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Wells Timberland REIT, Inc.
Form 10-K
March 14, 2013

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

FORM 10-K

(Mark One)

- Annual Report Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934 for the Fiscal Year Ended December 31, 2012
- OR
- Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Period from _____ to _____.

Commission File Number 000-53193

WELLS TIMBERLAND REIT, INC.
(Exact name of registrant as specified in its charter)

Maryland	20-3536671
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

6200 The Corners Parkway, Norcross, Georgia	30092
(Address of principal executive offices)	(Zip Code)
(770) 449-7800	
Registrant's telephone number, including area code	

Securities registered pursuant to Section 12 (b) of the Act:	
Title of each class	Name of exchange on which registered
NONE	NONE

Securities registered pursuant to Section 12 (g) of the Act: Common Stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Yes No

Aggregate market value of the common stock held by non-affiliates was: . While there is no established market for the registrant's shares of common stock, the registrant has made two public offerings of its shares of common stock pursuant to Registration Statements on Form S-11. In both offerings, the Registrant sold its shares for \$10.00 per share, with discounts available for certain categories of purchasers. The number of shares held by non-affiliates as of June 30, 2012 was approximately 31,628,941.

Number of shares outstanding of the registrant's only class of common stock, as of February 28, 2013:
31,770,130 shares

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WELLS TIMBERLAND REIT, INC.

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CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements contained in this Form 10-K of Wells Timberland REIT, Inc. (“Wells Timberland REIT,” “we,” “our,” or “us”) other than historical facts may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). We intend for all such forward-looking statements to be covered by the applicable safe harbor provisions for forward-looking statements contained in those acts. Such statements include, in particular, statements about our plans, strategies, and prospects and are subject to certain risks and uncertainties, as well as known and unknown risks, which could cause actual results to differ materially from those projected or anticipated. Therefore, such statements are not intended to be a guarantee of our performance in future periods.

Forward-looking statements can generally be identified by our use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “anticipate,” “estimate,” “believe,” “continue,” or other similar words. Readers are cautioned not to place u reliance on these forward-looking statements, which speak only as of the date that this report is filed with the Securities and Exchange Commission (“SEC”). We make no representations or warranties (express or implied) about the accuracy of any such forward-looking statements contained in this Form 10-K, and we do not intend to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Any such forward-looking statements are subject to risks, uncertainties, and other factors and are based on a number of assumptions involving judgments with respect to, among other things, future economic, competitive, and market conditions, all of which are difficult or impossible to predict accurately. To the extent that our assumptions differ from actual results, our ability to meet such forward-looking statements, including our ability to generate positive cash flow from operations, make distributions to stockholders, and maintain the value of our timberland properties, may be significantly hindered. See Item 1A herein for a discussion of some, although not all, of the risks and uncertainties that could cause actual results to differ materially from those presented in our forward-looking statements.

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PART I

ITEM 1. BUSINESS

General

Wells Timberland REIT is a Maryland corporation that has elected to be taxed as a real estate investment trust (“REIT”) for federal income tax purposes. We engage in the ownership and management of timberland located in the southeastern United States. We were incorporated on September 27, 2005, and commenced operations on July 11, 2007. Substantially all of our business is conducted through Wells Timberland Operating Partnership, L.P. (“Wells Timberland OP”), a Delaware limited partnership formed on November 9, 2005, of which we are the sole general partner, possess full legal control and authority over its operations, and own 99.99% of its common units. Wells Timberland Management Organization, LLC (“Wells TIMO”), a wholly owned subsidiary of Wells Capital, Inc. (“Wells Capital”), is the sole limited partner of Wells Timberland OP. In addition, we formed Wells Timberland TRS, Inc. (“Wells Timberland TRS”), a wholly owned subsidiary organized as a Delaware corporation, on January 1, 2006. Unless otherwise noted, references herein to Wells Timberland REIT shall include Wells Timberland REIT and all of its subsidiaries, including Wells Timberland OP, Wells Timberland TRS, and the subsidiaries of Wells Timberland OP and Wells Timberland TRS.

We have executed an agreement, as amended, with Wells TIMO (the “Advisory Agreement”), under which Wells TIMO performs certain key functions on our behalf, including, among others, the investment of capital proceeds and management of our day-to-day operations.

The focus of our business is to invest in timberland and to manage that investment in order to provide attractive returns to our investors. We generate income returns in the form of cash flows from harvesting and selling timber, leasing the right to access land and harvest timber, and from pursuing non-timber-related revenue sources. We may pursue other investment opportunities that will complement our timberland investments. We also may invest in other entities that own timberland, or form joint ventures with entities that have complementary investment objectives. When and where we believe that it is appropriate, we also generate cash flow from the sale of lands that have a higher-and-better use (“HBU”). 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. For the years ended December 31, 2012, 2011, and 2010, respectively, the sale of timber accounted for approximately 69%, 89%, and 87% of our revenue. The sale of timberland accounted for approximately 25%, 4%, and 5% of our revenue for the years ended December 31, 2012, 2011, and 2010, respectively.

As of December 31, 2012, we owned interests in approximately 288,800 acres of timberland (consisting of approximately 246,300 acres of timberland held in fee-simple interests and approximately 42,500 acres of timberland held in leasehold interests) located on the Lower Piedmont and Upper Coastal Plains of East Central Alabama and West Central Georgia (the “Mahrt Timberland”). As of December 31, 2012, the Mahrt Timberland was comprised of approximately 10.1 million tons of merchantable timber inventory, including approximately 6.0 million tons of pulpwood, 2.1 million tons of chip-n-saw, and 2.0 million tons of sawtimber.

In connection with our acquisition of the Mahrt Timberland, we entered into a master stumpage agreement and a fiber supply agreement (collectively, the “Timber Agreements”) with a wholly owned subsidiary of MeadWestvaco Corporation (“MeadWestvaco”). The master stumpage agreement provides that we will sell specified amounts of timber and make available certain portions of the Mahrt Timberland to Wells Timberland TRS for harvesting at \$0.10 per ton of qualifying timber purchased by MeadWestvaco plus a portion of the gross proceeds received from MeadWestvaco under the fiber supply agreement. The fiber supply agreement provides that MeadWestvaco will purchase specified tonnage of timber from Wells Timberland TRS at specified prices per ton, depending upon the type of timber. The

prices for the timber purchased pursuant to the fiber supply agreement are negotiated every two years but are subject to quarterly adjustments based on an index published by Timber Mart-South, a quarterly trade publication that reports raw forest product prices in 11 southern states. The initial term of the Timber Agreements is October 9, 2007 through December 31, 2032, subject to extension and early termination provisions. The Timber Agreements ensure a long-

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term source of supply of wood fiber products for MeadWestvaco in order to meet its paperboard and lumber production requirements at specified mills and provide us with a reliable consumer for the wood products from the Mahrt Timberland. For the years ended December 31, 2012, 2011, and 2010, approximately 54%, 58%, and 61%, respectively, of our net timber sales revenue was derived from the Timber Agreements. For 2013, we are required to make available for purchase by MeadWestvaco, and MeadWestvaco is required to purchase, a minimum of approximately 0.6 million tons of timber at fiber supply agreement pricing. The loss of MeadWestvaco as a customer would have a material adverse effect on our business.

Our stock is not listed on a national exchange. However, our charter currently requires that, in the event that our stock is not listed on a national exchange by August 11, 2018, we must either (i) seek stockholder approval of an extension or amendment of this listing deadline or (ii) seek stockholder approval to begin liquidating our investments and distributing the resulting proceeds to the stockholders. If we seek stockholder approval of an extension or amendment to this listing date and do not obtain it, we will then be required to seek stockholder approval to liquidate. In this circumstance, if we seek and do not obtain approval to liquidate, we will not be required to list or liquidate and could continue to operate indefinitely as an unlisted company.

Investment Objectives

Our primary investment objectives are to preserve investor capital, seek long-term capital appreciation from our investments, and generate stable current income. Our investment strategy is to achieve diversifications of timber age class, product species, and markets and customers.

Age Class Diversification. Age class diversification allows us to make adjustments to our short-term and long-term income returns. Forests comprised of younger trees tend to generate less cash flow in the near-term than mature forests because there is less merchantable timber on them. Forests comprised of older trees can generate greater income returns in the near-term; however, 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 focus our investment efforts on properties that are comprised of forests of different age classes, thus enabling us to better manage our short-term and long-term income and appreciation returns. At all times, we seek to acquire properties on terms that are favorable to us, and to seek a balance between short-term and long-term returns.

Species Diversification. By owning properties comprised of different species of trees, we mitigate the risks of being dependent on the overall market for any particular species of trees. Hardwood product (and timber) markets differ from softwood product (and timber) markets and may provide attractive income returns when softwood markets are poor, and vice versa.

