Wells Timberland REIT, Inc.
Form 424B3
August 06, 2009

Table of Contents

FILED PURSUANT TO

RULE 424 (B) (3)

REGISTRATION NO: 333-157087

WELLS TIMBERLAND REIT, INC.

Maximum Offering of $2,200,000,000

Wells Timberland REIT, Inc. is a Maryland corporation formed in 2005 primarily for the purpose of acquiring timberland properties in the timber-producing regions of the United States and, to a lesser extent, in timber-producing regions outside the United States. We currently own approximately 223,300 acres of timberland in fee simple and have long-term leasehold interests on another approximately 88,700 acres of timberland, all located in Georgia and Alabama. We intend to elect to be taxed as a REIT, under the Internal Revenue Code of 1986, as amended, commencing with the taxable year ending December 31, 2009.

We are offering up to $2.0 billion of shares of common stock in our primary offering at an initial price of $10.00 per share, with volume discounts available to investors who purchase more than $500,000 of shares at any one time. Discounts are also available for other categories of purchasers as described in Plan of Distribution. We are also offering up to $200.0 million of shares to be issued pursuant to our distribution reinvestment plan at a purchase price equal to $9.55 per share during our primary offering. We reserve the right to reallocate the shares of common stock we are offering between the primary offering and the distribution reinvestment plan. As of July 31, 2009, we had received and accepted subscriptions in our initial public offering for approximately 17.2 million shares of common stock, for aggregate gross offering proceeds, net of discounts, of approximately $171.7 million.

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

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

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

We have not paid any cash distributions to date to our stockholders as a result of restrictions resulting from our credit agreements. Once we are able to make cash distributions, our cash distributions are not guaranteed and may fluctuate.

We may pay cash distributions from offering proceeds or borrowings, which may reduce amounts available to acquire properties.

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

The terms of our mezzanine and senior loan agreements prohibit us from paying distributions or redeeming shares (except in cases of death or disability) until we repay the mezzanine loan in full and attain certain financial performance measures.

Our charter limits a person from owning more than 9.8% of our common stock without prior approval of our board of directors.

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

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

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

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

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

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

	Price to Public*	**Selling Commissions***	**Dealer Manager Fee***	**Net Proceeds (Before Expenses)****
Primary Offering				
Per Share	$ 10.00	$ 0.70	$ 0.18	$ 9.12
Total Primary Offering	$ 2,000,000,000	$ 140,000,000	$ 36,000,000	$ 1,824,000,000
Distribution Reinvestment Plan				
Per Share	9.55			9.55
Total Distribution Reinvestment Plan	$ 200,000,000	$	$	$ 200,000,000
Total	$ 2,200,000,000	$ 140,000,000	$ 36,000,000	$ 2,024,000,000

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

** Payment of additional underwriting compensation will reduce the proceeds to us, before expenses. See Plan of Distribution.

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

This is a continuous offering that will end no later than August 6, 2011, two years from this date of the prospectus, unless extended. If we extend beyond August 6, 2011, we will supplement the prospectus accordingly. We may also terminate this offering at any time.

August 6, 2009

Table of Contents

SUITABILITY STANDARDS

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

- a net worth of at least $250,000; or
- gross annual income of at least $70,000 and a net worth of at least $70,000.

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

Alabama In addition to the suitability standards described above, investors must have a liquid net worth of at least 10 times their investment in this program and other similar programs.

Arizona and Pennsylvania Investors who reside in the states of Arizona or Pennsylvania must have either (1) a net worth of at least $500,000 or (2) an annual gross income of at least $140,000 and a net worth of at least $140,000. Arizona and Pennsylvania investors must also have a net worth of at least 10 times their investment in us.

California, Massachusetts, Ohio and Oregon In addition to the suitability standards described above, your investment in us may not exceed 10% of your liquid net worth.

Iowa Investors who reside in the state of Iowa must have either (1) a minimum annual gross income of $70,000 and a minimum net worth of $100,000 or (2) a minimum net worth of $350,000. Additionally, Iowa residents may invest no more than 10% of their liquid net worth in us or our affiliated programs.

Kansas In addition to the suitability standards described above, the state of Kansas recommends that your aggregate investment in us and similar direct participation investments should not exceed 10% of your liquid net worth, which is defined as that portion of net worth which consists of cash, cash equivalents and readily marketable securities.

Kentucky Investors who reside in the state of Kentucky must have either (1) a minimum annual gross income of $85,000 and a minimum net worth of $85,000 or (2) a minimum net worth of $300,000. Additionally, Kentucky residents may invest no more than 10% of their liquid net worth in our securities.

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

New Jersey Investors who reside in the state of New Jersey must have either (1) a minimum annual gross income of $150,000 and a minimum net worth of $150,000 or (2) a minimum net worth of $500,000, exclusive of home, home furnishings and automobiles. In addition, New Jersey residents may invest no more than 10% of their liquid net worth in us or our affiliated programs.

Tennessee Investors who reside in the state of Tennessee must have a minimum annual gross income of $150,000 and a minimum net worth of $150,000 or a minimum net worth of $500,000 exclusive of home, home furnishings and automobiles.

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

Our sponsor and those selling shares on our behalf must make every reasonable effort to determine that the purchase of shares in this offering is a suitable and appropriate investment for each stockholder based on information provided by the stockholder regarding the stockholder s financial situation and investment objectives. See Plan of Distribution Stockholder Suitability for a detailed discussion of the determinations regarding suitability that we require of all those selling shares on our behalf.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PROSPECTUS SUMMARY

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

Wells Timberland REIT, Inc.

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

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

We were incorporated in Maryland on September 27, 2005 and intend to elect to be taxed as a real estate investment trust, or REIT, commencing with the taxable year ending December 31, 2009. We believe that we will satisfy the organizational and operational requirements to qualify to be taxed as a REIT beginning with our taxable year ending December 31, 2009. However, given that these requirements involve the results of future operations, we cannot give assurances regarding when, if ever, we will qualify or elect to be taxed as a REIT. See Federal Income Tax Considerations Requirements for Qualification and Federal Income Tax Considerations Federal Income Taxation of Our Company as a REIT.

In our initial public offering, which commenced on August 11, 2006, we had offered 75,000,000 shares of common stock in the primary offering, and 10,000,000 shares of common stock to be issued pursuant to our distribution reinvestment plan. As of July 31, 2009, we had received and accepted subscriptions for approximately 17.2 million shares of common stock for gross offering proceeds, net of discounts, of approximately $171.7 million. We have used the proceeds to pay the purchase price of the Mahrt Timberland, as described below, to repay indebtedness incurred in connection with the acquisition of the Mahrt Timberland and to pay expenses.

We have no paid employees and are externally advised and managed by Wells Timberland Management Organization, LLC, which we refer to as Wells TIMO or our advisor.

Description of Investments

We currently own approximately 223,300 acres of timberland in fee simple and have long-term leasehold interests on another approximately 88,700 acres of timberland, all located on the Lower Piedmont and Upper Coastal Plains of East Central Alabama and West Central Georgia, which we refer to as the Mahrt Timberland. We acquired the Mahrt Timberland on October 9, 2007. See Timberland Investments Mahrt Timberland.

We will seek to acquire additional timberland properties in the timber-producing regions of the United States, which include the states in the Appalachian, Great Lakes, Northeastern, Northwestern and Southeastern regions. Our portfolio may also include, to a limited extent, investments in timberland located in other countries. We may also invest in entities that own timberland and make or acquire other types of real estate investments, provided that for so long as our board of directors determines it is in our best interests to qualify as a REIT, such other investments must be consistent with the preservation of our status as a REIT.

Table of Contents

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

Use of Proceeds

We expect to use a portion of the net proceeds from this offering to repay existing indebtedness that we incurred in connection with our acquisition of the Mahrt Timberland in order to meet our long-term objective of reducing our overall leverage to a conservative level. Thereafter, we expect to use substantially all of the additional net proceeds from this offering to acquire additional timberland properties.

We paid a portion of the purchase price for the Mahrt Timberland by obtaining funds through $372.0 million in debt financing arranged by Wachovia Bank, National Association, or Wachovia Bank. This debt financing included two loans, which we refer to as the senior loan and the mezzanine loan, respectively. The senior loan is an adjustable rate first mortgage loan in the original principal amount of $212.0 million. The mezzanine loan is a fixed rate second mortgage loan in the original principal amount of $160.0 million. See Timberland Investments Mahrt Timberland Financing.

Investment Objectives

Our primary investment objectives are:

- to preserve and return your capital contributions;
- to provide current income to you through the payment of cash distributions; and
- to realize capital appreciation upon the ultimate sale of our assets.

As of the date of this prospectus, we have not paid any cash distributions to our stockholders and we will not be able to pay any cash distributions until we repay the mezzanine loan or renegotiate its terms, and attain certain financial performance measures under the senior loan. See Timberland Investments Mahrt Timberland Financing for a description of the terms of our senior and mezzanine loans. See the Business and Policies section of this prospectus for a more complete description of our investment policies and the investment restrictions imposed by our charter.

Summary Risk Factors

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

- There is no public trading market for our common stock. If you are able to sell your shares, you would likely have to sell them at a substantial discount from their public offering price.
- We have a very limited operating history, have only completed one timberland acquisition, and have not identified any additional properties to acquire with the proceeds from this offering. In addition, neither we nor our advisor has substantial experience investing in timberland properties. These factors make our future performance and the performance of your investment difficult to predict.

2

Table of Contents

We have not paid any cash distributions to date to our stockholders as a result of restrictions resulting from our credit agreements. Once we are able to make cash distributions, our cash distributions are not guaranteed and may fluctuate.

We may pay cash distributions from offering proceeds or borrowings, which may reduce amounts available to acquire properties.

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

The terms of our mezzanine and senior loan agreements prohibit us from paying distributions or redeeming shares (except in cases of death or disability) until we repay the mezzanine loan in full and attain certain financial performance measures under the senior loan.

Our charter limits a person from owning more than 9.8% of our common stock without prior approval of our board of directors.

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

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

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

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

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

Our Advisor

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

Table of Contents

Our Sponsor

Our advisor is managed by and is a wholly owned subsidiary of our sponsor, Wells Capital, Inc., which we refer to as Wells Capital. Wells Capital was incorporated in Georgia on April 20, 1984. As of June 30, 2009, Wells Capital had sponsored or advised public real estate programs on an unspecified property, or blind pool basis, that have raised approximately $11.4 billion of equity from approximately 290,000 investors. Some of our officers and directors are also officers and directors of Wells Capital.

Our Corporate Structure

We expect to own substantially all of our properties and other investments through our operating partnership, Wells Timberland Operating Partnership, L.P., which we refer to as Wells Timberland OP or our operating partnership. Wells Timberland OP was formed in November 2005 to acquire properties on our behalf. We are the sole general partner of Wells Timberland OP and own approximately 99.99% of its common units. Wells TIMO is the sole limited partner of Wells Timberland OP and owns the remaining approximately 0.01% of the common units. As a result of this structure, we are considered an UPREIT, or Umbrella Partnership Real Estate Investment Trust.

The UPREIT structure is used because a contribution of property directly to a REIT is generally a taxable transaction to the contributing property owner. In an UPREIT structure, a seller of a property who desires to defer taxable gain on the sale of his property may transfer the property to the UPREIT in exchange for common units in the UPREIT and defer taxation of gain until the seller later sells his common units or causes our operating partnership to redeem his common units. Using an UPREIT structure may give us an advantage in acquiring desired properties from persons who may not otherwise sell their properties because of unfavorable tax results. At present, we have no plans to acquire any specific properties in exchange for common units of Wells Timberland OP.

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

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

Table of Contents

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

5

Table of Contents

Conflicts of Interest

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

- Wells TIMO and its affiliates will have to allocate their time between us and other real estate programs and activities in which they are involved;
- Wells TIMO and its affiliates will receive fees regardless of the quality or performance of the investments acquired or the services provided to us;
- The compensation arrangements between Wells TIMO and its affiliates and other Wells programs may incent our advisor and its affiliates to act other than in our best interest;
- The advisory agreement between Wells TIMO and us was not negotiated on an arm s-length basis and it is possible that an unaffiliated third party would provide similar services at a lower cost; and
- Because our advisory agreement must be renewed on an annual basis, the fees and expenses that we pay may be increased in future renewals.

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

Table of Contents

Compensation of the Advisor and its Affiliates

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

Type of Compensation	Determination of Amount	Estimated Amount for Maximum Offering ($2,200,000,000)
	Offering Stage	
Selling Commissions	7% of gross offering proceeds from the primary offering; all selling commissions will be reallowed to participating broker/dealers.	$140,000,000
Dealer-Manager Fee	Up to 1.8% of gross offering proceeds from the primary offering; a portion of the dealer-manager fee will be reallowed to participating broker/dealers.	$36,000,000
Other Organization and Offering Expenses	Up to 1.2% of gross offering proceeds; however, if we raise the maximum offering amount, we expect that these other organization and offering expenses will not exceed 0.33% of our gross offering proceeds, or $7.3 million. Wells TIMO will incur or pay our organization and offering expenses (excluding selling commissions and the dealer-manager fee). We will then reimburse Wells TIMO for these amounts up to 1.2% of gross offering proceeds. We also may engage in offerings of common stock that are exempt from securities registration and may reimburse Wells TIMO for certain expenses incurred by it in connection with such offerings.	$7,300,000
	Operational Stage	
Asset Management Fees	Monthly fee equal to one-twelfth of 1% of the greater of the cost or value of investments.	Actual amounts are dependent upon the total equity capital we raise, the amount of debt we incur and results of operations and therefore cannot be determined at this time.

Table of Contents

Type of Compensation	Determination of Amount	Estimated Amount for Maximum Offering ($2,200,000,000)
Other Operating Expenses	Reimbursement of our advisor s cost of providing services to us other than personnel costs relating to services for which our advisor earns real estate disposition fees.	Actual amounts are dependent upon the results of our operations; we cannot determine these amounts at this time.
	Liquidity Stage	
Real Estate Disposition Fees	Up to 2% of the contract price for any property sold for $20.0 million or less and up to 1% of the contract price for any property sold for more than $20.0 million, in each case as determined by our board of directors (including a majority of our independent directors) based on market norms for the services provided.	Actual amounts are dependent upon the results of our operations; we cannot determine these amounts at this time.
Special Units	Our advisor will be entitled to receive (1) 15% of specified distributions made upon the disposition of Wells Timberland OP s assets, and/or (2) a one time payment, in the form of a non-interest-bearing promissory note or shares of our common stock (as applicable), in conjunction with the redemption of the special units upon the occurrence of certain liquidity events or upon the occurrence of certain events that result in a termination or non-renewal of the advisory agreement, but in each case only after the holders of common units, including us, have received (or have been deemed to have received), in the aggregate, cumulative distributions equal to their capital contributions (less any amounts received in redemption of their common units) plus a 7% cumulative non-compounded annual pre-tax return on their net capital contributions.	Actual amounts are dependent upon the results of our operations; we cannot determine these amounts at this time.

In the event that Wells TIMO receives a special unit redemption payment in connection with a listing, it will no longer be eligible to receive a special unit redemption payment upon termination or non-renewal of the advisory agreement or a special unit distribution in connection with the disposition of Wells Timberland OP s assets. Similarly, in the event that Wells TIMO receives a redemption payment in connection with the termination or non-renewal of the advisory agreement without cause, it will no longer be eligible to receive a

Table of Contents

special unit redemption payment upon listing or a special unit distribution in connection with the disposition of Wells Timberland OP s assets. The fees payable to our advisor during our operational stage are not based on the performance of our investments. See Management Compensation, The Operating Partnership Agreement, Plan of Distribution and Conflicts of Interest for a more detailed description of the fees and expenses payable to our advisor, our dealer-manager and their affiliates, and the conflicts of interest related to these arrangements.

Sources of Income

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

Board of Directors and Executive Officers

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

Table of Contents

QUESTIONS AND ANSWERS ABOUT THE OFFERING

What is a REIT?

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

- combines the capital of many investors to acquire or provide financing for real estate properties;
- allows individual investors to invest in a large-scale diversified real estate portfolio through the purchase of interests, typically shares, in the REIT;
- is required to pay distributions to investors of at least 90% of its annual REIT taxable income (computed without regard to the dividends paid deduction and excluding net capital gain); and
- avoids the double taxation treatment of income that would normally result from investments in a corporation because a REIT does not generally pay federal corporate income taxes on the net income it distributes, provided certain income tax requirements are satisfied.

However, REITs are subject to numerous organizational and operational requirements. Upon our qualification as a REIT, if we subsequently fail to qualify for taxation as a REIT in any year, our income will be taxed at regular corporate rates, and we may be precluded from qualifying for treatment as a REIT for the four-year period following our failure to qualify. Even if we qualify as a REIT for federal income tax purposes, we may still be subject to state and local taxes on our income and property and to federal income and excise taxes on our undistributed income.

When will you become qualified as a REIT?

Pursuant to our charter, our board of directors has the authority to determine when and if it is in our best interest to elect to be taxed as a REIT. Our qualification as a REIT requires compliance with a number of tests imposed by the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, including requirements regarding our organization and ownership, the distribution of at least 90% of our ordinary taxable income to stockholders, and the nature and diversification of our income and assets. See Federal Income Tax Considerations Federal Income Taxation of Our Company as a REIT.

As a result of the structure of our acquisition of the Mahrt Timberland in 2007 from MeadWestvaco Corporation, we did not meet the requirements to qualify as a REIT in 2007 or 2008. See Timberland Investments Mahrt Timberland. This transaction affected several of the REIT qualification requirements. In particular, this transaction prevented us from satisfying the quarterly requirement that at least 75% of our gross assets consist of real estate assets, cash and cash items (including receivables) and government securities. It also prevented us from satisfying the quarterly requirement that the value of any one issuer s securities not exceed 5% of the value of our gross assets, as well as preventing us from satisfying the 75% gross income test. On December 18, 2008, we completed certain transactions that we believe will allow us to satisfy the asset and gross income tests in 2009 and thereafter. See Timberland Investments Mahrt Timberland Special Purpose Entity Sale. In addition, we incurred indebtedness in connection with the acquisition of the Mahrt Timberland which restricts our ability to make distributions to our stockholders. See Timberland Investments Mahrt Timberland Financing.

We have received a qualified opinion of our counsel, Alston & Bird LLP, 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. This opinion is based and expressly conditioned upon the accuracy of our representations with respect to various factual matters concerning our business operations. In particular, one of the REIT qualification requirements is that a REIT timely distribute to its stockholders at least 90% of its REIT taxable income (determined without regard to the dividends paid deduction and excluding net capital gain). We are currently prohibited from making distributions to our stockholders under the terms of our credit agreements. We do not expect to terminate these restrictions in 2009, but we do not project positive taxable income for our taxable year ending December 31, 2009. If we do not have positive taxable income in 2009, we will not have a requirement to make distributions to our stockholders to qualify as a REIT for 2009. We expect to terminate the restrictions on our ability to make distributions to stockholders in 2010. If we were to generate positive REIT taxable income in 2010 or subsequent years but continued to be prohibited from making timely distributions to our stockholders, we would fail to qualify as a REIT. The opinion is based on assumptions that we will not have positive REIT taxable income in 2009 and that we will not be prohibited from satisfying any distribution obligations in 2010.

Therefore, we expect that our board of directors will elect for us to qualify as a REIT commencing with the taxable year ending December 31, 2009. However, we cannot give any assurances that we will qualify to be taxed as a REIT for the year ending December 31, 2009, or if we do so qualify, that we will continue to qualify in future years. See Federal Income Tax Considerations Requirements for Qualification.

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

We intend to use substantially all of the net proceeds from this offering to repay the senior loan and the mezzanine loan and to acquire timberland properties in the timber-producing regions of the United States. Our portfolio also may include investments in timberland located in other countries. We will also use the net proceeds to pay fees to our advisor, including an asset management fee. Depending primarily upon the number of shares we sell in this offering and assuming a $9.55 per share price for shares sold under our distribution reinvestment plan, we estimate for each share sold in this offering that between $9.05 and $9.17 per share will be available for our intended use of proceeds, including the mandatory repayment of our indebtedness, as described in Estimated Use of Proceeds below. We will use the remainder of the offering proceeds to pay the costs of the offering, including selling commissions and the dealer-manager fee. If in the future we pay cash distributions, we expect to use substantially all of the net offering proceeds from the sale of shares under our distribution reinvestment plan to repurchase our common stock pursuant to our share redemption plan.

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

What kind of offering is this?

We are offering up to $2.2 billion of shares of common stock on a best efforts basis. We are offering up to $2.0 billion of shares of our common stock in our primary offering at $10.00 per share, with discounts available for certain categories of purchasers as described in Plan of Distribution below. We are also offering $200.0 million of shares of common stock under our distribution reinvestment plan at $9.55 per share during the primary offering. We may reallocate the total number of shares we are offering between the primary offering and the distribution reinvestment plan.

How does a best efforts offering work?

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

Table of Contents

How long will this offering last?

This is a continuous offering that will end no later than August 6, 2011 (two years from the date of this prospectus) unless extended. If we extend this offering beyond August 6, 2011, we will supplement this prospectus. We may continue to offer shares under our distribution reinvestment plan beyond that date and until we have sold the shares allocated pursuant to this offering for purchase pursuant to the plan. In some states, we may not be able to continue the offering for these periods without renewing the registration statement or filing a new registration statement. We may terminate this offering at any time.

Who can buy shares?

Generally, you can buy shares only pursuant to this prospectus if you have either (1) a net worth of at least $70,000 and an annual gross income of at least $70,000, or (2) a net worth of at least $250,000. For this purpose, net worth does not include your home, home furnishings or automobiles. These minimum levels are higher in certain states, so you should carefully read the more detailed description under Suitability Standards on page i of this prospectus.

For whom is an investment in our shares recommended?

