certain timberland and long-term leasehold interests in timberland, along with associated mineral rights and other related assets, which we refer to as the Mahrt Timberland.

REIT Election

On May 13, 2010, we elected to be taxed as a real estate investment trust (REIT) under the Internal Revenue Code of 1986, as amended, beginning with our taxable year ended December 31, 2009. To continue to qualify as a REIT, we must meet certain organizational and operational requirements.

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Federal Income Tax Considerations

The Federal Income Tax Considerations section of the prospectus, beginning on page 103, is hereby superseded in its entirety with the following:

FEDERAL INCOME TAX CONSIDERATIONS

The following summary describes the material federal income tax considerations to our stockholders relating to our business and investments in our shares. The summary is for general information only, is not tax advice, and 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 Internal Revenue Code.

We base the information in this section on the current Internal Revenue Code, current, temporary and proposed Treasury regulations, the legislative history of the Internal Revenue 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.

Federal Income Taxation of Our Company as a REIT

We have elected to be taxed as a REIT under the Internal Revenue Code effective for the taxable year ending December 31, 2009. We believe that we have satisfied the organizational and operational requirements to qualify to be taxed as a REIT beginning with our taxable year ending December 31, 2009.

Alston & Bird LLP is acting as tax counsel to us in connection with this offering. Alston & Bird LLP has rendered a qualified opinion to us that, commencing with our taxable year ending December 31, 2009, we will be organized in conformity with, and our contemplated method of operations will enable us to satisfy the requirements for, qualification as a REIT under the Internal Revenue Code. Alston & Bird LLP's opinion is based and expressly conditioned upon the accuracy of our representations with respect to various factual matters concerning our business operations and our properties. In particular, Alston & Bird LLP's opinion is based on the assumptions that we will not be prohibited, under the terms of our agreements with our lenders, from satisfying any distribution obligations in 2010. You should be aware that opinions of counsel are not binding on the Internal Revenue Service, and no assurance can be given that the Internal Revenue Service will not challenge the conclusions set forth in Alston & Bird LLP's opinion. In addition, our qualification as a REIT depends, among other things, upon our meeting the various qualification tests imposed by the Internal Revenue Code discussed below, including through annual operating results, asset diversification, distribution levels and diversity of stock ownership each year. Accordingly, because our satisfaction of such requirements will depend upon future events, including the final determination of our financial and operational results, we can give you no assurance that we will satisfy the REIT requirements on a continuing basis.

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

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If we have qualified and continue to qualify for taxation as a REIT, we generally will 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,

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.

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If, in a taxable transaction, we dispose of an asset that we owned on January 1, 2009, the date on which we commenced our REIT status, which had a fair market value in excess of its tax basis, during the ten-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 on the disposition of any such asset during the ten-year period beginning on the date on which we commenced our REIT status or acquired the asset, as the case may be, then we generally will be subject to tax at the highest regular corporate income tax rate on

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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 commenced our REIT status or we acquired the asset, as the case may be, which is referred to as the Built-In Gain Rules. Because we acquired substantial assets before the commencement of our REIT status, 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 taxed 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. 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. We have determined that we do not have any retained earnings and profits from years prior to our taxable year beginning January 1, 2009.

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,

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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. We made a TRS election for Wells Timberland TRS, Inc. and will determine whether we should conduct through Wells Timberland TRS, Inc. or other 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 25% 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. Under changes to the REIT rules in the Food Conservation and Energy Act of 2008, which we refer to as the Housing Bill, mineral royalty income of a qualifying timber REIT is also qualifying income for purposes of the 95% gross income test. A qualifying timber REIT is a REIT in which more than 50% of the assets consists of real property held in connection with a trade or business of producing timber. For revenue purposes, the Housing Bill's REIT provisions sunset and would apply only to our taxable year ending December 31, 2009. There is no assurance that this rule will be extended or made permanent.

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 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. We

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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.

The Housing Bill codified the treatment of certain timber income for purposes of the REIT gross income tests. As amended, timber sale gains under section 631(a) (provided that the timber is cut by a taxable REIT subsidiary) and section 631(b) are qualifying income for purposes of the 75% and 95% gross income tests without regard to how long the timber was held. As note above, the Housing Bill's REIT provisions sunset and would apply only to our taxable year ending December 31, 2009. There is no assurance that this rule will be extended or made permanent.

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 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

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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), 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, after July 30, 2008 and properly and timely identify such hedges in our books and records, any periodic income or gain from the disposition of that contract will be disregarded for purposes of the 95% gross income test and 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.

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, 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 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.

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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, as recently amended, no more than 25% 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.

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 \$10.0 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.

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.

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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 ten-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,

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.

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.

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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.

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 25% 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 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

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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 Internal Revenue 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 treated as a partnership for U.S. federal income tax purposes. If Wells Timberland OP were taxed as a corporation, we would not satisfy the REIT gross income or asset tests and would not qualify to be taxed as a REIT.

Taxation of U.S. Stockholders

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.

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.

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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.

Taxation of Tax-Exempt Stockholders

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

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

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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.

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.

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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 (generally five years) less than 50% in value of its shares is held directly or indirectly by non-U.S. Stockholders. We will not be a domestically controlled qualified investment entity until we have been a REIT for five years and satisfied the domestically controlled requirement throughout such period. We cannot assure non-U.S. Stockholders that we will be a domestically controlled qualified investment entity at any particular time, especially if we raise substantial capital through the German offering. 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 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.

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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.

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.

Recent Developments

New Unearned Income Medicare Tax

Under the recently enacted Health Care and Education Reconciliation Act of 2010, amending the Patient Protection and Affordable Care Act, high-income U.S. individuals, estates, and trusts will be subject to an additional 3.8% tax on net investment income in tax years beginning after December 31, 2012. For these purposes, net investment income includes dividends and gains from sales of stock. In the case of an individual, the tax will be 3.8% of the lesser of the individual's net investment income or the excess of the individual's modified adjusted gross income over \$250,000 in the case of a married individual filing a joint return or a surviving spouse, \$125,000 in the case of a married individual filing a separate return, or \$200,000 in the case of a single individual. U.S. stockholders that are individuals, estates or trusts should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of our common stock.

Recent Changes in U.S. Federal Income Tax Withholding

Recently enacted U.S. federal income tax legislation imposes withholding taxes on certain types of payments made after December 31, 2012 to foreign financial institutions and certain other non-U.S. entities. The withholding tax of 30% would apply to dividends and the gross proceeds of a disposition of our stock paid to certain foreign entities unless various information reporting requirements are satisfied. For these purposes, a foreign financial institution generally is defined as any non-U.S. entity that (i) accepts deposits in the ordinary course of a banking or similar business, (ii) is engaged in the business of holding financial assets for the account of others, or (iii) is engaged or holds itself out as being engaged primarily in the business of investing, reinvesting, or trading in securities, partnership interest, commodities, or any interest in such assets. Prospective non-U.S. investors are

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encouraged to consult their tax advisors regarding the implications of this legislation on their investment in our stock, as well as the status of any related federal regulations.

Sunset of Reduced Tax Rate Provisions

Several of the tax considerations described accompanying prospectus under the heading "Federal Income Tax Considerations" are subject to a sunset provision. The sunset provisions generally provide that for taxable years beginning after December 31, 2010, certain provisions that are currently in the Internal Revenue Code will revert back to a prior version of those provisions. These provisions include provisions related to the reduced maximum U.S. federal income tax rate for long-term capital gains of 15% (rather than 20%) for taxpayers taxed at individual rates, the application of the 15% U.S. federal income tax rate for qualified dividend income, and certain other tax rate provisions described herein. The impact of this reversion generally is not discussed in the accompanying prospectus under the heading "Federal Income Tax Considerations." Consequently, prospective stockholders are urged to consult their tax advisors regarding the effect of sunset provisions on an investment in our common stock.

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ANNEX A

QUARTERLY REPORT ON FORM 10-Q

FOR THE

QUARTERLY PERIOD ENDED MARCH 31, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2010

OR

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

Commission file number 000-53193

WELLS TIMBERLAND REIT, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation or organization)

6200 The Corners Parkway

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

Edgar Filing: Wells Timberland REIT, Inc. - Form 424B3

Norcross, Georgia 30092

(Address of principal executive offices)

(Zip Code)

(770) 449-7800

(Registrant's telephone number, including area code)

N/A

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

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

Yes No

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

Yes No

[Not yet applicable to the registrant]

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Yes No

Number of shares outstanding of the registrant's only

class of common stock, as of April 30, 2010: 20,841,110 shares

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FORM 10-Q

WELLS TIMBERLAND REIT, INC.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

	(Unaudited)	
	March 31,	December 31,
	2010	2009
Assets:		
Cash and cash equivalents	\$ 5,155,597	\$ 5,636,878
Restricted cash and cash equivalents	9,902,835	7,955,701
Accounts receivable	738,626	992,750
Prepaid expenses and other assets	710,341	690,596
Deferred financing costs, less accumulated amortization of \$9,739 and \$9,873,172 as of March 31, 2010 and December 31, 2009, respectively	2,181,598	867,857
Timber assets, at cost:		
Timber and timberlands, net (Note 3)	351,110,934	354,761,315
Intangible lease assets, less accumulated amortization of \$412,403 and \$370,793 as of March 31, 2010 and December 31, 2009, respectively	624,450	666,060
Total assets	\$ 370,424,381	\$ 371,571,157
Liabilities:		
Accounts payable and accrued expenses	\$ 2,469,494	\$ 2,808,318
Due to affiliates (Note 8)	21,224,976	19,470,549
Other liabilities	3,331,945	4,926,182
Notes payable:		
Senior loan (Note 4)	211,000,000	201,852,588
Mezzanine loan (Note 4)		14,988,709
Total liabilities	238,026,415	244,046,346
Commitments and Contingencies (Note 6)		
Stockholders Equity:		
Preferred stock, \$0.01 par value; 100,000,000 shares authorized:		
8.5% Series A preferred stock, \$1,000 liquidation preference; 32,128 shares issued and outstanding as of March 31, 2010 and December 31, 2009	38,892,747	38,219,379
8.5% Series B preferred stock, \$1,000 liquidation preference; 11,500 shares issued and outstanding as of March 31, 2010 and December 31, 2009	12,962,000	12,720,973
Common stock, \$0.01 par value; 900,000,000 shares authorized; 20,541,828 and 19,460,028 shares issued and outstanding as of March 31, 2010 and December 31, 2009, respectively	205,419	194,601
Additional paid-in capital	176,417,152	167,627,870
Accumulated deficit	(96,079,352)	(91,238,012)
Total stockholders equity	132,397,966	127,524,811
Total liabilities and stockholders equity	\$ 370,424,381	\$ 371,571,157

See accompanying notes.

