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Wells Timberland REIT, Inc.  
Form 10-Q  
May 14, 2013

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

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FORM 10-Q

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(Mark One)

☒ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2013

OR

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

Commission file number 000-53193

WELLS TIMBERLAND REIT, INC.

(Exact name of registrant as specified in its charter)

Maryland

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)

N/A

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

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

Yes ☒ No ☐

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

Yes ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer

☐

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

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

Yes ☐ No ☒

Number of shares outstanding of the registrant's only

class of common stock, as of April 30, 2013: 31,758,491 shares



FORM 10-Q  
WELLS TIMBERLAND REIT, INC.  
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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q of Wells Timberland REIT, Inc. and subsidiaries (“Wells Timberland REIT,” “we,” “our,” or “us”) other than historical facts may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, 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. Such forward-looking statements can generally be identified by our use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “anticipate,” “estimate,” “believe,” “continue,” or other words. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date that this report is filed with the Securities and Exchange Commission (“SEC”). We make no representations or warranties (express or implied) about the accuracy of any such forward-looking statements contained in this report, and we do not intend to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Any such forward-looking statements are subject to unknown risks, uncertainties, and other factors and are based on a number of assumptions involving judgments with respect to, among other things, future economic, competitive, and market conditions, all of which are difficult or impossible to predict accurately. To the extent that our assumptions differ from actual results, our ability to meet such forward-looking statements, including our ability to generate positive cash flow from operations, make distributions to stockholders, and maintain the value of our real estate properties, may be significantly hindered. See Item 1A herein, as well as Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2012, for a discussion of some of the risks and uncertainties that could cause actual results to differ materially from those presented in our forward-looking statements. The risk factors described herein and in our Annual Report on Form 10-K for the year ended December 31, 2012 are not the only ones we face but do represent those risks and uncertainties that we believe are material to us. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also harm our business.

## PART I. FINANCIAL INFORMATION

### ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The accompanying consolidated financial statements should be read in conjunction with the condensed notes to Wells Timberland REIT's consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Quarterly Report on Form 10-Q and with Wells Timberland REIT's Annual Report on Form 10-K for the year ended December 31, 2012. Wells Timberland REIT's results of operations for the three months ended March 31, 2013 are not necessarily indicative of the operating results expected for the full year.

WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	(Unaudited) March 31, 2013	December 31, 2012
Assets:		
Cash and cash equivalents	\$ 10,021,003	\$ 11,221,092
Restricted cash and cash equivalents	1,865,838	2,050,063
Accounts receivable	759,010	658,355
Prepaid expenses and other assets	908,006	1,098,268
Deferred financing costs, less accumulated amortization of \$116,521 and \$58,626 as of March 31, 2013 and December 31, 2012, respectively	1,254,399	1,311,770
Timber assets, at cost (Note 3):		
Timber and timberlands, net	331,650,065	333,805,295
Intangible lease assets, less accumulated amortization of \$881,938 and \$841,686 as of March 31, 2013 and December 31, 2012, respectively	75,147	115,399
Total assets	\$ 346,533,468	\$ 350,260,242
Liabilities:		
Accounts payable and accrued expenses	1,496,520	1,689,288
Due to affiliates (Note 9)	745,242	1,326,255
Other liabilities	3,962,740	4,801,387
Note payable and line of credit (Note 4)	132,356,123	132,356,123
Total liabilities	138,560,625	140,173,053
Commitments and Contingencies (Note 6)	—	—
Stockholders' Equity:		
Preferred stock, \$0.01 par value; 100,000,000 shares authorized:		
Series A preferred stock, \$1,000 liquidation preference; 27,585 shares issued and outstanding as of March 31, 2013 and December 31, 2012	36,544,082	36,476,063
Series B preferred stock, \$1,000 liquidation preference; 9,807 shares issued and outstanding as of March 31, 2013 and December 31, 2012	12,148,107	12,123,992
Common stock, \$0.01 par value; 900,000,000 shares authorized; 31,763,279 and 31,800,627 shares issued and outstanding as of March 31, 2013 and December 31, 2012, respectively	317,633	318,006
Additional paid-in capital	301,036,095	301,348,146
Accumulated deficit and distributions	(141,477,873 )	(139,491,344 )
Accumulated other comprehensive loss	(595,201 )	(687,674 )
Total stockholders' equity	207,972,843	210,087,189
Total liabilities and stockholders' equity	\$ 346,533,468	\$ 350,260,242

See accompanying notes.

WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

	(Unaudited) Three Months Ended March 31,	
	2013	2012
Revenues:		
Timber sales	\$6,151,762	\$7,222,227
Timberland sales	543,950	—
Other revenues	692,079	663,637
	7,387,791	7,885,864
Expenses:		
Contract logging and hauling costs	3,263,470	3,996,960
Depletion	2,045,353	2,980,277
Cost of timberland sales	378,283	—
Advisor fees and expense reimbursements	745,242	745,242
Forestry management fees	576,704	572,782
General and administrative expenses	604,936	555,005
Land rent expense	310,146	514,878
Other operating expenses	660,572	697,948
	8,584,706	10,063,092
Operating loss	(1,196,915	) (2,177,228
Other income (expense):		
Interest income	1,150	127
Interest expense	(790,495	) (985,973
Loss on interest rate swap	(474	) (90,993
	(789,819	) (1,076,839
Net loss	(1,986,734	) (3,254,067
Dividends to preferred stockholder	(92,134	) (93,041
Net loss available to common stockholders	\$(2,078,868	) \$(3,347,108
Per-share information—basic and diluted:		
Net loss available to common stockholders	\$(0.07	) \$(0.11
Weighted-average common shares outstanding—basic and diluted	31,825,974	31,845,664

See accompanying notes.



WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	(Unaudited) Three Months Ended March 31,		
	2013	2012	
Net loss	\$(1,986,734	) \$(3,254,067	)
Other comprehensive income:			
Market value adjustment to interest rate swap	92,473	—	
Comprehensive loss	\$(1,894,261	) \$(3,254,067	)

See accompanying notes.

WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Preferred Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-In Capital	Deficit and Distributions	Other Comprehensive Loss	Stockholders' Equity
Balance, December 31, 2012	31,800,627	\$ 318,006	37,392	\$48,600,055	\$ 301,348,146	\$(139,491,344)	\$(687,674)	\$ 210,087,189
Forfeiture of restricted stock award	(2,021	) (20	) —	—	(185	) 205	—	—
Redemptions of common stock	(35,327	) (353	) —	—	(219,732	) —	—	(220,085
Dividends on preferred stock	—	—	—	92,134	(92,134	) —	—	—
Net loss	—	—	—	—	—	(1,986,734	) —	(1,986,734
Market value adjustment to interest rate swap	—	—	—	—	—	—	92,473	92,473
Balance, March 31, 2013	31,763,279	\$ 317,633	37,392	\$48,692,189	\$ 301,036,095	\$(141,477,873)	\$(595,201)	\$ 207,972,843

	Common Stock		Preferred Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-In Capital	Deficit and Distributions	Other Comprehensive Loss	Stockholders' Equity
Balance, December 31, 2011	31,465,274	\$ 314,653	37,748	\$48,685,499	\$ 271,428,671	\$(130,620,551)	\$—	\$ 189,808,272
Issuance of common stock	410,647	4,106	—	—	4,110,695	(61	) —	4,114,740
Redemptions of common stock	(32,146	) (321	) —	—	(306,084	) —	—	(306,405
Dividends on preferred stock	—	—	—	93,041	(93,041	) —	—	—
Redemptions of preferred stock	—	—	(356	) (459,436	) —	—	—	(459,436
Commissions and discounts on stock sales and related dealer-manager fees	—	—	—	—	(361,364	) —	—	(361,364
Other offering costs	—	—	—	—	(48,752	) —	—	(48,752
Write-off of due to affiliates	—	—	—	—	27,315,249	—	—	27,315,249

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Net loss	—	—	—	—	—	(3,254,067	) —	(3,254,067	)
Balance, March 31, 2012	31,843,775	\$318,438	37,392	\$48,319,104	\$302,045,374	\$(133,874,679)	\$—	\$216,808,237	

See accompanying notes.

WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	(Unaudited) Three Months Ended March 31,	
	2013	2012
Cash Flows from Operating Activities:		
Net loss	\$(1,986,734	) \$(3,254,067 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depletion	2,045,353	2,980,277
Unrealized gain on interest rate swaps	(128,934	) (195,664 )
Other amortization	56,745	55,172
Stock-based compensation expense	—	8,333
Noncash interest expense	58,161	129,760
Basis of timberland sold	337,000	—
Changes in assets and liabilities:		
Increase in accounts receivable	(100,655	) (81,738 )
Decrease in prepaid expenses and other assets	189,234	97,712
(Decrease) increase in accounts payable and accrued expenses	(195,277	) 227,127
Decrease in due to affiliates	(581,013	) (734,954 )
Decrease in other liabilities	(617,506	) (1,221,086 )
Net cash used in operating activities	(923,626	) (1,989,128 )
Cash Flows from Investing Activities:		
Investment in timber, timberland, and related assets	(242,588	) (404,348 )
Funds released from escrow accounts	184,225	4,112,280
Net cash (used in) provided by investing activities	(58,363	) 3,707,932
Cash Flows from Financing Activities:		
Financing costs paid	(524	) —
Issuance of common stock	—	4,062,646
Redemptions of common stock	(217,576	) (306,405 )
Redemptions of preferred stock	—	(356,000 )
Dividends paid on preferred stock redeemed	—	(103,436 )
Commissions on stock sales and related dealer-manager fees paid	—	(447,744 )
Other offering costs paid	—	(83,739 )
Net cash (used in) provided by financing activities	(218,100	) 2,765,322
Net (decrease) increase in cash and cash equivalents	(1,200,089	) 4,484,126
Cash and cash equivalents, beginning of period	11,221,092	6,848,973
Cash and cash equivalents, end of period	\$10,021,003	\$11,333,099
See accompanying notes.		

WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2013 (unaudited)

1. Organization

Wells Timberland REIT was formed on September 27, 2005 as a Maryland corporation that has elected to be taxed as a real estate investment trust (“REIT”) for federal income tax purposes. Wells Timberland REIT engages in the ownership and management of timberland located in the southeastern United States. Substantially all of Wells Timberland REIT’s business is conducted through Wells Timberland Operating Partnership, L.P. (“Wells Timberland OP”), a Delaware limited partnership formed on November 9, 2005, of which Wells Timberland REIT is the sole general partner, possesses full legal control and authority over its operations, and owns 99.99% of its common partnership units. Wells Timberland Management Organization, LLC (“Wells TIMO”), a wholly owned subsidiary of Wells Capital, Inc. (“Wells Capital”), is the sole limited partner of Wells Timberland OP. In addition, Wells Timberland OP formed Wells Timberland TRS, Inc. (“Wells Timberland TRS”), a wholly owned subsidiary organized as a Delaware corporation, on January 1, 2006 (see Note 2). Unless otherwise noted, references herein to Wells Timberland REIT shall include Wells Timberland REIT and all of its subsidiaries, including Wells Timberland OP, and the subsidiaries of Wells Timberland OP, and Wells Timberland TRS. Under an agreement (the “Advisory Agreement”), Wells TIMO performs certain key functions on behalf of Wells Timberland REIT and Wells Timberland OP, including, among others, the investment of capital proceeds and management of day-to-day operations (see Note 9).

As of March 31, 2013, Wells Timberland REIT owned approximately 246,000 acres of timberland and held long-term leasehold interests in approximately 37,800 acres of additional timberland, all of which is located on the Lower Piedmont and Upper Coastal Plains of East Central Alabama and West Central Georgia (the “Mahrt Timberland”). Wells Timberland REIT acquired the Mahrt Timberland on October 9, 2007. Wells Timberland REIT generates a substantial portion of its revenues from selling timber and the right to access land and harvest timber to third parties pursuant to supply agreements and through open-market sales, selling higher-and-better-use timberland, and leasing land-use rights to third parties.

On August 11, 2006, Wells Timberland REIT commenced its initial public offering (the “Initial Public Offering”) of up to 85.0 million shares of common stock, of which 75.0 million shares were offered in the primary offering for \$10.00 per share and 10.0 million shares were reserved for issuance through Wells Timberland REIT’s distribution reinvestment plan (“DRP”). Wells Timberland REIT stopped offering shares for sale under the Initial Public Offering on August 11, 2009. Wells Timberland REIT raised gross offering proceeds of approximately \$174.9 million from the sale of approximately 17.6 million shares under the Initial Public Offering.

On August 6, 2009, Wells Timberland REIT commenced its follow-on offering (the “Follow-On Offering”, and together with the Initial Public Offering, the “Public Offerings”) 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 Wells Timberland REIT’s DRP for \$9.55 per share. Effective December 31, 2011, Wells Timberland REIT ceased offering shares for sale under the Follow-On Offering. From January 1, 2012 to February 13, 2012, Wells Timberland REIT 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, Wells Timberland REIT withdrew from registration the unsold primary offering shares. Wells Timberland REIT raised gross offering proceeds of approximately \$123.8 million from the sale of approximately 12.5 million shares under the Follow-On Offering.

Wells Timberland REIT offered up to approximately 11.4 million shares of its common stock, of which approximately 10.4 million shares were offered in a primary offering to non-U.S. persons at a price per share of \$9.65, and up to

approximately 1.0 million shares of common stock were reserved for issuance through an unregistered distribution reinvestment plan at a price per share equal to \$9.55 (the “2010 German Offering”). The 2010 German Offering closed on August 6, 2011 and Wells Timberland REIT raised approximately \$8.5 million from the sale of approximately 0.9 million shares in the 2010 German Offering.

Wells Timberland REIT raised gross offering proceeds from the sale of common stock under the Public Offerings and the 2010 German Offering 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 share redemption plan (“SRP”), Wells Timberland REIT 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.

Wells Timberland REIT’s common stock is not listed on a national securities exchange. Wells Timberland REIT’s charter requires that in the event its common stock is not listed on a national securities exchange by August 11, 2018, Wells Timberland REIT must either (i) seek stockholder approval of an extension or amendment of this listing deadline or (ii) seek stockholder approval to begin liquidating investments and distributing the resulting proceeds to the stockholders. In the event that Wells Timberland REIT seeks stockholder approval for an extension or amendment to this listing date and does not obtain it, Wells Timberland REIT will then be required to seek stockholder approval to liquidate. In this circumstance, if Wells Timberland REIT seeks and does not obtain approval to liquidate, Wells Timberland REIT will not be required to list or liquidate and could continue to operate indefinitely as an unlisted company.

## 2. Summary of Significant Accounting Policies

### Basis of Presentation and Principles of Consolidation

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

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

For further information, refer to the audited financial statements and footnotes included in Wells Timberland REIT’s Annual Report on Form 10-K for the year ended December 31, 2012.

### Fair Value Measurements

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

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



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

Level 3 — Assets or liabilities for which significant valuation assumptions are not readily observable in the market. Such assets or liabilities are valued based on the best available data, some of which may be internally developed. Significant assumptions may include risk premiums that a market participant would require.

#### Fair Value of Debt Instruments

Wells Timberland REIT applied the provisions of the accounting standard for fair value measurements and disclosures in estimations of fair value of its debt instruments based on Level 2 assumptions. See Note 4 for additional information.

#### Interest Rate Swaps

Wells Timberland REIT has entered into interest rate swap contracts to mitigate its exposure to changing interest rates on variable rate debt instruments. Wells Timberland REIT does not enter into derivative or interest rate transactions for speculative purposes; however, certain of its derivatives may not qualify for hedge accounting treatment. The fair values of interest rate swaps are recorded as either prepaid expenses and other assets or other liabilities in the accompanying consolidated balance sheets. Changes in the fair value of the effective portion of interest rate swaps that are designated as hedges are recorded as other comprehensive income (loss), while changes in the fair value of the ineffective portion of hedges, if any, are recognized in current earnings. Changes in the fair value of interest rate swaps that do not qualify for hedge accounting treatment are recorded as gain (loss) on interest rate swap in the consolidated statements of operations. Amounts received or paid under interest rate swaps are recorded as interest expense for contracts that qualify for hedge accounting treatment and as gain (loss) on interest rate swaps for contracts that do not qualify for hedge accounting treatment.

Wells Timberland REIT applied the provisions of the accounting standard for fair value measurements and disclosures in recording its interest rate swaps at fair value. The fair values of interest rate swaps, classified under Level 2, were determined using a third-party proprietary model that is based on prevailing market data for contracts with matching durations, current and anticipated London Interbank Offered Rate ("LIBOR") information, consideration of Wells Timberland REIT's credit standing, credit risk of counterparties, and reasonable estimates about relevant future market conditions.

The following table presents information about Wells Timberland REIT's interest rate swaps measured at fair value as of March 31, 2013 and December 31, 2012:

Instrument Type	Balance Sheet Classification	Estimated Fair Value as of	
		March 31, 2013	December 31, 2012
Derivatives designated as hedging instruments:			
Interest rate swap contract	Other liabilities	\$595,201	\$687,674
Derivatives not designated as hedging instruments:			
Interest rate swap contract	Other liabilities	\$—	\$128,934

For additional information about Wells Timberland REIT's interest rate swaps, see Note 5.

#### Income Taxes

Wells Timberland REIT has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"), and has operated as such beginning with its taxable year ended December 31, 2009. To qualify to be taxed as a REIT, Wells Timberland REIT must meet certain organizational and operational requirements, including a

requirement to distribute at least 90% of its ordinary taxable income to its stockholders. As a REIT, Wells Timberland REIT generally is not subject to federal income tax on taxable income it distributes to stockholders. Wells Timberland

REIT is subject to certain state and local taxes related to the operations of timberland properties in certain locations, which have been provided for in the accompanying consolidated financial statements. Wells Timberland REIT records interest and penalties related to uncertain tax positions as general and administrative expense in the accompanying consolidated statements of operations.

As of January 1, 2009, the beginning of the taxable year in which Wells Timberland REIT qualified for and elected to be taxed as a REIT, or its REIT commencement date, Wells Timberland REIT had net built-in gains on its timber assets of approximately \$18.3 million. Wells Timberland REIT has elected not to take such net built-in gains into income immediately prior to its REIT commencement date, but rather subsequently recognize gain on the disposition of any assets it holds at the REIT commencement date, if disposed of within the ten-year period beginning on the REIT commencement date. Wells Timberland REIT will be subject to tax on such net built-in gains at the highest regular corporate rate during the ten-year period beginning on the REIT commencement date on the lesser of (a) the excess of the fair market value of the asset disposed of as of the REIT commencement date over its basis in the asset as of the REIT commencement date (the built-in gain with respect to that asset as of the REIT commencement date); (b) the amount of gain Wells Timberland REIT would otherwise recognize on the disposition; or (c) the amount of net built-in gain in its assets as of the REIT commencement date not already recognized during the ten-year period. As of December 31, 2012, Wells Timberland REIT had net built-in gains of approximately \$17.6 million.

At December 31, 2012, Wells Timberland REIT had federal and state net operating loss carryforwards of approximately \$98.1 million and \$82.2 million, respectively. Such net operating loss carryforwards may be utilized, subject to certain limitations, to offset future taxable income, including net built-in gains. If not utilized, the federal net operating loss carryforwards will begin to expire in 2027, and the state net operating loss carryforwards will begin to expire in 2022.