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

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

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

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

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

In addition, governmental plans, foreign plans, and church plans generally are exempt from the requirements of ERISA and the Code. However, such plans may be subject to state, foreign, or other laws that impose fiduciary requirements similar to those of ERISA and the Code. Persons making an investment on behalf of a governmental, foreign or church plan should satisfy themselves that the investment is in accordance with the plan and applicable law.

Table of Contents

Is there any minimum investment required?

Yes. For your initial purchase of our shares, you must generally invest at least $5,000. Once you have satisfied the minimum purchase requirement, any additional purchases of our shares must be in amounts of at least $100, except for additional purchases pursuant to our distribution reinvestment plan, which may be in lesser amounts.

How do I subscribe for shares?

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

What are your exit strategies?

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

- listing our common stock on a national securities exchange; or
- our sale or merger in a transaction that provides our stockholders with cash and/or securities of a publicly traded company.

In making the decision as to which exit strategy to pursue, our board of directors will try to determine which transaction would result in greater long-term value for our stockholders. We cannot determine at this time the circumstances, if any, under which our board of directors will determine to list our shares on a national securities exchange. However, if we do not list our shares of common stock on a national securities exchange by August 11, 2018, our charter requires that we either:

- seek stockholder approval of an extension or amendment of this listing deadline; or
- seek stockholder approval to commence an orderly liquidation.

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

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

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

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

Under the terms of the share redemption plan and following repayment of the mezzanine loan, after you have held your shares for at least one year, you may be able to sell your shares to us pursuant to our share redemption plan. Initially, we will repurchase shares under the share redemption plan at $9.10 per share. The initial redemption price will remain fixed until one year after we complete our offering stage. Thereafter, we will redeem shares at a price equal to 95% of the estimated per share value of the shares, as estimated by our advisor or another firm chosen for that purpose. The terms of our share redemption plan are more generous for redemptions sought within two years of a stockholder s death or qualifying disability. There are, however, numerous restrictions on your ability to sell your shares to us under the share redemption plan. For example, the dollar amount we pay in connection with all redemptions during any calendar year may not exceed the net proceeds from the sale of shares under the distribution reinvestment plan during the calendar year and any additional amounts reserved for such purpose by our board of directors. In addition, there are other limits on our ability to redeem shares if the redemption is not sought within two years of a stockholder s death or qualifying disability. Our board of directors may amend, suspend or terminate our share redemption plan upon 30 days notice. See Description of Shares Share Redemption Plan.

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

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

Pursuant to our charter, our board of directors has the authority to determine when and if it is in our best interest to elect for us to be taxed as a REIT. We intend to elect to be taxed as a REIT commencing with the taxable year ending December 31, 2009. However, because our ability to do so is dependent upon our future operations, we cannot give any assurances regarding when, if ever, we will qualify or elect to be taxed as a REIT. If we qualify and elect to be taxed as a REIT in the future, we will be required to make aggregate annual distributions to our stockholders of at least 90% of our REIT taxable income. For these purposes, REIT taxable income is computed without regard to the distributions paid deduction, excludes net capital gain, and does not necessarily equal net income as calculated in accordance with accounting principles generally accepted in the United States, or GAAP . It is possible that substantially all of the income we generate from harvesting timber will constitute capital gain for federal tax purposes. Unlike most existing REITs, therefore, we do not anticipate that the 90% distribution requirement applicable to REITs will require us to distribute substantial amounts of cash in order to remain qualified as a REIT. The actual amount and timing of distributions, if any, will be at the discretion of our board of directors and will depend upon a number of factors discussed in the section Description of Shares Distributions, including:

- our actual results of operations;
- the timing of the investment of the net proceeds of this offering; and
- whether the income from our harvesting activities is ordinary income or capital gains.

Table of Contents

Upon our qualification as a REIT, our board of directors may authorize distributions in excess of those required for us to maintain REIT status, depending on our financial condition and such other factors as our board of directors deems relevant. We have not established a minimum distribution level.

How will you calculate the payment of distributions to stockholders?

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

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

Yes. You may participate in our distribution reinvestment plan by checking the appropriate box on your subscription agreement or by filling out an enrollment form we will provide to you at your request. The purchase price for shares purchased under this plan will be equal to (1) $9.55 per share during this offering; (2) 95.5% of the offering price in any subsequent public equity offering during such offering; and (3) 95.5% of the most recent offering price for the first 12 months subsequent to the close of our last public equity offering prior to the listing of our shares on a national securities exchange. After that 12-month period, we will publish a per share valuation determined by our advisor or another firm chosen for that purpose, and distributions will be reinvested at the price determined by the valuation process. This valuation may bear little relationship to, and will likely exceed, what you might receive for your shares if you tried to sell them or if we liquidated the portfolio. We will not pay any selling commissions or dealer-manager fees in connection with the sale of shares pursuant to our distribution reinvestment plan, and our advisor will not be entitled to any expense reimbursements from the proceeds of these sales.

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

As a result of the acquisition of the Mahrt Timberland, we are prohibited from making any payments or distributions (or setting aside funds for any payments or distributions) to any of our stockholders until the mezzanine loan we obtained in connection with the acquisition of the Mahrt Timberland is repaid in full and certain financial performance measures under the senior loan are attained (although we may seek to renegotiate the terms of the loan agreements prior to their full repayment). See Risk Factors Risks Associated with Debt Financing, Description of Shares Distributions and Description of Shares Share Redemption Plan.

Will the distributions I receive be taxable as ordinary income?

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

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

Table of Contents

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

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

- Four quarterly investor statements, which will generally include a summary of the amount you have invested, the quarterly distributions declared (if any), and the amount of distributions reinvested under our distribution reinvestment plan, if applicable;
- An annual report; and
- An annual IRS Form 1099-DIV, if required.

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

When will I get my detailed tax information?

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

Who can help answer my questions?

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

Client Services Department

Wells Investment Securities, Inc.

6200 The Corners Parkway

Norcross, Georgia 30092-3365

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

Fax: (770) 243-8198

E-mail: investor.services@wellsref.com

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

RISK FACTORS

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

Risks Related to Investing in this Offering

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

There is no current public trading market for our shares and we have no current plans to apply for listing on any public securities market. Our charter also prohibits the ownership of more than 9.8% in value of our outstanding shares, or more than 9.8% (in value or in number of shares, whichever is more restrictive) of the aggregate of our outstanding common shares, unless exempted by our board of directors, which may inhibit large investors from desiring to purchase your shares. See Description of Shares Restriction on Ownership of Shares. In addition, we have adopted a share redemption plan but we are not permitted to make any redemptions under the plan (except in cases of death or disability) until our mezzanine loan obtained in connection with the Mahrt Timberland acquisition has been repaid in full and our senior loan has been reduced to a 40% loan-to collateral value ratio. Once we are able to allow share redemptions under our share redemption plan, the plan includes numerous restrictions that will limit your ability to sell your shares. Our board is also free to amend or terminate the plan upon 30 days notice after our offering is effective. We describe these restrictions in detail under Description of Shares Share Redemption Plan. Therefore, it will be difficult for you to sell your shares promptly or at all. If you are able to sell your shares, you will likely have to sell them at a substantial discount to their public offering price. It is also likely that your shares will not be accepted as the primary collateral for a loan. You should purchase our shares only as a long-term investment because of the illiquid nature of the shares.

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

We have a very limited operating history. We were incorporated in September 2005, commenced operations in July 2007 and completed our first and only timberland investment in October 2007. See Timberland Investments Mahrt Timberland. For the years ended December 31, 2007 and 2008, our operations resulted in an operating loss of approximately $4.4 million and $13.8 million, respectively, and a net loss of approximately $17.3 million and $53.3 million, respectively, as well as an accumulated stockholders deficit of approximately $18.0 million and $71.3 million, respectively and a negative operating cash flow of approximately $3.4 million and $6.6 million, respectively. For the years ended December 31, 2007 and 2008, we incurred interest expense on our indebtedness of approximately $13.7 million and $42.3 million, respectively, and accrued but unpaid dividends payable on our preferred stock of approximately $0.6 million and $3.0 million, respectively. See Selected Financial Data. Our lack of operating history significantly increases the risk and uncertainty you face in making an investment in our shares, including related to our ability to pay distributions in the future. You should not rely upon the past performance of other Wells-sponsored real estate programs. Such past performance was not related to the ownership of timberland property and would not predict our future results.

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

While we are investing the proceeds of this offering, the continuing high demand for the type of properties we desire to acquire may cause any distributions and the long-term returns of our investors to be lower than they otherwise would. We believe the current market for timberland properties is extremely competitive. We will be competing for these timberland investments with other entities, including traditional corporations and REITs, forestry products companies, real estate limited partnerships, pension funds and their advisors, bank and insurance company investment accounts, individuals and other entities. Many of our competitors have more experience, greater financial resources, and a greater ability to borrow funds to acquire properties than we do.

Table of Contents

The greater the number of entities and resources competing for timberland properties, the higher the acquisition prices of these properties will be, which could reduce our profitability and our ability to pay distributions to you. We cannot be sure that our advisor will be successful in obtaining suitable investments on financially attractive terms or that, if our advisor makes investments on our behalf, our objectives will be achieved. The more money we raise in this offering, the greater will be our challenge to invest all of the net offering proceeds on attractive terms. If we, through our advisor, are unable to find suitable investments in properties promptly, we will hold the proceeds from this offering in an interest-bearing account or invest the proceeds in short-term, investment-grade investments and may, ultimately, liquidate. Delays we encounter in the selection and acquisition of properties would likely limit our ability to pay distributions to our stockholders and reduce our stockholders overall returns.

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

We have completed only one timberland acquisition and have not yet identified any additional properties that we will make with the proceeds of this offering. Our ability to identify well-performing properties and achieve our investment objectives depends upon the performance of our advisor in the acquisition of our investments and the determination of any financing arrangements. The large size of this offering increases the challenges that our advisor will face in investing our net offering proceeds promptly in attractive properties, and the continuing high demand for the type of properties we desire to purchase increases the risk that we may pay too much for the properties that we do purchase. Because of the illiquid nature of our shares, even if we disclose information about our potential investments before we make them, it will be difficult for you to sell your shares promptly or at all.

We are substantially dependent on our business relationships with MeadWestvaco Corporation and its affiliated entities, and our continued success will depend on their economic performance.

We have entered into two agreements in connection with our acquisition of the Mahrt Timberland: a master stumpage agreement with a subsidiary of MeadWestvaco Corporation and a fiber supply agreement with MeadWestvaco Corporation and a subsidiary. We refer to these agreements collectively as the timber agreements. See Timberland Investments Mahrt Timberland Timber Agreements. The timber agreements provide that we will sell specified amounts of timber to a subsidiary of MeadWestvaco Corporation, subject to market pricing adjustments. The timber agreements are intended to ensure a long-term source of supply of wood fiber products for MeadWestvaco Corporation in order to meet its paperboard and lumber production requirements at specified mills and provide us with a reliable consumer for the wood products from the Mahrt Timberland. Our financial performance is substantially dependent on the economic performance of MeadWestvaco Corporation and its affiliates as consumers of our wood products. Approximately 41% of our revenue in 2008 was derived from these timber agreements. Therefore, our business and financial condition may be negatively and adversely impacted if the financial performance of MeadWestvaco Corporation suffers.

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

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

Table of Contents

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

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

We have not paid any cash distributions to date to our stockholders as a result of restrictions resulting from our credit agreements. Once we are able to make cash distributions, our cash distributions are not guaranteed and may fluctuate.

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

If we pay distributions from sources other than our cash flow from operations, we will have fewer funds available for investments and your overall return may be reduced.

Our organizational documents permit us to pay distributions from any source. If we fund distributions from financings or the net proceeds from this offering, we will have fewer funds available for investment in timberland and your overall return may be reduced. We expect to have little, if any, cash flow from operations available for distribution until we make substantial investments. Further, because we may receive income at various times during our fiscal year and because we may need cash flow from operations during a particular period to fund expenses, we expect that at least during the early stages of our development and from time to time during our operational stage, we will declare distributions in anticipation of cash flow that we expect to receive during a later period and we will pay these distributions in advance of our actual receipt of these funds. In these instances, we expect to look to third-party borrowings to fund our distributions. We may also fund such distributions from advances from our advisor or sponsors or from our advisor s deferral of its fees under the advisory agreement.

If we seek to internalize our management functions, the percentage of our outstanding common stock owned by our other stockholders could be reduced, and we could incur other significant costs associated with the internalization.

At some point in the future, we may consider internalizing the functions performed for us by our advisor and its affiliates particularly if we seek to list our shares on a national securities exchange as a way of providing our stockholders with liquidity. The method by which we could internalize these functions could take many forms.

Table of Contents

We may hire our own group of executives and other employees or we may acquire our advisor and its affiliates or their respective assets including their existing workforce. The method or cost of internalizing cannot be determined or estimated at this time. Further, if we acquired our advisor and its affiliates, the amount and type of consideration that we would pay in this type of transaction could vary greatly. For example, we could acquire the advisor and its affiliates through a merger in which we issued shares of our common stock for all of the outstanding common stock or assets of these entities. Issuing shares of our common stock would reduce the percentage of our outstanding shares owned by stockholders prior to any transaction. Further, issuing promissory notes as full or partial payment of the consideration in the transaction could reduce our net income and our ability to make distributions to you, particularly if internalizing these functions does not produce any cost savings. If we were to internalize our management functions, we may not realize the perceived benefits, we may not be able to properly integrate a new staff of managers and employees or we may not be able to effectively replicate the services provided previously by our advisor or its affiliates. Internalization transactions involving the acquisition of advisors or their affiliates have also, in some cases, been the subject of litigation. Even if these claims are without merit, we could be forced to spend significant amounts of money defending claims, which would reduce the amount of funds available to us to invest in properties or other investments or to pay distributions. If we were to internalize our management functions, these factors could cause such internalization to have a material adverse effect on our results of operations, financial condition and ability to pay distributions.

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

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

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

Our advisor, Wells TIMO, is a newly formed entity that currently has only ten employees and will rely upon the employees of its manager, Wells Capital, to perform many of the services our advisor is required to perform for us. We are dependent on our advisor to select our investments and conduct our operations; thus, adverse changes in the financial health of Wells Capital could hinder our advisor s ability to successfully manage our operations and our portfolio of investments. As a general partner to many Wells-sponsored programs, Wells Capital may have contingent liability for the obligations of such partnerships. Enforcement of such obligations against Wells Capital could result in a substantial reduction of its net worth. If such liabilities affected the level of services that Wells Capital could provide on behalf of Wells TIMO, our operations and financial performance could suffer as well, which would limit our ability to make distributions and decrease the value of your investment.

Table of Contents

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

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

Risks Related to Conflicts of Interest

Our sponsor, Wells Capital, which is also the owner of our advisor, Wells TIMO, is the subject of litigation proceedings regarding Piedmont Office Realty Trust, Inc., formerly Wells Real Estate Investment Trust, Inc. and which we refer to as Piedmont REIT, for which Wells Capital previously served as advisor. Should Wells Capital suffer a financial loss as a result of this litigation, the ability of our advisor, Wells TIMO, to manage our operations could be adversely impacted.

On March 12, 2007, a stockholder of Piedmont REIT filed a putative class action and derivative complaint against Piedmont REIT, Wells Capital, and certain affiliates of Wells Real Estate Funds, Inc., or Wells REF, which is the owner of Wells Capital. The complaint alleges violations of federal proxy rules and breaches of fiduciary duties in connection with the internalization transaction by Piedmont REIT. See Management Legal Proceedings. While the outcome of any litigation is uncertain, any financial loss incurred by our sponsor, Wells Capital, could impact our advisor, Wells TIMO, which is a wholly-owned subsidiary of Wells Capital, and could adversely impact Wells TIMO s ability to successfully manage our operations and our portfolio of investments.

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

We rely on Wells TIMO, our advisor, for the day-to-day operation of our business. Wells TIMO relies on the personnel of its parent company and manager, Wells Capital, to perform many of the services Wells TIMO is required to perform as our advisor. Wells Capital and its affiliates, including Leo F. Wells, III, our President and the President of Wells Capital, Douglas P. Williams, our Executive Vice President and the Senior Vice President of Wells Capital, and Randall D. Fretz, our Senior Vice President and the Senior Vice President of Wells Capital, have interests in other Wells programs and engage in other business activities, including providing advisory services to Wells REIT II, Wells Total Return REIT and other Wells REF-sponsored real estate programs. As a result, they will have conflicts of interest in allocating their time among us and other Wells programs and activities in which they are involved. During times of intense activity in other programs and ventures, they may devote less time and fewer resources to our business than are necessary or appropriate to manage our business. If this occurs, the returns on our investments, and the value of your investment, may decline.

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

Our executive officers and one of our directors, Jess E. Jarratt, are also officers and directors of Wells Capital, our dealer-manager and other affiliated entities and Wells REF-sponsored programs, and one of our

Table of Contents

independent directors, E. Nelson Mills, serves on the board of one other program advised by Wells Capital, the owner of our advisor. As a result, they owe fiduciary duties to these various entities and their stockholders and limited partners, which fiduciary duties may from time to time conflict with the fiduciary duties that they owe to us and our stockholders. Their loyalties to these other entities could result in actions or inactions that are detrimental to our business, which could hinder the implementation of our business strategy and our investment and operational opportunities. If we do not successfully implement our business strategy, we may be unable to generate the cash needed to make distributions to you and to maintain or increase the value of our assets. See Management for more information regarding our executive officers and directors.

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

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

- the continuation, renewal or enforcement of our agreements with Wells TIMO and its affiliates, including the advisory agreement and the dealer-manager agreement;
- public offerings of equity by us, which entitle Wells Investment Securities to dealer-manager fees and entitle Wells TIMO to increased asset management fees;
- property sales, which entitle Wells TIMO to real estate commissions and possible success-based payments;
- the valuation of our timberland properties, which determines the amount of the asset management fee payable to Wells TIMO and affects the likelihood of any success-based payments;
- property acquisitions from third parties, which utilize proceeds from our public offerings, thereby increasing the likelihood of continued equity offerings and related fee income for Wells Investment Securities and Wells TIMO;
- whether and when we seek to list our common stock on a national securities exchange, which listing could entitle Wells TIMO to a success-based payment but could also hinder its sales efforts for other programs if the price at which our shares trade is lower than the price at which we offered shares to the public; and
- whether and when we seek to sell the company or our assets, which sale could entitle Wells TIMO to a success-based payment from Wells Timberland OP but could also hinder its sales efforts for other programs if the sales price for the company or its assets results in proceeds less than the amount needed to preserve our stockholders capital.

Wells TIMO will have considerable discretion with respect to the terms and timing of acquisition and disposition transactions. Considerations relating to its affiliates compensation from other programs could result

Table of Contents

in decisions that are not in the best interest of our stockholders, which could hurt our ability to pay you distributions or result in a decline in the value of your investment.

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

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

Risks Related to Our Corporate Structure

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

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

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

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

Our charter includes a provision that may discourage a stockholder from launching a tender offer for shares of our common stock.

Our charter requires that any tender offer made by a person, including any mini-tender offer, must comply with Regulation 14D of the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange

Table of Contents

Act, including the notice and disclosure requirements that would be applicable if the tender offer were for more than 5% of the shares. In addition, the offeror must provide notice to us of the tender offer at least ten business days before initiating the tender offer. If the offeror does not comply with these requirements, we will have the right to repurchase that person s shares of our stock and any shares of our stock acquired in such tender offer based on the repurchase provisions in our charter. In addition, the non-complying offeror shall be responsible for all of our expenses in connection with that stockholder s noncompliance, and we may offset any such expenses against the amount paid by us for the repurchase of the shares. This provision of our charter may discourage a person from initiating a tender offer for shares of our stock and prevent you from receiving a premium price for your shares of our common stock in such a transaction.

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

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

- limitations on capital structure;
- restrictions on specified investments;
- prohibitions on transactions with affiliates; and
- compliance with reporting, record-keeping, voting, proxy disclosure and other rules and regulations that would significantly increase our operating expenses.

In order to maintain our exemption from regulation under the Investment Company Act, we must engage primarily in the business of buying real estate. If we are unable to invest a significant portion of the proceeds of this offering in properties, we may avoid being required to register as an investment company by temporarily investing any unused proceeds in government securities with low returns. This would reduce the cash available for distribution to investors and possibly lower your returns.

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

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

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

Table of Contents

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

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

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

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

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

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

- the recommendation of our dealer-manager.

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

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

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

Table of Contents

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

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

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

Wells TIMO and its affiliates will perform services for us in connection with the offer and sale of our shares, the selection and acquisition of our investments, the management of our properties and the administration of our other investments. We will pay Wells TIMO and its affiliates substantial fees for these services. Payment of these fees will result in immediate dilution to the value of your investment and will reduce the amount of cash available for investment in properties or distribution to stockholders. As a result of these substantial fees, we expect that for each share sold in this offering, no more than $9.17 per share will be available for mandatory repayment of our indebtedness and for the purchase of properties, depending primarily upon the number of shares we sell and assuming all shares sold under our distribution reinvestment plan are sold for $9.55 per share. See Estimated Use of Proceeds. Wells TIMO, as the holder of the special units, also may be entitled to receive a distribution upon the sale of our properties and/or a payment in connection with the redemption of the special units upon the earlier to occur of specified events, including the listing of our shares on a national securities exchange or the termination of the advisory agreement. See Management Compensation. These payments to Wells TIMO increase the risk that the amount available for distribution to stockholders upon a liquidation of our portfolio would be less than the purchase price of the shares in this offering. Substantial up-front fees also increase the risk that you will not be able to resell your shares at a profit, even if our shares are listed on a national securities exchange.

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

We have issued, without stockholder approval, 32,128 shares of Series A preferred stock and 10,700 shares of Series B preferred stock. Dividends accrue on the shares of Series A preferred stock and Series B preferred stock daily at a rate of 8.5% per year. If we are liquidated or dissolved, the holders of the Series A and Series B preferred stock are each entitled to receive the issue price of $1,000 per share, plus any accrued and unpaid dividends, whether or not declared, before any payment may be made to the holders of our common stock. As a result, the amount of funds holders of our common stock would otherwise receive upon a liquidation or dissolution would be reduced in the event the Series A or Series B preferred shares had not been redeemed prior to such an event.

