GLADSTONE LAND Corp
Form 10-Q
May 06, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **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: 001-35795

GLADSTONE LAND CORPORATION

(Exact name of registrant as specified in its charter)

MARYLAND **(State or other jurisdiction of** **incorporation or organization)**	**02-0681276** **(I.R.S. Employer** **Identification No.)**
1521 WESTBRANCH DRIVE, SUITE 200 **MCLEAN, VIRGINIA** **(Address of principal executive offices)**	**22102** **(Zip Code)**

(703) 287-5800

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address and formal 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 x 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 for 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 the 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 x (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 x.

The number of shares of the registrant s Common Stock, $0.001 par value per share, outstanding as of May 6, 2013, was 6,530,264.

GLADSTONE LAND CORPORATION

FORM 10-Q FOR THE QUARTER ENDED

MARCH 31, 2013

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GLADSTONE LAND CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	March 31, 2013	December 31, 2012
ASSETS		
Real estate, at cost	$ 39,678,968	$ 39,678,968
Less: accumulated depreciation	(2,670,139)	(2,535,084)
Total real estate, net	37,008,829	37,143,884
Lease intangibles, net	183,079	208,060
Cash and cash equivalents	29,074,835	873,474
Short-term investments	20,676,484	679,717
Deferred financing fees, net	308,976	304,150
Deferred offering costs, net		1,006,095
Other assets	2,761,428	285,521
TOTAL ASSETS	$ 90,013,631	$ 40,500,901
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES		
Mortgage note payable	$ 29,489,165	$ 30,717,880
Borrowings under line of credit	100,000	100,000
Accounts payable and accrued expenses	674,365	913,649
Due to related parties[1]	155,648	104,782
Deferred tax liability	258,729	258,729
Other liabilities	343,957	269,135
TOTAL LIABILITIES	31,021,864	32,364,175
STOCKHOLDERS EQUITY		
Common stock, $0.001 par value; 20,000,000 shares authorized; 6,530,264 and 2,750,000 shares issued and outstanding at March 31, 2013, and December 31, 2012, respectively	6,530	2,750
Additional paid in capital	51,326,166	
Retained earnings	7,659,071	8,133,976
TOTAL STOCKHOLDERS EQUITY	58,991,767	8,136,726
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 90,013,631	$ 40,500,901

(1) Refer to Note 3, Related-Party Transactions, for additional information

The accompanying notes are an integral part of these condensed consolidated financial statements.

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GLADSTONE LAND CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the Three Months Ended March 31, 2013	2012
OPERATING REVENUES:		
Rental income	$ 914,583	$ 813,475
Total operating revenues	914,583	813,475
OPERATING EXPENSES:		
Depreciation and amortization	160,036	95,365
Management advisory fee[(1)]	59,164	44,036
Administration fee[(1)]	38,332	22,805
Incentive fee[(1)]	41,037	
Professional fees	85,392	121,171
Due diligence expense	16,871	12,654
Property operating expenses	18,495	10,045
General and administrative	118,778	11,326
Total operating expenses	538,105	317,402
OPERATING INCOME	376,478	496,073
OTHER INCOME (EXPENSE):		
Interest income	10,627	336
Other income		2,449
Interest expense	(280,400)	(217,454)
Total other expense	(269,773)	(214,669)
Net income before income taxes	106,705	281,404
Provision for income taxes	59,189	128,900
NET INCOME	$ 47,516	$ 152,504
EARNINGS PER WEIGHTED AVERAGE COMMON SHARE basic and diluted	$ 0.01	$ 0.06
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING basic and diluted	5,249,898	2,750,000

(1) Refer to Note 3, Related-Party Transactions, for additional information

The accompanying notes are an integral part of these condensed consolidated financial statements.

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GLADSTONE LAND CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Three Months Ended March 31, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 47,516	$ 152,504
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	160,036	95,365
Amortization of deferred financing fees	7,404	4,957
Amortization of acquired below market lease values	(29,061)	
Deferred income taxes		(5,262)
(Increase) decrease in other assets	(2,425,907)	109,853
Increase in accounts payable, accrued expenses, and due to related parties	(425,439)	(29,790)
Decrease (increase) in other liabilities	103,883	(358,883)
Net cash used in operating activities	(2,561,568)	(31,256)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in short-term investments	(19,996,767)	
Deposits on future acquisitions	(50,000)	
Net cash used in investing activities	(20,046,767)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of equity, net of costs	52,573,062	
Repayments on mortgage notes payable	(1,228,715)	(917,120)
Financing fees	(12,230)	(18,500)
Distributions paid	(522,421)	
Net cash provided by (used in) financing activities	50,809,696	(935,620)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	28,201,361	(966,876)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	873,474	2,003,854
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 29,074,835	$ 1,036,978

The accompanying notes are an integral part of these condensed consolidated financial statements.