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

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

No provision for federal income taxes has been made in the accompanying consolidated financial statements, other than the provision relating to Wells Timberland TRS, as Wells Timberland REIT did not generate taxable income for the periods presented.

#### Recent Accounting Pronouncement

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("ASU 2013-02"). ASU 2013-02 requires an entity to disclose information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to disclose significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income if the amount reclassified to net income in its entirety in the same reporting period is required under GAAP. For amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to

cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. ASU 2013-02 was effective for Wells Timberland REIT for the period beginning January 1, 2013. The adoption of ASU 2013-02 has not had a material impact on Wells Timberland REIT's financial statements or disclosures.

### 3. Timber Assets

As of March 31, 2013 and December 31, 2012, timber and timberlands consisted of the following, respectively:

As of March 31, 2013

	Gross	Accumulated Depletion or Amortization	Net
Timber	\$ 150,270,588	\$ 2,045,353	\$ 148,225,235
Timberlands	183,177,034	—	183,177,034
Mainline roads	437,884	190,088	247,796
Timber and timberlands	\$ 333,885,506	\$ 2,235,441	\$ 331,650,065

As of December 31, 2012

	Gross	Accumulated Depletion or Amortization	Net
Timber	\$ 161,878,914	11,677,229	\$ 150,201,685
Timberlands	183,349,545	—	183,349,545
Mainline roads	428,688	174,623	254,065
Timber and timberlands	\$ 345,657,147	\$ 11,851,852	\$ 333,805,295

During the three months ended March 31, 2013, Wells Timberland REIT sold 253 acres of timberland for approximately \$0.5 million. Wells Timberland REIT's cost basis in the timberland sold was approximately \$0.3 million. No timberland was sold during the first quarter of 2012.

### 4. Note Payable and Line of Credit

Wells Timberland REIT entered into a first mortgage loan agreement (the "CoBank Loan") on September 28, 2012 with a syndicate of banks with CoBank, ACB ("CoBank") serving as administrative agent. Under the CoBank Loan, Wells Timberland REIT initially can borrow up to \$148.0 million in principal, including \$133.0 million through a term loan facility ("CoBank Term Loan") and up to \$15.0 million through a revolving credit facility (the "CoBank Revolver"). On August 11, 2018, all outstanding principal, interest, and any fees or other obligations on the CoBank Loan will be due and payable in full. The CoBank Loan is secured by a first mortgage in the Mahrt Timberland, a first priority security interest in all bank accounts held by Wells Timberland REIT, and a first priority security interest on all other assets of Wells Timberland REIT. As of March 31, 2013, the outstanding balance of the CoBank Loan was \$132.4 million, all of which was outstanding under the CoBank Term Loan.

The CoBank Loan contains certain financial covenants. As of March 31, 2013, Wells Timberland REIT believes it was in compliance with the financial covenants of the CoBank Loan.

During the three months ended March 31, 2013 and 2012, Wells Timberland REIT made interest payments on its borrowings of approximately \$0.7 million and \$0.9 million, respectively.

As of March 31, 2013, the weighted-average interest rate on the aforementioned borrowings, after consideration of an interest rate swap (see Note 5), was 2.63%. As of March 31, 2013 and December 31, 2012, the fair value of Wells Timberland REIT's outstanding debt approximated its book value. The fair value was estimated based on discounted cash flow analysis using the current market borrowing rates for similar types of borrowing arrangements as of the measurement dates.



## 5. Interest Rate Swaps

Wells Timberland REIT entered into interest rate swap contracts in order to mitigate its interest rate risk on related financial instruments. Wells Timberland REIT does not enter into derivative or interest rate contracts for speculative purposes; however, Wells Timberland REIT's derivatives may not qualify for hedge accounting treatment.

### Interest Rate Swap Not Designated as Hedging Instrument

On March 24, 2010, as required by the terms of its loan agreement, Wells Timberland REIT entered into an interest rate swap agreement with Rabobank Group ("Rabobank") to hedge its exposure to changing interest rates on a portion of its \$211.0 million senior loan (the "Rabobank Interest Rate Swap"). The Rabobank Interest Rate Swap was effective from September 30, 2010 to March 28, 2013. Under the terms of the Rabobank Interest Rate Swap, Wells Timberland REIT pays interest at a fixed rate of 2.085% per annum and receives variable LIBOR-based interest payments from Rabobank on the following notional amounts during the three months ended March 31, 2013 and 2012:

Start Date	End Date	Notional Amount
December 30, 2011	March 30, 2012	\$62,500,000
December 31, 2012	March 28, 2013	\$28,500,000

The detail of loss on the RaboBank Interest Rate Swap, which is recorded as loss on interest rate swaps in the accompanying consolidated statements of operations, is provided below for the quarters ended March 31, 2013 and 2012:

	Three Months Ended March 31,	
	2013	2012
Noncash gain on Rabobank Interest Rate Swap	\$128,934	\$195,664
Net payments on Rabobank Interest Rate Swap	(129,408)	(286,657)
Loss on Rabobank Interest Rate Swap	\$(474)	\$(90,993)

### Interest Rate Swap Designated as Hedging Instrument

As required by the terms of the CoBank Loan, on October 23, 2012, Wells Timberland REIT entered into an interest rate swap agreement with Rabobank to hedge its exposure to changing interest rates on \$80.0 million of the CoBank Loan that is subject to a variable interest rate (the "Rabobank Forward Swap"). The Rabobank Forward Swap had an effective date of March 28, 2013 and matures on September 30, 2017. Under the terms of the Rabobank Forward Swap, Wells Timberland REIT will pay interest at a fixed rate of 0.9075% per annum to Rabobank and will receive one-month LIBOR-based interest payments from Rabobank. The Rabobank Forward Swap qualifies for hedge accounting treatment. At March 31, 2013, Wells Timberland REIT recognized the change in fair value of the Rabobank Forward Swap of approximately \$0.1 million as other comprehensive income. During 2013, there was no hedge ineffectiveness on the Rabobank Forward Swap required to be recognized in earnings. No amounts were paid or received on the Rabobank Forward Swap during the quarter ended March 31, 2013.

## 6. Commitments and Contingencies

### MeadWestvaco Timber Agreements

In connection with its acquisition of the Mahrt Timberland, Wells Timberland REIT entered into a fiber supply agreement and a master stumpage agreement (collectively, the "Timber Agreements") with a wholly owned subsidiary of MeadWestvaco Corporation ("MeadWestvaco"). 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 fiber supply agreement is subject to quarterly market pricing adjustments based on an index published





by Timber Mart-South, a quarterly trade publication that reports raw forest product prices in 11 southern states. The master stumpage agreement provides that Wells Timberland REIT will sell specified amounts of timber and make available certain portions of the Mahrt Timberland to Wells Timberland TRS for harvesting at \$0.10 per ton of qualifying timber purchased by MeadWestvaco plus a portion of the gross proceeds received from MeadWestvaco under the fiber supply agreement. The initial term of the Timber Agreements is October 9, 2007 through December 31, 2032, subject to extension and early termination provisions. The Timber Agreements ensure a long-term source of supply of wood fiber products for MeadWestvaco in order to meet its paperboard and lumber production requirements at specified mills and provide Wells Timberland REIT with a reliable customer for the wood products from the Mahrt Timberland.

#### FRC Timberland Operating Agreement

Wells Timberland REIT is party to a timberland operating agreement with Forest Resource Consultants, Inc. ("FRC"). Pursuant to the terms of the timberland operating agreement, FRC manages and operates the Mahrt Timberland and the related timber operations, including ensuring delivery of timber to MeadWestvaco in compliance with the Timber Agreements. In consideration for rendering the services described in the timberland operating agreement, Wells Timberland REIT pays FRC (i) a monthly management fee based on the actual acreage FRC manages, which is payable monthly in advance, and (ii) an incentive fee based on net revenues generated by the Mahrt Timberland. The incentive fee is payable annually in arrears. The timberland operating agreement, as amended, is effective through December 31, 2013, with the option to extend for one-year periods and may be terminated by either party with mutual consent or by Wells Timberland REIT with or without cause upon providing 120 days' prior written notice.

#### Litigation

From time to time, Wells Timberland REIT may be a party to legal proceedings that arise in the ordinary course of its business. Management makes assumptions and estimates concerning the likelihood and amount of any reasonably possible loss relating to these matters using the latest information available. Wells Timberland REIT records a liability for litigation if an unfavorable outcome is probable and the amount of loss or range of loss can be reasonably estimated. If an unfavorable outcome is probable and a reasonable estimate of the loss is a range, Wells Timberland REIT accrues the best estimate within the range. If no amount within the range is a better estimate than any other amount, Wells Timberland REIT accrues the minimum amount within the range. If an unfavorable outcome is probable but the amount of the loss cannot be reasonably estimated, Wells Timberland REIT discloses the nature of the litigation and indicates that an estimate of the loss or range of loss cannot be made. If an unfavorable outcome is reasonably possible and the estimated loss is material, Wells Timberland REIT discloses the nature and estimate of the possible loss of the litigation. Wells Timberland REIT does not disclose information with respect to litigation where an unfavorable outcome is considered to be remote.

Wells Timberland REIT is not currently involved in any legal proceedings of which the outcome is reasonably likely to have a material adverse effect on the results of operations or financial condition of Wells Timberland REIT. Wells Timberland REIT is not aware of any legal proceedings contemplated by governmental authorities.

