

GLADSTONE LAND Corp  
Form S-11/A  
October 12, 2012  
Table of Contents

As filed with the Securities and Exchange Commission on October 12, 2012

Registration No. 333-183965

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Pre-effective Amendment No. 1**

**to**

**Form S-11**

**FOR REGISTRATION**

*UNDER*

*THE SECURITIES ACT OF 1933*

*OF SECURITIES OF CERTAIN REAL ESTATE COMPANIES*

**GLADSTONE LAND CORPORATION**

(Exact Name of Registrant as Specified in its Governing Instruments)

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(Address, Including Zip Code, and Telephone Number, including Area Code, of Registrant's Principal Executive Offices)

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this Registration Statement.

If any of the Securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. "

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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.**

## Table of Contents

**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION DATED OCTOBER 12, 2012**

## Shares of Common Stock

We are an externally managed real estate company that owns strategically located agricultural farmland in the United States.

We are offering \_\_\_\_\_ shares of common stock. This is our initial public offering and, prior to this offering, there has been no public market for our shares. We currently expect the initial public offering price of our common stock to be \_\_\_\_\_ and we intend to apply to have our common stock listed on The NASDAQ Global Market under the symbol LAND.

**We are an emerging growth company under the federal securities laws. Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page 19 to read about factors you should consider before buying shares of our common stock.**

We intend to elect to be taxed and to operate as a real estate investment trust, or REIT, for U.S. federal income tax purposes commencing with our taxable year ending December 31, 2013 or December 31, 2014, subject to satisfying the REIT qualification requirements at such time.

### **Some risks of investing in our common stock include:**

We currently own twelve farms, leased to six separate tenants. We are actively seeking and evaluating other farm properties to potentially purchase with the net proceeds we will receive from this offering, although we have not yet entered into binding agreements to acquire these properties, and there is no guarantee that we will be able to acquire any of them. As a result, investors will be unable to evaluate the manner in which the net proceeds are invested and the economic merits of projects prior to investment.

One tenant, Dole Food Company, or Dole, is responsible for approximately 71% of our current annualized GAAP straight-line rental revenue; if Dole fails to make rental payments or elects to terminate its leases with us, it would have a material adverse effect on our financial performance and our ability to make distributions to our stockholders.

We intend to use leverage through borrowings under mortgage loans on our properties, and potentially other indebtedness, which will result in risks, including restrictions on additional borrowings and payment of distributions.

We may not qualify or we may not elect to be treated as a REIT for federal income tax purposes, which would subject us to federal income tax on our taxable income at regular corporate rates, thereby reducing the amount of funds available for paying distributions to stockholders.

Conflicts of interest exist between us, our Adviser, its officers, directors, and their affiliates, which could result in investment decisions that are not in the best interests of our stockholders.

Our success will depend on the performance of our Adviser. If our Adviser makes inadvisable investment or management decisions, our operations could be materially adversely impacted.

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We have not yet set an annual distribution rate, and in the event that the rate is set at, or reduced to, a rate that is not competitive with alternative investments, the market price or our common stock could be adversely impacted.

Our cash available for distributions, including cash we generate from operations, may not be sufficient to pay distributions to stockholders. **Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

	Per Share	Total
Public Offering Price	\$	\$
Underwriting Discount	\$	\$
Proceeds, before expenses, to us	\$	\$

We have granted the underwriters an option to purchase up to additional shares of common stock from us at the initial public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover over-allotments, if any.

The underwriters expect to deliver the shares of common stock on , 2012.

## Janney Montgomery Scott

## JMP Securities

J.J.B. Hilliard, W.L. Lyons, LLC

Ladenburg Thalmann & Co. Inc.

Maxim Group LLC

National Securities Corporation

Sidoti & Company, LLC

Dominick & Dominick LLC

Boenning & Scattergood, Inc.

Southwest Securities

The date of this prospectus is , 2012

**Table of Contents**

**Table of Contents**

**GLADSTONE LAND CORPORATION**

**TABLE OF CONTENTS**

<u>Prospectus Summary</u>	1
<u>The Offering</u>	16
<u>Summary of Consolidated Financial Data</u>	17
<u>Risk Factors</u>	20
<u>Cautionary Statement Regarding Forward-looking Statements</u>	38
<u>Use of Proceeds</u>	39
<u>Distribution Policy</u>	40
<u>Capitalization</u>	42
<u>Dilution</u>	43
<u>Selected Financial Data</u>	45
<u>Management's Discussion and Analysis</u>	48
<u>Business</u>	65
<u>Our Investment Focus</u>	71
<u>Our Investment Process</u>	79
<u>Our Current Properties</u>	88
<u>Our Real Estate Experience</u>	94
<u>Our Structure</u>	97
<u>Management</u>	100
<u>Information Regarding the Board of Directors and Corporate Governance</u>	105
<u>Executive Compensation</u>	111
<u>Our Adviser and our Administrator</u>	113
<u>Conflicts of Interest</u>	119
<u>Certain Relationships and Related Party Transactions</u>	122
<u>Principal Stockholders</u>	124
<u>Description of our Capital Stock</u>	125
<u>Certain Provisions of Maryland Law and of our Articles of Incorporation and Bylaws</u>	131
<u>Shares Eligible for Future Sale</u>	135
<u>Dividend Reinvestment Plan</u>	135
<u>Our Operating Partnership</u>	136
<u>Federal Income Tax Consequences of our Status as a REIT</u>	140
<u>Other Tax Consequences</u>	158
<u>Transfer and Dividend Paying Agent and Registrar</u>	162
<u>Underwriting</u>	163
<u>Experts</u>	166
<u>Legal Matters</u>	167
<u>Where You Can Find More Information</u>	167
<u>Financial Statements</u>	F-1
<u>Prior Performance Table</u>	A-1

**Table of Contents****PROSPECTUS SUMMARY**

*This summary highlights some information from this prospectus. It may not include all of the information that is important to you. To understand this offering fully, you should read the entire prospectus carefully, including the Risk Factors beginning on page 19. Unless the context suggests otherwise, when we use the term we or us or Company or Gladstone Land, we are referring to Gladstone Land Corporation and Gladstone Land Limited Partnership and their respective subsidiaries and not to our Adviser, Gladstone Management Corporation, or any of its other affiliated entities. When we use the term Adviser we are referring to our Adviser, Gladstone Management Corporation. Unless otherwise indicated, the information included in this prospectus assumes no exercise of the underwriters' over-allotment option. All information in this prospectus gives effect to a 27,500-for-1 stock split effective in September 2010.*

**Gladstone Land Corporation**

We are an externally-managed real estate company formed to invest in farmland located in major agricultural markets throughout the United States. Our farmland is predominantly concentrated in locations where tenants are able to grow annual row crops such as berries, lettuce and melons, among others, which are planted and harvested annually or more frequently. We may also acquire property related to farming, such as storage facilities utilized for cooling crops, processing plants, packaging buildings and distribution centers. We currently own twelve farms, leased to six separate corporate and independent farmer tenants, in California and Florida. Additionally we own two cooler buildings and a facility utilized for storage and packing. Our objective is to maximize the long-term value of these assets.

The table below sets forth information regarding our current portfolio of properties:

Property Name	Location	Acquired	Lease Expirations	Crop Type	Cost Basis	Appraised Value	Farmable Acres	Total Acres	2012 Annualized GAAP Straight-line Rent <sup>(1)(2)</sup>
San Andreas	Watsonville, CA	1997	12/31/2014	Fruits & Vegetables	\$ 4,929,307 <sup>(3)</sup>	\$ 9,730,000	237	306	\$ 431,655
West Gonzales	Oxnard, CA	1998	12/31/2013	Fruits & Vegetables	15,185,928 <sup>(4)</sup>	45,500,000	501	653	2,181,507
West Beach Farms	Watsonville, CA	2011	10/31/2013	Fruits & Vegetables	8,472,073	8,490,000	195	198	423,602
Dalton Lane	Watsonville, CA	2011	11/1/2015	Fruits & Vegetables	2,808,000	2,840,000	70	72	144,076
Keysville Road Farms	Plant City, FL	2011	7/1/2016	Fruits & Vegetables	1,412,000	1,412,000	50	59	89,581
Colding Loop	Wimauma, FL	2012	6/14/2013	Fruits & Vegetables	3,400,836	3,550,000	181	219	141,274 <sup>(2)</sup>
Trapnell Road Farms	Plant City, FL	2012	6/30/2017	Fruits & Vegetables	4,000,000	3,937,000	110	124	241,145
Total:					\$ 40,208,144	\$ 75,459,000	1,344	1,631	\$ 3,652,840

<sup>(1)</sup> For properties we have owned for less than 12 months other than Colding Loop Farm, the straight-line rent is annualized, based on the rent currently in effect, as we acquired these properties with leases in place with remaining terms of at least 12 months. The GAAP straight-line rent also includes the amortization of below-market lease intangibles.

<sup>(2)</sup> The rental income reflected in the table for the Colding Loop Farm is the GAAP straight-line rent we will recognize over the life of the current lease, which is 10 months (which translates to \$166,000 on an annual basis).



**Table of Contents**

(3) Cost basis of \$4.9 million includes the acquisition price of \$4.4 million plus approximately \$0.5 million of subsequent improvements.

(4) Cost basis of \$15.2 million includes the acquisition price of \$9.9 million plus approximately \$5.3 million of subsequent improvements.

We intend to use the net proceeds from this offering primarily to purchase more farmland. In addition to acquiring properties with cash, we plan to acquire farmland in exchange for limited partnership units, or Units, of Gladstone Land Limited Partnership, which we refer to in this prospectus as our Operating Partnership, or a combination of cash and Units, thereby deferring some or all of the seller's potential taxable gain, which we believe will enhance our ability to consummate transactions and to structure more competitive acquisitions than other real estate companies in the market that may lack our access to capital and the ability to acquire farmland for Units. See Prospectus Summary Our Structure. We intend to lease our farm properties to corporate and independent farmers that sell through national corporate marketers-distributors.

We expect that most of our future tenants will continue to be medium-sized independent farming operations or large corporate farming operations that are unrelated to us. We intend to lease our properties under triple-net leases, an arrangement under which the tenant maintains the property while paying us rent. Under a triple-net lease, the tenant is also responsible for paying taxes and insurance payments directly. We are actively seeking and evaluating farm properties to potentially purchase with the net proceeds we will receive from this offering, although we have not yet entered into binding agreements to acquire these properties, and there is no guarantee that we will be able to acquire any of them. We may also elect to sell farmland at such times as the land could be developed by others for urban or suburban uses. To a lesser extent, we may provide senior secured first lien mortgages to farmers for the purchase of farmland and properties related to farming, although we expect that no more than 5% of the net proceeds of this offering would be used for this purpose.

We may also acquire properties related to farming, such as storage facilities utilized for cooling crops, known as coolers, as well as processing plants, packing buildings and distribution centers. As part of our existing farming properties, we currently own two cooler buildings and a facility utilized for storage and assembling boxes, known as a box barn.

We were incorporated in 1997. Prior to 2004, we engaged in the owning and leasing of farmland, as well as an agricultural operating business whereby we engaged in the farming, contract growing, packaging, marketing and distribution of fresh berries, including commission selling and contract cooling services to independent berry growers. In 2004 we sold our agricultural operating business to Dole Food Company, or Dole. Since 2004, our operations have consisted solely of leasing our farms, of which five are located in or near Watsonville, California, one is near Oxnard, California, five are near Plant City, Florida and one is near Wimauma, Florida. We also lease a small parcel on our Oxnard farm to an oil company. We do not currently intend to enter the business of growing, packing or marketing farmed products. However, if we do so in the future we expect that it would be through a taxable REIT subsidiary.

Gladstone Management Corporation, a registered investment adviser owned and controlled by our chief executive officer and sole stockholder, David Gladstone, serves as our Adviser and manages our real estate portfolio.

We intend to elect to be taxed as a real estate investment trust, or REIT, under federal tax laws beginning with our taxable year ending December 31, 2013 or December 31, 2014.

## **Table of Contents**

### **Our Objectives and Our Strategy**

Our principal business objective is to maximize stockholder returns through a combination of (1) monthly cash distributions to our stockholders, (2) sustainable long-term growth in cash flows from increased rents, which we hope to pass on to stockholders in the form of increased distributions, and (3) potential long-term appreciation in the value of our real estate farm properties for capital gains upon future sale. Our primary strategy to achieve our business objective is to invest in and own a diversified portfolio of net leased farmland and lend a small amount (not to exceed 5.0% of the proceeds of this offering) for mortgages on farmland and properties related to farming operations. This strategy includes the following components:

*Owning Farms and Farm-Related Real Estate for Income.* We own and intend to acquire farmland and lease it to corporate and independent farmers, including sellers who desire to continue farming the land after our acquisition of the property. We expect to hold acquired properties for many years and to generate stable and increasing rental income from leasing these properties.

*Owning Farms and Farm-Related Real Estate for Appreciation.* We intend to lease acquired properties over the long term. However, from time to time we may elect to sell one or more properties if we believe it to be in the best interests of our stockholders. Potential purchasers may include real estate developers desiring to develop the property or financial purchasers seeking to acquire property for investment purposes. Accordingly, we will seek to acquire properties that we believe also have potential for long-term appreciation in value.

*Expanding Our Operations Beyond California and Florida.* While our properties are currently located exclusively in California and Florida, we expect that we will acquire properties in other farming locations. We believe the Southeast and Mid-Atlantic parts of the United States, such as Georgia, North Carolina and New Jersey, offer attractive locations for expansion. We also expect to seek farmland acquisitions in the Midwest and may expand into other areas in the United States.

*Using Leverage.* To make more investments than would otherwise be possible, we intend to borrow through loans secured by long-term mortgages on our properties, and we may also borrow funds on a short-term basis or incur other indebtedness. While our governing documents do not restrict our borrowing, our Board of Directors currently intends to limit our debt-to-equity ratio to a maximum of 2-to-1.

*Owning Mortgages on Farms and Farm-Related Real Estate.* In circumstances where our purchase of farms and farm-related properties is not feasible, we may provide the owner of the property with a mortgage loan secured by the property along with an option to sell the property to us in the future at a predetermined price. We do not expect that we will use more than 5.0% of the net proceeds of this offering for any such loans or that over time our mortgages held will exceed 5.0% of the fair value of our investment assets.

*Joint Ventures.* Some of our investments may be made through joint ventures that would permit us to own interests in large properties without restricting the diversity of our portfolio.

### **Our Opportunity**

#### ***Land Acquisitions***

The United States Department of Agriculture, or USDA, estimates that in 2007 there were approximately 2.2 million farms on 922.1 million acres of land in the United States. This farmland includes land dedicated to any form of farming, including crop production. Out of this total, there were 1.7 million farms dedicated to producing crops, or cropland, on 406.4 million acres of land, resulting in an average of approximately 241 acres per farm.



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**Table of Contents**

The USDA's 2007 Census of Agriculture estimates the total annual market value of crops harvested in the United States at \$143.7 billion. According to the National Council of Real Estate Investment Fiduciaries, or NCREIF, Farmland Index, \$2.9 billion in domestic U.S. farm properties have yielded average annualized returns of 15.4% between 2002 and 2011, compared to average annual returns of the NAREIT All REIT Index of 12.4% and average annual returns of the S&P 500 Index of 4.9% during this period. Between 2002 and 2011, the NAREIT All REIT Index had two years with negative returns in 2007 and 2008 of (17.8)% and (37.3)%, respectively, while the NCREIF Farmland Index had no years with negative returns during the same period. Furthermore, the USDA estimates that the value per acre of U.S. cropland has increased by 90.6% between 2002 and 2011. The NCREIF Farmland Index is a composite return measure of investment performance, consisting of income and appreciation, determined on a non-leveraged basis, of a pool of approximately 490 individual agricultural properties as of December 31, 2011. The index measures performance of actual properties, rather than performance of companies that invest in farmland, and each of the properties that we owned as of June 30, 2012 is included in the index.

The income component of the NCREIF Farmland Index reflects revenue from farmland net of all operating expenses. Because the index is comprised of both properties that are leased to the third parties and that are farmed by the owner, the nature of these operating expenses varies across the properties that comprise the index. However, these operating expenses generally include taxes, property management, insurance and, in the case of farmland that is farmed by the owner, the costs of growing. As an externally managed real estate company that leases farmland on a triple net basis, the operating expenses that we incur under our advisory and administration agreements, including the potential payment of incentive fees to our Adviser, are different from the operating expenses borne by the properties in the NCREIF Farmland Index. Additionally, because the index measures performance of farmland properties, rather than an investment in securities of companies that own farmland, it does not reflect the impact of the farmowner's capital structure, including the effects of leverage. Unlike a direct unleveraged investment in farmland, an investment in our common stock will expose you to the effects and risks of leverage. Because of the differences between an investment in our common stock and an investment in the properties that comprise the NCREIF Farmland Index, there is no guarantee that your returns from an investment in our common stock will track the performance of the index, and you should consider our historical operating results when deciding to make an investment in our common stock. See Summary Consolidated Financial Data.

The NAREIT All REIT Index measures the performance of more than 150 publicly traded REITs in the United States, none of which focus exclusively on farmland and farming related assets and the S&P 500 Index is a capitalization-weighted index of 500 stocks intended to be a representative sample of leading companies in leading industries within the U.S. economy. Of the foregoing indices, upon consummation of this offering and election of REIT status, we will be similar in corporate structure, capitalization and regulatory compliance requirements to companies in the NAREIT All REIT Index. However, since we focus on farmland and farming related property, such as coolers processing plants, packing buildings and distributions centers, we expect that our assets will be more closely representative of those assets that comprise the NCREIF Farmland Index.

Crops can be divided into two sub-categories, annual row crops and permanent crops. Annual row crops, such as strawberries, lettuce, melons, corn, wheat and others, are planted and harvested annually, or more frequently. Permanent crops, such as oranges, almonds and grapes, have plant structures such as trees or vines that produce crops annually without being replanted. Annual row crops can be further divided into commodity crops and fresh produce crops. We intend to acquire and lease farmland for the primary purpose of leasing it to farmers that are harvesting annual row crops with an emphasis on fresh produce. We will place less emphasis on permanent crop and commodity crop farms. As compared to permanent crops, we believe that annual row crops are less expensive to replace and are less susceptible to disease and poor weather. Additionally, as compared to annual commodity crops, we believe that annual fresh produce crops have plants that are less dependent on weather, foreign markets and government subsidies. Members of our management team have experience in

## Table of Contents

farming and leasing land that could be used for strawberries, raspberries, tomatoes, beans, peppers, lettuce, radicchio, garlic, melons and other annual fresh produce row crops. We believe that this strategy will provide us with an opportunity to lease our land holdings to a wide variety of different farmers from year to year and avoid the risk of owning land dedicated to a single crop, as occurs in permanent crop farmland, and avoid risks related to foreign markets and government subsidies that are more prevalent when growing commodity crops.

We intend to lease our properties to corporate and independent farmers with sufficient experience and capital to operate the farms without our financial or operating assistance. We do not currently have resources to farm the land we own or will buy but will seek to acquire farms with tenants who desire to continue farming the land after our acquisition of the property. We will seek to acquire cropland in multiple locations in the United States, including California, Florida, the Southeast, the Mid-Atlantic and the Midwest, in order to provide diversification with respect to climate conditions, growing seasons and water sources.

Agricultural real estate for farming has certain features that distinguish it from other rental real estate. First, because almost all of the property consists of land, there is generally not a significant concern about risks associated with fires or other natural disasters that may damage the property, although agricultural real estate is generally more susceptible to adverse weather conditions and crop disease. Second, we believe farmland has historically maintained relatively low vacancy rates when compared to other types of rental real estate, and we believe that it is rare for good farmland not to be leased and farmed every year. As a result, we believe there is a relatively low risk of being unable to lease our properties. Based on our own informal survey of real estate agents, a low percentage of the farmland in the areas in which we have purchased and intend to purchase property has remained un-rented during the past ten years. Third, most farmland in the areas in which we own land and intend to buy land is leased under short-term leases, and we plan to lease our property under short-term leases. By entering into short-term leases, we believe we will be in a position to increase our rental rates when the leases are renewed. Fourth, farmland generally does not require significant ongoing capital expenditures. Fifth, over time, the supply of U.S. farmland is shrinking while the supply of other commercial and residential real estate is increasing as farmland is converted into urban and suburban uses.

We also believe that much of the real estate we are seeking to acquire will be owned by families and farming businesses. According to the USDA, as of 2007, approximately 86% of farms in the United States were owned by families. Some of these farmers may wish to simultaneously sell their land to us and then lease their property back and continue their agricultural businesses under short-term net leases. Sellers in these sale-leaseback transactions can then use the proceeds to repay existing indebtedness, for growth of their farming operations, for retirement or in other business endeavors. Real estate that we acquire but do not simultaneously lease back to the seller may instead be leased to other independent or corporate farmers. While we expect to receive stable and potentially increasing rents from leasing land for these farming operations for many years, we believe that we may be able to sell this land at appreciated valuations in the future if these properties are sought to be developed for urban or suburban uses.

We believe that, as an investment, U.S. farmland has performed extremely well in recent years compared to other asset classes and has provided investors with a safe haven during the recent turbulence in the financial markets. In general, the farming sector has historically maintained low debt levels and, as a result, farm values and income have not experienced the extreme volatility seen in recent years in other asset classes.

We believe that farmland possesses the following attributes that may appeal to long-term investors:

*Inflation Protection.* Population increases drive up food prices and therefore the price of all agricultural commodities. As a result, the value of land that produces agricultural commodities has increased in the past and, we believe should increase in the future, in correlation with inflation.

## **Table of Contents**

*Diversification.* Farmland provides investors with another asset class to increase portfolio diversification. Historically, farmland values have not been significantly impacted by fluctuations in the stock and bond markets.

*Predictable Income.* Farmland has historically experienced minimal vacancies and limited capital expense requirements, which results in relatively stable and predictable operating income.

*Capital Appreciation.* The amount of farmland in the U.S. is declining as farmland is converted to urban or suburban uses. As the number of farmable acres decreases, the remaining farmland becomes more valuable and rents can be increased.

These features increase our confidence in evaluating prospective individual farm acquisitions, including projecting rental income that may be generated from specific properties.

### ***Mortgage Loans***

We also may use up to 5.0% of the net proceeds of this offering to make senior secured first lien mortgage loans to farmers for the purchase of farmland and properties related to farming that we would like to own. We believe that we can offer more favorable terms than the traditional farmland lenders against whom we expect to compete.

### **Our Current Properties**

The appraised value of the farmland properties we currently own is approximately \$75.5 million. The properties comprise an aggregate of 1,631 acres of farmland in California and Florida, of which approximately 1,344 acres are farmable.

We acquired 306 acres of farmland near Watsonville, California, or the San Andreas Farm, in 1997, for a purchase price of approximately \$4.4 million. As of August 2012, this property was independently appraised at \$9.7 million. We currently lease this farm to Dole on a net lease basis under a lease that expires on December 31, 2014. We have in place a credit facility that is secured by a mortgage on this property. The credit facility currently has \$0.4 million outstanding.

We acquired 653 acres of farmland near Oxnard, California, or the West Gonzales Farm, in 1998, for a purchase price of approximately \$9.9 million. As of August 2012, this property was independently appraised at \$45.5 million. We currently lease this farm, including a cooler facility, a box barn, and other buildings, to Dole on a net lease basis under a lease that expires on December 31, 2013.

We acquired three farms totaling 198 acres of farmland near Watsonville, California, which we collectively refer to in this prospectus as the West Beach Farms, in January 2011, for an aggregate purchase price of approximately \$8.5 million. As of April 2012, these properties were independently appraised at an aggregate value of \$8.5 million. We currently lease these three farms to two independent farmers on a net lease basis under a lease that expires on October 31, 2013.