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

	(Unaudited)	
	Three Months Ended	
	March 31,	
	2010	2009
Revenues:		
Timber sales	\$ 9,764,725	\$ 9,751,021
Timberland sales		4,879,710
Other revenues	1,488,145	819,764
	11,252,870	15,450,495
Expenses:		
Contract logging and hauling costs	5,140,722	4,601,116
Depletion	4,307,430	4,127,369
Cost of timberland sales		3,350,320
General and administrative expenses	1,183,921	1,032,480
Asset and forestry management fees:		
Related-party	992,304	997,712
Other	717,727	774,125
Land rent expense	571,930	595,436
Other operating expenses	639,522	509,923
	13,553,556	15,988,481
Operating loss	(2,300,686)	(537,986)
Other income (expense):		
Interest income	629	17,768
Interest expense	(2,274,128)	(3,129,523)
Loss on interest rate swaps	(267,155)	(894,535)
	(2,540,654)	(4,006,290)
Net loss	(4,841,340)	(4,544,276)
Dividends to preferred stockholders	(914,395)	(897,627)
Net loss available to common stockholders	\$ (5,755,735)	\$ (5,441,903)
Per-share information basic and diluted:		
Net loss available to common stockholders	\$ (0.29)	\$ (0.39)
Weighted-average common shares outstanding basic and diluted	19,990,184	14,070,334

See accompanying notes.

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WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009 (UNAUDITED)

	Common Stock		Preferred Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders Equity
	Shares	Amount	Shares	Amount			
Balance, December 31, 2009	19,460,028	\$ 194,601	43,628	\$ 50,940,352	\$ 167,627,870	\$ (91,238,012)	\$ 127,524,811
Issuance of common stock	1,095,550	10,955			10,927,876		10,938,831
Redemption of common stock	(13,750)	(137)			(137,363)		(137,500)
Dividends on preferred stock				914,395	(914,395)		
Commissions and discounts on stock sales and related dealer-manager fees					(957,486)		(957,486)
Other offering costs					(129,350)		(129,350)
Net loss						(4,841,340)	(4,841,340)
Balance, March 31, 2010	20,541,828	\$ 205,419	43,628	\$ 51,854,747	\$ 176,417,152	\$ (96,079,352)	\$ 132,397,966
	Common Stock		Preferred Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders Equity
	Shares	Amount	Shares	Amount			
Balance, December 31, 2008	13,412,781	\$ 134,128	42,828	\$ 46,499,973	\$ 116,930,362	\$ (71,289,755)	\$ 92,274,708
Issuance of common stock	1,511,985	15,120			15,104,733		15,119,853
Dividends on preferred stock				897,627	(897,627)		
Commissions and discounts on stock sales and related dealer-manager fees					(1,330,547)		(1,330,547)
Other offering costs					(179,846)		(179,846)
Net loss						(4,544,276)	(4,544,276)
Balance, March 31, 2009	14,924,766	\$ 149,248	42,828	\$ 47,397,600	\$ 129,627,075	\$ (75,834,031)	\$ 101,339,892

See accompanying notes.

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

	(Unaudited)	
	Three Months Ended	
	March 31,	
	2010	2009
Cash Flows from Operating Activities:		
Net loss	\$ (4,841,340)	\$ (4,544,276)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depletion	4,307,430	4,127,369
Unrealized gain on interest rate swaps	(977,515)	(334,971)
Other amortization	50,486	46,490
Stock-based compensation expense	8,333	
Noncash interest expense	877,596	397,200
Basis of timberland sold		3,178,501
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	254,124	(525,988)
Increase in prepaid expenses and other assets	(19,745)	(183,600)
Decrease in accounts payable and accrued expenses	(338,824)	(742,429)
Increase in due to affiliates	1,637,736	2,135,549
(Decrease) increase in other liabilities	(616,722)	85,269
Net cash provided by operating activities	341,559	3,639,114
Cash Flows from Investing Activities:		
Investment in timber, timberland, and related assets	(665,925)	(428,078)
Net funds invested in escrow accounts	(1,947,134)	(1,003,027)
Net cash used in investing activities	(2,613,059)	(1,431,105)
Cash Flows from Financing Activities:		
Financing costs paid	(2,191,337)	
Proceeds from notes payable	211,000,000	
Repayments of mezzanine loan	(14,988,709)	(11,666,422)
Repayments of senior loan	(201,852,588)	(3,922,314)
Issuance of common stock	10,829,186	14,987,197
Redemption of common stock	(137,500)	
Commissions on stock sales and related dealer-manager fees paid	(868,833)	(1,170,259)
Net cash provided by (used in) financing activities	1,790,219	(1,771,798)
Net (decrease) increase in cash and cash equivalents	(481,281)	436,211
Cash and cash equivalents, beginning of period	5,636,878	4,120,091
Cash and cash equivalents, end of period	\$ 5,155,597	\$ 4,556,302

See accompanying notes.

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

MARCH 31, 2010 (unaudited)

1. Organization

Wells Timberland REIT, Inc. (Wells Timberland REIT) was formed on September 27, 2005 as a Maryland corporation that has elected to be taxed as a real estate investment trust (REIT) for federal income tax purposes. Wells Timberland REIT engages in the acquisition and ownership of timberland located throughout the United States. Substantially all of Wells Timberland REIT s business is conducted through Wells Timberland Operating Partnership, L.P. (Wells Timberland OP), a Delaware limited partnership formed on November 9, 2005, of which Wells Timberland REIT is the sole general partner, possesses full legal control and authority over its operations, and owns 99.99% of its common partnership units. Wells Timberland Management Organization, LLC (Wells TIMO), a wholly owned subsidiary of Wells Capital, Inc. (Wells Capital), is the sole limited partner of Wells Timberland OP. In addition, Wells Timberland OP formed Wells Timberland TRS, Inc. (Wells Timberland TRS), a wholly owned subsidiary organized as a Delaware corporation, on January 1, 2006. Unless otherwise noted, references herein to Wells Timberland REIT shall include Wells Timberland REIT and all of its subsidiaries, including Wells Timberland OP, and the subsidiaries of Wells Timberland OP and Wells Timberland TRS. Under an agreement (the Advisory Agreement), Wells TIMO performs certain key functions on behalf of Wells Timberland REIT and Wells Timberland OP, including, among others, the investment of capital proceeds and management of day-to-day operations (see Note 8).

As of March 31, 2010, Wells Timberland REIT owned approximately 223,300 acres of timberland and held long-term leasehold interests in approximately 85,700 acres of additional timberland, all of which is located on the Lower Piedmont and Upper Coastal Plains of East Central Alabama and West Central Georgia (the Mahrt Timberland). Wells Timberland REIT acquired the Mahrt Timberland on October 9, 2007. Wells Timberland REIT generates the majority of its revenues from selling the rights to access land and harvest timber to third parties pursuant to supply agreements and through open-market sales, selling higher and better use timberlands (HBU), and leasing land-use rights to third parties. Wells Timberland REIT also generates additional revenues and income from selling the rights to extract natural resources, other than timber, from its timberland.

On August 11, 2006, Wells Timberland REIT commenced its initial public offering (the Initial Public Offering) of up to 85.0 million shares of common stock, of which 75.0 million shares were offered in the primary offering for \$10.00 per share and 10.0 million shares were reserved for issuance through Wells Timberland REIT s distribution reinvestment plan, pursuant to a Registration Statement filed on Form S-11 under the Securities Act. Wells Timberland REIT began actively selling its common shares in May 2007. Wells Timberland REIT commenced operations after receiving and accepting subscriptions in its Initial Public Offering equal to the minimum offering amount of \$2.0 million on July 11, 2007. Wells Timberland REIT stopped offering shares for sale under the Initial Public Offering on August 11, 2009. Wells Timberland REIT raised gross offering proceeds of approximately \$174.9 million from the sale of approximately 17.6 million shares under the Initial Public Offering.

On August 6, 2009, Wells Timberland REIT commenced its follow-on offering (the Follow-On Offering) of up to 220.9 million shares of common stock, of which 200.0 million shares are offered in a primary offering for \$10.00 per share and 20.9 million shares of common stock are reserved for issuance through Wells Timberland REIT s distribution reinvestment plan for \$9.55 per share, pursuant to a Registration Statement filed on Form S-11 under the Securities Act. Wells Timberland REIT began accepting subscriptions under the Follow-On Offering on August 12, 2009. As of March 31, 2010, Wells Timberland

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REIT has raised gross offering proceeds from the sale of common stock under the Follow-On Offering of approximately \$30.1 million. Unless extended, the Follow-On Offering is expected to terminate on August 6, 2011.

As of March 31, 2010, Wells Timberland REIT has raised gross offering proceeds from the sale of common stock under the Initial Public Offering and the Follow-On Offering (the "Public Offerings") of approximately \$205.0 million. After deductions from such gross offering proceeds for payments of selling commissions and dealer-manager fees of approximately \$17.2 million, other organization and offering costs of approximately \$0.2 million, and common stock redemptions of approximately \$0.7 million under the share redemption plan, Wells Timberland REIT had received aggregate net offering proceeds of approximately \$186.9 million, which was used to partially fund the Mahrt Timberland acquisition and pay down acquisition-related debt. As of March 31, 2010, Wells Timberland REIT has incurred other organization and offering costs of approximately \$2.5 million, a substantial portion of which was deferred by the terms of Wells Timberland REIT's loan agreements until the mezzanine loan obtained in connection with the acquisition of the Mahrt Timberland was repaid in full and after reduction of the senior loan obtained in connection with the acquisition of the Mahrt Timberland to a 40% loan-to-collateral value ratio.

On July 11, 2008, Wells Timberland REIT entered into a master purchase agreement (the "Master Purchase Agreement") with Wells TIMO, Wells-DFH Timberland Nr.88 GmbH & Co. KG, a German closed-end fund (the "2008 Fund"), and Deutsche Fonds Holding AG, a corporation organized under the laws of Germany ("DFH"). DFH was not, and the 2008 Fund (prior to purchasing shares of common stock under the Master Purchase Agreement) was not, in any way affiliated with Wells Timberland REIT or its affiliates.