#### 7. Share Redemption Plan

The board of directors of Wells Timberland REIT has adopted an SRP, as amended and restated, that allows stockholders who hold their shares for more than one year to sell their shares back to Wells Timberland REIT, subject to certain limitations and penalties. Wells Timberland REIT's board of directors has approved a monthly, non-cumulative reserve of \$150,000 for redemptions of common stock in connection with death, qualifying disability, or qualification for federal assistance for confinement to a long-term care facility ("Qualified Special Redemptions"), which do not require a one-year holding period. 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 Wells Timberland REIT's offering

stage equaled to 100% of the aggregate amount paid to Wells Timberland REIT for all shares owned by the redeeming stockholder divided by all shares owned by such stockholder. Thereafter, the redemption price would be 100% of the published estimated per-share value.

On August 6, 2012, Wells Timberland REIT 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 Wells Timberland REIT for all shares owned by the redeeming stockholder, divided by the number of shares owned by such stockholder that were acquired from Wells Timberland REIT. 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. Also on August 6, 2012, Wells Timberland REIT's board of directors suspended the Amended SRP effective October 1, 2012 until the first full month following the initial publication of the estimated per-share value

Wells Timberland REIT announced its 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 was 95% of the most recently published estimated per-share value of Wells Timberland REIT's common stock, or \$6.23, plus or minus any valuation adjustment as provided in the Amended SRP. The estimated per-share value utilized for purposes of the Amended SRP was as of September 30, 2012, and consistent with prior disclosures, Wells Timberland REIT is not obligated to, nor does it intend to, update this estimate until December 2013. As disclosed in connection with Wells Timberland REIT's initial publication of its estimated per-share value, the estimated value of its common stock will fluctuate over time in response to market conditions and other factors. Therefore, the estimated per-share value of Wells Timberland REIT's common stock as of September 30, 2012 does not represent current value.

During the three months ended March 31, 2013 and 2012, approximately 35,327 and 32,146 shares of common stock, respectively, were redeemed for approximately \$0.2 million and \$0.3 million, respectively. The board of directors may amend, suspend, or terminate the SRP upon 30 days' written notice and without stockholder approval.

#### 8. Supplemental Disclosures of Noncash Activities

Outlined below are significant noncash investing and financing transactions for the quarters ended March 31, 2013 and 2012, respectively:

	Three Months Ended March 31,	
	2013	2012
Write-off of due to affiliates	\$—	\$27,315,249
Dividends accrued on preferred stock	\$92,134	\$93,041
Discounts applied to issuance of common stock	\$—	\$43,761
Issuance of stock dividends	\$—	\$61
Forfeiture of restricted stock award	\$205	\$—
Market value adjustment to interest rate swap that qualifies for hedge accounting treatment	\$92,473	\$—
Accrued redemption of common stock	\$2,509	\$—

#### 9. Related-Party Transactions

##### Advisory Agreement

Wells Timberland REIT and Wells Timberland OP are party to the Advisory Agreement with Wells TIMO, a wholly owned subsidiary of Wells Capital. On March 16, 2012, the board of directors of Wells Timberland REIT approved a second amendment to the Advisory Agreement (“Advisory Agreement Amendment No. 2”), which amended certain provisions related to fees and expense reimbursements. Advisory Agreement Amendment No. 2, which was effective

April 1, 2012, provides that as of and for each quarter, the amount of fees and expense reimbursements payable to Wells TIMO will be limited to the lesser of (i) 1.0% of assets under management as of the last day of the quarter less advisor fees paid for the preceding three quarters, and (ii) free cash flow for the four quarters then ended in excess of

an amount equal to 1.25 multiplied by Wells Timberland REIT's interest expense for the four quarters then ended. Free cash flow is defined as EBITDA (as defined in Wells Timberland REIT's loan agreements), less all capital expenditures paid by Wells Timberland REIT on a consolidated basis, less any cash distributions (except for the payments of accrued but unpaid dividends as a result of any redemptions of Wells Timberland REIT's outstanding preferred stock). Under the Advisory Agreement, as amended (the "Amended Advisory Agreement"), Wells TIMO may also be entitled to receive the following:

Reimbursement of organization and offering costs paid by Wells TIMO and its affiliates on behalf of Wells Timberland REIT, not to exceed 1.2% of gross offering proceeds.

For any property sold by Wells Timberland REIT, if Wells TIMO provided a substantial amount of services in connection with the sale (as determined by Wells Timberland REIT's independent directors), a fee equal to (i) for each property sold at a contract price up to \$20.0 million, up to 2.0% of the sales price, and (ii) for each property sold at a contract price in excess of \$20.0 million, up to 1.0% of the sales price. The precise amount of the fee within the preceding limits will be determined by Wells Timberland REIT's board of directors, including a majority of the independent directors, based on the level of services provided and market norms. The real estate disposition fee may be in addition to real estate commissions paid to third parties. However, the total real estate commissions (including such disposition fee) may not exceed the lesser of (i) 6.0% of the sales price of each property or (ii) the level of real estate commissions customarily charged in light of the size, type, and location of the property.

No payments would be permitted under the Advisory Agreement, as amended, if they would cause a default under Wells Timberland REIT's loan agreements.

On April 1, 2011, the board of directors of Wells Timberland REIT approved an amendment to the Advisory Agreement (the "Advisory Agreement Amendment No. 1") that limited the amount of fees and expense reimbursements as of and for each quarter to the least of: (1) an asset management fee equal to one fourth of 1.0% of asset under management plus reimbursements for all costs and expenses Wells TIMO incurred in fulfilling its duties as the asset manager, (2) one quarter of 1.5% of assets under management, or (3) free cash flow in excess of an amount equal to 1.05 multiplied by interest on outstanding debt. Free cash flow was defined as EBITDA (as defined in Wells Timberland REIT's loan agreements), less all capital expenditures paid by Wells Timberland REIT on a consolidated basis, less any cash distributions (except for the payments of accrued but unpaid dividends as a result of any redemptions of Wells Timberland REIT's outstanding preferred stock), less any cash proceeds from timberland sales equal to the cost basis of the properties sold. Advisory Agreement Amendment No. 2 superseded Advisory Agreement Amendment No. 1.

The Amended Advisory Agreement is effective through July 10, 2013 and may be renewed for successive one-year terms upon the mutual consent of the parties. Wells Timberland REIT may terminate the Amended Advisory Agreement without penalty upon 60 days' written notice. If Wells Timberland REIT terminates the Amended Advisory Agreement, it will pay Wells TIMO all earned but unpaid fees. In addition, if the Amended Advisory Agreement is terminated without cause, the special units of limited partnership held by Wells TIMO will be redeemed. For further information on the special units, including redemption payments, refer to the consolidated financial statements and accompanying notes included in Wells Timberland REIT's Annual Report on Form 10-K for the year ended December 31, 2012.

Under the terms of the Amended Advisory Agreement, Wells Timberland REIT was required to reimburse Wells TIMO for certain organization and offering costs up to the lesser of actual expenses or 1.2% of gross offering proceeds raised. Wells Timberland REIT incurred and charged to additional paid-in capital cumulative organization and offering costs of approximately \$2.1 million related to the Initial Public Offering and approximately \$1.5 million related to the Follow-On Offering, the sum of which represents approximately 1.2% of cumulative gross proceeds raised by Wells Timberland REIT under the Public Offerings. As of December 31, 2011, approximately \$2.2 million of organization and offering costs incurred by Wells Timberland REIT and due to Wells TIMO had been deferred by

the terms of Wells Timberland REIT's loan agreements. On January 27, 2012, Wells TIMO forgave the deferred organization and offering expenses. After adjusting for this write-off, organization and offering costs represents approximately 0.5% of cumulative gross proceeds raised under the Public Offerings.

On January 20, 2012, Wells Timberland REIT entered into an agreement with Wells TIMO to forgive approximately \$25.1 million of accrued but unpaid asset management fees and expense reimbursements that were previously deferred due to restrictions under Wells Timberland REIT's loan agreements. Due to the related-party nature of these transactions, this amount, along with the organizational and offering costs forgiven by Wells TIMO on January 27, 2012, were recorded as additional paid-in capital during 2012.

#### Dealer-Manager Agreement

Wells Timberland REIT had executed a dealer-manager agreement (the "Dealer-Manager Agreement"), whereby Wells Investment Securities, Inc. ("WIS"), an affiliate of Wells Capital, performed the dealer-manager function for Wells Timberland REIT's Public Offerings. For these services, WIS earned a commission of up to 7.0% of the gross offering proceeds from the sale of Wells Timberland REIT's shares, of which substantially all was re-allowed to participating broker/dealers. Wells Timberland REIT pays no commissions on shares issued under its DRP.

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

#### Structuring Agent Agreement

Wells Timberland REIT is party to a structuring agent agreement (the "Structuring Agent Agreement") whereby Wells Germany GmbH, a limited partnership organized under the laws of Germany ("Wells Germany"), served as the structuring agent in connection with the 2010 German Offering. Wells Timberland REIT paid a structuring agent fee to Wells Germany of \$0.20 per share sold under the 2010 German Offering. The Structuring Agent Agreement expired upon the conclusion of the 2010 German Offering, provided, however, that with respect to the ongoing services contemplated by the parties, the Structuring Agent Agreement will terminate upon the earlier of (i) a liquidity event or (ii) December 31, 2018.

#### Related-Party Costs

Pursuant to the terms of the agreements described above, Wells Timberland REIT incurred the following related-party costs for the three months ended March 31, 2013 and 2012, respectively:

	Three Months Ended March 31,	
	2013	2012
Advisor fees and expense reimbursements	\$745,242	\$745,242
Commissions <sup>(1)(2)</sup>	—	246,546
Dealer-manager fees <sup>(1)</sup>	—	71,057
Other offering costs <sup>(1)</sup>	—	48,752
Total	\$745,242	\$1,111,597

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

(2) Substantially all commissions were re-allowed to participating broker/dealers.