We acquired 72 acres of farmland near Watsonville, California, or the Dalton Lane Farm, in July 2011, for a purchase price of approximately \$2.8 million. As of June 2011, this property was independently appraised at \$2.8 million. We currently lease this farm to a corporate farmer on a net lease basis under a lease that expires on November 1, 2015.

We acquired two farms totaling 59 acres near Plant City, Florida, which we collectively refer to in this prospectus as the Keysville Road Farms, in October 2011 for a purchase price of approximately \$1.2 million. As

## **Table of Contents**

of August 2011, these properties were independently appraised at an aggregate value of \$1.4 million. We currently lease these two farms to an independent farmer on a net lease basis under a lease that expires on July 1, 2016.

We acquired 219 acres of farmland near Wimauma, Florida, or the Colding Loop Farm, in August 2012, for a purchase price of approximately \$3.4 million. As of August 2012, this property was independently appraised at \$3.6 million. We currently lease this farm to a corporate farmer on a triple-net lease basis under a lease that expires on June 14, 2013.

We acquired three farms totaling 124 acres near Plant City, Florida, which we collectively refer to in this prospectus as the Trapnell Road Farms, in September 2012 for an aggregate purchase price of approximately \$4.0 million. As of September 2012, these properties were independently appraised at an aggregate value of \$3.9 million. We currently lease these three farms to a corporate farmer on a triple-net lease basis under a lease that expires on June 30, 2017.

Farmland leases typically range from 2 to 5 years in length. Our tenants spend considerable time and capital to maintain these properties and therefore typically have an incentive to renew their leases prior to the lease expiration. We have a track record of renewing and extending leases. In 2011, we extended the lease on the San Andreas Farm for 4 years and the lease on the West Beach Farms for 2 years, and in 2012 we extended the Dalton Lane Farm lease for 3 years. We offer our tenants renewal terms that we believe are in line with market rents, and as a result, to date, we have not had a tenant vacate any of our properties. If a tenant chooses not to renew a lease in the future, we expect that we would be able to locate a replacement farming tenant quickly.

## **Risk Factors**

You should carefully consider the matters discussed in the Risk Factors section of this prospectus beginning on page 19 prior to deciding to invest in our common stock. Some of the risks include:

We currently own twelve farms, leased to six separate tenants. We are actively seeking and evaluating other farm properties to potentially purchase with the net proceeds we will receive from this offering, although we have not yet entered into binding agreements to acquire these properties, and there is no guarantee that we will be able to acquire any of them. As a result, investors will be unable to evaluate the manner in which the net proceeds are invested and the economic merits of projects prior to investment.

One tenant, Dole Food Company, or Dole, is responsible for approximately 71% of our current annualized GAAP straight-line rental revenue; if Dole fails to make rental payments or elects to terminate its leases with us, it would have a material adverse effect on our financial performance and our ability to make distributions to our stockholders.

We intend to use leverage through borrowings under mortgage loans on our properties, and potentially other indebtedness, which will result in risks, including restrictions on additional borrowings and payment of distributions.

We may not qualify or we may not elect to be treated as a REIT for federal income tax purposes, which would subject us to federal income tax on our taxable income at regular corporate rates, thereby reducing the amount of funds available for paying distributions to stockholders.

Conflicts of interest exist between us, our Adviser, its officers and directors and their affiliates, which could result in investment decisions that are not in the best interests of our stockholders.

Our success will depend on the performance of our Adviser. If our Adviser makes inadvisable investment or management decisions, our operations could be materially adversely impacted.





## **Table of Contents**

We have not yet set an annual distribution rate, and in the event that the rate is set at, or reduced to, a rate that is not competitive with alternative investments, the market price or our common stock could be adversely impacted.

Our cash available for distributions, including cash we generate from operations, may not be sufficient to pay distributions to stockholders.

We cannot guarantee when, or if, our properties will ever be converted to urban or suburban uses because our expectations regarding local urban or suburban development may prove to be incorrect or we may be unsuccessful in having our farmland rezoned for such uses. If we are unable to sell our agricultural real estate for urban or suburban development, it could limit the potential long-term appreciation of our properties.

## **Our Structure**

We intend to conduct our business through an Umbrella Partnership Real Estate Investment Trust, or UPREIT, structure in which our properties and the mortgage loans we make will be held directly or indirectly by our operating partnership, Gladstone Land Limited Partnership, which we refer to in this prospectus as our Operating Partnership. We are the sole general partner of our Operating Partnership and currently hold 100% of its outstanding limited partnership units. In the future, we may issue operating partnership units to farmland owners from time to time in consideration for acquiring their farms if they own their farms indirectly, such as through a partnership or a limited liability company. Holders of limited partnership units in our Operating Partnership will be entitled to redeem these units for cash or, at our election, shares of our common stock on a one-for-one basis at any time after holding Units for one year. Farmland owners who exchange their farms for Operating Partnership units may be able to do so in a tax-free exchange under U.S. federal income tax laws.

We currently intend to elect to be taxed as a REIT for federal income tax purposes commencing with our taxable year ending December 31, 2013 or December 31, 2014. Because we must distribute our non-REIT earnings and profits by December 31 of the year for which we first elect REIT status, it is possible that our monthly distributions may not be sufficient to eliminate our non-REIT earnings and profits by December 31, 2013, in which case we would likely not elect to be taxed as a REIT until the taxable year ending December 31, 2014. In the event that our monthly distributions are insufficient to result in the distribution of our accumulated earnings and profits prior to the end of 2014, we would make a special distribution of such undistributed non-REIT earnings and profits prior to the end of that year.

As long as we qualify as a REIT, we generally will not be subject to U.S. federal income tax if we distribute at least 90% of our taxable income to our stockholders. We currently own one entity, Gladstone Land Advisers, Inc., which we intend will make an election to be taxed as a taxable REIT subsidiary, or TRS, upon our election to be taxed as a REIT, that we may utilize to own or manage our assets and to engage in other activities when we deem it necessary or advisable. The taxable income generated by any TRS would be subject to regular corporate income tax.

## **Table of Contents**

The following diagram depicts our organization structure upon completion of this offering.

### **Our Adviser**

Gladstone Management Corporation, a Delaware corporation and a registered investment adviser, serves as our external management company, and we refer to it in this prospectus as our Adviser. Our Adviser is responsible for managing our real estate and loan portfolio on a day-to-day basis and for identifying properties and loans that it believes meet our investment criteria. Our Adviser does not directly acquire or lease real estate other than for its own use. Our Adviser does not and will not make loans to or investments in any company with which we have or intend to enter into a lease, and we will not co-invest with our Adviser in any real estate transaction. Our Adviser is a registered investment adviser with the United States Securities and Exchange Commission, or SEC, under the Investment Advisers Act of 1940, as amended.

Each of our officers other than Danielle Jones, our chief financial officer and treasurer, is also an officer of our Adviser and of Gladstone Administration, LLC, which we refer to in this prospectus as our Administrator. Each of our officers has significant experience in making investments in and lending to businesses of all sizes, including investing in real estate and making mortgage loans. Including our officers, our Adviser and Administrator collectively employ over 50 professionals that are involved in structuring, arranging and managing investments on behalf of companies advised by our Adviser. Our Adviser plans to hire additional investing professionals following this offering. We also rely on outside professionals with agricultural experience that perform due diligence on the properties that we intend to acquire and lease. We are responsible for paying any fees charged by these outside professionals. Under the terms of an Amended Advisory Agreement with our Adviser that we will enter into upon completion of this offering, we will pay an annual base management fee during 2012 and 2013 equal to 1.0% of our total stockholders' equity, less the recorded value of any preferred

## **Table of Contents**

stock we may issue and any uninvested cash proceeds of this offering, which we refer to in this prospectus as our adjusted stockholders' equity. Beginning in 2014, the annual base management fee will increase to 2.0% of our adjusted stockholders' equity and our adjusted stockholders' equity will no longer exclude the uninvested cash proceeds of this offering. We will also pay our Adviser an additional incentive fee based on funds from operations, or FFO. FFO is an operating measure for equity REITs that we define as net income, excluding gains and losses from sales of property, plus depreciation and amortization of real estate assets. For purposes of calculating the incentive fee, FFO is determined before giving effect to any incentive fee and includes any realized capital gains or losses on our investments, less any dividends we may pay on any preferred stock we may issue. However, FFO does not include any unrealized capital gains or unrealized losses on our investments. We refer to this measure as our pre-incentive fee FFO.

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% of our adjusted stockholders' equity. Our Adviser will receive 100% of the amount of the pre-incentive fee FFO that exceeds the hurdle rate but is less than 2.1875% of our adjusted stockholders' equity for the quarter. Our Adviser will also receive an incentive fee of 20% of the amount of our pre-incentive fee FFO that exceeds 2.1875% of our adjusted stockholders' equity for the quarter.

We will not pay acquisition fees to our Adviser when we acquire real estate, and we will not pay fees to our Adviser when we lease properties to tenants or when we sell real estate. Under this proposed compensation structure, we believe our Adviser will be incentivized to generate stable and consistent FFO to pay our monthly dividends and its incentive fee.

We also have entered into a trademark agreement with the parent company of our Adviser. This trademark agreement permits us to use the diamond-shaped "G" and Gladstone logo for a nominal annual fee.

## **Our Administrator**

We will enter into an amended Administration Agreement with our Administrator upon the completion of this offering. Under this agreement, we will pay separately for our allocable portion of our Administrator's overhead expenses in performing its obligations to us including, but not limited to, rent for our allocable portion of office space and our allocable portion of the salaries and benefits expenses of its employees. We expect that these employees of our Administrator will include our chief financial officer and treasurer, chief compliance officer, internal counsel, investor relations officer and their respective staffs.

**Table of Contents****Compensation of Our Adviser and Our Administrator**

Set forth below is an estimate of all proposed compensation, fees, profits and other benefits, including reimbursement of out-of-pocket expenses that our Adviser and our Administrator may receive in connection with this offering and our ongoing operations. We do not expect to make any payments to any other affiliates of our Adviser. For additional information with respect to the compensation of our Adviser and our Administrator upon completion of this offering, see Our Adviser and our Administrator Compensation of our Adviser under the Amended Advisory Agreement and Our Adviser and our Administrator Amended Administration Agreement.

**Type of Compensation**

<b>(Recipient)</b>	<b>Description and Determination of Amount</b>	<b>Estimated Amount</b>
	<b><i>Offering</i></b>	
Reimbursement of Offering Expenses (Adviser)(1)	Offering expenses include all estimated expenses, other than underwriting discount, to be paid by us in connection with this offering, including our legal, accounting, printing, mailing and filing fees and other accountable offering expenses. To the extent that our Adviser pays our offering expenses, we will reimburse our Adviser for these amounts.	Up to \$1.3 million
	<b><i>Ongoing Operations</i></b>	
Annual Base Management Fee (Adviser)	1.0% of our total stockholders' equity, measured at the end of each quarter, less the recorded value of any preferred stock outstanding at the end of the quarter and, during 2012 and 2013 only, any uninvested cash proceeds from this offering, which we refer to as adjusted stockholders' equity. In 2014, the fee increases to 2.0% of our adjusted stockholders' equity and our adjusted stockholders' equity will no longer exclude the uninvested cash proceeds of this offering.	Actual amounts for 2012 and 2013 will be dependent upon the rate of property acquisitions and mortgage loans following the completion of this offering and therefore cannot be determined at this time.
Quarterly Incentive Fee (2)(Adviser)	We will pay our Adviser an incentive fee with respect to our pre-incentive fee FFO in each calendar quarter as follows:  no incentive fee in any calendar quarter in which our pre-incentive fee FFO does not exceed the hurdle rate of 1.75% (7% annualized) of our adjusted stockholders' equity at the end of the quarter;  100% of the amount of the pre-incentive fee FFO that exceeds the hurdle rate, but is less than 2.1875% of our adjusted stockholders' equity at the end of any calendar quarter (8.75% annualized); and  20% of the amount of our pre-incentive fee FFO that exceeds 2.1875% of our adjusted stockholders' equity at the end of any calendar quarter (8.75% annualized).	Actual amounts will be dependent upon the amount of FFO we generate from time to time.



**Table of Contents**

**Type of Compensation**

<b>(Recipient)</b>	<b>Description and Determination of Amount</b>	<b>Estimated Amount</b>
Reimbursement of Acquisition Expenses (Adviser)	Acquisition expenses include customary third-party acquisition expenses such as legal fees and expenses, costs of appraisals, accounting fees and expenses, title insurance premiums and other closing costs and miscellaneous expenses relating to the acquisition of real estate and reserves for capital improvements and maintenance and repairs of properties. To the extent that our Adviser pays our acquisition expenses incurred in the process of acquiring our properties or loans, we will reimburse our Adviser for such acquisition expenses.	Actual amounts will be dependent upon the amount of net proceeds we use for acquisitions (rather than for the other purposes enumerated in this prospectus) and the expenses incurred, and therefore cannot be estimated at the present time.
Allocation of Administrator Overhead Expenses (3)(Administrator)	We will pay our Administrator for our allocable portion of the Administrator's overhead expenses in performing our obligations, including, but not limited to, our allocable portion of rent attributable to office space for employees of the Administrator, and our allocable portion of the salaries and benefits expenses of our chief financial officer and treasurer, chief compliance officer, legal counsel, investment relations officer and their respective staffs. Our allocable portion 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.	Actual amounts will be dependent upon the expenses incurred by our Administrator and our total assets relative to the assets of the other entities for whom our Administrator provides services.

- (1) As of August 31, 2012, we have incurred approximately \$198,000 of expenses in connection with this offering.
- (2) 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 pre-incentive fee FFO will not include any unrealized capital gains or losses.
- Examples of how the incentive fee would be calculated are as follows:

If our pre-incentive fee FFO for a quarter were 1.75% or less of our adjusted stockholders' equity, there would be no incentive fee because such FFO would not exceed the hurdle rate of 1.75%.

In the event our pre-incentive fee FFO for a quarter were equal to 2.00% of our adjusted stockholders' equity, the incentive fee would be as follows:

$$= 100\% \times (2.00\% - 1.75\%)$$

$$= 0.25\% \text{ of adjusted stockholders' equity}$$

In the event our pre-incentive fee FFO for a quarter were equal to 2.30% of our adjusted stockholders' equity, the incentive fee would be as follows:

$$= (100\% \times (2.30\% - 1.75\%)) + (20\% \times (2.30\% - 2.1875\%))$$

$$= (100\% \times 0.55\%) + (20\% \times 0.1125\%)$$

$$= 0.55\% + 0.0225\%$$



## **Table of Contents**

= 0.46% of our adjusted stockholders' equity

(3) Our Administrator is 100% owned by Gladstone Holding Corporation, which is also the 100% owner of our Adviser.

### **Our Sponsors**

Our sponsors are David Gladstone, our chairman, chief executive officer and sole stockholder, and Gladstone Management, our Adviser.

### **Our Other Affiliates and Potential Conflicts of Interest**

*Gladstone Commercial Corporation.* Each of our directors other than Mr. Earhart, and each of our executive officers, are also executive officers or directors of Gladstone Commercial Corporation, a publicly held REIT whose common stock is traded on the NASDAQ Global Select Market under the trading symbol GOOD. Gladstone Commercial invests in and owns net leased industrial, commercial and retail real property and selectively makes long-term industrial and commercial mortgage loans. Gladstone Commercial does not invest in or own agricultural real estate or make loans secured by agricultural real estate and, therefore, Gladstone Commercial will not compete with us for investment opportunities.

*Gladstone Capital Corporation.* Each of our directors other than Mr. Earhart, and each of our executive officers, other than Ms. Jones, are also executive officers or directors of Gladstone Capital Corporation, a publicly held closed-end management investment company whose common stock is traded on the NASDAQ Global Market under the trading symbol GLAD. Gladstone Capital makes loans to and investments in small and medium-sized businesses. It does not buy or lease real estate and does not lend to agricultural enterprises and, therefore, Gladstone Capital will not compete with us for investment opportunities. Gladstone Capital will not make loans to or investments in any company with which we have or intend to enter into a lease.

*Gladstone Investment Corporation.* Each of our directors other than Mr. Earhart, and each of our executive officers other than Ms. Jones, are also executive officers or directors of Gladstone Investment Corporation, a publicly held closed-end management investment company whose common stock is traded on the NASDAQ Global Market under the trading symbol GAIN. Gladstone Investment makes loans to and investments in small and medium-sized businesses in connection with buyouts and other recapitalizations. It does not buy or lease real estate and does not lend to agricultural enterprises and, therefore, Gladstone Investment will not compete with us for investment opportunities. Gladstone Investment will not make loans to or investments in any company with which we have or intend to enter into a lease.

We do not presently intend to co-invest with Gladstone Capital, Gladstone Commercial or Gladstone Investment in any business. However, in the future it may be advisable for us to co-invest with one of these companies. If we decide to change our policy on co-investments with affiliates, we will seek approval of this decision from our independent directors.

Each of our executive officers other than our chief financial officer and treasurer is also an officer and director of our Adviser, Gladstone Capital, Gladstone Commercial and Gladstone Investment. Our Adviser and its affiliates, including our officers, may have conflicts of interest in the course of performing their duties for us. These conflicts may include:

Our Adviser may realize substantial compensation on account of its activities on our behalf;

Our agreements with our Adviser are not arm's-length agreements;

We may experience competition with our affiliates for financing transactions; and

Our Adviser and other affiliates could compete for the time and services of our officers and directors.



## **Table of Contents**

### **Our Tax Status**

We were taxed as a Subchapter C corporation for our taxable years ended December 31, 1997 through December 31, 2011 and we intend to be taxed as a Subchapter C corporation for the taxable year ending December 31, 2012, and possibly the year ending December 31, 2013. We currently intend to elect to be taxed as a REIT for federal income tax purposes commencing with our taxable year ending December 31, 2013 or December 31, 2014. To qualify as a REIT, we may not have, at the end of any taxable year for which we first elect REIT status and thereafter, any undistributed earnings and profits accumulated in any non-REIT taxable year. Our non-REIT earnings and profits include any earnings and profits we accumulate before the effective date of our REIT election. As of June 30, 2012, we estimate that our non-REIT accumulated earnings and profits were approximately \$4.7 million. This amount does not include an additional \$2.1 million of federal taxes related to \$4.0 million of non-REIT earnings and profits associated with a deferred intercompany gain that we will recognize immediately prior to our REIT election. We intend to distribute our non-REIT earnings and profits, including the \$2.1 million in federal taxes associated with the deferred intercompany gain, to stockholders prior to December 31 of the first year for which we elect REIT status. It is possible that distributions may not be sufficient to eliminate our non-REIT earnings and profits by December 31, 2013, in which case we would likely not elect to be taxed as a REIT until the taxable year ending December 31, 2014. Our distributions of non-REIT earnings and profits will be in addition to distributions we will be required to make after we elect REIT status in order to satisfy the REIT distribution test discussed below and to avoid incurring tax on our undistributed income.

We believe that, following the completion of this offering, our making of an election to be taxed as a REIT, and any distribution of non-REIT earnings and profits, we will operate in conformity with the requirements for qualification and taxation as a REIT. We expect to receive an opinion of counsel to the effect that, subject to our distribution of all non-REIT earnings and profits, we have been organized in conformity with the requirements for qualification and taxation as a REIT under the Code and that our proposed method of operation will enable us to meet the requirements for qualification and taxation as a REIT commencing with the first taxable year for which we elect to so qualify. It is possible that the Internal Revenue Service, or IRS, may challenge our proposed qualification as a REIT or attempt to re-characterize the nature of our assets or income. We do not intend to seek a ruling from the IRS as to the foregoing matters. It must be emphasized that the opinion of our counsel, which is not binding on the IRS or any court, is based on various assumptions and certain representations made by our management relating to our organization, assets, income and operations, including, without limitation, the amount of rental income that we will receive from personal property.

To maintain our qualification as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we annually distribute at least 90% of our net income, excluding net capital gains, to our stockholders. As a REIT, we generally will not be subject to U.S. federal income tax on our net income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to U.S. federal income tax at regular corporate rates. Even if we qualify for taxation as a REIT, we may be subject to some U.S. federal, state and local taxes on our income or property, and the net income of any of our subsidiaries that qualifies as a TRS will be subject to taxation at normal corporate rates. In addition, we will be subject to regular corporate income tax for the taxable years ending prior to our qualification as a REIT. See Federal Income Tax Consequences of Our Status as a REIT.

It is also possible that the federal income tax laws or regulations governing REITs or the administrative interpretations of those laws or regulations might change in the future in a manner that might make it difficult or impossible for us to continue to qualify as a REIT.

**Table of Contents**

**Corporate Information**

We were originally incorporated in California in 1997. In 2004, we re-incorporated in Delaware. In March 2011, we re-incorporated in Maryland. Our executive offices are located at 1521 Westbranch Drive, Second Floor, McLean, Virginia 22102. Our telephone number at our executive offices is (703) 287-5800 and our corporate website is [www.GladstoneLand.com](http://www.GladstoneLand.com). The information contained on, or accessible through, our website is not incorporated into this prospectus.

**Table of Contents**

**The Offering**

Common stock offered by us(1)(2)	shares
Common stock to be outstanding after this offering(1)	shares
Use of proceeds	To purchase agricultural real estate to be leased for farming and, to a lesser extent, to make loans secured by mortgages on agricultural real estate.
Proposed NASDAQ Listing Symbol	LAND
Distribution Policy	Consistent with our objective of qualifying as a REIT, we expect to pay monthly distributions and to distribute annually at least 90% of our REIT taxable income. We expect to commence monthly distributions upon the completion of this offering. Our Board of Directors will determine the amount of distributions we will pay. We also intend to distribute non-REIT accumulated earnings and profits to stockholders prior to December 31 of the first year for which we elect to be treated as a REIT.
Our Adviser	Pursuant to the terms of an amended and restated advisory agreement, our Adviser will identify and select our real estate investments and manage our portfolio.

- (1) Excludes \_\_\_\_\_ shares of our common stock issuable pursuant to the over-allotment option granted to the underwriters.
- (2) Up to \_\_\_\_\_ shares of our common stock, or approximately \_\_\_\_\_ % of the shares being offered, excluding shares issuable pursuant to the over-allotment option granted to the underwriters, will be reserved for sale by the underwriters to our directors and officers and employees and certain associated persons of our Adviser and Administrator at the public offering price less the underwriting discount. For more information, see Underwriting Directed Shares.

The number of shares of our common stock to be outstanding after this offering is based on 2,750,000 shares of common stock outstanding as of June 30, 2012.

Unless otherwise indicated, all information in this prospectus reflects and assumes the following:

a 27,500-for-1 stock split effected on September 30, 2010;

no exercise by the underwriters of their over-allotment option to purchase up to \_\_\_\_\_ additional shares of our common stock in this offering; and

an initial public offering price of \$ \_\_\_\_\_.



**Table of Contents****Summary Consolidated Financial Data**

You should read the summary financial information below in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements, notes thereto and other financial information included elsewhere in this prospectus. The summary consolidated financial data as of December 31, 2011 and 2010 and for the years ended December 31, 2011 and 2010 are derived from audited financial statements included elsewhere in this prospectus. We have derived the following summary of our statement of operations data for the six months ended June 30, 2012 and 2011 and balance sheet data as of June 30, 2012 from our unaudited financial statements appearing later in this prospectus.

The unaudited financial data include, in the opinion of our management, all adjustments, consisting only of normal recurring adjustments that are necessary for a fair presentation of our financial position and results of operations for these periods. Our historical results of operations are not necessarily indicative of results of operations that should be expected in any future periods, and our results for any interim period are not necessarily indicative of the results that may be expected for a full fiscal year.