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GLADSTONE LAND CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1. BUSINESS AND ORGANIZATION

Business

Gladstone Land Corporation, (the Company, we, us, our) was re-incorporated in Maryland on March 24, 2011, having been re-incorporated in Delaware on May 25, 2004, and having been originally incorporated in California on June 14, 1997. The Company exists primarily for the purpose of engaging in the business of owning and leasing farmland. Subject to certain restrictions and limitations, our business is managed by Gladstone Management Corporation, a Delaware corporation (the Adviser).

Organization

We conduct substantially all of our operations through a subsidiary, Gladstone Land Limited Partnership (the Operating Partnership), a Delaware limited partnership. As we currently own, directly or indirectly, all of the general and limited partnership interests of the Operating Partnership, the financial position and results of operations of the Operating Partnership are consolidated with those of the Company.

Gladstone Land Partners, LLC (Land Partners), a Delaware limited liability company and a subsidiary of ours, was organized to engage in any lawful act or activity for which a limited liability company may be organized in Delaware. Land Partners is the general partner of the Operating Partnership and has the power to make and perform all contracts and to engage in all activities necessary in carrying out the purposes of the Company, as well as all other powers available to it as a limited liability company. As we currently own all of the membership interests of Land Partners, the financial position and results of operations of Land Partners are consolidated with those of the Company.

Gladstone Land Advisers, Inc. (Land Advisers), a Delaware corporation and a subsidiary of ours, was created to collect any non-qualifying income related to our real estate portfolio. We have elected for Land Advisers to be taxed as a taxable real estate investment trust subsidiary (TRS). It is currently anticipated that this income will predominately consist of fees we receive related to the leasing of real estate. We may also provide ancillary services to farmers through this subsidiary, though there have been no such fees earned to date. Since we currently own 100% of the voting securities of Land Advisers, the financial position and results of operations of Land Advisers are consolidated with those of the Company.

All references in this report to the Company, we, us and our refer to Gladstone Land Corporation, its Operating Partnership and its subsidiaries, unless the context otherwise requires or where otherwise indicated.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Financial Information

Our interim financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (the U.S.) (GAAP) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and in accordance with Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. In the opinion of our management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair presentation of financial statements for the interim period have been included. The interim financial statements and accompanying notes should be read in conjunction with the financial statements and notes thereto included in our Form 10-K for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on March 27, 2013.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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 periods. Actual results could materially differ from those estimates.

Reclassifications

Certain line items on the *Condensed Consolidated Balance Sheet* for the year ended December 31, 2012, have been reclassified to conform to the current-year presentation. These reclassifications had no effect on previously-reported stockholders equity or net income.

Real Estate and Lease Intangibles

Our investments in real estate consist of farmland and improvements made to the farmland consisting of buildings, coolers, which are storage facilities used for cooling crops, and irrigation and drain systems. We record investments in real estate at cost and capitalize improvements and replacements when they extend the useful life or improve the efficiency of the asset. We expense costs of repairs and maintenance as such costs are incurred. We compute depreciation using the straight-line method over the estimated useful life or 39 years for buildings and improvements, five to seven years for equipment and fixtures and the shorter of the useful life or the remaining lease term for tenant improvements and leasehold interests.

Certain of our acquisitions involve sale-leaseback transactions with newly-originated leases, which we account for as asset acquisitions under Accounting Standards Codification (ASC) 805, Business Combinations. In the case of an asset acquisition, we will capitalize the transaction costs incurred in connection with the acquisition. Other of our acquisitions involve the acquisition of farmland that is already being operated as rental property, which we will generally consider to be a business combination under ASC 805. Business combination guidance is generally applicable to us when farmland is acquired with a lease in place at the time of acquisition. When an acquisition is considered a business combination, ASC 805 requires that the purchase price of real estate be allocated to the acquired tangible assets and liabilities, consisting of land, building, tenant improvements and long-term debt, and identifiable intangible assets and liabilities, typically the value of above-market and below-market leases, the value of in-place leases, the value of unamortized lease origination costs and the value of tenant relationships, based in each case on their fair values. ASC 805 also requires that all expenses related to the acquisition be expensed as incurred, rather than capitalized into the cost of the acquisition.