On April 8, 2009, Wells Timberland REIT entered into an amended and restated master purchase agreement (the "Amended Master Purchase Agreement") with Wells TIMO, DFH, the 2008 Fund and Wells-DFH Materia Nr.88 GmbH & Co. KG, a German closed-end fund (the "2009 Fund"). Pursuant to the Amended Master Purchase Agreement, Wells Timberland REIT has agreed to sell up to 53.8 million shares of its common stock that were not sold to the 2008 Fund to the 2009 Fund, at a price per share of \$9.30, for an aggregate purchase price of up to \$500.0 million (the "German Offering"). In Wells Timberland REIT's Follow-On Offering, shares of Wells Timberland REIT's common stock are typically sold to investors at a price per share of \$10.00 and, after the application of the 7.0% sales commission and the 1.8% dealer-manager fee, Wells Timberland REIT receives net proceeds (before expenses) of \$9.12 per share. In the German Offering, Wells Timberland REIT is selling shares of its common stock to the 2009 Fund at a price per share of \$9.30. The 2009 Fund will not pay the sales commission or the dealer-manager fee in connection with the German Offering; however, Wells Timberland REIT will pay DFH a distribution fee of 1.0% of the gross proceeds that it receives from the German Offering. As a result, in respect of those shares of Wells Timberland REIT's common stock sold in the German Offering, Wells Timberland REIT will receive net proceeds (before expenses) of \$9.21 per share, which is greater than the \$9.12 per share that Wells Timberland REIT receives in its Follow-On Offering after deducting the sales commission and dealer-manager fee. Wells Timberland REIT may increase, in its sole discretion, the size of the German Offering up to a maximum of approximately 107.5 million shares of its common stock to accommodate any additional German closed-end fund(s) or other investment vehicles that may become a party to the Amended Master Purchase Agreement in the future (together with the 2009 Fund, the "Funds"). The Funds' right to purchase shares pursuant to the Amended Master Purchase Agreement will continue until the earlier of (i) the sale of all of the shares contemplated thereby or (ii) December 31, 2010. The German Offering is being conducted pursuant to Regulation S under the Securities Act and is separate and in addition to Wells Timberland REIT's Follow-On Offering. As of March 31, 2010, Wells Timberland REIT had received net proceeds from the sale of its common stock under the German Offering of \$5,000.

Wells Timberland REIT has offered up to approximately 11.4 million shares of its common stock, of which approximately 10.4 million shares are offered in a primary offering to non-U.S. persons at a price per share of \$9.65 and up to approximately 1.0 million shares of common stock are reserved for issuance through an unregistered distribution reinvestment plan at a price per share equal to \$9.55, in a private placement

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pursuant to Regulation S under the Securities Act (the 2010 German Offering) (see Note 6). In Wells Timberland REIT's Follow-On Offering, shares of Wells Timberland REIT's common stock are typically sold to investors at a price per share of \$10.00 and, after the application of the 7.0% sales commission and the 1.8% dealer manager fee, Wells Timberland REIT receives net proceeds (before expenses) of \$9.12 per share. In the 2010 German Offering, Wells Timberland REIT is selling shares of its common stock at a price per share of \$9.65. No sales commission or dealer manager fee is payable in connection with the 2010 German Offering; however, Wells Timberland REIT will pay a transaction fee to Viscardi AG, a corporation organized under the laws of Germany (Viscardi), of \$0.25 per share purchased in the 2010 German Offering and a structuring agent fee to Wells Germany GmbH, a limited partnership organized under the laws of Germany (Wells Germany), of \$0.20 per share (see Note 6 and Note 8). As a result, in respect of those shares of Wells Timberland REIT's common stock sold in the 2010 German Offering, Wells Timberland REIT will receive net proceeds (before expenses) of \$9.20 per share, which is greater than the \$9.12 per share that Wells Timberland REIT receives in its Follow-On Offering after deducting the sales commission and dealer manager fee. In addition to the transaction fee, Wells Timberland REIT will pay an annual fee to Viscardi of \$0.02 per share purchased in the 2010 German Offering (see Note 6). Discounts are available to certain investors. As of March 31, 2010, Wells Timberland REIT had not sold any common stock under the 2010 German Offering.

Wells Timberland REIT has adopted a share redemption plan for the 2010 German Offering that enables stockholders to sell their shares to Wells Timberland REIT in limited circumstances. The board of directors of Wells Timberland REIT may, however, choose to amend its provisions without stockholder approval. The share redemption plan for the 2010 German Offering permits stockholders to sell their shares back to Wells Timberland REIT after they have held them for at least one year, subject to the significant conditions and limitations. The initial redemption price per share under the share redemption plan for the 2010 German Offering will be equal to the price offered to participants in the share redemption plan in connection with the Follow-On Offering, which is currently \$9.10. The initial redemption price will remain fixed for one year after Wells Timberland REIT completes its public offerings in the U.S. Thereafter, the redemption price will equal 95% of the estimated per share value of our shares, as estimated by Wells Timberland REIT's advisor or another firm chosen for that purpose. The board of directors of Wells Timberland REIT may amend, suspend or terminate the share redemption program for the 2010 German Offering upon 30 days' notice. Wells Timberland REIT expects to modify the share redemption plan offered in connection with the 2010 German Offering, to reflect any changes made to the share redemption plan offered in connection with the Follow-On Offering.

Wells Timberland REIT maintains an unregistered distribution reinvestment plan that enables stockholders who purchase shares in the 2010 German Offering to reinvest cash distributions to purchase additional shares of Wells Timberland REIT's common stock pursuant to Regulation S under the Securities Act. The unregistered distribution reinvestment plan with respect to the 2010 German Offering is separate and distinct from the distribution reinvestment plan related to the Follow-On Offering. The purchase price per share in Wells Timberland REIT's unregistered distribution reinvestment plan will be equal to the price offered to participants in the distribution reinvestment plan in connection with the Follow-On Offering, which is currently \$9.55 per share. Wells Timberland REIT will not pay any fees in connection with reinvestments of distributions under its unregistered distribution reinvestment plan. Wells Timberland REIT may amend or terminate the unregistered distribution reinvestment plan at its discretion at any time, 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) will only take effect upon 10 days prior written notice to stockholders. Wells Timberland REIT expects to modify its unregistered distribution reinvestment plan offered in connection with the 2010 German Offering, to reflect any changes made to the distribution redemption plan offered in connection with the Follow-On Offering.

Wells Timberland REIT's common stock is not listed on a national securities exchange. Wells Timberland REIT's charter requires that in the event its common stock is not listed on a national securities exchange by August 11, 2018, Wells Timberland REIT must either (i) seek stockholder approval of an extension or

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amendment of this listing deadline or (ii) seek stockholder approval to begin liquidating investments and distributing the resulting proceeds to the stockholders. In the event that Wells Timberland REIT seeks stockholder approval for an extension or amendment to this listing date and does not obtain it, Wells Timberland REIT will then be required to seek stockholder approval to liquidate. In this circumstance, if Wells Timberland REIT seeks and does not obtain approval to liquidate, Wells Timberland REIT will not be required to list or liquidate and could continue to operate indefinitely as an unlisted company.

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

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

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

For further information, refer to the financial statements and footnotes included in Wells Timberland REIT's Annual Report on Form 10-K for the year ended December 31, 2009.

Interest Rate Swap Agreements

Wells Timberland REIT has entered into interest rate swaps agreements to hedge its exposure to changing interest rates on variable rate debt instruments. Wells Timberland REIT does not enter into derivative or interest rate transactions for speculative purposes; however, certain of its derivatives may not qualify for hedge accounting treatment. Wells Timberland REIT records the fair value of its interest rate swaps as either prepaid expenses and other assets or other liabilities in the accompanying consolidated balance sheets. Changes in the fair value of the effective portion of interest rate swaps that are designated as hedges are recorded as other comprehensive loss in the accompanying consolidated statement of stockholders' equity. The ineffective portion of the hedge, if any, is recognized in current earnings during the period of change in fair value. Changes in the fair value of interest rate swaps that do not qualify for hedge accounting treatment are recorded as gain or loss on interest rate swaps in the accompanying consolidated statements of operations. Amounts received or paid under interest rate swaps are recorded as gain or loss on interest rate swaps as incurred.

As of March 31, 2010 and December 31, 2009, Wells Timberland REIT recognized the fair value of interest rate swaps of approximately \$2.8 million and \$3.8 million, respectively, in other liabilities. The detail of loss on interest rate swaps is provided below for the three months ended March 31, 2010 and 2009, respectively:

	Three Months Ended	
	March 31	
	2010	2009
Noncash gain on interest rate swaps	\$ 977,515	\$ 334,971
Net payments on interest rate swaps	(1,244,670)	(1,229,506)
Loss on interest rate swaps	\$ (267,155)	\$ (894,535)

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Income Taxes

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

Wells Timberland REIT has elected to treat Wells Timberland TRS as a taxable REIT subsidiary. Wells Timberland REIT may perform certain non-customary services, including real estate or non-real-estate related services, through Wells Timberland TRS. Earnings from services performed through Wells Timberland TRS are subject to federal and state income taxes irrespective of the dividends paid deduction available to REITs for federal income tax purposes. In addition, for Wells Timberland REIT to continue to qualify as a REIT, Wells Timberland REIT's investment in Wells Timberland TRS may not exceed 25% of the value of the total assets of Wells Timberland REIT.

Deferred tax assets and liabilities represent temporary differences between the financial reporting basis and the tax basis of assets and liabilities based on the enacted rates expected to be in effect when the temporary differences reverse. Deferred tax expenses or benefits are recognized in the financial statements according to the changes in deferred assets or liabilities between years. Valuation allowances are established to reduce deferred tax assets when it becomes more likely than not that such assets, or portions thereof, will not be realized.

Fair Value Measurements

Wells Timberland REIT estimates the fair value of its assets and liabilities (where currently required under GAAP) consistent with the provisions of the accounting standard for fair value measurements and disclosures. Under this guidance, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. While various techniques and assumptions can be used to estimate fair value depending on the nature of the asset or liability, the accounting standard for fair value measurements and disclosures provides the following fair value technique parameters and hierarchy, depending upon availability:

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

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

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

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

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The following table presents information about Wells Timberland REIT's assets and liabilities measured at fair value on a recurring basis as of March 31, 2010 and December 31, 2009 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Fair Value Measurements as of March 31, 2010			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Interest rate swaps	\$ 2,801,767	\$	\$ 2,801,767	\$

	Fair Value Measurements as of December 31, 2009			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Interest rate swaps	\$ 3,779,282	\$	\$ 3,779,282	\$
<i>Recent Accounting Pronouncements</i>				

In June 2009, the Financial Accounting Standards Board (FASB) issued authoritative guidance on accounting for transfers of financial assets, which is effective for Wells Timberland REIT for the year beginning January 1, 2010. The guidance amends previously issued de-recognition guidance, including eliminating the concept of a qualifying special-purpose entity . The adoption of the guidance did not have a material impact on Wells Timberland REIT's consolidated financial statements.

In June 2009, the FASB issued authoritative guidance amending previously issued guidance for consolidation of variable interest entities. The new guidance is effective for Wells Timberland REIT for the year beginning January 1, 2010. The guidance changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. The adoption of the guidance did not have a material impact on Wells Timberland REIT's consolidated financial statements.