Market and Customer Diversification. By pursuing an investment approach that includes the goal of market diversification, we seek to mitigate the risk of our operations being dependent on one particular customer or mill. To date, we have focused our geographic diversification approach on a micro level. We believe that our timberland properties should not be located in a single mill procurement basket. A single mill procurement basket is 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 enables us to participate in different wood markets, which helps 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 fire, hurricane, earthquake, insect infestation, drought, disease, windstorm, flooding, or other weather conditions or natural disasters.

As opportunities arise, we may seek to diversify our timberland investments by locating investment properties in different geographic locations. Such geographic diversification will lessen our dependence on regional economic and other conditions and provides further exposure to different species of trees and to different markets. For a discussion of the risks related to the lack of such diversification or failure to fully implement our investment strategy, see "Item 1A. Risk Factors-Risk Relating to Investing in Us".

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Financing Objectives

We have financed our acquisition of the Mahrt Timberland through a combination of debt, the issuance of common stock in our public offerings, and the issuance of preferred stock to Wells Real Estate Funds, Inc. (“Wells REF”), the indirect parent company of Wells TIMO and the direct parent of Wells Capital. We opted to leverage the Mahrt Timberland acquisition with substantial short-term and medium-term borrowings and to issue preferred stock as a result of sourcing this acquisition in advance of raising substantial investor proceeds under our initial public offering.

Prior to August 8, 2011, our charter generally limited our borrowings to a level that was less than 300% of our net assets, which approximated 75% of the cost of our timber assets before adjustments for noncash reserves, depletion, amortization, and depreciation. We were able to borrow in excess of this limitation temporarily upon the approval of a majority of our independent directors. Effective August 8, 2011, our stockholders approved an amendment to our charter that lowered the maximum amount of debt that we are permitted to have in relation to our net assets to 200% and requires stockholder approval for any future amendment to this provision. As a result of this amendment to our charter, not only is our leverage limitation lower, but our board of directors no longer has the ability to approve leverage in excess of our net assets limitation without stockholder approval.

We currently intend to maintain amounts outstanding under long-term debt arrangements or lines of credit so that we will have more funds available for working capital and investment in timberland properties, which will allow us to further diversify our portfolio. However, the level of leverage will depend upon various factors to be considered in the sole discretion of our board of directors, including, but not limited to, our ability to pay distributions, our ability to raise equity proceeds from the sale of our common stock through our distribution reinvestment plan (“DRP”), the availability of properties meeting our investment criteria, the availability of debt, and changes in the cost of debt financing.

Our debt-to-net-assets ratio, defined as our total debt as a percentage of our total gross assets (other than intangibles) less total liabilities, was approximately 45% and 47%, as of December 31, 2012 and 2011, respectively.

Operating Objectives

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, we believe some segments of the timber industry and paper and forest products industries are less affected by economic downturns than some other industries.

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. In most cases, we also will have the flexibility to modify silvicultural plans to target age/class scenarios enabling us to produce products that match up with the raw material demand of the customer base for which a particular block of timber will be marketed.

Biological stages of tree growth have a significant effect on the value of the underlying timberland. It takes a certain period of time for planted trees to achieve merchantable growth. The growth in the value of a tree stand is directly tied to the age and size of the trees within that tree stand. Each year, trees grow in terms of both height and width. As a result, assuming that timber prices remain constant and that no trees are harvested or damaged, a timberland property will become more valuable each year simply because the trees within that property have become larger. During certain

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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 trees begin to achieve pulpwood size. For example, for Southern pine in Georgia and Alabama, this generally occurs between 11-15 years in the life of a tree, and results in the tree changing from having no merchantable value to achieving values typically ranging from \$8.00 to \$10.00 per ton. Another such period of time occurs when pulpwood trees reach “chip-n-saw” size, which generally occurs between 16-22 years in the life of a tree. Southern pine “chip-n-saw” prices may be two to three times those for pulpwood trees. Another value increase occurs when trees can be sold as large sawlogs, which generally occurs when the tree is older than approximately 23 years of age in the Southern United States, and sawlogs could be twice the value of chip-n-saw.

We focus on operating the Mahrt Timberland to produce attractive short-term and long-term income and appreciation returns. 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 seek to balance these two strategies in a manner that optimizes the returns to stockholders consistent with our investment objectives.

We will continue to focus on the following key operating factors:

- generating sufficient cash flow from operations to meet required obligations of our existing debt;
- maximizing the value of our timberlands through intensive forest management while practicing environmentally responsible resource stewardship; and
- controlling administrative and operating expenses as a percentage of revenues.

Board of Directors Review of Our Policies

Our independent directors have reviewed our policies and determined that they are in the best interest of our stockholders. Set forth below is a discussion of the basis for that determination.

Investment Policies. We focus our investment efforts on the ownership and management of income-generating timberland in order to provide attractive short-term and long-term returns to our investors. This focus is preferred because we believe it best enables us to achieve our goals of preserving investor capital, realizing capital appreciation upon the ultimate sale of our assets, and generating current income. We may pursue other investment opportunities that will complement our timberland investments. Our advisor, Wells TIMO, has extensive expertise in the management of timberland investments.

Working Capital Reserves. We did not set aside offering proceeds for working capital purposes. Setting aside funds for this purpose would have decreased the amount invested in timber properties, including the servicing of debt, and would have reduced our opportunities to earn current income. We believe that debt proceeds and our cash flow from operations have been and will be sufficient to meet our needs for working capital.

Borrowing Policies. We have a limitation on borrowing that precludes us from borrowing in excess of 200% 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 depletion, depreciation, reserves for bad debts, and other noncash reserves, less total liabilities, calculated quarterly by us on a basis consistently applied. Any borrowings in excess of this limitation requires an amendment to our charter that must be approved by a majority of our stockholders who are entitled to vote on the matter. As of December 31, 2012, our debt-to-net-assets ratio was approximately 45%. Over the long-term, we generally expect to limit our borrowing to approximately 65% of the cost of our timber assets before adjustments for noncash reserves, depletion, amortization, and depreciation. This conservative leverage goal could reduce the amount of current income we can generate for our

stockholders, but it also reduces their risk of loss. We believe that preserving investor capital while generating stable current income is in the best interest of our stockholders.

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Policies Regarding Operating Expenses. Our charter limits our total operating expenses to no more than the greater of 2% of average invested assets at the end of any fiscal quarter or 25% of net income for the four previous consecutive quarters then ended, as these terms are defined in our charter, unless our board of directors has determined that such excess expenses were justified based on unusual and nonrecurring factors. For the four consecutive quarters ended December 31, 2012, total operating expenses represented approximately 1.40% of average invested assets.

Offering Policies. Effective December 31, 2011, we concluded our primary public offering of shares. We may offer shares to our existing stockholders through our DRP to the extent we make future cash distributions to our stockholders. Over the long term, we believe that offering shares under our DRP is in the best interest of our stockholders. If and when we pay cash distributions, the DRP is expected to provide an important source of funding for our share redemption plan and increase the likelihood that we will be able to (i) continue to pay down acquisition-related debt; (ii) acquire timberland properties at an attractive price, thereby improving stockholder returns; and (iii) further diversifying our portfolio of timberland properties, thereby reducing risk in our portfolio.

Listing Policy. We believe it continues to be in the best interest of our stockholders not to list our common shares for trading on a national exchange at this time. First, we just recently completed our primary public offering effective December 31, 2011. Second, it is more cost effective to remain unlisted and utilize Wells TIMO as our external advisor at the present time than it would be to internalize all the resources necessary to operate a listed company. Third, our shares are offered as a long-term investment. We believe that the benefit of being able to provide our stockholders with liquidity in the near-term through a stock exchange listing is outweighed by allowing the portfolio to mature and then completing a liquidity event such as a stock exchange listing of the shares or a sale or merger transaction that would result in our stockholders receiving cash or tradable securities having a value per share that is anticipated to be higher than the price at which our shares would likely trade today. Our charter currently requires that, in the event that our common stock is not listed on a national exchange by August 11, 2018, we must either (i) seek stockholder approval of an extension or amendment of this listing deadline or (ii) seek stockholder approval to begin liquidating our investments and distributing the resulting proceeds to the stockholders. If we seek stockholder approval of an extension or amendment to this listing date and do not obtain it, we will then be required to seek stockholder approval to liquidate. In this circumstance, if we seek and do not obtain approval to liquidate, we will not be required to list or liquidate and could continue to operate indefinitely as an unlisted company.

Employees

We have no direct employees. The employees of Wells TIMO and its affiliates provide services for us related to asset and forestry management, accounting, investor relations, and other administrative services. Wells TIMO is entitled to compensation as our advisor pursuant to the terms of the Advisory Agreement. We incurred approximately \$3.7 million, \$3.3 million, and \$6.1 million in advisor fees and expense reimbursements for the years ended December 31, 2012, 2011, and 2010, respectively. See "Part III. Item 13. Certain Relationships and Related Transactions, and Director Independence" for a detailed discussion of our related-party agreements, transactions, fees, and reimbursements.