[Table of Contents](#)

Risks Related to Investments in Timberland

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

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

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

We anticipate that we will sell portions of our timberland property base from time to time in the event that we determine that certain properties have become more valuable for development, recreation, conservation and other uses than for growing timber, which we refer to as higher and better use, or HBU, property. A number of factors, including a slow-down in commercial or residential real estate development or a reduction in the availability of public funding for conservation projects, could reduce the demand for these properties and reduce any revenues that we could realize from our land sale program.

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

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

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

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

The demand for timber and wood products is affected primarily by the level of new residential construction activity, the supply of manufactured timber products, including imports of timber products, and, to a lesser extent, repair and remodeling activity and other commercial and industrial uses. The demand for timber also is affected by the demand for wood chips in the pulp and paper markets and for hardwood in the furniture and other hardwood industries. The demand for cellulose fiber is related to the demand for disposable products such as

Table of Contents

diapers and feminine hygiene products. These activities are, in turn, subject to fluctuations due to, among other factors:

- changes in domestic and international economic conditions;
- interest and currency rates;
- population growth and changing demographics; and
- seasonal weather cycles (for example, dry summers and wet winters).

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

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

The volume and value of timber that can be harvested from the timberlands we acquire may be limited by natural disasters such as fire, hurricane, earthquake, insect infestation, drought, disease, ice storms, windstorms, flooding and other weather conditions and natural disasters, as well as other causes such as theft, trespass, condemnation or other casualty. We do not intend to maintain insurance for any loss to our standing timber from natural disasters or other causes. Any funds used for such losses may reduce cash available for distributions to our stockholders.

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

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

Table of Contents

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

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

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

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

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

- forestry activities, including harvesting, planting, and road building use and maintenance;
- the generation of air emissions;
- the discharge of industrial wastewater and storm water; and
- the generation and disposal of both hazardous and nonhazardous wastes.

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

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

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

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

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

- changes in international, national, regional and local economic and market conditions;
- changes in interest rates and in the availability, cost and terms of debt financing;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances, and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- forestry costs associated with maintaining and managing timberland properties;
- changes in operating expenses; and
- fires, hurricanes, earthquakes, floods and other natural disasters as well as civil unrest, acts of war and terrorism, each of which may result in uninsured losses.

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

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

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

Table of Contents

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

- effects of exposure to currency other than United States dollars, due to having non-U.S. customers and foreign operations;
- regulatory, social, political, labor or economic conditions in a specific country or region; and
- trade protection laws, policies and measures, and other regulatory requirements affecting trade and investment, including loss or modification of exemptions for taxes and tariffs, and import and export licensing requirements.

Risks Associated with Debt Financing

Continued disruptions in the financial markets and deteriorating economic conditions could also adversely affect our ability to secure debt financing on attractive terms and the values of investments we make.

The capital and credit markets have been experiencing extreme volatility and disruption for more than 18 months. Liquidity in the global credit market has been severely contracted by these market disruptions, making it

Table of Contents

costly to obtain new lines of credit or refinance existing debt. We expect to finance our investments in part with debt. As a result of the ongoing credit market turmoil, we may not be able to obtain debt financing on attractive terms. As such, we may be forced to use a greater proportion of our offering proceeds to finance our acquisitions and originations, reducing the number of investments we would otherwise make. If the current debt market environment persists we may modify our investment strategy in order to optimize our portfolio performance. Our options would include limiting or eliminating the use of debt and focusing on those investments that do not require the use of leverage to meet our portfolio goals.

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

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

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

We borrowed approximately $160.0 million to fund a portion of the purchase price of the Mahrt Timberland in the form of a mezzanine loan dated October 9, 2007, of which approximately $40.0 million was outstanding as of June 30, 2009 and which we must repay on or before April 30, 2010. Additionally, we borrowed $212.0 million in the form of a senior loan dated October 9, 2007, of which approximately $202.4 million was outstanding as of June 30, 2009, which we must repay on or before September 9, 2010. The mezzanine loan is secured by, among other things, a first priority security interest in the funds raised in this offering. The senior loan is secured by, among other things, a second priority security interest in the funds raised in this offering. Our ability to repay the mezzanine loan and the senior loan is dependent upon our success in raising substantial funds pursuant to this offering. If the amount of proceeds we raise in this offering is less than the amount that we need to repay the mezzanine loan and the senior loan, respectively, when due, then unless we are able to refinance the senior loan and the mezzanine loan or otherwise amend their terms, we will be in default under the mezzanine loan or the senior loan, as the case may be. If we default on the mezzanine loan, the lenders for such loan will be entitled to all of the proceeds of our offering up to the amount of the mezzanine loan. If we default on the senior loan, the lenders for such loan will be entitled to all of the proceeds of our offering, after repayment of the mezzanine loan, up to the amount of the senior loan. If the lenders under either loan foreclose upon their security interest in a substantial amount of proceeds of our offering, our existing stockholders could lose some or all of their investment and it would be unlikely that we would be able to meet our investment objectives or to raise additional capital in this offering or otherwise in order to continue our operations. We have guaranteed both the senior loan and the mezzanine loan, but on a limited basis that covers only losses incurred by CoBank, ACB or Wachovia Bank due to certain bad acts of the borrowers and related loan parties. The mezzanine loan is also fully guaranteed by Wells REF, which has represented to us its intent to fund any unpaid debt that matures in 2009 to ensure that all our loan repayments are made in accordance with the terms of the loan agreements and that the subsequent repayment of the debt or redemption of equity by us to Wells REF would not become due or payable during 2009 or shortly thereafter.

Table of Contents

The agreements for the senior loan and the mezzanine loan obtained by us in connection with the acquisition of the Mahrt Timberland prohibit us from paying distributions or redeeming shares (except in cases of death or disability) until we attain certain financial performance measures under the senior loan and until we repay the mezzanine loan in full.

The senior loan agreement and the mezzanine loan agreement contain restrictive covenants that prohibit us from declaring, setting aside funds for, or paying any dividend, distribution, or other payment to our stockholders while the loans are outstanding. As a result, we will be unable to make any payments or distributions (or set aside funds for any payments or distributions) to our stockholders until we have attained certain financial performance measures under the senior loan and until the mezzanine loan is repaid in full. The mezzanine loan has a maturity date of April 30, 2010. The senior loan has a maturity date of September 9, 2010. Once the mezzanine loan is repaid in full, the senior loan requires us to attain a ratio of less than 40% of the amount of the senior loan to the value of the collateral at the time of determination in order for us to make distributions. Because distribution of at least 90% of REIT taxable income is one of the requirements for REIT qualification, we may not be able to qualify as a REIT until, among other things, we attain the required financial performance measures under the senior loan and until the mezzanine loan is repaid in full, or the terms of the senior loan and the mezzanine loan agreement are amended prior to their full repayment (although no assurance can be made that we may be able to renegotiate the terms of the senior loan agreement or the mezzanine loan agreement). Until the mezzanine loan has been repaid in full and certain financial performance measures under the senior loan have been achieved, we are permitted to redeem shares only if the redemption is sought within two years of the death or qualifying disability of a stockholder under the plan.

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

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

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

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

If mortgage debt is unavailable at reasonable interest rates, we may not be able to finance the purchase of properties. If we place mortgage debt on properties, we run the risk of being unable to refinance the properties

Table of Contents

when the loans become due, or of being unable to refinance on favorable terms. If interest rates are higher when we refinance the properties, our income could be reduced. We may be unable to refinance properties. If any of these events occurs, our cash flow would be reduced. This, in turn, would reduce cash available for distribution to you and may hinder our ability to raise more capital by issuing more stock or by borrowing more money.

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

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

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

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

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

Our charter does not limit us from incurring debt until our aggregate debt would exceed 300% of our net assets (generally expected to approximate 75% of the cost of our timber assets before adjustments for noncash reserves, depletion, amortization and depreciation), unless the excess borrowing over such level is approved by a majority of the independent directors and the excess borrowing is disclosed to stockholders in our next quarterly report following the borrowing, along with justification for the excess.

Our board (including the independent directors) unanimously approved our borrowing in excess of the 300% net assets limitation in order to obtain the mezzanine loan and the senior loan in connection with the acquisition of the Mahrt Timberland. This borrowing significantly increased our debt levels. Our debt obligations may cause us to incur higher interest charges on any additional debt incurred in the future and will result in higher debt service payments in order to service the higher debt levels. In addition, the terms of our current loan agreements include restrictive covenants such as the prohibition on paying distributions or redeeming shares until we achieve certain financial performance measures under the senior loan and until the mezzanine loan is repaid in full (except for those redemptions allowed in cases of death or qualifying disability), and until certain financial performance measures are met under the senior loan. These factors limit the amount of cash we have available to distribute and could result in a decline in the value of your investment. While we intend to comply with the provisions of our charter, which require our independent directors to approve any borrowings in excess of 300% of our net assets, we have not established any fixed percentage of leverage that we will not exceed in the near-term, and we cannot assure you that our independent directors will not approve any borrowings in excess of 300% of our net assets in the future.

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

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

- the possibility that our co-venturer, co-tenant or partner in an investment might become bankrupt;
- that such co-venturer, co-tenant or partner may at any time have economic or business interests or goals that are or that become inconsistent with our business interests or goals; or
- that such co-venturer, co-tenant or partner may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives.

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

Federal Income Tax Risks

Our inability to qualify to be taxed as a REIT from our inception could result in adverse tax consequences to us and our stockholders.

We acquired the Mahrt Timberland on October 9, 2007, in connection with such acquisition, our board of directors made the determination that at that time it was not in our best interest to qualify as a REIT. We did not qualify to be taxed as a REIT for our taxable years ended December 31, 2007 or 2008. See Federal Income Tax Considerations Federal Income Taxation of Our Company as a REIT. We intend to elect to be taxed as a REIT commencing with the taxable year ending December 31, 2009. However, because our ability to do so is subject to the satisfaction of certain organizational and operational requirements, we cannot give any assurances regarding when we will qualify or elect to be taxed as a REIT. We refer to the first day of the first taxable year for which we qualify and elect to be taxed as a REIT as our REIT commencement date. If we have a net built-in gain in our assets as of the REIT commencement date, do not elect to take such net built-in gain into income immediately prior to our REIT commencement date and subsequently recognize gain on the disposition of any assets we hold at the REIT commencement date, we will be subject to tax at the highest regular corporate rate during the ten-year period beginning on the REIT commencement date on the lesser of (A) the excess of the fair market value of the asset disposed of as of the REIT commencement date over our basis in the asset as of the REIT commencement date (the built-in gain with respect to that asset as of the REIT commencement date), (B) the amount of gain we would otherwise recognize on the disposition, or (C) the amount of net built-in gain in our assets as of the REIT commencement date not already recognized during the ten-year period. We would be subject to this tax liability even if we qualify and maintain our status as a REIT. Any recognized built-in gain will retain its character as ordinary income or capital gain and will be taken into account in determining REIT taxable income and our distribution requirement. Any tax on the recognized built-in gain will reduce REIT taxable income. If we elect REIT status in the future, we will have to determine whether we have a net built-in gain as of the REIT commencement date. We have not yet determined whether we have a net built-in gain in our assets as of January 1, 2009. If we do, we may choose not to sell assets we might otherwise sell during the ten-year period in which the built-in gain tax applies in order to avoid the built-in gain tax. The IRS has issued a private letter ruling to another REIT indicating that the built-in gain tax would not apply to sales of timber sold during the ten-year period following its conversion to a REIT. We are not entitled to rely on that ruling and have not requested our own IRS ruling.

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

Table of Contents

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

We are not qualified as a REIT currently and are subject to federal and state and local taxes on our taxable income. We intend to elect to be taxed as a REIT commencing with the taxable year ending December 31, 2009. However, because our ability to do so is subject to the satisfaction of certain organizational and operational requirements which depends on the results of future operations, we cannot give any assurances regarding when, if ever, we will qualify or elect to be taxed as a REIT. Our qualification as a REIT will depend upon our ability to meet, on an ongoing basis, these requirements regarding our organization and ownership, distributions of our income, the nature and diversification of our income and assets, and other tests imposed by the Internal Revenue Code. We have no assurances that we will satisfy the requirements for REIT qualification now or in the future. Alston & Bird LLP, our legal counsel, will not review our compliance with the REIT qualification standards on an ongoing basis. Future legislative, judicial or administrative changes to the federal income tax laws could be applied retroactively, which could result in our disqualification as a REIT.

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

We intend to conduct a portion of our business activities through one or more taxable REIT subsidiaries, or TRSs. A TRS is a fully taxable corporation that may earn income that would not be qualifying REIT income if earned directly by us. Our use of TRSs will enable us to engage in non-REIT qualifying business activities, such as the sale of higher and better use properties. However, under the Internal Revenue Code, no more than 25% of the value of the assets of a REIT may be represented by securities of one or more TRSs. This limitation may affect our ability to increase the size of our non-REIT qualifying operations. Furthermore, because the income earned by our TRSs will be subject to corporate income tax and will not be subject to the requirement to distribute annually at least 90% of our REIT taxable income to our stockholders, our use of TRSs may cause our common stock to be valued differently than the shares of other REITs that do not use TRSs as extensively as we expect to use them.

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

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

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

Table of Contents

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

Retirement and Employee Benefit Plan Risks

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

There are special considerations that apply to pension and employee benefit plans investing in our shares. If you are investing the assets of a pension, profit-sharing, 401(k), Keogh or other qualified retirement plan, the assets of an IRA, or the assets of any other plan that is subject to ERISA and/or the Code in our common stock, you should satisfy yourself that:

- your investment is consistent with your fiduciary obligations under ERISA and the Internal Revenue Code;
- your investment is made in accordance with the documents and instruments governing your plan or IRA, including your plan s investment policy;
- your investment satisfies the applicable prudence and diversification requirements of Sections 404(a)(1)(B) and 404(a)(1)(C) of ERISA and other applicable provisions of ERISA and the Internal Revenue Code;
- your investment will not impair the liquidity of the plan or IRA;
- your investment will not produce unrelated business taxable income for the plan or IRA;
- you will be able to value the assets of the plan annually in accordance with ERISA requirements and applicable provisions of the plan or IRA; and
- your investment will not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the Internal Revenue Code.

Failure to satisfy the fiduciary standards of conduct and other applicable requirements of ERISA and the Internal Revenue Code may result in the imposition of civil and criminal penalties, and can subject the fiduciary to equitable remedies. Fiduciaries may be held personally liable under ERISA for losses suffered by a plan as a result of a breach of fiduciary duty. In addition, if an investment in our shares constitutes a prohibited transaction under ERISA or the Internal Revenue Code, the fiduciary who authorized or directed the investment may be subject to the imposition of excise taxes with respect to the amount invested.

Governmental plans, foreign plans and church plans that are not subject to ERISA or the Code should make sure that the investment in our shares is in accordance with the plan and applicable law.

Governmental plans, foreign plans and church plans generally are exempt from the requirements of ERISA and the Code. However, such plans may be subject to state, foreign, or other laws that impose fiduciary requirements similar to those of ERISA and the Code. Persons making an investment on behalf of a governmental, foreign, or church plan should satisfy themselves that the investment is in accordance with the plan and applicable law.

39

Table of Contents

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

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

- a value included in the annual statement may not actually be realized by us or by our stockholders upon liquidation;
- stockholders may not realize that value if they attempted to sell their shares; and
- using the estimated statement of value, or the method used to establish the value, may not comply with any reporting and disclosure or annual valuation requirements under ERISA or other applicable law.

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

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

Table of Contents

ESTIMATED USE OF PROCEEDS

The following table sets forth information about how we intend to use the estimated proceeds raised in this offering assuming that we sell a midrange point of $1.0 billion of shares of common stock, at $10.00 per share, and the maximum of $2.0 billion of shares of common stock, at $10.00 per share, in our primary offering. We also disclose information below regarding the estimated use of proceeds assuming we sell the maximum number of shares, including $200.0 million of shares of common stock at $9.55 per share, pursuant to our distribution reinvestment plan. Many of the figures set forth below represent management s best estimate since they cannot be precisely calculated at this time. Depending primarily on the number of shares we sell in the primary offering and the distribution reinvestment plan, we estimate that approximately 90.5% to 91.7% of our gross offering proceeds, or $9.05 to $9.17 per share, respectively, will be used for mandatory repayment of our indebtedness and for investments in additional timberland properties, the payment of fees to our advisor and the repurchase of shares under our share redemption plan, while the remainder will be used to pay offering expenses, including selling commissions and the dealer-manager fee. We expect to meet all of our working capital needs out of cash flow from operations. However, to the extent that we have insufficient funds to meet our needs for working capital, we may establish reserves from gross offering proceeds. The allocation of shares sold pursuant to the primary offering and pursuant to the distribution reinvestment plan will affect our gross proceeds and the amount available for investment. We have not given effect to any special sales or volume discounts that could reduce the amount of selling commissions shown below. The figures below reflect that we will not pay commissions or dealer-manager fees in connection with shares issued through our distribution reinvestment plan.

	$2,200,000,000 of Shares of Common Stock							
	Primary Offering				Distribution Reinvestment Plan		Total	
	$1,000,000,000 ($10.00/share)		$2,000,000,000 ($10.00/share)		$200,000,000 ($9.55/share)		$2,200,000,000 shares	
	$	%	$	%	$	%	$	%
Gross Offering Proceeds	1,000,000,000	100.00	2,000,000,000	100.00	200,000,000	100.00	2,200,000,000	100.00
Less Offering Expenses:								
Selling Commissions	70,000,000	7.00	140,000,000	7.00			140,000,000	6.36
Dealer-Manager Fee	18,000,000	1.80	36,000,000	1.80			36,000,000	1.64
Additional Underwriting Expenses[1][2]	2,806,000	0.28	2,883,000	0.15			2,883,000	0.13
Issuer Organization and Other Offering Expenses[2][3]	4,368,000	0.44	4,368,000	0.22			4,368,000	0.20
Estimated Amount to be Invested[4][5]	904,826,000	90.48	1,816,749,000	90.83	200,000,000	100.00	2,016,749,000	91.67
Less Debt Repayment:								
Mezzanine loan[6]	39,994,110	4.00	39,994,110	2.00			39,994,110	1.82
Senior loan[7]	42,396,946	4.24	42,396,946	2.12			42,396,946	1.93
Estimated Amount to be Invested After Debt Service[4][5]	822,434,944	82.24	1,734,357,944	86.71	200,000,000	100.00	1,934,357,944	87.92

(1) Includes underwriting expenses in connection with the offering (other than selling commissions and the dealer-manager fee) that will be paid by Wells TIMO or its affiliates and reimbursed by us, including costs incurred in connection with holding educational conferences and attending retail seminars conducted by broker/dealers. This amount does not include transaction-based compensation in amount equal to 0.20% of gross proceeds from our primary offering that may be paid by Wells TIMO or its affiliates in connection with this offering, which, if paid, would not be reimbursed to Wells TIMO or its affiliates by us. If we raise the maximum offering amount, the total estimated amount of underwriting compensation that may be paid in connection with this offering equals approximately 9.15% of the gross proceeds from our primary offering. See Plan of Distribution.

(2) Wells TIMO has agreed to reimburse us to the extent organizational and offering expenses incurred by us, other than selling commissions, the dealer-manager fee, and any additional transaction-based compensation exceed 1.2% of the aggregate gross offering proceeds. We will only reimburse organizational and offering expenses from the proceeds of our distribution reinvestment plan to the extent that our primary offering has terminated and our advisor has incurred organization and offering expenses in excess of 1.2% of the gross proceeds from our primary offering. In this case, we will only reimburse our advisor for organizational and offering expenses incurred prior to the termination of the primary offering.

Table of Contents

(3) Includes all issuer organization and offering expenses to be paid by us in connection with the offering, including our legal, accounting, printing, mailing and filing fees and amounts to reimburse Wells TIMO for the salaries of its employees and other costs in connection with preparing supplemental sales materials.

(4) Amount available for investment will include customary third-party acquisition expenses, such as legal fees and expenses, costs of appraisals, accounting fees and expenses, title insurance premiums and other closing costs and miscellaneous expenses relating to the acquisition of real estate. We estimate that these third-party costs will average 0.5% of the contract purchase prices of property acquisitions.

(5) The mezzanine loan agreement prohibits us from paying distributions until we repay the loan in full. In addition, the mezzanine loan agreement prohibits us from redeeming shares until we repay the mezzanine loan in full, except for redemptions sought within two years of the death or qualifying disability of a stockholder under the plan. In addition, our senior loan agreement prohibits us from paying distributions until we attain a ratio of less than 40% of the amount of the senior loan to the value of the collateral at the time of determination. To the extent that we are able to pay any distributions in the future, it is possible that the net proceeds from the sale of shares under our distribution reinvestment plan will be available for investment or debt service. However, it is possible that all of these proceeds will instead be used to repurchase shares of our common stock under the share redemption plan to the extent permitted under the terms of our loan agreements. See Description of Shares Share Redemption Plan. Until required in connection with the acquisition and development of properties, substantially all of the net proceeds of the offering and, thereafter, our working capital reserves, may be invested in short-term, highly liquid investments including government obligations, bank certificates of deposit, short-term debt obligations and interest-bearing accounts or other authorized investments as determined by our board of directors.

(6) Does not include interest expense. The mezzanine loan is subject to mandatory prepayment from the proceeds of this offering. As of June 30, 2009, the mezzanine loan had an outstanding principal balance of $40.0 million. The mezzanine loan bears interest at 11% per year and has a maturity date of April 30, 2010. The mezzanine loan requires principal reduction payments on September 30, 2009 and December 31, 2009 reducing the outstanding principal balance to an amount not greater than $30.0 million and $15.0 million, respectively. On April 30, 2010, all outstanding principal, interest, and any fees or other obligations on the mezzanine loan shall be due and payable. See Timberland Investments Mahrt Timberland Financing.