In January 2010, the FASB clarified previously issued GAAP and issued new requirements related to fair value measurements and disclosures. The clarification component includes disclosures about inputs and valuation techniques used in determining fair value, and providing fair value measurement information for each class of assets and liabilities. The new requirements relate to disclosures of transfers between the levels in the fair value hierarchy, as well as the individual components in the rollforward of the lowest level (Level 3) in the fair value hierarchy. This change in GAAP was effective for Wells Timberland REIT beginning January 1, 2010, except for the provision concerning the rollforward of activity of the Level 3 fair value measurement, which will become effective for Wells Timberland REIT on January 1, 2011. The adoption of the guidance did not have a material impact on Wells Timberland REIT's consolidated financial statements or disclosures.

3. Timber and Timberlands

During the three months ended March 31, 2010, Wells Timberland REIT sold no timberland. During the three months ended March 31, 2009, Wells Timberland REIT sold approximately 2,960 acres of non-strategic timberland for approximately \$4.9 million, with a cost basis of approximately \$3.2 million. In connection with the timberland sold during the three months ended March 31, 2009, Wells Timberland REIT entered into a timber reservation agreement with the purchaser whereby Wells Timberland REIT retained the title and right to harvest certain standing timber through December 31, 2009. As of March 31, 2010 and December 31, 2009, timber and timberlands consisted of the following, respectively:

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	As of March 31, 2010		
	Gross	Accumulated Depletion or Amortization	Net
Timber	\$ 189,969,920	\$ 4,307,430	\$ 185,662,490
Timberlands	165,221,663		165,221,663
Mainline roads	263,279	36,498	226,781
Timber and Timberlands	\$ 355,454,862	\$ 4,343,928	\$ 351,110,934

	As of December 31, 2009		
	Gross	Accumulated Depletion or Amortization	Net
Timber	\$ 206,762,429	\$ 17,443,684	\$ 189,318,745
Timberlands	165,221,663		165,221,663
Mainline roads	248,529	27,622	220,907
Timber and Timberlands	\$ 372,232,621	\$ 17,471,306	\$ 354,761,315

4. Notes Payable

On March 24, 2010, Wells Timberland REIT entered into a five-year senior loan agreement for \$211.0 million with CoBank, ACB (CoBank) and Wells Fargo Securities, LLC (Wells Fargo) serving as co-lead lenders and CoBank serving as administrative agent (the Mahrt Loan). Proceeds from the Mahrt Loan were used to refinance the outstanding balances due on the senior loan and the mezzanine loan and to fund costs associated with closing the Mahrt Loan. The Mahrt Loan 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 outstanding on the loan to the value of the Mahrt Timberland at the time of determination. Wells Timberland REIT is required to make principal reduction payments on the Mahrt Loan on September 30, 2010, March 31, 2011, September 30, 2011, and March 31, 2012, reducing the outstanding balance to an amount not greater than \$198.5 million, \$186.0 million, \$173.5 million, and \$161.0 million, respectively. On March 24, 2015, all outstanding principal, interest, and any fees or other obligations on the Mahrt Loan will be due and payable in full. The Mahrt Loan may be voluntarily prepaid at any time.

The Mahrt Loan is subject to mandatory prepayment from proceeds generated from the sale or other disposition of the Mahrt Timberland equal to the allocated cost basis of the disposed timberland. Additional repayments are required from net proceeds of Wells Timberland REIT 's offerings and any proceeds generated from the sales or other dispositions of timber until reduction of the Mahrt Loan to a loan-to-collateral value ratio of less than 40%. The Mahrt Loan is secured by a first mortgage in the Mahrt Timberland, a first security interest in all funds raised through Wells Timberland REIT 's offerings, a first priority security interest in all bank accounts held by Wells Timberland REIT, and a first priority security interest on all other assets of Wells Timberland REIT, including rights under the Mahrt Timberland timber agreements (see Note 6).

During the three months ended March 31, 2010 and 2009, Wells Timberland REIT made interest payments on the mezzanine loan of approximately \$0.3 million and \$1.7 million, respectively. Wells Timberland REIT made interest payments on the senior loan and related interest rate swaps of approximately \$2.4 million and \$2.2 million during the three months ended March 31, 2010 and 2009, respectively. Wells Timberland REIT made interest payments on the Mahrt Loan of approximately \$0.2 million during the three months ended March 31, 2010.

As of March 31, 2010 and December 31, 2009, the estimated fair value of Wells Timberland REIT 's notes payable was approximately \$211.0 million and \$212.7 million, respectively. The fair values of outstanding

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notes payable were estimated based on discounted cash flow analyses using the current market borrowing rates for similar types of borrowing arrangements as of March 31, 2010 and December 31, 2009. The discounted cash flow method of assessing fair value results in a general approximation of value, and such value may never actually be realized.

5. Rabobank Interest Rate Swap

On March 24, 2010, as required by the terms of the Mahrt Loan, Wells Timberland REIT entered into an interest rate swap agreement with Rabobank Group (Rabobank) to hedge its exposure to changing interest rates on a portion of the Mahrt Loan that is subject to a variable interest rate (the Rabobank Interest Rate Swap). The Rabobank Interest Rate Swap has an effective date of September 30, 2010 and matures on March 28, 2013. Under the terms of the Rabobank Interest Rate Swap, Wells Timberland REIT will pay interest at a fixed rate of 2.085% per annum and will receive variable LIBOR-based interest payments from Rabobank based on the following schedule:

Start Date	End Date	Notional Amount
September 30, 2010	December 30, 2010	\$ 52,500,000
December 31, 2010	March 30, 2011	\$ 49,500,000
March 30, 2011	June 30, 2011	\$ 46,500,000
June 30, 2011	September 30, 2011	\$ 43,500,000
September 30, 2011	December 30, 2011	\$ 67,500,000
December 30, 2011	March 30, 2012	\$ 62,500,000
March 30, 2012	June 29, 2012	\$ 57,500,000
June 29, 2012	September 28, 2012	\$ 50,000,000
September 28, 2012	December 31, 2012	\$ 37,500,000
December 31, 2012	March 28, 2013	\$ 28,500,000

See *Interest Rate Swap Agreements* in Note 2 for additional required disclosures.

6. Commitments and Contingencies*MeadWestvaco Timber Agreements*

In connection with its acquisition of the Mahrt Timberland, Wells Timberland REIT entered into a master stumpage agreement and a fiber supply agreement (collectively, the Timber Agreements) with a wholly owned subsidiary of MeadWestvaco Corporation (MeadWestvaco). The master stumpage agreement provides that Wells Timberland REIT will sell specified amounts of timber and make available certain portions of the Mahrt Timberland to Wells Timberland TRS for harvesting at \$0.10 per ton of qualifying timber purchased by MeadWestvaco plus a portion of the gross proceeds received from MeadWestvaco under the fiber supply agreement. The fiber supply agreement provides that MeadWestvaco will purchase specified amounts of timber, including pine pulpwood, hardwood pulpwood, chip-n-saw, and pine sawlogs, from Wells Timberland TRS at specified prices per ton of timber, depending upon the type of timber. The fiber supply agreement is subject to quarterly market pricing adjustments based on an index published by Timber Mart-South, a quarterly trade publication that reports raw forest product prices in 11 southern states. 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 in order to meet its paperboard and lumber production requirements at specified mills and provide Wells Timberland REIT with a reliable consumer for the wood products from the Mahrt Timberland.

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Wells Timberland REIT has entered into a carbon storage agreement (the *Carbon Storage Agreement*) with Carbon TreeBank LLC (*CTB*), which is an aggregator and facilitator of private timberland carbon offsets. The Carbon Storage Agreement provides that Wells Timberland REIT will participate in the carbon dioxide offset and mitigation program facilitated by CTB by managing up to 50,000 acres of Wells Timberland REIT's 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 program, at a price based on the average monthly strike price of carbon credits traded on the Chicago Climate Exchange for the pursuant to the Carbon Storage Agreement. For the three months ended March 31, 2010 and 2009, approximately \$0 and \$50,000 of revenue related to the Carbon Storage Agreement is included in other revenues in the accompanying consolidated statements of operations.

Placement Agent Agreement

On February 25, 2010, Wells Timberland REIT entered into a placement agent agreement (the *Viscardi Placement Agent Agreement*) with Wells Germany and Viscardi AG, a corporation organized under the laws of Germany (*Viscardi*). Wells Real Estate Funds, Inc. (*Wells REF*), which is the owner of Wells Capital, Wells Timberland REIT's sponsor, indirectly owns a majority interest in Wells Germany. Viscardi is not in any way affiliated with Wells Timberland REIT, Wells Germany, or any of their respective affiliates. Pursuant to the Viscardi Placement Agent Agreement, Wells Timberland REIT has engaged Viscardi to act as one of Wells Timberland REIT's placement agents in connection with one or more sales by Wells Timberland REIT to potential purchasers (collectively, the *Purchasers*) that are identified by Viscardi (each, a *Transaction* and together, the *Transactions*) of up to approximately 10.4 million shares (the *Shares*) of Wells Timberland REIT's common stock, par value \$0.01 per share (the *Common Stock*), at a price per share of \$9.65, for an aggregate purchase price of up to approximately \$100.0 million, or the 2010 German Offering.

Pursuant to the Viscardi Placement Agent Agreement, Viscardi will serve as one of Wells Timberland REIT's placement agents in connection with the Transactions identified by Viscardi and will provide ongoing account maintenance and administrative services with respect to these Purchasers. In its capacity as placement agent, Viscardi must use its reasonable efforts to identify Purchasers for the Shares and to assist Wells Timberland REIT in effecting a Transaction. In no event shall Viscardi be obligated to purchase the Shares for its own account or for the account of its affiliates or customers. In connection with the appointment as placement agent, Viscardi shall, to the extent appropriate and requested by Wells Timberland REIT: (i) assist Wells Timberland REIT with communications to be provided to prospective Purchasers; (ii) assist Wells Timberland REIT in structuring the financial aspects of the Transaction; (iii) identify and contact selected potential Purchasers of the Shares and furnish them, on behalf of Wells Timberland REIT, with copies of the private placement memorandum; (iv) conduct all sales and marketing activities with respect to the Transactions in accordance with the terms of the Viscardi Placement Agent Agreement and Regulation S under the Securities Act; and (v) with respect to the period following the consummation of a Transaction, provide ongoing account maintenance and administrative services, including, without limitation, serving as an administrator for Wells Timberland REIT's unregistered distribution reinvestment plan and share redemption plan offered in connection with shares of Common Stock sold in these Transactions.

The Viscardi Placement Agent Agreement will continue until the earlier of (i) a liquidity event, which includes, among other things, the listing of the Common Stock on an exchange (as defined in the Securities Exchange Act of 1934, as amended) or the disposition of all or a majority of the assets or capital stock of Wells Timberland REIT (a *Liquidity Event*) or (ii) December 31, 2018. As of March 31, 2010, Wells Timberland REIT had incurred no fees under the Placement Agent Agreement.