	As of and For the Six Months Ended June 30,		As of and For the Years Ended December 31,	
	2012 (Unaudited)	2011 (Unaudited)	2011	2010
Rental income	\$ 1,635,998	\$ 1,429,929	\$ 2,967,623	\$ 2,418,111
Net income	330,049	12,522	108,919	560,523
EBITDA <sup>(1)</sup>	1,254,194	654,613	1,512,531	1,894,967
FFO available to common stockholders <sup>(2)</sup>	517,220	261,759	614,962	877,767
Assets	32,540,456		33,041,417	29,034,484
Liabilities	24,571,355		25,402,365	20,486,851
Stockholder's Equity	7,969,101		7,639,052	8,547,633

- (1) EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) is a key financial measure that our management uses to evaluate our operating performance but should not be construed as an alternative to operating income, cash flows from operating activities or net income, in each case as determined in accordance with accounting principles generally accepted in the United States of America, or GAAP. EBITDA is not a measure defined in accordance with GAAP. We believe that EBITDA is a standard performance measure commonly reported and widely used by analysts and investors in our industry. A reconciliation of net income to EBITDA is set forth in the table below.

EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;

EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;

Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for these replacements; and

Other companies in our industry may calculate EBITDA differently than we do, limiting its usefulness as a comparative measure.

**Table of Contents**

Because of these limitations, EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our GAAP results of operations and using EBITDA only supplementally.

Basic EBITDA per share and diluted EBITDA per share are equal to EBITDA divided by our weighted average common shares outstanding and EBITDA divided by our weighted average common shares outstanding on a diluted basis, respectively, during a period. We believe that EBITDA, Basic EBITDA per share and Diluted EBITDA per share are useful to investors because they provide investors with a further context for evaluating our EBITDA results in the same manner that investors use net income and earnings per share, or EPS, in evaluating operating results. We believe that net income is the most directly comparable GAAP measure to EBITDA, basic EPS is the most directly comparable GAAP measure to Basic EBITDA per share, and diluted EPS is the most directly comparable GAAP measure to Diluted EBITDA per share.

A reconciliation of our net income to our EBITDA and a computation of Basic EBITDA and Diluted EBITDA per weighted average common share and basic and diluted net income per weighted average common share is as follows:

	For the Six Months Ended June 30,		For the Years Ended December 31,	
	2012 (Unaudited)	2011 (Unaudited)	2011	2010
Net income	\$ 330,049	\$ 12,522	\$ 108,919	\$ 560,523
Add:				
Interest expense	472,932	382,273	805,508	700,596
Depreciation and amortization expense	187,171	249,237	506,043	317,244
Income taxes	264,042	10,581	92,061	316,604
 EBITDA	 \$ 1,254,194	 \$ 654,613	 \$ 1,512,531	 \$ 1,894,967
 Weighted average shares outstanding basic & diluted	 2,750,000	 2,750,000	 2,750,000	 2,750,000
Basic & Diluted net income per weighted average common share	\$ 0.12	\$ 0.00	\$ 0.04	\$ 0.20
 Basic & Diluted EBITDA per weighted average common share	 0.46	 0.24	 0.55	 0.69

(2) Funds From Operations, or FFO, is a term approved by the National Association of Real Estate Investment Trusts, or NAREIT. FFO was developed by NAREIT as a relative non-GAAP supplemental measure of operating performance of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. FFO, as defined by NAREIT, is net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales of property and impairment losses on property, plus depreciation and amortization of real estate assets, and after adjustments for unconsolidated partnerships and joint ventures. FFO does not represent cash flows from operating activities in accordance with GAAP and should not be considered an alternative to either net income as an indication of our performance or cash flow from operations as a measure of liquidity or ability to make distributions. Comparison of FFO to similarly titled measures for other REITs may not necessarily be meaningful due to possible differences in the application of the NAREIT definition used by such REITs.

Basic funds from operations per share, or Basic FFO per share, and diluted funds from operations per share, or Diluted FFO per share, are equal to FFO divided by our weighted average common shares outstanding and FFO divided by our weighted average common shares outstanding on a diluted basis, respectively.

**Table of Contents**

during a period. We believe that FFO, Basic FFO per share and Diluted FFO per share are useful to investors because they provide investors with a further context for evaluating our FFO results in the same manner that investors use net income and earnings per share, or EPS, in evaluating operating results. In addition, since most REITs provide FFO, Basic FFO and Diluted FFO per share information to the investment community, we believe these are useful supplemental measures for comparing us to other REITs. We believe that net income is the most directly comparable GAAP measure to FFO, basic EPS is the most directly comparable GAAP measure to Basic FFO per share, and diluted EPS is the most directly comparable GAAP measure to Diluted FFO per share.

The following table provides a reconciliation of our FFO to the most directly comparable GAAP measure, net income, and a computation of Basic FFO and Diluted FFO per weighted average common share and basic and diluted net income per weighted average common share:

	For the Six Months Ended June 30,		For the years ended December 31,	
	2012 (Unaudited)	2011 (Unaudited)	2011	2010
Net income	\$ 330,049	\$ 12,522	\$ 108,919	\$ 560,523
Add: Real estate depreciation and amortization	187,171	249,237	506,043	317,244
FFO available to common stockholders	517,220	261,759	614,962	877,767
Weighted average shares outstanding basic & diluted	2,750,000	2,750,000	2,750,000	2,750,000
Basic & Diluted net income per weighted average common share	\$ 0.12	\$ 0.00	\$ 0.04	\$ 0.20
Basic & Diluted FFO per weighted average common share	0.19	0.10	0.22	0.32



**Table of Contents**

**RISK FACTORS**

*Before you invest in our securities, you should be aware that your investment is subject to various risks, including those described below. You should carefully consider these risk factors together with all of the other information included in this prospectus before you decide to purchase our securities.*

**Risks Relating To Our Business**

*We may not be successful in identifying and consummating suitable acquisitions that meet our investment criteria, which may impede our growth and negatively affect our results of operations.*

We own a total of twelve farm properties in California and Florida that are leased to independent and corporate farmers. We intend to use the net proceeds of this offering to invest in and own more net leased farmland. We expect that most of our future tenants will be independent farming operations about which there is generally little or no publicly available operating and financial information. As a result, we will rely on our Adviser to perform due diligence investigations of these tenants, their operations and their prospects. We may not learn all of the material information we need to know regarding these businesses through our investigations. As a result, it is possible that we could lease properties to tenants or make mortgage loans to borrowers that ultimately are unable to pay rent or interest to us, which could adversely impact the amount available for distributions.

We are subject to many of the business risks and uncertainties associated with any new business enterprise. Our failure to operate successfully or profitably or to accomplish our investment objectives could have a material adverse effect on our ability to generate cash flow to make distributions to our stockholders, and the value of an investment in our common stock may decline substantially or be reduced to zero.

*Our Adviser has broad authority to make acquisitions and dispositions of properties and there can be no assurance that we will be able to enter into definitive agreements to purchase properties, complete acquisitions or dispose of properties on favorable terms. Investors will not be afforded the opportunity to evaluate the economic merits of our investments or the terms of any dispositions of properties.*

Our Adviser will have broad authority to make acquisitions of properties that it may identify in the future and broad authority to make dispositions of properties. There can be no assurance that our Adviser will be able to identify or negotiate acceptable terms for the acquisition or dispositions of properties or that we will be able to acquire or dispose of such properties on favorable terms. Factors that could cause us not to purchase one or more properties that initially meet our investment criteria include our potential inability to agree to definitive purchase terms with the prospective sellers, and our discovery of problems with the properties in our due diligence investigations. Factors that could cause us to be unable to dispose of a property on favorable terms include market conditions and competition. We cannot assure you that any acquisitions made using the net proceeds of this offering will produce a return on your investment. Any significant delay in investing the net proceeds of this offering would have a material adverse effect on our ability to generate cash flow and make distributions to our stockholders.

*Our distribution rate may have an adverse effect on the market price of our common stock.*

Our Board of Directors will determine our annual distribution rate after the completion of this offering. Our failure to rapidly invest the net proceeds of this offering or to make investments at acceptable rates of return could result in us using a significant portion of the net proceeds of this offering for the purpose of making these distributions, or could force us to set or reduce our distribution rate after setting such rate to a rate that is not competitive with alternative investments, either of which could adversely affect the market price for our common stock.

## **Table of Contents**

***Our cash available for distribution to stockholders may not be sufficient to pay distributions, nor can we assure you of our ability to make distributions in the future, and we may need to borrow in order to make such distributions or may not be able to make such distributions at all.***

In order to remain competitive with alternative investments, our distribution rate may exceed our cash available for distribution, including cash generated from operations. In the event this happens, we intend to fund the difference out of any excess cash on hand or from borrowings under our revolving credit facility, as well as from the net proceeds from this offering. If we do not have sufficient cash available for distribution generated by our assets to pay the annual distribution set by our Board of Directors, or if cash available for distribution decreases in future periods, the market price of our common stock could decrease.

All distributions will be made at the discretion of our Board of Directors and will depend on our earnings, our financial condition, whether or not we have qualified as a REIT, and other factors as our board of directors may deem relevant from time to time. We may not be able to make distributions in the future. In addition, some of our distributions may include a return of capital. To the extent that our Board of Directors approves distributions in excess of our then current and accumulated earnings and profits, these excess distributions would generally be considered a return of capital for federal income tax purposes to the extent of your adjusted tax basis in your shares. A return of capital is not taxable, but it has the effect of reducing your adjusted tax basis in your investment. To the extent that distributions exceed the adjusted tax basis of your shares, they will be treated for tax purposes as a gain from the sale or exchange of your stock. See Federal Income Tax Consequences of our Status as a REIT. If we borrow to fund distributions, our future interest costs would increase, thereby reducing our earnings and cash available for distribution from what they otherwise would have been.

***Some of our tenants may be unable to pay rent, which could adversely affect our cash available to make distributions to our stockholders or otherwise impair the value of your investment.***

We expect that single tenants will continue to occupy most of our properties and, therefore, the success of our investments will be materially dependent on the financial stability of these tenants. Some of our tenants may have been recently restructured using leverage acquired in a leveraged transaction or may otherwise be subject to significant debt obligations. Tenants that are subject to significant debt obligations may be unable to make their rent payments if there are adverse changes in their businesses or in general economic conditions. Tenants that have experienced leveraged restructurings or acquisitions will generally have substantially greater debt and substantially lower net worth than they had prior to the leveraged transaction. In addition, the payment of rent and debt service may reduce the working capital available to leveraged entities and prevent them from devoting the resources necessary to remain competitive in their industries. In situations where management of the tenant will change after a transaction, it may be difficult for our Adviser to determine with certainty the likelihood of the tenant's business success and of it being able to pay rent throughout the lease term. These companies are more vulnerable to adverse conditions in their businesses or industries and economic conditions generally, as well as to increases in interest rates.

Any lease payment defaults by a tenant could adversely affect our cash flows and cause us to reduce the amount of distributions to stockholders. In the event of a default by a tenant, we may also experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and re-leasing our property.

***Some of our tenants could be susceptible to bankruptcy, which would affect our ability to generate rents from them and therefore negatively affect our results of operations.***

In addition to the risk of tenants being unable to make regular rent payments, certain of our tenants who may depend on debt and leverage could be especially susceptible to bankruptcy in the event that their cash flows are insufficient to satisfy their debt. Any bankruptcy of one of our tenants would result in a loss of lease payments to us, as well as an increase in our costs to carry the property.

## **Table of Contents**

Additionally, under bankruptcy law, a tenant who is the subject of bankruptcy proceedings has the option of continuing or terminating any unexpired lease. If a bankrupt tenant terminates a lease with us, any claim we might have for breach of the lease, excluding a claim against collateral securing the lease, would be treated as a general unsecured claim. Our claim would likely be capped at the amount the tenant owed us for unpaid rent prior to the bankruptcy unrelated to the termination, plus the greater of one year of lease payments or 15% of the remaining lease payments payable under the lease, but in no case more than three years of lease payments. In addition, a bankruptcy court could re-characterize a net lease transaction as a secured lending transaction. If that were to occur, we would not be treated as the owner of the property, but might have additional rights as a secured creditor. This would mean our claim in bankruptcy court would only be for the amount we paid for the property, which could adversely impact our financial condition.

***Because we expect to enter primarily into short-term leases, we will be more susceptible to any decreases in prevailing market rental rates than would be the case with long-term leases, which could have a material adverse effect on our results of operations.***

We intend to primarily enter into leases with independent farmers having terms of one to five years. As a result, we will be required to frequently re-lease our properties upon the expiration of our leases. This will subject our business to near term fluctuations in market rental rates, and we will be more susceptible to declines in market rental rates than we would be if we were to enter into longer term leases. As a result, any decreases in the prevailing market rental rates in the geographic areas in which we own properties could have a material adverse effect on our results of operations and cash available for distribution to stockholders.

***Our real estate investments will consist of agricultural properties that may be difficult to sell or re-lease upon tenant defaults or early lease terminations, either of which would adversely affect returns to stockholders.***

We intend to focus our investments on agricultural properties. These types of properties are relatively illiquid compared to other types of real estate and financial assets. This illiquidity could limit our ability to quickly dispose of properties in response to changes in economic or other conditions. With these kinds of properties, if the current lease is terminated or not renewed, we may be required to renovate the property to the extent we have buildings on the property, or to make rent concessions in order to lease the property to another tenant or sell the property. In addition, in the event we are forced to sell the property, we may have difficulty finding qualified purchasers who are willing to buy the property. These and other limitations may affect our ability to sell or re-lease properties without adversely affecting returns to our stockholders.

***If our properties do not have access to adequate water supplies, it could harm our ability to lease the properties for farming, thereby adversely affecting our ability to generate returns on our properties.***

In order to lease the cropland that we intend to acquire with the proceeds of this offering, these properties will require access to sufficient water to make them suitable for farming. Although we expect to acquire properties with sufficient water access, should the need arise for additional wells from which to obtain water, we would be required to obtain permits prior to drilling such wells. Permits for drilling water wells are required by state and county regulations, and such permits may be difficult to obtain due to the limited supply of water in areas where we expect to acquire properties, such as the farming regions of California. Similarly, our properties may be subject to governmental regulations relating to the quality and disposition of rainwater runoff or other water to be used for irrigation. In such case, we could incur costs necessary in order to retain this water. If we are unable to obtain or maintain sufficient water supply for our properties, our ability to lease them for farming would be seriously impaired, which would have a material adverse impact on the value of our assets and our results of operations.

## **Table of Contents**

***Our agricultural properties will be subject to adverse weather conditions, seasonal variability, crop disease and other contaminants, which may affect our tenants' ability to pay rent and thereby have an adverse effect on our results of operations and our ability to make distributions to stockholders.***

Fresh produce, including produce used in canning and other packaged food operations, is vulnerable to adverse weather conditions, including windstorms, floods, drought and temperature extremes, which are quite common but difficult to predict. Because fresh produce is highly perishable and generally must be brought to market and sold soon after harvest, unfavorable growing conditions can reduce both crop size and crop quality. Seasonal factors, including supply and consumer demand, may also have an effect on the crops grown by our tenants. In extreme cases, entire harvests may be lost in some geographic areas.

In addition, fresh produce is vulnerable to crop disease, pests and other contaminants. Damages to tenants' crops from crop disease and pests may vary in severity and effect, depending on the stage of production at the time of infection or infestation, the type of treatment applied and climatic conditions. The costs to control these infestations vary depending on the severity of the damage and the extent of the plantings affected. These infestations can increase costs and decrease revenues of our tenants. Tenants may also incur losses from product recalls due to other contaminants that may cause food borne illness. It is difficult to predict the occurrence or severity of such product recalls as well as the impact of these upon our tenants. Although we do not expect that our rental payments will be based on the quality of our tenants' harvests, any of these factors could have a material adverse effect on our tenants' ability to pay rent to us, which in turn could have a material adverse effect on our ability to make distributions to our stockholders.

***Our operating results and the value of our properties may be impacted by future climate changes, adversely impacting the value of our properties and our ability to generate rental revenue.***

In addition to the general risks that adverse weather conditions will pose for the tenants of our properties, the value of our properties will potentially be subject to risks associated with long-term effects of climate change. Many climatologists predict increases in average temperatures, more extreme temperatures and increases in volatile weather over time. The effects of climate change may be more significant along coastlines, such as in the California coastal areas where we intend to partially focus our initial acquisition efforts, due to rising sea levels resulting from melting of polar ice caps, which could result in increased risk of coastal erosion, flooding, degradation in the quality of groundwater aquifers and expanding agricultural weed and pest populations. As a result, the effects of climate change could make our properties less suitable for farming or other alternative uses, which could adversely impact the value of our properties, our ability to generate rental revenue from leasing our properties and our cash available for distribution to stockholders.

***Two of our current properties are leased to the same tenant, Dole, and if Dole is no longer able to make rental payments or chooses to terminate its leases prior to or upon their expiration, it would have a material adverse effect on our financial performance and our ability to make distributions to our stockholders.***

Two of our twelve current leases, representing approximately 71% of our current annualized GAAP straight-line rental revenue, are with Dole under leases expiring in 2013 and 2014. If Dole fails to make rental payments or elects to terminate its leases prior to or upon their expiration, and we cannot re-lease the land on satisfactory terms, or if Dole were to experience financial problems or declare bankruptcy, it would have a material adverse effect on our financial performance and our ability to make dividend payments to our stockholders.

***Because we must distribute a substantial portion of our net income to qualify as a REIT, we will be largely dependent on third-party sources of capital to fund our future capital needs.***

To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our taxable income each year, excluding capital gains. Because of this distribution requirement, it is not likely that we will be able to fund a significant portion of our future capital needs, including property acquisitions, from retained earnings.

## **Table of Contents**

Therefore, we will likely rely on public and private debt and equity capital to fund our business. This capital may not be available on favorable terms or at all. Our access to additional capital depends on a number of things, including the market's perception of our growth potential and our current and potential future earnings.

***We may not be able to borrow money in sufficient amounts or on sufficiently favorable terms necessary to attain the optimal degree of leverage to operate our business, which may have an adverse effect on our operations and ability to pay distributions.***

Our business and acquisition strategies rely heavily on borrowing funds, so that we may make more investments than would otherwise be possible in order to maximize potential returns to stockholders. We may borrow on a secured or unsecured basis. Our articles of incorporation and bylaws to be in effect upon the completion of this offering do not impose any limitation on our borrowing. Our ability to achieve our investment objectives will be affected by our ability to borrow money in sufficient amounts and on favorable terms. We expect that we will borrow money that will be secured by our properties and that these financing arrangements will contain customary covenants such as those that limit our ability, without the prior consent of the lender, to further mortgage the applicable property or to discontinue insurance coverage. In addition, any credit facility we might enter into is likely to contain certain customary restrictions, requirements and other limitations on our ability to incur indebtedness, and will specify debt ratios that we will be required to maintain. Accordingly, we may be unable to obtain the degree of leverage that we believe to be optimal, which may cause us to have less cash for distributions to stockholders. Our use of leverage could also make us more vulnerable to a downturn in our business or the economy generally and a significant increase in the ratio of our indebtedness to our assets may have an adverse effect on the market price of our common stock.

***Our income from operations may not be enough to cover our debt service obligations, which may affect distributions to stockholders or cause us to incur losses.***

If the income generated by our properties and other assets fails to cover our debt service, we could be forced to reduce or eliminate distributions to our stockholders and may experience losses. Some of our debt financing arrangements may require us to make lump-sum, or balloon, payments at maturity. If our income from operations does not cover a balloon payment, our ability to make the balloon payment at maturity could depend upon our ability to obtain additional financing or to sell the financed property. At the time the balloon payment is due, we may not be able to refinance the balloon payment on terms as favorable as the original loan or sell the property at a price sufficient to make the balloon payment, which would likely have a material adverse effect on our financial condition.

***We have secured borrowings, which would have a risk of loss of the property securing such loan upon foreclosure.***

We currently have a line of credit with Metropolitan Life Insurance Company, or MetLife, which is secured by the San Andreas Farm, that permits us to borrow up to \$4,785,000 through April 2017. The current balance under the line of credit is \$0.4 million. The line of credit accrues interest at a floating rate tied to LIBOR and is currently 3.25% per year. We expect to use the line of credit for working capital. We also have a mortgage loan with MetLife under which we have the ability to borrow up to \$45.2 million. The mortgage loan is secured by our West Gonzales, West Beach, Dalton Lane, Keysville Road, Colding Loop and Trapnell Road Farms. Currently, \$30.7 million is outstanding under this mortgage loan. The loan has an annual interest rate of 3.5% and matures in January 2026. Once the net proceeds of this offering have been substantially fully invested, we intend to acquire additional properties by borrowing all or a portion of the purchase price of the property and securing the loans with a mortgage on that or other real property that we own. If we are unable to make our debt payments as required, either under our current credit facilities or any future facilities, a lender could foreclose on the property or properties securing its loan. This could cause us to lose part or all of our investment in the property, which in turn could cause the value of our common stock or the distributions to our stockholders to be reduced.

## **Table of Contents**

***Competition for the acquisition of agricultural real estate may impede our ability to make acquisitions or increase the cost of these acquisitions, which could adversely affect our operating results and financial condition.***

We will compete for the acquisition of properties with many other entities engaged in agricultural and real estate investment activities, including corporate agriculture companies, financial institutions, institutional pension funds, real estate companies and private real estate investors. These competitors may prevent us from acquiring desirable properties or may cause an increase in the price we must pay for real estate. Our competitors may have greater resources than we do and may be willing to pay more for certain assets or may have a more compatible operating philosophy with our acquisition targets. In particular, larger institutions may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. Our competitors may also adopt transaction structures similar to ours, which would decrease our competitive advantage in offering flexible transaction terms. In addition, the number of entities and the amount of funds competing for suitable investment properties may increase, resulting in increased demand and increased prices paid for these properties. If we pay higher prices for properties, our profitability may decrease, and you may experience a lower return on your investment. Increased competition for properties may also preclude us from acquiring those properties that would generate attractive returns to us.

***We expect to lease most of our properties to medium-sized independent farming operations and agricultural businesses, which may have limited financial and personnel resources and, therefore, may be less stable than larger companies, which could impact our ability to generate rental revenue.***

We expect to lease most of our properties to medium-sized farming operations and related agricultural businesses, which will expose us to a number of unique risks related to these entities. For example, medium-sized agricultural businesses are more likely than larger farming operations to have difficulty making lease payments when they experience adverse events. They also tend to experience significant fluctuations in their operating results and to be more vulnerable to competitors' actions and market conditions, as well as general economic downturns. In addition, our target tenants may face intense competition, including competition from companies with greater financial resources, which could lead to price pressure on crops that could lower our tenants' income.

Furthermore, the success of a medium-sized business may also depend on the management talents and efforts of one or a small group of persons. The death, disability or resignation of one or more of these persons could have a material adverse impact on our tenant and, in turn, on us.

***We may not ultimately be able to sell our agricultural real estate to developers in connection with the conversion of such properties to urban or suburban uses, especially in light of the current uncertain market for real estate development.***

Our business plan in part contemplates purchasing agricultural real property that we believe is located in the path of urban and suburban growth and ultimately will increase in value over the long term as a result. Pending the sale of such real property to developers for conversion to urban, suburban and other more intensive uses, such as residential or commercial development, we intend to lease the property for agricultural uses, particularly farming annual row crops. Urban and suburban development is subject to a number of uncertainties, including land zoning and environmental issues, infrastructure development and demand. These uncertainties are particularly pronounced in light of the current economic environment, in which the pace of future development is unclear. Although the current development market contains uncertainties, these uncertainties may be more acute over time, since we do not intend to acquire properties that are expected to be converted to urban or suburban uses in the near term. As a result, there can be no guarantee that increased development will actually occur and that we will be able to sell any of the properties that we own or acquire in the future for such conversion. Our inability to sell these properties in the future at an appreciated value for conversion to urban or suburban uses could result in a reduced return on your investment.

