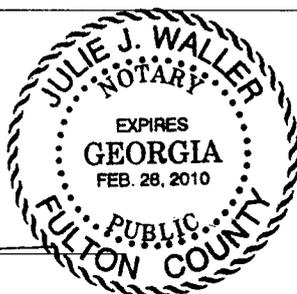


OATH OR AFFIRMATION

I, Robert McCullough, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Wells Investment Securities, Inc. of December 31, 20 08, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



Julie J. Waller
Notary Public

Robert McCullough
Signature
FINOP & Asst Treasurer
Title

This report ** contains (check all applicable boxes):

- (a) Facing Page.
(b) Statement of Financial Condition.
(c) Statement of Income (Loss).
(d) Statement of Changes in Financial Condition.
(e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
(f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
(g) Computation of Net Capital.
(h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
(i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
(j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
(k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
(l) An Oath or Affirmation.
(m) A copy of the SIPC Supplemental Report.
(n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

Financial Statements and Supplemental Information

Wells Investment Securities, Inc.

**For the Year Ended December 31, 2008
With Report and Supplementary
Report of Independent Auditors**

Wells Investment Securities, Inc.

Financial Statements
and Supplemental Information

Year Ended December 31, 2008

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FRAZIER & DEETER, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

600 Peachtree Street, N.E., Suite 1900, Atlanta, Georgia 30308
main 404.253.7500 fax 404.253.7501 www.frazierdeeter.com

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Washington, DC
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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholder
Wells Investment Securities, Inc.

We have audited the accompanying statement of financial condition of Wells Investment Securities, Inc. (the Company) (a wholly owned subsidiary of Wells Real Estate Funds, Inc.) as of December 31, 2008, and the related statements of operations, changes in stockholder's equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wells Investment Securities, Inc. at December 31, 2008, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

February 25, 2009
Frazier & Deeter, LLC
Atlanta, Georgia

Frazier & Deeter, LLC

Wells Investment Securities, Inc.

Statement of Financial Condition

December 31, 2008

ASSETS

Cash and cash equivalents	\$ 1,916,826
Commissions, dealer-manager fees, and distribution fees receivable from affiliates (Note 3)	1,222,128
Prepaid expenses and other current assets	497,034
Deferred tax assets (Note 6)	505,598
Due from affiliates (Note 3)	136,390
Income tax receivable	73,725
Other assets, net (Notes 2 and 3)	241,548
Total assets	<u>\$4,593,249</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Liabilities:	
Accounts payable and accrued expenses	\$ 848,533
Due to affiliates	23,791
Payable to broker-dealers	773,653
Total liabilities	<u>1,645,977</u>
Commitments and contingencies (Note 8)	-
Stockholder's equity:	
Common stock (\$1 par value; 100,000 shares authorized; 6,000 shares issued and outstanding)	6,000
Additional paid-in capital	2,610,902
Retained earnings	330,370
Total stockholder's equity	<u>2,947,272</u>
Total liabilities and stockholder's equity	<u>\$ 4,593,249</u>

See accompanying notes.

Wells Investment Securities, Inc.

Statement of Operations

Year Ended December 31, 2008

Revenues:	
Selling commissions	\$ 53,280,622
Dealer-manager fees	19,098,758
Reimbursement income - related party (Note 3)	3,484,038
Mutual Fund commissions and distribution fees	1,337,215
Contingent deferred sales load fees	93,783
Interest and other income	21,673
Total revenues	<u>77,316,089</u>
Expenses:	
Selling commissions re-allowed to participating broker-dealers	53,280,622
Marketing fees re-allowed to participating broker-dealers	10,103,280
Salaries, sales-based compensation, and benefits	11,897,102
Mutual Fund commissions and distribution fees re-allowed to participating broker-dealers	1,123,925
General and administrative	1,613,582
Amortization of other assets	550,706
SIPC and FINRA fees	106,650
Total expenses	<u>78,675,867</u>
Loss before taxes	<u>(1,359,778)</u>
Income tax benefit (Note 6):	
Federal	(450,114)
State	(45,337)
Total income tax benefit	<u>(495,451)</u>
Net loss	<u><u>\$ (864,327)</u></u>

See accompanying notes.