Whether our acquisitions are treated as an asset acquisition or a business combination under ASC 805, the fair value of the purchase price is allocated to the assets. Management s estimates of fair value are made using methods similar to those used by independent appraisers (e.g., a discounted cash flow analysis). Factors considered by management in its analysis include an estimate of carrying costs during hypothetical expected lease-up periods considering current market conditions and costs to execute similar leases. We also consider information obtained about each property as a result of our pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired and liabilities acquired. In estimating carrying costs, management also includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the hypothetical expected lease-up periods, which primarily range from nine to eighteen months, depending on specific local market conditions. Management also estimates costs to execute similar leases, including leasing commissions, legal and other related expenses to the extent that such costs are not already incurred in connection with a new lease origination as part of the transaction.

We allocate purchase price to the fair value of the tangible assets of an acquired property by valuing the property as if it were vacant. The as-if-vacant value is allocated to land, building and tenant improvements based on management s determination of the fair values of these assets. Real estate depreciation expense on these tangible assets was $135,055, and $84,481 for the three months ended March 31, 2013 and 2012, respectively.

Above-market and below-market in-place lease values for owned properties are recorded based on the present value (using an interest 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 leases and (ii) management s estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. When determining the non-cancelable term of the lease, we evaluate if fixed-rate renewal options, if any, should be included. Prior to our acquisitions in

2012, discussed in Note 5, *Real Estate and Intangible Assets*, all acquired leases were determined to be at market. In connection with the 2012 acquisitions, we allocated $98,808 of the purchase price to below-market lease values. The fair value of capitalized below-market leases, included in the accompanying *Condensed Consolidated Balance Sheets* as part of other liabilities, are amortized as an increase to rental income over the remaining non-cancelable terms of the respective leases. Total amortization related to below-market leases was $29,061 for the three months ended March 31, 2013. There was no amortization related to below-market lease values recorded for the three months ended March 31, 2012.

The total amount of the remaining intangible assets acquired, which consist of in-place lease values, unamortized lease origination costs and customer relationship intangible values, are allocated based on management s evaluation of the specific characteristics of each tenant s lease and our overall relationship with that respective tenant. Characteristics to be considered by management in allocating these values include the nature and extent of our existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant s credit quality and our expectations of lease renewals (including those existing under the terms of the lease agreement), among other factors.

The value of in-place leases and unamortized lease origination costs are amortized to expense over the remaining term of the respective leases, which range from less-than-one to nine years. The value of customer relationship intangibles, which is the benefit to us resulting from the likelihood of an existing tenant renewing its lease at the existing property or entering a lease at a different property owned by us, are amortized to expense over the remaining lease term and any anticipated renewal periods in the respective leases. Should a tenant terminate its lease, the unamortized portion of the above-market and below-market lease values, in-place lease values, lease origination costs and customer relationship intangibles will be immediately charged to the related income or expense. Total amortization expense related to these intangible assets was $24,981 and $10,883 for the three months ended March 31, 2013 and 2012, respectively.

Impairment of Real Estate Assets

We account for the impairment of real estate, including intangible assets, in accordance with ASC 360-10-35, Property, Plant, and Equipment, which requires us to periodically review the carrying value of each property to determine if circumstances indicate impairment of the carrying value of the investment exists or if depreciation periods should be modified. If circumstances support the possibility of impairment, we prepare a projection of the undiscounted future cash flows, without interest charges, of the specific property and determine if the carrying value of the investment in such property is recoverable. In performing the analysis, we consider such factors as the tenants payment history and financial condition, the likelihood of lease renewal, business conditions in the industry in which the tenants operate and whether there are indications that the fair value of the real estate has decreased. If the carrying amount is more than the aggregate undiscounted future cash flows, we would recognize an impairment loss to the extent the carrying amount exceeds the estimated fair value of the property.

We will evaluate our entire property portfolio each quarter for any impairment indicators and perform an impairment analysis on those select properties that have an indication of impairment. We concluded that none of our properties were impaired as of March 31, 2013, and will continue to monitor our portfolio for any indicators of impairment. There have been no impairments recognized on real estate assets since our inception.

Short-term Investments

We consider short-term investments to be all short-term, highly-liquid securities that have a maturity of less than one year at the time of purchase. Our short-term investments are classified as held-to-maturity and are recorded at their amortized cost on the *Condensed Consolidated Balance Sheets*. At March 31, 2013, and December 31, 2012, short-term investments consisted of approximately $0.7 million held in a certificate of deposit set to mature on September 4, 2013, and, at March 31, 2013, only, $20.0 million of short-term U.S. Treasury Bills that mature on June 27, 2013. Total income earned on these short-term investments is included in Interest income on the accompanying *Condensed Consolidated Statements of Operations* and totaled $1,787 for the three months ended March 31, 2013. There were no short-term investments held during the three months ended March 31, 2012.