(7) Does not include interest expense. The senior loan is subject to mandatory prepayment from (i) any proceeds generated from the sales or other dispositions of timber and the Mahrt Timberland, and (ii) proceeds from this offering once the mezzanine loan as been repaid and until the senior loan has been reduced to a 40% loan-to-collateral value ratio. As of June 30, 2009, the senior loan had an outstanding principal balance of $202.4 million. The senior loan matures on September 9, 2010 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. See Timberland Investments Mahrt Timberland Financing.

Table of Contents

MANAGEMENT

Board of Directors

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

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

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

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

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

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

Committees of the Board of Directors

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

Table of Contents

Audit Committee

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

Nominating and Corporate Governance Committee

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

Operations Committee

The primary functions of the operations committee are: (1) maintaining and developing each of the operations committee member s understanding of the complexities of timberland management and timber harvesting, (2) maintaining and developing each of the operations committee member s experience in supervising our operations related to timberland management and timber harvesting and developing procedures designed to promote the accountability of the officers regarding results of operations, (3) preparing and developing materials designed to inform and educate those members of our board of directors who do not have the experience and understanding of timberland management and timber harvesting of the issues and complexities involved and (4) performing such other duties as our board of directors may determine are necessary and appropriate and may delegate to the operations committee. Our operations committee currently consists of E. Nelson Mills, Donald S. Moss, Willis J. Potts, Jr., Michael P. McCollum and Jess E. Jarratt.

Executive Officers and Directors

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

Name	Age	Position
Leo F. Wells, III	65	President
Douglas P. Williams	58	Executive Vice President, Secretary and Treasurer
Randall D. Fretz	56	Senior Vice President
Jess E. Jarratt	52	Director
Michael P. McCollum	53	Independent Director
E. Nelson Mills	48	Independent Director
Donald S. Moss	73	Independent Director
Willis J. Potts, Jr.	62	Independent Director

Leo F. Wells, III. Since our inception in September 2005, Mr. Wells has been our President. He served as one of our directors from inception until June 22, 2007. He served as the President of Piedmont REIT from 1997 to February 2007. He also served as a director of Piedmont REIT until May 2007, the President and a director of Wells REIT II since 2003 and the President and Chairman of Wells Total Return REIT since March 2007. Prior to its dissolution in March 2008, he served as an independent director of Institutional REIT. He has also been the sole stockholder, sole director, President and Treasurer of Wells REF since 1997, which directly or indirectly owns Wells Capital, Wells Management Company, Inc., Wells Investment Securities, Wells & Associates, Inc., Wells Development Corporation, Wells Asset Management, Inc., Wells Real Estate Advisory Services, Inc. and Wells TIMO. He has also been the President, Treasurer and sole director of Wells Capital since 1984; Wells Management Company, Inc. since 1983; Wells Development Corporation since it was organized in 1997 to develop real estate properties; and Wells Asset Management, Inc. since it was organized in 1997 to serve as an investment advisor to the Wells Family of Real Estate Funds. Since 1997, Mr. Wells has been a trustee of the Wells Family of Real Estate Funds, an open-end management company organized as an Ohio business trust, which includes as one of its series the Wells Dow Jones Wilshire REIT Index Fund. Since 2004, he has been President and sole director of Wells Real Estate Advisory Services, Inc. He has been the President, Treasurer and a director of Wells & Associates, Inc., a real estate brokerage and investment company, since it was incorporated in 1978. Mr. Wells serves as the principal broker for Wells & Associates, Inc.

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

Douglas P. Williams. Since our inception in September 2005, Mr. Williams has been our Executive Vice President, Secretary and Treasurer. He served as one of our directors from inception until June 22, 2007. From 1999 to 2007, he has also served as Executive Vice President, Secretary and Treasurer and a director of Piedmont REIT. Since 2003, he has served as Executive Vice President, Secretary and Treasurer and a director of Wells REIT II. Prior to its dissolution in March 2008, he served as Executive Vice President, Secretary, Treasurer and a director of Institutional REIT. Since March 2007, he has served as Executive Vice President, Secretary, Treasurer and a director of Wells Total Return REIT. Since 1999, Mr. Williams has also been a Senior Vice President of Wells Capital and a Vice President, Chief Financial Officer, Treasurer and a director of Wells Investment Securities, our dealer-manager. He has also been a Vice President of Wells REF and Wells Asset Management, Inc. since 1999.

From 1996 to 1999, Mr. Williams served as Vice President and Controller of OneSource, Inc., a leading supplier of janitorial and landscape services, where he was responsible for corporate-wide accounting activities and financial analysis. Mr. Williams was employed by ECC International Inc., a supplier to the paper industry and to the paint, rubber and plastic industries, from 1982 to 1995. While at ECC, Mr. Williams served in a number of key accounting positions, including: Corporate Accounting Manager, U.S. Operations; Division Controller, Americas Region; and Corporate Controller, America/ Pacific Division. Prior to joining ECC and for one year after leaving ECC, Mr. Williams was employed by Lithonia Lighting, a manufacturer of lighting fixtures, as a Cost and General Accounting Manager and Director of Planning and Control. Mr. Williams started his professional career as an auditor for a predecessor firm of KPMG LLP. Mr. Williams is a member of the American Institute of Certified Public Accountants and the Georgia Society of Certified Public Accountants and is licensed with FINRA as a financial and operations principal. Mr. Williams received a Bachelor of Arts degree from Dartmouth College in Hanover, New Hampshire and a Master of Business Administration degree from Amos Tuck School of Graduate Business Administration at Dartmouth College in Hanover, New Hampshire.

Randall D. Fretz. Since our inception in September 2005, Mr. Fretz has been our Senior Vice President. He has also been a Senior Vice President of Wells Capital since 2002. He has also been the Chief of Staff and a Vice President of Wells REF since 2002, a Senior Vice President of Piedmont REIT from 2002 to 2007, a Senior Vice President of Wells REIT II since 2003, a Senior Vice President of Wells Total Return REIT since March

Table of Contents

2007, and a director of Wells Investment Securities since 2002. Prior to its dissolution in March 2008, he served as a Senior Vice President of Institutional REIT. Mr. Fretz is primarily responsible for corporate strategy and planning, advising and coordinating the executive officers of Wells Capital on corporate matters and special projects. Prior to joining Wells Capital in 2002, Mr. Fretz served for seven years as President of U.S. and Canada operations for Larson-Juhl, a world leader in custom art and picture-framing home decor. Mr. Fretz was previously a Division Director at Bausch & Lomb, a manufacturer of optical equipment and products, and also held various senior positions at Tandem International and Lever Brothers. Mr. Fretz holds a Bachelor of Arts degree in Sociology and a Bachelor of Physical Education from McMaster University in Hamilton, Ontario. He also earned a Master of Business Administration degree from the Ivey School of Business in London, Ontario.

Jess E. Jarratt. Mr. Jarratt has served as one of our directors since June 22, 2007. He also has served as Senior Vice President of Wells Capital and President of Wells TIMO since March 2007. Mr. Jarratt is responsible for directing and managing all aspects of timberland operations for Wells including timberland acquisitions and dispositions, portfolio and property management, and timberland financing. From February 2006 through February 2007, Mr. Jarratt served as Managing Director of SunTrust Robinson Humphrey s Structured Real Estate Group where he was responsible for structuring and purchasing net-leased real estate for SunTrust s dedicated equity account and originating financing vehicles for agricultural and timberland properties. From July 2001 through January 2006, Mr. Jarratt was Managing Director for SunTrust Robinson Humphrey s Capital Markets Origination group where he originated and structured large, multi-capital transactions across SunTrust s Corporate Banking unit. From July 1995 through July 2001, Mr. Jarratt was Group Vice President of SunTrust s AgriFood Group which he founded and grew into a group of 20 professionals and over $1.0 billion in assets. From 1988 through July 1995, Mr. Jarratt was Vice President of Rabobank International, a multinational Dutch bank where he led corporate lending activities to U.S. agribusiness companies and timberland and forest products companies. From April 1985 through May 1988, Mr. Jarratt served as one of the original foresters for a predecessor entity to Hancock Timber Resource Group, one of the largest institutional managers of timber in the world. In his role as Timberland Investment Officer, Mr. Jarratt purchased and managed one of the fund s first investments in timberland, including the merchandising of the property s timber. Mr. Jarratt was also instrumental in the development of the financial analysis used to analyze the purchase of timberland by the company. From April 1983 through April 1985, Mr. Jarratt served as a Procurement Forester with the Kirby Lumber Company. His responsibilities in this role included the purchase of enough raw timber to supply a plywood mill, management of various relationships with dealers and suppliers, cruising prospective timber acquisitions and negotiating purchase prices with landowners. Prior to joining Kirby Lumber Company, Mr. Jarratt worked as a Timberland Purchase Forester responsible for building a land base for Nekoosa s Ashdown Arkansas paper mill by originating, cruising, negotiating and closing on timberland purchases. Mr. Jarratt began his career as a Forester with the Texas Forest Service in August 1979, where he worked with private landowners to develop and implement forest management plans. Mr. Jarratt received a Bachelor of Science degree in Forestry from Texas A&M University in College Station, Texas and a Master of Business Administration degree from the University of North Texas in Denton, Texas. In addition, Mr. Jarratt is a Certified Management Accountant (CMA) and has completed the Harvard Business School Executive Agribusiness Program. Mr. Jarratt is a member of the Institute of Management Accounting.

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

Table of Contents

Bachelor of Science degree in Forestry from the University of Arkansas in Fayetteville, Arkansas and received a Ph.D. in Forest Science from Texas A&M University in College Station, Texas. Dr. McCollum is a member of the Society of American Foresters and has served on the boards of several industry and conservation associations.

E. Nelson Mills. Mr. Mills is one of our independent directors. Since 2007, Mr. Mills has served as a director of Wells REIT II. Prior to its dissolution in March 2008, Mr. Mills served as a director of the Institutional REIT. Since January 2006, Mr. Mills has served as president and chief operating officer of Williams Realty Advisors, LLC where he is responsible for investment and financial strategy and is in charge of the design, formation and operation of a series of real estate funds. From December 2004 to December 2005, Mr. Mills served as the chief financial officer and chief operations officer of Williams Realty Advisors, where he is responsible for financial strategy, design, formation and operation of real estate investment funds. From April 2004 to December 2004, Mr. Mills was a consultant to and the chief financial officer of Timbervest, LLC, an investment manager specializing in timberland investment planning. From September 2000 to April 2004, Mr. Mills served as chief financial officer of Lend Lease Real Estate Investments, Inc. and from August 1998 to August 2000 served as a senior vice president of Lend Lease with responsibility for tax and acquisition planning and administration. Mr. Mills was a tax partner with KPMG LLP from January 1987 to August 1998. Mr. Mills received a Bachelor of Science degree in Business Administration from the University of Tennessee in Knoxville, Tennessee and a Master of Business Administration degree from the University of Georgia in Athens, Georgia. Mr. Mills is also a Certified Public Accountant.

Donald S. Moss. Mr. Moss is one of our independent directors. He is also an independent director of Piedmont REIT. He was employed by Avon Products, Inc. from 1957 until his retirement in 1986. While at Avon, Mr. Moss served in a number of key positions, including Vice President and Controller from 1973 to 1976, Group Vice President of Operations Worldwide from 1976 to 1979, Group Vice President of Sales Worldwide from 1979 to 1980, Senior Vice President International from 1980 to 1983, and Group Vice President Human Resources and Administration from 1983 until his retirement in 1986. Mr. Moss was also a member of the board of directors of Avon Canada, Avon Japan, Avon Thailand, and Avon Malaysia from 1980 to 1983. Mr. Moss is a past president and former director of The Atlanta Athletic Club, a former director of the Highlands Country Club in Highlands North Carolina and the National Treasurer and a director of the Girls Clubs of America from 1973 to 1976. Mr. Moss attended the University of Illinois in Urbana-Champaign, Illinois where he majored in Business.

Willis J. Potts, Jr. Mr. Potts is one of our independent directors. From June 1999 until his retirement in June 2004, Mr. Potts served as vice president and general manager of Temple-Inland Inc., a major forest products corporation, where he was responsible for all aspects of the management of a major production facility, including timber acquisition, community relations and governmental affairs. From November 1994 to June 1999, Mr. Potts was senior vice president of Union Camp Corporation, where he was responsible for all activities of an international business unit, with revenues of approximately $1.0 billion per year including supervision of acquisitions and dispositions of timber and timberland, controllership functions and manufacturing. From 2004 to 2007, Mr. Potts was the past chairman of the board of directors of the Technical Association of the Pulp and Paper Industry (TAPPI), the largest technical association serving the pulp, paper and converting industry. In 2006, Mr. Potts was appointed to the Board of Regents of The University System of Georgia. Mr. Potts received a Bachelor of Science degree in Industrial Engineering from the Georgia Institute of Technology in Atlanta, Georgia. He also completed the Executive Program at the University of Virginia in Charlottesville, Virginia. Mr. Potts also serves as a director of J&J Industries, a privately-held carpet manufacturing company.

Table of Contents

Compensation of Directors

We do not provide compensation for service on our board of directors to any member of our board who is not an independent director. Our independent directors receive an annual retainer of $18,000. Directors have the ability to elect to receive their annual retainer in an equivalent value of shares of stock, to be issued at $9.12 per share (which represents the purchase price per share that we would receive in our public offering after deducting the selling commission and dealer manager fee). In addition, independent directors receive fees for attending board and committee meetings as follows:

- $2,000 per in-person board meeting;
- $1,500 per in-person committee meeting;
- $250 per telephonic board or committee meeting; and
- an additional $500 to a committee chair for each in-person committee meeting.

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

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

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

All stock options granted to our independent directors are granted pursuant to our long-term incentive plan and our independent directors compensation plan (which operates as a sub-plan of our long-term incentive plan), and are governed by the terms and conditions of such plans. Upon the occurrence of a change in control, or upon termination of the director s service by reason of his or her death, disability or termination without cause, the options will become fully vested and exercisable. No option issued may be exercised if such exercise would jeopardize our status as a REIT under the Internal Revenue Code. The independent directors may not sell, pledge, assign or transfer their options other than by will or the laws of descent or distribution or (except in the case of an incentive stock option) pursuant to a qualified domestic relations order.

The following table sets forth the compensation paid to all directors during fiscal year 2008:

Name	Fees Earned or Paid in Cash ($)[2]	Option Awards ($)[3]	Total ($)
Jess E. Jarratt[1]	$	$	$
Michael P. McCollum	$ 33,500		$ 33,500
E. Nelson Mills	$ 41,500		$ 41,500
Donald S. Moss	$ 41,750		$ 41,750
Willis J. Potts, Jr.	$ 41,750		$ 41,750

Table of Contents

(1) Directors who are also executive officers of our advisor do not receive compensation for services rendered as a director.

(2) Includes amounts paid in the form of shares of our stock, as directors have the ability to elect to receive their annual retainer in an equivalent value of shares of stock, to be issued at $9.12 per share (which represents the purchase price per share that we would receive in our initial public offering after deducting the selling commission and dealer-manager fee).

(3) Reflects the dollar amounts recognized for financial statement reporting purposes, computed in accordance with Statement of Financial Accounting Standards No. 123(R) *Share-Based Payment*, or SFAS 123R. See Note 9 Stockholders Equity in the accompanying consolidated financial statements for an explanation of the valuation model assumptions used. As of December 31, 2008, options to purchase a total of 18,000 of our shares of common stock were outstanding. The exercise price of all outstanding options is $10.00 per share.

Our directors do not hold any stock awards. The aggregate number of option awards held by each of our directors as of December 31, 2008 was 18,000.

The following table shows options awarded to each director during 2008, and the aggregate grant date fair value for each award, computed in accordance with SFAS 123R.

Name	Grant Date	Option Awards (#)[1]	Grant Date Fair Value of Option Award[2]
Jess E. Jarratt			
Michael P. McCollum	August 13, 2008	1,000	
E. Nelson Mills	August 13, 2008	1,000	
Donald S. Moss	August 13, 2008	1,000	
Willis J. Potts, Jr.	August 13, 2008	1,000	

(1) Amounts reflect the options granted during 2008. As of December 31, 2008, each director held 4,500 options, 3,500 of which were exercisable.

(2) On August 13, 2008, we granted options to purchase 1,000 shares of our common stock at $10.00 per share to each of our independent directors pursuant to our incentive plan. In accordance with SFAS 123R, we estimated the fair value of each stock option granted as of the date of the grant using the Black-Scholes-Merton model and determined that the fair value of the options granted during the year ended December 31, 2008 was insignificant. As of December 31, 2008, options to purchase a total of 18,000 of our shares of common stock were outstanding. The weighted-average exercise price of all outstanding options is $10.00 per share.

2005 Long-Term Incentive Plan

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

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

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

Table of Contents

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

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

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

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

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

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

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

Our board of directors, or a committee of its independent directors, administers the incentive plan, with sole authority to select participants, determine the types of awards to be granted, and all of the terms and conditions of the awards, including whether the grant, vesting or settlement of awards may be subject to the attainment of one or more performance goals. As described above, the board of directors has also adopted a sub-plan to provide for regular grants of stock options to our independent directors. Awards will not be granted under either plan if the grant, vesting and/or exercise of the awards would jeopardize our status as a REIT under the Internal Revenue Code or otherwise violate the ownership and transfer restrictions imposed under our charter. Unless otherwise determined by our board of directors, or a committee of its independent directors, no award granted under the incentive plan will be transferable except through the laws of descent and distribution or (except in the case of an incentive stock option) pursuant to a qualified domestic relations order.

We have reserved an aggregate number of 500,000 shares for issuance pursuant to awards granted under the incentive plan. In the event of a transaction between our company and our stockholders that causes the per-share value of our common stock to change (including, without limitation, any stock dividend, stock split, spin-off, rights offering or large nonrecurring cash dividend), the share authorization limits under the incentive plan will be adjusted proportionately, and our board of directors, or a committee of its independent directors, must make such adjustments to the incentive plan and awards as it deems necessary, in its sole discretion, to prevent dilution or enlargement of rights immediately resulting from such transaction. In the event of a stock split, a stock dividend or a combination or consolidation of the outstanding shares of common stock into a lesser number of shares, the authorization limits under the incentive plan will automatically be adjusted proportionately, and the shares then subject to each award will automatically be adjusted proportionately without any change in the aggregate purchase price.

Unless otherwise provided in an award certificate or any special plan document governing an award, upon the participant s death or disability, all of that participant s outstanding options and stock appreciation rights will become fully vested and exercisable, all time-based vesting restrictions on that participant s outstanding awards

Table of Contents

will lapse, and the payout opportunities attainable under all of that participant s outstanding performance-based awards will vest based on target or actual performance (depending on the time during the performance period in which the date of termination occurs) and the awards will payout on a prorata basis, based on the time elapsed prior to the date of termination.

Unless otherwise provided in an award certificate or any special plan document governing an award, upon the occurrence of a change in control (as defined in the incentive plan) in which awards are not assumed by the surviving entity or otherwise equitably converted or substituted in connection with the change in control in a manner approved by the board or the committee, all outstanding options and stock appreciation rights will become fully vested and exercisable, all time-based vesting restrictions on outstanding awards will lapse, and the payout opportunities attainable under all outstanding performance-based awards will vest based on target or actual performance (depending on the time during the performance period in which the change in control occurs) and the awards will payout on a prorata basis, based on the time elapsed prior to the change in control. With respect to awards assumed by the surviving entity or otherwise equitably converted or substituted in connection with a change in control, if within two years after the effective date of the change in control, a participant s employment is terminated without cause or the participant resigns for good reason (as such terms are defined in the incentive plan), then, all of that participant s outstanding options and SARs will become fully vested and exercisable, all time-based vesting restrictions on that participant s outstanding awards will lapse and the payout opportunities attainable under all of that participant s outstanding performance-based awards will vest based on target or actual performance (depending on the time during the performance period in which the date of termination occurs) and the awards will payout on a prorata basis, based on the time elapsed prior to the date of termination.

Regardless of whether a termination of service by reason of death or disability or a change in control has occurred, the board or committee may, in its sole discretion, at any time determine that all or a portion of a participant s options and stock appreciation rights will become fully or partially exercisable, that all or a part of the restrictions on all or a portion of a participant s outstanding awards will lapse, and/or that any performance-based criteria with respect to any awards will be deemed to be wholly or partially satisfied, in each case, as of such date as the board or committee may, in its sole discretion, declare. The board or committee may discriminate among participants or among awards in exercising such discretion.

The incentive plan will automatically expire on February 23, 2016, the tenth anniversary of the date on which it was approved by our initial stockholder, unless extended or earlier terminated by the board of directors. The board of directors or the committee may terminate the incentive plan at any time, but termination will have no adverse impact on any award that is outstanding at the time of the termination. The board of directors or the committee may amend the incentive plan at any time, but no amendment to the incentive plan will be effective without the approval of our stockholders if such approval is required by any law, regulation or rule applicable to the incentive plan. No termination or amendment of the incentive plan may, without the written consent of the participant, reduce or diminish the value of an outstanding award. The board or the committee may amend or terminate outstanding awards, but such amendment or termination may require consent of the participant. Unless approved by the stockholders, the original term of an option may not be extended. Unless permitted by the anti-dilution provisions of the incentive plan, the exercise price of an outstanding option may not be reduced, directly or indirectly, without approval by the stockholders.

Compensation of Executive Officers

Our executive officers do not receive compensation from us for services rendered to us. Our executive officers also are officers of Wells TIMO, our advisor, and its affiliates and are compensated by these entities, in part, for their services to us. As a result, our board of directors has determined that it is not necessary to establish a Compensation Committee. See Certain Relationships and Related Party Transactions for a discussion of the fees paid to Wells Capital and its affiliates.