Wells Investment Securities, Inc.

Statement of Changes in Stockholder's Equity

Year Ended December 31, 2008

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total Stockholder's Equity</u>
	<u>Shares</u>	<u>Amount</u>			
Balance at December 31, 2007	6,000	\$ 6,000	\$2,610,902	\$1,194,697	\$ 3,811,599
Net loss	-	-	-	(864,327)	(864,327)
Balance at December 31, 2008	<u>6,000</u>	<u>\$ 6,000</u>	<u>\$2,610,902</u>	<u>\$ 330,370</u>	<u>\$ 2,947,272</u>

See accompanying notes.

Wells Investment Securities, Inc.

Statement of Cash Flows

Year Ended December 31, 2008

Operating activities:	
Net loss	\$ (864,327)
Adjustments to reconcile net loss to net cash used in operating activities:	
Amortization of other assets	550,706
Changes in assets and liabilities:	
Decrease in cash segregated under federal and other regulations	285,510
Decrease in commissions, dealer-manager fees, and distribution fees receivable from affiliates	957,890
Increase in other assets before amortization	(34,215)
Increase in due from/due to affiliates	(602,146)
Increase in deferred tax assets	(503,524)
Decrease in income tax receivable	281,959
Increase in prepaid expenses and other current assets	(212,160)
Gross proceeds from securities sold at market value	10,711,718
Payment of commissions and dealer-manager fees	(534,951)
Purchase of securities at market value	(10,462,277)
Increase in accounts payable and accrued expenses	130,045
Increase in payable to broker-dealers	19,525
Total adjustments	<u>588,080</u>
Net cash used in operating activities	<u>(276,247)</u>
Cash and cash equivalents at beginning of year	<u>2,193,073</u>
Cash and cash equivalents at end of year	<u>\$ 1,916,826</u>
Supplemental financial information:	
Income taxes refunded, net of taxes paid	<u>\$ (273,886)</u>

See accompanying notes.

Wells Investment Securities, Inc.

Notes to Financial Statements

1. Organization and Business

Wells Investment Securities, Inc. (the Company) was organized on April 20, 1984 as a corporation under the Georgia Business Corporation Code and commenced operations on May 22, 1984. Upon its formation effective February 17, 1997, Wells Real Estate Funds, Inc. (WREF) became the sole stockholder of the Company. Leo F. Wells, III is the sole stockholder of Wells Real Estate Funds, Inc.

During 2008, the Company acted as an agent in connection with the management, coordination, and distribution of securities issued by Wells Real Estate Investment Trust II, Inc. (Wells REIT II); Wells Timberland REIT, Inc (Timberland REIT); Wells Dow Jones Wilshire U.S. REIT Index Fund (the Domestic Mutual Fund); Wells Dow Jones Wilshire Global RESI Index Fund (the Global Mutual Fund); Wells Mid-Horizon Value-Added Fund I, LLC (Wells VAF); and certain affiliated private ventures (collectively, the Products). The Company also acted as an agent for Piedmont Office Realty Trust, Inc (PORT) for activities related to shares sold through the Dividend Reinvestment Plan (DRP). Wells Capital, Inc. (Wells Capital) serves as the Advisor to Wells REIT II. Wells Asset Management (WAM) serves as the Adviser to the Domestic Mutual Fund and the Global Mutual Fund. Wells Management Company, Inc. (Wells Management) sponsors the equity offerings for certain affiliated private ventures. Wells Investment Management Company, LLC (WIM), a wholly owned subsidiary of Wells Management, serves as the advisor to Wells VAF. Wells Timberland Management Organization, LLC, (TIMO), a wholly owned subsidiary of Wells Capital, serves as the Advisor to the Timberland REIT. In addition to the Company, Wells Capital, WAM, and Wells Management are also wholly-owned subsidiaries of WREF.