Deferred Financing Costs

Deferred financing costs consist of costs incurred to obtain financing, including legal fees, origination fees and administrative fees. These costs are deferred and amortized over the term of the related financing using the straight-line method, which approximates the effective interest method. Upon early extinguishment of any borrowings, the unamortized portion of the

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related deferred financing costs will be immediately charged to expense. Total amortization expense related to deferred financing costs is included in Interest expense on the accompanying *Condensed Consolidated Statements of Operations* and was $7,404 and $4,957 for the three months ended March 31, 2013 and 2012, respectively.

Deferred Offering Costs

We account for deferred offering costs in accordance with SEC Staff Accounting Bulletin (SAB), Topic 5.A, which states that incremental costs directly attributable to a proposed or actual offering of securities may properly be deferred and charged against the gross proceeds of the offering. Accordingly, we record costs incurred related to public offerings of equity securities to Other assets on our *Condensed Consolidated Balance Sheet* and ratably apply these amounts to the cost of equity as stock is issued. The deferred offering costs on our *Condensed Consolidated Balance Sheet* as of December 31, 2012, were applied to the cost of equity in connection with our initial public offering (IPO) in January 2013.

Other Assets

At March 31, 2013, and December 31, 2012, Other assets consisted primarily of prepaid expenses, accounts receivable, income taxes receivable and, at March 31, 2013, only, a $2.1 million income tax prepayment in the form of a cash bond paid to the IRS. The balance of income taxes receivable represent refunds expected related to prior tax years. The $2.1 million income tax prepayment represents income taxes on a deferred intercompany gain relating to a prior-year land transfer that will be recognized upon our election to be taxed as a real estate investment trust (REIT) for federal income tax purposes. See *Income taxes* below for more information.

Revenue Recognition

Rental revenue includes rents that each tenant pays in accordance with the terms of its respective lease, reported evenly over the non-cancelable term of the lease. Some of our leases contain rental increases at specified intervals; we recognize such revenues on a straight-line basis. Deferred rent receivable, included in Other assets on the accompanying *Condensed Consolidated Balance Sheets*, includes the cumulative difference between rental revenue, as recorded on a straight line basis, and rents received from the tenants in accordance with the lease terms. Capitalized above-market in-place leases and capitalized below-market in-place leases are included in Other assets and Other liabilities, respectively, on the accompanying *Condensed Consolidated Balance Sheets*, the value of which is amortized into rental income over the life of the respective leases. Accordingly, we determine, in our judgment, to what extent the deferred rent receivable applicable to each specific tenant is collectable. We periodically review deferred rent receivable, as it relates to straight-line rents, and take into consideration the tenant s payment history, the financial condition of the tenant, business conditions of the industry in which the tenant operates and economic conditions in the geographic area in which the property is located. In the event that the collectability of deferred rent with respect to any given tenant is in doubt, we record an allowance for uncollectable accounts or record a direct write-off of the specific rent receivable. No such reserves or direct write-offs have been recorded to date.

Income taxes

Our net income will be taxed at regular corporate tax rates for both federal and state income purposes to the extent that we do not qualify or elect to be taxed as a REIT for federal income tax purposes. However, beginning with our tax year ending either December 31, 2013, or December 31, 2014, we intend to operate in a manner that will allow us to qualify and elect to be taxed as a REIT for federal income tax purposes and, accordingly, will not be subject to federal income taxes on amounts that we distribute to our stockholders (except income from foreclosure property), provided that, on an annual basis, we distribute at least 90% of our REIT taxable income (determined without regard to the deduction for dividends paid and excluding net capital gains) to our stockholders and meet certain other conditions. To the extent that we satisfy the annual distribution requirement but distribute less than 100% of our taxable income, we will be subject to an excise tax on our undistributed taxable income.

We account for such income taxes in accordance with the provisions of ASC 740, Income Taxes. Under ASC 740-10-25, we account for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. In estimating future tax consequences, we consider all future events, other than changes in tax laws or rates. The effect on deferred tax assets and liabilities of a change in tax rates will be recognized as income or expense in the period of enactment.