Competition

Selling timber is highly competitive in the current market, and we will experience competition from owners and managers of competing timberland properties for the procurement of timber supply agreements. As a result, we may have to offer price concessions or other inducements to timber users in order to procure timber supply agreements, all of which may have an adverse impact on our results of operations. Also, as we seek to acquire assets, we are in competition for targeted timberland tracts with other similar timber investment companies, as well as investors in land for purposes other than growing timber. As a result, we may have to pay more for the timberland tracts to become the

purchaser if another suitable tract cannot be substituted. When it becomes time to dispose of timberland tracts, we will again be in competition with sellers of similar tracts to locate suitable purchasers of timberland.

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Operational Dependency

We have engaged Wells TIMO, a wholly owned subsidiary of Wells Capital, to provide certain services essential to us, including asset management services, supervision of forestry management, asset acquisition and disposition services, as well as other administrative responsibilities, including accounting services, stockholder communications, and investor relations. Wells TIMO is dependent on Wells Capital to provide certain services that are essential to their operations. This agreement can be terminated by either party upon 60 days' written notice. As a result of these relationships, we are dependent upon Wells Capital and Wells TIMO.

Wells Capital and Wells TIMO are both owned and controlled by Wells REF. Historically, the operations of Wells Capital, Wells TIMO, Wells Investment Securities, Inc. ("WIS"), Wells Management Company, Inc. ("Wells Management"), Wells Core Office Income REIT Advisory Services, LLC ("Wells Core Advisor"), and their affiliates represent substantially all of the business of Wells REF. Accordingly, we focus on the financial condition of Wells REF when assessing the financial condition of Wells Capital and Wells TIMO. In the event that Wells REF were to become unable to meet its obligations as they become due, we might be required to find alternative service providers.

Future net income generated by Wells REF will be largely dependent upon the amount of fees earned by Wells Capital, Wells TIMO, WIS, Wells Management, Wells Core Advisor, and their affiliates, based on, among other things, real estate assets managed, the amount of investor proceeds raised, and the volume of future acquisitions and dispositions of real estate assets by us and other Wells REF-sponsored programs, as well as any distribution income earned from equity interests in another REIT. As of December 31, 2012, we had no reason to believe that Wells REF does not have access to adequate liquidity and capital resources, including cash flow generated from operations, cash on hand, other investments, and borrowing capacity, necessary to meet its current and future obligations as they become due. Modifying service agreements between Wells REF, or its affiliates, and Wells Timberland REIT, or other Wells REF-sponsored programs, could impact Wells REF's future net income and future access to liquidity and capital resources. For example, a large portion of Wells REF's income is derived under agreements with Columbia Property Trust, Inc. ("Columbia"), formerly known as Wells Real Estate Investment Trust II, Inc. Effective February 28, 2013, Columbia transitioned to self-management and indicated that it does not expect to rely on Wells REF for the same level of services beyond December 31, 2013. As such, Wells REF does not expect to receive significant compensation from Columbia beyond December 31, 2013.

Economic Dependency

We also are dependent upon the ability of our timber customers to pay their contractual amounts as they become due. The inability of a customer to pay future supply agreement amounts would have a negative impact on our results of operations. We are not aware of any reason why our current customers will not be able to pay their contractual amounts as they become due in all material respects. Situations preventing our customers from paying contractual amounts could result in a material adverse impact on our results of operations.

Assertion of Legal Action Against Related Parties

On March 12, 2007, a stockholder of Piedmont Office Realty Trust, Inc. ("Piedmont REIT") filed a putative class action and derivative complaint, presently styled In re Wells Real Estate Investment Trust, Inc. Securities Litigation, in the United States District Court for the District of Maryland against, among others, Piedmont REIT; Leo F. Wells, III, our President and Director; Wells Capital, the owner of our advisor; Wells Management; certain affiliates of Wells REF; the directors of Piedmont REIT; and certain individuals who formerly served as officers or directors of Piedmont REIT prior to the closing of an internalization transaction by Piedmont REIT on April 16, 2007.

The complaint alleged, among other things, violations of the federal proxy rules and breaches of fiduciary duty arising from the Piedmont REIT internalization transaction and the related proxy statement filed with the SEC on February 26, 2007, as amended. The complaint sought, among other things, unspecified monetary damages and nullification of the Piedmont REIT internalization transaction.

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On June 27, 2007, the plaintiff filed an amended complaint, which attempted to assert class action claims on behalf of those persons who received and were entitled to vote on the Piedmont REIT proxy statement filed with the SEC on February 26, 2007, and derivative claims on behalf of Piedmont REIT.

On 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 alleged 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 sought, among other things, unspecified monetary damages, to nullify and rescind the internalization transaction, and to cancel and rescind any stock issued to the defendants as consideration for the internalization transaction. On May 12, 2008, the defendants answered and raised certain defenses to the second amended complaint. Subsequent to the filing of the second amended complaint, the plaintiff said it intended to seek monetary damages of approximately \$159 million plus prejudgment interest.

On June 23, 2008, the plaintiff filed a motion for class certification. On September 16, 2009, the Court granted the plaintiff's motion for class certification. On September 20, 2009, the defendants filed a petition for permission to appeal immediately the Court's order granting the motion for class certification with the Eleventh Circuit Court of Appeals. The petition for permission to appeal was denied on October 30, 2009.

On April 13, 2009, the plaintiff moved for leave to amend the second amended complaint to add additional defendants. The Court denied the plaintiff's motion for leave to amend on June 23, 2009.

On December 4, 2009, the parties filed motions for summary judgment. On August 2, 2010, the Court entered an order denying the defendants' motion for summary judgment and granting, in part, the plaintiff's motion for partial summary judgment. The Court ruled that the question of whether certain expressions of interest in acquiring Piedmont REIT constituted "material" information required to be disclosed in the proxy statement to obtain approval for the Piedmont REIT internalization transaction raises questions of fact that must be determined at trial.

On November 17, 2011, the Court issued rulings granting several of the plaintiff's motions in limine to prohibit the defendants from introducing certain evidence, including evidence of the defendants' reliance on advice from their outside legal and financial advisors, and limiting the defendants' ability to relate their subjective views, considerations, and observations during the trial of the case. On February 23, 2012, the Court granted several of the defendants' motions, including a motion for reconsideration regarding a motion the plaintiff had filed seeking exclusion of certain evidence impacting damages, and motions seeking exclusion of certain evidence proposed to be submitted by the plaintiff. The suit has been removed from the Court's trial calendar pending resolution of a request for interlocutory appellate review of certain legal rulings made by the Court.

On March 20, 2012, the Court granted the defendants leave to file a motion for summary judgment. On April 5, 2012, the defendants filed a motion for summary judgment. On April 24, 2012, the plaintiff filed its response to the defendants' motion for summary judgment. On May 7, 2012, the defendants filed their reply in support of their motion for summary judgment. On September 26, 2012, the Court granted the defendants' motion for summary judgment and entered judgment in favor of the defendants.

On October 22, 2012 Piedmont REIT announced that the parties reached agreement in principle to settle the lawsuit on October 12, 2012. Under the terms of the proposed settlement, the plaintiff will dismiss the appeal and release all

defendants from liability in exchange for total payment of \$4.9 million in cash by Piedmont REIT and its insurer. On December 31, 2012, the plaintiff filed a motion for preliminary approval of the settlement with the Court. On January 2, 2013, the Court preliminarily approved the settlement and scheduled a hearing for April 18, 2013, to determine whether to grant final approval of the settlement. The settlement, which is subject to court approval following notice to the class, will resolve the appeal and result in the final disposition of the case.

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Mr. Wells, Wells Capital, and Wells Management believe that the allegations contained in the complaint are without merit and intend to vigorously defend this action if for any reason the settlement is not approved. Although Wells REF believes that it has meritorious defenses to the claims of liability and damages in these actions, Wells REF is unable at this time to predict the outcome of the appeal of this action or, if reinstated, reasonably estimate a range of damages, or how any liability and responsibility for damages might be allocated among the 17 defendants in the action, which includes 11 defendants not affiliated with Mr. Wells, Wells Capital, or Wells Management. The ultimate resolution of this matter could have a material adverse impact on Wells REF's financial results, financial condition, or liquidity.

Access to SEC Filings

Access to copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other filings we make with the SEC, including amendments to such filings, may be obtained free of charge from our website at www.wellstimberland.com, or through a link to the www.sec.gov website. These filings are available promptly after we file them with, or furnish them to, the SEC.

ITEM 1A. RISK FACTORS

Overview

Below are some of the risks and uncertainties that could cause our actual results to differ materially from those presented in our forward-looking statements. The risks and uncertainties described below are not the only ones we face but do represent those risks and uncertainties that we believe are material to our business, operating results, prospects, and financial condition. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may harm our business.