## **Table of Contents**

***Our real estate portfolio will be concentrated in a limited number of properties, which subjects us to an increased risk of significant loss if any property declines in value or if we are unable to lease a property.***

Based on the anticipated net proceeds to be received from this offering, the expected investment size and our Adviser's experience in the marketplace, we estimate that we will purchase approximately 10 to 15 properties with the net proceeds of this offering and borrowings under our existing credit facilities. To the extent we are able to leverage our investment acquisitions with borrowed funds, we will acquire additional properties with the net proceeds of borrowings, subject to our debt policy. One consequence of a limited number of investments is that the aggregate returns we realize may be substantially adversely affected by the unfavorable performance of a small number of leases or a significant decline in the value of any single property. In addition, while we do not intend to invest 20% or more of our total assets in a particular property at the time of investment, it is possible that, as the values of our properties change, one property may comprise in excess of 20% of the value of our total assets. Lack of diversification will increase the potential that a single underperforming investment could have a material adverse effect on our cash flows and the price we could realize from the sale of our properties. Since our current real estate profile is concentrated entirely in California and Florida, we are also currently subject to the any adverse change in the political or regulatory climate in those states or specific counties where our properties are located that could adversely affect our real estate portfolio and our ability to lease properties.

***Liability for uninsured losses could adversely affect our financial condition.***

Losses from disaster-type occurrences, such as wars, earthquakes and weather-related disasters, may be either uninsurable or not insurable on economically viable terms. Should an uninsured loss occur, we could lose our capital investment or anticipated profits and cash flows from one or more properties.

***Potential liability for environmental matters could adversely affect our financial condition.***

We intend to purchase agricultural properties and will be subject to the risk of liabilities under federal, state and local environmental laws. Some of these laws could subject us to:

responsibility and liability for the cost of removal or remediation of hazardous substances released on our properties, generally without regard to our knowledge of or responsibility for the presence of the contaminants;

liability for the costs of removal or remediation of hazardous substances at disposal facilities for persons who arrange for the disposal or treatment of these substances; and

potential liability for claims by third parties for damages resulting from environmental contaminants.

We will generally include provisions in our leases making tenants responsible for all environmental liabilities and for compliance with environmental regulations, and we will seek to require tenants to reimburse us for damages or costs for which we have been found liable. However, these provisions will not eliminate our statutory liability or preclude third party claims against us. Even if we were to have a legal claim against a tenant to enable us to recover any amounts we are required to pay, there are no assurances that we would be able to collect any money from the tenant. Our costs of investigation, remediation or removal of hazardous substances may be substantial. In addition, the presence of hazardous substances on one of our properties, or the failure to properly remediate a contaminated property, could adversely affect our ability to sell or lease the property or to borrow using the property as collateral. Additionally, we could become subject to new, stricter environmental regulations, which could diminish the utility of our properties and have a material adverse impact on our results of operations.

## **Table of Contents**

***If our tenants fail to comply with applicable labor regulations, it could have an adverse effect on our ability to make distributions to our stockholders.***

State, county and federal governments have also implemented a number of regulations governing labor practices used in connection with farming operations. For example, these regulations seek to provide for minimum wages and minimum and maximum work hours, as well as to restrict the hiring of illegal immigrants. If one of our tenants is accused of violating, or found to have violated such regulations, it could have a material adverse effect on the tenant's operating results, which could adversely affect its ability to make its rental payments to us and, in turn, our ability to make distributions to our stockholders.

***The presence of endangered or threatened species on or near our acquired farmland could restrict the activities of our agricultural tenants, which could in turn have a material adverse impact on the value of our assets and our results of operations.***

Federal, state and local laws and regulations intended to protect threatened or endangered species could restrict certain activities on our farmland. The size of any area subject to restriction would vary depending on the protected species at issue, the time of year and other factors, and there can be no assurance that such federal, state and local laws will not become more restrictive over time. If portions of our farmland are deemed to be part of or bordering habitats for such endangered or threatened species that could be disturbed by the agricultural activities of our tenants, it could impair the ability of the land to be used for farming, which in turn could have a material adverse impact on the value of our assets and our results of operations.

***We may be required to permit the owners of the mineral rights to our properties to enter and occupy parts of the properties for the purposes of drilling and operating oil or gas wells, which could adversely impact the rental value of our properties.***

Although we will own the surface rights to the properties that we acquire, other persons may own the rights to any minerals, such as oil and natural gas, that may be located under the surfaces of these properties. Under agreements with any such mineral rights owners, we expect that we would be required to permit third parties to enter our properties for the purpose of drilling and operating oil or gas wells on the premises. We will also be required to set aside a reasonable portion of the surface area of our properties to accommodate these oil and gas operations. The devotion of a portion of our properties to these oil and gas operations would reduce the amount of the surface available for farming or farm-related uses, which could adversely impact the rents that we receive from leasing these properties.

***Failure to hedge effectively against interest rate changes may adversely affect our results of operations.***

We may experience interest rate volatility in connection with mortgage loans on our acquired properties or other variable-rate debt that we may owe, and mortgage loans we may make, from time to time. We may seek to mitigate our exposure to changing interest rates by using interest rate hedging arrangements such as interest rate swaps and caps. These derivative instruments involve risk and may not be effective in reducing our exposure to interest rate changes. Risks inherent in derivative instruments include the risk that counterparties to derivative contracts may be unable to perform their obligations, the risk that interest rates move in a direction contrary to, or move slower than the period contemplated by, the direction or time period that the derivative instrument is designed to cover, and the risk that the terms of such instrument will not be legally enforceable. While we intend to design our hedging strategies to protect against adverse movements in interest rates, derivative instruments that we are likely to use may also involve immediate costs, which could reduce our cash available for distribution to our stockholders. Likewise, ineffective hedges, as well as the occurrence of any of the risks inherent in derivatives, could adversely affect our operating results or reduce your overall investment returns. Our Adviser and our Board of Directors will review each of our derivative contracts and will periodically evaluate their effectiveness against their stated purposes.



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## **Table of Contents**

In addition, tax laws may substantially limit our ability to hedge our interest rate exposure. If we qualify as a REIT for federal income tax purposes, our aggregate gross income from non-qualifying hedges, fees, and certain other non-qualifying sources cannot exceed 5% of our annual gross income. As a result, we might have to limit our use of advantageous hedging techniques or implement those hedges through a taxable REIT subsidiary, or TRS. Any hedging income earned by a TRS would be subject to federal, state and local income tax at regular corporate rates. This could increase the cost of our hedging activities or could expose us to greater risks associated with changes in interest rates than we would otherwise want to bear.

### **Risks Associated With Our Use of an Adviser to Manage Our Business**

*Our success will depend on the performance of our Adviser and if our Adviser makes inadvisable investment or management decisions, our operations could be materially adversely impacted.*

Our ability to achieve our investment objectives and to pay distributions to our stockholders is substantially dependent upon the performance of our Adviser in evaluating potential investments, selecting and negotiating property purchases and dispositions on our behalf, selecting tenants and borrowers, setting lease terms and determining financing arrangements. You will have no opportunity to evaluate the terms of transactions or other economic or financial data concerning our investments. You must rely entirely on the analytical and management abilities of our Adviser and the oversight of our Board of Directors. If our Adviser or our Board of Directors makes inadvisable investment or management decisions, our operations could be materially adversely impacted.

*We may have conflicts of interest with our Adviser and other affiliates, which could result in investment decisions that are not in the best interests of our stockholders.*

Our Adviser will manage our real estate portfolio and will locate, evaluate, recommend and negotiate the acquisition of our real estate investments and mortgage loans. At the same time, our advisory agreement permits our Adviser to conduct other commercial activities and to provide management and advisory services to other entities, including, but not limited to, Gladstone Commercial Corporation, Gladstone Capital Corporation and Gladstone Investment Corporation, each of which is affiliated with us. Each of our executive officers other than Ms. Jones, and each of our directors other than Mr. Earhart, are also executive officers and directors, as applicable, of Gladstone Capital and Gladstone Investment, which actively make loans to and invest in small and medium-sized companies. Each of our executive officers and each of our directors other than Mr. Earhart is also an officer or director of Gladstone Commercial, which actively makes real estate investments. As a result, we may from time to time have conflicts of interest with our Adviser in its management of our business and that of Gladstone Commercial, Gladstone Investment or Gladstone Capital, which may arise primarily from the involvement of our Adviser, Gladstone Capital, Gladstone Commercial, Gladstone Investment and their affiliates in other activities that may conflict with our business. Examples of these potential conflicts include:

our Adviser may realize substantial compensation on account of its activities on our behalf and may be motivated to approve acquisitions solely on the basis of increasing its compensation from us;

our agreements with our Adviser are not arm's-length agreements, which could result in terms in those agreements that are less favorable than we could obtain from independent third parties;

we may experience competition with our affiliates for potential financing transactions; and

our Adviser and other affiliates, such as Gladstone Capital, Gladstone Investment and Gladstone Commercial, could compete for the time and services of our officers and directors and reduce the amount of time they are able to devote to management of our business. These and other conflicts of interest between us and our Adviser could have a material adverse effect on the operation of our business and the selection or management of our real estate investments. See **Conflicts of Interest** in this prospectus.

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## **Table of Contents**

*Our financial condition and results of operations will depend on our Adviser's ability to effectively manage our future growth.*

Our ability to achieve our investment objectives will depend on our ability to sustain continued growth, which will, in turn, depend on our Adviser's ability to find, select and negotiate property purchases and net leases that meet our investment criteria. Accomplishing this result on a cost-effective basis is largely a function of our Adviser's marketing capabilities, management of the investment process, ability to provide competent, attentive and efficient services and our access to financing sources on acceptable terms. As we grow, our Adviser may be required to hire, train, supervise and manage new employees. Our Adviser's failure to effectively manage our future growth could have a material adverse effect on our business, financial condition and results of operations.

*We may be obligated to pay our Adviser quarterly incentive compensation even if we incur a net loss during a particular quarter.*

The advisory agreement we will enter into in connection with this offering will entitle our Adviser to incentive compensation based on our funds from operations, or FFO, which will reward our Adviser if our quarterly pre-incentive fee FFO exceeds 1.75% of our adjusted stockholders equity. Our pre-incentive fee FFO for a particular quarter for incentive compensation purposes will exclude the effect of any unrealized gains, losses or other items during that quarter that do not affect realized net income, even if these adjustments result in a net loss on our statement of operations for that quarter. Thus, we may be required to pay our Adviser incentive compensation for a fiscal quarter even if we incur a net loss for that quarter as determined in accordance with GAAP.

*We are dependent upon our key management personnel for our future success, particularly David Gladstone, Terry Lee Brubaker and George Stelljes III.*

We are dependent on our senior management and other key management members to carry out our business and investment strategies. Our future success depends to a significant extent on the continued service and coordination of our senior management team, particularly David Gladstone, our chairman and chief executive officer, George Stelljes III, our president and chief operating officer, and Terry Lee Brubaker, our vice chairman. Mr. Gladstone also serves as the chief executive officer of our Adviser, and Messrs. Stelljes and Brubaker are also executive officers of our Adviser. The departure of any of our executive officers or key personnel of our Adviser could have a material adverse effect on our ability to implement our business strategy and to achieve our investment objectives.

### **Risks Associated With Ownership of Our Common Stock and Our Tax Status**

*Certain provisions contained in our articles of incorporation and bylaws and under Maryland law may prohibit or restrict attempts by our stockholders to change our management and hinder efforts to effect a change of control of us, and the market price of our common stock may be lower as a result.*

There are provisions in our articles of incorporation and bylaws as they will be in effect following this offering that may make it difficult for a third party to acquire, or attempt to acquire, control of our company, even if a change in control was considered favorable by you and other stockholders. For example:

Our articles of incorporation prohibit ownership of more than 3.3% of the outstanding shares of our capital stock by one person, except for certain qualified institutional investors, which are limited to holding 9.8% of our common stock and our chairman and chief executive officer, David Gladstone, who will own approximately 45% of our common stock after this offering, pursuant to an exception approved by our Board of Directors and in compliance with our articles of incorporation. This restriction may discourage a change of control and may deter individuals or entities from making tender offers for our capital stock, which offers might otherwise be financially attractive to our stockholders or which might cause a change in our management.

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**Table of Contents**

Our Board is divided into three classes, with the term of the directors in each class expiring every third year. At each annual meeting of stockholders, the successors to the class of directors whose term expires at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. After election, a director may only be removed by our stockholders for cause. Election of directors for staggered terms with limited rights to remove directors makes it more difficult for a hostile bidder to acquire control of us. The existence of this provision may negatively impact the price of our securities and may discourage third-party bids to acquire our securities. This provision may reduce any premiums paid to stockholders in a change in control transaction.

The Control Share Acquisition Act provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by the corporation's disinterested stockholders by a vote of two-thirds of the votes entitled to be cast on the matter. Shares of stock owned by interested stockholders, that is, by the acquirer, by officers or by directors who are employees of the corporation, are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock that would entitle the acquirer to exercise voting power in electing directors within one of three increasing ranges of voting power. The control share acquisition statute does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the articles of incorporation or bylaws of the corporation. Our bylaws contain a provision exempting from the Control Share Acquisition Act any and all acquisitions of our common stock by David Gladstone or any of his affiliates. This statute could have the effect of discouraging offers from third parties to acquire us and increasing the difficulty of successfully completing this type of offer by anyone other than Mr. Gladstone or any of his affiliates.

Certain provisions of Maryland law applicable to us prohibit business combinations with:

any person who beneficially owns 10% or more of the voting power of our common stock, referred to as an interested stockholder;

an affiliate of ours who, at any time within the two-year period prior to the date in question, was an interested stockholder; or

an affiliate of an interested stockholder.

These prohibitions last for five years after the most recent date on which the interested stockholder became an interested stockholder. Thereafter, any business combination with the interested stockholder must be recommended by our Board and approved by the affirmative vote of at least 80% of the votes entitled to be cast by holders of our outstanding shares of common stock and two-thirds of the votes entitled to be cast by holders of our common stock other than shares held by the interested stockholder. These requirements could have the effect of inhibiting a change in control even if a change in control were in our stockholders' interest. These provisions of Maryland law do not apply, however, to business combinations that are approved or exempted by our Board of Directors prior to the time that someone becomes an interested stockholder.

***We may not qualify or we may not elect to be treated as a REIT for federal income tax purposes, which would subject us to federal income tax on our taxable income at regular corporate rates, thereby reducing the amount of funds available for paying distributions to stockholders.***

We currently intend to elect REIT status and operate in a manner that will allow us to qualify as a REIT for federal income tax purposes beginning with our taxable year ending December 31, 2013 or December 31, 2014. Before the first year for which we elect REIT status, we will be subject to regular corporate income taxation. Our qualification as a REIT will depend on our ability to satisfy requirements set forth in the Internal Revenue Code, or Code, concerning, among other things, the ownership of our outstanding common stock, the nature of our assets, the sources of our income and the amount of our distributions to our stockholders. The REIT qualification requirements are extremely complex, and interpretations of the federal income tax laws governing qualification

## **Table of Contents**

as a REIT are limited. Accordingly, we cannot be certain that we will be successful in operating so as to qualify as a REIT. At any time new laws, interpretations or court decisions may change the federal tax laws relating to, or the federal income tax consequences of, qualification as a REIT. It is possible that future economic, market, legal, tax or other considerations may cause our Board of Directors to revoke our proposed REIT election, which it may do without stockholder approval.

If we fail to elect to be treated as a REIT or qualify for REIT status, or if we lose or revoke, our REIT status, we would face serious tax consequences that would substantially reduce the funds available for distribution to you because:

we would not be allowed a deduction for distributions to stockholders in computing our taxable income;

we would be subject to federal income tax at regular corporate rates and might need to borrow money or sell assets in order to pay any such tax;

we also could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and

unless we are entitled to relief under statutory provisions, we would be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify.

In addition, all distributions to stockholders made before the beginning of the tax year for which we elect to qualify as a REIT, and all distributions thereafter, if we fail to qualify as a REIT, will be subject to tax to the extent of our current and accumulated earnings and profits. The U.S. federal income tax rate on the taxable portion of such distributions is limited to 15% through 2012 under certain circumstances for stockholders who are individuals. If we do fail to qualify as a REIT, we would not be required to make distributions to stockholders, and any distributions to stockholders that are U.S. corporations might be eligible for the dividends received deduction.

As a result of all these factors, our failure to qualify as a REIT could impair our ability to expand our business and raise capital and could adversely affect the value of our common stock.

### ***Complying with REIT requirements may cause us to forego or liquidate otherwise attractive investments.***

To qualify as a REIT for federal income tax purposes, we must continually satisfy various tests regarding the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. In order to meet these tests, we may be required to forego investments we might otherwise make.

In particular, we must ensure that at the end of each calendar quarter at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets. The remainder of our investment in securities other than government securities, securities of TRSs and qualified real estate assets generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets other than government securities, securities of TRSs and qualified real estate assets can consist of the securities of any one issuer, and no more than 25% of the value of our total assets can be represented by securities of one or more TRSs.

If we fail to comply with these requirements, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to dispose of otherwise attractive investments in order to satisfy REIT requirements. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

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**Table of Contents**

*We will not seek to obtain a ruling from the Internal Revenue Service, or IRS, that we qualify as a REIT for federal income tax purposes.*

Although we have not requested, and do not expect to request, a ruling from the IRS that we qualify as a REIT, we have received an opinion of our counsel that, based on certain assumptions and representations, we will so qualify beginning with the first taxable year for which we elect to do so, which we currently expect will be our taxable year ending either December 31, 2013 or December 31, 2014. You should be aware, however, that opinions of counsel are not binding on the IRS or any court. The REIT qualification opinion only represents the view of our counsel based on its review and analysis of existing law, which includes no controlling precedent, and therefore could be subject to modification or withdrawal based on future legislative, judicial or administrative changes to the federal income tax laws, any of which could be applied retroactively. The validity of the opinion of our counsel and of our qualification as a REIT will depend on our continuing ability to meet the various REIT requirements described herein. An IRS determination that we do not qualify as a REIT would deprive our stockholders of the tax benefits of our REIT status only if the IRS determination is upheld in court or otherwise becomes final. To the extent that we challenge an IRS determination that we do not qualify as a REIT, we may incur legal expenses that would reduce our funds available for distribution to stockholders.

*Failure to make required distributions, both prior to and following our REIT election, would jeopardize our REIT status, which could require us to pay taxes and negatively impact our cash available for future distribution.*

In order to qualify as a REIT, each year we must distribute to our stockholders at least 90% of our taxable income, other than any net capital gains. To the extent that we satisfy the distribution requirement but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed income. In addition, we will incur a 4% nondeductible excise tax on the amount, if any, by which our distributions in any year are less than the sum of:

85% of our ordinary income for that year;

95% of our capital gain net income for that year; and

100% of our undistributed taxable income from prior years.

We intend to pay out our income to our stockholders in a manner intended to satisfy the distribution requirement applicable to REITs and to avoid corporate income tax and the 4% excise tax. Differences in timing between the recognition of income and the related cash receipts or the effect of required debt amortization payments could require us to borrow money or sell assets to pay out enough of our taxable income to satisfy the distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year.

In addition, to qualify as a REIT, we are required to distribute our non-REIT earnings and profits accumulated before the effective date of our REIT election. As of June 30, 2012, we estimate that our non-REIT accumulated earnings and profits were approximately \$4.7 million. This amount does not include an additional \$2.1 million of federal taxes related to \$4.0 million of non-REIT earnings and profits associated with a deferred intercompany gain resulting from land transfers, described elsewhere in this prospectus, that we will recognize immediately prior to our REIT election. We also expect to recognize additional non-REIT earnings and profits from future operations prior to our REIT election. We intend to distribute any non-REIT earnings and profits, including the profits associated with the deferred intercompany gain, to stockholders prior to December 31 of the first year for which we elect REIT status, in order to eliminate our non-REIT earnings and profits. If we are unable to fully distribute our non-REIT earnings and profits, we would fail to qualify as a REIT.

*If we fail to meet stock ownership diversification requirements, we would fail to qualify as a REIT, which could require us to pay taxes and negatively impact our cash available for future distribution.*

In order to qualify as a REIT, no more than 50% of the value of our outstanding stock may be owned, directly or indirectly, by five or fewer individuals during the last half of a taxable year beginning with the second

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**Table of Contents**

year for which we elect to be treated as a REIT. In order to facilitate compliance with this requirement, our articles of incorporation prohibit any individual from owning more than 3.3% in value of our outstanding stock. Pursuant to an exception from this limit approved by our board of directors, David Gladstone will own approximately 45% of our outstanding common stock following completion of this offering. Our board of directors may also reduce the 3.3% ownership limitation if it determines that doing so is necessary in order for us to qualify for REIT treatment. However, such a reduction would not be effective for any stockholder who beneficially owns more than the reduced ownership limit.

In order to ensure that we satisfy the ownership diversification requirement described above, Mr. Gladstone's percentage ownership of the value of our outstanding stock may need to decrease to approximately 36.8% by the last half of the second taxable year for which we elect to be treated as a REIT. We expect that Mr. Gladstone's percentage ownership will decline over time as a result of dilution from future equity offerings. However, there is no guarantee that we will be able to complete additional offerings or that we will be able to do so to an extent and over a time frame that would allow us to qualify for REIT treatment in 2013 or 2014, as we currently intend. If we are unable to ensure that we satisfy the ownership diversification requirement, either through a reduction of the ownership limit, a decline in Mr. Gladstone's percentage ownership or both, we could fail to qualify as a REIT, which could require us to pay taxes and negatively impact our cash available for future distribution.

***The IRS may treat sale-leaseback transactions as loans, which could jeopardize our REIT status.***

The IRS may take the position that transactions in which we acquire a property and lease it back to the seller do not qualify as leases for federal income tax purposes but are, instead, financing arrangements or loans. If a sale-leaseback transaction were so re-characterized, we might fail to satisfy the asset or income tests required for REIT qualification and consequently could lose our REIT status. Alternatively, the amount of our REIT taxable income could be recalculated, which could cause us to fail the distribution test for REIT qualification. See Federal Income Tax Consequences of our Status as a REIT Sale-Leaseback Transactions.

***Investments in our common stock may not be suitable for pension or profit-sharing trusts, Keogh Plans or individual retirement accounts, or IRAs.***

If you are investing the assets of a pension, profit sharing, 401(k), Keogh or other retirement plan, IRA or benefit plan in us, you should consider:

whether your investment is consistent with the applicable provisions of the Employee Retirement Income Security Act, or ERISA, or the Code;

whether your investment will produce unrelated business taxable income, or UBTI, to the benefit plan; and

your need to value the assets of the benefit plan annually.

We do not believe that under current ERISA law and regulations that our assets would be treated as plan assets for purposes of ERISA. However, if our assets were considered to be plan assets, our assets would be subject to ERISA and/or Section 4975 of the Code, and some of the transactions we have entered into with our Adviser and its affiliates could be considered prohibited transactions which could cause us, our Adviser and its affiliates to be subject to liabilities and excise taxes. In addition, our officers and directors, our Adviser and its affiliates could be deemed to be fiduciaries under ERISA and subject to other conditions, restrictions and prohibitions under Part 4 of Title I of ERISA. Even if our assets are not considered to be plan assets, a prohibited transaction could occur if we or any of our affiliates is a fiduciary within the meaning of ERISA with respect to a purchase by a benefit plan and, therefore, unless an administrative or statutory exemption applies in the event such persons are fiduciaries with respect to your purchase, you should not purchase shares in this offering.

## **Table of Contents**

***If our Operating Partnership fails to maintain its status as a partnership for federal income tax purposes, its income may be subject to taxation.***

We intend to maintain the status of the Operating Partnership as a partnership for federal income tax purposes. However, if the IRS were to successfully challenge the status of the Operating Partnership as a partnership, it would be taxable as a corporation. In such event, this would reduce the amount of distributions that the Operating Partnership could make to us. This would also result in our losing REIT status and becoming subject to a corporate level tax on our own income. This would substantially reduce our cash available to pay distributions and the return on your investment. In addition, if any of the entities through which the Operating Partnership owns its properties, in whole or in part, loses its characterization as a partnership for federal income tax purposes, it would be subject to taxation as a corporation, thereby reducing distributions to the Operating Partnership. Such a re-characterization of an underlying property owner could also threaten our ability to maintain REIT status.

***Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.***

The maximum tax rate applicable to income from qualified dividends payable to domestic stockholders of regular corporations taxed at individual income tax rates has been reduced by legislation to 15% through the end of 2012. Dividends payable by REITs, however, generally are not eligible for the reduced rates. Although this legislation does not adversely affect the taxation of REITs or dividends payable by REITs, more favorable rates applicable to regular corporate qualified dividends may cause investors who are taxed at individual rates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends. If these favorable rates for regular corporate qualified dividends extend beyond the end of 2012 into taxable years in which we intend to qualify as a REIT, this could adversely affect the value of our common stock.

***Our ownership of and relationship with TRSs will be limited, and our failure to comply with the limits would jeopardize our REIT status and could result in the application of a 100% excise tax.***

We currently own one entity, Gladstone Land Advisers, Inc., which we intend will make a TRS election upon our election to be taxed as a REIT. We may also form other TRSs as part of our overall business strategy. A TRS may earn income that would not be qualifying income if earned directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 25% of the value of a REIT's assets may consist of stock or securities of one or more TRSs. A TRS will pay federal, state and local income tax at regular corporate rates on any income that it earns. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to ensure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.

Our TRSs will pay federal, state and local income tax on their taxable income, and their after-tax net income will be available for distribution to us but is not required to be distributed to us. We anticipate that the aggregate value of any TRS stock and securities owned by us will be less than 25% of the value of our total assets, including the TRS stock and securities. We will evaluate all of our transactions with TRSs to ensure that they are entered into on arm's-length terms in order to avoid incurring the 100% excise tax. There can be no assurance, however, that we will be able to comply with the 25% limitation or to avoid application of the 100% excise tax.

***We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our securities.***

At any time, the federal income tax laws or regulations governing REITs or the administrative interpretations of those laws or regulations may be amended. We cannot predict when or if any new federal income tax law, regulation or administrative interpretation, or any amendment to any existing federal income tax

## **Table of Contents**

law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation or interpretation may take effect retroactively. We and our security holders could be adversely affected by any such change in, or any new, federal income tax law, regulation or administrative interpretation.

*We will have corporate income tax liability for taxes attributable to taxable years prior to our REIT election, which taxes will reduce our cash available for distribution to stockholders.*

We will be subject to regular corporate income taxation for our taxable year ending December 31, 2012, and potentially the taxable year ending December 31, 2013, depending upon whether we elect to qualify as a REIT for that year. In addition, if we were determined, as the result of a tax audit or otherwise, to have an unpaid corporate income tax liability for any taxable years during which we were classified as a Subchapter C corporation for U.S. federal income tax purposes, we would be responsible for paying such tax liability, notwithstanding our subsequent qualification as a REIT. In either case, the payment of taxes would cause us to have less cash on hand to make distributions to stockholders.

### **Risks Relating to this Offering and the Market for our Common Stock**

*The market price and trading volume of our common stock may be volatile following this offering.*

Even if an active trading market develops for our common stock after this offering, the market price of our common stock may be highly volatile and subject to wide fluctuations. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. If the market price of our common stock declines significantly, you may be unable to resell your shares at or above the initial public offering price. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future. The risk factors described in this prospectus, many of which are beyond our control, could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock. In addition, the value of our stock will be subject to price and volume fluctuations in the stock market from time to time, which are often unrelated to the operating performance of particular companies, and significant volatility in the market price and trading volume of shares of other REITs and companies that is not necessarily related to the performance of those companies.

*Sales of shares of our common stock, or the perception that such sales will occur, may have adverse effects on our share price.*

We cannot predict the effect, if any, of future sales of common stock, or the availability of shares for future sales, on the market price of our common stock. Sales of substantial amounts of common stock, including shares of common stock issuable upon the conversion of units of our Operating Partnership that we may issue from time to time, and the sale of up to 2,750,000 shares of common stock held by our current stockholder, or the perception that these sales could occur, may adversely affect prevailing market prices for our common stock.

*An increase in market interest rates may have an adverse effect on the market price of our common stock.*

One of the factors that investors may consider in deciding whether to buy or sell our common stock is our distribution yield, which is our distribution rate as a percentage of our share price, relative to market interest rates. If market interest rates increase, prospective investors may desire a higher distribution yield on our common stock or may seek securities paying higher dividends or interest. The market price of our common stock likely will be based primarily on the earnings that we derive from rental income with respect to our properties and our related distributions to stockholders, and not from the underlying appraised value of the properties themselves. As a result, interest rate fluctuations and capital market conditions are likely to affect the market price of our common stock, and such effects could be significant. For instance, if interest rates rise without an increase in our distribution rate, the market price of our common stock could decrease because potential investors may require a higher distribution yield on our common stock as market rates on interest-bearing securities, such as bonds, rise.



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## **Table of Contents**

***The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain executive management and qualified board members.***

As a public company, we will be subject to the reporting requirements of the Securities Exchange Act of 1934, or the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Act, the listing requirements of The NASDAQ Stock Market and other applicable securities rules and regulations. Compliance with these rules and regulations will increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and increase demand on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could adversely affect our business and operating results. Although we have already hired additional employees to comply with these requirements, we may need to hire more employees in the future or engage outside consultants, which will increase our costs and expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business may be adversely affected.

As a result of disclosure of information in this prospectus and in filings required of a public company, our business and financial condition will become more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and operating results could be adversely affected, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business and operating results.

***As a result of becoming a public company, we will be obligated to develop and maintain proper and effective internal control over financial reporting. We may not complete our analysis of our internal control over financial reporting in a timely manner, or these internal controls may not be determined to be effective, which may adversely affect investor confidence in our company and, as a result, the value of our common stock.***

We will be required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting for the first fiscal year beginning after the effective date of this offering. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. We will also be required to disclose changes made in our internal control and procedures on a quarterly basis in our filings with the SEC.

We are in the very early stages of the costly and challenging process of compiling the system and processing documentation necessary to perform the evaluation needed to comply with Section 404. We may not be able to

## Table of Contents

complete our evaluation, testing and any required remediation in a timely fashion. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective.

If we are unable to assert that our internal control over financial reporting is effective, we could lose investor confidence in the accuracy and completeness of our financial reports, which would cause the price of our common stock to decline, and we may be subject to investigation or sanctions by the SEC.

Our independent registered public accounting firm will be required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 for the later of the year ending December 31, 2013 or the year during which we no longer qualify as an emerging growth company under the recently enacted Jumpstart Our Business Startups Act of 2012, or the JOBS Act, if we take advantage of the exemptions contained in the JOBS Act. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. Our remediation efforts may not enable us to avoid a material weakness in the future. To comply with the requirements of being a public company, we may also need to undertake various costly and time-consuming actions, such as implementing new internal controls and procedures and hiring accounting or internal audit staff.

***We are an emerging growth company and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors. We have elected to delay adoption of new or revised accounting standards after we become public, and consequently our financial statements may not be comparable to those of other public companies.***

We are an emerging growth company, as defined in the JOBS Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We will remain an emerging growth company through the year ending December 31, 2017, unless the market value of our common stock that is held by non-affiliates exceeds \$700 million as of any June 30 before that time. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards, meaning that the company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have chosen to take advantage of this extended transition period and, as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for private companies for as long as we maintain our emerging company status and do not revoke this election. Accordingly, the accounting standards that we apply while we remain an emerging growth company may differ materially from the accounting standards applied by other similar public companies, including emerging growth companies that have elected to opt out of this extended transition period. This election could have a material impact on our financial statements and the comparability of our financial statements to the financial statements of similar public companies. This potential lack of comparability could make it more difficult for investors to value our securities, which could have a material impact on the price of our common stock.

**Table of Contents**

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

We make forward-looking statements in this prospectus that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, future events, financial condition or performance, expectations, competitive environment, availability of resources, regulation, liquidity, results of operations, strategies, plans and objectives. These forward-looking statements include, without limitation, statements concerning projections, predictions, expectations, estimates, or forecasts as to our business, financial and operational results, and future economic performance, as well as statements of management's goals and objectives and other similar expressions concerning matters that are not historical facts. When we use the words may, should, could, would, predicts, potential, continue, expects, anticipates, future, intends, plans, believes, estimates or similar expressions or their negatives, as well as statements in the future tense, we intend to identify forward-looking statements. You should not place undue reliance on these forward-looking statements. Statements regarding the following subjects are forward-looking by their nature:

our business strategy;

our projected operating results;

our ability to obtain future financing arrangements;

our understanding of our competition;

market trends;

our compliance with tax laws; and

use of the net proceeds of this offering.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information available to us at the time those statements are made or management's good faith belief as of that time with respect to future events. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider these risks before you make an investment decision with respect to our common stock, along with the following factors that could cause actual results to vary from our forward-looking statements:

the factors referenced in this prospectus, including those set forth under the section captioned "Risk Factors";

general volatility of the capital markets and the market price of our common stock;

changes in our business strategy;

availability, terms and deployment of capital;

availability of qualified personnel;

changes in our industry, interest rates or the general economy; and

the degree and nature of our competition.

Forward-looking statements speak only as of the date the statements are made. You should not put undue reliance on any forward-looking statements. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions, or changes in other factors affecting forward-looking information, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

**Table of Contents****USE OF PROCEEDS**

We estimate that the net proceeds to us from this offering will be approximately \$       million, assuming an initial public offering price of \$       per share (\$       million if the underwriters exercise their over-allotment option in full), after deducting the underwriting discount and estimated offering expenses payable by us. We expect to use the net proceeds of this offering to buy farms and farm-related properties, such as coolers, processing plants, packing buildings and distribution centers, for lease to tenants and, to a lesser extent, make loans secured by agricultural real estate and to make payments to our Adviser and our Administrator pursuant to our agreements with them. As of the date of this prospectus, we do not have commitments to purchase any properties. We will invest the net proceeds in accordance with our investment objectives and policies. See [Our Investment Process](#) for additional information regarding our investment objectives and policies.

We estimate that it will take approximately 12 months for us to substantially invest the net proceeds of this offering, depending on the availability of appropriate opportunities and market conditions. Pending such investment, we will primarily invest the net proceeds in securities that are not REIT-qualified investments, as well as REIT-qualified investments such as money market instruments, short-term repurchase agreements or other cash equivalents. The non-REIT-qualified investments are expected to provide a current return that will be greater than the REIT-qualified investments. We may also temporarily invest in securities that qualify as [real estate assets](#) under the REIT provisions of the Code, such as mortgage-backed securities. There can be no assurance that we will be able to achieve our targeted investment pace. See [Our Investment Process Temporary Investments](#) for additional information about temporary investments we may make while evaluating potential real estate investments.

A tabular presentation of our estimated use of the proceeds to us from this offering, assuming no exercise of the underwriters' over-allotment option, is set forth below:

	Amount	Percentage
Gross offering proceeds	\$	100.00%
Less offering expenses:		
Underwriting discounts		
SEC registration fee	6,590	
FINRA filing fees	9,125	
NASDAQ initial listing fee	125,000	
Printing and engraving expenses <sup>(1)</sup>	150,000	
Legal fees and expenses <sup>(1)</sup>	700,000	
Accounting fees and expenses <sup>(1)</sup>	150,000	
Transfer agent and registrar fees <sup>(1)</sup>	25,000	
Miscellaneous offering expenses <sup>(1)</sup>	84,285	
Estimated net proceeds to us to be used to acquire properties and for general corporate and working capital purposes <sup>(2)</sup>	\$	%

<sup>(1)</sup> Estimated.

<sup>(2)</sup> We do not intend to make any payments to our Adviser or any of its affiliates from the proceeds of the offering. While we will make payments to our Adviser and Administrator pursuant to the terms of our agreements with these entities, such payments will come from rental revenues, rather than offering proceeds. We will not pay acquisition fees to our Adviser when we acquire real estate, and we will not pay fees to our Adviser when we lease properties to tenants or when we sell real estate.

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**Table of Contents**

**DISTRIBUTION POLICY**

We intend to cause our operating partnership to make regular monthly distributions to holders of operating partnership units, which will initially be only us, and we intend to use our share of cash distributions received from our operating partnership to make regular monthly distributions to the holders of our common stock. We have not yet determined an initial distribution rate.

We have not yet determined whether we will elect to be treated as a REIT for tax purposes beginning with our taxable year ending December 31, 2013 or our taxable year ending December 31, 2014. Prior to the end of the taxable year for which we first elect to be taxed as a REIT, we will be required to distribute any remaining undistributed non-REIT earnings and profits accumulated in prior years. We will seek to set distributions at a level that will allow us to distribute these accumulated non-REIT earnings and profits prior to December 31 of the year for which we initially elect REIT status. However, in addition to our current accumulated non-REIT earnings and profits, we expect to recognize an additional \$2.1 million of federal taxes related to \$4.0 million of non-REIT earnings and profits associated with a deferred intercompany gain resulting from land transfers, described elsewhere in this prospectus, immediately prior to our REIT election. We also expect to have additional non-REIT earnings and profits from our operations during the remainder of 2012 and, unless we elect to be treated as a REIT in 2013, during 2013, which earnings and profits must also be distributed prior to the completion of the first taxable year for which we elect REIT status. As a result, it is possible that our monthly distributions will not be sufficient to eliminate our non-REIT earnings and profits by December 31, 2013, in which case we would likely not elect to be taxed as a REIT until our taxable year ending December 31, 2014. In the event that our monthly distributions are insufficient to result in the distribution of our accumulated earnings and profits prior to the end of 2014, we would make a special distribution of such undistributed non-REIT earnings and profits prior to the end of that year.

Upon electing REIT status, distributions to our stockholders will generally be subject to taxation as ordinary income, although we may designate a portion of such distributions as capital gain and a portion may constitute a tax-free return of capital. We anticipate that, at least initially, our distributions will not exceed our then current and accumulated earnings and profits. However, it is possible that, in the future, our distributions may exceed our then current and accumulated earnings and profits, which would result in a portion of our future distributions constituting a return of capital for federal income tax purposes. Since most of the land we expect to own will be farmland, we do not anticipate that there will be any significant depreciation in the calculation of our taxable income and, therefore, we believe that our taxable income is likely to approximate our funds from operations, or FFO. As a result, we do not believe that it is likely that a material amount of our distributions to stockholders will constitute a return of capital. However, the percentage of our stockholder distributions that exceeds our current and accumulated earnings and profits, if any, may vary substantially from year to year. We will furnish to our stockholders annually a statement setting forth distributions paid during the preceding year and their characterization as ordinary income, capital gains or return of capital. For a discussion of the tax treatment of distributions to holders of our common stock, see *Federal Income Tax Consequences of Our Status as a REIT*.

Distributions made by us will be authorized by our Board of Directors out of funds legally available and, therefore, will be dependent upon a number of factors, including restrictions under applicable law. The actual amount, timing and frequency of our distributions will be at the discretion of, and authorized by, our Board of Directors and will depend on our actual results of operations and a number of other factors, including:

the timing of our investment of the net proceeds of this offering;

the rent received from our lessees;

our debt service requirements;

capital expenditure requirements for our properties;

unforeseen expenditures at our properties;

**Table of Contents**

our ability to renew existing leases and new properties at anticipated rates;

our taxable income and the taxable income, if any, of our TRS;

the annual distribution requirement under the REIT provisions of the Code for taxable years for which we elect to be taxed as a REIT;

our operating expenses;

the percentage of all operating partnership units outstanding that we hold;

relevant provisions of Maryland General Corporation Law, or MGCL; and

other factors that our Board of Directors may deem relevant.

We may retain earnings, if any, of our TRS, and such amount of cash would not be available to satisfy the 90% distribution requirement. If our cash available for distribution to our stockholders is less than 90% of our REIT taxable income, we could be required to sell assets or borrow funds to make distributions. Dividend distributions to our stockholders will generally be taxable to our stockholders as ordinary income to the extent of our current or accumulated earnings and profits.

We have adopted a dividend reinvestment plan that allows holders of our common stock to have their distributions reinvested automatically in additional shares of our common stock. For more information, see [Dividend Reinvestment Plan](#).

**Dividends**

We have not historically declared regular dividends on our common stock, although from time to time we have declared and paid dividends to our stockholder. Set forth below, by quarter, are the dividends per share for the years ended December 31, 2010 and 2011 and the six months ended June 30, 2012:

Quarter Ended	Dividends Per Share
March 31, 2010	\$ 0.00
June 30, 2010	\$ 0.00
September 30, 2010	\$ 0.00
December 31, 2010	\$ 0.00
March 31, 2011	\$ 0.00
June 30, 2011	\$ 0.37
September 30, 2011	\$ 0.00
December 31, 2011	\$ 0.00
March 31, 2012	\$ 0.00
June 30, 2012	\$ 0.00

**Table of Contents****CAPITALIZATION**

The following table sets forth our cash and cash equivalents and our capitalization as of June 30, 2012 on:

an actual basis; and

on an adjusted basis to give effect to the sale by us of shares of common stock in this offering at an assumed initial public offering price of \$ per share, and our receipt of the estimated net proceeds from that sale after deducting the estimated underwriting discounts and estimated offering expenses payable by us, assuming no exercise of the underwriters' over-allotment option.

This table should be read in conjunction with Use of Proceeds, Selected Consolidated Financial Data, Description of Our Capital Stock, Management's Discussion and Analysis of Financial Condition and Results of Operations, our consolidated financial statements and the notes thereto included elsewhere in this prospectus.

	<b>As of June 30, 2012</b>	
	<b>Actual</b>	<b>As Adjusted</b>
Cash and cash equivalents	\$ 1,490,542	\$
Mortgage notes payable	\$ 23,210,880	\$
Borrowings under line of credit	100,000	
Stockholder's Equity:		
Common stock, \$0.001 par value per share, 20,000,000 shares authorized, and 2,750,000 shares issued and outstanding, actual; 20,000,000 shares authorized, and X,XXX,XXX shares issued and outstanding, as adjusted	2,750	
Additional paid-in capital		
Retained earnings	7,966,351	
Total stockholder's equity	7,969,101	
Total capitalization	\$ 31,279,981	\$



**Table of Contents****DILUTION**

Dilution is the amount by which the offering price paid by the purchasers of the shares of common stock sold in the offering exceeds the net tangible book value per share of common stock after the offering. Net tangible book value per share is determined at any date by subtracting our total liabilities from the total book value of our tangible assets and dividing the difference by the number of shares of common stock deemed to be outstanding at that date.

Our net tangible book value as of June 30, 2012 was \$7.3 million, or \$2.67 per share. After giving effect to the receipt of approximately \$ million of estimated net proceeds from our sale of shares of common stock in this offering at an assumed offering price of \$ per share, our net tangible book value as of June 30, 2012 would have been \$ million, or \$ per share. This represents an immediate increase in net tangible book value of \$ per share to our existing stockholder and an immediate dilution of \$ per share to new investors purchasing shares of common stock in the offering. The following table illustrates this substantial and immediate per share dilution to new investors.

Assumed initial public offering price per share	\$
Net tangible book value per share at June 30, 2012	\$ 2.67
Pro forma increase per share attributable to new investors	
Pro forma net tangible book value per share after giving effect to this offering	
Dilution in net tangible book value per share to new investors	\$

A \$1.00 increase (decrease) in the assumed initial public offering price of \$ per share would increase (decrease) our pro forma net tangible book value by \$ million, the pro forma net tangible book value per share by \$ per share and the dilution per share to new investors in this offering by \$ , assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated expenses payable by us.

If the underwriters exercise their option to purchase additional shares in full, the pro forma net tangible book value per share after the offering would be \$ per share, the increase in the pro forma net tangible book value per share to the existing stockholder would be \$ per share and the dilution to new investors purchasing common stock in this offering would be \$ per share.

The following table summarizes, as of June 30, 2012:

the total number of shares of common stock purchased from us by our existing stockholder and by new investors purchasing shares in this offering;

the total consideration paid to us by our existing stockholder and by new investors purchasing shares in this offering, assuming an initial public offering of \$ per share, before deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us in connection with this offering; and

the average price per share paid by our existing stockholder and by new investors purchasing shares in this offering.

	Shares Purchased		Total Consideration		Average Price per Share
	Number	Percent	Amount	Percent	
Existing stockholder	2,750,000	%	\$ 100	0%	\$ 0.00
New investors				100	\$

Total	100%	\$	100%
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**Table of Contents**

A \$1.00 increase (decrease) in the assumed initial public offering price of \$      per share would increase (decrease) total consideration paid by new investors by \$      million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and without deducting the estimated underwriting discounts and commissions and estimated expenses payable by us.

**Table of Contents**

**SELECTED FINANCIAL DATA**

You should read the following selected consolidated financial data together with Management's Discussion and Analysis of Financial Condition and Results of Operations, our consolidated financial statements and the related notes included in this prospectus. The selected financial data in this section is not intended to replace our financial statements and the accompanying notes.

The selected consolidated financial data as of and for the years ended December 31, 2011 and 2010 are derived from our audited consolidated financial statements included in this prospectus. We have derived the selected statement of operations data for the six months ended June 30, 2012 and 2011 and the selected balance sheet data as of June 30, 2012 from our unaudited financial statements that are included in this prospectus.

The unaudited financial data include, in the opinion of our management, all adjustments, consisting only of normal recurring adjustments that are necessary for a fair presentation of our financial position and results of operations for these periods. Our historical results of operations are not necessarily indicative of results of operations that should be expected in any future periods and our results for any interim period are not necessarily indicative of the results that may be expected for a full fiscal year.

**Table of Contents**

	As of and For the Six Months Ended June 30,		As of and For the Years Ended December 31,	
	2012 (Unaudited)	2011 (Unaudited)	2011	2010
<b>Operating Data:</b>				
Total operating revenue	\$ 1,635,998	\$ 1,429,929	\$ 2,967,623	\$ 2,418,111
Total operating expenses	(573,751)	(565,743)	(1,709,545)	(853,530)
Other expense	(468,156)	(841,083)	(1,057,098)	(687,454)
Net income before income taxes	594,091	23,103	200,980	877,127
Provision for income taxes	(264,042)	(10,581)	(92,061)	(316,604)
Net income	\$ 330,049	\$ 12,522	\$ 108,919	\$ 560,523
<b>Share and Per Share Data:</b>				
Earnings per weighted average common share:				
Basic and diluted	\$ 0.12	\$ 0.00	\$ 0.04	\$ 0.20
Weighted average shares of common stock outstanding:				
Basic and diluted	2,750,000	2,750,000	2,750,000	2,750,000
<b>Supplemental Data:</b>				
Net income	\$ 330,049	\$ 12,522	\$ 108,919	\$ 560,523
Real estate depreciation and amortization	187,171	249,237	506,043	317,244
Funds from operations <sup>(1)</sup>	517,220	261,759	614,962	877,767
<b>Balance Sheet Data:</b>				
Real estate, gross	\$ 32,669,745		\$ 32,669,745	\$ 19,551,350
Total assets	32,540,456		33,041,417	29,034,484
Mortgage notes payable and borrowings underline of credit	23,310,880		24,133,000	19,755,621
Total stockholders equity	7,969,101		7,639,052	8,547,633

(1) Funds From Operations, or FFO, is a term approved by the National Association of Real Estate Investment Trusts, or NAREIT. FFO was developed by the NAREIT as a relative non-GAAP supplemental measure of operating performance of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. FFO, as defined by NAREIT, is net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales of property and impairment losses on property, plus depreciation and amortization of real estate assets, and after adjustments for unconsolidated partnerships and joint ventures. FFO does not represent cash flows from operating activities in accordance with GAAP and should not be considered an alternative to either net income as an indication of our performance or cash flow from operations as a measure of liquidity or ability to make distributions. Comparison of FFO to similarly titled measures for other REITs may not necessarily be meaningful due to possible differences in the application of the NAREIT definition used by such REITs.