In addition, ASC 740 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC 740, we may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not (defined as a likelihood of more than 50%) that the tax position, based on the technical merits of the position, will be sustained upon examination by taxing authorities, including resolutions of any related appeals or litigation processes. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater-than-fifty-percent likelihood of being realized upon ultimate settlement. If a tax position does not meet the more-likely-than-not recognition threshold, despite our belief that the filing position is supportable, the benefit of that tax position is not recognized in the statements of operations. ASC 740 also provides guidance on derecognition, classification, interest and penalties on income taxes, as well as accounting in interim periods, and requires increased disclosures. We recognize interest and penalties, as applicable, related to unrecognized tax benefits as Other expense on the *Condensed Consolidated Statements of Operations*. We recognize unrecognized tax benefits in the period that the uncertainty is eliminated by either affirmative agreement of the uncertain tax position by the applicable taxing authority or by expiration of the applicable statute of limitation. We have performed a review of our tax positions and determined that, as of March 31, 2013, and December 31, 2012, we had no material uncertain tax positions.

In connection with intercompany transfers of the farmland now held by San Andreas Road Watsonville, LLC (the San Andreas Farm), in 2002 and again in 2004 and of the farmland currently held by West Gonzales Road Oxnard, LLC (the West Gonzales Farm), in 2002, we created deferred intercompany gains that are taxable for both federal and state income tax purposes upon the occurrence of certain triggering events. These deferred intercompany gains are generally equal to the excess of the fair market value of the property over the tax basis of the property (determined as of the time that the deferred intercompany gain was created). Deferred intercompany gains are indefinitely deferred until a triggering event occurs (such as REIT conversion), generally when the transferee or the transferor leaves the consolidated group, as defined by the relevant tax law, or the property is sold to a third party. In the case of a transfer of built-in gain property between members of a consolidated group, there are deferred intercompany gains to the transferring entity, and the receiving entity s tax basis is the fair market value at the date of transfer. Thus, a deferred tax liability is created related to the deferred intercompany gain to the transferring entity, and an offsetting deferred tax asset is created representing the basis difference from the new tax basis of the receiving entity. As a result, the deferred tax assets and liabilities offset one another and there is no net impact to us. In accordance with ASC 740 and ASC 810, no tax impact is recognized in the condensed consolidated financial statements as a result of transfers of assets between members of a consolidated group.

As a result of the transfers mentioned above, the related federal and state deferred tax assets and liabilities each total approximately $2.2 million as of March 31, 2013. With respect to the federal amount of approximately $2.1 million, this amount will become payable upon us making a REIT election, and, as a REIT, we will no longer be able to obtain the benefit of the related deferred tax asset. As such, in March 2013, we made a tax prepayment of $2.1 million in the form of a cash bond submitted to the IRS to cover this amount once it becomes due. As a result, we will reverse the deferred tax asset through our income tax provision once we have completed all significant actions necessary to qualify as a REIT and are committed to the course of action for this to occur. The REIT election does not have the same impact on the state tax amount of approximately $0.1 million, and, therefore, this amount will continue to be deferred. We currently intend to qualify and elect to be taxed as a REIT for federal income tax purposes, beginning with our tax year ending either December 31, 2013, or December 31, 2014.

At the time of transfer of the San Andreas Farm in February 2004 from SC Land, Inc. (SC Land), a deferred intercompany stock account (DISA), was created at the state income tax level. The DISA is calculated based upon the fair market value of the property at the time of distribution, and the resulting tax liability was approximately $98,000. SC Land was formally liquidated in June 2010; however, we have concluded that SC Land was de facto liquidated in May 2009, when it transferred its remaining existing assets to the parent company, since the business operations of SC Land were effectively terminated as of that date. The state income taxes of $98,000 related to the DISA became payable at the time of the de facto liquidation in May 2009 and are to be remitted over a period of five years, the final installment of which will be due in 2014.

We transferred the West Gonzales Farm from SC Land into the parent company in May 2009. As stated in the paragraph above, SC Land was de facto liquidated in May 2009, and, as a result, we will not be subject to a tax on the transfer similar to that discussed in the paragraphs above related to the 2002 and 2004 transfers.

Under California state law, through our fiscal and tax years ended December 31, 2012, we and our Adviser are presumed to be unitary entities and are therefore required to report our income on a combined basis, as David Gladstone was the sole shareholder of both entities, which is no longer the case since our IPO in January 2013. The combined reporting application resulted in refunds related to previous income tax years, all of which have been received.

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A reconciliation between the U.S, statutory federal income tax rate and our effective income tax rate for the three months ended March 31, 2013 and 2012 is explained in the following table:

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012(A)
US statutory federal income tax rate	34.0%	34.0%
State taxes, net of US federal income tax benefit(B)	21.4%	10.2%
Other adjustments	0.1%	1.6%
Effective tax rate	55.5%	45.8%

(A) Based on the effective tax rate for the year ended December 31, 2011, as that rate represents our best estimate of the effective tax rate in effect as of March 31, 2012, based on the information available at the time.