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

7. Supplemental Disclosures of Noncash Activities

Outlined below are significant noncash investing and financing transactions for the three months ended March 31, 2010 and 2009, respectively:

	Three Months Ended March 31,	
	2010	2009
Other offering costs due to affiliate	\$ 129,350	\$ 179,846
Discounts applied to issuance of common stock	\$ 101,312	\$ 132,656
Dividends accrued on preferred stock	\$ 914,395	\$ 897,627
Issuance of stock-based compensation	\$ 25,000	

8. Related-Party Transactions*Advisory Agreement*

Wells Timberland REIT and Wells Timberland OP are party to the Advisory Agreement with Wells TIMO, a wholly owned subsidiary of Wells Capital. Pursuant to the Advisory Agreement, Wells TIMO is entitled to the following fees and reimbursements:

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

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

Reimbursement for all costs and expenses Wells TIMO incurs in fulfilling its duties as the asset portfolio manager, including wages and salaries and other employee-related expenses of Wells TIMO's employees engaged in the management, administration, operations, and marketing functions. Employee-related expenses include taxes, insurance, and benefits relating to such employees, and legal, travel, and other out-of-pocket expenses that are directly related to the services they provide.

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For any property sold by Wells Timberland REIT, if Wells TIMO provided a substantial amount of services in connection with the sale (as determined by Wells Timberland REIT's independent directors), Wells Timberland REIT will pay Wells TIMO a fee equal to (i) for each property sold at a contract price up to \$20.0 million, up to 2.0% of the sales price, and (ii) for each property sold at a

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

The Advisory Agreement has a one year term that began on July 11, 2009 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, it 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 further information on the special units, including redemption payments, refer to the consolidated financial statements and accompanying notes included in Wells Timberland REIT's Annual Report on Form 10-K for the year ended December 31, 2009.

Under the terms of the Advisory Agreement, Wells Timberland REIT is required to reimburse Wells TIMO for certain organization and offering costs up to the lesser of actual expenses or 1.2% of gross offering proceeds raised. As of March 31, 2010, Wells Timberland REIT has incurred and charged to additional paid-in capital cumulative organization and offering costs of approximately \$2.1 million related to the Initial Public Offering and approximately \$0.4 million related to the Follow-On Offering, which represents approximately 1.2% of cumulative gross proceeds raised by Wells Timberland REIT under the Public Offerings. As of March 31, 2010, Wells TIMO and its affiliates have incurred aggregate organization and offering expenses related to Wells Timberland REIT's Follow-On Offering of approximately \$1.8 million.

The mezzanine and senior loans contained restrictive covenants that prohibited Wells Timberland REIT from paying monthly asset management fees, administrative expense reimbursements, and a substantial portion of organization and offering cost reimbursements to Wells TIMO until the mezzanine loan was repaid in full and after reduction of the senior loan to a 30% loan-to-collateral value ratio. These amounts are recorded as due to affiliates in the accompanying consolidated balance sheets. The Mahrt Loan contains restrictive covenants that prohibit Wells Timberland REIT from paying such accrued amounts until reduction of the Mahrt Loan to a loan-to-collateral value ratio of less than 30%.

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 Public Offerings. For these services, WIS earns a commission of up to 7.0% of the gross offering proceeds from the sale of Wells Timberland REIT's shares, of which substantially all is re-allowed to participating broker/dealers. Wells Timberland REIT pays no commissions on shares issued under its distribution reinvestment plan.

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

Structuring Agent Agreement

On February 25, 2010, Wells Timberland REIT entered into a structuring agent agreement (the "Structuring Agent Agreement") with Wells Germany. Pursuant to the Structuring Agent Agreement, Wells Timberland REIT has engaged Wells Germany to serve as the structuring agent in connection with the Transactions in

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the 2010 German Offering and to assist Wells Timberland REIT and Viscardi in (i) structuring these Transactions in compliance with German legal and tax requirements; (ii) effecting these Transactions by identifying and contacting selected potential purchasers of the Shares; (iii) preparing the private placement memorandum for use in connection with these Transactions, particularly as it relates to German legal and tax requirements; (iv) negotiating the financial aspects of these Transactions; and (v) providing such additional ongoing services contemplated by the Structuring Agent Agreement. The Structuring Agent Agreement will terminate upon the conclusion of the 2010 German Offering, provided however, that with respect to the additional ongoing services contemplated by the parties, the Structuring Agent Agreement will terminate upon the earlier of (i) a Liquidity Event or (ii) December 31, 2018. As of March 31, 2010, Wells Timberland REIT had incurred no fees under the Structuring Agent Agreement.

Related-Party Costs

Pursuant to the terms of the agreements described above, Wells Timberland REIT incurred the following related-party costs for the three months ended March 31, 2010 and 2009, respectively:

	Three Months Ended March 31,	
	2010	2009
Commissions ⁽¹⁾⁽²⁾	\$ 761,637	\$ 931,965
Administrative reimbursements	645,432	616,695
Dealer-manager fees ⁽¹⁾	195,849	265,926
Asset management fees	992,304	997,712
Disposition fees		97,594
Other offering costs ⁽¹⁾	129,350	179,846
Total	\$ 2,724,572	\$ 3,089,738

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

(2) Substantially all commissions have been re-allowed to participating broker/dealers through March 31, 2010.

Due to Affiliates

The detail of amounts due to affiliates is provided below as of March 31, 2010 and December 31, 2009:

	December	
	March 31, 2010	31, 2009
Administrative reimbursements due to Wells TIMO	\$ 8,246,641	\$ 7,601,209
Operating expense reimbursements due to Wells TIMO	1,067,691	1,067,691
Asset management fees due to Wells TIMO	9,645,040	8,652,736
Other offering cost reimbursements due to Wells TIMO	2,238,273	2,108,923
Commissions on stock sales and related dealer-manager fees due to WIS	27,331	39,990
Total	\$ 21,224,976	\$ 19,470,549

Conflicts of Interest

As of March 31, 2010, Wells TIMO had 11 employees. Until such time, if ever, as Wells TIMO hires sufficient personnel of its own to perform the services under the Advisory Agreement, it will continue to rely upon employees of Wells Capital to perform many of its obligations. Wells Capital, the parent company and manager of Wells TIMO, also is a general partner or advisor of the various affiliated public real estate

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investment programs (Wells Real Estate Funds). As such, in connection with serving as a general partner or advisor for Wells Real Estate Funds and managing Wells TIMO s activities under the Advisory Agreement, Wells Capital may encounter conflicts of interest with regard to allocating human resources and making decisions related to investments, operations, and disposition-related activities for Wells Timberland REIT and Wells Real Estate Funds.

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

Economic Dependency

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

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

Future net income generated by Wells REF will be largely dependent upon the amount of fees earned by Wells Capital, Wells TIMO, WIS, Wells Management, and their affiliates, based on, among other things, the level of real estate assets managed, the amount of investor proceeds raised and the volume of future acquisitions and dispositions of real estate assets by Wells Timberland REIT and other Wells REF-sponsored investment products. As of March 31, 2010, Wells Timberland REIT believes that Wells REF generates adequate cash flow from operations and has adequate liquidity available in the form of cash on hand and other investments to meet its current and future obligations as they become due.

9. Subsequent Events

Sale of Shares of Common Stock

From April 1, 2010 through April 30, 2010, Wells Timberland REIT raised approximately \$3.0 million through the issuance of approximately 0.3 million shares of common stock under the Follow-on Offering. As of April 30, 2010, approximately 196.7 million shares remained available for sale to the public, exclusive of shares available under Wells Timberland REIT s distribution reinvestment plan. No proceeds were raised from the issuance of common stock under the German Offering or the 2010 German Offering from April 1, 2010 through April 30, 2010. As of April 30, 2010, approximately 53.8 million shares remained available for sale to the Funds under the German Offering. As of April 30, 2010, approximately 10.4 million shares remained available for sale under the 2010 German Offering.

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ITEM 2. 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. See also Cautionary Note Regarding Forward-Looking Statements preceding Part I, as well as our consolidated financial statements and the notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2009.

Overview

We were formed on September 27, 2005 to acquire and operate a diversified portfolio of timberland properties located in the timber-producing regions of the United States and, to a limited extent, in other countries. We generate a substantial majority of our revenue and income by selling the rights to access land and harvest timber to third parties pursuant to supply agreements and through open-market sales, from selling HBU timberland and leasing land-use rights to third parties. We also generate additional revenues and income from selling the rights to extract natural resources from timberland other than timber. A substantial portion of our timber sales are derived from the Timber Agreements under which we sell to MeadWestvaco specified amounts of timber subject to market pricing adjustments. The initial term of the Timber Agreements is from October 9, 2007 through December 31, 2032, subject to extension and early termination provisions. We have no paid employees and are externally advised and managed by Wells TIMO, a wholly owned subsidiary of Wells Capital.

We began receiving investor proceeds from the sale of our common stock under our Initial Public Offering in May 2007. On July 11, 2007, we raised our minimum offering of \$2.0 million, and thus commenced operations. We began acquiring timber assets in October 2007. Our German Offering commenced in July 2008 and the 2010 German Offering commenced in March 2010. On August 11, 2009, we terminated our Initial Public Offering and began receiving investor proceeds from the sale of our common stock under our Follow-On Offering on August 12, 2009. We continued receiving investor proceeds under our Public Offerings, our German Offering, and the 2010 German Offering (the Offerings) through March 31, 2010. Thus, the results of our operations for the three months ended March 31, 2010 and 2009 are indicative of an early-stage enterprise with growing revenues and expenses associated with the acquisition of timber assets, interest expense associated with debt financing on the acquisition of timber assets, and general and administrative expenses that represent a high percentage of total revenues but are expected to decrease as the enterprise grows. As of March 31, 2010, we have raised gross offering proceeds of approximately \$205.0 million through the issuance of our common stock in our Public Offerings and approximately \$43.6 million through the issuance of our preferred stock to Wells REF.

On March 24, 2010, we entered into a five-year senior loan agreement for \$211.0 million, which we refer to as the Mahrt Loan. Proceeds from the Mahrt Loan were used to refinance outstanding balances due on the senior loan and the mezzanine loan and to fund costs associated with closing the Mahrt Loan. The Mahrt Loan bears interest at an adjustable rate based on one-, two-, or three-month LIBOR plus a margin that varies based on the ratio of the amount outstanding on the loan to the value of the Mahrt Timberland at the time of determination. The Mahrt Loan may be voluntarily prepaid at any time.