Basic funds from operations per share, or Basic FFO per share, and diluted funds from operations per share, or Diluted FFO per share, are equal to FFO divided by our weighted average common shares outstanding and FFO divided by weighted average common shares outstanding on a diluted basis, respectively, during a period. We believe that FFO, Basic FFO per share and Diluted FFO per share are useful to investors because they provide investors with a further context for evaluating our FFO results in the same manner that

**Table of Contents**

investors use net income and earnings per share, or EPS, in evaluating operating results. In addition, since most REITs provide FFO, Basic FFO and Diluted FFO per share information to the investment community, we believe these are useful supplemental measures for comparing us to other REITs. We believe that net income is the most directly comparable GAAP measure to FFO, basic EPS is the most directly comparable GAAP measure to Basic FFO per share, and diluted EPS is the most directly comparable GAAP measure to Diluted FFO per share.

The following table provides a reconciliation of our FFO to the most directly comparable GAAP measure, net income, and a computation of Basic FFO and Diluted FFO per weighted average common share and basic and diluted net income per weighted average common share:

	For the Six Months Ended June 30,		For the years ended December 31,	
	2012 (Unaudited)	2011 (Unaudited)	2011	2010
Net income	\$ 330,049	\$ 12,522	\$ 108,919	\$ 560,523
Add: Real estate depreciation and amortization	187,171	249,237	506,043	317,244
FFO available to common stockholders	517,220	261,759	614,962	877,767
Weighted average shares outstanding basic & diluted	2,750,000	2,750,000	2,750,000	2,750,000
Basic & Diluted net income per weighted average common share	\$ 0.12	\$ 0.00	\$ 0.04	\$ 0.20
Basic & Diluted FFO per weighted average common share	0.19	0.10	0.22	0.32

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**Table of Contents**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward looking statements as a result of certain factors, including those set forth under the heading Risk Factors and elsewhere in this prospectus. The following discussions should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this prospectus.*

**Overview**

We are an externally-managed corporation that currently owns twelve farms, leased to six separate tenants, in California and Florida that we lease to corporate and independent farmers. We intend to acquire more farmland that is leased to farmers. We expect that most of our future tenants will be medium-sized independent farming operations or large corporate farming operations that are unrelated to us. We may also acquire property related to farming, such as storage facilities utilized for cooling crops, known as coolers, as well as processing plants, packing buildings and distribution centers. As part of our existing farming properties, we currently own two cooler buildings and a facility utilized for storage and packing, known as a box barn. We intend to lease our properties under triple-net leases, an arrangement under which the tenant maintains the property while paying us rent plus taxes, maintenance and insurance. We may also elect to sell farmland at such times as the land could be developed by others for urban or suburban uses.

We were incorporated in 1997 primarily for the purpose of operating strawberry farms through our subsidiary Coastal Berry Company, LLC, or Coastal Berry, a company that provided growing, packaging, marketing and distribution of fresh berries and other agricultural products. We operated Coastal Berry as our primary business until 2004 when it was sold to Dole Food Company, or Dole.

Since 2004, our operations have consisted solely of leasing our farms, of which five are located in or near Watsonville, California, one is near Oxnard, California, five are near Plant City, Florida and one is near Wimauma, Florida. We also lease a small parcel on our Oxnard farm to an oil company. We do not currently intend to enter the business of growing, packing or marketing farmed products. However, if we do so in the future we expect that it would be through a taxable REIT subsidiary.

During 2011 and 2012, we acquired the following ten properties:

*West Beach Farms:* On January 3, 2011, we acquired three farms on 198 acres of row crop farmland near Watsonville, California, for an aggregate purchase price of approximately \$8.5 million. We funded this acquisition through a combination of borrowings from our existing line of credit and the issuance of \$5.5 million in mortgage debt. At closing, we were assigned the existing triple-net lease, which was extended through October 31, 2013 and provides for annualized, GAAP straight-line rents of \$423,602.

*Dalton Lane Farm:* On July 5, 2011, we acquired one farm on 72 acres of row crop farmland near Watsonville, California, for a purchase price of approximately \$2.8 million. We funded this acquisition with a \$2.8 million mortgage loan from MetLife. At closing, we were assigned the existing triple-net lease, which originally expired in October 2012, but has been extended through November 1, 2015. The rent was increased on the extended period by approximately 14%. The current lease provides for prescribed rent escalations over the life of the lease, with annualized, GAAP straight-line rents of \$144,076.

*Keysville Road Farms:* On October 26, 2011, we acquired two farms on 59 acres of row crop farmland near Plant City, Florida, for an aggregate purchase price of approximately \$1.2 million. We funded this

## Table of Contents

acquisition through borrowings from our existing line of credit. At closing, we executed a new triple-net lease, which expires on July 1, 2016. The tenant has one option to extend the lease for an additional five years. The lease provides for prescribed rent escalations over the life of the lease, with annualized, GAAP straight-line rents of \$89,581.

*Colding Loop Farm:* On August 9, 2012 we acquired one farm comprised of 219 acres of row crop farmland near Wimauma, Florida, for a purchase price of approximately \$3.4 million. We funded this acquisition with cash on hand and borrowings of \$3.0 million from our existing credit facility. In September 2012, we repaid \$2.7 million of our borrowings under the credit facility with a mortgage loan from MetLife in the aggregate amount of \$7.5 million, which was also used to finance the acquisition of Trapnell Road Farms, as described below. At closing, we were assigned the existing triple-net lease, which expires on June 14, 2013. Under the current lease, GAAP rental income for the remaining 10 months of the lease is \$141,000, which translates into \$166,000 on an annual basis.

*Trapnell Road Farms:* On September 12, 2012, we acquired three farms comprised of 124 acres of row crop farmland near Plant City, Florida, for an aggregate purchase price of approximately \$4.0 million. We funded this acquisition with a \$7.5 million mortgage loan from MetLife, which was also used to repay our borrowings under our existing credit facility for the acquisition of Colding Loop Farm described above. At closing, we were assigned the existing triple-net lease, which expires on June 30, 2017. The tenant has one option to extend the lease for one additional five-year term. The lease provides for prescribed rent escalations over the life of the lease, with annualized, GAAP straight-line rents of \$241,145.

We intend to use the net proceeds from this offering primarily to purchase more farmland. We intend to lease our farm properties to corporate farmers or independent farmers that sell through national corporate marketers-distributors. We currently have no plans to make mortgage loans on farms, but we may use a small portion of the net proceeds of this offering to make mortgage loans on farms and farm-related properties. We expect to earn rental and interest income from our investments.

We will conduct substantially all of our investment activities through, and all of our properties will be held directly or indirectly by, our Operating Partnership. We will control our Operating Partnership as its sole general partner and we will also initially own all limited partnership units, or Units, of our Operating Partnership. We expect our Operating Partnership to issue Units from time to time, following the completion of this offering, in exchange for agricultural real property. By structuring our acquisitions in this manner, the sellers of the real estate will generally be able to defer the realization of gains until they redeem the Units or sell the Units for cash. Farmers who hold Units in our Operating Partnership will be entitled to redeem these units for cash or, at our election, shares of our common stock on a one-for-one basis at any time after holding the Units for one year.

Whenever we issue common stock for cash, we will be obligated to contribute any net proceeds we receive from the sale of the stock to our Operating Partnership and our Operating Partnership will, in turn, be obligated to issue an equivalent number of Units to us. Our Operating Partnership will distribute the income it generates from its operations to us and its limited partners on a pro rata basis. At present we do not have any limited partners of our Operating Partnership. We will, in turn, distribute the amounts we receive from our Operating Partnership to our stockholders in the form of monthly cash distributions. We intend to qualify as a REIT for federal tax purposes beginning with our taxable year ending December 31, 2013 or December 31, 2014, whereby we would not be required to pay federal and state income taxes on the distributions we make to our stockholders other than any distribution made to eliminate our earnings and profits for periods prior to our REIT election. Any taxable REIT subsidiary through which we may operate will be required to pay federal and state income taxes on its taxable income. We will also be subject to regular corporate income tax on our taxable income for the year ending December 31, 2012 and potentially for the year ending December 31, 2013.



## **Table of Contents**

### **Leases**

We anticipate that most of our agricultural leases will have initial terms of two to five years and will be payable annually at a fixed rate, with one-half due at the beginning of the year and the other half due later in the year. Leases will be on a triple-net basis, which means that they will require the tenant to pay taxes, insurance, water costs, maintenance and other operating costs. Some leases may have longer terms, such as for five or ten years, but would contain provisions, often referred to as escalation clauses, that provide for annual increases in the amounts payable by the tenants. The escalation clause may be a fixed amount each year or be variable based on standard cost of living figures. In addition, some long-term leases may require a regular survey of comparable land rents, with an adjustment to reflect the current rents. We do not expect to enter into leases that include variable rent based on the success of the harvest each year.

We monitor our tenants' credit quality on an ongoing basis by, among other things, conducting site visits of the properties to ensure farming operations are taking place and to assess the general maintenance of the properties. To date, no changes to credit quality of our tenants have been identified and all tenants continue to pay as agreed.

### **Lease Expirations**

Farm leases are generally short term in nature, so in any given year we expect to have multiple leases up for renewal or extension. We have three leases expiring in 2013 on our West Beach, West Gonzales, and Colding Loop farms. These leases collectively account for 75% of our 2012 annualized GAAP straight-line rent. The current rental rate on the Colding Loop Farm was negotiated in 2012. The current rental rate on the West Beach Farms was negotiated in 2012, and the current rental rate on West Gonzales Farm was negotiated in 2011. Because the rental rates on all three of these leases have been recently negotiated, we anticipate being able to renew each of these leases prior to their expiration in 2013 at the same, if not better, rental rates. In addition, we believe that average rental rates for other farms in the regions where our current properties are located have not declined since we entered into our leases for those properties.

### **Mortgages**

We may use up to 5.0% of the net proceeds of this offering to make loans to farmers for the purchase of farmland and other properties related to farming. These loans would be secured by mortgages on the property. In the event that we make any such loans, we expect that the typical mortgage would carry a fixed interest rate, over a term of three to five years, and will require interest-only payments and no amortization of the principal until maturity. The mortgage will be set up to have the senior claim on the property but will not require the owner to guarantee the mortgage personally. If we make mortgage loans, we intend to provide borrowers with a conditional put option giving them the right to sell the property to us at a predetermined fair market value, and we also may have a call option to buy the property from the borrower.

### **Advisory and Administration Agreements**

Since 2004, we have been externally managed pursuant to a contractual investment advisory arrangement with our Adviser, which we refer to in this prospectus as the Advisory Agreement, under which our Adviser has directly employed all of our personnel and paid its payroll, benefits, and general expenses directly. Prior to January 1, 2010, the Advisory Agreement also covered the administrative services we received from our Administrator, which until January 1, 2010, was a wholly owned subsidiary of our Adviser. Since January 1, 2010, we have received administrative services pursuant to a separate administration agreement with our Administrator, which we refer to in this prospectus as our Administration Agreement. Upon completion of this offering, we will enter into amended and restated versions of the Advisory Agreement with our Adviser and the Administration Agreement with our Administrator.

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**Table of Contents**

***Current Advisory Agreement and Administration Agreement***

Under our existing Advisory Agreement, we are required to reimburse our Adviser for our pro rata share of our Adviser's payroll and benefits expenses on an employee-by-employee basis, based on the percentage of each employee's time devoted to our matters. Until January 1, 2010, this obligation also extended to administrative services provided to us by our Administrator, which until January 1, 2010 was a wholly owned subsidiary of our Adviser. During the six months ended June 30, 2012 and the years ended December 31, 2011 and 2010, these expenses were \$64,818, \$198,053 and \$118,649, respectively.

Under our existing Advisory Agreement, we are also required to reimburse our Adviser for our pro rata portion of all other expenses of our Adviser not reimbursed under the arrangements described above, which we refer to as overhead expenses, equal to the total overhead expenses of our Adviser multiplied by the ratio of hours worked by our Adviser's (and until January 1, 2010, our Administrator's) employees on our projects to the total hours worked by our Adviser's (and until January 1, 2010, our Administrator's) employees. However, we are only required to reimburse our Adviser for our portion of its overhead expenses if the amount of payroll and benefits we reimburse to our Adviser is less than 2.0% of our average invested assets for the year. Additionally, we are only required to reimburse our Adviser for overhead expenses up to the point that reimbursed overhead expenses and payroll and benefits expenses, on a combined basis, equal 2.0% of our average invested assets for the year. Our Adviser bills us on a monthly basis for these amounts. Our Adviser is required to reimburse us annually for the amount by which amounts billed to and paid by us exceed this 2.0% limit during a given year. To date, these amounts have never exceeded the 2.0% limit, and therefore we have never received any such reimbursement. During the six months ended June 30, 2012 and the years ended December 31, 2011 and 2010, we reimbursed to our Adviser \$23,357, \$43,013 and \$24,666, respectively, of overhead expenses.

Under the terms of the existing Advisory Agreement, we are also responsible for all other expenses incurred for our direct benefit. Examples of these expenses include legal, accounting, interest on short-term debt and mortgages, tax preparation, directors and officers insurance, stock transfer services, shareholder-related fees, consulting and related fees. In the event any of these expenses are incurred on our behalf by our Adviser, we are required to reimburse our Adviser on a dollar-for-dollar basis for all such amounts. During the six months ended June 30, 2012 and the years ended December 31, 2011 and 2010 all of these charges have been incurred directly by us rather than by our Adviser for our benefit. Accordingly, we did not make any reimbursements to our Adviser for these amounts, and we presently do not expect that our Adviser will incur any such amounts on our behalf in the future.

In addition, we are also responsible for all fees charged by third parties that are directly related to our business, which may include real estate brokerage fees, mortgage placement fees, lease-up fees and transaction structuring fees, although we may be able to pass some or all of these fees on to our tenants and borrowers. In the event that any of these expenses are incurred on our behalf by our Adviser, we are required to reimburse our Adviser on a dollar-for-dollar basis for all such amounts. During the six months ended June 30, 2012 and the years ended December 31, 2011 and 2010, we did not incur any such fees. Accordingly, we did not make any reimbursements to our Adviser for these amounts. The actual amount of these fees that we incur in the future will depend largely upon the aggregate costs of the properties we acquire, the aggregate amount of mortgage loans we make, and the extent to which we are able to shift the burden of such fees to our tenants and borrowers. Accordingly, the amount of these fees that we will pay in the future is not determinable at this time. We do not presently expect that our Adviser will incur any of these fees on our behalf.

Since January 1, 2010, we have been required to reimburse our Administrator for our pro rata portion of its payroll and benefits expenses on an employee-by-employee basis, based on the percentage of each employee's time devoted to our matters. During the six months ended June 30, 2012 and the years ended December 31, 2011 and 2010, this expense was \$44,213, \$51,323 and \$57,329, respectively. We are also required to reimburse our Administrator for our pro rata portion of its overhead expenses, equal to the total overhead expenses of our Administrator, multiplied by the ratio of hours worked by our Administrator's employees on our projects to the

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**Table of Contents**

total hours worked by our Administrator's employees. During the six months ended June 30, 2012 and the years ended December 31, 2011 and 2010, this expense was \$14,833, \$17,113 and \$16,309, respectively.

The aggregate amounts paid to our Adviser, as described above, resulted in a total management advisory fee for the six months ended June 30, 2012 and the years ended December 31, 2011 and 2010 of \$88,175, \$241,066 and \$143,315, respectively. The aggregate amounts paid to our Administrator, as described above, resulted in a total administration fee for the six months ended June 30, 2012 and the years ended December 31, 2011 and 2010 of \$59,046, \$68,437 and \$73,638, respectively.

***Amended and Restated Advisory and Administration Agreements***

Under the terms of the amended and restated Advisory Agreement to be in effect upon the completion of this offering, which we refer to in this prospectus as the Amended Advisory Agreement, we will no longer reimburse our Adviser for our pro rata share of its payroll, benefits and overhead expenses. Instead, we will pay an annual base management fee during 2012 and 2013 equal to 1.0% of our total stockholders' equity, less the recorded value of any preferred stock we may issue and, for 2012 and 2013 only any uninvested cash proceeds of this offering, which we refer to as our adjusted stockholders' equity, and an additional incentive fee based on funds from operations before giving effect to any incentive fee, which we refer to as our pre-incentive fee FFO. Beginning in 2014, we expect to 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 this offering, and an additional incentive fee based on our pre-incentive fee FFO. If the Amended Advisory Agreement had been in place during the six months ended June 30, 2012 and the year ended December 31, 2011, we estimate that our base management fee for those periods would have been \$40,000 and \$76,000, respectively.

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. 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. If the Amended Advisory Agreement had been in place during the six months ended June 30, 2012 and the year ended December 31, 2011, we estimate that we would have incurred incentive fees for those periods of \$117,000 and \$156,000, respectively.

As with the existing Advisory Agreement, under the terms of the Amended Advisory Agreement, we will continue to be responsible for all other expenses incurred for our direct benefit and all fees charged by third parties that are directly related to our business. Although we expect to incur these expenses directly, in the event that any of these expenses are incurred on our behalf by our Adviser, we will be required to reimburse our Adviser on a dollar-for-dollar basis for all such amounts.

Under the terms of the amended and restated Administration Agreement to be in effect upon the completion of this offering, which we refer to in this prospectus as the Amended Administration Agreement, we will 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, investor relations officer and their respective staffs. Unlike our existing Administration Agreement, which provides that our allocable portion of these expenses is based on the percentage of their time that our Administrator's personnel devote to our affairs, under the Amended Administration Agreement, our allocable portion of these expenses will be 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. If the Amended

## **Table of Contents**

Administration Agreement had been in place during the six months ended June 30, 2012 and the year ended December 31, 2011, we estimate that our administration fee for those periods would have been \$39,000 and \$69,000, respectively.

### **Critical Accounting Policies**

The preparation of our financial statements in accordance with generally accepted accounting principles in the United States of America, or GAAP, requires management to make judgments that are subjective in nature in order to make certain estimates and assumptions. Management relies on its experience, collects historical data and current market data, and analyzes this information in order to arrive at what it believes to be reasonable estimates. Under different conditions or assumptions, materially different amounts could be reported related to the accounting policies described below. In addition, application of these accounting policies involves the exercise of judgment on the use of assumptions as to future uncertainties and, as a result, actual results could materially differ from these estimates. A summary of all of our significant accounting policies is provided in Note 1 to our consolidated financial statements included elsewhere in this prospectus. Below is a summary of accounting policies involving estimates and assumptions that require complex, subjective or significant judgments in their application and that materially affect our results of operations.

### ***Emerging Growth Company***

We are an emerging growth company, as defined in the JOBS Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies. In particular, Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards, meaning that the company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of this extended transition period and, as a result, we will comply with new or revised accounting standards on the dates on which adoption of such standards is required for private companies for as long as we maintain our emerging company status and do not revoke this election. Accordingly, the accounting standards that we apply while we remain an emerging growth company may differ materially from the accounting standards applied by other similar public companies, including emerging growth companies that have elected to opt out of this extended transition period. This election could have a material impact on our financial statements and the comparability of our financial statements to the financial statements of similar public companies.

### ***Asset Impairment Evaluation***

We will periodically review the carrying value of each property to determine if circumstances that indicate impairment in the carrying value of an investment exist or that depreciation periods should be modified. In determining if impairment exists, management will consider such factors as our tenants' payment history, the financial condition of our tenants, including calculating the current leverage ratios of tenants, the likelihood of lease renewal, business conditions in the industry in which our tenants operate and whether the carrying value of our real estate has decreased. If any of the factors above support the possibility of impairment, we will prepare a projection of the undiscounted future cash flows, without interest charges, of the specific property and determine if the investment in such property is recoverable. In preparing the projection of undiscounted future cash flows, we will estimate the hold periods of the properties and cap rates using information we obtain from market comparability studies and other comparable sources. If impairment is indicated, the carrying value of the property will be written down to its estimated fair value. Any material changes to the estimates and assumptions used in this analysis could have a significant impact on our results of operations, as the changes would impact our determination of whether impairment is deemed to have occurred and the amount of impairment loss we would recognize.

## **Table of Contents**

### ***Investments in Real Estate***

We will record investments in real estate at cost and we will capitalize improvements and replacements when they extend the useful life or improve the efficiency of the asset. In a triple-net lease, the tenant generally provides repairs and maintenance. However, to the extent that we undertake repairs or maintenance, we will expense these costs of repairs and maintenance as incurred. We will compute depreciation using the straight-line method over 39 years or the estimated useful life, whichever is shorter, for buildings and improvements and 5 to 10 years for equipment. The estimated useful life of our buildings and improvements is 20 years. Real estate depreciation expense on these assets was \$332,041 and \$317,244 for the years ended December 31, 2011 and 2010, respectively.

We will be required to make subjective assessments as to the useful lives of our properties for purposes of determining the amount of depreciation to record on an annual basis with respect to our investments in real estate. These assessments will have a direct impact on our net income because, if we were to shorten the expected useful lives of our investments in real estate, we would depreciate these investments over fewer years, resulting in more depreciation expense and lower net income on an annual basis.

### ***Purchase Price Allocation***

Certain of our acquisitions will be considered business combinations under the applicable accounting guidance. We will record above-market and below-market in-place lease values for owned properties based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between the contractual amounts to be paid pursuant to the in-place leases and 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. We will amortize the capitalized above-market lease values as a reduction of rental income over the remaining non-cancelable terms of the respective leases. We will amortize the capitalized below-market lease values (presented in the accompanying balance sheet as value of assumed lease obligations) as an increase to rental income over the initial term and any fixed-rate renewal periods in the respective leases. Since our mortgage strategy will to a large degree involve sale-leaseback transactions with newly originated leases at market rates, we do not expect that the above-market and below-market in-place lease values will be significant for many of the transactions we will ultimately enter into. Total amortization related to below-market lease values was \$3,541 and \$0 for the years ended December 31, 2011 and 2010, respectively.

We will measure the aggregate value of other intangible assets acquired based on the difference between the property valued with existing in-place leases adjusted to market rental rates and the property valued as if vacant. Management's estimates of value are expected to be made using methods similar to those used by independent appraisers, such as discounted cash flow analysis. Factors to be considered by management in its analysis will include an estimate of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. We will 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. In estimating carrying costs, management will also include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, which we expect to primarily range from six to eighteen months, depending on specific local market conditions.

Management will also estimate 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.

The total amount of other intangible assets acquired will be further allocated to in-place lease values and customer relationship intangible values 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

## **Table of Contents**

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 expectations of lease renewals, including those existing under the terms of the lease agreement, among other factors.

We will amortize the value of in-place leases to expense over the initial term of the respective leases, which we primarily expect to range from one to two years. The value of customer relationship intangibles will be amortized to expense over the initial term and any renewal periods in the respective leases, but in no event will the amortization period for intangible assets exceed the remaining depreciable life of the asset. Should a tenant terminate its lease, the unamortized portion of the in-place lease value and customer relationship intangibles would be charged to expense. Total amortization expense related to these intangible assets was \$174,002 and \$0 for the years ended December 31, 2011 and 2010, respectively.

## ***Income Taxes***

Our financial results generally will not reflect provisions for current or deferred income taxes for taxable years beginning with the year for which we first elect to qualify as a REIT, which is currently contemplated to be our taxable year ending December 31, 2013 or December 31, 2014. Management believes that we will operate in a manner that will allow us to be taxed as a REIT and, as a result, we do not expect to pay substantial corporate-level income taxes for taxable years after our REIT election. Many of the requirements for REIT qualification, however, are highly technical and complex. If we were to fail to meet these requirements, we would be subject to federal income tax, which could have a material adverse impact on our results of operations and amounts available for distributions to our stockholders. Our taxable REIT subsidiary will pay taxes on its income, if any.