(B) Beginning in 2010, California state tax returns were filed on a unitary basis with our Adviser. In 2011, we began filing state tax returns in Florida, and starting in 2013, we will also begin filing state tax returns in Michigan.

The state tax rate is higher due to the deferred intercompany gain mentioned above, which is a fixed amount due to the state of California and is not based on the amount of income apportioned to the state.

The provision for income taxes recorded for the three months ended March 31, 2013, is expected to be reversed once we complete all significant actions necessary to qualify as a REIT and become committed to the course of action for this to occur.

The deferred tax liability in the accompanying balance sheets represents the basis difference in our real estate as it relates to depreciation, as well as differences relating to rents received in advance, straight-line rents and other prepaid expenses. The deferred tax liability reflected on the *Condensed Consolidated Balance Sheet* will be reversed upon our qualifying and electing to be treated as a REIT for federal income tax purposes. Our permanent differences relate to federal and state income taxes.

Also, beginning with our tax year ending either December 31, 2013, or December 31, 2014, we intend for Land Advisers to be treated as a wholly-owned TRS and to be subject to federal and state income taxes. Though Land Advisers has had no activity to date, we would account for any future income taxes in accordance with the provisions of ASC 740, Income Taxes.

Comprehensive Income

For the three months ended March 31, 2013 and 2012, comprehensive income equaled net income; therefore, a separate statement of comprehensive income is not included in the accompanying condensed consolidated financial statements.

NOTE 3. RELATED-PARTY TRANSACTIONS

We are externally managed pursuant to contractual arrangements with our Adviser and Gladstone Administration, LLC (the Administrator), which collectively employ all of our personnel and pay their salaries, benefits and general expenses directly. We had an advisory agreement with our Adviser that was in effect through January 31, 2013 (the Prior Advisory Agreement), and we entered into an amended advisory agreement with our Adviser, effective February 1, 2013 (the Amended Advisory Agreement). We also had an administration agreement with our Administrator that was in effect through January 31, 2013 (the Prior Administration Agreement), and we entered into an amended administration agreement with our Administrator, effective February 1, 2013 (the Amended Administration Agreement). The management and administrative services and fees under both of these agreements are described below.

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Prior Advisory and Administration Agreements

Prior Advisory Agreement

We entered into the Prior Advisory Agreement with our Adviser in 2004, pursuant to which the Adviser was responsible for managing us on a day-to-day basis and for identifying, evaluating, negotiating and consummating investment transactions consistent with our criteria. In exchange for such services, we paid the Adviser a management advisory fee, which consisted of the reimbursement of certain expenses of the Adviser. We reimbursed the Adviser for its pro-rata share of the payroll and related benefit expenses on an employee-by-employee basis, based on the percentage of each employee s time devoted to Company matters. We also reimbursed the Adviser for general overhead expenses multiplied by the ratio of hours worked by the Adviser s employees on Company matters to the total hours worked by the Adviser s employees. We compensated our Adviser through reimbursement of our portion of the Adviser s payroll, benefits and general overhead expenses. This reimbursement was generally subject to a combined annual management fee limitation of 2.0% of our average invested assets for the year, with certain exceptions. Reimbursement for overhead expenses was only required up to the point that reimbursed overhead expenses and payroll and benefits expenses, on a combined basis, equaled 2.0% of our average invested assets for the year, and general overhead expenses were required to be reimbursed only if the amount of payroll and benefits reimbursed to the Adviser was less than 2.0% of our average invested assets for the year. However, payroll and benefits expenses were required to be reimbursed by us to the extent that they exceed the overall 2.0% annual management fee limitation. To the extent that overhead expenses payable or reimbursable by us exceeded this limit and our independent directors determine that the excess expenses were justified based on unusual and nonrecurring factors which they deem sufficient, we were permitted to reimburse the Adviser in future years for the full amount of the excess expenses, or any portion thereof, but only to the extent that the reimbursement would not have caused our overhead expense reimbursements to exceed the 2.0% limitation in any one year. Since inception, the advisory fee had never exceeded the annual cap.

The following table shows the breakdown of the management advisory fee for the month ended January 31, 2013, and the three months ended March 31, 2012:

	For the Month Ended January 31, 2013	For the Three Months Ended March 31, 2012
Allocated payroll and benefits	$ 38,668	$ 32,224
Allocated overhead expenses	7,538	11,812
Total management advisory fee	**$ 46,206**	**$ 44,036**

Prior Administration Agreement

We entered into the Prior Administration Agreement with our Administrator, effective January 1, 2010, as amended on June 1, 2011, pursuant to which we paid for our allocable portion of our Administrator s overhead expenses in performing its obligations to us, including, but not limited to, rent and the salaries and benefits of our chief financial officer and treasurer, chief compliance officer, internal counsel and their respective staffs. We compensated our Administrator through reimbursement of our portion of the Administrator s payroll, benefits and general overhead expenses.