The Company is a broker-dealer registered with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA). In connection therewith, the Company pays fees to the Securities Investor Protection Corporation (SIPC), an agency created to insure customers against losses from failed brokerage firms. The Company does not hold customer securities and, as related to the distribution of the Wells VAF, held customer funds in a "Special Account for the Exclusive Benefit of Customers of Wells Investment Securities, Inc. (Mid-Horizon Fund)" (Special Bank Account) during 2008. Wells VAF closed to new investors on September 15, 2008 and therefore no longer had a balance in its customer funds account at December 31, 2008. This account was subsequently closed during 2009. Accordingly, as of December 31, 2008 the Company qualifies for the exemption provisions of the SEC Customer Protection Rule under the Securities Exchange Act of 1934 (Rule 15c3-3).

Wells Investment Securities, Inc.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies

Use of Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the amounts reported in the financial statements and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The Company's revenues are primarily comprised of selling commissions and dealer-manager fees earned as compensation in connection with the distribution of the Products. Commissions and dealer-manager fees are recognized on a trade-date basis. The Company re-allows substantially all selling commissions, and in accordance with the respective prospectus or offering memorandum for each respective product, a portion of the dealer-manager fees in the form of marketing fees to the participating broker-dealers involved in the distribution and sale of the Products.

Cash and Cash Equivalents

The Company maintains three accounts consisting of demand deposits and short-term investments with two financial institutions. These accounts are insured up to \$100,000 per institution by the U.S. Federal Deposit Insurance Corporation (FDIC). On October 14, 2008, the FDIC deposit insurance temporarily increased from \$100,000 to full coverage for non-interest bearing transaction deposit accounts, regardless of dollar amount until December 31, 2009. The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Reserve for Doubtful Accounts Receivable

As of December 31, 2008, all significant outstanding receivables are due from affiliates. Management believes that all significant receivables are collectible based on the financial viability of and historical collections from such affiliates. Accordingly, no reserves for such receivables have been provided for in the accompanying financial statements.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of payroll advances, FINRA Personnel and Sales Assessment fees and the Company's fidelity bond premium for 2009, which the Company paid during 2008. The payroll advances are for January 2009 and the remainder will amortize on a straight-line basis during 2009. Additionally, prepaid expenses include deposits held for FINRA's Central Registration Depository (CRD), a system designed to provide banking services to FINRA

Wells Investment Securities, Inc.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Prepaid Expenses and Other Current Assets (continued)

member firms. Among other things, these deposits are applied against recurring FINRA fees related to examinations, registrations, and licensing as incurred by the Company.

Other Assets, Net

The Company financed the payment of certain commissions with respect to sales of Class B and Class C shares to investors in the Domestic Mutual Fund and Class C shares for the Global Mutual Fund. Commissions financed on behalf of the investors in the Domestic and Global Mutual Funds are capitalized and amortized over six years for Class B shares and over one year for Class C shares, respectively, after which Class B shares convert to Class A shares in the 8th year. As Domestic and Global Mutual Fund investors redeem outstanding Class B shares or Class C shares, the Company earns contingent deferred sales load fees calculated based on a schedule of percentages of the dollar amount of shares redeemed, which decline relative to the length of time that the shares were outstanding during the amortization period. Class C shares charge a contingent deferred sales charge for a period of one year. The Company ceased offering Class B shares to new investors in April 2007.

Management continually monitors events and changes in circumstances that could indicate that carrying amounts of other assets may not be recoverable.

Liabilities

As of December 31, 2008, the Company had no liabilities subordinated to claims of its creditors.

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, whereby deferred taxes are provided for based upon the differences between the financial statement and tax basis of assets and liabilities using currently enacted tax laws and rates. Deferred tax expenses or benefits are recognized in the financial statements according to the changes in deferred tax assets or liabilities between years.