Risks Related to Investing in Us

There is no public trading market for stockholders' shares; therefore, it will be difficult for them to sell their 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 stockholders' shares. In addition, we have adopted an amended and restated share redemption plan ("SRP") that includes numerous restrictions that limit stockholders' ability to sell their shares. The SRP provides that the redemption price for all redemptions, including redemptions sought within two years of a stockholder's death, qualifying disability or confinement to a long-term care facility, will be at a price equal to 95% of our estimated value per share. On December 14, 2012, our board of directors determined that our estimated per share value as of September 30, 2012 was \$6.56, resulting in a redemption price of \$6.23 per share, which is less than the maximum offering price per share in our public offerings of \$10.00 per share. Our board is free to further amend or terminate the SRP upon 30 days' notice. Therefore, it will be difficult for stockholders to sell their shares promptly or at all. If stockholders are able to sell their shares, they will likely have to sell them at a substantial discount to their purchase price. It is also likely that a stockholder's shares will not be accepted as the primary collateral for a loan.

The estimated per-share value of our common stock as determined by our board of directors is subject to certain limitations and qualifications and may not reflect the amount you would obtain if you tried to sell your shares or if we

liquidated our assets.

We previously established the offering price of our shares on an arbitrary basis, which bore no relationship to our book or asset values or to any other established criteria for valuing shares and was likely higher than the proceeds that you would receive upon liquidation or a resale of your shares if they were to be listed on an exchange or actively traded by broker/dealers, especially in light of the upfront fees that we paid in connection with the issuance of our shares.

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On December 14, 2012, to assist broker/dealers in connection with their obligations under applicable Financial Industry Regulatory Authority ("FINRA") rules with respect to customer account statements and to assist fiduciaries in discharging their obligations under Employee Retirement Income Security Act ("ERISA") reporting requirements, our board of directors established an estimated per-share value of our common stock. The estimated value of \$6.56 per share as of September 30, 2012 determined by our board of directors was consistent with the recommendation of our advisor, a third-party certified public accounting firm and a third-party forest consulting and certified timber valuation firm engaged by our board. The estimated value was based on a number of estimates and assumptions that may not be accurate or complete. Different parties with different assumptions and estimates could derive a different estimated per-share value. Accordingly, with respect to its estimated per-share value, we can provide no assurance that:

- a stockholder would be able to realize this estimated value per share upon attempting to resell his or her shares;
- we would be able to achieve, for our stockholders, the estimated per-share value, upon a listing of our shares of common stock on a national securities exchange, selling our timber portfolio, or merging with another company; or
- the estimated per-share value, or the methodologies relied upon to estimate the per-share value, will be found by any regulatory authority to comply with FINRA, ERISA, or any other regulatory requirements.

For a full description of the limitations and qualifications of the estimate, please refer to "Item 5-Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities".

The previous redemption price for shares under our SRP exceeds our estimated value per share, which has resulted in dilution to our remaining stockholders.

Under our SRP, to date we have only been able to redeem shares in connection with death, disability or confinement to a long-term care facility and such shares were all redeemed at a price per share equal to the price paid by the investor whose shares were subject to redemption. The maximum redemption price that may have been paid under the program prior to the determination of our estimated per share value was \$10.00 per share, which was the maximum offering price of our shares of common stock in the primary portion of our public offerings.

On December 14, 2012, we announced an estimated per-share value of our common stock equal to \$6.56 per share, calculated as of September 30, 2012. Therefore, prior to publication of an estimated per share value, we redeemed shares for an amount exceeding our estimated per share value, meaning that all previous redemptions were dilutive to our remaining stockholders. Even at lower repurchase prices, the actual value of the shares may be substantially less than what we pay and the redemptions may be dilutive to our remaining stockholders. If timber market fundamentals continue to deteriorate and we update our estimated per share value to reflect this deterioration, the current redemption price under our SRP may exceed our updated estimated per-share value.

We have completed only one significant timberland acquisition and if we are unable to raise additional equity or debt proceeds, we will be limited in the number and type of investments we may make, and the value of a stockholder's investment in us will fluctuate with the performance of the specific properties we acquire.

We have completed only one significant timberland acquisition. Our ability to identify and acquire well-performing properties and achieve our investment objectives depends upon the performance of our advisor in the selection of our investments and the ability of our advisor to obtain debt or equity financing on our behalf. Our Follow-On Offering expired on December 31, 2011. Unless we are able to raise additional equity or debt proceeds, we may not be able to achieve a broadly diversified timberland property portfolio. In that case, the likelihood of our profitability being affected by the performance of the Mahrt Timberland will increase. A stockholder's investment in our shares will be subject to greater risk to the extent that we lack a diversified portfolio of timberland properties.

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

We believe the current market for timberland properties is extremely competitive. To the extent that we have access to debt or equity capital, or internally generated capital, to make acquisitions, 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 than we do to borrow funds to acquire properties.

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 stockholders. Our advisor may not be successful in obtaining suitable investments on financially attractive terms, and, that if our advisor makes investments on our behalf, our objectives may not be achieved. 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 are substantially dependent on our business relationships with MeadWestvaco and its affiliated entities, and our continued success will depend on their economic performance.

We entered into the Timber Agreements with MeadWestvaco in connection with the acquisition of the Mahrt Timberland. The Timber Agreements provide that we will sell specified amounts of timber to a subsidiary of MeadWestvaco, subject to market pricing adjustments. The Timber Agreements are intended to ensure a long-term source of supply of wood fiber products for MeadWestvaco in order to meet its paperboard and lumber production requirements at specified mills and provide us with a reliable customer for the wood products from the Mahrt Timberland. Our financial performance is substantially dependent on the economic performance of MeadWestvaco and its affiliates as consumers of our wood products. Approximately 54% of our net timber sales revenue in 2012 was derived from these Timber Agreements. Therefore, our business and financial condition may be negatively and adversely impacted if the financial performance of MeadWestvaco suffers.

Our real estate investments are concentrated in timberland properties, making us more vulnerable economically than if our investments were diversified.

We own timberland properties and may make additional timberland acquisitions in the future. 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. Future cash distributions are not guaranteed and may fluctuate.

As of the date of this report, 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 credit agreements. As a result, our distribution rate and payment frequency may vary from time to time. Our long-term strategy is to fund the payment of any distributions to our stockholders entirely from our cash flow from operations. However, we may borrow funds to make cash distributions. In the event that we are unable to consistently fund any distributions to stockholders entirely from our cash flows from operations, the value of a stockholder's shares upon the possible listing of our stock, the sale of our assets, or any other liquidity event may be reduced.

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

As of the date of this report, we have not paid any cash distributions. There are many factors that can affect the availability and timing of distributions to stockholders. We expect to fund any distributions principally from cash flow from operations; however, our organizational documents permit us to pay distributions from any source, including borrowings or from net equity proceeds raised under our DRP. If we fund distributions from financings or the net equity proceeds pursuant to our DRP, we will have fewer funds available for the investment in, and acquisition of, properties; thus, the overall return to our investors may be reduced. Further, to the extent distributions exceed cash flow from operations, a stockholder's basis in our stock will be reduced and, to the extent distributions exceed a stockholder's basis, the stockholder may recognize capital gain. 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. We can give no assurance that we will be able to pay cash distributions, or that if paid, such cash distributions will be funded from cash flow from operations.

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.

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 stockholders, 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 stockholders' investments.

Our success depends to a significant degree upon the contributions of certain key personnel, including Leo F. Wells, III, Douglas P. Williams, Robert F. Kennedy, Brian M. Davis, Troy A. Harris, 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 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

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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 stockholders' investments 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, currently has only eight 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 stockholders' investments.

Our rights and the rights of our stockholders to recover claims against our independent directors are limited, which could reduce stockholders' 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 interest 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, our stockholders and we may have more limited rights against our independent directors than might otherwise exist under common law, which could reduce stockholders' 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 our stockholders.

Stockholders' interests in us will be diluted if we issue additional shares, which could reduce the overall value of their investments.

Our investors 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. Our board may elect to (1) sell additional shares in future public offerings; (2) issue equity interests in private offerings; (3) issue shares of our common stock upon the exercise of the options we may grant to our independent directors or to employees of Wells TIMO or Wells Capital; (4) issue shares to our advisor, its successors, or assigns, in payment of an outstanding fee obligation; (5) issue shares of our common stock to sellers of properties

we acquire in connection with an exchange of limited partnership interests of Wells Timberland OP; or (6) issue shares of common stock pursuant to stock dividends. To the extent we issue additional equity interests, our investors' 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 by investors, and the value of our properties, existing stockholders also may experience a dilution in the book value of their investments in us.