Advisor fees and expense reimbursements of approximately \$0.7 million for the three months ended March 31, 2013 were determined pursuant to Advisory Agreement Amendment No. 2 and represented 1.0% of asset under management as of the last day of the current quarter less advisor fees paid for the preceding three quarters.





#### Due to Affiliates

As of March 31, 2013 and December 31, 2012, Wells Timberland REIT had a due to affiliates balance of approximately \$0.7 million and \$1.3 million, respectively, both of which consisted entirely of advisor fees and expense reimbursements due to Wells TIMO.

#### Conflicts of Interest

As of March 31, 2013, Wells TIMO had eight employees. Until such time, if ever, as Wells TIMO hires sufficient personnel of its own to perform the services under the Amended Advisory Agreement, it will continue to rely upon employees of Wells Capital to perform many of its obligations. Wells Capital, the parent company and manager of Wells TIMO, also is a general partner or advisor of the various affiliated public real estate investment programs ("Wells Real Estate Funds"). As such, in connection with serving as a general partner or advisor for Wells Real Estate Funds and managing Wells TIMO's activities under the Amended Advisory Agreement, Wells Capital may encounter conflicts of interest with regard to allocating human resources and making decisions related to investments, operations, and disposition-related activities for Wells Timberland REIT and Wells Real Estate Funds.

As of March 31, 2013, two members of Wells Timberland REIT's board of directors serve on the board of Columbia Property Trust, Inc. ("Columbia"), formerly known as Wells Real Estate Investment Trust II, Inc., a REIT previously sponsored by Wells Real Estate Funds, Inc. ("Wells REF"). Additionally, one of them also serves on the board of Wells Core Office Income REIT, Inc., a REIT currently sponsored by Wells REF. Accordingly, they may encounter certain conflicts of interest regarding investment and operational decisions.

#### Operational Dependency

Wells Timberland REIT has engaged Wells TIMO to provide certain services essential to Wells Timberland REIT, including asset management services, supervision of the management of properties owned by Wells Timberland REIT, asset acquisition and disposition services, 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 is terminable by either party upon 60 days' written notice. As a result of these relationships, Wells Timberland REIT's operations are dependent upon Wells Capital and Wells TIMO.

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

Future net income generated by Wells REF will be largely dependent upon the amount of fees earned by Wells Capital, Wells TIMO, WIS, Wells Management, 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 Wells Timberland REIT and other Wells REF-sponsored programs, as well as distribution income earned from equity interests in another REIT. As of March 31, 2013, Wells Timberland REIT 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. 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.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our accompanying consolidated financial statements and notes thereto. See also "Cautionary Note Regarding Forward-Looking Statements" preceding Part I, as well as our consolidated financial statements and the notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2012.

### Overview

We engage in the ownership and management of timberland properties located in the timber-producing regions of the southeastern United States. From 2007 through the first quarter of 2012, we raised approximately \$307.2 million through the issuance of our common stock in our Offerings and approximately \$43.6 million through the issuance of our preferred stock to Wells REF and, along with borrowings, invested those proceeds, net of fees, into timberland properties. As of March 31, 2013, we owned interests in approximately 283,800 acres of timberland located on the Lower Piedmont and Upper Coastal Plains of East Central Alabama and West Central Georgia, which we refer to as the Mahrt Timberland. Based on acreage, the Mahrt Timberland consisted of approximately 75% of pine and approximately 25% of hardwood as of December 31, 2012. We generate a majority of our revenues by selling timber and the right to access land and harvest timber to third parties pursuant to supply agreements and through open-market sales, from selling higher-and-better-use timberland, and leasing land-use rights to third parties. A substantial portion of our timber sales are derived from the Timber Agreements under which we sell specified amounts of timber to MeadWestvaco subject to market pricing adjustments. The initial term of the Timber Agreements is from October 9, 2007 through December 31, 2032, subject to extension and early termination provisions. See Note 6 of our accompanying consolidated financial statements for additional information regarding the material terms of the Timber Agreements. We have elected to be taxed as a REIT for federal income tax purposes.

We have no paid employees and are externally advised and managed by Wells TIMO, a wholly owned subsidiary of Wells Capital. On March 16, 2012, we entered into an amendment to the Advisory Agreement ("Advisory Agreement Amendment No. 2") to amend certain provisions related to fees and expense reimbursements. Advisory Agreement Amendment No. 2 provides that as of and for each quarter, the amount of advisor fees and expense reimbursements payable to Wells TIMO will be limited to the lesser of (1) 1.0% of assets under management as of the last day of the quarter less advisor fees paid for the preceding three quarters, and (2) free cash flow for the four quarters then ended in excess of an amount equal to 1.25 multiplied by our interest expense. Under Advisory Agreement Amendment No. 2, free cash flow is defined as EBITDA (as defined in our loan agreements), less all capital expenditures paid by us on a consolidated basis, less any cash distributions (except for the payments of accrued but unpaid dividends as a result of any redemptions of our outstanding preferred stock). Advisory Agreement Amendment No. 2, which was effective April 1, 2012, superseded a previous amendment to our Advisory Agreement entered into on April 1, 2011, referred to herein as Advisory Agreement Amendment No. 1, which provided that, as of and for each quarter, the amount of fees and expense reimbursements payable to Wells TIMO were limited to the least of: (1) an asset management fee equal to one fourth of 1.0% of asset under management plus reimbursements for all costs and expenses Wells TIMO incurred in fulfilling its duties as the asset manager, (2) one-fourth of 1.5% of assets under management, or (3) free cash flow in excess of an amount equal to 1.05 multiplied by our interest expense. Under Advisory Agreement Amendment No. 1, free cash flow was defined as EBITDA (as defined in our loan agreements), less all capital expenditures paid by us on a consolidated basis, less any cash distributions (except for the payments of accrued but unpaid dividends as a result of any redemptions of our outstanding preferred stock), less any cash proceeds from timberland sales equal to the cost basis of the properties sold. The amount of the disposition fees and the reimbursement of organization and offering expenses payable pursuant to the Advisory Agreement remain unchanged. No payments will be permitted under the amended Advisory Agreement if they would cause a default under our debt facilities.



Subsequent to our fundraising stage, we have concentrated our efforts on actively managing our timber assets and exploring a variety of strategic opportunities focused on enhancing the composition of our portfolio and the total return potential for Wells Timberland REIT. In doing so, we have made and may continue to make strategic acquisitions and dispositions of timberland properties.

Our operating strategy entails funding expenditures related to the recurring operations of the Mahrt Timberland, including interest on outstanding indebtedness and certain capital expenditures (excluding timberland acquisitions), with operating cash flows; assessing the amount of operating cash flows that will be required for redemptions of common stock and additional timberland acquisitions; and distributing residual operating cash flows, if any, to our stockholders. Our operating and financial plans for 2013 were established to meet volume obligations under the Timber Agreements, to meet the debt service requirements of our debt facility, and to continue to maximize the production capacity and long-term value of the Mahrt Timberland. We continue to practice intensive forest management and silvicultural techniques that increase the biological growth of the forest. We intend to capitalize on the operational flexibility afforded to timberland owners in order to take advantage of then-prevailing market prices, including, but not limited to, adjusting harvest levels in context of supply and demand for wood in the local wood markets. We plan to harvest approximately 0.9 million tons of timber this year, down slightly from the 1.1 million-ton harvest in 2012.

Our most significant risks and challenges include our ability to access a sufficient amount of capital that will allow us to repay or refinance our outstanding debt facility and to further grow and diversify our portfolio of timber assets. To the extent that significant capital is not raised, we may not be able to repay the CoBank Loan or achieve sufficient economies of scale and diversification to guard against the general economic, industry-specific, financing, and operational risks generally associated with individual investments. Although we believe that our timber assets are well-positioned to weather current market conditions, we are not immune to the adverse effects of a prolonged downturn in the economy, weak real estate fundamentals, or disruptions in the credit markets. Such conditions would likely adversely affect the value of our portfolio, our results of operations, and our liquidity.

Per the terms of our charter, we presently intend to effect a transaction that will provide liquidity to all of our stockholders by August 11, 2018. However, a transaction well in advance of 2018 may be in our best interest. As such, we may choose to explore strategic alternatives, including listing our common stock on a national securities exchange, merging or otherwise selling our company or its portfolio as a whole, or liquidating our assets. Notwithstanding the execution of such a strategic alternative, our shares remain illiquid and we may not effect a liquidity event before or even by our original targeted date of August 11, 2018.

## Liquidity and Capital Resources

### Overview

We ceased offering shares for sale under the Follow-On Offering effective December 31, 2011. On September 28, 2012, we entered into the CoBank Loan under which we can initially borrow up to \$148.0 million in principal, including \$133.0 million through the CoBank Term Loan, and up to \$15.0 million through the CoBank Revolver. During the term of the CoBank Loan, we also have the ability to increase the amount of the CoBank Term Loan by up to \$50.0 million (the "CoBank Incremental Loan"). The CoBank Loan bears interest at an adjustable rate based on the one-, two-, or three-month LIBOR plus an applicable margin ranging from 2.00% to 2.75% (the "LIBOR Rate") that varies based on the loan-to-collateral-value ratio (the "LTV Ratio") at the time of determination. As of April 30, 2013 and March 31, 2013, the outstanding balance of the CoBank Loan was approximately \$132.4 million, all of which was outstanding under the CoBank Term Loan. We intend to maintain substantial amounts outstanding on the CoBank Loan in order to have more funds available for working capital and investment in timberland properties. On August 11, 2018, all outstanding principal, interest, and any fees or other obligations on the CoBank Loan will be due and payable in full.