The Financial Accounting Standards Board (FASB) issued an Interpretation on *Accounting for Uncertainty in Income Taxes* (FIN 48) in June 2006. FIN 48 applies to all tax positions accounted for in accordance with Statement of Financial Accounting Standards 109 and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

Wells Investment Securities, Inc.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

FIN 48 shall be applied to fiscal years beginning after December 15, 2007. In December 2008, the FASB issued staff position (FSP) No. FIN 48-3, *Effective Date of FASB Interpretation No. 48 for certain nonpublic enterprises*. This staff position defers the effective date of FIN 48 for another year. As a result, the Company continues to account for and disclose income tax exposures pursuant to FASB Statement No. 5, *Accounting for Contingencies* (FAS 5) during this deferral period. Using the FAS 5 accounting guidance, the Company currently has not uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Management is currently evaluating the effects of FIN 48 for planned implementation in 2009. At this time, management does not believe that FIN 48 will have a material impact on the current income tax policies and operations of the Company.

Risks and Uncertainties

The substantial majority of the Company's revenues are generated from the sale of the Products. Accordingly, a decline in such sales could detrimentally impact the Company's financial condition and results of operations. Commissions, dealer-manager fees and distribution fees receivable from affiliates may also subject the Company to credit risk (Note 3).

3. Related-Party Transactions

Selling Commissions, Dealer-Manager Fees, and Distribution Fees

The Company earns selling commissions from the sale of the Products. During 2008, selling commissions were calculated based on the following percentages of gross investment proceeds raised by the Products: up to 7% for Wells REIT II, up to 7% for Wells Timberland REIT, equal to 5% for certain affiliated private ventures, and up to 4% for Class A shares of the Domestic Mutual Fund, the Global Mutual Fund, and Wells VAF. There are no selling commissions earned pursuant to the PORT, Wells REIT II or Wells Timberland REIT DRPs.

The Company earns dealer-manager fees, calculated as 2.5% of the gross investment proceeds raised, from the distribution of Wells REIT II and certain affiliated private ventures, 1.8% from the gross investment proceeds raised from the distribution of Wells Timberland REIT and 1.5% of the gross investment proceeds raised from the distribution of Wells VAF. There are no dealer-manager fees earned pursuant to the PORT, Wells REIT II, or Wells Timberland REIT DRPs.

Wells Investment Securities, Inc.

Notes to Financial Statements (continued)

3. Related-Party Transactions (continued)

Selling Commissions, Dealer-Manager Fees, and Distribution Fees (continued)

The Company earns distribution fees from the distribution of shares of the Domestic Mutual Fund and the Global Mutual Fund. During 2008, distribution fees were calculated based on a range from 0.25% to 1.00% of the average daily net assets allocable to the respective class of shares of the Domestic and Global Mutual Funds. The Company also earns sales commissions from the sale of Class A Domestic and Global Mutual Fund shares.

The detail of commissions, dealer-manager fees and distribution fees receivable from affiliates as of December 31, 2008 is provided below:

Wells REIT II	\$1,119,310
Domestic Mutual Fund	60,331
Global Mutual Fund	7,645
Timberland REIT	34,842
Total	<u>\$1,222,128</u>

Other Assets, Net

Other assets, net, consist primarily of commissions financed by the Company with respect to sales of Class B and Class C shares to investors in the Domestic Mutual Fund and Class C shares in the Global Mutual Fund. Commissions financed on behalf of the investors in the Domestic Mutual Fund are capitalized and amortized over six years for Class B shares and one year for Class C shares. Class C shares of the Global Mutual Fund are amortized over one year. As of December 31, 2008, the accumulated amortization of \$1,609,742 and \$276,993 related to Class B and Class C shares, respectively, was included in other assets, net.

During 2008, the Company recorded impairment charges of \$247,620 for Class B shares and \$13,838 for Class C shares, respectively. These impairment costs were recorded as amortization expense in these financial statements.

The detail of other assets, net, as of December 31, 2008 is provided below:

Due from Class B share Domestic Mutual Fund investors	\$205,305
Due from Class C share Domestic Mutual Fund investors	26,189
Due from Class C share Global Mutual Fund investors	10,054
Total	<u>\$241,548</u>

Wells Investment Securities, Inc.

Notes to Financial Statements (continued)

3. Related-Party Transactions (continued)

Due from Affiliate

Due from affiliate as of December 31, 2008 is as follows:

Wells Capital	<u>\$ 136,390</u>
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The balance due from Wells Capital primarily represents receivables pursuant to the Payroll Reimbursement and Administrative Support Services Agreement (as outlined below) offset by facilities usage allocation charges to the Company.