Table of Contents

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

Subject to the limitations described below, our charter limits the liability of our directors and officers to us and our stockholders for monetary damages and requires us to indemnify our directors, our officers, Wells TIMO and its affiliates for losses they may incur by reason of their service in that capacity and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The rights to indemnification and advancement of expenses vest immediately upon the election or appointment of such director or officer. However, we may not indemnify our directors, Wells TIMO or its affiliates for any loss or liability suffered by them or hold them harmless for any loss or liability suffered by us unless all of the following conditions are met:

- the party has determined, in good faith, that the course of conduct that caused the loss or liability was in our best interest;
- the party was acting on our behalf or performing services for us;
- in the case of an independent director, the liability or loss was not the result of gross negligence or willful misconduct;
- in the case of a nonindependent director, Wells TIMO or one of its affiliates, the liability or loss was not the result of negligence or misconduct; and
- the indemnification or agreement to hold harmless is recoverable only out of our net assets and not from the stockholders.

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

- the proceeding relates to acts or omissions with respect to the performance of duties or services on our behalf;
- such person provides us with written affirmation of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification;
- the legal proceeding was initiated by a third party who is not a stockholder or, if by a stockholder acting in his or her capacity as such, a court of competent jurisdiction approves the advancement; and
- the person seeking the advancement provides us with a written agreement to repay the amount paid or reimbursed by us, together with the applicable legal rate of interest thereon, if it is ultimately determined that such person is not entitled to indemnification.

In addition, our charter provides that our limitation of director and officer liability and indemnification of and advance of expenses to directors and officers are subject to certain limitations set forth under Maryland law. The Maryland General Corporation Law provides that a Maryland corporation may not (a) limit the liability of its directors and officers if such liability results from (1) actual receipt of an improper benefit or profit in money, property or services or (2) active and deliberate dishonesty established by a final judgment as material to the cause of action and (b) indemnify its directors and officers if it is established that (1) the act or omission of the director or officer was material to the matter giving rise to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty, (2) the director or officer actually received an improper personal benefit in money, property or services or (3) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. A court may order indemnification if it determines that the director or officer is fairly and reasonably entitled to indemnification, even though the director or officer did not meet the prescribed standard of conduct or was adjudged liable on the basis that personal benefit was improperly received. However, indemnification for an adverse judgment in a suit by the

corporation or in its right, or for a judgment of liability on the basis that personal benefit was improperly received, is limited to expenses. The Maryland General Corporation Law provides that a corporation may not advance reasonable expenses to a director or officer unless the corporation has received a written affirmation by the director or officer of his or her good faith belief that he or she met the standard of conduct necessary for indemnification and a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed if it is ultimately determined that the standard of conduct was not met.

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

- there has been a successful adjudication on the merits of each count involving alleged securities law violations;
- such claims have been dismissed with prejudice on the merits by a court of competent jurisdiction; or
- a court of competent jurisdiction approves a settlement of the claims against the indemnitee and finds that indemnification of the settlement and the related costs should be made, and the court considering the request for indemnification has been advised of the position of the SEC and of the published position of any state securities regulatory authority in which the securities were offered or sold as to indemnification for violations of securities laws.

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

Our Sponsor

Our sponsor is Wells Capital, which was incorporated in Georgia on April 20, 1984. As of June 30, 2009, Wells Capital had sponsored or advised public real estate programs on an unspecified property, or blind pool basis, that have raised approximately $11.4 billion of equity from approximately 290,000 investors. Our advisor is a wholly-owned subsidiary of Wells Capital and Wells Capital is the manager of our advisor. Some of our officers and directors are also officers and directors of Wells Capital.

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

Name	Age	Positions
Leo F. Wells, III	65	President, Treasurer and sole Director
Douglas P. Williams	58	Senior Vice President and Assistant Secretary
Stephen G. Franklin	62	Senior Vice President
Randall D. Fretz	56	Senior Vice President
Jess E. Jarratt	52	Senior Vice President

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

Stephen G. Franklin, Ph.D. Since 1999, Mr. Franklin has served as a Senior Vice President of Wells Capital. Mr. Franklin is responsible for marketing, sales and coordination of broker/dealer relations. Mr. Franklin also serves as Vice President of Wells REF Prior to joining Wells Capital Mr. Franklin served as President of Global Access Learning, an international executive education and management development firm. From 1997 to

1999, Mr. Franklin served as President, Chief Academic Officer and Director of EduTrek International, a publicly traded provider of international post-secondary education that owns American InterContinental University, with campuses in Atlanta, Ft. Lauderdale, Los Angeles, Washington, D.C., London and Dubai. While at EduTrek, he was instrumental in developing the Master and Bachelor of Information Technology International M.B.A. and Adult Evening B.B.A. programs. Prior to joining EduTrek, Mr. Franklin was Associate Dean of the Goizueta Business School at Emory University and a former tenured Associate Professor of Business Administration. He served on the founding Executive M.B.A. faculty and has taught graduate, undergraduate and executive courses in management and organizational behavior, human resources management and entrepreneurship. He also is co-founder and Director of the Center for Healthcare Leadership in the Emory University School of Medicine. Mr. Franklin was a frequent guest lecturer at universities throughout North America, Europe and South Africa.

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

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

Legal Proceedings

On March 12, 2007, a stockholder of Piedmont REIT 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, our President, Wells Capital, the owner of our advisor, certain affiliates of Wells REF, 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 alleges, among other things, violations of the federal proxy rules and breaches of fiduciary duty arising from the Piedmont REIT internalization transaction and the related proxy statement filed with the SEC on February 26, 2007, as amended. The complaint seeks, among other things, unspecified monetary damages and nullification of the Piedmont REIT internalization transaction. On April 9, 2007, the District Court denied the plaintiff s motion for an order enjoining the internalization transaction. On April 17, 2007, the Court granted the defendants motion to transfer venue to the United States District Court for the Northern District of Georgia, and the case was docketed in the Northern District of Georgia on April 24, 2007. On June 7, 2007, the court granted a motion to designate the class lead plaintiff and class co-lead counsel. On June 27, 2007, the plaintiff filed an amended complaint, which attempts to assert class action claims on behalf of those persons who received and were entitled to vote on the Piedmont REIT proxy statement filed with the SEC on February 26, 2007, and derivative claims on behalf of Piedmont REIT. On July 9, 2007, the court denied the plaintiff s motion for expedited discovery related to an anticipated motion for a preliminary injunction. On August 13, 2007, the defendants filed a motion to dismiss the amended complaint. On March 31, 2008, the court granted in part the defendants motion to dismiss the amended complaint. The court dismissed five of the seven counts of the amended complaint in their entirety. The court dismissed the remaining two counts with the exception of allegations regarding the failure to disclose in the Piedmont REIT proxy statement details of certain expressions of interest in acquiring Piedmont REIT. On April 21, 2008, the plaintiff filed a second amended complaint, which alleges violations of the federal proxy rules based upon allegations that the proxy statement to obtain approval for the Piedmont REIT internalization transaction omitted details of certain expressions of interest in acquiring Piedmont REIT. The second amended complaint seeks, among other things, unspecified monetary damages, to nullify-and rescind the internalization transaction, and to cancel and rescind any stock issued to the defendants as consideration for the internalization transaction. On May 12, 2008, the defendants answered and raised defenses

Table of Contents

to the second amended compliant. On June 23, 2008, the plaintiff filed a motion for class certification. The defendants responded to the plaintiff s motion for class certification on January 16, 2009. The plaintiff filed its reply in support of its motion for class certification on February 19, 2009, and the motion is presently pending before the court. The parties are presently engaged in discovery. On April 13, 2009, the plaintiff moved for leave to amend the second amended complaint to add additional defendants. The defendants responded to the plaintiff s motion for leave to amend on April 30, 2009. The plaintiff filed its reply in support of its motion for leave to amend on May 18, 2009. The court denied the motion for leave to amend on June 23, 2009. Wells Capital and our officers and director who are named in the complaint intend to vigorously defend this action. Any financial loss incurred by Wells Capital or its affiliates, including our advisor, could hinder our advisor s ability to successfully manage our operations and our portfolio of investments.

Our Advisor

Our advisor, Wells Timberland Management Organization, LLC or Wells TIMO, was formed in 2006 as a Georgia limited liability company and a wholly-owned subsidiary of Wells Capital. Wells TIMO has contractual and fiduciary responsibilities to us and our stockholders. Wells TIMO s sole manager is Wells Capital, and Wells Capital has appointed officers of Wells TIMO to manage its day-to-day operations. The officers of Wells TIMO are as follows:

Name	Age	Position
Jess E. Jarratt	52	President
Brian M. Davis	39	Vice President, Finance and Administration
Troy A. Harris	39	Vice President, Timberland Acquisitions
John C. Iverson	62	Vice President and Controller
Don L. Warden	40	Director of Operations

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

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

Troy A. Harris. Troy A. Harris joined Wells TIMO as Vice President, Timberland Acquisitions, in June 2007. In this capacity, he is responsible for directing property acquisitions for us. Prior to joining Wells, Mr. Harris was Director of Land Acquisitions for Pennsylvania-based Danzer Forestland Inc., responsible for that group s timberland acquisition activities, identifying and evaluating significant high quality hardwood timberland properties with potential for long-term sustainable management. Mr. Harris previously held positions with Timbervest, LLC, as Director of Portfolio Analysis and Investment Manager, and with Union Camp and International Paper, as a Land Manager, Procurement Forester and Senior Timberland Auditor. Mr. Harris holds a bachelor s degree in Forestry from Auburn University and a Master of Business Administration degree from the University of Georgia. He serves on the Board of Directors of the Forest Landowners Association and chairs its TIMO/REIT Task Force. He is a Registered Forester, a Certified Forester and a member of the Society of American Foresters, where he recently served as the president of the Chattahoochee Chapter.

John C. Iverson. Since January 2007, Mr. Iverson has served as the Vice President and Controller of Wells TIMO. Mr. Iverson is responsible for timber and general accounting, all period financial reporting, SEC

Table of Contents

reporting, internal controls and compliance, and is the principal contact for internal and external auditors. From 1972 until joining Wells TIMO in 2007, Mr. Iverson was the Controller of Financial Reporting for Georgia-Pacific Corporation s Wood & Fiber Procurement Division. At Georgia-Pacific, Mr. Iverson was responsible for establishing and tracking the financial, tax and real estate bases for Georgia-Pacific s nearly 6 million acres of timberland assets. Mr. Iverson also served as Chairman of the Board of Directors of Georgia-Pacific s newly chartered GPC Credit Association. During his tenure, the GPC Credit Association grew to more than $30.0 million in assets. From 1966 to 1970, Mr. Iverson served in the submarine service of the U.S. Navy. Mr. Iverson received a Bachelor of Business Administration degree in Accounting from Augusta State University.

Don L. Warden. Don L. Warden joined the Wells TIMO as Director of Operations in July 2007. Mr. Warden is responsible for the operations of the Wells TIMO, including directing the closings for acquisition, disposition, and finance transactions; coordinating board and corporate reporting efforts; and managing HBU initiatives and transactions. Prior to joining the Wells Timberland Management Organization, Mr. Warden served as Director of Operations for the Capital Markets Department of Wells REF. In this capacity, Mr. Warden directed the closings for approximately $2.0 billion in commercial real estate transactions. Mr. Warden previously held positions with Mirant, as Senior Business Analyst, and with Accenture as a Consultant. From 1989 to 1994, Mr. Warden served as an Infantry and Signal Officer in the U.S. Army. Mr. Warden holds a bachelor s degree in Political Science from Southern Illinois University.

The Advisory Agreement

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

- find, present and recommend to our board of directors timberland investment opportunities consistent with our investment policies and objectives;
- structure the terms and conditions of our timberland acquisitions, sales or joint ventures;
- at the direction of our management, prepare all reports and regulatory filings, including those required by federal and state securities laws;
- arrange for financing and refinancing of properties;
- enter into supply agreements, service contracts and leases for our properties;
- review and analyze the properties operating and capital budgets;
- generate an annual budget for us;
- review and analyze financial information for each property and the overall portfolio;

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

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

Table of Contents

- perform cash management services;
- assist and oversee the transfer agent in performing transfer agent functions; and
- engage our agents.

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

The term of the current advisory agreement ends on July 11, 2009 and may be renewed for an unlimited number of successive one-year periods upon mutual consent of Wells TIMO and us. As a result, the amount of compensation and other fees payable to the advisor may be increased or decreased in future renewals of the advisory agreement. See Conflicts of Interest Certain Conflict Resolution Procedures.

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

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

Investments by Our Sponsor and its Affiliates

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

Table of Contents

On October 9, 2007, Wells REF purchased 32,128 shares of our Series A preferred stock for a purchase price of approximately $32.1 million. On August 29, 2008, Wells REF purchased 10,700 shares of Series B preferred stock for a purchase price of $10.7 million. On October 15, 2008, we entered into an amendment to the terms of the mezzanine loan we obtained in connection with our acquisition of the Mahrt Timberland, for which Wachovia Bank is the administrative agent. Pursuant to the amendment entered into on October 15, 2008, Wells REF, the mezzanine loan s guarantor, agreed to pay an amendment fee to Wachovia Bank consisting of $127,500 in cash, 450 in shares of Series A preferred stock and 150 shares of Series B preferred stock held by Wells REF to Wachovia Bank as security for Wells REF s guaranty of the mezzanine loan. As a result of the transfers of preferred stock to Wachovia Bank, Wells REF currently owns 31,678 of Series A preferred stock and 10,550 shares of the Series B preferred stock.

Dealer-Manager

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

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

Wells REF is the sole stockholder of Wells Investment Securities. The current directors and executive officers of Wells Investment Securities are:

Name	Age	Positions
Thomas E. Larkin	51	Chief Executive Officer and Director
John F. Kleinstuber	44	President
Douglas P. Williams	58	Vice President, CFO, Treasurer and Director
Randall D. Fretz	56	Director

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

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

John F. Kleinsteuber. Mr. Kleinsteuber is President for Wells Investment Securities, Inc. and Vice President of Compliance for Wells Capital, Inc. In these roles Mr. Kleinsteuber directs the efforts of the Wells Compliance team to develop, implement, monitor and test policies and procedures in line with regulatory and corporate guidelines. Prior to joining Wells Capital in 2003, Mr. Kleinsteuber worked in compliance at one of the largest independent broker-dealers with responsibility for reviewing sales practice complaints, regulatory reporting, and business trades. Mr. Kleinsteuber began his professional career in 2000 as a registered representative with Morgan Stanley Dean Witter, Inc. His leadership and management skills were developed during his ten year tenure as manager of an Atlanta area country club as well as during his five years in the

Table of Contents

United States Army and the Georgia National Guard. Mr. Kleinsteuber received his Bachelor of Science degree in Mathematics from Georgia State University.

In connection with our public offerings, from January 1, 2007 through June 30, 2008, Wells Investment Securities earned selling commissions of $81.2 million, of which approximately 100% was reallowed to participating broker-dealers. During this period, Wells Investment Securities also earned dealer manager fees of approximately $30.1 million, of which approximately $5.2 million was reallowed to participating broker-dealers. For a description of the fees and expenses payable to our dealer manager, see Management Compensation and Plan of Distribution.

Regulatory Investigation

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

Management Decisions

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

Table of Contents

MANAGEMENT COMPENSATION

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

Form of Compensation and Entity Receiving	Determination of Amount	Estimated Amount for Maximum Offering[1]
	Organization and Offering Stage	
Selling Commissions Wells Investment Securities[2]	7% of gross offering proceeds from the primary offering, before reallowance of commissions earned by participating broker/dealers. Wells Investment Securities, our dealer-manager, will reallow 100% of commissions earned to participating broker/dealers.	$140,000,000
Dealer-Manager Fee Wells Investment Securities[2]	1.8% of gross offering proceeds from the primary offering, before reallowance to participating broker/dealers. Wells Investment Securities will reallow a portion of its dealer-manager fee to participating broker/dealers. See Plan of Distribution.	$36,000,000
Reimbursement of Organization and Offering Expenses Wells TIMO[3]	Up to 1.2% of gross offering proceeds; however, if we raise the maximum offering amount, we expect that these other organization and offering expenses will not exceed 0.33% of our gross offering proceeds, or $7.3 million Wells TIMO will incur or pay our organization and offering expenses (excluding selling commissions and the dealer-manager fee). We will then reimburse Wells TIMO for these amounts up to 1.2% gross offering proceeds. We also may engage in offerings of common stock that are exempt from securities registration and may reimburse Wells TIMO for certain expenses incurred by it in connection with such offerings.	$7,300,000

Table of Contents

Form of Compensation and Entity Receiving	Determination of Amount	Estimated Amount for Maximum Offering[1]
	Acquisition and Operations Stage	
Asset Management Fee Wells TIMO[4]	Monthly fee equal to one-twelfth of 1% of the greater of cost or value of investments.	Actual amounts are dependent upon the total equity capital we raise, the amount of debt we incur and results of operations and therefore cannot be determined at this time.
Other Operating Expenses[5]	We will reimburse the expenses incurred by Wells TIMO in connection with its provision of services, including related personnel, rent, utilities and information technology costs. We will not reimburse for personnel costs in connection with services for which Wells TIMO receives real estate disposition fees. Our operating expenses will not exceed the greater of (1) 2% of our average invested assets or (2) 25% of our net income.	Actual amounts are dependent upon results of operations and therefore cannot be determined at this time.
Independent Director Compensation[6]	In addition to an annual $18,000 retainer, we pay our independent directors: (1) $2,000 for each in-person board meeting, (2) $1,500 for each in-person committee meeting, (3) $250 for each telephonic board or committee meeting and (4) an additional $500 to each committee chair for each in-person committee meeting. The independent directors may elect to receive meeting fees in an equivalent value of our common stock at $9.12 per share. All directors receive reimbursement of reasonable out-of-pocket expenses incurred in connection with attendance at meetings. Each independent director also receives: (1) an initial grant of options to purchase 2,500 shares of our common stock upon joining the board and (2) an additional grant of options upon each subsequent re-election to purchase 1,000 shares of our common stock. Option grants will be exercisable at the fair market value of the shares on the date of grant.	Actual amounts are dependent upon the total number of board and committee meetings that each independent director attends and the future value of our common stock upon the exercise of options granted.

Table of Contents

Form of Compensation and Entity Receiving	Determination of Amount	Estimated Amount for Maximum Offering[1]
	Liquidity Stage	
Real Estate Disposition Fees Wells TIMO or its Affiliates[7]	For substantial assistance in connection with the sale of properties, we will pay Wells TIMO or its affiliates an amount as determined by our board of directors to be appropriate based on market norms and not to exceed (1) for any property sold for $20 million or less, 2% of the contract price of the property sold and (2) for any property sold for more than $20 million, 1% of the contract price of the property sold; provided, however, in no event may the real estate commissions paid to Wells TIMO, its affiliates and unaffiliated third parties exceed 6% of the contract sales price.	Actual amounts are dependent upon results of operations and therefore cannot be determined at this time.
Special Units Wells TIMO[8][9]	So long as the special units remain outstanding, the holder of the special units will receive 15% of the net sales proceeds received by Wells Timberland OP on dispositions of its assets after the holders of common units, including us, have received in the aggregate, cumulative distributions with respect to their common units equal to their capital contributions (less any amounts received in redemption of their common units) plus a 7% cumulative non-compounded annual pre-tax return on their net capital contributions. In addition, the special units will be redeemed by Wells Timberland OP, resulting in a one-time payment to the holder of the special units upon the earliest to occur of the following events: (1) The listing of our common stock on a national securities exchange, which we refer to as a listing event.	

Form of Compensation and Entity Receiving	Determination of Amount	Estimated Amount for Maximum Offering[(1)]
	(2) The termination or non-renewal of the advisory agreement which we refer to as a termination event, (a) for cause, as defined in the advisory agreement, (b) in connection with a merger, sale of assets or transaction involving us pursuant to which a majority of our directors then in office are replaced or removed, (c) by our advisor for good reason, as defined in the advisory agreement or (d) by us or Wells Timberland OP other than for cause. Upon a listing event, the one-time payment to the holder of the special units will be paid in the form of shares of our common stock with a market value equal to the amount that would have been distributed with respect to the special units as described above if Wells Timberland OP had distributed to the holders of units upon liquidation an amount equal to the market value of the listed shares. The market value of the listed shares shall be equal to the average closing price or, if the average closing price is not available, the average of bid and asked prices, for the 30-day period beginning 150 days after such listing event. Upon a termination event (other than for cause, as defined in the advisory agreement), the one-time payment to the holder of the special units will be the amount that would have been distributed with respect to the special units as described above if Wells Timberland OP sold all of its assets for their then fair market values (as determined by appraisal, except for cash and those assets which can be readily marked to market), paid all of its liabilities and distributed any remaining amount to the holders of units in	

Table of Contents

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

Table of Contents

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

(1) The estimated maximum dollar amounts are based on the sale of the maximum of $2.2 billion of shares to the public, including $200 million of shares sold through our distribution reinvestment plan.

(2) Selling commissions and, in some cases, all or a portion of the dealer-manager fee will not be charged with regard to shares sold to or for the account of certain categories of purchasers. See Plan of Distribution.

(3) These organization and offering expenses include all expenses (other than selling commissions and the dealer-manager fee) to be paid by us in connection with this offering, including our legal, accounting, printing, mailing and filing fees, due diligence expense reimbursements to broker-dealers and amounts to reimburse Wells TIMO for the salaries of its employees and other costs in connection with preparing supplemental sales materials, the cost of educational conferences held by us (including travel, meal and lodging costs of registered representatives of broker/dealers) and certain of the attendance fees and cost reimbursements for representatives of our dealer-manager and our advisor to attend retail seminars conducted by broker/dealers. The portion of these organization and offering expenses for which we (as opposed to Wells TIMO) would be responsible could not be increased above 1.2% of our gross offering proceeds without entering into a new or an amended advisory agreement, which under our charter would require the approval of a majority of our independent directors.