The CoBank Loan is subject to mandatory prepayment from proceeds generated from dispositions of timberland and lease terminations. The mandatory prepayment excludes (1) the first \$4.0 million of cost basis of timberland dispositions in any fiscal year if (a) LTV Ratio calculated on a pro forma basis after giving effect to such disposition does not exceed

40%, and (b) such cost basis is used as permitted under the CoBank Loan; and (2) lease termination proceeds of less than \$2.0 million in a single termination until aggregate lease termination proceeds during the term of the CoBank Loan exceeds \$5.0 million. We may make voluntary prepayments at any time without premium or penalty.

The CoBank Loan prohibits us from declaring, setting aside funds for, or paying any dividend, distribution, or other payment to our stockholders other than as required to maintain our REIT qualification if our LTV Ratio is greater than or equal to 40%. So long as our LTV Ratio remains below 40% and we maintain a minimum fixed-charge coverage ratio of 1.05:1.00, we have the ability to declare, set aside funds for, pay dividends or distributions, or make other payments to our stockholders from operating cash flows on a discretionary basis. The amount of distributions that we may pay to our common stockholders will be determined by our board of directors and is dependent upon a number of factors, including, but not limited to, our financial condition, our capital requirements, our expectations of future sources of liquidity, current and future economic conditions and market demand for timber and timberlands, and tax considerations.

We expect our primary sources of future capital will be derived from the operations of the Mahrt Timberland and from proceeds from the CoBank Revolver and the CoBank Incremental Loan. The amount of cash available for distribution to stockholders and the level of discretionary distributions declared will depend primarily upon the amount of cash generated from our operating activities, our determination of funding needs for near-term capital and debt service requirements, redemptions of our common stock, and our expectations of future cash flows.

#### Short-Term Liquidity and Capital Resources

Net cash used in operating activities for the three months ended March 31, 2013 was approximately \$0.9 million, which was primarily comprised of payments for operating expenses, interest expense, advisor fees and expense reimbursements, forestry management fees, and general and administrative expenses in excess of net cash receipts from timber and timberland sales and recreational leases. During the first quarter of 2013, we paid approximately \$1.3 million of advisor fees and expense reimbursements related to the fourth quarter of 2012. We expect to generate positive cash flows from operating activities for the full year of 2013 and intend to use the majority of such cash flows, after payments of operating expenses and interest expense, to fund certain capital expenditures and redemptions of our common stock under the Amended SRP.

For the three months ended March 31, 2013, we invested approximately \$0.2 million in timber and timberland assets and received approximately \$0.2 million that was released from lender-required escrow accounts. Net cash used in financing activities for the three months ended March 31, 2013 was approximately \$0.2 million and represented outflows of funds used to redeem our common stock pursuant to the Amended SRP. We expect to utilize the residual cash balance of approximately \$10.0 million as of March 31, 2013 to satisfy current and future liabilities and fund future capital expenditures.

We believe that we have access to adequate liquidity and capital resources, including cash flow generated from operations, cash on-hand, and borrowing capacity, necessary to meet our current and future obligations that become due over the next twelve months.

The CoBank Loan contains, among others, the following financial covenants:

- limits the LTV Ratio to 45% at the end of each fiscal quarter and upon the sale or acquisition of any property; and
- requires a fixed-charge coverage ratio of not less than 1.05:1.00 at the end of each fiscal quarter.

As of March 31, 2013, we believe we were in compliance and expect to remain in compliance with the financial covenants of the CoBank Loan. Additionally, the CoBank Loan requires funding of an account under the control of CoBank equal to approximately six months of interest on the CoBank Loan during any time the LTV Ratio is 35% or

greater, or approximately three months of interest if the LTV Ratio is less than 35%.



## Long-Term Liquidity and Capital Resources

Over the long-term, we expect our primary sources of capital to include net cash flows from operations, including proceeds from strategic property sales and proceeds from secured or unsecured financings from banks and other lenders. Our principal demands for capital include operating expenses, interest expense on any outstanding indebtedness, certain capital expenditures (other than timberland acquisitions), repayment of debt, timberland acquisitions, redemptions of common and preferred stock, and distributions.

In determining how to allocate cash resources in the future, we will initially consider the source of the cash. We anticipate using a substantial portion of cash generated from operations, after payments of periodic operating expenses and interest expense, to fund certain capital expenditures required for our timberland. Any remaining cash generated from operations may be used to partially fund timberland acquisitions, redeem common and preferred stock and, finally, pay distributions to stockholders. Therefore, to the extent that cash flows from operations are lower, timberland acquisitions and distributions, if any, are anticipated to be lower as well. Proceeds from future debt financings may be used to fund capital expenditures, to pay down existing and future borrowings, and to redeem preferred stock.

Our charter precludes us from incurring debt in excess of 200% of our net assets. As of March 31, 2013, 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%. Our debt-to-net-assets ratio will vary based on our level of current and future borrowings, which will depend on the level of net cash flows from operations. Before additional borrowings, principal payments, timberland acquisitions or dispositions, we expect our debt-to-net-assets ratio to remain relatively stable in the near future.

## Contractual Obligations and Commitments

As of March 31, 2013, our contractual obligations are as follows:

Contractual Obligations	Payments Due by Period				
	Total	2013	2014-2015	2016-2017	Thereafter
Debt obligations <sup>(1)</sup>	\$132,356,123	\$—	\$—	\$—	\$132,356,123
Estimated interest on debt obligations <sup>(1) (2)</sup>	18,243,659	2,660,679	6,966,141	6,829,741	1,787,098
Operating lease obligations <sup>(3)</sup>	6,458,434	787,460	1,456,619	1,342,006	2,872,349
Other liabilities <sup>(4)</sup>	1,143,814	157,703	289,183	244,408	452,520
Total	\$158,202,030	\$3,605,842	\$8,711,943	\$8,416,155	\$137,468,090

<sup>(1)</sup> Represents respective obligations under the CoBank Loan as of March 31, 2013.

<sup>(2)</sup> Amounts include impact of an interest rate swap. See Note 5 of our accompanying consolidated financial statements for additional information.

<sup>(3)</sup> Includes payment obligation on approximately 7,300 acres that are subleased to a third-party.

<sup>(4)</sup> Represents net present value of future payments to satisfy a liability assumed upon a timberland acquisition.

## Results of Operations

### Overview

Our results of operations are materially impacted by the fluctuating nature of timber prices, changes in the levels and composition of our harvest volumes, the level of timberland sales, changes to associated depletion rates, and varying interest expense based on the amount and cost of outstanding borrowings. Timber prices, harvest volumes, and changes in the levels and composition of each for the Mahrt Timberland for the three months ended March 31, 2013, and 2012 is shown in the following tables:



	Three Months Ended March 31,		Change	
	2013	2012	%	
Timber sales volume (tons)				
Pulpwood	127,440	132,136	(4	)%
Sawtimber <sup>(1)</sup>	71,720	91,144	(21	)%
	199,160	223,280	(11	)%
Net timber sales price (per ton) <sup>(2)</sup>				
Pulpwood	\$11	\$10	13	%
Sawtimber	\$21	\$21	(1	)%
Timberland sales				
Gross sales	\$543,950	\$—		
Sales volumes (acres)	253	—		
Sales price (per acre)	\$2,150	\$—		

<sup>(1)</sup> Includes sales of chip-n-saw and sawtimber.

Prices per ton are rounded to the nearest dollar and shown on a stumpage basis (i.e., net of contract logging and

<sup>(2)</sup> hauling costs) and, as such, the sum of these prices multiplied by the tons sold does not equal timber sales in the accompanying consolidated statements of operations for the three months ended March 31, 2013, and 2012.

#### Comparison of the three months ended March 31, 2013 versus the three months ended March 31, 2012

Revenue. Revenues decreased to approximately \$7.4 million for the three months ended March 31, 2013 from approximately \$7.9 million for the three months ended March 31, 2012 due to a decrease in timber sales revenue of approximately \$1.1 million, offset by an increase in timberland sales revenue of approximately \$0.5 million. Timber sales revenue decreased primarily due to planned reductions in harvest volumes. Details of timber sales by product for the three months ended March 31, 2013 and 2012 is shown in the following table:

	For the Three Months Ended March 31, 2012	Changes attributable to:		For the Three Months Ended March 31, 2013
		Price	Volume	
Timber sales <sup>(1)</sup>				
Pulpwood	\$3,781,076	\$136,919	\$(299,027)	\$3,618,968
Sawtimber <sup>(2)</sup>	3,441,151	(50,245)	(858,112)	2,532,794
	\$7,222,227	\$86,674	\$(1,157,139)	\$6,151,762

<sup>(1)</sup> Timber sales are presented on a gross basis.

<sup>(2)</sup> Includes sales of chip-n-saw and sawtimber.

Timber sales revenues for the next three quarters are expected to be lower than the same periods in 2012 but higher than the quarter ended March 31, 2013 based on planned harvest volumes and relatively stable timber prices. We intend to continue to delay harvests on our fee land in order to achieve optimal pricing and to maximize long-term value of the Mahrt Timberland, provided that we generate sufficient cash flow from operations to satisfy our current obligations.

Operating expenses. Contract logging and hauling costs decreased to approximately \$3.3 million for the quarter ended March 31, 2013 from approximately \$4.0 million for the quarter ended March 31, 2012 as a result of a decrease of approximately 16% in delivered wood volume. Depletion expense decreased by 31% to approximately \$2.0 million for the first quarter of 2013 from approximately \$3.0 million for the first quarter of 2012 due to an 11% decrease in harvest volumes and a lower blended depletion rate. Our blended depletion rate was lower in 2013 due to a decrease in harvests of timber from leased tracts as a percentage of our total harvest to 49% in 2013 from 77% in 2012. As a result of an acquisition of approximately 30,000 acres of timberland during 2012 where we previously held leasehold



interests, approximately 12% of our merchantable timber inventory was recategorized as fee timber, which is depleted at much lower rates than timber from leased tracts. Cost of timberland sales increased due to selling 253 acres of timberland in the first quarter of 2013 as compared to no timberland sales in the first quarter of 2012. Land rent expense decreased to approximately \$0.3 million in 2013 from \$0.5 million in 2012 primarily due to expiration of leases and the acquisition described above. Forestry management fees, general and administrative expenses, and other operating expenses were comparable to the first quarter of 2012.