Payroll Reimbursement and Administrative Support Services Agreement

Effective January 1, 2004, the Company and Wells Capital entered into a Payroll Reimbursement and Administrative Support Services Agreement (the Administrative Agreement). This agreement was initially a one-year agreement with automatic annual extensions, and as such the agreement was automatically extended for one year on January 1, 2008, pursuant to its terms.

Wells Capital agreed to reimburse the Company for all non sales-based compensation earned by the Company's FINRA registered representatives, which is included in salaries, sales-based compensation, and benefits in the accompanying statement of operations. Beginning in 2007, Wells Capital also agreed to reimburse the Company for compensation based on average assets under management related to the Global and Domestic Mutual Funds. During 2008, Wells Capital reimbursed \$2,865,712 to the Company for such expenses, which is recorded as reimbursement income-related party in the accompanying statement of operations.

Under the Administrative Agreement, the Company has also agreed to reimburse Wells Capital for administrative support services, including the costs associated with Wells Capital's Information Technology, Corporate Accounting, Accounts Payable, Human Resources and Risk Management, and Finance departments and excluding the related payroll costs and costs otherwise reimbursable to Wells Capital from other affiliated parties. The Company is required to reimburse Wells Capital for an allocation of such costs based on the Company's employee headcount relative to all personnel employed by WREF's subsidiaries provided that, following such reimbursements, the Company maintains retained earnings and revenues sufficient to satisfy the minimum net capital requirements of the SEC (Note 5). During 2008, the Company reimbursed \$742,762 to Wells Capital for such expenses, which are included in general and administrative expenses in the accompanying statement of operations.

Wells Investment Securities, Inc.

Notes to Financial Statements (continued)

3. Related-Party Transactions (continued)

Payroll Reimbursement and Administrative Support Services Agreement (continued)

Effective November 1, 2008, the Company and WREF and its other subsidiaries entered into an amended Payroll Reimbursement and Administrative Support Services Agreement (the Amended Administrative Agreement). This agreement is for a one year term with automatic annual extensions.

Under the Amended Administrative Agreement and in addition to the reimbursements noted above, WREF has agreed to reimburse the Company for any cumulative deficits resulting after deducting from the maximum marketing fees allowable per each product's prospectus the actual marketing fees paid plus the actual non-sales based compensation paid to employees. In addition, WREF shall reimburse the Company for non-sales based compensation for its employees who do not participate in the sales and distribution of the Wells' registered offerings and all benefits paid to the Company's employees. During 2008, WREF reimbursed \$618,326 to the Company for such expenses, which is recorded as reimbursement income-related party in the accompanying statement of operations.

On April 16, 2007, PORT completed an agreement and plan of merger (the Merger Agreement) with WREF, Wells Capital, Wells Real Estate Funds, Inc. and Subsidiaries, Wells Advisory Services I, a subsidiary of WREF, Wells Real Estate Advisory Services, a wholly owned subsidiary of WREF, Wells Government Services, a wholly-owned subsidiary of Wells Management, WRT Acquisition Company, LLC (WRT Acquisition Sub), a wholly-owned subsidiary of PORT and WGS Acquisition Company, LLC (WGS Acquisition Sub), a wholly-owned subsidiary of PORT. In connection with the closing of the Merger Agreement, PORT issued 19,546,302 shares of PORT common stock to WREF as Merger Consideration and 22,339 shares of PORT common stock in exchange for the 20,000 limited partnership units held by Wells Capital for a total of 19,568,641 shares.

Subsequent to the completion of the Merger Agreement, WREF formed the Wells Stock Distribution Plan I, which compensates various personnel employed by WREF and its subsidiaries. Under that plan, eligible employees were granted a right to receive a number of PORT shares. An eligible employee's shares are vested 25% as of April 16, 2007 and an additional 25% each anniversary of the merger completion date that the individual is employed by WREF or its subsidiaries.