In connection with intercompany transfers of the San Andreas Farm and West Gonzales Farm in 2002 and of the San Andreas Farm again in 2004, we created taxable gains for both federal and state purposes. These taxable gains are generally based on the excess of the fair market value of the property over the tax basis of the property. These intercompany taxable gains are indefinitely deferred until a triggering event occurs, generally when the transferee or the transferor leave the consolidated group as defined by the relevant tax law or the property is sold to a third party. While there are taxable gains to the transferring entity, 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 taxable gain to the transferring entity but an offsetting deferred tax asset is created representing the basis difference created by 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 consolidated financial statements as a result of intra-entity transfers of assets.

As a result of the transfers above, the related deferred tax assets and liabilities total approximately \$2.2 million as of December 31, 2011. With respect to the federal amount of \$2.1 million, this amount will become payable when we make a REIT election and as a REIT, we will no longer be able to obtain the benefit of the related deferred tax asset. As a result, we will reverse the deferred tax asset when we have completed all significant actions necessary to qualify as a REIT and are committed to a course of action for this to occur. The REIT election does not have the same impact on the state tax amount of approximately \$100,000, and therefore these will continue to be deferred.

In connection with our acquisition of the San Andreas Farm in February 2004 from SC Land, we created a deferred intercompany stock account, or DISA, at the state income tax level that was based upon the fair market value of the property at the time of that transfer. The resulting tax liability to us was approximately \$98,000. We determined that the state income taxes of \$98,000 related to the DISA became payable in 2009, and we are paying that amount over a five-year period through 2014.

In addition, we acquired the West Gonzales Farm in May 2009 from SC Land. SC Land was formally liquidated in June 2010; however, we have concluded that SC Land was de facto liquidated in May 2009, since

**Table of Contents**

the business operations of SC Land were effectively terminated as of that date. As a result, we will not be subject to a similar tax on the transfer of the West Gonzales Farm in 2009, as resulted from the 2002 and 2004 transfers discussed in the paragraphs above.

In addition, under California state law, we and our Adviser are presumed to be unitary entities and therefore required to report our income on a combined basis, as David Gladstone is the sole stockholder of both entities. The combined reporting application resulted in refunds related to previous income tax years. The combined refunds from 2006 through 2009 were approximately \$166,000, and we have received these refunds.

**Results of Operations****Comparison of Six Months Ended June 30, 2012 and 2011**

A comparison of our operating results for the six months ended June 30, 2012 and 2011 is below:

	For the Six Months Ended June 30,		\$ Change	% Change
	2012	2011		
<b>Operating revenues:</b>				
Rental income	\$ 1,635,998	\$ 1,429,929	\$ 206,069	14.4%
<b>Total operating revenues</b>	<b>1,635,998</b>	<b>1,429,929</b>	<b>206,069</b>	<b>14.4%</b>
<b>Operating expenses:</b>				
Depreciation and amortization	187,171	249,237	(62,066)	-24.9%
Management advisory fee	88,175	79,084	9,091	11.5%
Administration fee	59,046	34,937	24,109	69.0%
Professional fees	163,325	93,600	69,725	74.5%
Due diligence expense	16,209	53,783	(37,574)	-69.9%
Property operating expenses	22,288	16,249	6,039	37.2%
General and administrative	37,537	38,853	(1,316)	-3.4%
<b>Total operating expenses</b>	<b>573,751</b>	<b>565,743</b>	<b>8,008</b>	<b>1.4%</b>
<b>Operating income</b>	<b>1,062,247</b>	<b>864,186</b>	<b>198,061</b>	<b>22.9%</b>
<b>Other income (expense)</b>				
Interest income	854	1,650	(796)	-48.2%
Other income	3,922	13,994	(10,072)	-72.0%
Interest expense	(472,932)	(382,274)	(90,658)	23.7%
Loss on early extinguishment of debt		(474,454)	474,454	-100.0%
<b>Total other expense</b>	<b>(468,156)</b>	<b>(841,084)</b>	<b>372,928</b>	<b>-44.3%</b>
<b>Net income before income taxes</b>	<b>594,091</b>	<b>23,102</b>	<b>570,989</b>	<b>2471.6%</b>
<b>Provision for income taxes</b>	<b>264,042</b>	<b>10,581</b>	<b>253,461</b>	<b>2395.4%</b>
<b>Net income</b>	<b>\$ 330,049</b>	<b>\$ 12,521</b>	<b>\$ 317,528</b>	<b>2535.9%</b>

**Operating Revenues**

Rental income increased for the six months ended June 30, 2012, as compared to the six months ended June 30, 2011. This was the result of our acquisition of six additional farm properties during 2011.

*Operating Expenses*

Depreciation and amortization expenses decreased for the six months ended June 30, 2012, as compared to the six months ended June 30, 2011, as a result of a decrease in amortization of intangible assets from our



## **Table of Contents**

property acquisitions during 2011. Intangible assets are amortized over the life of the lease, and thus there was higher amortization in 2011 because certain leases expired during 2011.

The management advisory fee increased for the six months ended June 30, 2012, as compared to the six months ended June 30, 2011, primarily as a result of the increased number of hours our Adviser's employees spent on our matters related to due diligence on potential new acquisitions and as a result of efforts expended in connection with the preparation and filing of a registration statement with the Securities and Exchange Commission, or SEC, for our proposed initial public offering. The management advisory fee consists of the reimbursement of expenses, including direct allocation of employee salaries and benefits, as well as general overhead expense, to our Adviser in accordance with the terms of the Advisory Agreement.

The administration fee increased for the six months ended June 30, 2012, as compared to the six months ended June 30, 2011, primarily as a result of the increased number of hours our Administrator's employees spent on our matters, which were higher in 2012 as a result of efforts expended in connection with the preparation and filing of the registration statement with the Securities and Exchange Commission, or SEC, for this offering. The administration fee consists of the reimbursement of expenses, including direct allocation of employee salaries and benefits, as well as general overhead expense, to our Administrator in accordance with the terms of the Administration Agreement.

Professional fees, consisting primarily of legal and accounting fees, increased for the six months ended June 30, 2012, as compared to the six months ended June 30, 2011, primarily as a result of an increase in costs incurred for our financial statement audits because of the additional properties acquired during 2011.

Due diligence expense primarily consists of legal fees and fees incurred for third-party reports prepared in connection with potential acquisitions and our related due diligence analyses. Due diligence expense decreased for the six months ended June 30, 2012, as compared to the six months ended June 30, 2011, as no properties have been acquired during 2012.

Property operating expenses consist of franchise taxes, management fees, insurance and overhead expenses paid for certain of our properties. Property operating expenses increased for the six months ended June 30, 2012, as compared to the six months ended June 30, 2011, due to annual limited liability company, or LLC, fees paid to the state of California.

General and administrative expense remained relatively flat for the six months ended June 30, 2012, as compared to the six months ended June 30, 2011.

### *Other Income and Expense*

Interest income decreased during the six months ended June 30, 2012, as compared to the six months ended June 30, 2011. The decrease was primarily a result of the decrease in our average cash balances earning interest during 2012.

Interest expense increased for the six months ended June 30, 2012, as compared to the six months ended June 30, 2011. This was a result of the increase in the outstanding principal balance on our mortgage note, as we borrowed additional funds for the acquisition of some of our properties during the second half of 2011.

The loss on early extinguishment of debt during the six months ended June 30, 2011, was a result of an early repayment of our previous mortgage loan with RaboBank, Inc., or RaboBank. In connection with this prepayment, we incurred a prepayment penalty of \$422,735. In addition, the unamortized deferred financing fees of \$51,719 related to the RaboBank financing were expensed as part of the loss on early extinguishment of debt.

**Table of Contents****Comparison of Years Ended December 31, 2011 and 2010**

A comparison of our operating results for the year ended December 31, 2011 and 2010 is below:

	For the Years Ended December 31,			
	2011	2010	\$ Change	% Change
<b>Operating revenues:</b>				
Rental income	\$ 2,967,623	\$ 2,418,111	\$ 549,512	22.7%
<b>Total operating revenues</b>	<b>2,967,623</b>	<b>2,418,111</b>	<b>549,512</b>	<b>22.7%</b>
<b>Operating expenses:</b>				
Depreciation and amortization	506,043	317,244	188,799	59.5%
Management advisory fee	241,066	143,315	97,751	68.2%
Administration fee	68,437	73,638	(5,201)	-7.1%
Professional fees	612,596	262,082	350,514	133.7%
Due diligence expense	91,305		91,305	NM
Property operating expenses	61,584	7,516	54,068	719.4%
General and administrative	128,514	49,735	78,779	158.4%
<b>Total operating expenses</b>	<b>1,709,545</b>	<b>853,530</b>	<b>856,015</b>	<b>100.3%</b>
	<b>1,258,078</b>	<b>1,564,581</b>	<b>(306,503)</b>	<b>-19.6%</b>
<b>Other income (expense)</b>				
Interest income	2,958	3,241	(283)	-8.7%
Other income	7,906	9,901	(1,995)	-20.1%
Interest expense	(805,508)	(700,596)	(104,912)	15.0%
Loss on early extinguishment of debt	(474,454)		(474,454)	NM
<b>Total other expense</b>	<b>(1,057,098)</b>	<b>(687,454)</b>	<b>(369,644)</b>	<b>53.8%</b>
Net income before income taxes	200,980	877,127	(676,147)	-77.1%
Provision for income taxes	92,061	316,604	(224,543)	-70.9%
Net income	\$ 108,919	\$ 560,523	\$ (451,604)	-80.6%

NM = Not Meaningful

*Operating Revenues*

Rental income increased for the year ended December 31, 2011, as compared to the year ended December 31, 2010. This was the result of our acquisition of six additional farm properties during 2011 coupled with an increase in rent on our San Andreas Farm effective as of January 1, 2011.

*Operating Expenses*

Depreciation and amortization expenses increased for the year ended December 31, 2011, as compared to the year ended December 31, 2010, also as a result of our property acquisitions during 2011.

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The management advisory fee increased for the year ended December 31, 2011, as compared to the year ended December 31, 2010, primarily as a result of the increased number of hours our Adviser's employees spent on our matters related to the three acquisitions during 2011. The management advisory fee consists of the reimbursement of expenses, including direct allocation of employee salaries and benefits, as well as general overhead expense, to our Adviser in accordance with the terms of the Advisory Agreement.

## **Table of Contents**

The administration fee decreased for the year ended December 31, 2011, as compared to the year ended December 31, 2010, primarily as a result of the decreased number of hours our Administrator's employees spent on our matters, which were higher in 2010 as a result of efforts expended in connection with the preparation and filing of a registration statement with the SEC for a proposed initial public offering, which registration statement was later withdrawn in 2012. The administration fee consists of the reimbursement of expenses, including direct allocation of employee salaries and benefits, as well as general overhead expense, to our Administrator in accordance with the terms of the Administration Agreement.

Professional fees, consisting primarily of legal and accounting fees, increased during the year ended December 31, 2011, as compared to the year ended December 31, 2010. During 2010, we incurred professional fees for the preparation of the registration statement that was later withdrawn for our previously proposed public offering. These professional fees were capitalized in 2010 and subsequently expensed in 2011.

Due diligence expense primarily consists of legal fees and fees incurred for third-party reports prepared in connection with potential acquisitions and our related due diligence analyses. Due diligence expense increased for the year ended December 31, 2011, as compared to the year ended December 31, 2010, as a result of costs incurred in connection with our property acquisitions during 2011.

Property operating expenses consist of franchise taxes, management fees, insurance and overhead expenses paid for certain of our properties. Property operating expenses increased during the year ended December 31, 2011, as compared to the year ended December 31, 2010, due to LLC fees paid to the state of California for previous years. The LLC fees paid for previous years were not material to the previous years financial statements.

General and administrative expense increased for the year ended December 31, 2011, as compared to the year ended December 31, 2010, due to an increase in industry association dues and subscriptions and costs incurred for the preparation of the registration statement filed with the SEC in 2010 and withdrawn in 2012, which costs were capitalized in 2010 and subsequently expensed in 2011.

### *Other Income and Expense*

Interest income from temporary investments decreased during the year ended December 31, 2011, as compared to the year ended December 31, 2010. The decrease was primarily a result of the decrease in our average cash balances during the year ended December 31, 2011.

Interest expense increased for the year ended December 31, 2011, as compared to the year ended December 31, 2010. This was a result of the increase in the outstanding principal balance on our mortgage note, as we borrowed additional funds for the acquisition of some of our properties during 2011.

The loss on early extinguishment of debt during 2011 was a result of the early repayment of our previous mortgage loan with RaboBank, as described above.

The gain on bargain purchase was a result of our acquisition of the Keysville Road Farms during 2011. We acquired the property in a forced sale for a purchase price of \$1.2 million, although its independently appraised value at that time was \$1.4 million. As a result, we recorded a gain of \$212,000 in connection with this acquisition.

### **Financial Condition, Liquidity and Capital Resources**

We intend to use the capital we acquire in this offering and the proceeds of any indebtedness that we may incur in the future, to purchase farms and farm-related properties as well as to potentially make mortgage loans.

## **Table of Contents**

We are actively seeking and evaluating acquisitions of additional farm properties that satisfy our investment criteria. All potential acquisitions will be subject to our due diligence investigation of such properties, and there can be no assurance that we will be successful in identifying or acquiring any properties in the future.

Our sources of funds will primarily be the net proceeds of this offering, operating cash flows and borrowings. Immediately after this offering (assuming no exercise of the underwriters' over-allotment option), we expect to have cash resources in excess of \$ million, based on an assumed public offering price of \$ per share, and \$23.3 million of indebtedness as of June 30, 2012. We believe that these cash resources will be sufficient to satisfy our cash requirements for the foreseeable future, and we do not anticipate a need to raise additional funds within the next twelve months.

### ***Operating Activities***

Net cash provided by operating activities during the six months ended June 30, 2012 and 2011 was approximately \$0.4 million and \$0.6 million, respectively. A majority of cash from operating activities is generated from the rental payments we receive from our tenants. We utilize this cash to fund our property-level operating expenses and use the excess cash primarily for debt and interest payments on our mortgage note payable, management fees to our Adviser and administrative fees to our Administrator, income taxes and other entity level expenses. The decrease in net cash provided by operating activities during the six months ended June 30, 2012 was primarily a result of an increase in operating expenses, partially offset by an increase in rental income which resulted in an increase in taxable income, and higher income taxes paid.

Net cash provided by operating activities during the years ended December 31, 2011 and 2010 was approximately \$1.9 million and \$0.7 million, respectively. A majority of cash from operating activities is generated from the rental payments we receive from our tenants. We utilize this cash to fund our property-level operating expenses and use the excess cash primarily for debt and interest payments on our mortgage note payable, management fees to our Adviser and administrative fees to our Administrator, income taxes and other entity level expenses. The increase in net cash provided by operating activities during the year ended December 31, 2011 was primarily a result of an increase in rent payments during 2011 resulting from the acquisition of six farms. During 2010, our cash flows from operating activities included approximately \$0.5 million in professional fees in connection with a registration statement filed with the SEC for the proposed offering of our stock, with was withdrawn in early 2012. We did not incur significant cash expenses in connection with the registration statement during 2011.

### ***Investing Activities***

Net cash used in investing activities during the six months ended June 30, 2012 was approximately \$0.1 million, which represented net deposits paid in connection with proposed future acquisitions of property. Net cash used in investing activities during the six months ended June 30, 2011, was approximately \$0.1 million which consisted of the net funding of our acquisition in January 2011.

Net cash used in investing activities during the year ended December 31, 2011 was approximately \$4.7 million, which primarily consisted of the acquisition of six farms during 2011. Net cash used in investing activities during the year ended December 31, 2010 was approximately \$8.4 million and resulted from an increase in restricted cash that was ultimately used for an acquisition completed in January 2011.

### ***Financing Activities***

Net cash used in financing activities for the six months ended June 30, 2012 was approximately \$0.9 million, which primarily consisted of net repayments of \$1.1 million on our lines of credit. We repaid in full the outstanding balance of \$1.2 million under a line of credit with RaboBank and borrowed \$0.1 million under a new line of credit with MetLife. Additionally, during the six months ended June 30, 2012, we had net borrowings

**Table of Contents**

of \$0.3 million under a mortgage note payable. Net cash used in financing activities for the six months ended June 30, 2011 was approximately \$1.1 million, which primarily consisted of repayments of \$3.0 million on our line of credit and a distribution of \$1.0 million paid to our stockholder, partially offset by net borrowings of \$2.9 million under a mortgage note payable. The dividends paid to our existing stockholder in 2011 were made from accumulated earnings and profits in anticipation of our future conversion to a REIT.

Net cash provided by financing activities for the year ended December 31, 2011 was approximately \$2.9 million, which primarily consisted of net borrowings of \$5.8 million under a mortgage note payable, partially offset by net repayments of \$1.8 million on our line of credit and a distribution of \$1.0 million paid to our stockholder. Net cash provided by financing activities for the year ended December 31, 2010 was approximately \$7.9 million, which primarily consisted of borrowings under a mortgage note payable and our line of credit. The dividends paid to our existing stockholder in 2011 were made from accumulated earnings and profits in anticipation of our future conversion to a REIT.

**Contractual Obligations**

The following table presents a summary of our significant contractual obligations as of December 31, 2011:

Contractual Obligations	Payments Due by Period				Total
	Less than 1 Year	1-3 Years	3-5 Years	More Than 5 Years	
Debt Obligations <sup>(1)</sup>	\$ 917,120	\$ 1,725,653	\$ 1,590,362	\$ 19,899,865	\$ 24,133,000
Interest on Debt Obligations <sup>(2)</sup>	854,653	1,570,658	1,431,456	5,193,451	9,050,218
<b>Total</b>	<b>\$ 1,771,773</b>	<b>\$ 3,296,311</b>	<b>\$ 3,021,818</b>	<b>\$ 25,093,316</b>	<b>\$ 33,183,218</b>

<sup>(1)</sup> Debt obligations represent borrowings under our mortgage note payable and line of credit that were outstanding as of December 31, 2011. The line of credit was originally scheduled to mature in December 2017, but was repaid in full in May 2012. The mortgage note payable matures in January 2026.

<sup>(2)</sup> Interest on debt obligations includes estimated interest on our borrowings under our line of credit. The balance and interest rate on our line of credit are variable, thus the amount of interest calculated for purposes of this table was based upon the balance and interest rate as of December 31, 2011.

**MetLife Mortgage Loan**

On December 30, 2010, we entered into a loan agreement with Metropolitan Life Insurance Company, or MetLife, in an amount not to exceed \$45.2 million, pursuant to a long-term note payable. The note initially accrues interest at a rate of 3.50% per year, and the interest rate will adjust every three years to then current market rates. The note is scheduled to mature on January 5, 2026, and we may not repay the note prior to maturity, except on one of the four interest rate adjustment dates. The loan originally provided for three disbursements, which were drawn in 2011, and was amended on December 15, 2011 to provide for three additional disbursements, two of which have been drawn to date. The first disbursement of \$5.5 million was made on December 30, 2010 and was used to acquire the West Beach Farm, which was simultaneously pledged as collateral under the loan. The second disbursement of \$14.6 million was made on February 4, 2011, the proceeds of which were used to repay in full the \$11.2 million West Gonzales Note discussed below and to repay \$3.0 million of the outstanding balance on our San Andreas Credit Facility discussed below. In connection with the second disbursement, we pledged the West Gonzales Farm as collateral under the loan. The third disbursement of \$2.8 million was made on July 5, 2011 and was used to acquire the Dalton Lane Farm, which was simultaneously pledged as collateral under the loan. The fourth disbursement of \$1.2 million was made on April 9, 2012 and was used to repay the outstanding balance under our San Andreas Credit Facility discussed below. The fifth disbursement of \$7.5 million was made on September 12, 2012, of which \$2.7 million was used to repay the outstanding balance under our San Andreas Credit Facility from our acquisition of Colding Loop Farm, as discussed below, and \$4.0 million was used to acquire the Trapnell Road Farms. In connection with the

## **Table of Contents**

fifth disbursement, the Colding Loop and Trapnell Road Farms were simultaneously pledged as collateral under the loan. We also repaid \$0.9 million of the outstanding balance in January 2012. The last disbursement may not exceed \$13.6 million and must be used solely to fund the acquisition of new property. If we have not drawn such funds for the acquisition of new property by December 14, 2012, MetLife has the option to be relieved of its obligation to disburse the additional funds to us under this loan.

### ***San Andreas Credit Facility***

In November 2002, we entered into a \$3.25 million revolving line of credit facility with Rabo Agrifinance, which was scheduled to mature on December 1, 2017, secured by a mortgage on our San Andreas Farm. In May 2012 we repaid the outstanding balance in full under the credit facility and obtained a new revolving line of credit facility with MetLife. This new \$4.785 million revolving line of credit facility matures on April 5, 2017. Our obligations under the new line of credit are secured by a mortgage on our San Andreas Farm. The interest rate charged on the advances under the new revolving facility is equal to the three-month LIBOR in effect at the beginning of each calendar quarter, plus 3.00%, with a minimum annualized rate of 3.25%. We may use the advances under the credit facility for both general corporate purposes and the acquisition of new investments. As of June 30, 2012, there was \$0.1 million outstanding under the line of credit, which is the minimum balance required under the facility. On August 8, 2012 we drew \$3.0 million on this credit facility to acquire Colding Loop Farm and subsequently repaid \$2.7 million of this amount on September 13, 2012. We currently have \$0.4 million outstanding under the credit facility.

### ***West Gonzales Note***

In February 2006, we borrowed \$13.0 million pursuant to a note payable to RaboBank, which was collateralized by a security interest in the West Gonzales Farm. The note accrued interest at an initial rate of 6.35% per year, and the interest rate would adjust every three years to the then current market rate, as determined by the lender. On February 1, 2009, the interest rate was adjusted to 6.0%. The note was originally scheduled to mature on February 1, 2021. There was approximately \$11.3 million outstanding on the note as of December 31, 2010. We repaid the note in full on February 4, 2011, and we incurred a prepayment penalty of \$423,000 and expensed the unamortized deferred financing costs of approximately \$52,000 in connection with the prepayment.

### ***Future Indebtedness***

Any indebtedness we incur will likely be subject to continuing covenants, and we will likely be required to make continuing representations and warranties about our company in connection with such debt. Moreover, some or all of our debt may be secured by some or all of our assets. If we default in the payment of interest or principal on any such debt, breach any representation or warranty in connection with any borrowing or violate any covenant in any loan document, our lender may accelerate the maturity of the debt, requiring us to immediately repay all outstanding principal. If we are unable to make any required payments, our lender could foreclose on assets that we have pledged as collateral. The lender could also sue us or force us into bankruptcy. Any such event would likely have a material adverse effect on the value of an investment in our common stock.

### **Advisory and Administration Agreements**

In addition to making investments in accordance with our investment policies, we will also use our capital resources to make payments to our Adviser under the Amended Advisory Agreement and to our Administrator under the Amended Administration Agreement on the terms described in this prospectus.

The actual base management fee for 2012 and 2013 will be dependent upon the rate of property acquisitions and mortgage loans following the completion of this offering and therefore cannot be determined at this time. Because the payment of the incentive fee will be based on performance, we are currently unable to estimate whether or when we will incur an incentive fee under the terms of the Amended Advisory Agreement.

**Table of Contents****Distributions to Stockholders**

In order to qualify as a REIT and to avoid corporate-level tax on the income we distribute to our stockholders, we are required to distribute at least 90% of our ordinary income and short-term capital gains on an annual basis. In addition, we will need to make additional distributions to eliminate our non-REIT earnings and profits by the end of the taxable year for which we elect to qualify as a REIT, which we intend to make with existing cash on hand and borrowings under our existing line of credit, if necessary. Therefore, once the net proceeds we receive from this offering are substantially fully invested, we will need to raise additional capital in order to grow our business and acquire additional properties. We anticipate borrowing funds to obtain additional capital once the net proceeds of this offering have been fully invested, but there can be no assurance that we will be able to do so on terms acceptable to us, if at all. For additional information regarding our distribution policies and requirements and our strategy of borrowing funds following the application of the proceeds from this offering, see [Distribution Policy](#) and [Our Investment Process - Use of Leverage](#).