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

Table of Contents**Liquidity and Capital Resources***Overview*

During the three months ended March 31, 2010, we raised proceeds under our Public Offerings, net of commissions, dealer-manager fees, other offering costs, and redemptions, of approximately \$9.7 million, substantially all of which was used to fund principal and interest payments on the mezzanine loan. On March 24, 2010, proceeds from the Mahrt Loan were used to pay off the outstanding balances of the mezzanine loan and the senior loan. All of the proceeds raised under our Offerings of common stock, net of fees and expenses, and net cash flows generated from our operations are required to be used to service the Mahrt Loan until it is reduced to a loan-to-collateral value ratio of less than 40%. We are required to make principal reduction payments on the Mahrt Loan on September 30, 2010, March 31, 2011, September 30, 2011, and March 31, 2012, reducing the outstanding balance to an amount not greater than \$198.5 million, \$186.0 million, \$173.5 million, and \$161.0 million, respectively. On March 24, 2015, all outstanding principal, interest, and any fees or other obligations on the Mahrt Loan will be due and payable in full.

The Mahrt Loan contains restrictive covenants that prohibit us from declaring, setting aside funds for, or paying any dividend, distribution, or other payment to our stockholders other than as required to maintain our REIT qualification. Once the Mahrt Loan has been reduced to a loan-to-collateral value ratio of less than 40%, we may declare, set aside funds for, pay dividends or distributions, or make other payments to our stockholders from future operating cash flows on a discretionary basis. Future proceeds raised from the sale of our shares under our Offerings will be deemed available for investment in timberland and related assets, subject to certain restrictions, and available to fund capital expenditures, to pay down future outstanding borrowings, and to redeem preferred stock. In addition to those restrictive covenants discussed above, the Mahrt Loan requires us to maintain a minimum fixed-charge coverage ratio, as defined by the credit agreement, of 1.05:1.00 beginning with the quarter ending September 30, 2010.

We anticipate that our primary sources of future capital will be derived from the sale of our common stock under our Offerings and from operations through the sale of timberland and rights to access our land and harvest our timber to MeadWestvaco and other third parties. Following the reduction of the Mahrt Loan to a loan-to-collateral value ratio of less than 40%, the amount of cash available for distribution to stockholders and the level of discretionary distributions declared will depend primarily upon the amount of cash generated from our operating activities, our determination of funding needs for near-term capital, and other debt service requirements, and our expectations of future cash flows.

Short-Term Liquidity and Capital Resources

Net cash provided by financing activities for the three months ended March 31, 2010 was approximately \$1.8 million. During the three months ended March 31, 2010, we raised proceeds from the sale of common stock under our Public Offerings, net of commissions and dealer-manager fees, of approximately \$10.0 million, which was used to pay down the mezzanine loan by approximately \$8.8 million, fund interest expense on the mezzanine loan, and fund redemptions of common stock of approximately \$0.1 million. We received gross debt proceeds of \$211.0 million during the three months ended March 31, 2010, which was used to pay off the outstanding balances of the senior loan (approximately \$201.9 million) and mezzanine loan (approximately \$6.2 million) and fund costs associated with closing the Mahrt Loan (approximately \$2.2 million). We intend to continue to generate capital from the sale of common stock under our Offerings, which is required to be used to service the Mahrt Loan until it is reduced to a loan-to-collateral value ratio of less than 40%, at which time the covenants restricting the acquisition of additional timberland properties will be removed and we can pursue additional timberland acquisitions.

Net cash provided by operating activities for the three months ended March 31, 2010 was approximately \$0.3 million, which is primarily comprised of receipts from timber sales and rental income from recreational leases in excess of operating costs, interest expense, asset and forestry management fees, and general and

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administrative expenses. As required by the terms of the Mahrt Loan, the majority of our future net cash flow from operating activities will be used to service the Mahrt Loan until it is reduced to a loan-to-collateral value ratio of less than 40%, at which time the restrictive covenants that prohibits us from declaring, setting aside funds for, or paying any dividend, distribution, or other payment to our stockholders other than as required to maintain our REIT qualification will be removed.

During the three months ended March 31, 2010, net cash used in investing activities was approximately \$2.6 million, which included approximately \$1.9 million of net funds invested in escrow accounts required by lenders and approximately \$0.7 million invested in timber, timberland, and related assets. We expect to utilize the residual cash balance of approximately \$5.2 million as of March 31, 2010 to satisfy current liabilities.

The Mahrt Loan, which was entered into on March 24, 2010, contains, among others, the following restrictive and financial covenants:

requires a fixed-charge coverage ratio of not less than 1.05:1.00 at all times beginning with the quarter ending September 30, 2010;

limits our loan-to-collateral value ratio, as defined, to 50% or less beginning as of December 31, 2010; and

requires funding of an account under the control of CoBank equal to approximately six months of interest on the Mahrt Loan during any time the loan-to-collateral value ratio is 30% or greater. Once the loan-to-collateral value ratio is less than 30%, the required funding will decrease to an amount equal to three months of interest on the Mahrt Loan.

Long-Term Liquidity and Capital Resources

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

In determining how and when to allocate cash resources in the future, we will initially consider the source of the cash. Once allowed under the restrictive covenants of the Mahrt Loan, we anticipate using a substantial portion of cash raised from operations, after payments of periodic operating expenses and certain capital expenditures required for our timberland, to repay amounts due to affiliates and pay distributions to stockholders. Therefore, to the extent that cash flows from operations are lower, distributions are anticipated to be lower as well. After reduction of the Mahrt Loan to a loan-to-collateral value ratio of less than 40%, we anticipate using substantially all net proceeds generated from the sale of our shares under our Offerings to fund future acquisitions of timberland, to fund capital expenditures, to pay down existing and future outstanding borrowings, and to redeem preferred stock. Proceeds generated from future debt financings may also be used to fund future acquisitions of timberland and capital expenditures.

If sufficient equity or debt capital is not available, our future investments in timberland will be lower. Our charter precludes us from incurring debt in excess of 300% of our net assets, which we generally expect to approximate 75% of the cost of our timber assets before adjustment for noncash reserves, depletion, and amortization; however, we may temporarily exceed this limit upon the approval of a majority of our independent directors. As of March 31, 2010, our leverage ratio, or the ratio of total debt to total purchase price of timber assets plus cash and cash equivalents, was approximately 51% and our debt-to-net assets ratio, defined as our total debt as a percentage of our total gross assets (other than intangibles) less total liabilities, was approximately 118%. Our board of directors may determine that it is in our best interest to

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pursue highly leveraged timberland acquisitions in order to enable us to more quickly acquire a diversified portfolio of timberland properties. As a result, we are not able to anticipate with any degree of certainty what our leverage ratio will be in the near future. However, over the long-term, we expect our leverage ratio to be no more than 50%. In accordance with our charter, if our board of directors, including a majority of our independent directors, approves any borrowing in excess of our leverage limitation, we will disclose such approval to our stockholders in our next quarterly report, along with an explanation for such excess.

Contractual Obligations and Commitments

All of the proceeds raised under our Offerings, net of fees and expenses, are required to be used to service the Mahrt Loan until it is reduced to a loan-to-collateral value ratio of less than 40%. See [Liquidity and Capital Resources](#).

Our contractual obligations as of March 31, 2010 will become payable in the following periods:

Contractual Obligations	Total	Payments Due by Period			Thereafter
		2010	2011-2012	2013-2014	
Debt obligations	\$ 211,000,000	\$ 12,500,000	\$ 37,500,000	\$	\$ 161,000,000
Estimated interest on debt obligations ⁽¹⁾	36,014,158	8,413,019	14,749,045	11,552,913	1,299,181
Operating lease obligations	17,212,188	1,472,275	3,563,831	2,827,123	9,348,959
Due to affiliates ⁽²⁾	21,224,976		21,224,976		
Total	\$ 285,451,322	\$ 22,385,294	\$ 77,037,852	\$ 14,380,036	\$ 171,648,140

⁽¹⁾ Interest obligations are measured at the contractual rate for fixed-rate debt, or at the effectively-fixed rate for variable rate debt with interest rate swaps. See *Item 3. Quantitative and Qualitative Disclosure About Market Risk* for more information regarding our interest rate swaps.

⁽²⁾ The Mahrt Loan contains restrictive covenants that prohibit us from paying accrued asset management fees, accrued administrative expense reimbursements, and other offering cost reimbursements to Wells TIMO until the Mahrt Loan is reduced to a loan-to-collateral value ratio of less than 30%, which we expect to occur in 2011.

Results of Operations*Overview*

Our results of operations are materially impacted by the fluctuating nature of timber prices, changes in the levels and composition of our harvest volumes, changes to associated depletion rates, and varying interest expense based on the amount and cost of outstanding borrowings. In the first quarter of 2010, average prices for sawtimber, pulpwood and chip-n-saw were approximately 26%, 25% and 4%, respectively, higher than the first quarter of 2009 due to wet weather that affected both logging conditions and wood supply causing many mills in the South to run low on inventory. As a result, demand drove up prices during the quarter. For the three months ended March 31, 2010, our pulpwood and sawtimber harvests decreased by approximately 18% and 31%, respectively, compared to the three months ended March 31, 2009 due to a significant decrease in stumpage sales caused by wet weather and poor logging conditions, offset by an increase in delivered sales as a result of the shift in focus from stumpage sales to delivered sales of timber harvested from tracts with better logging conditions. Our chip-n-saw harvest during the three months ended March 31, 2010 remained relatively stable as compared to the same period in 2009. Contract logging and hauling expenses for the three months ended March 31, 2010 was approximately 12% higher compared to the three months ended March 31, 2009, primarily due to a 10% increase in delivered wood and an increase in fuel wood deliveries driven by our participation in the Biomass Crop Assistance Program (BCAP) sponsored by the United States Department of Agriculture's Farm Service Agency. BCAP provides matching payments

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to agricultural and forest land owners and operators that deliver eligible biomass material to designated biomass conversion facilities for use as heat, power, bio-based products or biofuels.

Comparison of the three months ended March 31, 2009 versus the three months ended March 31, 2010

Revenue. Revenues decreased from approximately \$15.5 million for the three months ended March 31, 2009 to approximately \$11.3 million for the three months ended March 31, 2010 due to a decrease of approximately \$4.9 million in revenue from timberland sales, offset by an increase in other revenues of approximately \$0.7 million. We did not sell any timberland during the three months ended March 31, 2010 compared to selling approximately 2,960 acres during the same period in 2009. Revenue from timber sales remained stable due to increases in timber prices, offset by decreases in harvest volumes. Other revenues increased due to funds received from BCAP. Future revenue from timber sales related to the Mahrt Timberland is expected to decrease slightly based on lower harvest volumes and relatively stable timber prices.