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We issued quarterly common stock dividends to stockholders of record as of certain dates between August 9, 2010 and December 15, 2011. The stock dividends annualized to a 2% rate in 2011 and 3% rate in 2010. If an investor purchased shares in our Follow-On Offering but was not a stockholder of record for any of the stock dividend periods, the investor's interest in us was diluted as a result of the additional shares issued to those stockholders of record. Should our board of directors decide to issue additional common stock dividends, and should an investor purchase shares after the periods selected by our board as record dates for such common stock dividends, the investor's interest in us will be further diluted.

Risks Related to Conflicts of Interest

Wells Capital, its affiliates, and our officers will face competing demands on their time, and this may cause our operations and stockholders' investments 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 Director and the President of Wells Capital; and Douglas P. Williams, our Executive 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 Core Office Income REIT, Inc. ("Wells Core 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 stockholders' investments, 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 stockholders.

Our executive officers and one of our directors, Leo F. Wells III, are also officers and/or directors of Wells Capital, our dealer-manager, and other affiliated entities and Wells REF-sponsored programs. 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 our stockholders and to maintain or increase the value of our assets.

Wells TIMO and its affiliates, including our officers and some 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 is entitled to receive

compensation upon the disposition, but not the acquisition, of our assets, its interests may not be 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:

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the continuation, renewal, or enforcement of the Advisory Agreement with Wells TIMO;
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, thereby increasing the likelihood of related fee income for Wells TIMO;
whether and when we seek to list our common stock on a national securities exchange, which listing could entitle Wells TIMO to a success-based payment but could also hinder its sales efforts for other programs if the price at which our shares trade is lower than the price at which we offered shares to the public; and
whether and when we seek to sell the company or our assets, which sale could entitle Wells TIMO to a success-based payment from Wells Timberland OP but could also hinder its sales efforts for other programs if the sales price for the company or its assets results in proceeds less than the amount needed to preserve our stockholders' capital.

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

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 stockholders that an unaffiliated third party would not be willing and able to provide to us similar services at a lower price. 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.

We are dependent upon Wells TIMO and its affiliates to conduct our operations; thus, adverse changes in their financial health or our relationship with them could cause our operations to suffer.

We are dependent upon Wells TIMO and its affiliates to conduct our operations. Thus, adverse changes to our relationship with, or the financial health of, our advisor and its affiliates, including changes arising from litigation, could hinder their ability to successfully manage our operations and our portfolio of investments.

Affiliates of our advisor serve as a general partner to many Wells-sponsored limited partnership programs. Those affiliates may have contingent liability for the obligations of such partnerships. Enforcement of such obligations against our advisor's affiliates could result in a substantial reduction of their net worth. If such liabilities affected the level of services that our advisor could provide, our operations and financial performance could suffer.

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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 Exchange 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 10 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 noncomplying 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 a stockholder from receiving a premium price for his shares of our common stock in such a transaction.

A stockholder’s 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.

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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 maintain a significant portion of our portfolios 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 stockholders' 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 forgo 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.

Stockholders will have limited control over changes in our policies and operations, which increases the uncertainty and risks stockholders may face.

Our board of directors determines our major policies, including our policies regarding investment strategies, financing, 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 stockholders may face.

Stockholders may not be able to sell their shares under the SRP and, if they are able to sell their shares under the plan, they may not be able to recover the amount of their investments in our shares.

Our board of directors has adopted an SRP, as amended, but there are significant conditions and limitations that would limit stockholders' ability to sell their shares under the plan. In addition, our board of directors may amend, suspend, or terminate our SRP upon 30 days' notice and without stockholder approval.

We limit the number of shares redeemed pursuant to our SRP 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 DRP during such period and (y) any additional amounts reserved for such purpose by our board of directors. We have not yet paid any cash distributions and, therefore, have not received any proceeds under our DRP. In addition, our board of directors has not reserved any amounts except for redemptions made in connection with death, qualifying disability, or confinement to a long-term care facility. Therefore, these limits are likely to prevent us from accommodating all redemption requests made in any year. The price for all redemptions is now equal to 95% of our estimated per-share value. These restrictions will severely limit stockholders' ability to sell their shares should they require liquidity and will limit their ability to recover the value they invested.

Payment of fees to Wells TIMO and its affiliates will reduce cash available for investment and distribution, and increase the risk that stockholders will not be able to recover the amount of their investments in our shares.

Wells TIMO and its affiliates will perform services for us in connection with the selection and acquisition of our investments, the management of our properties, and the administration of our other investments. We pay Wells TIMO and its affiliates substantial fees for these services. Payment of these fees reduces the amount of cash available for investment in properties or distribution to stockholders. 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

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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. 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 paid by our investors. In addition, substantial up-front fees paid by investors in our public offerings also increase the risk that stockholders will not be able to resell their shares at a profit, even if our shares are listed on a national securities exchange.

Outstanding 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 had 27,585 shares of Series A preferred stock and 9,807 shares of Series B preferred stock (the "Preferred Stock") outstanding as of December 31, 2012. Prior to May 9, 2011, dividends accrued on the shares of the Preferred Stock daily at a rate of 8.5% per year of the issue price of \$1,000 per share. On May 9, 2011, our board of directors approved a decrease in the annual dividend rate on the Preferred Stock from 8.5% to 1.0%. If we are liquidated or dissolved, the holders of the Preferred Stock are entitled to receive the issue price of \$1,000 per share, plus any accrued and unpaid dividends, whether or not declared, before any payment may be made to the holders of our common stock. As a result, the amount of funds holders of our common stock would otherwise receive upon a liquidation or dissolution would be reduced in the event the Preferred Stock had not been redeemed prior to such an event.

Risks Related to Investments in Timberland

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

Current and future customers who agree to purchase our timber under supply contracts will range in credit quality from high to low. We assume the full credit risk of these parties, as we have no payment guarantees under the contract or insurance if one of these parties fails to make payments to us. While we intend to continue acquiring 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 any additional 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 HBU 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 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.

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

Our operating results are 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 depend on prices for timber that can experience significant variation and that 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 have entered into and those we expect to enter into in the future fix the price of our harvested timber for a period of time, these contracts may not protect us from the long-term effects of price declines and may restrict our ability to take advantage of price increases.

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

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

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

The volume and value of timber that can be harvested from the timberlands we own and may 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 own only a single significant 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

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to continue. Many real estate developers have substantially greater financial resources than our company. In addition, many developers tend to use high relative amounts of leverage to acquire development parcels, which we may not be willing or able to incur. Purchases of timberland parcels for development not only reduce the amount of suitable timberland investment properties, but also tend to separate larger, existing timberland properties into smaller units, which have reduced economies of scale and are less desirable for harvesting and the future marketability of the property for timber harvesting or other uses. Competition from real estate developers and others limits the amount of suitable timberland investments available for us to acquire, and any increase in the prices we expect to pay for timberland may reduce the returns, if any, we are able to achieve for our stockholders.

Harvesting our timber may be subject to limitations that 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 are 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 clean-up 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 clean-ups 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.

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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 the 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 acre 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. 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 management 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 an HBU 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.

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

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

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

The quality and reliability of data concerning timberland properties varies greatly. Professional foresters collect data on species, volumes, and quantities of timber on a particular property by conducting “cruises” through the property. During these cruises, foresters sample timber stands at specified intervals and locations that have been pre-determined by forest statisticians. A cruise that is poorly designed or executed can result in misleading data. In addition, errors in compiling the data may lead to erroneous estimates of the volume and quality of the timber on a particular property. The latest inventory data available at the time of a timberland transaction may be based on cruises that are more than one year old. Timberland cruises are time-consuming and expensive, and, as a result, are usually not 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 inaccurate. 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 that 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 inaccurate estimates of future volumes. If these estimates are inaccurate, 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.

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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 an 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 any 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.

If we acquire any additional 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.

Any international investments we make 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 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 our 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

Economic conditions may have an impact on our business, our financial condition, and our ability to obtain debt financing in ways that we currently cannot predict.

Turmoil in the global financial system may have an impact on our business and our financial condition. Despite improved access to capital for some companies, the capital and credit markets continue to be affected by extreme volatility and disruption during the past four years. The health of the global capital markets remains a concern. The banking industry has been experiencing improved earnings, but the relatively low growth economic environment has

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caused the markets to question whether financial institutions are truly appropriately capitalized. The downgrade of the U.S. government debt has increased these concerns, especially for the larger, money center banks. Smaller financial institutions have continued to work with borrowers to amend and extend existing loans; however, as these loans reach maturity, there is the potential for future credit losses. The Federal Deposit Insurance Corporation's list of troubled financial institutions is still quite large and the threat of more bank closings will weigh heavily on the financial markets. Liquidity in the global credit market has been severely contracted by market disruptions, and new lending is expected to remain subdued in the near term. We have relied on debt financing to finance the Mahrt Timberland. As a result of the uncertainties in the credit market, we may not be able to refinance our existing indebtedness or to obtain additional debt financing on attractive terms. If we are not able to refinance existing indebtedness on attractive terms at its maturity, we may be forced to dispose of some of our assets. Disruptions in the financial markets 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 CoBank loan, stockholders who invest in us prior to the repayment of the loan could lose some or all of their investment.