Pursuant to the Addendum to the Administrative Agreement and as applicable to the Amended Administrative Agreement, Wells Capital shall be solely responsible to satisfy any obligation of the Company related to its employees resulting from the Wells Stock Distribution Plan I dated April 16, 2007. Under that agreement, Wells Capital incurred \$6,003,305 in stock compensation expense in 2008 attributable to employees of the Company.

Wells Investment Securities, Inc.

Notes to Financial Statements (continued)

4. Amended and Restricted Loan Agreement

On October 9, 2007, WREF and certain WREF subsidiaries, including the Company, entered into a \$15,000,000 amended and restated loan agreement (loan agreement) as a restricted subsidiary borrower, with Wachovia Bank, National Association (Wachovia Bank). In connection with the placement of the loan agreement, Wells Advisory Services I (WAS1), a WREF subsidiary, entered into a secured guaranty pledge agreement with Wachovia to provide collateral to Wachovia for the WREF's guarantee of a \$160 million mezzanine loan held by Wells Timberland REIT. WAS1 pledged 8,991,299 shares of PORT common stock as collateral for this guarantee. In addition, WREF pledged all of its preferred shares in the Wells Timberland REIT. Pursuant to the terms of this loan agreement, WREF borrowed \$15,000,000 at an interest rate of London Inter-bank Offered Rate (LIBOR) plus 5.00%.

On February 29, 2008, the loan agreement was amended to increase the amount of pledged common shares of PORT from 8,991,299 shares to 9,928,665 shares. At the same time, WREF paid down the loan by \$6.5 million. On August 29, 2008, the loan agreement was amended to allow the purchase of \$10.7 million of Series B preferred stock from Wells Timberland REIT. On October 15, 2008, the loan agreement was further amended to extend the maturity date to September 30, 2009. At the same time, WREF transferred 450 shares of Series A preferred stock and 150 shares of Series B preferred stock in Wells Timberland REIT to Wachovia as part of the amendment fee. At December 31, 2008, the outstanding balance on the loan was \$8,500,000 and the applicable interest rate was 5.43625%.

The Company has no recourse liability to Wachovia Bank for any borrowing by WREF or any of the other WREF subsidiaries. Under the terms of the loan agreement, the Company might incur recourse liability if WREF or certain of WREF's subsidiaries contribute or loan more than 10% of WREF's consolidated net worth to the Company.

5. Net Capital Computation

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, as defined, shall not exceed 15 to 1. Rule 15c3-1 also provides that equity may not be withdrawn or cash dividends paid if the resulting ratio of aggregate indebtedness to net capital would exceed 10 to 1. As of December 31, 2008, the Company had net capital of \$806,530, which was \$683,769 in excess of its required net capital of \$122,761. As of December 31, 2008, the Company's ratio of aggregate indebtedness to net capital was 2 to 1.

In 2006 WIS in its role as dealer-manager for the Wells VAF offering began self-clearing of investor funds. As a result, WIS minimum required net capital increased to \$100,000, and WIS was required to maintain a Special Bank Account. Funds received from Wells VAF investors were promptly

Wells Investment Securities, Inc.

Notes to Financial Statements (continued)

5. Net Capital Computation (continued)

deposited into this bank account for clearing purposes. Once the funds cleared, the net funds were transferred to Wells VAF and to WIS for the payment of commissions and dealer manager fees.

On September 15, 2008, Wells VAF closed to new investors and therefore no longer had a balance in its Special Bank Account. As a result, the Company qualifies for the exemption provisions of the SEC Customer Protection Rule under the Securities Exchange Act of 1934 (Rule 15c3-3). Effective December 11, 2008, the Company received approval from FINRA to operate as a \$5,000 net capital introducing, non-clearing broker dealer, and as such began filing only quarterly FOCUS reports.

6. Income Taxes

Income tax expense (benefit) attributable to income from operations consists of the following:

	Current	Deferred	Total
Federal	\$ 10,771	\$ (460,885)	\$ (450,114)
State	(2,699)	(42,638)	(45,337)
	\$ 8,072	\$ (503,523)	\$ (495,451)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's net deferred tax assets are as follows:

Accrued Severance	\$ 29,763
Federal/State NOLs	475,835
Total deferred tax assets	\$ 505,598

No valuation allowance was necessary.