Future contract logging and hauling costs and depletion expense are expected to fluctuate with harvest volumes. Cost of timberland sales is directly correlated to the number of acres sold. Forestry management expense and land rent expense will vary based on the number of acres under management. General and administrative expenses and other operating expenses are expected to remain relatively stable.

Advisor fees and expense reimbursements. Advisor fees and expense reimbursements for the three months ended March 31, 2013 was the same as that for the three months ended March 31, 2012. See Note 9 to the accompanying consolidated financial statements for additional information regarding the Advisory Agreement and its amendments. Future advisor fees and expense reimbursements are expected to correlate to the amount of free cash flow in excess of interest on our outstanding debt or our assets under management.

Interest expense. Interest expense decreased to approximately \$0.8 million for the three months ended March 31, 2013 from approximately \$1.0 million for the three months ended March 31, 2012 primarily due to lower interest rates, offset by higher principal balances outstanding on our debt facility. Interest expense in future periods will vary based on our level of current and future borrowings, the cost of future borrowings, and the opportunities to acquire timber assets fitting our investment objectives. Before additional borrowings, principal payments, and significant changes to the LIBOR Rate, we expect future interest expense to be comparable to the first quarter of 2013.

Net loss. Our net loss decreased to approximately \$2.0 million for the three months ended March 31, 2013 from approximately \$3.3 million for the three months ended March 31, 2012, primarily as a result of an approximately \$1.0 million improvement in operating loss, an approximately \$0.2 million decrease in interest expense, and an approximately \$0.1 million decrease in loss on interest rate swap. Our operating loss improved due to an increase in net timber and timberland sales revenue of approximately \$0.8 million and an approximately \$0.2 million decrease in land rent expense. We sustained a net loss for the three months ended March 31, 2013 primarily as a result of incurring an operating loss of approximately \$1.2 million and interest expense of approximately \$0.8 million in connection with borrowings used to finance the purchase of the Mahrt Timberland. Our net loss per share available to common stockholders for the quarters ended March 31, 2013 and 2012 was \$0.07 and \$0.11, respectively. We anticipate future net losses to fluctuate with timber prices, harvest volumes, timberland sales, and interest expense based on our level of current and future borrowings.

#### Adjusted EBITDA

The discussion below is presented to enhance the reader's understanding of our liquidity, ability to generate cash, and ability to satisfy lender requirements. Earnings from Continuing Operations before Interest, Taxes, Depletion, and Amortization ("EBITDA") is a non-GAAP measure of our operating performance and cash-generating capacity. EBITDA is defined by the SEC; however, we have excluded certain other expenses due to their noncash nature, and we refer to this measure as Adjusted EBITDA. As such, Adjusted EBITDA, may not be comparable to similarly titled measures reported by other companies. Adjusted EBITDA should not be viewed as an alternative to net income or cash from operations as a measurement of our operating performance, as it excludes certain expenses related to fixed-asset investments required to generate revenues. Due to our significant amount of debt, management views operating income as the most appropriate earnings measure of our underlying timber operations. Management considers Adjusted EBITDA to be an important measure of our financial condition and cash-generating ability due to the significant amount of fixed assets subject to depletion and the significant amount of financing subject to interest

and amortization expense. Our credit agreement, as amended, contains a minimum debt service coverage ratio based, in part, on Adjusted EBITDA since the measure is representative of adjusted income available for interest payments.

For the quarter ended March 31, 2013, Adjusted EBITDA was approximately \$1.2 million, an approximately \$0.4 million increase from the quarter ended March 31, 2012, primarily due to an approximately \$0.5 million increase in revenue from timberland sales and an approximately \$0.2 million decrease in land rent expense during the first quarter of 2013, offset by an approximately \$0.3 million decrease in net timber sales. Our reconciliation of net loss to Adjusted EBITDA for the quarters ended March 31, 2013, and 2012 follows:

	Three Months Ended	
	March 31,	
	2013	2012
Net loss	\$(1,986,734	) \$(3,254,067
Add:		
Depletion	2,045,353	2,980,277
Unrealized gain on interest rate swaps that do not qualify for hedge accounting treatment	(128,934	) (195,664
Interest expense	861,742	1,142,870
Amortization <sup>(1)</sup>	114,906	184,932
Basis of timberland sold	337,000	—
Adjusted EBITDA	\$1,243,333	\$858,348

For the purpose of the above reconciliation, amortization includes amortization of deferred financing costs, amortization of intangible lease assets, amortization of mainline road costs, depreciation of machinery, and amortization of other liabilities; these items are included in either interest expense, land rent expense, or other operating expenses in the accompanying consolidated statements of operations.

#### Election as a REIT

We have elected to be taxed as a REIT under the Code, and have operated as such beginning with our taxable year ended December 31, 2009. To qualify to be taxed as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our adjusted taxable income, as defined in the Code, to our stockholders, computed without regard to the dividends-paid deduction and by excluding our net capital gain. As a REIT, we generally will not be subject to federal income tax on taxable income that we distribute to our stockholders. If we fail to qualify to be taxed as a REIT in any taxable year, we will then be subject to federal income taxes on our taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for that year and for the four years following the year during which qualification is lost, unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to our stockholders. However, we believe that we are organized and operate in such a manner as to qualify for treatment as a REIT for federal income tax purposes.

#### Inflation

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

#### Application of Critical Accounting Policies

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

revenue and expenses during the reporting periods. If management's judgment or interpretation of the facts and circumstances



relating to various transactions had been different, it is possible that different accounting policies would have been applied or different amounts of assets, liabilities, revenues, and expenses would have been recorded, thus resulting in a different presentation of the financial statements or different amounts reported in the financial statements.

Additionally, other companies may utilize different estimates that may impact comparability of our results of operations to those of companies in similar businesses.

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

#### Timber Assets

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

#### Depletion

Depletion, or costs attributed to timber harvested, is charged against income as trees are harvested. Fee-simple timber tracts owned longer than one year and similarly managed are pooled together for depletion calculation purposes. Depletion rates are determined at least annually by dividing (a) the sum of (i) net carrying value of the timber, which equals the original cost of the timber less previously recorded depletion, and (ii) capitalized silviculture costs incurred and the projected silviculture costs, net of inflation, to be capitalized over the harvest cycle, by (b) the total timber volume estimated to be available over the harvest cycle. The harvest cycle for the Mahrt Timberland is 30 years. 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. The capitalized silviculture cost is limited to the expenditures that relate to establishing stands of timber. For each fee-simple timber tract owned less than one year, depletion rates are determined by dividing the acquisition cost attributable to its timber by the volume of timber acquired. Depletion rates for lease tracts, which are generally limited to one harvest, are calculated by dividing the acquisition cost attributable to its timber by the volume of timber acquired. Net carrying value of the timber and timberlands is used to compute the gain or loss in connection with timberland sales. No book basis is allocated to the sale of conservation easements.

#### Evaluating the Recoverability of Timber Assets

We continually monitor events and changes in circumstances that could indicate that the carrying amounts of our timber assets may not be recoverable. When indicators of potential impairment are present that suggest that the carrying amounts of timber assets may not be recoverable, we assess the recoverability of these assets by determining whether the carrying value will be recovered through the undiscounted future operating cash flows expected from the use of the asset and its eventual disposition. Impairment losses would be recognized for (i) long-lived assets used in our operations when the carrying value of such assets exceeds the undiscounted cash flows estimated to be generated from the future operations of those assets, and (ii) long-lived assets held for sale when the carrying value of such assets exceeds an amount equal to their fair value less selling costs. Estimated fair values are calculated based on the following



information in order of preference, dependent upon availability: (i) recently quoted market prices, (ii) market prices for comparable properties, or (iii) the present value of undiscounted cash flows, including estimated salvage value. We intend to use one harvest cycle for the purpose of evaluating the recoverability of timber and timberlands used in our operations. Future cash flow estimates are based on probability-weighted projections for a range of possible outcomes and are discounted at risk-free rates of interest. We consider assets to be held for sale at the point at which a sale contract is executed and the buyer has made a nonrefundable earnest money deposit against the contracted purchase price. We have determined that there has been no impairment of our long-lived assets to date.

#### Allocation of Purchase Price of Acquired Assets

Upon the acquisition of timberland properties, we allocate the purchase price to tangible assets, consisting of timberland and timber, and identified intangible assets and liabilities, which may include values associated with in-place leases or supply agreements, based in each case on our estimate of their fair values. The fair values of timberland and timber are determined based on available market information and estimated cash flow projections that utilize appropriate discount factors and capitalization rates. Estimates of future cash flows are based on a number of factors including the historical operating results, known and anticipated trends, and market and economic conditions. The values are then allocated to timberland and timber based on our determination of the relative fair value of these assets.

#### Intangible Lease Assets

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

#### Revenue Recognition

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

(1) For delivered sales contracts, which include amounts sufficient to cover costs of logging and hauling of timber, revenues are recognized upon delivery to the customer.

For pay-as-cut contracts, the purchaser acquires the right to harvest specified timber on a tract, at an agreed-upon (2) price per unit. Payments and contract advances are recognized as revenue as the timber is harvested based on the contracted sale rate per unit.

Revenues from the sale of higher-and-better use timberland and nonstrategic timberlands are recognized when title passes and full payment or a minimum down payment is received and full collectibility is assured. If a down (3) payment of less than the minimum down payment is received at closing, we will record revenue based on the installment method.