In September 2012, we borrowed approximately \$133.0 million to refinance the outstanding Mahrt loan balance and to partially fund a property acquisition. As of December 31, 2012, the CoBank loan had a principal balance of approximately \$132.4 million, which we must repay on or before August 11, 2018. The CoBank loan is secured by, among other things, a first priority security interest in the Mahrt Timberland. Our ability to repay the CoBank loan is dependent upon the success of our operations in generating sufficient cash flow to meet our obligations under the CoBank loan. If we are unable to repay the CoBank loan when due, then unless we are able to refinance the CoBank loan or otherwise amend its terms, we will be in default under the CoBank loan. If we default on the CoBank loan and if the lenders under the CoBank loan foreclose upon their security interest, 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 continue our operations.

We may incur additional indebtedness which could increase our business risks and may reduce the value of a stockholder's 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. 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 a stockholder's 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 a stockholder's 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.

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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 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 our stockholders 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 further hinder our ability to pay distributions to our stockholders.

We have incurred significant indebtedness that accrues interest at a variable rate, and we may incur additional debt in the future. Interest we pay under the CoBank loan and any other debt we incur will reduce our operating cash flows and further hinder our ability to make distributions to our stockholders. 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 our stockholders. 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 authority to incur debt, and high debt levels could hinder our ability to make distributions and could decrease the value of stockholders' investments.

Our charter does not limit us from incurring debt until our aggregate debt would exceed 200% of our net assets (generally expected to approximate 65% of the cost of our timber assets before adjustments for noncash reserves, depletion, amortization, and depreciation). 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 the Mahrt Loan include restrictive covenants such as the prohibition on paying cash distributions or redeeming shares unless we achieve certain financial performance measures under the Mahrt Loan (except for distributions required to maintain our status as a REIT, and except for those redemptions allowed in cases of death or qualifying disability). These factors limit the amount of cash we have available to distribute and could result in a decline in the value of our stockholders' investments.

Actions of a joint venture partner could reduce the returns on our joint venture investments and decrease stockholders' 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:

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- 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 our stockholders' returns.

Federal Income Tax Risks

Failure to continue to qualify as a REIT could reduce our net income, if any, and cash available for distributions.

Our qualification as a REIT depends upon our ability to meet 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 of 1986, as amended, or the Code. We have no assurances that we will satisfy the requirements for REIT qualification in the future. 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 fail to qualify as a REIT for any taxable year, we will be subject to federal and state income tax on our taxable income, if any, at corporate rates and/or penalties. 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. To the extent we have taxable net income, 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.

If we begin to pay cash distributions in the future, stockholders may incur a current tax liability on distributions that they elect to reinvest in our common stock.

If we begin to pay cash distributions in the future and a stockholder participates in our DRP, the stockholder 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, the stockholder 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 the stockholder is a tax-exempt entity, the stockholder may have to use funds from other sources to pay the tax liability on the value of the shares of common stock received.

Even if we continue to qualify for and elect to be taxed 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 our stockholders.

Even if we continue to qualify for and elect to be taxed 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 (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 and state corporate income tax on the undistributed income.

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

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

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

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

To maintain our REIT status, 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 stockholders’ investments.

To maintain our REIT status, we must distribute to our stockholders each year 90% of our REIT taxable income (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 market conditions are unfavorable. Such borrowings could increase our costs and reduce the value of our common stock.

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

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 conduct a portion of our business activities through one or more taxable REIT subsidiaries, or TRS. A TRS is a fully taxable corporation that may earn income that would not be qualifying REIT income if earned directly by us. Our use of TRSs enables us to engage in non-REIT-qualifying business activities, such as the sale of HBU properties. However, under the 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 is subject to corporate income tax and is not 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 stockholders’ investments.

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 HBU property at the REIT level could, in certain circumstances, constitute prohibited transactions.

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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 to identify properties that will become part of our “dealer” land sales business. Therefore, if we sell any HBU 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 a fiduciary fails to meet the fiduciary and other standards under ERISA or the Code as a result of an investment in our stock, the fiduciary 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 the fiduciary is 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, the fiduciary should satisfy that:

- the investment is consistent with the fiduciary obligations under ERISA and the Code;
- the investment is made in accordance with the documents and instruments governing the plan or IRA, including the plan’s investment policy;
- a stockholder’s 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 Code;
- the investment will not impair the liquidity of the plan or IRA;
- the investment will not produce “unrelated business taxable income” for the plan or IRA;
- the fiduciary 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
- the investment will not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

Failure to satisfy the fiduciary standards of conduct and other applicable requirements of ERISA and the 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 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.

The annual statement of value that we 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. On December 14, 2012, our board of directors determined that our estimated per-share value was \$6.56 as of September 30, 2012. The valuation was based on a number of estimate and assumptions that may not be accurate or

complete. Stockholders should be aware that:

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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.

If you invest in our shares through an IRA or other retirement plan, you will be limited in your ability to withdraw required minimum distributions.

If you establish an IRA or other retirement plan through which you invest in our shares, federal law may require you to withdraw required minimum distributions (“RMDs”) from such plan in the future. Any share redemptions requested to satisfy these RMD requirements will be considered requests for “ordinary redemptions,” as defined in our share redemption plan. Our share redemption plan limits the amount of ordinary redemptions that can be made in a given year to the lesser of (i) the sum of net proceeds from our distribution reinvestment plan during such period and an additional amounts reserved by our board of directors for such purpose, or (ii) 5% of the weighted-average common shares outstanding during the preceding year. To date we have not paid any cash distributions and therefore, there are no net proceeds from our distribution reinvestment plan, and our board of directors has not reserved any funds for ordinary redemptions. As a result, we have not made any ordinary redemptions and it is not likely that you will be able to redeem your shares at a time in which you need liquidity to satisfy the RMD requirements under your IRA or other retirement plan. Even if we begin paying cash distributions and receive net proceeds from our distribution reinvestment plan, it is likely that you will not be able to redeem all of your shares at one time, and any share that you redeem will be at a price less than the price at which the shares were initially purchased. If you fail to withdraw RMDs from your IRA or other retirement plan, you may be subject to certain tax penalties.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

As of December 31, 2012, we owned interests in approximately 288,800 acres of timberland located on the Lower Piedmont and Upper Coastal Plains of East Central Alabama and West Central Georgia. Of the approximately 288,800 acres, we owned fee-simple interests in approximately 246,300 acres and leasehold interests in approximately 42,500 acres. As of December 31, 2012, our timberlands contained an estimated 10.1 million tons of merchantable timber inventory, of which approximately 6.0 million tons was pulpwood, 2.1 million tons was chip-n-saw, and 2.0 million tons was sawtimber.

Our methods of estimating our timber inventory are consistent with industry practices. We must use significant assumptions and judgments to determine both our current timber inventory and the timber inventory that will be available over the harvest cycle; therefore, the physical quantity of such timber may vary significantly from our estimates. Our estimated inventory is calculated for each tract by utilizing growth formulas based on representative sample tracts and tree counts for various diameter classifications. The calculation of inventory is subject to periodic adjustments based on sample cruises, actual volumes harvested and other timber activity, including timberland sales. In addition to growth, the inventory calculation takes into account in-growth, which is the annual transfer of oldest pre-merchantable age class into merchantable inventory. The age at which timber is considered merchantable is reviewed periodically and updated for changing harvest practices, future harvest age profiles and biological growth

factors.

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ITEM 3. LEGAL PROCEEDINGS

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

Certain of our affiliates are engaged in various legal actions, including securities litigation, that are discussed more fully in "Item 1. Business. Assertion of Legal Action Against Related Parties".

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND 5. ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

As of February 28, 2013, we had approximately 31.8 million shares of common stock outstanding held of record by a total of approximately 10,597 stockholders. The number of stockholders is based on the records of DST Systems, Inc., who serves as our registrar and transfer agent. There is no established public trading market for our common stock. Under our charter, certain restrictions are imposed on the ownership and transfer of our shares.

To assist FINRA members who participated in our public offerings of common stock fulfill their obligations under FINRA rules relating to customer account statements, we disclose in each annual report distributed to stockholders a per-share estimated value of our common stock, the method by which it was developed, and the date of the data used to develop the estimated value. In addition, our advisor prepares annual statements of estimated share values to assist both fiduciaries of retirement plans subject to the annual reporting requirements of ERISA and custodians of IRAs in the preparation of their reports relating to an investment in our shares. On December 14, 2012, we announced an estimated per-share value of our common stock of \$6.56 per share, calculated as of September 30, 2012. The valuation methodology used is described below.