(4) The asset management fee is based on the actual amount invested on our behalf in properties, including any incurred or assumed indebtedness related to the properties, plus, with respect to joint ventures, the actual amount invested on our behalf in the joint venture plus our share of capital improvements, if applicable, made by the joint venture from cash flows generated by the joint venture, until such time as our advisor has estimated the value of all interests we hold in properties or joint ventures for ERISA reporting purposes. After such time, our asset management fee will be based on the greater of the amount as calculated above or the aggregate value of our interest in properties and joint ventures as established in connection with the most recent estimated valuation for ERISA fiduciaries. In performing the valuation, our advisor, or an unaffiliated appraiser chosen by our advisor, will consider the volume of timber on the timberland when it was originally acquired, subsequent biological growth of the timber, any timber losses from harvesting or otherwise, and the market value of timber then current at the time of the valuation. The asset management fee is payable, at the election of our advisor, either in cash or, subject to the ownership limitations in our

Table of Contents

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

(5) Wells TIMO must reimburse us the amount by which our aggregate annual total operating expenses exceed the greater of 2% of our average invested assets or 25% of our net income unless a majority of our independent directors has determined that such excess expenses were justified based on unusual and nonrecurring factors. Average invested assets means the average monthly book value of our assets for a specified period before deducting depreciation, bad debts or other noncash reserves. Total operating expenses means all costs and expenses paid or incurred by us, as determined under GAAP, that are in any way related to our operation, including advisory fees, but excluding (a) the expenses of raising capital such as organization and offering expenses, legal, audit, accounting, underwriting, brokerage, listing, registration and other fees, printing and other such expenses, and taxes incurred in connection with the issuance, distribution, transfer, registration and stock exchange listing of our stock; (b) interest payments; (c) taxes; (d) noncash expenditures such as depreciation, amortization and bad debt reserves; (e) reasonable incentive fees based on the gain from the sale of our assets; and (f) acquisition fees, acquisition expenses (including expenses relating to potential acquisitions that we do not close), real estate disposition fees on the resale of property and other expenses connected with the acquisition, disposition and ownership of real estate interests or other property (including the costs of foreclosure, insurance premiums, legal services, maintenance, repair and improvement of property). Within 60 days after the end of any of our fiscal quarters for which total operating expenses for the 12 months then-ended exceeded the limitation, we will send to our holders of common stock a written disclosure, together with an explanation of the factors the independent directors considered in arriving at the conclusion that the excess expenses were justified.

(6) Although we anticipate that we will pay most of the compensation payable to independent directors during our acquisition and operations stage, we will also compensate our independent directors for their service during our organization and offering stage and our liquidity stage.

(7) Although we are most likely to pay real estate disposition fees to Wells TIMO or an affiliate in the event of our liquidation, these fees also may be earned during our acquisition and operations stage.

(8) If at any time our shares become listed on a national securities exchange, we will negotiate in good faith with Wells TIMO a fee structure appropriate for an entity with a perpetual life. A majority of our independent directors must approve the new fee structure negotiated with Wells TIMO. In negotiating a new fee structure, our independent directors must consider all of the factors these directors deem relevant, including but not limited to:

- the size of the advisory fee in relation to the size, composition and profitability of our portfolio;
- the success of Wells TIMO in generating opportunities that meet our investment objectives;
- the rates charged to other REITs and to investors other than REITs by advisors performing similar services;
- additional revenues realized by Wells TIMO through its relationship with us;
- the quality and extent of service and advice furnished by Wells TIMO;

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

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

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

Table of Contents

STOCK OWNERSHIP

The following table sets forth the beneficial ownership of our common stock and Series A and Series B preferred stock, as of July 31, 2009 by (1) any person who is known by us to be the beneficial owner of more than 5% of the outstanding shares of our common stock, (2) our directors, (3) our executive officers, and (4) all of our directors and executive officers as a group.

Name of Beneficial Owners(1)	Shares Beneficially Owned Shares	Shares Beneficially Owned Percentage
Common Stock		
Wells Timberland Management Organization, LLC(2)	20,000	*
Leo F. Wells III, President(2)	82,237	*
Douglas P. Williams, Executive Vice President, Secretary, and Treasurer	1,096	*
Jess E. Jarratt	2,741	*
Randall D. Fretz, Senior Vice President	548	*
Michael P. McCollum(3)	3,833	*
E. Nelson Mills(3)	4,655	*
Donald S. Moss(3)	4,893	*
Willis J. Potts, Jr.(3)	7,122	*
All directors and executive officers as a group (8 persons)	127,125	*
Series A Preferred Stock		
Wells Real Estate Funds, Inc.(2)(4)	31,678	98.6%
Series B Preferred Stock		
Wells Real Estate Funds, Inc.(2)(4)	10,550	98.6%

* Less than 1%

(1) Except as otherwise indicated below, each beneficial owner has the sole power to vote and dispose of all common stock held by that beneficial owner. Beneficial ownership is determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended. Common stock issuable pursuant to options, to the extent such options are exercisable within 60 days, is treated as beneficially owned and outstanding for the purpose of computing the percentage ownership of the person holding the option, but is not treated as outstanding for the purpose of computing the percentage ownership of any other person.

(2) As the sole stockholder of Wells REF, which directly or indirectly owns Wells Capital, the sole owner of Wells TIMO, Mr. Wells may be deemed the beneficial owner of the shares held by Wells TIMO. Wells TIMO also holds 200 common units in Wells Timberland OP and 100 special units in Wells Timberland OP. Mr. Wells is also deemed to be the beneficial owner of 31,678 shares of Series A preferred stock and 10,550 shares of Series B preferred stock held by Wells Real Estate Funds, Inc.

(3) Includes shares issuable upon the exercise of options which are exercisable within 60 days of May 31, 2009.

(4) Pursuant to the terms of the third amendment to the mezzanine loan agreement dated October 15, 2008, Wells REF, as guarantor of the mezzanine loan, transferred 450 shares of Series A preferred stock and 150 shares of Series B preferred stock to Wachovia Bank, administrative agent to the mezzanine loan agreement.

Table of Contents

CONFLICTS OF INTEREST

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

Our Sponsor s Interests in Other Wells Real Estate Programs

General

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

Wells Capital and its affiliates have sponsored the following 17 public real estate programs with substantially identical investment objectives as ours:

1. Wells Real Estate Fund I

2. Wells Real Estate Fund II

3. Wells Real Estate Fund II-OW

4. Wells Real Estate Fund III, L.P.

5. Wells Real Estate Fund IV, L.P.

6. Wells Real Estate Fund V, L.P.

7. Wells Real Estate Fund VI, L.P.

8. Wells Real Estate Fund VII, L.P.

9. Wells Real Estate Fund VIII, L.P.

10. Wells Real Estate Fund IX, L.P.

11. Wells Real Estate Fund X, L.P.

12. Wells Real Estate Fund XI, L.P.

13. Wells Real Estate Fund XII, L.P.

14. Wells Real Estate Fund XIII, L.P.

15. Wells Real Estate Fund XIV, L.P.

16. Piedmont Office Realty Trust, Inc. (f/k/a Wells Real Estate Investment Trust, Inc.)

17. Wells Real Estate Investment Trust II, Inc.

Allocation of Time of our Sponsor s Personnel

We rely on Wells TIMO, our advisor, for the day-to-day operation of our business pursuant to an advisory agreement. Wells TIMO was formed in 2006 for the purpose of serving as our advisor. As of the date of this prospectus, Wells TIMO has only ten employees. As a result, Wells TIMO relies on employees of its manager and parent company, Wells Capital, to perform its advisory services for us. As a result of its interests in other Wells programs and the fact that it has also engaged and will continue to engage in other business activities, Wells Capital and its affiliates will have conflicts of interest in allocating their time between the services to be performed for us on behalf of Wells TIMO and the other Wells programs and activities in which they are involved. However, Wells Capital believes that it and its affiliates have sufficient personnel to allow Wells TIMO to discharge fully its responsibilities to us, while at the same time to fulfill their responsibilities to all of the other Wells programs and ventures in which they are involved.

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

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

- the continuation, renewal or enforcement of our agreements with Wells TIMO and its affiliates, including the advisory agreement and the dealer-manager agreement;
- public offerings of equity by us, which entitle Wells Investment Securities to dealer-manager fees and entitle Wells TIMO to increased asset management fees;
- the valuation of our timberland properties, which determines the amount of the asset management fee payable to Wells TIMO and affects the likelihood of any success-based payments;
- property sales, which entitle Wells TIMO to real estate disposition fees and possible success-based sale payments;
- property acquisitions from other Wells-sponsored programs, which might entitle Wells TIMO to real estate disposition fees and possible success-based sale fees in connection with its services for the seller;
- property acquisitions from third parties, which utilize proceeds from our public offerings, thereby increasing the likelihood of continued equity offerings and related fee income for Wells Investment Securities and Wells TIMO;
- whether and when we apply to list our common shares on a national securities exchange, which listing could entitle Wells TIMO to a success-based payment upon the redemption of the special units of Wells Timberland OP that it holds, which is due upon listing, but also could adversely affect its sales efforts for other programs depending on the price at which the shares trade; and
- whether and when we seek to sell our company or our assets, which sale could entitle Wells TIMO to a success-based payment on the special units of Wells Timberland OP that it holds, but could also adversely affect its sales efforts for other programs depending upon the sales price for our company or our assets.

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

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

Table of Contents

Fiduciary Duties Owed by Affiliates of Our Advisor to Other Entities

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

- Wells REIT II and Wells Total Return REIT;
- Wells Capital, our sponsor and the general partner of the various real estate programs sponsored by Wells Capital (described above); and
- Wells Investment Securities, our dealer-manager.

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

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

Affiliated Dealer-Manager

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

Certain Conflict Resolution Procedures

Independent Directors

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

- the continuation, renewal or enforcement of our agreements with Wells TIMO and its affiliates, including the advisory agreement and the dealer-manager agreement;
- public offerings of securities;
- transactions with affiliates;
- compensation of our officers and directors who are affiliated with our advisor;
- whether and when we apply to list our shares of common stock on a national securities exchange; and

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

Table of Contents

Other Charter Provisions Relating to Conflicts of Interest

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

Advisor Compensation. The independent directors evaluate at least annually whether the compensation that we contract to pay to Wells TIMO and its affiliates is reasonable in relation to the nature and quality of services performed and whether that such compensation is within the limits prescribed by our charter. The independent directors supervise the performance of Wells TIMO and its affiliates to determine that the provisions of our compensation arrangements are being carried out, and whether or not to increase or decrease the amount of compensation payable to Wells TIMO. The independent directors base their evaluation of Wells TIMO on the factors set forth below as well as any other factors that they deem relevant:

- the amount of the fees paid to Wells TIMO and its affiliates in relation to the size, composition and performance of our investments;
- the success of Wells TIMO in generating appropriate investment opportunities;
- the rates charged to other REITs and others by advisors performing similar services;
- additional revenues realized by Wells TIMO and its affiliates through their relationship with us, including whether we pay them or they are paid by others with whom we do business;
- the quality and extent of service and advice furnished by Wells TIMO and its affiliates;
- the performance of our investment portfolio; and
- the quality of our portfolio relative to the investments generated by Wells TIMO for its own account and for its other clients.

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

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

Our Acquisitions, Dispositions and Leases. We will not purchase or lease properties in which Wells TIMO, our directors or any of their affiliates have an interest without a determination by a majority of our directors, including a majority of our independent directors, that such transaction is fair and reasonable to us and

at a price to us no greater than the cost of the property to the affiliated seller or lessor unless there is substantial justification for the excess amount. In no event will the purchase price paid by us exceed the property s current appraised value as determined by an independent expert selected by our independent directors not otherwise interested in the transaction. In addition, we will not sell or lease properties to Wells TIMO, our directors or any of their affiliates unless a majority of our directors, including a majority of our independent directors, determine that the transaction is fair and reasonable to us.

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

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

Limitation on Operating Expenses. Wells TIMO must reimburse us the amount by which our aggregate annual total operating expenses exceed the greater of 2% of our average invested assets or 25% of our net income unless our independent directors have determined that such excess expenses were justified based on unusual and nonrecurring factors. Within 60 days after the end of any of our fiscal quarters for which total operating expenses for the 12 months then-ended exceeded the limitation, we will send to our stockholders a written disclosure, together with an explanation of the factors the independent directors considered in arriving at the conclusion that the excess expenses were justified. Average invested assets means the average monthly book value of our assets for a specified period before deducting depreciation, bad debts or other noncash reserves. Total operating expenses means all costs and expenses paid or incurred by us, as determined under GAAP, that are in any way related to our operation, including advisory fees, but excluding (a) the expenses of raising capital such as organization and offering expenses, legal, audit, accounting, underwriting, brokerage, listing, registration and other fees, printing and other such expenses and taxes incurred in connection with the issuance, distribution, transfer, registration and stock exchange listing of our stock; (b) interest payments; (c) taxes; (d) noncash expenditures such as depreciation, amortization and bad debt reserves; (e) reasonable incentive fees based on the gain from the sale of our assets; and (f) acquisition fees, acquisition expenses, real estate disposition fees on the resale of property and other expenses connected with the acquisition, disposition and ownership of real estate interests or other property (including the costs of foreclosure, insurance premiums, legal services, maintenance, repair and improvement of property).

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

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

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

Table of Contents

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

- financial statements prepared in accordance with GAAP which are audited and reported on by independent certified public accountants;
- the ratio of the costs of raising capital during the year to the capital raised;
- the aggregate amount of advisory fees and the aggregate amount of other fees paid to Wells TIMO and any affiliate of Wells TIMO by us or third parties doing business with us during the year;
- our total operating expenses for the year, stated as a percentage of our average invested assets and as a percentage of our net income;
- a report from our independent directors that our policies are in the best interests of our stockholders and the basis for such determination; and
- separately stated, full disclosure of all material terms, factors and circumstances surrounding any and all transactions involving us and our advisor, a director or any affiliate thereof during the year, including commentary by our independent directors following the independent directors examination of these matters regarding the fairness of the transactions.

Voting of Shares Owned by Affiliates. Wells TIMO, our non-independent directors and their affiliates who acquire shares of our common stock may not vote their shares regarding (1) the removal of any of them or (2) any transaction between them and us. In determining the requisite percentage in interest in shares necessary to approve any matter on which Wells TIMO, our non-independent directors and their affiliates may not vote or consent, any shares owned by any of them will not be included.

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

Allocation of Investment Opportunities

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

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

- the investment objectives and criteria of each program;

the cash requirements of each program;

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

the policy of each program relating to leverage of properties;

Table of Contents

the anticipated cash flow of each program;

the income tax effects of the purchase on each program;

the size of the investment; and

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

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

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

INDUSTRY OVERVIEW

General

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

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

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

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

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

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

Table of Contents

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

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

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

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

Supply and Demand Dynamics

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

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

Pulpwood is used to produce paper, such as writing paper, newsprint, magazine paper and tissue; paperboard, such as boxes and shipping containers; and non-woven products, such as diapers and other absorbent products. Demand for newsprint and paper for magazines is usually stronger during good economic times, reflecting the demand for advertising space in publications. Paperboard demand generally is stronger during good economic times, as well, because more products are being shipped during stronger economic periods.

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

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

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

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

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

From a supply perspective, weather is an important factor. Most regions of the country, and the world, have a season where logging is difficult or impossible. Logging operations in the Northeast are usually suspended for four to six weeks in the spring when the snow melts and the ground is saturated with water. Most of the South sees rainy conditions in the winter, which halts logging in some areas. Timber harvesting is usually halted in western mountain areas due to heavy winter snows. Fire danger can halt logging during the summer in the West, and sometimes in the South. These factors can limit the supply of logs available to mills at particular times of the

Table of Contents

year. Timberland owners who can deliver logs when mills are running short can command a premium price for their wood. These owners will manage and hold in reserve certain tracts that are accessible in bad weather so they can continue to harvest and transport wood when others cannot.

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

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

Stages of Biological Growth

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

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

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

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

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

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

Biological Growth Compared to Value Growth

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

Market Opportunity

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

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

Table of Contents

BUSINESS AND POLICIES

Our Business

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

Investment Objectives

Our primary investment objectives are:

- to preserve, protect and return your capital contribution;
- to provide current income to you through the payment of cash distributions; and
- to realize capital appreciation upon the ultimate sale of our assets.

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

Investment Strategy

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

- comprised of trees from different age classes;
- located in a variety of different geographic regions; and
- comprised of a variety of species of trees.

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

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

Rather than focusing on properties comprised of trees of any particular age class, we will focus our property acquisition efforts on properties that are comprised of forests of a variety of different age classes, thus enabling us to better manage our short- and long-term income and appreciation returns. Our initial property acquisitions

Table of Contents

likely will be focused on forests comprised of older trees, in an effort to generate some income for initial distributions to investors. We also will seek to acquire forests comprised of younger and adolescent forests that can provide long-term income returns after our forests comprised of older trees have been harvested. At all times, we will seek to acquire properties on terms that are favorable to us, and to seek a balance between short- and long-term returns.

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

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

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

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

Operational Strategy

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

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

Joint Venture Investments

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

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

Borrowing Policies

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

We have employed greater amounts of leverage during our initial phase of operations in order to enable us to purchase properties more quickly and therefore generate distributions for our stockholders sooner. In the future, we intend to use subsequent proceeds raised in this offering to significantly reduce our overall leverage. Our policies do not limit the amount we may borrow with respect to any individual property.

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

In order to enable us to acquire the Mahrt Timberland, our board of directors authorized us to enter into financing arrangements that allowed us to borrow, in the aggregate, up to 100% of the purchase price of the Mahrt Timberland. In accordance with our charter, our board of directors, including a majority of our independent directors, determined that borrowing in excess of our general leverage limitation of 300% of our net assets was justified in connection with the Mahrt Timberland transaction because of the significance of the portfolio acquired and our expectation that subsequent proceeds raised in this offering will enable us to significantly reduce our overall leverage over time. While the senior loan and the mezzanine loan we obtained in connection with the acquisition of the Mahrt Timberland has increased our overall leverage ratio, the issuance and sale of $32,128,000 of Series A preferred stock and $10,700,000 of Series B preferred stock to Wells REF, the indirect parent company of Wells TIMO, is not a borrowing for the purposes of calculating our leverage ratio. As a result of this transaction and the possibility that our board of directors may determine that it is in our best interest to pursue similarly leveraged timberland acquisitions in order to enable us to more quickly acquire a diversified portfolio of timberland properties, we are not able to anticipate with any degree of certainty what our leverage ratio will be for the foreseeable future. In accordance with our charter, if our board of directors, including a majority of our independent directors, approves any borrowing in excess of our leverage limitation, we will disclose such approval to our stockholders in our next quarterly report, along with a justification for such excess.

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

Disposition Policies

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

- a change in the best use of the property, such that it becomes classified as HBU property;
- an opportunity to reinvest in a more attractive timberland investment; or
- a need to rebalance our investment portfolio among age classes, species or geographic regions.

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

Our Higher and Better Use Land Sales

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

As of June 30, 2009, we owned interests in approximately 312,000 acres of the Mahrt Timberland (approximately 223,300 in fee simple and approximately 88,700 in leasehold interest). Since our acquisition of the Mahrt Timberland in October 2007, we have sold approximately 4,720 acres of HBU timberland and our leasehold interests in approximately 4,880 acres of timberland have expired.

Table of Contents

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

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

Environmental Stewardship

We remain committed to following sustainable forestry practices and managing our timberland assets responsibly. As part of that commitment, we have earned the Sustainable Forestry Initiative, or SFI, forest management certification in 2008. The SFI designation is awarded by SFI Inc., a non-profit organization responsible for maintaining, overseeing and improving a forestry certification program that is internationally recognized and among the largest in the world. The SFI designation is based on principles and measures that promote sustainable forest management, including measures to protect water quality, biodiversity, wildlife habitat, species at risk, and forests with exceptional conservation value. It includes unique fiber sourcing requirements promoting responsible forest management on all suppliers lands. We believe the SFI designation enhances the attractiveness of our timberland products in the local wood markets and signals our commitment to responsible timber asset management.

Investment Limitations

Our charter places numerous limitations on us with respect to the manner in which we may invest our funds or issue securities. Pursuant to our charter, we will not:

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

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

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

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

- invest in indebtedness secured by a mortgage on real property which is subordinate to the lien or other indebtedness of Wells TIMO, our directors, our sponsor or any of our affiliates;

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

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

Table of Contents

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

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

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

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

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

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

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

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

Changes in Investment Objectives and Limitations

Our charter requires that the independent directors review our investment policies at least annually to determine that the policies we are following are in the best interests of our stockholders. Each determination and the basis therefor are required to be set forth in the minutes of the meetings of our directors and in an annual report delivered to our stockholders. The methods of implementing our investment policies also may vary as new investment techniques are developed. The methods of implementing our investment objectives and policies, except as otherwise provided in our organizational documents, may be altered by a majority of our directors, including a majority of the independent directors, without the approval of the stockholders. Our investment objectives themselves and the other investment policies and limitations specifically set forth in our charter, however, may only be amended if approved by the stockholders entitled to cast a majority of all the votes entitled to be cast on the matter.

Issuing Securities for Property

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

Table of Contents

Acquisitions of Our Common Stock

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

Liquidity Event

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

- listing our common stock on a national securities exchange; or
- a sale or merger of our company in a transaction that provides our stockholders with cash or securities of a publicly traded company.

In making the decision as to which exit strategy to pursue, our board of directors will try to determine which transaction would result in greater long-term value for our stockholders. We cannot determine at this time the circumstances, if any, under which our board of directors will determine to list our shares. However, if we do not list our shares of common stock on a national securities exchange by August 11, 2018, our charter requires that we either:

- seek stockholder approval of an extension or amendment of this listing deadline; or
- seek stockholder approval to commence an orderly liquidation.

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

Table of Contents

TIMBERLAND INVESTMENTS

Mahrt Timberland

On August 3, 2007, our subsidiary, Wells Timberland Acquisition, LLC entered into a contract with MeadWestvaco Coated Board, Inc., which we refer to as MeadWestvaco Subsidiary. MeadWestvaco Subsidiary is an unaffiliated third party and subsidiary of MeadWestvaco Corporation. Pursuant to the contract, we agreed to acquire all of the ownership interests in Timberlands II, LLC, a newly formed entity wholly owned by MeadWestvaco Subsidiary, which owned the Mahrt Timberland.

