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Wells Timberland REIT, Inc.
Form 10-Q
August 12, 2013

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

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 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

(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 July 31, 2013: 31,736,523 shares

FORM 10-Q
WELLS TIMBERLAND REIT, INC.
TABLE OF CONTENTS

	Page No.
PART I. FINANCIAL INFORMATION	
Item 1. <u>Condensed Consolidated Financial Statements</u>	<u>4</u>
<u>Consolidated Balance Sheets as of June 30, 2013 (unaudited) and December 31, 2012</u>	<u>5</u>
<u>Consolidated Statements of Operations for the Three Months and Six Months Ended June 30, 2013 (unaudited) and 2012 (unaudited)</u>	<u>6</u>
<u>Consolidated Statements of Comprehensive Income (Loss) for the Three Months and Six Months Ended June 30, 2013 (unaudited) and 2012 (unaudited)</u>	<u>7</u>
<u>Consolidated Statements of Stockholders' Equity for the Six Months Ended June 30, 2013 (unaudited) and 2012 (unaudited)</u>	<u>8</u>
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2013 (unaudited) and 2012 (unaudited)</u>	<u>9</u>
<u>Condensed Notes to Consolidated Financial Statements (unaudited)</u>	<u>10</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>23</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>35</u>
Item 4. <u>Controls and Procedures</u>	<u>36</u>
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>37</u>
Item 1A. <u>Risk Factors</u>	<u>37</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>38</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>39</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>39</u>
Item 5. <u>Other Information</u>	<u>39</u>
Item 6. <u>Exhibits</u>	<u>40</u>

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 and in our quarterly report on Form 10-Q for the period ended March 31, 2013, 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 and in our quarterly report on Form 10-Q for the period ended March 31, 2013 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 and six months ended ended June 30, 2013 are not necessarily indicative of the operating results expected for the full year.

WELLS TIMBERLAND REIT, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	(Unaudited) June 30, 2013	December 31, 2012
Assets:		
Cash and cash equivalents	\$ 13,357,474	\$ 11,221,092
Restricted cash and cash equivalents	1,352,822	2,050,063
Accounts receivable	893,579	658,355
Prepaid expenses and other assets	1,587,781	1,098,268
Deferred financing costs, less accumulated amortization of \$174,417 and \$58,626 as of June 30, 2013 and December 31, 2012, respectively	1,196,503	1,311,770
Timber assets, at cost (Note 3):		
Timber and timberlands, net	328,824,748	333,805,295
Intangible lease assets, less accumulated amortization of \$922,191 and \$841,686 as of June 30, 2013 and December 31, 2012, respectively	34,894	115,399
Total assets	\$ 347,247,801	\$ 350,260,242
Liabilities:		
Accounts payable and accrued expenses	\$ 1,715,089	\$ 1,689,288
Due to affiliates (Note 9)	1,636,366	1,326,255
Other liabilities	4,736,037	4,801,387
Note payable and line of credit (Note 4)	132,356,123	132,356,123
Total liabilities	140,443,615	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 June 30, 2013 and December 31, 2012	36,612,667	36,476,063
Series B preferred stock, \$1,000 liquidation preference; 9,807 shares issued and outstanding as of June 30, 2013 and December 31, 2012	12,172,491	12,123,992
Common stock, \$0.01 par value; 900,000,000 shares authorized; 31,753,373 and 31,800,627 shares issued and outstanding as of June 30, 2013 and December 31, 2012, respectively	317,534	318,006
Additional paid-in capital	300,881,510	301,348,146
Accumulated deficit and distributions	(144,041,796) (139,491,344
Accumulated other comprehensive income (loss)	861,780	(687,674
Total stockholders' equity	206,804,186	210,087,189
Total liabilities and stockholders' equity	\$ 347,247,801	\$ 350,260,242

See accompanying notes.

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

	(Unaudited) Three Months Ended		(Unaudited) Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Revenues:				
Timber sales	\$7,267,334	\$7,062,469	\$13,419,096	\$14,284,696
Timberland sales	1,309,371	10,552,180	1,853,321	10,552,180
Other revenues	675,714	677,644	1,367,793	1,341,281
	9,252,419	18,292,293	16,640,210	26,178,157
Expenses:				
Contract logging and hauling costs	3,780,638	3,849,424	7,044,108	7,846,384
Depletion	2,247,904	2,494,011	4,293,257	5,474,288
Cost of timberland sales	964,869	7,567,615	1,343,152	7,567,615
Advisor fees and expense reimbursements	1,636,366	1,648,503	2,381,608	2,393,745
Forestry management fees	569,157	570,297	1,145,861	1,143,079
General and administrative expenses	804,196	572,510	1,409,132	1,127,515
Land rent expense	257,806	498,419	567,952	1,013,297
Other operating expenses	608,903	568,410	1,269,475	1,266,358
	10,869,839	17,769,189	19,454,545	27,832,281
Operating income (loss)	(1,617,420)	523,104	(2,814,335)	(1,654,124)
Other income (expense):				
Interest income	849	182	1,999	309
Interest expense	(947,352)	(975,420)	(1,737,847)	(1,961,393)
Loss on interest rate swap	—	(12,172)	(474)	(103,165)
	(946,503)	(987,410)	(1,736,322)	(2,064,249)
Net loss	(2,563,923)	(464,306)	(4,550,657)	(3,718,373)
Dividends to preferred stockholder	(92,969)	(92,970)	(185,103)	(186,011)
Net loss available to common stockholders	\$(2,656,892)	\$(557,276)	\$(4,735,760)	\$(3,904,384)
Per-share information—basic and diluted:				
Net loss available to common stockholders	\$(0.08)	\$(0.02)	\$(0.15)	\$(0.12)
Weighted-average common shares outstanding —basic and diluted	31,757,432	31,884,699	31,775,958	31,869,820

See accompanying notes.

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

	(Unaudited) Three Months Ended June 30,		(Unaudited) Six Months Ended June 30,	
	2013	2012	2013	2012
Net loss	\$ (2,563,923)	\$ (464,306)	\$ (4,550,657)	\$ (3,718,373)
Other comprehensive income:				
Market value adjustment to interest rate swap	1,456,981	—	1,549,454	—
Comprehensive loss	\$ (1,106,942)	\$ (464,306)	\$ (3,001,203)	\$ (3,718,373)

See accompanying notes.

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

	Common Stock		Preferred Stock		Additional Paid-In Capital	Accumulated Deficit and Distributions	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
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	(45,233)	(452)	—	—	(281,348)	—	—	(281,800)
Dividends on preferred stock	—	—	—	185,103	(185,103)	—	—	—
Net loss	—	—	—	—	—	(4,550,657)	—	(4,550,657)
Market value adjustment to interest rate swap	—	—	—	—	—	—	—	—