Estimated Per-Share Valuation Methodology

Summary:

In arriving at this estimate, which was determined as of September 30, 2012, we engaged (i) American Forest Management, Inc., a third-party forest consulting and certified timber valuation firm ("AFM"), to appraise our timber assets, which include timber, timberland and intangible lease assets, and (ii) Bennett Thrasher PC, an independent certified public accounting and consulting firm ("Bennett Thrasher"), to estimate the fair value of our non-timber assets and liabilities and preferred equity, and to use those estimates along with AFM's appraisal of our timber assets to calculate an estimated fair value of the shares of our common stock, including those shares issued to our stockholders as stock dividends.

The engagements of AFM and Bennett Thrasher were approved by our board of directors. AFM and Bennett Thrasher's analyses, opinions, and conclusions were developed in conformity with the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the American Society of Farm Managers and Rural Appraisers and in conformity with the Uniform Standards of Professional Appraisal Practice. Our board of directors and our advisor reviewed these analyses, opinions, and conclusions.

AFM and Bennett Thrasher worked with our advisor and our board of directors to gather information regarding our assets and liabilities. On December 6, 2012, Bennett Thrasher delivered a final report to our advisor, who shared the report with our board of directors. At a subsequent meeting of our board of directors, the advisor presented the report and recommended an estimated per-share value of our common stock. Our board of directors considered all information provided in light of its own extensive familiarity with our assets and liabilities and unanimously agreed upon an estimated value of our common stock of \$6.56 per share, which is consistent with both the advisor's recommendation and Bennett Thrasher's estimate.

The estimated per-share value of our common stock was calculated by aggregating the fair values of our assets, subtracting the fair values of our liabilities and preferred equity, and dividing the total by the number of our common shares outstanding, including those shares issued to our stockholders as stock dividends, all as of September 30, 2012. Stock dividends issued to our stockholders had a dilutive impact on our estimated per-share value of \$0.25 per share. The potential dilutive effect of our common stock options does not impact the estimated per-share value. The estimated common stock value is the same as our net asset value less the then-current fair value of our preferred

equity. It does

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not reflect "enterprise value," which may include a premium for our rights under the Advisory Agreement and our potential ability to secure the services of a management team on a long-term basis.

Our key objectives are to arrive at an estimated per-share value of our common stock that is supported by methodologies and assumptions that are appropriate based on the current circumstances and calculated using processes and procedures that may be repeated in future periods. We believe that this approach comports with industry-standard valuation methodologies used for nontraded real estate companies.

Details:

As of September 30, 2012, the estimated per-share value of our common stock was calculated as follows:

Timber assets	\$ 11.70	(1)
Debt	(4.18)) (2)
Preferred equity	(1.24)) (3)
Other non-timber assets and liabilities, net	0.28	(4)
Estimated net asset value per-share of common stock	\$ 6.56	
Estimated enterprise value premium	None assumed	
Total estimated value per-share of common stock	\$ 6.56	

Our timber assets were appraised using valuation methods that we believe are typically used by investors for similar timberland properties, including (i) comparison with sales of similar properties, (ii) determination of the market costs of the property's distinct components, and (iii) 25-year discounted cash flow models. All three approaches were used to arrive at the final value conclusion. Using this methodology, the appraised value of our timber assets reflects an overall decline from original purchase price, exclusive of acquisition costs and adjusted for post-acquisition capital investments and dispositions, of 10.3%. This decline was due to a decrease in merchantable timber on leased timberland (see below for more information regarding use of funds generated from these leased timberland tracts), offset by a modest increase in the value of our fee-interest timberland. We believe that the assumptions employed in the valuation are within the ranges used for similar timberland properties and held by investors with similar expectations to our investors.

The following are the key assumptions that are used in the discounted cash flow models to estimate the value of our timber assets:

Discount rate	5.51	%
Annual price appreciation:		
Inflation (all costs)	0.00	%
Bare land	0.50	%
Pulpwood*	0.26	%
Sawtimber*	0.40	%
Recreational lease rates	1.00	%
Holding period	25 years	

* Represents weighted-average rates based on volumes, as calculated.

While we believe these assumptions are reasonable, a change in these assumptions would impact the calculation of the value of our timber assets. For example, assuming all other factors remain unchanged, a change in the annual discount rate of 0.25% would yield a change in our total timber asset value of 1.13%.

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The fair values of our debt instruments were estimated using discounted cash flow models, which incorporate assumptions based on certain quantitative and qualitative factors that we believe reflect the terms currently available on similar borrowing arrangements to borrowers with credit profiles similar to us. The fair value of our debt as of September 30, 2012 is estimated to equal its book value.

The fair value of the preferred equity was estimated using discounted cash flow models, which incorporate assumptions that we believe reflect the terms currently available on similar arrangements to companies with credit profiles similar to us. The preferred stock currently accrues dividends at an annual rate of 1.0%. If we were liquidated or dissolved, the preferred stock will be redeemed at the original issuance price of \$1,000 per share plus any accrued but unpaid dividends (the "Preferred Equity Book Value") before any payment may be made to the holders of our common stock. Furthermore, we may redeem our preferred stock at the Preferred Equity Book Value any time at the discretion of our board of directors. As of September 30, 2012, the Preferred Equity Book Value of the preferred stock represented approximately \$1.53 per share of common stock.

The fair values of our non-timber assets and liabilities were estimated to materially reflect book value given their typically short-term (less than one year) settlement periods.

The estimated per-share value of our common stock as of September 30, 2012 (\$6.56) has been adversely affected by: the economic downturn experienced over the last four years and its impact on: capital markets, including the disruption of flow of both equity and debt capital into similar investments; and timber and timberland markets, including the tepid outlook on housing and lumber pricing expectations. the carrying costs related to our debt capital, which was higher than originally anticipated largely due to the lack of equity capital raised by us during the economic downturn; and a decrease in merchantable timber on our leased timberland due to harvesting, from which net timber sales revenues were primarily used to fund carrying costs on our debt capital.

Wells TIMO and our board of directors elected to undertake two initiatives that positively affected the estimated per-share value of our common stock. In January 2012, Wells TIMO made the decision to forgo over \$27 million in advisory fees. In addition, in May 2011, Wells REF, our advisor's parent company, agreed to a decrease in the annual dividend rate on the \$37 million of preferred equity it held from 8.5% to 1.0% and our board of directors has not authorized payment of these dividends — allowing the capital to remain in the business.

We generally plan to update the estimated per-share value of its common stock on an annual basis.

Limitations and Risks

As with any valuation methodology, our methodology is based upon a number of estimates and assumptions that may not be accurate or complete (see footnotes in "Estimated Per-Share Valuation Methodology" section above). Different parties with different assumptions and estimates could derive a different estimated per-share value. Accordingly, with respect to our estimated per-share value, we can provide no assurance that:

a stockholder would be able to realize this estimated value per share upon attempting to resell his or her shares; we would be able to achieve, for our stockholders, the estimated per-share value, upon a listing of our shares of common stock on a national securities exchange, selling our timber portfolio, or merging with another company; or the estimated per-share value, or the methodologies relied upon to estimate the per-share value, will be found by any regulatory authority to comply with FINRA, ERISA, or any other regulatory requirements.

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Furthermore, the estimated value of our shares of common stock was calculated as of a particular point in time. The value of our common stock will fluctuate over time in response to, among other things, changes in timber and timberland market fundamentals, capital market activities, and attributes specific to the timberland and supply agreements within our portfolio.

Offerings of Common Stock

On August 11, 2006, we commenced our initial public offering (the "Initial Public Offering") of up to 85.0 million shares of common stock, of which 75.0 million shares were offered in the primary offering for \$10.00 per share and 10.0 million shares were reserved for issuance through the DRP. We terminated the Initial Public Offering on August 11, 2009. We raised gross offering proceeds of approximately \$174.9 million from the sale of approximately 17.6 million shares under the Initial Public Offering.

On August 6, 2009, we commenced our follow-on offering (the "Follow-On Offering") of up to 220.9 million shares of common stock, of which 200.0 million shares were offered in a primary offering for \$10.00 per share and 20.9 million shares of common stock were reserved for issuance through our DRP. Effective December 31, 2011, we ceased offering shares for sale under the Follow-On Offering. From January 1, 2012 to February 13, 2012, we accepted \$4.1 million of additional gross offering proceeds from the sale of approximately 0.4 million additional shares under the Follow-On Offering, which sales were agreed to by the investor on or before December 31, 2011. On March 15, 2012, we withdrew from registration the unsold primary offering shares. We raised gross offering proceeds of approximately \$123.8 million from the sale of approximately 12.5 million shares under the Follow-On Offering.

In addition to the Initial Public Offering and the Follow-On Offering (collectively, the "Public Offerings"), we also offered up to approximately 11.4 million shares of our common stock to non-U.S. persons in a private placement, of which approximately 10.4 million shares were offered in a primary offering at \$9.65 per share and up to approximately 1.0 million shares were reserved for issuance through an unregistered DRP (the "2010 German Offering"). The 2010 German Offering expired on August 6, 2011 and we raised approximately \$8.5 million from the sale of approximately 0.9 million shares in the 2010 German Offering.