Operating expenses. Contract logging and hauling costs increased approximately 12% from approximately \$4.6 million for the three months ended March 31, 2009 to approximately \$5.1 million for the three months ended March 31, 2010, primarily due to a 10% increase in delivered wood volume. Cost of timberland sales for the three months ended March 31, 2010 decreased by approximately \$3.4 million as we did not sell any timberland during the period. Contract logging and hauling, depletion, other operating expenses, and asset and forestry management fees are expected to remain relatively stable in future periods prior to the acquisition of additional timber assets.

General and administrative expenses. General and administrative expenses increased from approximately \$1.0 million for the three months ended March 31, 2009 to approximately \$1.2 million for the same period in 2010, primarily due to an increase in legal fees related to property tax appeals, an increase in salary reimbursements to Wells TIMO as a result of the addition of one employee, and an increase in director fees due to the addition of an independent director to our board of directors. General and administrative expenses are expected to remain relatively stable in future periods prior to the acquisition of additional timber assets.

Interest expense. Interest expense decreased from approximately \$3.1 million for the three months ended March 31, 2009 to approximately \$2.3 million for the three months ended March 31, 2010, primarily as a result of lower principal balances outstanding on our debt facilities, offset by an approximately \$0.5 million increase in amortization of deferred financing costs associated with the refinancing of the senior and mezzanine loans. Actual interest expense in future periods will vary based on our level of current and future borrowings, which will depend on the level of equity proceeds raised, the cost of future borrowings, and the opportunity to acquire timber assets fitting our investment objectives.

Interest rate risk instruments. We recognized a loss on our interest rate swaps that do not qualify for hedge accounting treatment of approximately \$0.3 million for the three months ended March 31, 2010 compared to a loss of approximately \$0.9 million for the three months ended March 31, 2009. The loss was primarily due to the fact that the variable interest rate incurred on our senior loan was lower than the contractual interest rates of the related interest rate swaps during the three months ended March 31, 2010. The decrease was primarily due to decreases in the lengths of time remaining under the respective swap contracts, changes in market interest rates and changes in the outlook of future market interest rates. We expect that future gains and losses on our interest rate swaps that do not qualify for hedge accounting treatment will fluctuate primarily as a result of additional changes in market interest rates and changes in the economic outlook for future market rates.

Net loss. Our net loss increased from approximately \$4.5 million for the three months ended March 31, 2009 to approximately \$4.8 million for the three months ended March 31, 2010, primarily as a result of an approximately \$1.8 million increase in operating loss, offset by decreases in interest expense and loss on interest rate swaps of approximately \$0.9 million and \$0.6 million, respectively. We sustained a net loss for the three months ended March 31, 2010 primarily as a result of incurring interest expense of \$2.3 million in connection with borrowings used to finance the purchase of the Mahrt Timberland and incurring an operating

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loss of approximately \$2.3 million. We opted to leverage the Mahrt Timberland acquisition with substantial short-term and medium-term borrowings as a result of sourcing this acquisition in advance of raising investor proceeds under our Offerings. Our net loss per share available to common stockholders for the three months ended March 31, 2010 and 2009 was \$0.29 and \$0.39, respectively. As we continue to raise equity under our Offerings and generate cash flows from the operations to repay the Mahrt Loan, we anticipate decreases in interest expense, which is expected to reduce future net losses.

Adjusted EBITDA

The discussion below is presented to enhance the reader's understanding of our liquidity, ability to generate cash, and ability to satisfy lender requirements. Earnings from Continuing Operations before Interest, Taxes, Depletion, and Amortization (EBITDA) is a non-GAAP measure of our operating performance and 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 agreement contains a minimum debt service coverage ratio based, in part, on Adjusted EBITDA since the measure is representative of adjusted income available for interest payments.

For the three months ended March 31, 2010, Adjusted EBITDA was approximately \$2.1 million, an approximately \$4.8 million decrease from the three months ended March 31, 2009 due to a decrease in revenue from timberland sales. Wells Timberland REIT's reconciliation of net loss to Adjusted EBITDA for the three months ended March 31, 2010 and 2009 follows:

	For the Three Months Ended	
	March 31,	
	2010	2009
Net loss	\$ (4,841,340)	\$ (4,544,276)
Add (deduct):		
Unrealized gain on interest rate swaps that do not qualify for hedge accounting treatment	(977,515)	(334,971)
Interest expense ⁽¹⁾	2,641,202	3,961,829
Depletion	4,307,430	4,127,369
Basis of timberland sold		3,178,501
Amortization ⁽¹⁾	928,082	443,690
Adjusted EBITDA	\$ 2,057,859	\$ 6,832,142

⁽¹⁾ For the purpose of the above reconciliation, amortization includes amortization of deferred financing costs, amortization of intangible lease assets, and amortization of mainline road costs, which are included in either interest expense, land rent expense, or other operating expenses in the accompanying consolidated statements of operations.

Election as a REIT

We have elected to be taxed as a REIT under the Code, and have operated as such beginning with our taxable year ended December 31, 2009. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our adjusted taxable income, as defined in the Code, to our stockholders, computed without regard to the dividends-paid deduction and by excluding

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our net capital gain. 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 that year and for the four years following the year during which qualification is lost, unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to our 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.

Inflation

In connection with the acquisition of the Mahrt Timberland, we entered into the Timber Agreements with MeadWestvaco. The Timber Agreements provide that we will sell to MeadWestvaco specified amounts of timber subject to quarterly market pricing adjustments and monthly fuel pricing adjustments, which are intended to protect us from, and mitigate the risk of, the impact of inflation. The price of timber has generally increased with increases in inflation. Because of our limited operating history, we have not noticed a significant impact from inflation on our revenues, net sales or income from continuing operations.

Application of Critical Accounting Policies

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

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

Timber Assets

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

Depletion

Depletion, or costs attributed to timber harvested, is charged against income as trees are harvested. Fee-simple timber tracts owned for longer than one year and similarly managed are pooled together for depletion calculation purposes. Depletion rates are determined at least annually by dividing (a) the sum of (i) net carrying value of the timber, which equals the original cost of the timber less previously recorded depletion,

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and (ii) capitalized silviculture costs incurred and the projected silviculture costs, net of inflation, to be capitalized over the harvest cycle, by (b) the total timber volume estimated to be available over the harvest cycle. The capitalized silviculture cost is limited to the expenditures that relate to establishing stands of timber. For each fee timber tract owned less than one year, depletion rates are determined by dividing the acquisition cost attributable to its timber by the volume of timber acquired. Depletion rates for lease tracts, which are generally limited to one harvest, are calculated by dividing the acquisition cost attributable to its timber by the volume of timber acquired. Net carrying value of the timber and timberlands is used to compute the gain or loss in connection with timberland sales. No book basis is allocated to the sale of conservation easements.

Evaluation of the Recoverability of Timber Assets

We continually monitor events and changes in circumstances that could indicate that the carrying amounts of our timber assets may not be recoverable. When indicators of potential impairment are present that suggest that the carrying amounts of timber assets may not be recoverable, we assess the recoverability of these assets by determining whether the carrying value will be recovered through the undiscounted future operating cash flows expected from the use of the asset and its eventual disposition. Impairment losses would be recognized for (i) long-lived assets used in our operations when the carrying value of such assets exceeds the undiscounted cash flows estimated to be generated from the future operations of those assets, and (ii) long-lived assets held for sale when the carrying value of such assets exceeds an amount equal to their fair value less selling costs. Estimated fair values are calculated based on the following information in order of preference, dependent upon availability: (i) recently quoted market prices, (ii) market prices for comparable properties, or (iii) the present value of undiscounted cash flows, including estimated salvage value. We intend to use one harvest cycle for the purpose of evaluating the recoverability of timber and timberlands used in our operations. Future cash flow estimates are based on probability-weighted projections for a range of possible outcomes and are discounted at risk-free rates of interest. We consider assets to be held for sale at the point at which a sale contract is executed and the buyer has made a nonrefundable earnest money deposit against the contracted purchase price. We have determined that there has been no impairment of our long-lived assets to date.

Allocation of Purchase Price of Acquired Assets

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

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

Intangible Lease Assets

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

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Revenue Recognition

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

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

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

Assertions of Legal Actions against Related Parties

On March 12, 2007, a stockholder of Piedmont Office Realty Trust, Inc., formerly known as Wells Real Estate Investment Trust, Inc. (referenced herein as Piedmont REIT) filed a putative class action and derivative complaint, presently styled *In re Wells Real Estate Investment Trust, Inc. Securities Litigation*, in the United States District Court for the District of Maryland against, among others, Piedmont REIT; Leo F. Wells, III, our President; Wells Capital, the owner of our advisor; Wells Management Company, Inc. (Wells Management); certain affiliates of Wells REF; the directors of Piedmont REIT; and certain individuals who formerly served as officers or directors of Piedmont REIT prior to the closing of an internalization transaction by Piedmont REIT on April 16, 2007. The complaint alleged, among other things, violations of the federal proxy rules and breaches of fiduciary duty arising from the Piedmont REIT internalization transaction and the related proxy statement filed with the SEC on February 26, 2007, as amended. The complaint sought, 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

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to designate the class lead plaintiff and class co-lead counsel. On June 27, 2007, the plaintiff filed an amended complaint, which attempted to assert class action claims on behalf of those persons who received and were entitled to vote on the Piedmont REIT proxy statement filed with the SEC on February 26, 2007, and derivative claims on behalf of Piedmont REIT. On July 9, 2007, the Court denied the plaintiff's motion for expedited discovery related to an anticipated motion for a preliminary injunction. On August 13, 2007, the defendants filed a motion to dismiss the amended complaint. On March 31, 2008, the Court granted in part the defendants' motion to dismiss the amended complaint. The Court dismissed five of the seven counts of the amended complaint in their entirety. The Court dismissed the remaining two counts with the exception of allegations regarding the failure to disclose in the Piedmont REIT proxy statement details of certain expressions of interest in acquiring Piedmont REIT. On April 21, 2008, the plaintiff filed a second amended complaint, which alleges violations of the federal proxy rules based upon allegations that the proxy statement to obtain approval for the Piedmont REIT internalization transaction omitted details of certain expressions of interest in acquiring Piedmont REIT. The second amended complaint seeks, among other things, unspecified monetary damages, to nullify and rescind the internalization transaction, and to cancel and rescind any stock issued to the defendants as consideration for the internalization transaction. On May 12, 2008, the defendants answered and raised certain defenses to the second amended complaint. On June 23, 2008, the plaintiff filed a motion for class certification. On September 16, 2009, the Court granted the plaintiff's motion for class certification. On September 20, 2009, the defendants filed a petition for permission to appeal immediately the Court's order granting the motion for class certification with the Eleventh Circuit Court of Appeals. The petition for permission to appeal was denied on October 30, 2009. On April 13, 2009, the plaintiff moved for leave to amend the second amended complaint to add additional defendants. The Court denied the plaintiff's motion for leave to amend on June 23, 2009. On December 4, 2009, the parties filed motions for summary judgment. The parties filed their responses to the motions for summary judgment on January 29, 2010. The parties' respective replies to the responses to the motions for summary judgment were filed on February 19, 2010. The motions for summary judgment are currently pending before the Court. Mr. Wells, Wells Capital, and Wells Management believe that the allegations contained in the complaint are without merit and intend to vigorously defend this action. Any financial loss incurred by Wells Capital or its affiliates, including our advisor, could hinder our advisor's ability to successfully manage our operations and our portfolio of investments.