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The following table shows the breakdown of the administration fee for the month ended January 31, 2013, and the three months ended March 31, 2012:

	For the Month Ended January 31, 2013	For the Three Months Ended March 31, 2012
Allocated payroll and benefits	$ 14,034	$ 16,934
Allocated overhead expenses	4,498	5,871
Total administration fee	**$ 18,532**	**$ 22,805**

Amended and Restated Advisory and Administration Agreements

On February 1, 2013, we entered into each of the Amended Advisory Agreement and the Amended Administration Agreement.

Amended Advisory Agreement

Under the terms of the Amended Advisory Agreement that went into effect on February 1, 2013, we no longer reimburse our Adviser for our pro-rata share of its payroll, benefits and overhead expenses. Instead, we pay an annual base management fee during 2013 equal to 1.0% of our total stockholders equity, less the recorded value of any preferred stock we may issue and, for 2013 only, any uninvested cash proceeds of the IPO, which we refer to as our adjusted stockholders equity. We will also pay an additional incentive fee based on Funds from Operation (FFO) before giving effect to any incentive fee (Pre-incentive fee FFO). Beginning in 2014, we will pay an annual base management fee equal to 2.0% of our adjusted total stockholders equity, which will no longer exclude any uninvested cash proceeds of the IPO, and an additional incentive fee based on our pre-incentive fee FFO. For the two months ended March 31, 2013, in which the Amended Advisory Agreement was in effect, we recorded a base management fee of $12,958.

For purposes of calculating the incentive fee, our pre-incentive fee FFO will include any realized capital gains or losses, less any dividends paid on our preferred stock, but will not include any unrealized capital gains or losses. The incentive fee will reward our Adviser if our pre-incentive fee FFO for a particular calendar quarter exceeds a hurdle rate of 1.75%, or 7% annualized, of our adjusted stockholders equity at the end of the quarter. Our Adviser will receive 100% of the amount of the pre-incentive fee FFO for the quarter that exceeds the hurdle rate but is less than 2.1875% of our adjusted stockholders equity at the end of the quarter, or 8.75% annualized. Our Adviser will also receive an incentive fee of 20% of the amount of our pre-incentive fee FFO that exceeds 2.1875% for the quarter. During the two months ended March 31, 2013, in which the Amended Advisory Agreement was in effect, an incentive fee of $41,037 was earned and payable to our Adviser.

Amended Administration Agreement

Under the terms of the Amended Administration Agreement that went into effect on February 1, 2013, we pay separately for our allocable portion of the Administrator s overhead expenses in performing its obligations, including rent and our allocable portion of the salaries and benefits expenses of our chief financial officer and treasurer, chief compliance officer, internal counsel and their respective staffs. Unlike our Administration Agreement, which provided that our allocable portion of these expenses be based on the percentage of time that our Administrator s personnel devoted to our affairs, under the Amended Administration Agreement, our allocable portion of these expenses is derived by multiplying the Administrator s total allocable expenses by the percentage of our total assets at the beginning of each quarter in comparison to the total assets of all companies for whom our Administrator provides services. For the two months ended March 31, 2013, in which the Amended Administration Agreement was in effect, we recorded an administration fee of $19,800.

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Related Party Fees Due

Amounts due to related parties on our accompanying *Condensed Consolidated Balance Sheets* were as follows:

	March 31, 2013		December 31, 2012	
Management fee due to Adviser	$	59,164	$	46,710
Incentive fee due to Adviser		41,037		
Other due to Adviser[1]		17,115		2,934
Total fees due to Adviser	**$**	**117,316**	**$**	**49,644**
Fee due to Administrator	**$**	**38,332**	**$**	**55,138**
Total related party fees due	**$**	**155,648**	**$**	**104,782**

(1) Other fees due to Adviser primarily relate to miscellaneous general and administrative expenses paid by our Adviser on our behalf.

NOTE 4. EARNINGS PER SHARE OF COMMON STOCK

The following table sets forth the computation of basic and diluted earnings per common share for the three months ended March 31, 2013 and 2012. Earnings per share is computed using the weighted average number of shares outstanding during the respective periods.