We raised gross offering proceeds from the sale of common stock under the Public Offerings and the 2010 German Offering (collectively, the "Offerings") of approximately \$307.2 million. After deductions for payments of selling commissions and dealer-manager fees of approximately \$24.7 million, other organization and offering expenses of approximately \$1.4 million, approximately \$0.4 million in placement and structuring agent fees, and common stock redemptions of approximately \$2.6 million under the SRP, we had received aggregate net offering proceeds of approximately \$278.1 million, which was used to partially fund the Mahrt Timberland acquisition, service acquisition-related debt, redeem shares of its preferred stock, and fund accrued dividends on redeemed shares of preferred stock.

The percentage of the cost of raising capital under our Public Offerings to the amount of capital raised was 9.3%.

Distributions

The terms of our credit agreements prohibit us from declaring, setting aside funds for, or paying any dividend, distribution, or other payment to our stockholders other than as required to maintain our REIT qualification if our loan-to-collateral ratio is greater than or equal to 40%. The loan-to-collateral ratio (the "LTV Ratio") is expressed as a percentage of (a) the outstanding amount of all loans outstanding, less certain amounts permitted to be set aside under the terms of our credit agreements, for working capital and other purposes and any cash balances accumulated to fund distributions or any future acquisitions, to (b) the value of the timberland assets, as determined in accordance with our credit agreements. So long as our LTV Ratio remains below 40% and we maintain a minimum fixed-charge coverage

ratio, as defined, of 1.05:1:00, we may declare, set aside funds for, pay dividends or distributions, or make other payments to our stockholders from future operating cash flows on a discretionary basis. The amount of distributions that we pay to our common stockholders will be determined by our board of directors and is dependent upon a number of factors, including the funds available for distribution to common stockholders, our financial condition, our capital expenditure requirements, our expectations of future sources of liquidity, and the annual distribution requirements necessary to maintain our status as a REIT under the Code.

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Redemptions of Common Stock

Our board of directors adopted a share redemption plan, or SRP, as amended and restated, that allows stockholders who hold their shares for more than one year to sell their shares back to us, subject to certain limitations and penalties. Redemptions sought within two years of the death, qualifying disability, or qualification for federal assistance for confinement to a long-term care facility of a stockholder ("Qualified Special Redemptions") do not require a one-year holding period. Shares redeemed under the SRP, other than Qualified Special Redemptions, are limited to the lesser of (i) the sum of net proceeds received from the sale of shares through the DRP plus any additional amounts reserved for redemptions by our board of directors, or (ii) in any calendar year, 5% of the weighted-average common shares outstanding during the preceding year. Qualified Special Redemptions are limited to the sum of net proceeds received from the sale of shares through the DRP plus any additional amounts reserved for redemptions by our board of directors. To date, we have not received proceeds from the sale of shares through the DRP, as we have not made cash distributions to our stockholders. Our board of directors has approved a monthly, non-cumulative reserve of \$150,000 to fund Qualified Special Redemptions. This reserve is currently funded by operating cash flows. However, we may borrow to fund future Qualified Special Redemptions. To the extent we do not receive proceeds from the sale shares of our common stock through the DRP, we may not be able to redeem shares through the SRP other than Qualified Special Redemptions.

Prior to October 1, 2012, the price for all redemptions, other than Qualified Special Redemptions, through the end of the period of one year after the completion of our offering stage was 91% of the aggregate amount paid to us for all shares owned by the redeeming stockholder divided by the number of shares owned by such stockholder. Thereafter, the redemption price will be 95% of the published estimated per-share value. Prior to October 1, 2012, the redemption price for Qualified Special Redemptions through the end of the period of one year after the completion of our offering stage was equaled to 100% of the aggregate amount paid to us for all shares owned by the redeeming stockholder divided by all shares owned by such stockholder. Thereafter, the redemption price was 100% of the published estimated per-share value.

On August 6, 2012, our board of directors suspended the Amended SRP, as defined below, effective October 1, 2012 until the first full month following the initial publication of the estimated per-share value. Also, on August 6, 2012, we amended the SRP (the "Amended SRP"), effective October 1, 2012. The Amended SRP provides that the redemption price for all redemptions, including Qualified Special Redemptions, will be calculated in the same manner. Specifically, until the initial publication in an Exchange Act report filed with the SEC of an estimated per-share value approved by the board of directors, the price per share was 91% of the aggregate amount paid to us for all shares owned by the redeeming stockholder, divided by the number of shares owned by such stockholder that were acquired from us. After the initial estimated per-share value publication, the price will be 95% of the estimated per-share value, plus or minus any valuation adjustment as provided in the Amended SRP.

During the year ended December 31, 2012, approximately 79,088 shares of common stock were redeemed under the SRP for approximately \$0.7 million. In September 2012, qualified redemption requests exceeded the \$150,000 limit set by our board of directors. As a result, September 2012 redemption requests were pro-rated per terms of the SRP. We redeemed \$150,000 of shares at 100% the aggregate amount paid to us. Wells Capital reimbursed us for 9% of the amount of shares redeemed in September 2012, or \$13,500. As of September 30, 2012, approximately \$0.2 million of qualified redemption requests were unfulfilled and returned to the investors. No shares were redeemed during the fourth quarter of 2012 and no redemption requests were unfulfilled as of December 31, 2012.

We announced our estimated per-share value in a current report on Form 8-K on December 14, 2012. Effective January 1, 2013, the Amended SRP resumed and the price to be paid for shares redeemed under the Amended SRP

will be 95% of the estimated per-share value of our common stock, or \$6.23, plus or minus any valuation adjustment as provided in the Amended SRP.

Our board of directors may amend, suspend, or terminate the SRP upon 30 days' written notice and without stockholder approval.

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Redemptions of Preferred Stock

Between October 2007 and December 2009, we issued 32,128 shares of Series A preferred stock and 11,500 shares of Series B preferred stock to Wells REF, our affiliate, in exchange for approximately \$32.1 million and \$11.5 million, respectively, or \$1,000 per share.

On May 9, 2011, Wells REF, as the sole holder of the Series A preferred stock and Series B preferred stock, consented to the waiver of the daily accrual of dividends on the Series A preferred stock and Series B preferred stock at an annual rate of 8.5%, provided that from and after May 9, 2011, the dividends on the Series A preferred stock and Series B preferred stock will continue to accrue at an annual rate of 1%. In exchange for this reduction in the annual dividend rate, our board of directors approved the redemption of the Series A preferred stock and Series B preferred stock held by Wells REF using up to 40% of the net proceeds from the Follow-On Offering, provided that the amount of Series A preferred stock and Series B preferred stock redeemed per month from Wells REF not exceed \$2.0 million. The Series A preferred stock and Series B preferred stock will be redeemed at the original issue price of \$1,000 per share plus all accrued but unpaid dividends.

During the year ended December 31, 2012, we redeemed 356 shares of our Series A and Series B preferred stock at the original issue price of \$1,000 per share plus accrued but unpaid dividends of \$103,436. As of December 31, 2012, we had redeemed 6,236 shares of our preferred stock for approximately \$7.9 million, consisting of approximately \$6.2 million in original issuance price and approximately \$1.7 million in accrued dividends. Approximately 37,392 shares of preferred stock remained outstanding as of December 31, 2012, with accrued but unpaid dividends of approximately \$11.2 million included in preferred stock in the accompanying consolidated statements of stockholders' equity.

Recent Sales of Unregistered Securities

Issuance of Restricted Stock

Pursuant to our amended and restated independent directors compensation plan, we granted 1,000 shares of restricted common stock to each of our three independent directors upon their re-election to our board of directors on August 6, 2012. In addition, we issued 2,500 shares of restricted common stock to an independent director upon his appointment to our board on September 14, 2012. The shares of restricted stock vest in thirds on each of the first three anniversaries of the date of grant. These shares were issued pursuant to an exemption from registration under Section 4(2) of the Securities Act for transactions not involving a public offering.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data for 2012, 2011, 2010, 2009, and 2008 should be read in conjunction with the accompanying consolidated financial statements and related notes in "Item 8. Financial Statements and Supplementary Data" hereof.

	As of December 31,				
	2012	2011	2010	2009	2008
Total assets	\$ 350,260,242	\$ 345,322,607	\$ 360,491,122	\$ 371,571,157	\$ 390,986,924
Total liabilities	\$ 140,173,053	\$ 155,514,335	\$ 199,831,437	\$ 244,046,346	\$ 298,712,216
Total stockholders' equity	\$ 210,087,189	\$ 189,808,272	\$ 160,659,685	\$ 127,524,811	\$ 92,274,708
Outstanding debt	\$ 132,356,123	\$ 122,025,672	\$ 168,840,592	\$ 216,841,297	