Wells Investment Securities, Inc.

Notes to Financial Statements (continued)

6. Income Taxes (continued)

The reconciliation of income tax computed at the U.S. federal statutory rate to the income tax benefit is as follows:

	<u>Amount</u>	<u>Percentage</u>
Pretax book income tax effected	\$ (475,922)	35.000%
State tax expenses, net of federal tax benefit	(27,715)	2.038
Other	8,186	(0.602)
Income tax benefit	<u>\$ (495,451)</u>	<u>36.436%</u>

7. Defined Contribution Plan

Wells & Associates, Inc., an affiliate of the Company, sponsors a 401(k) defined contribution plan (the Plan) under which the Company is allowed to make contributions for all of its employees. Eligible participants may contribute a percentage of their annual compensation, subject to maximum amounts established by the United States Internal Revenue Service. The Company makes employer-matching contributions equal to \$0.25 per dollar invested in the Plan for participants during their first two years of service. During the pay period beginning the participants' third year of service, the Company increases matching contributions to \$0.50 per dollar invested in the Plan. During the pay period beginning the participants' fourth year of service, the Company increases matching contributions to \$0.75 per dollar invested in the Plan. During the pay period beginning the participants' fifth year of service, the Company increases matching contributions to \$1.00 per dollar invested in the Plan. Employer matching contributions are 100% vested and non-forfeitable and are capped at 11% of each employee's income on a biweekly basis. Pursuant to the Administrative Agreement, Wells Capital reimburses the Company for employer-matching contributions incurred in connection with the payroll costs reimbursed to the Company for non sales-based compensation and asset-based compensation related to the Domestic and Global Mutual Funds. Under the Amended Administrative Agreement, WREF reimburses the Company for all employer-matching contributions (Note 3). During 2008, the Company incurred \$567,591 in employer matching contributions to the Plan.

8. Commitments and Contingencies

In the ordinary course of business, the Company may become subject to litigation or claims. There are no material pending legal proceedings involving the Company.

SUPPLEMENTAL SCHEDULES

Wells Investment Securities, Inc.

Schedule I
Computation of Net Capital and Aggregate Indebtedness
Pursuant to Rule 15c3-1 of the
Securities and Exchange Commission

December 31, 2008

Net capital

Total stockholder's equity per financial statements	\$ 2,947,272
Deduct assets not allowable for net capital	<u>2,140,742</u>
Net capital per Rule 15c3-1	<u>\$ 806,530</u>

Aggregate indebtedness

Total liabilities per financial statements	\$1,841,412
Total aggregate indebtedness	<u>\$1,841,412</u>

Computation of basic net capital requirement

Minimum net capital required	<u>\$ 122,761</u>
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Net capital surplus at 1500%	<u>\$ 683,769</u>
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Net capital surplus at 1000%	<u>\$ 622,389</u>
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Ratio: aggregate indebtedness to net capital	<u>2 to 1</u>
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Reconciliation with Company's computation (included in Part IIA of Form X-17A-5 as of December 31, 2008)

Net capital, as reported in Company's Part IIA (Unaudited) FOCUS report	\$ 806,530
Audit adjustments:	<u>-</u>
Net capital per above	<u>\$ 806,530</u>

Wells Investment Securities, Inc.

Schedule II
Statement Regarding SEC Rule 15c3-3

December 31, 2008

Exemptive Provision

The Company claims exemption from the requirements of Rule 15c3-3 under Section (k)(2)(i) of the Rule.

SUPPLEMENTARY REPORT



FRAZIER & DEETER, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

600 Peachtree Street, N.E., Suite 1900, Atlanta, Georgia 30308
main 404.253.7500 fax 404.253.7501 www.frazierdeeter.com

**SUPPLEMENTARY REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL
REQUIRED BY SEC RULE 17A-5**

The Board of Directors and Stockholder
Wells Investment Securities, Inc.

In planning and performing our audit of the financial statements of Wells Investment Securities (the Company), as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control), as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. The study included tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by Rule 17a-13
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two

of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2008, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

February 25, 2009

Frazier Deuter, LLC