	For the Three Months Ended March 31, 2013		2012	
Net income	$	47,516	$	152,504
Denominator for basic & diluted weighted average common shares		5,249,898		2,750,000
Basic & diluted earnings per common share	**$**	**0.01**	**$**	**0.06**

NOTE 5. REAL ESTATE AND INTANGIBLE ASSETS

All of our properties are wholly-owned on a fee-simple basis. The following table provides certain summary information about our 12 farm properties as of March 31, 2013.

Property Name	Location	Date Acquired	Encumbrances	Acquisition Price[1]	Number of Farms	Number of Leases	Farmable Acres	Total Acres	Lease Expiration Date
San Andreas	Watsonville, CA	6/16/1997	$ 100,000[2]	$ 4,929,307	1	1	237	306	12/31/2014
West Gonzales	Oxnard, CA	9/15/1998	13,473,792	15,185,928	1	2	501	653	12/31/2013
West Beach	Watsonville, CA	1/3/2011	5,068,800	8,472,073	3	1	195	198	10/31/2013
Dalton Lane	Watsonville, CA	7/7/2011	2,587,853	2,808,000	1	1	70	72	10/31/2015
Keysville Road	Plant City, FL	10/26/2011	1,152,000	1,227,816	2	1	50	59	7/1/2016
Colding Loop	Wimauma, FL	8/9/2012	3,366,720	3,499,644	1	1	181	219	6/14/2013
Trapnell Road	Plant City, FL	9/12/2012	3,840,000	4,000,000	3	1	110	124	6/30/2017
			$ 29,589,165	**$ 40,122,768**	**12**	**8**	**1,344**	**1,631**	

(1) Consists of the initial acquisition price (including the costs allocated to both tangible and intangible assets) plus subsequent improvements on the properties

(2) Represents borrowings outstanding as of March 31, 2013, on our line of credit with MetLife, under which the San Andreas Farm is pledgd as collateral

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Real Estate

The following table sets forth the components of our investments in real estate as of March 31, 2013, and December 31, 2012:

	As of March 31, 2013	As of December 31, 2012
Real estate:		
Land	$ 30,828,325	$ 30,828,325
Building	1,311,027	1,311,027
Cooler	4,963,243	4,963,243
Drain system	2,576,373	2,576,373
Real estate, gross	39,678,968	39,678,968
Accumulated depreciation	(2,670,139)	(2,535,084)
Real estate, net	**$ 37,008,829**	**$ 37,143,884**

Future operating lease payments from tenants under all non-cancelable leases, excluding tenant reimbursement of expenses, for the remainder of 2013 and each of the five succeeding fiscal years and thereafter as of March 31, 2013, are as follows:

Period		Tenant Lease Payments
For the remaining nine months ending December 31:	2013	$ 2,298,560
For the fiscal years ending December 31:	2014	875,113
	2015	379,210
	2016	320,109
	2017	126,599
	2018	
	Thereafter	

In accordance with the lease terms, substantially all operating expenses are required to be paid by the tenant; however, we would be required to pay real estate property taxes on the respective parcels of land in the event the tenants fail to pay them. The aggregate annual real estate property taxes for all parcels of land owned by us as of March 31, 2013, are approximately $304,000.

Intangible Assets

The following table summarizes the carrying value of intangible assets and the accumulated amortization for each intangible asset class as of March 31, 2013, and December 31, 2012:

	March 31, 2013		December 31, 2012	
	Lease Intangibles	Accumulated Amortization	Lease Intangibles	Accumulated Amortization
In-place leases	$ 286,975	$ (204,880)	$ 286,975	$ (186,843)
Leasing commissions	63,638	(20,710)	63,638	(17,627)
Customer relationships	93,187	(35,131)	93,187	(31,270)
	$ 443,800	**$ (260,721)**	**$ 443,800**	**$ (235,740)**

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The estimated aggregate amortization expense for the remainder of 2013 each of the five succeeding fiscal years and thereafter is as follows:

Period		Estimated Amortization Expense
For the remaining nine months ending December 31:	2013	$ 48,531
For the fiscal years ending December 31:	2014	39,223
	2015	37,021
	2016	26,014
	2017	14,935
	2018	3,857
	Thereafter	13,498

Portfolio Diversification and Concentrations

Diversification

The following table summarizes the geographic locations of our properties with leases in place as of March 31, 2013, and December 31, 2012:

	As of and for the Three Months Ended March 31, 2013					As of and for the Three Months Ended March 31, 2012				
State	Number of Farms	Total Acres	% of Total Acres	Rental Revenue	% of Total Rental Revenue	Number of Farms	Total Acres	% of Total Acres	Rental Revenue	% of Total Rental Revenue
California										