On October 9, 2007, MWV SPE, LLC, a newly formed and wholly-owned subsidiary of Wells Timberland Acquisition, acquired 100% of the outstanding membership interests in Timberlands II, LLC, thereby acquiring the Mahrt Timberland, for a purchase price of $400.0 million, exclusive of customary closing costs. The purchase price was paid by the delivery by MWV SPE, LLC of a promissory note in the amount of approximately $397.9 million and with a maturity date of October 9, 2027, or the MWV promissory note, and the remaining portion of the purchase price was paid by delivery of cash. We previously deposited a non-refundable amount of $5.0 million into an escrow account that was applied to the purchase price and closing costs.

Description of the Property

The Mahrt Timberland originally consisted of approximately 228,108 acres of timberland owned in fee simple and long-term leasehold interests with varying remaining terms relating to the use and occupancy of another approximately 94,730 acres of timberland, all located on the Lower Piedmont and Upper Coastal Plains of East Central Alabama and West Central Georgia. Since our acquisition of the Mahrt Timberland, we have sold approximately 4,720 acres of HBU timberland and our leasehold interests in approximately 4,880 acres of timberland have expired. As of June 30, 2009, the Mahrt Timberland consisted of an estimated 11.0 million tons of merchantable timber inventory. Of the estimated 11.0 million tons of merchantable timber, approximately 6.5 million tons, or 60%, is pine. The Mahrt Timberland s remaining merchantable timber consists of various hardwood species. The age classes of the timber inventory on the Mahrt Timberland range from one to 75 years. Since our acquisition, we also have increased production levels and harvesting plans to fully capture the value of the Mahrt Timberland. In 2008, we planted approximately 2.5 million trees and expect to plant another 3.5 million trees in 2009. On average, we harvest and deliver more than 1,000 truckloads of timber each week from the Mahrt Timberland. No significant mineral rights have been identified on the Mahrt Timberland. We intend to enter into a higher-and-better use program for a portion of the Mahrt Timberland in the future; however, we have not yet identified which portion of the Mahrt Timberland will be included in this program. Based on the current condition of the Mahrt Timberland, we do not anticipate significant capital expenditures for improvement or development of the Mahrt Timberland at this time.

Timber Agreements

Our purchase of the Mahrt Timberland was subject to the following two agreements, which we collectively refer to as the timber agreements: (1) a master stumpage agreement by and among Timberlands II, LLC, MeadWestvaco Subsidiary and Wells TRS Harvesting Operations, LLC, which we refer to as Wells TRS Harvesting, a wholly-owned subsidiary of Wells Timberland TRS, Inc., and (2) a fiber supply agreement by and among MeadWestvaco Subsidiary, MeadWestvaco Corporation and Wells TRS Harvesting. The master stumpage agreement provides that Timberlands II, LLC will sell specified amounts of timber and make available certain portions of the Mahrt Timberland to Wells TRS Harvesting for harvesting at $0.10 per ton of qualifying timber purchased by MeadWestvaco Subsidiary plus a portion of the gross proceeds received from MeadWestvaco Subsidiary under the fiber supply agreement. The fiber supply agreement provides that MeadWestvaco Subsidiary will purchase specified amounts of timber, including pine pulpwood, hardwood pulpwood, chip-n-saw and pine sawlogs, from Wells TRS Harvesting at an initial price of $25.00 to $63.00 per ton of timber, depending upon the type of timber. The fiber supply agreement is subject to pricing adjustments

Table of Contents

every six months 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 Subsidiary in order to meet its paperboard and lumber production requirements at specified mills and provide Timberlands II, LLC with a reliable consumer for the wood products from the Mahrt Timberland.

In connection with the timber agreements, on October 9, 2007, Timberlands II, LLC and Wells TRS Harvesting entered into a timberland operating agrt none #D9D9D9 ;border-left:1pt none #D9D9D9 ;border-bottom:1pt none #D9D9D9 ;border-right:1pt none #D9D9D9 ;background-color: #CCEEFF;height:14.25pt;padding:0pt;">

Employee stock plan tax benefits

-

1,198

-

-

-

1,198

Other

-

(402)

-

-

-

(402)

Balance at June 30, 2016

$

90,118

$

793,229

$

978,124

$

(70,944)

$

636

$

1,791,163

See notes to consolidated financial statements beginning on page 9 of this report.

Table of Contents

AQUA AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW

(In thousands of dollars)

(UNAUDITED)

	Six Months Ended June 30, 2016	2015
Cash flows from operating activities:		
Net income	$ 111,363	$ 105,927
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	64,742	63,322
Deferred income taxes	5,051	5,392
Provision for doubtful accounts	2,101	2,233
Stock-based compensation	2,200	3,682
Gain on sale of utility system and market-based business unit	(1,782)	-
Gain on sale of other assets	(328)	(168)
Net change in receivables, inventory and prepayments	(4,130)	(17,430)
Net change in payables, accrued interest, accrued taxes and other accrued liabilities	(2,695)	2,319
Other	1,136	(8,259)
Net cash flows from operating activities	177,658	157,018
Cash flows from investing activities:		
Property, plant and equipment additions, including the debt component of allowance for funds used during construction of $1,097 and $570	(168,587)	(150,284)
Acquisitions of utility systems and other, net	(5,626)	(25,919)
Release of funds previously restricted for construction activity	-	32
Net proceeds from the sale of utility system and other assets	6,439	290
Other	(45)	(1,296)
Net cash flows used in investing activities	(167,819)	(177,177)
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction	3,205	2,872
Repayments of customers' advances	(1,282)	(1,695)
Net proceeds of short-term debt	9,518	17,908
Proceeds from long-term debt	169,297	238,457
Repayments of long-term debt	(112,650)	(158,824)
Change in cash overdraft position	(15,338)	(16,047)
Proceeds from issuing common stock	670	-
Proceeds from exercised stock options	3,569	3,452
Stock-based compensation windfall tax benefits	1,198	1,320

Repurchase of common stock	(2,859)	(7,957)
Dividends paid on common stock	(63,071)	(58,396)
Other	(402)	(454)
Net cash flows (used in) from financing activities	(8,145)	20,636
Net change in cash and cash equivalents	1,694	477
Cash and cash equivalents at beginning of period	3,229	4,138
Cash and cash equivalents at end of period	$ 4,923	$ 4,615
Non-cash investing activity:		
Property, plant and equipment additions purchased at the period end, but not yet paid for	$ 20,863	$ 27,551

See notes to consolidated financial statements beginning on page 9 of this report.
See note 3 - Acquisitions for a description of non-cash activities.

8

Table of Contents

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of dollars, except per share amounts)

(UNAUDITED)

Note 1 – Basis of Presentation

The accompanying consolidated balance sheets and statements of capitalization of Aqua America, Inc. and subsidiaries (the "Company") at June 30, 2016, the consolidated statements of net income and comprehensive income for the three and six months ended June 30, 2016 and 2015 the consolidated statements of cash flow for the six months ended June 30, 2016 and 2015, and the consolidated statement of equity for the six months ended June 30, 2016 are unaudited, but reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary to present fairly the consolidated financial position, the consolidated changes in equity, the consolidated results of operations, and the consolidated cash flow for the periods presented. Because they cover interim periods, the statements and related notes to the financial statements do not include all disclosures and notes normally provided in annual financial statements and, therefore, should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2015. The results of operations for interim periods may not be indicative of the results that may be expected for the entire year. The December 31, 2015 consolidated balance sheet data presented herein was derived from the Company's December 31, 2015 audited consolidated financial statements, but does not include all disclosures and notes normally provided in annual financial statements. Certain prior period amounts have been reclassified, including debt issuance costs (see Note 15 - Recent Accounting Pronouncements), to conform to the current period presentation.

Note 2 – Goodwill

The following table summarizes the changes in the Company's goodwill, by business segment:

	Regulated Segment	Other	Consolidated
Balance at December 31, 2015	$ 27,246	$ 6,620	$ 33,866
Goodwill acquired	10,095	-	10,095
Reclassification to utility plant acquisition adjustment	(25)	-	(25)

Disposition	-	(996)	(996)
Classified as assets held for sale	-	(547)	(547)
Other	(159)	-	(159)
Balance at June 30, 2016	$ 37,157	$ 5,077	$ 42,234

The reclassification of goodwill to utility plant acquisition adjustment results from a mechanism approved by the applicable utility commission. The mechanism provides for the transfer over time, and the recovery through customer rates, of goodwill associated with some acquisitions upon achieving specific objectives.

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

Note 3 – Acquisitions

Pursuant to our strategy to grow through acquisitions, in January 2016, the Company acquired Superior Water Company, Inc., which provides public water service to approximately 3,900 customers in portions of Berks, Chester, and Montgomery counties in Pennsylvania. The total purchase price for the utility system was $16,750, which consisted of the issuance of 439,943 shares of the Company's common stock and $3,905 in cash. The purchase price allocation for this acquisition consists primarily of acquired property, plant and equipment of $25,167, contributions in aid of construction of $16,565, and goodwill of $8,622. Additionally, during 2016 to date, the Company has completed nine acquisitions of water and wastewater utility systems in various states. The total purchase price of these utility systems consisted of $1,721 in cash. The Company recorded goodwill on acquisitions completed during the first half of 2016 of $1,473. The pro forma effect of the businesses acquired is not material either individually or collectively to the Company's results of operations.

In April 2015, the Company acquired the water and wastewater utility system assets of North Maine Utilities located in the Village of Glenview, Illinois serving approximately 7,400 customers. The total purchase price consisted of $23,079 in cash. The purchase price allocation for this acquisition consists primarily of acquired property, plant and equipment. Additionally, in 2015, the Company completed 14 acquisitions of water and wastewater utility systems in various states. The total purchase price of these utility systems consisted of $5,210 in cash.

Note 4 – Assets Held for Sale

In December 2015, the Company decided to sell a business unit within the Company's market-based subsidiary, Aqua Resources, which provides liquid waste hauling and disposal services, and which was reported as assets held for sale in the Company's consolidated balance sheets included in this report. During the second quarter of 2016, this business unit was sold for $3,400 in cash and resulted in a gain on sale of $537. The gain on sale is reported as a reduction to operations and maintenance expense in the consolidated statements of net income. This business unit was included in "Other" in the Company's segment information.

In the second quarter of 2016, the Company decided to market for sale business units within the Company's market-based subsidiary, Aqua Resources, which install and test devices that prevent the contamination of potable water and repair water and wastewater systems. These business units are reported as assets held for sale in the Company's consolidated balance sheets included in this report. These business units are included in "Other" in the Company's segment information.

]

Note 5 – Capitalization

In February 2016, the Company amended its unsecured revolving credit facility to extend the expiration from March 2017 to February 2021, to increase the facility from $200,000 to $250,000, and to add a fourth bank to the lending group. Funds borrowed under this facility are classified as long-term debt and are used to provide working capital as well as support for letters of credit for insurance policies and other financing arrangements. Interest under this facility is based at the Company's option, on the prime rate,

Table of Contents

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

an adjusted Euro-Rate, an adjusted federal funds rate or at rates offered by the banks. A facility fee is charged on the total commitment amount of the agreement.

Note 6 – Fair Value of Financial Instruments

The Company follows the Financial Accounting Standards Board's ("FASB") accounting guidance for fair value measurements and disclosures, which defines fair value and establishes a framework for using fair value to measure assets and liabilities. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

· Level 1: unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access;

· Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted market prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in non-active markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

· Level 3: inputs that are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the valuation techniques used to measure fair value or asset or liability transfers between the levels of the fair value hierarchy for the quarter ended June 30, 2016.

Financial instruments are recorded at carrying value in the financial statements and approximate fair value as of the dates presented. The fair value of these instruments is disclosed below in accordance with current accounting guidance related to financial instruments.

The fair value of loans payable is determined based on its carrying amount and utilizing Level 1 methods and assumptions. As of June 30, 2016 and December 31, 2015, the carrying amount of the Company’s loans payable was $26,239 and $16,721, respectively, which equates to their estimated fair value. The fair value of cash and cash equivalents, which is comprised of a money market fund, is determined based on the net asset value per unit utilizing Level 2 methods and assumptions. As of June 30, 2016 and December 31, 2015, the carrying amounts of the Company's cash and cash equivalents was $4,923 and $3,229, respectively, which equates to their fair value.

Table of Contents

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

The carrying amounts and estimated fair values of the Company’s long-term debt is as follows:

	June 30, 2016	December 31, 2015
Carrying Amount	$ 1,836,279	$ 1,779,205
Estimated Fair Value	2,144,322	1,905,393

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration utilizing Level 2 methods and assumptions. The Company’s customers’ advances for construction have a carrying value of $87,694 as of June 30, 2016, and $86,934 as of December 31, 2015. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels, and future rate increases. Portions of these non-interest bearing instruments are payable annually through 2026 and amounts not paid by the respective contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

Note 7 – Net Income per Common Share

Basic net income per common share is based on the weighted average number of common shares outstanding. Diluted net income per common share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock-based compensation is included in the computation of diluted net income per common share. The dilutive effect of stock-based compensation is calculated using the treasury stock method and expected proceeds upon exercise or issuance of the stock-based compensation. The treasury stock method assumes that the proceeds from the exercise of stock options are used to purchase the Company’s common stock at the average market price during the period. The following table summarizes the shares, in thousands, used in computing basic and diluted net income per common share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Average common shares outstanding during the period for basic computation	177,288	177,084	177,196	176,987
Dilutive effect of employee stock-based compensation	796	829	724	831
Average common shares outstanding during the period for diluted computation	178,084	177,913	177,920	177,818

For the three and six months ended June 30, 2016 and 2015, all of the Company’s employee stock options were included in the calculations of diluted net income per share as the calculated cost to exercise the stock options was less than the average market price of the Company’s common stock during these periods.

Table of Contents

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

Note 8 – Stock-based Compensation

Under the Company's 2009 Omnibus Equity Compensation Plan, as amended as of February 27, 2014 (the "2009 Plan"), as approved by the Company's shareholders to replace the 2004 Equity Compensation Plan (the "2004 Plan"), stock options, stock units, stock awards, stock appreciation rights, dividend equivalents, and other stock-based awards may be granted to employees, non-employee directors, and consultants and advisors. The 2009 Plan authorizes 6,250,000 shares for issuance under the plan. A maximum of 3,125,000 shares under the 2009 Plan may be issued pursuant to stock awards, stock units and other stock-based awards, subject to adjustment as provided in the 2009 Plan. During any calendar year, no individual may be granted (i) stock options and stock appreciation rights under the 2009 Plan for more than 500,000 shares of Company stock in the aggregate or (ii) stock awards, stock units or other stock-based awards under the 2009 Plan for more than 500,000 shares of Company stock in the aggregate, subject to adjustment as provided in the 2009 Plan. Awards to employees and consultants under the 2009 Plan are made by a committee of the Board of Directors of the Company, except that with respect to awards to the Chief Executive Officer, the committee recommends those awards for approval by the non-employee directors of the Board of Directors. In the case of awards to non-employee directors, the Board of Directors makes such awards. At June 30, 2016, 3,891,288 shares were still available for issuance under the 2009 Plan. No further grants may be made under the 2004 Plan.

Performance Share Units – A performance share unit ("PSU") represents the right to receive a share of the Company's common stock if specified performance goals are met over the three-year performance period specified in the grant, subject to exceptions through the respective vesting period, generally three years. Each grantee is granted a target award of PSUs, and may earn between 0% and 200% of the target amount depending on the Company's performance against the performance goals. The following table provides compensation costs for stock-based compensation related to PSUs:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Stock-based compensation within operations and maintenance expenses	$ 967	$ 1,562	$ 1,492	$ 2,639
Income tax benefit	392	637	601	1,075

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

The following table summarizes the PSU transactions for the six months ended June 30, 2016:

	Number of Share Units	Weighted Average Fair Value
Nonvested share units at December 31, 2015	424,858	$ 25.78
Granted	152,533	28.89
Performance criteria adjustment	38,657	25.96
Forfeited	(12,127)	26.45
Share units vested in prior period and issued in current period	44,625	26.88
Share units issued	(189,885)	23.25
Nonvested share units at June 30, 2016	458,661	$ 27.97

A portion of the fair value of PSUs was estimated at the grant date based on the probability of satisfying the market-based conditions using the Monte Carlo valuation method, which assesses probabilities of various outcomes of market conditions. The other portion of the fair value of the PSUs is based on the fair market value of the Company's stock at the grant date, regardless of whether the market-based condition is satisfied. The per unit weighted-average fair value at the date of grant for PSUs granted during the six months ended June 30, 2016 and 2015 was $28.89 and $26.54, respectively. The fair value of each PSU grant is amortized monthly into compensation expense on a straight-line basis over their respective vesting periods, generally 36 months. The accrual of compensation costs is based on our estimate of the final expected value of the award, and is adjusted as required for the portion based on the performance-based condition. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. As the payout of the PSUs includes dividend equivalents, no separate dividend yield assumption is required in calculating the fair value of the PSUs. The recording of compensation expense for PSUs has no impact on net cash flows.

Restricted Stock Units – A restricted stock unit ("RSU") represents the right to receive a share of the Company's common stock. RSUs are eligible to be earned at the end of a specified restricted period, generally three years, beginning on the date of grant. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. As the payout of the RSUs includes dividend equivalents, no separate dividend yield assumption is required in calculating the fair value of the RSUs. The following table provides compensation costs for stock-based compensation related to RSUs:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Stock-based compensation within operations and maintenance expenses	$ 296	$ 415	$ 464	$ 678
Income tax benefit	122	172	191	281

14

Table of Contents

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

The following table summarizes the RSU transactions for the six months ended June 30, 2016:

	Number of Stock Units	Weighted Average Fair Value
Nonvested stock units at December 31, 2015	88,353	$ 24.94
Granted	50,324	32.09
Stock units vested and issued	(24,318)	23.37
Forfeited	(2,458)	26.92
Nonvested stock units at June 30, 2016	111,901	$ 28.45

The per unit weighted-average fair value at the date of grant for RSUs granted during the six months ended June 30, 2016 and 2015 was $32.09 and $26.26, respectively.

Stock Options – The following table provides the income tax benefit for stock-based compensation related to stock options granted in prior periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Income tax benefit	$ 18	$ 11	$ 234	$ 115

For the six months ended June 30, 2016 and 2015, there were no compensation costs for stock-based compensation related to stock options, as stock options were fully amortized in 2013. Additionally, there were no stock options granted during the six months ended June 30, 2016 or 2015.

The following table summarizes stock option transactions for the six months ended June 30, 2016:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2015	659,533	$ 16.62		
Forfeited	-	-		
Expired / Cancelled	(3,436)	16.15		
Exercised	(188,439)	18.94		
Outstanding and exercisable at June 30, 2016	467,658	$ 15.69	2.3	$ 9,339

15

Table of Contents

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

Stock Awards – The following table provides compensation costs for stock-based compensation related to stock awards:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Stock-based compensation within operations and maintenance expenses	$ 131	$ 365	$ 244	$ 365
Income tax benefit	54	151	101	151

The following table summarizes stock award transactions for the six months ended June 30, 2016:

	Number of Stock Awards	Weighted Average Fair Value
Nonvested stock awards at December 31, 2015	-	$ -
Granted	7,246	33.64
Vested	(7,246)	33.64
Nonvested stock awards at June 30, 2016	-	$ -

The per unit weighted-average fair value at the date of grant for stock awards granted during the six months ended June 30, 2016 and 2015 was $33.64 and $26.44, respectively.

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

Note 9 – Pension Plans and Other Postretirement Benefits

The Company maintains a qualified defined benefit pension plan (the "Pension Plan"), a nonqualified pension plan and other postretirement benefit plans for certain of its employees. The net periodic benefit cost is based on estimated values and an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company's employees, mortality, turnover, and medical costs. The following tables provide the components of net periodic benefit cost:

	Pension Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Service cost	$ 784	$ 925	$ 1,610	$ 1,850
Interest cost	3,251	3,222	6,536	6,444
Expected return on plan assets	(4,215)	(4,674)	(8,481)	(9,348)
Amortization of prior service cost	145	43	290	86
Amortization of actuarial loss	1,797	1,532	3,557	3,064
Settlement charge	-	-	3,028	-
Special termination benefit charge	-	-	302	-
Net periodic benefit cost	$ 1,762	$ 1,048	$ 6,842	$ 2,096

	Other Postretirement Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Service cost	$ 253	$ 273	$ 508	$ 679
Interest cost	726	681	1,476	1,439
Expected return on plan assets	(645)	(731)	(1,356)	(1,461)
Amortization of prior service cost	(137)	(211)	(274)	(265)
Amortization of actuarial loss	220	309	487	663
Net periodic benefit cost	$ 417	$ 321	$ 841	$ 1,055

Effective July 1, 2015, the Company added a permanent lump sum option to the form of benefit payments offered to participants of the qualified defined benefit pension plan and non-qualified retirement plans upon retirement or termination. During the first quarter of 2016, the lump sum payments paid to participants who elected this option for payments from the non-qualified retirement plans resulted in a settlement charge. The Company made cash contributions of $6,787 to its Pension Plan during the first six months of 2016, and intends to make cash contributions of $1,357 to the Pension Plan during the remainder of 2016.

Table of Contents

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

Note 10 – Water and Wastewater Rates

During the first six months of 2016, the Company's operating divisions in Ohio, Texas, and Virginia were granted base rate increases designed to increase total operating revenues on an annual basis by $3,234. Further, during the first six months of 2016, the Company's operating divisions in Illinois, Pennsylvania (wastewater), and North Carolina received approval to bill infrastructure rehabilitation surcharges designed to increase total operating revenues on an annual basis by $1,365.