Commitments and Contingencies

We are subject to certain commitments and contingencies with regard to certain transactions. Refer to Note 1, Note 6 and Note 8 of our accompanying consolidated financial statements for further explanation. Examples of such commitments and contingencies include:

Amended Master Purchase Agreement;

Placement Agent Agreement;

Structuring Agent Agreement;

MeadWestvaco Timber Agreements;

Carbon Storage Agreement;

Advisory Agreement; and

Dealer-Manager Agreement.

Table of Contents**Subsequent Events***Sale of Shares of Common Stock*

From April 1, 2010 through April 30, 2010, we raised approximately \$3.0 million through the issuance of approximately 0.3 million shares of our common stock under our Follow-On Offering. As of April 30, 2010, approximately 196.7 million shares remained available for sale to the public under our Follow-On Offering, exclusive of shares available under our distribution reinvestment plan. No proceeds were received from issuance of common stock under the German Offering and 2010 German Offering from April 1, 2010 through April 30, 2010. As of April 30, 2010, approximately 53.8 million shares remained available for sale to the Funds under our German Offering. As of April 30, 2010, approximately 10.4 million shares remained available for sale under our 2010 German Offering.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

As a result of entering into the Mahrt Loan, 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 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; however, our derivatives do not qualify for hedge accounting treatment. 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.

As of March 31, 2010, we had \$211.0 million outstanding on the Mahrt Loan, which matures on March 24, 2015 and 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 amount outstanding on the loan to the value of the Mahrt Timberland at the time of determination. As of March 31, 2010, after consideration of interest rate swaps described below, only \$105.0 million of the Mahrt Loan bears interest at an effectively variable rate. As of March 31, 2010, the weighted-average interest rate the Mahrt Loan, after consideration of interest rate swaps, was 6.59%.

In October 2007, we entered into an interest rate swap agreement with Wachovia (the Wachovia Interest Rate Swap) to hedge exposure to changing interest rates. The Wachovia Interest Rate Swap has an effective date of October 16, 2007 and runs through September 30, 2010. From October 25, 2008 through September 30, 2010, the notional amount covered by the Wachovia Interest Rate Swap equals \$106.0 million. Under the terms of the Wachovia Interest Rate Swap, from October 25, 2008 through September 30, 2010, we will pay interest at a fixed rate of 4.905% per annum and receive LIBOR-based interest payments based on a notional amount of \$106.0 million. The Wachovia Interest Rate Swap effectively fixes the LIBOR rate on \$106.0 million of our outstanding variable-rate debt at 4.905%.

In January 2009, we entered into an interest rate swap agreement with CoBank (the CoBank Interest Rate Swap) to hedge our exposure to changing interest rates on \$75.0 million of our outstanding debt subject to a variable interest rate. The CoBank Interest Rate Swap had an effective date of February 24, 2009 and matured on February 24, 2010. Under the terms of the CoBank Interest Rate Swap, we paid interest at a fixed rate of 1.14% per annum and received LIBOR-based interest payments from CoBank on \$75.0 million. The CoBank Interest Rate Swap effectively fixed the LIBOR rate on \$75.0 million of our outstanding variable-rate debt at 1.14% through February 24, 2010.

The terms of the Mahrt Loan agreement required us to enter into an interest rate protection agreement. As such, we entered into Rabobank Interest Rate Swap. The Rabobank Interest Rate Swap has an effective date

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of September 30, 2010 and matures on March 28, 2013. Under the terms of the Rabobank Interest Rate Swap, we will pay interest at a fixed rate of 2.085% per annum and will receive variable LIBOR-based interest payments from Rabobank based the following schedule:

Start Date	End Date	Notional Amount
September 30, 2010	December 30, 2010	\$ 52,500,000
December 31, 2010	March 30, 2011	\$ 49,500,000
March 30, 2011	June 30, 2011	\$ 46,500,000
June 30, 2011	September 30, 2011	\$ 43,500,000
September 30, 2011	December 30, 2011	\$ 67,500,000
December 30, 2011	March 30, 2012	\$ 62,500,000
March 30, 2012	June 29, 2012	\$ 57,500,000
June 29, 2012	September 28, 2012	\$ 50,000,000
September 28, 2012	December 31, 2012	\$ 37,500,000
December 31, 2012	March 28, 2013	\$ 28,500,000

Approximately \$106.0 million of our total debt outstanding as of March 31, 2010 is subject to fixed rates when coupled with an interest rate swap. As of March 31, 2010, this balance incurred interest expense at an average rate of 8.905%. A change in the market interest rate impacts the net financial instrument position of our fixed-rate debt portfolio; however, it has no impact on interest incurred or cash flows.

As of March 31, 2010, after consideration of interest rate swaps, approximately \$105.0 million of our total debt outstanding is subject to variable interest rates. As such, a 1.0% change in interest rates would result in a change in interest expense of approximately \$1.1 million per year. The amount outstanding on our variable-rate debt facility in the future will be largely dependent upon the level of investor proceeds raised under our Offerings and the rate at which we are able to employ such proceeds in the acquisition of timberland properties and toward the repayment of the Mahrt Loan.

ITEM 4T. CONTROLS AND PROCEDURES**Management's Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures**

We carried out an evaluation, under the supervision and with the participation of management, including the Principal Executive Officer and Principal Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report in providing a reasonable level of assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods in SEC rules and forms, including providing a reasonable level of assurance that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our Principal Executive Officer and our Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

From time to time, we are party to legal proceedings, which arise in the ordinary course of our business. We are not currently involved in any legal proceedings of which the outcome is reasonably likely to have a material adverse effect on our results of operations or financial condition, nor are we aware of any such legal proceedings contemplated by governmental authorities.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in the Risk Factors section of our annual report on Form 10-K for the year ended December 31, 2009.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

- (a) On March 23, 2010, we granted 2,500 shares of restricted common stock to George W. Sands upon his appointment to the board of directors. One-third of the shares of restricted stock granted to Mr. Sands vested immediately, one-third vests on the first anniversary of the date of grant, and one-third vests on the second anniversary of the date of grant. These shares were issued pursuant to an exemption from registration under Section 4(2) of the Securities Act for transactions not involving a public offering.
- (b) Not applicable.
- (c) During the quarter ended March 31, 2010, we redeemed shares as follows:

Period	Total Number of Shares Redeemed	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program	Approximate Dollar Value of Shares Available That May Yet Be Redeemed Under the Program
January 2010				(1)
February 2010	12,750	\$ 10.00	12,750	(1)
March 2010	1,000	\$ 10.00	1,000	(1)

- (1) The commencement of our share redemption plan was announced on August 11, 2006. Our share redemption plan limits redemptions of our common stock as follows: the shares redeemed under the share redemption plan cannot exceed the lesser of (i) the amount redeemable from the sum of net proceeds from the sale of shares through the distribution reinvestment plan plus any additional amounts reserved for redemptions by Wells Timberland REIT's board of directors, or (ii) in any calendar year, 5% of the weighted-average common shares outstanding during the preceding year. The terms of the Mahrt Loan prohibit Wells Timberland REIT from making redemptions, other than upon the death or qualifying disability of a stockholder, until this loan is reduced to a loan-to-collateral value ratio of less than 40% (see Note 4 of the accompanying consolidated financial statements). Redemptions sought within two years of the death or qualifying disability of a stockholder do not require a one-year holding period and 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. Wells Timberland REIT's board of directors has approved a monthly, non-cumulative reserve of \$150,000 for death or qualifying disability redemptions of common stock.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

- (a) There have been no defaults with respect to any of our indebtedness.

- (b) Not applicable.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

- (a) During the first quarter of 2010, there was no information that was required to be disclosed in a report on Form 8-K that was not disclosed in a report on Form 8-K or in Item 9B or our Annual Report on Form 10-K for the year ended December 31, 2009. On March 29, 2010, one of our directors, E. Nelson Mills became a Senior Vice President of Wells Capital and no longer qualifies as independent under our charter.

- (b) There are no material changes to the procedures by which stockholders may recommend nominees to our board of directors since the filing of our Schedule 14A.

ITEM 6. EXHIBITS

The exhibits required to be filed with this report are set forth on the Exhibit Index hereto and incorporated by reference herein.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WELLS TIMBERLAND REIT, INC.

(Registrant)

Date: May 10, 2010

By: /s/ DOUGLAS P. WILLIAMS
Douglas P. Williams

Executive Vice President, Secretary, Treasurer and

Principal Financial Officer

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SUPPLEMENTAL INFORMATION The prospectus of Wells Timberland REIT, Inc. consists of this sticker, the prospectus dated August 6, 2009, Supplement No. 6 dated April 14, 2010 and Supplement No. 7 dated May 26, 2010.

Supplement No. 6 includes:

the status of our public offerings;

changes to the suitability standards for investors;

a description of our current portfolio;

selected financial data;

our performance Adjusted EBITDA;

the refinancing of our indebtedness;

information regarding our distributions;

compensation paid to our advisor;

our offering of up to 11,398,963 shares of our common stock in a private placement pursuant to Regulation S under the Securities Act;

updates and supplements to certain risk factors;

appointment of an independent director to our board of directors;

a change in the independence qualification of one of our directors;

the adoption by our board of directors of an amendment to our bylaws;

issuance and sales of Series B preferred stock;

clarifications to the disclosure in the section of the prospectus entitled Business and Policies Investment Objectives;

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a revision to the Management Legal Proceedings disclosure regarding the Piedmont Office Realty Trust, Inc. litigation;

a revision to the Plan of Distribution Subscription Procedures disclosure regarding the automatic investment plan for Ohio investors;

incorporation of certain documents by reference;

a change to our Experts section of our prospectus;

the amendment and restatement of our distribution reinvestment plan;

the amendment and restatement of our independent directors compensation plan;

an update to our Prior Performance Summary disclosure in our prospectus; and

an update to our Prior Performance Tables disclosure in our prospectus.

Supplement No. 7 includes:

the status of our public offerings;

information regarding our indebtedness;

our election to be taxed as a REIT;

a revision of the tax considerations section of our prospectus; and

our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, as filed with the Securities and Exchange Commission on May 13, 2010, which is attached to this supplement as Annex A.