For recreational leases, rental income collected in advance is recorded as other liabilities in the accompanying (4) consolidated balance sheets until earned over the term of the respective recreational lease and recognized as other revenue.

In addition to the sources of revenue noted above, we also may enter into lump-sum sale contracts, whereby the purchaser generally pays the purchase price upon execution of the contract. Title to the timber and risk of loss transfers to the buyer at the time the contract is consummated. Revenues are recognized upon receipt of the purchase price. When the contract expires, ownership of the remaining standing timber reverts to us; however, adjustments are not made to the revenues previously recognized. Any extensions of time will be negotiated under a new or amended contract.

## Related-Party Transactions and Agreements

We have engaged Wells TIMO and its affiliates to perform certain services under agreements that require us to pay fees and reimbursements to Wells TIMO or its affiliates, including advisor fees and expense reimbursements and disposition fees, subject to certain limitations. See Note 9 of our accompanying consolidated financial statements for a detailed discussion of our related-party agreements and transactions.

### 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.

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 12, 2012, the plaintiff filed a notice of appeal with the Eleventh Circuit Court of Appeals.

On October 22, 2012, Piedmont REIT announced that the parties had 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. Pursuant to the terms of the settlement and the Court's order preliminarily approving the settlement, notice of the proposed settlement was given to the class. On March 21, 2013, the plaintiff filed a motion for final approval of the settlement and for award of attorneys' fees and expenses. On April 18, 2013, the Court entered an order granting final approval of the settlement, dismissing the lawsuit with prejudice, and awarding attorneys' fees and expenses.

#### Commitments and Contingencies

We are subject to certain commitments and contingencies with regard to certain transactions. Refer to Note 1, 6, and 9 of our accompanying consolidated financial statements for further explanation. Examples of such commitments and contingencies include:

- MeadWestvaco Timber Agreements;
- FRC Timberland Operating Agreement;
- Advisory Agreement, as amended;
- Dealer-Manager Agreement; and
- Structuring Agent Agreement.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

As a result of entering into our loan agreements, we are exposed to interest rate changes. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, we have entered into interest rate swap agreements, and may enter into other interest rate swaps, caps, or other arrangements in order to mitigate our interest rate risk on a related financial instrument. We do not enter into derivative or interest rate transactions for speculative purposes; however, certain of our derivatives may not qualify for hedge accounting treatment. All of our debt was entered into for other than trading purposes. We manage our ratio of fixed- to floating-rate debt with the objective of achieving a mix that we believe is appropriate in light of anticipated changes in interest rates. We closely monitor interest rates and will continue to consider the sources and terms of our borrowing facilities to determine whether we have appropriately guarded ourselves against the risk of increasing interest rates in future periods.

As of March 31, 2013, we had approximately \$132.4 million outstanding on the CoBank Loan, which matures on August 11, 2018 and bears interest at an adjustable rate based on one-, two-, or three-month LIBOR Rate plus a

margin ranging from 2.00% to 2.75% based upon the then-current LTV Ratio.

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The Rabobank Forward Swap entered into on October 23, 2012 became effective on March 28, 2013. Under the Rabobank Forward Swap, we pay interest at a fixed rate of 0.9075% per annum and receive variable LIBOR-based interest payments from Rabobank on \$80.0 million between March 28, 2013 and September 30, 2017. As of March 31, 2013, the weighted-average interest rate of the CoBank Loan, after consideration of the Rabobank Forward Swap, was 2.63%.

Approximately \$80.0 million of our total debt outstanding as of March 31, 2013 is subject to an effectively fixed-interest rate when coupled with Rabobank Forward Swap. As of March 31, 2013, this balance incurred interest expense at an average rate of 2.9075%. A change in the market interest rate impacts the net financial instrument position of our fixed-rate debt portfolio; however, it has no impact on interest incurred or cash flows.

As of March 31, 2013, after consideration of the Rabobank Forward Swap, approximately \$52.4 million of our total debt outstanding is subject to an effectively variable-interest rate. This balance incurred interest expense at an average rate of 2.21% as of March 31, 2013. A 1.0% change in interest rates would result in a change in interest expense of approximately \$0.5 million per year. The amount of effectively variable-rate debt outstanding in the future will be largely dependent upon the level of cash from operations and the rate at which we are able to employ such proceeds toward repayment of the CoBank Loan and acquisition of timberland properties.

#### ITEM 4. CONTROLS AND PROCEDURES

##### Management's Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures

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

##### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

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

Certain of our affiliates have been engaged in various legal actions, including securities litigation, that are discussed more fully in Part I, Item 2, Related Party Transactions and Agreements.

## ITEM 1A. RISK FACTORS

We are subject to the following additional risk, which is hereby added to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

The current redemption price for shares under our Amended SRP may be at a substantial discount to the actual value of our shares.

We announced our estimated per-share value on December 14, 2012, and effective January 1, 2013, we began redeeming shares under our Amended SRP in connection with death, qualifying disability, or qualification for federal assistance for confinement to a long-term care facility at a price equal to 95% of the most recently published estimated per-share value of our common stock, or \$6.23, plus or minus any valuation adjustment as provided in the Amended SRP. The estimated per-share value utilized for purposes of the Amended SRP was as of September 30, 2012, and consistent with prior disclosures, we are not obligated to, nor do we intend to, update this estimate until December 2013. The estimated value of our common stock will fluctuate over time in response to market conditions and other factors. Therefore, the estimated per-share value of our common stock as of September 30, 2012 does not represent current value. To the extent that the value of our share of common stock has increased since September 30, 2012, we may be redeeming our shares at a discount well in excess of 5% of the current value.

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

(a) Not applicable.

(b) Not applicable.

(c) During the quarter ended March 31, 2013, we redeemed shares as follows:

Period	Total Number of Shares Redeemed	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program	Approximate Dollar Value of Shares Available That May Yet Be Redeemed Under the Program
January 2013	10,127	\$ 6.23	10,127	(1)
February 2013	20,370	\$ 6.23	20,370	(1)
March 2013	4,830	\$ 6.23	4,830	(1)

(1) Our share redemption plan commenced on August 11, 2006 and was amended on November 8, 2010, March 16, 2012, and August 6, 2012. The Amended SRP limits redemptions of our common stock as follows: the shares redeemed under the share redemption plan cannot exceed the lesser of (i) the amount redeemable from the sum of net

proceeds from the sale of shares through the 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. The terms of the our debt agreements prohibit us from making redemptions, other than the Qualified Special Redemptions, during any period in which the LTV ratio exceeds 40% (see Note 4 of the accompanying consolidated

financial statements). Qualified Special Redemptions do not require a one-year holding period and are subject only to the overall limitation that during any calendar year, aggregate redemptions may not exceed 100% of the net proceeds from our DRP and any additional amounts reserved for such purpose by our board of directors. Our board of directors may amend, suspend, or terminate the share redemption plan upon 30 days notice. Currently, our LTV Ratio does not exceed 40%; however, our board of directors has not yet declared any cash distributions and, therefore, there are no proceeds available under the DRP. However, our board of directors approved a monthly, noncumulative reserve of \$150,000 funded with operating cash flows for Qualified Special Redemptions. Effective January 2013, the redemption price for all redemptions, including the Qualified Special Redemptions, equals 95% of the published estimated per-share value of our common stock, plus or minus any valuation adjustment as provided in the Amended SRP. Based on the estimated per-share value calculated as of September 30, 2012 and published on December 14, 2012, the redemption price during the three months ended March 31, 2013 was \$6.23. We are not obligated to, nor do we intend to, update the estimated per-share value of our common stock until December 2013. As disclosed in connection with the initial publication of our estimated per-share value, the estimated value of our common stock will fluctuate over time in response to market conditions and other factors. Therefore, the estimated per-share value of our common stock as of September 30, 2012 does not represent current value. As of March 31, 2013, all qualified shares tendered for redemption had been redeemed. We accrued \$2,509 of the total redemption price in accounts payable and accrued expenses at March 31, 2013 and issued payment in April 2013 as requested.

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

- (a) There have been no defaults with respect to any of our indebtedness.
- (b) Not applicable.

#### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

#### ITEM 5. OTHER INFORMATION

During the first quarter of 2013, there was no information that was required to be disclosed in a report on Form 8-K (a) that was not disclosed in a report on Form 8-K or in the Annual Report on Form 10-K for the year ended December 31, 2012.

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

#### ITEM 6. EXHIBITS

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

SIGNATURES

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

WELLS TIMBERLAND REIT, INC.  
(Registrant)

Date: May 10, 2013

By: /s/ BRIAN M. DAVIS  
Brian M. Davis  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)

EXHIBIT INDEX TO  
FIRST QUARTER 2013 FORM 10-Q OF  
WELLS TIMBERLAND REIT, INC.

Exhibit Number	Description
3.1	Fifth Articles of Amendment and Restatement (incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 filed on August 12, 2010 (the “2010 Second Quarter Form 10-Q”))
3.2	Articles of Amendment to the Fifth Articles of Amendment and Restatement (incorporated by reference to Exhibit 3.2 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 filed on August 9, 2011 (the “2011 Second Quarter Form 10-Q”))
3.3	Third Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the 2010 Second Quarter Form 10-Q)
3.4	First Amendment to Third Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on October 12, 2010)
4.1	Third Amended and Restated Share Redemption Plan (incorporated by reference to Exhibit 4.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 filed on August 7, 2012)
10.1	Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 filed on November 6, 2012)
31.1*	Certification of the Principal Executive Officer of the Company, pursuant to Securities Exchange Act Rule 13a-14 and 15d-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of the Principal Financial Officer of the Company, pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Statement of the Principal Executive Officer and Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith

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Furnished with this Form 10-Q. Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.