Note 11 – Taxes Other than Income Taxes

The following table provides the components of taxes other than income taxes:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Property	$ 6,928	$ 7,007	$ 13,113	$ 13,831
Capital stock	430	541	857	1,080
Gross receipts, excise and franchise	2,683	2,554	5,202	4,996
Payroll	2,299	2,075	5,635	5,353
Regulatory assessments	681	687	1,352	1,340
Other	1,221	931	2,223	1,816
Total taxes other than income	$ 14,242	$ 13,795	$ 28,382	$ 28,416

Note 12 – Segment Information

The Company has identified ten operating segments and has one reportable segment named the “Regulated” segment. The reportable segment is comprised of eight operating segments for the Company’s water and wastewater regulated utility companies which are organized by the states where we provide these services. In addition, two segments are not quantitatively significant to be reportable and are comprised of the Company’s market-based activities: Aqua Resources, Inc. and Aqua Infrastructure, LLC. Aqua Resources provides water and wastewater service through operating and maintenance contracts with municipal authorities and other parties in close proximity to our utility companies’ service territories; offers, through a third party, water and wastewater line repair service and protection solutions to households; and inspects, cleans and repairs storm and sanitary wastewater lines. In addition, Aqua Resources provided liquid waste hauling and disposal services in a business unit that the Company sold in the second quarter of 2016, and that was reported as assets held for sale in the Company’s consolidated balance sheets included in this report. Additionally, Aqua Resources installs and tests devices that prevent the contamination of potable water; designs and builds water and wastewater systems; and provides other market-based water and wastewater services in business units that, in the second quarter of 2016, the Company decided to market for sale. These business units are reported as assets held for sale in the Company’s consolidated balance sheets included in this report. Aqua Infrastructure provides non-utility raw water supply services for firms in the natural gas drilling industry. These two segments are included as a component of “Other” in the tables below. Also included in “Other” are corporate costs that have not

18

Table of Contents

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

been allocated to the Regulated segment and intersegment eliminations. Corporate costs include general and administrative expense, and interest expense.

The following table presents information about the Company's reportable segment:

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	Regulated	Other	Consolidated	Regulated	Other	Consolidated
Operating revenues	$ 198,086	$ 5,790	$ 203,876	$ 196,932	$ 8,828	$ 205,760
Operations and maintenance expense	69,676	4,318	73,994	71,248	8,498	79,746
Depreciation	32,214	(595)	31,619	30,948	101	31,049
Operating income	82,018	1,475	83,493	80,649	(403)	80,246
Interest expense, net	19,093	1,022	20,115	17,944	956	18,900
Allowance for funds used during construction	1,871	-	1,871	1,040	-	1,040
Income tax expense (benefit)	5,910	(395)	5,515	5,429	(510)	4,919
Net income (loss)	59,004	622	59,626	58,311	(929)	57,382

	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
	Regulated	Other	Consolidated	Regulated	Other	Consolidated
Operating revenues	$ 384,092	$ 12,391	$ 396,483	$ 377,496	$ 18,590	$ 396,086
Operations and maintenance expense	137,001	10,534	147,535	138,266	14,669	152,935
Depreciation	64,420	(656)	63,764	61,386	163	61,549
Operating income	154,868	956	155,824	149,273	2,140	151,413
Interest expense, net	37,894	2,074	39,968	35,846	1,719	37,565
Allowance for funds used during construction	4,179	-	4,179	2,222	-	2,222
Income tax expense (benefit)	9,583	(1,061)	8,522	9,796	(283)	9,513
Net income (loss)	111,898	(535)	111,363	106,016	(89)	105,927
Capital expenditures	167,900	687	168,587	150,063	221	150,284

	June 30, 2016	December 31, 2015
Total assets:		
Regulated	$ 5,735,411	$ 5,541,335
Other	187,428	176,538
Consolidated	$ 5,922,839	$ 5,717,873

Note 13 – Commitments and Contingencies

The Company is routinely involved in various disputes, claims, lawsuits and other regulatory and legal matters, including both asserted and unasserted legal claims, in the ordinary course of business. The status of each such matter, referred to herein as a loss contingency, is reviewed and assessed in accordance with applicable accounting rules regarding the nature of the matter, the likelihood that a loss will be incurred, and the amounts involved. As of June 30, 2016, the aggregate amount of $12,337 is accrued for loss contingencies and is reported in the Company's consolidated balance sheet as other accrued liabilities and other liabilities. These accruals represent management's best estimate of probable loss (as defined in the accounting guidance) for loss contingencies or the low end of a range of losses if no single probable loss can be estimated. For some loss contingencies, the Company is unable to

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

estimate the amount of the probable loss or range of probable losses. While the final outcome of these loss contingencies cannot be predicted with certainty, and unfavorable outcomes could negatively impact the Company, at this time in the opinion of management, the final resolution of these matters are not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows. Further, the Company has insurance coverage for certain of these loss contingencies, and as of June 30, 2016, estimates that approximately $1,475 of the amount accrued for these matters are probable of recovery through insurance, which amount is also reported in the Company's consolidated balance sheet as deferred charges and other assets, net.

In addition to the aforementioned loss contingencies, the Company self-insures its employee medical benefit program, and maintains stop-loss coverage to limit the exposure arising from these claims. The Company's reserve for these claims totaled $1,496 at June 30, 2016 and represents a reserve for unpaid claim costs, including an estimate for the cost of incurred but not reported claims.

Note 14 – Income Taxes

During the six months ended June 30, 2016, the Company utilized $10,056 of its Federal net operating loss ("NOL") carryforward. In addition, during the six months ended June 30, 2016, the Company's state NOL carryforward increased by $9,972. As of June 30, 2016, the balance of the Company's Federal NOL was $148,220. The Company believes its Federal NOL carryforward is more likely than not to be recovered and requires no valuation allowance. As of June 30, 2016, the balance of the Company's gross state NOL was $558,644, a portion of which is offset by a valuation allowance because the Company does not believe the NOLs are more likely than not to be realized. The Company's Federal and state NOL carryforwards begin to expire in 2032 and 2023, respectively. The Company's Federal and state NOL carryforwards are reduced by an unrecognized tax position, on a gross basis, of $63,852 and $89,651, respectively. The amounts of the Company's Federal and state NOL carryforwards prior to being reduced by the unrecognized tax positions were $212,072 and $648,295 respectively. The Company records its unrecognized tax benefit as a reduction to its deferred income tax liability.

In accordance with a 2012 settlement agreement with the Pennsylvania Public Utility Commission, Aqua Pennsylvania expenses, for tax purposes, qualifying utility asset improvement costs, which results in a substantial reduction in income tax expense and greater net income and cash flows. The Company's effective income tax rate for the second quarter of 2016 and 2015, was 8.5% and 7.9%, respectively, and for the first six months of 2016 and 2015 was 7.1% and 8.2%, respectively.

As of June 30, 2016, the total gross unrecognized tax benefit was $28,434, of which $19,541, if recognized, would affect the Company's effective tax rate as a result of the regulatory treatment afforded for qualifying infrastructure improvements in Pennsylvania. At December 31, 2015, the Company had unrecognized tax benefits of $28,016.

Accounting rules for uncertain tax positions specify that tax positions for which the timing of resolution is uncertain should be classified as long-term liabilities. Judgment is required in evaluating the Company's uncertain tax positions and determining the provision for income taxes. Management believes that an adequate provision has been made for any adjustments that may result from tax examinations. Although the timing of income tax audit resolutions and negotiations with taxing

Table of Contents

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

authorities is highly uncertain, the Company does not anticipate a significant change to the total amount of unrecognized income tax benefits within the next 12 months.

Note 15 – Recent Accounting Pronouncements

In March 2016, the FASB issued updated accounting guidance on simplifying the accounting for share-based payments, which includes several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The updated guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption available. The Company is evaluating the requirements of the updated guidance to determine the impact of adoption.

In February 2016, the FASB issued updated accounting guidance on accounting for leases, which requires lessees to establish a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. For income statement purposes, leases will be classified as either operating or finance. Operating leases will result in straight-line expense while finance leases will result in a front-loaded expense pattern. The updated accounting guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption available. The Company is evaluating the requirements of the updated guidance to determine the impact of adoption.

In September 2015, the FASB issued updated accounting guidance on simplifying measurement-period adjustment in business combinations, which eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, an acquirer will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. The Company adopted the provisions of this accounting standard, as required on January 1, 2016, and it did not have an impact on its results of operations or financial position.

In April 2015, the FASB issued updated accounting guidance on simplifying the presentation of debt issuance costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. Previously, debt issuance costs were presented in the balance sheet as a deferred charge. The Company adopted the provisions of this accounting standard as required on January 1, 2016. The adoption of this standard was applied retrospectively and resulted in the reclassification of $23,165 from deferred charges and other assets, net to debt issuance costs, which is reported as a reduction to long-term debt, in the December 31, 2015 consolidated balance sheet.

In August 2014, the FASB issued an accounting standard that will require management to assess an entity's ability to continue as a going concern for each annual and interim reporting period and to provide related footnote disclosures in circumstances in which substantial doubt exists. The accounting standard is effective in the first annual reporting period ending after December 15, 2016. The Company does not expect the provisions of this accounting standard to have an impact on its results of operations or financial position.

Table of Contents

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

In May 2014, the FASB issued updated accounting guidance on recognizing revenue from contracts with customers, which outlines a single comprehensive model that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The updated guidance also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. In July 2015, the FASB approved a one year deferral to the original effective date of this guidance. The updated guidance is effective for reporting periods beginning after December 15, 2017, and will be applied retrospectively. The Company is evaluating the requirements of the updated guidance to determine the impact of adoption.

AQUA AMERICA, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In thousands of dollars, except per share amounts)

Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Quarterly Report contain, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements address, among other things: the projected impact of various legal proceedings; the projected effects of recent accounting pronouncements; prospects, plans, objectives, expectations and beliefs of management, as well as information contained in this report where statements are preceded by, followed by or include the words "believes," "expects," "anticipates," "plans," "future," "potential," "probably," "predictions," "intends," "will," "continue," "in the event" or the negative of such terms or similar expressions. Forward-looking statements are based on a number of assumptions concerning future events, and are subject to a number of risks, uncertainties and other factors, many of which are outside our control, which could cause actual results to differ materially from those expressed or implied by such statements. These risks and uncertainties include, among others: the effects of regulation, abnormal weather, changes in capital requirements and funding, acquisitions, changes to the capital markets, and our ability to assimilate acquired operations, as well as those risks, uncertainties and other factors discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in such report. As a result, readers are cautioned not to place undue reliance on any forward-looking statements. We undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

General Information

Aqua America, Inc. ("we", "us", "our" or the "Company"), a Pennsylvania corporation, is the holding company for regulated utilities providing water or wastewater services to what we estimate to be almost three million people in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, and Virginia. Our largest operating subsidiary, Aqua

Pennsylvania, provides water or wastewater services to approximately one-half of the total number of people we serve, who are located in the suburban areas in counties north and west of the City of Philadelphia and in 27 other counties in Pennsylvania. Our other regulated utility subsidiaries provide similar services in seven other states. In addition, the Company's market-based activities are conducted through Aqua Resources, Inc. and Aqua Infrastructure, LLC. Aqua Resources provides water and wastewater service through operating and maintenance contracts with municipal authorities and other parties close to our utility companies' service territories; offers, through a third party, water and wastewater line repair service and protection solutions to households; and inspects, cleans and repairs storm and sanitary wastewater lines. In addition, Aqua Resources provided liquid waste hauling and disposal services in a business unit that the Company sold in the second quarter of 2016, and that was reported as assets held for sale in the Company's consolidated balance sheets included in this report. Additionally, Aqua Resources installs and tests

Table of Contents

AQUA AMERICA, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

(In thousands of dollars, except per share amounts)

devices that prevent the contamination of potable water and repairs water and wastewater systems, which in the second quarter of 2016, the Company decided to market for sale. These business units are reported as assets held for sale in the Company's consolidated balance sheets included in this report. Aqua Infrastructure provides non-utility raw water supply services for firms in the natural gas drilling industry.

Aqua America, Inc., which prior to its name change in 2004 was known as Philadelphia Suburban Corporation, was formed in 1968 as a holding company for its primary subsidiary, Aqua Pennsylvania, formerly known as Philadelphia Suburban Water Company. In the early 1990s, we embarked on a growth-through-acquisition strategy focused on water and wastewater operations. Our most significant transactions to date have been the merger with Consumers Water Company in 1999, the acquisition of the regulated water and wastewater operations of AquaSource, Inc. in 2003, the acquisition of Heater Utilities, Inc. in 2004, and the acquisition of American Water Works Company, Inc.'s regulated operations in Ohio in 2012. Since the early 1990s, our business strategy has been primarily directed toward the regulated water and wastewater utility industry, where we have more than quadrupled the number of regulated customers we serve, and has extended our regulated operations from southeastern Pennsylvania to include operations in seven other states. Currently, the Company seeks to acquire businesses in the U.S. regulated sector, which includes water and wastewater utilities and other regulated utilities, and to pursue growth ventures in market-based activities, such as infrastructure opportunities that are supplementary and complementary to our regulated businesses.

Beginning in 2010, and substantially completed in 2013, we pursued a portfolio rationalization strategy to focus our operations in areas where we have critical mass and economic growth potential and to divest operations where limited customer growth opportunities exist, or where we are unable to achieve favorable operating results or a return on equity that we consider acceptable. In 2014, we sold our operation in Georgia; in 2013, we sold our operations in Florida; in 2012, we sold our operations in Maine and New York; in 2011, we sold our operations in Missouri; and in 2010, we sold our operations in South Carolina. In connection with the sale of our New York and Missouri operations, we acquired additional utility systems (and customers) in Ohio and Texas, two of the larger states in our portfolio.

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and related notes.

Financial Condition

During the first six months of 2016, we had $168,587 of capital expenditures, expended $5,626 for the acquisition of water and wastewater utility systems, issued $169,297 of long-term debt, and repaid debt and made sinking fund contributions and other loan repayments of $112,650. The capital expenditures were related to new and replacement water mains, improvements to treatment plants, tanks, hydrants, and service lines, well and booster improvements, and other enhancements and improvements. The issuance of long-term debt was comprised principally of the funds borrowed under our revolving credit facility. In addition, we issued 439,943 shares of the Company's common stock, and paid $3,905 in cash for the acquisition of Superior Water Company, Inc. as described in Note 3 – Acquisitions.

Table of Contents

AQUA AMERICA, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

(In thousands of dollars, except per share amounts)

At June 30, 2016, we had $4,923 of cash and cash equivalents compared to $3,229 at December 31, 2015. During the first six months of 2016, we used the proceeds from the issuance of long-term debt and internally generated funds to fund the cash requirements discussed above and to pay dividends.

At June 30, 2016, our $250,000 unsecured revolving credit facility, which was amended and now expires in February 2021, had $93,690 available for borrowing. At June 30, 2016, we had short-term lines of credit of $135,500, of which $109,260 was available for borrowing. One of our short-term lines of credit is an Aqua Pennsylvania $100,000 364-day unsecured revolving credit facility with four banks, which is used to provide working capital, and as of June 30, 2016, $74,751 was available for borrowing.

Our short-term lines of credit of $135,500 are subject to renewal on an annual basis. Although we believe we will be able to renew these facilities, there is no assurance that they will be renewed, or what the terms of any such renewal will be.

The Company's consolidated balance sheet historically has had a negative working capital position whereby routinely our current liabilities exceed our current assets. Management believes that internally generated funds along with existing credit facilities and the proceeds from the issuance of long-term debt will be adequate to provide sufficient working capital to maintain normal operations and to meet our financing requirements for at least the next twelve months.

Results of Operations

Analysis of Second Quarter of 2016 Compared to Second Quarter of 2015

Revenues decreased by $1,884 or 0.9%, primarily due to a decrease in market-based activities revenues of $3,043 and lower customer water consumption, offset by additional water and wastewater revenues of $2,047 associated with a larger customer base due to utility acquisitions, an increase in infrastructure rehabilitation surcharges of $1,300, and an increase in water rates of $698. The market-based activities revenues decreased due to a reduction in revenues associated with the inspection, cleaning and repairing of storm and sanitary wastewater lines, and the second quarter of 2016 sale of a business unit that provided liquid waste hauling and disposal services.

Operations and maintenance expenses decreased by $5,752 or 7.2%, primarily due to the effects of additional operating costs recognized in the second quarter of 2015 of $1,862 for the recording of a reserve for water rights held for future use and $1,848 for leadership transition expenses, a decrease in insurance expense of $1,796, a gain of $1,135 recognized for the buyout of an operating contract, and lower water production costs of $1,002, offset by an increase in postretirement benefits expense of $2,687 and additional operating costs associated with acquired utility systems of $1,215.

Depreciation expense increased by $570 or 1.8%, primarily due to the utility plant placed in service since June 30, 2015.

AQUA AMERICA, INC. AND SUBSIDIARIES

MANAGEMENT’S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

(In thousands of dollars, except per share amounts)

Taxes other than income taxes increased by $447 or 3.2%, primarily due to increases in other taxes of $290 primarily due to fees assessed for the pumping of water in Texas resulting from an increase in water production and payroll taxes of $224.

Interest expense increased by $1,215 or 6.4%, primarily due to an increase in average borrowings.

Allowance for funds used during construction (“AFUDC”) increased by $831, due to an increase in the average balance of utility plant construction work in progress, to which AFUDC is applied and an increase in the AFUDC rate.

Our effective income tax rate was 8.5% in the second quarter of 2016 and 7.9% in the second quarter of 2015. The effective income tax rate increased due to the effect of lower tax deductions recognized in the second quarter of 2016 for certain qualifying infrastructure improvements for Aqua Pennsylvania.

Net income increased by $2,244 or 3.9%, primarily as a result of the factors described above.

Analysis of First Six Months of 2016 Compared to First Six Months of 2015

Revenues increased by $397 or 0.1%, primarily due to additional water and wastewater revenues of $5,611 associated with a larger customer base due to utility acquisitions, an increase in infrastructure rehabilitation surcharges of $2,416, and an increase in water and wastewater rates of $1,961, offset by a decrease in market-based activities revenues of $6,205 and lower customer water consumption. The market-based activities revenues decreased due to the completion in the second quarter of 2015 of a significant short-term wastewater services contract that occurred in the first half of 2015.

Operations and maintenance expenses decreased by $5,400 or 3.5%, primarily due to decreases in market-based activities expenses of $3,208, water production costs of $2,058, the effects of additional operating costs recognized in the second quarter of 2015 of $1,862 for the recording of a reserve for water rights held for future use and $1,848 for leadership transition expenses, a gain of $1,135 recognized for the buyout of an operating contract, offset by increases in operating costs associated with acquired utility systems of $3,625, postretirement benefits expense of $2,530, and the Company's self-insured employee medical benefit program expense of $1,443.

Depreciation expense increased by $2,215 or 3.6%, primarily due to the utility plant placed in service since June 30, 2015.

Interest expense increased by $2,403 or 6.4%, primarily due to an increase in average borrowings.

AFUDC increased by $1,957, due to an increase in the average balance of utility plant construction work in progress, to which AFUDC is applied and an increase in the AFUDC rate.

Table of Contents

AQUA AMERICA, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

(In thousands of dollars, except per share amounts)

Equity loss in joint venture decreased by $320 primarily due to a reduction in depreciation expense resulting from the noncash impairment charge recognized by the joint venture on its long-lived assets in the fourth quarter of 2015.

Our effective income tax rate was 7.1% in the first six months of 2016 and 8.2% in the first six months of 2015. The effective income tax rate decreased due to the effect of additional tax deductions recognized in 2016 for certain qualifying infrastructure improvements for Aqua Pennsylvania.

Net income increased by $5,436 or 5.1%, primarily as a result of the factors described above.

Impact of Recent Accounting Pronouncements

We describe the impact of recent accounting pronouncements in Note 15, Recent Accounting Pronouncements, of the consolidated financial statements in this report.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. There have been no significant changes in our exposure to market risks since December 31, 2015. Refer to Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for additional information.

Item 4 – Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report are effective such that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

(b) Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1 – Legal Proceedings

We are party to various legal proceedings. Although the results of legal proceedings cannot be predicted with certainty, there are no pending legal proceedings to which we or any of our subsidiaries is a party or to which any of our properties is the subject that we believe are material or are expected to have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A – Risk Factors

There have been no material changes to the risks disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015 under “Part 1, Item 1A – Risk Factors.”

Table of Contents

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes the Company's purchases of its common stock for the quarter ended June 30, 2016:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plan or Programs (2)
April 1-30, 2016	-	$ -	-	720,348
May 1-31, 2016	953	$ 32.83	-	720,348
June 1-30, 2016	-	$ -	-	720,348
Total	953	$ 32.83	-	720,348

(1) These amounts include shares we acquired from our employees who elected to pay the exercise price of their stock options (and then hold shares of the stock), upon exercise, by delivering to us shares of our common stock in accordance with the terms of our equity compensation plan that were previously approved by our shareholders and disclosed in our proxy statements. This feature of our equity compensation plan is available to all employees who receive stock-based compensation under the plan. We purchased these shares at their fair market value, as determined by reference to the closing price of our common stock on the day prior to the option exercise.

(2) In December 2014, our Board of Directors authorized a share buyback program of up to 1,000,000 shares to minimize share dilution through timely and orderly share repurchases. In December 2015, our Board of Directors added 400,000 shares to this program. This program expires on the earliest of December 31, 2016 or when all authorized repurchases have been made.

Item 6 – Exhibits

The information required by this Item is set forth in the Exhibit Index hereto which is incorporated herein by reference.

29

Table of Contents

SIGNATURES

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

August 3, 2016

Aqua America, Inc.
Registrant

/s/ Christopher H. Franklin
Christopher H. Franklin
President and Chief Executive Officer

/s/ David P. Smeltzer
David P. Smeltzer
Executive Vice President and Chief Financial Officer

30

EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934.
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934.
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRES	XBRL Taxonomy Extension Presentation Linkbase Document

*Indicates management contract