**Off-Balance Sheet Arrangements**

As of June 30, 2012, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

**Quantitative and Qualitative Disclosures about Market Risk**

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. The primary risk that we believe we are and will be exposed to is interest rate risk. None of our existing leases contain escalations based on market interest rates, and the interest rates on our existing borrowings are variable, although in the case of the MetLife Loan, the interest rate only adjusts once every three years. We have not entered into any derivative contracts to attempt to manage our exposure to interest rate fluctuations.

To illustrate the potential impact of changes in interest rates on our net income for the six months ended June 30, 2012 and the year ended December 31, 2011, we have performed the following analysis, which assumes that our balance sheet remains constant and that no further actions are taken to alter our existing interest rate sensitivity.

The following table summarizes the impact of a 1, 2 and 3 percentage point increase in the three-month LIBOR rate for the six months ended June 30, 2012 and the year ended December 31, 2011. Our effective average LIBOR rate as of June 30, 2012, and December 31, 2011, was 0.49% and 0.35%, respectively; thus, a 1, 2 or 3 percentage point decrease could not occur.

Interest Rate Change	For the Year Ended December 31, 2011		For the Six Months Ended June 30, 2012	
	Increase to Interest Expense	Net Decrease to Net Income	Increase to Interest Expense	Net Decrease to Net Income
1% Increase to LIBOR	\$ 12,050	\$ 12,050	\$ 1,000	\$ 1,000
2% Increase to LIBOR	24,100	24,100	2,000	2,000
3% Increase to LIBOR	36,150	36,150	3,000	3,000

We may be exposed to the effects of interest rate changes, primarily as a result of long-term debt used to maintain liquidity and fund expansion of our real estate investment portfolio and operations. Our interest rate risk management objectives will be to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve our objectives, we will borrow primarily at fixed rates or variable rates with the lowest margins available and, in some cases, with the ability to convert variable rates to fixed rates. We may also enter into derivative financial instruments such as interest rate swaps and caps in order to mitigate our interest rate risk on a related financial instrument. We will not enter into derivative or interest rate transactions for speculative purposes.



**Table of Contents**

As of June 30, 2012, the fair value of our debt outstanding was approximately \$23.3 million, which approximated the carrying value.

In addition to changes in interest rates, the value of our real estate is subject to fluctuations based on changes in local and regional economic conditions and changes in the creditworthiness of lessees, which may affect our ability to refinance our debt if necessary.

## **Table of Contents**

### **BUSINESS**

#### **Corporate Overview**

We are an externally-managed corporation that currently owns twelve farms, six farms in California and six farms in Florida. These farms are currently leased to six separate tenants that are corporate or independent farmers. We intend to acquire more farmland to lease to farmers. We expect that most of our future tenants will be medium-sized independent farming operations or large corporate farming operations that are unrelated to us. We may also acquire properties related to farming, such as cooling facilities, processing plants, packing buildings and distribution centers. We currently own two cooler buildings and one box barn used for storage and assembly of shipping boxes. We intend to lease our properties under triple-net leases, an arrangement under which the tenant maintains the property while paying us rent plus taxes, maintenance and insurance. We are actively seeking and evaluating other farm properties to potentially purchase with the net proceeds we will receive from this offering, although we have not yet entered into binding agreements to acquire these properties, and there is no guarantee that we will be able to acquire any of them. All potential acquisitions will be subject to due diligence investigations, and there can be no assurance that we will be successful in identifying or acquiring any properties in the future. We may elect to sell properties at such times as, for example, the land may be developed by others for urban or suburban uses.

To a lesser extent, we may provide senior secured first lien mortgages to farmers for the purchase of farmland and properties related to farming, although we do not intend to use more than 5% of the net proceeds of this offering for that purpose. We expect that any mortgages we make would be secured by farming properties that have been in operation for over five years with a history of crop production and profitable farming operations. We have not currently identified any properties for which to make loans secured by mortgages.

We were formed in 1997. Prior to 2004, we engaged in the owning and leasing of farmland, as well as an agricultural operating business whereby we engaged in the farming, contract growing, packaging, marketing and distribution of fresh berries and vegetables, including commission selling and contract cooling services to independent berry growers. In 2004, we sold our agricultural operating business to Dole Food Company, or Dole.

Since 2004, our operations have consisted solely of leasing our farms, of which five are located in or near Watsonville, California, one is near Oxnard, California, five are near Plant City, Florida and one is near Wimauma, Florida. We also lease a small parcel on our Oxnard farm to an oil company. We do not currently intend to enter the business of growing, packing or marketing farmed products. However, if we do so in the future we expect that it would be through a taxable REIT subsidiary.

We intend to elect to be taxed as a real estate investment trust, or REIT, under federal tax laws beginning with our taxable year ending December 31, 2013 or December 31, 2014. Gladstone Management Corporation serves as our Adviser and manages our real estate portfolio.

There is a benefit to owning land in a REIT rather than owning it directly, which we refer to as a liquidity premium. The liquidity premium reflects an investor's ability to quickly acquire or dispose of an investment as compared to less liquid but similar investments in real property. We believe that owning a diversified portfolio of property through a publicly traded REIT provides investors significantly more liquidity than investing in real estate either directly or through a private equity real estate fund. Along with other factors, this liquidity premium has provided REITs with higher annual returns than private equity real estate funds. A 2010 analysis performed by the National Association of Real Estate Investment Trusts, or NAREIT, concludes that publicly traded REITs have outperformed private equity real estate funds through the last full real estate cycle from 1989 through 2007. During this cycle, REITs produced an average annual return of 13.4%, while core, value-added and opportunistic private real estate funds produced an average annual return of 7.7%, 8.6% and 12.1% respectively. The NAREIT analysis utilized data from the National Council of Real Estate Investment Fiduciaries, or NCREIF, and the Townsend Group. However, we cannot guarantee that you will receive a liquidity premium or any particular annual return if you buy stock in our company.

## **Table of Contents**

### **Our Industry**

#### ***World Supply of Farmland***

Domestic and global population growth is the major driver behind increased demand for farmland to feed the growing population. The U.S. Census bureau estimates that the U.S. population will grow by 10.0% during the current decade to 348 million people and the global population will grow by 11.8% over the same period to approximately 8 billion people worldwide.

In addition to population growth spurring demand for farmland, changing consumption patterns also contribute to the increasing value of farmland. As large nations such as China and India modernize, their consumption of meat protein continues to increase. It takes over five times the amount of grain to produce an equivalent amount of calories in meat protein, so as the demand for meat protein increases it is expected that the demand for grains will increase.

At the same time that there is demand for more food to feed an increasing population, there is increasing demand for urban and suburban uses of farmland. The increased demand due to population growth and changing consumption patterns, coupled with the development of agricultural land for urban and industrial purposes, could result in significant upward pressure on farmland prices as farmland is converted to urban or suburban uses. This is a major investment thesis of our business. Figure 1 below shows the historical and projected decline of arable land, which is land suitable for growing crops, per capita, as illustrated in the chart from 2000 below from the Food and Agricultural Organization of the United Nations:

**Figure 1**

#### ***United States Farmland***

The USDA's 2007 Census of Agriculture estimated there were approximately 2.2 million farms on 922.1 million acres of land in the United States. Out of this total there were 1.7 million farms dedicated to producing crops, which we refer to in this prospectus as cropland. According to the USDA, in 2007, crop farms utilized 406.4 million acres of land, with approximately 241 acres per farm. The total estimated annual market value of crops harvested in the United States according to the USDA's 2007 Census of Agriculture was \$143.7 billion.

**Table of Contents**

The USDA's agricultural projections anticipate continued increases in domestic farm income, despite the current global economic slowdown. Figure 2 below illustrates the continued trend of increasing farm income projected by the USDA from 2011 onward.

**Figure 2****Farmland Returns**

According to the USDA, cropland values increased 91% over the 10-year period from 2002 to 2011. As an investment, we believe that U.S. farmland has performed comparatively well in recent years compared to other asset classes and has provided investors with a relatively safe haven during the recent turbulence in the financial markets. Figure 3 below illustrates the returns farmland has experienced compared to domestic REITs and public equity. We believe the relatively stable returns of farmland in the periods of dramatic changes in the stock market and the economic recession is significant.

**Figure 3**

		Market Index Comparisons										Annual
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Average
NCREIF	Farmland Index <sup>(a)</sup>	6.9%	9.7%	20.5%	33.9%	21.2%	15.9%	15.8%	6.3%	8.8%	15.2%	15.4%
NAREIT	All REIT Index <sup>(b)</sup>	5.2%	38.5%	30.4%	8.3%	34.4%	-17.8%	-37.3%	27.5%	27.6%	7.3%	12.4%
S&P 500	Index Total Returns	-22.0%	28.4%	10.7%	4.9%	15.6%	5.5%	-36.6%	25.9%	14.9%	2.1%	4.9%

(a) The NCREIF Farmland Index is a composite return measure of investment performance, determined on a non-leveraged basis, of a large pool of approximately 490 individual agricultural properties with an estimated aggregate value over \$2.9 billion. We believe that the NCREIF Farmland Index is representative of the overall agricultural market.

(b) The NAREIT All REIT Index is a composite return measure of all U.S. REITs.

**Table of Contents*****Cropland Values***

Figure 4 below illustrates the increase in domestic cropland value over the last 10 years:

**Figure 4*****Farmland Debt***

Farmland in the United States has continued to improve from a balance sheet perspective. In general, the farming sector is not heavily leveraged, as illustrated in Figure 5 below, and has maintained relatively low debt levels during a period in which leverage has increased in other asset classes. As a result, farm values and income have not experienced the extreme volatility seen in other asset classes. Although there can be no assurance that the debt ratios of our tenants will be similar to those set forth in Figure 5 below, in general we have found most farmers to be conservative when using debt. In addition, there can be no assurance that our debt ratios will be consistent with the statistics set forth in Figure 5 below, this consistency increases our confidence in evaluating prospective individual farm acquisitions, including projecting the income that may be generated from our properties.

**Figure 5****Balance Sheet of the U.S. Farming Sector (\$ in Millions)**

	2008	2009	2010	2011P	2012F
Farm Assets	\$ 2,023,302	\$ 2,054,378	\$ 2,190,857	\$ 2,339,783	\$ 2,474,296
Real estate	\$ 1,702,961	\$ 1,724,412	\$ 1,853,743	\$ 1,987,231	\$ 2,104,478
Total Farm Debt	\$ 241,611	\$ 241,882	\$ 246,858	\$ 244,768	\$ 254,093
Total Farm Equity	\$ 1,781,691	\$ 1,812,496	\$ 1,943,999	\$ 2,095,015	\$ 2,220,203
Debt / Assets	11.9%	11.8%	11.3%	10.5%	10.3%
Debt / Real Estate	14.2%	14.0%	13.3%	12.3%	12.1%

Source: USDA

F = forecast, P = preliminary

**Table of Contents**

***Cropland Rents***

Figure 6 below illustrates the increase in domestic cropland rents over the last 10 years:

**Figure 6**

***Decline in Acreage of Farmland***

We believe that as farmland acreage is converted for development and other non-farming purposes, the remaining farmland becomes more valuable and that the shrinking supply of farmland over time will increase the value of our farm properties. According to the 2007 National Resources Inventory, or NRI, a survey of non-federal lands conducted by the USDA's Natural Resources Conservation Service, 4,080,300 acres of active agricultural land were converted to developed uses between 2002 and 2007. This represents an area roughly the size of Massachusetts. In addition, according to the NRI, between 1982 and 2007, the nation has lost 23,163,500 acres of agricultural land and 13,773,400 acres of farmland identified as the best suited to producing food and other agricultural crops with the fewest inputs and the least amount of soil erosion.

Since the inception of the NRI in 1982, every state has lost farmland. States with the biggest loss of acres included Texas (1,500,000), Ohio (796,000), North Carolina (766,000), California (616,000) and Georgia (566,000). The following states lost the greatest percentage of their farmland that is best suited for growing crops during the same reporting period: Arizona (36 percent), Nevada (34 percent), New Mexico (33 percent), New Jersey (30 percent) and Massachusetts (24 percent).

**Table of Contents**

The most recent California Farmland Conversion Report published in 2011 by the California Department of Conservation states that California is losing farmland while urban and developed land is increasing. Figure 7 below shows the land conversion trends from 1998 to 2008, the last 10 years recorded by the California Department of Conservation.

**Figure 7**

Data from the USDA's Census of Agriculture, which is taken every five years, also illustrates the reduction in farms and agricultural land taking place as more land is converted to residential and commercial uses as seen in Figure 8 for California and Figure 9 for Florida:

**Figure 8****State of California**

(all units in thousands)	1997	2002	2007	10 year change
# of Farms	88	80	81	-7.9%
Total Farmland (acres)	28,796	27,589	25,365	-11.9%
Total Cropland (acres)	11,063	10,994	9,465	-14.4%

Source: USDA Census of Agriculture

**Figure 9****State of Florida**

(all units in thousands)	1997	2002	2007	10 year change
# of Farms	46	44	47	2.2%
Total Farmland (acres)	10,660	10,414	9,232	-13.4%
Total Cropland (acres)	3,610	3,715	2,953	-18.2%

Source: USDA Census of Agriculture

**Table of Contents**

**OUR INVESTMENT FOCUS**

We seek to invest in farmland that we believe has the least amount of risk for stable income generation and value appreciation. The left side of Figure 10 below summarizes the risk profile we are seeking and each of those criteria is described further below:

**Figure 10**

***Annual Row Crops***

Farm crops can generally be divided into two main categories, permanent crops and annual row crops. Permanent crops have plant structures (such as trees, vines or bushes) that produce yearly crops without being replanted. Examples include oranges, apples, almonds and grapes. Annual row crops, on the other hand are both planted and harvested annually or more frequently. Examples of annual row crops include lettuce, strawberries and melons. We intend to buy farms that produce annual row crops. We do not expect to buy a substantial amount of farmland used for permanent crops. We believe that annual row cropland has less risk than permanent cropland because annual row crops require less time and capital to plant. If a farmer loses an annual row crop to drought, flooding, fire or disease one year, the farmer can generally resume production on the land in a few weeks or months. However, if a farmer loses a permanent crop there would generally be significant time and capital needed to return the land to production because a tree or vine may take years to grow before bearing fruit

Annual row crop farmland also enables the farmer to rotate crop types to keep up with changing market conditions or changes to the weather or soil. If demand for one type of annual row crop, for example lettuce, decreases, the annual row crop farmer can convert the farm to another annual row crop such as radicchio. Permanent crop farmland is dedicated to one crop during the lifespan of the trees or vines and therefore cannot be rotated to adapt to changing environmental or market conditions. As a result we believe that annual row crop farms have a lower risk profile than permanent crop farms.



**Table of Contents**

***Fresh Produce***

Annual row crops can be further divided into two sub-categories, fresh produce and commodity crops. Fresh produce generally means fruits and vegetables including strawberries, lettuce, melons and peppers. Examples of commodity crops include corn, soybeans, rice, cotton and wheat. We seek to acquire and lease farmland for the primary purpose of harvesting annual row crops, with an emphasis on fresh produce farms. The twelve properties we currently own are utilized for farming fresh produce that include strawberries, raspberries, blackberries, lettuce, cabbage, radicchio, cantaloupes, watermelons, okra and peas. Other crops have been grown on the farms such as tomatoes. Under the annual row cropland category, we believe fresh produce farmland possesses attributes that are more likely to provide appreciation and increasing rental income over time. Because fresh produce is more perishable than commodity crops and permanent crops, the majority of fresh produce farmed in the United States is consumed domestically. In contrast, commodity crops and permanent crops, which can generally endure much longer periods of time from harvest to consumption, allow for global shipment and trade. As a result, fresh produce is usually more insulated from the global market volatility than commodity and permanent crops. We believe this will generally provide for better price stability of the harvested crop and therefore greater stability of the underlying land value for land producing fresh produce crops. In addition fresh produce farms that we have purchased include fresh water wells on the land that are used for irrigation. Many of the commodity farms without wells depend on rain water and are therefore susceptible to extended droughts. While our primary focus will be acquiring fresh produce farms with annual row crops, from time to time we may purchase commodity crop farms where we find attractive valuations, land with water rights, productive soil and financially strong tenants.

The chart in Figure 11 illustrates the categories of crops.

**Figure 11**

**Table of Contents**

*Hedge against Inflation*

We believe that farmland should be considered a potential hedge against inflation by investors. The farms that we intend to purchase will mostly be used to farm fresh produce, labeled in the chart below as fruits and vegetables. As shown below in Figure 12, based on data from the Bureau of Labor Statistics, the Consumer Price Index (CPI) has increased from 82.4 to 224.9 from 1980 to 2011, a 173% increase. During the same period, the food category of the CPI increased from 81.0 to 227.9, a 181% increase, and the fresh fruits and vegetables segment of the food category increased from 73.6 to 332.6, a 352% increase. We believe that the comparatively greater increase in the price of fruits and vegetables to other food items in the CPI has permitted us to increase the price of rent to farmers renting our farms to grow fruits and vegetables and provides a hedge against inflation. There can be no assurance that the price of fresh fruit and vegetables will continue to increase at a higher rate than other food items as compared to the CPI.

**Figure 12**

## **Table of Contents**

### ***U.S. Property***

We will initially seek to invest in farmland in California and Florida, where our twelve existing farms are located. We have chosen California and Florida for the diversification of climate conditions that they offer, as well as the abundant water sources, high soil quality, diverse crop types and established agriculture infrastructure in these states, and our experience investing in farmland located there. A large percentage of the fruits and vegetables grown in the United States are grown in California and Florida. Over time, we intend to purchase farms in other parts of the United States where we can find attractive valuations, productive land, water rights and financially strong tenants. Figure 13 below shows our geographic focus:

**Figure 13**

### ***Farm Locations***

Along the California coast and in the valleys of California, as of 2007, there were over 61,000 farms dedicated to growing crops on over 9.4 million acres of land, according to the USDA's Census of Agriculture. The total annual market value of crops harvested in California in 2007 was \$22.9 billion, according to the USDA, which accounted for 15.9% of the U.S. national output. The USDA reports that California produces more fruits and vegetables than any other state. In addition, there are significant additional acres in California devoted to agricultural businesses, such as packing and cooling of the products grown there.

Throughout the state of Florida, as of 2007, there were over 26,000 farms dedicated to growing crops on over 2.9 million acres of land, according to the USDA's Census of Agriculture. Total annual market value of crops harvested in Florida in 2007 was \$6.3 billion, according to the USDA, which accounted for 4.4% of the U.S. national output. According to the Florida Department of Agriculture, in 2010, Florida was the largest producer of bell peppers, sweet corn, fresh tomatoes, watermelons, cucumbers, oranges, grapefruit, sugarcane and squash in the United States. Similar to California, there are significant additional acres in Florida devoted to agricultural businesses, such as packing and cooling of produce. Figure 14 below illustrates the returns from

**Table of Contents**

rental income and appreciation for U.S., California and U.S. Southeast (including Florida) farmland. There is no assurance that such returns will occur in the future.

**Figure 14**

**Land Value, Annualized Returns**

<b>As of 12/31/2011</b>	<b>1 Yr</b>	<b>2 Yrs</b>	<b>3 Yrs</b>	<b>4 Yrs</b>	<b>5 Yrs</b>	<b>6 Yrs</b>	<b>7 Yrs</b>	<b>8 Yrs</b>	<b>9 Yrs</b>	<b>10 Yrs</b>
U.S. Farmland	15.2%	11.9%	10.0%	11.5%	12.3%	13.8%	16.4%	16.9%	16.1%	15.2%
California Farmland	16.1%	14.0%	11.1%	11.5%	11.7%	13.8%	19.0%	19.9%	18.7%	17.6%
Southeast Farmland	10.1%	2.3%	3.1%	1.7%	4.9%	9.2%	14.2%	16.0%	14.2%	12.9%

Includes appreciation (or depreciation), realized capital gain (or loss) and income.

Source: NCREIF Farmland Index

***Prices of Farmland***

The map in Figure 15 below is from the USDA National Agricultural Statistics Service, or NASS. It shows that some of the most expensive farmland in the United States, outside of densely populated areas in the Northeast, is in California, with Iowa and Florida being similar.

**Figure 15**

**Table of Contents**

The map in Figure 16 below, also from NASS, shows that the highest rental rates in the United States are on the West Coast, in the Midwest and in Florida.

**Figure 16**

We believe that the climate conditions, water sources, soil quality, crop types and established agriculture infrastructure in California and Florida result in a substantial value premium for cropland in these two states compared to the United States as a whole. Beginning in 2009, there was a modest decline in cropland value for California, Florida and the United States as a whole. We believe this is attributable to the collapse of the financial markets and a general lack of available mortgage loans to finance farmland acquisitions. Although these values have recovered somewhat in California and the United States as a whole, the declines have continued in Florida. Figure 17 below illustrates the trends in cropland value per acre for California, Florida and the United States as a whole:

**Figure 17**

**Average Value per Acre of Cropland**

Calendar Year	2007	2008	2009	2010	2011
California	\$ 9,700	\$ 9,880	\$ 9,480	\$ 9,130	\$ 9,230
Florida	\$ 6,860	\$ 6,980	\$ 6,430	\$ 6,180	\$ 6,030
United States	\$ 2,530	\$ 2,760	\$ 2,670	\$ 2,770	\$ 3,030

Source: USDA, NASS

**Table of Contents**

The intrinsic value of an asset, such as land, is determined to a significant degree by its ability to generate cash flow. As shown in Figure 18 below, farmland demonstrated relative stability in its ability to generate cash flow during the recent recession:

**Figure 18****Farmland Income, Annual Returns**

(as % of land value)

Calendar Year	2006	2007	2008	2009	2010	2011
U.S. Farmland	8.6%	8.4%	7.0%	5.5%	7.3%	7.0%
California Farmland	10.7%	9.6%	7.0%	7.0%	12.2%	9.1%
Southeast Farmland	11.3%	9.0%	3.5%	5.3%	5.2%	10.1%

Source: NCREIF Farmland Index

**Leased Property**

Farming land for crops carries significant operating risk. If a crop fails or the land does not produce the anticipated amount of crops the farmer may experience an economic loss. We believe that through leasing farmland, rather than farming it, we will mitigate this risk. We lease our properties on a fixed rent basis that does not change based on the success of the farming operations. Many farm owners lease properties on a crop share basis, also known as sharecropping, in which a portion of the crop profit is paid by the tenant farmer to the land owner as compensation. This arrangement puts the landlord, like the tenant operator, at risk from variation in crop yields and prices. We do not intend to lease properties on a crop share basis, but may consider using this lease structure in geographic regions where such an arrangement is standard.

We expect to continue to lease our farmland and other agricultural real estate under triple-net leases, which require the tenant to either pay or reimburse us for all operating expenses, including, but not limited to: taxes, water usage, maintenance and insurance. Because we utilize a triple-net lease structure, we believe that we directly incur fewer operating expenses than real estate investment trusts that do not use triple-net leases and are required to pay these expenses. To date, we have not experienced any defaults under our leases. The rent and interest payments we receive from the farmers will be the primary source of any distributions to our stockholders.

While we do not share operating profit or losses with a tenant, we do expect that over time rental income will increase and therefore that our net income will increase. Most farmland in the areas where we initially intend to buy land is leased under short-term leases, and we plan to lease our property under short-term leases. By entering into short-term leases, we believe we will be in a position to increase our rental rates when the leases are renewed, if prevailing rental rates have increased. Our business model anticipates that the value of our farmland will increase, as it has in the past, at a rate that is equal to or greater than the rate of inflation in part because of the trend of prices for fresh fruits and vegetables, though there can be no guarantee that this appreciation will occur.

We believe farmland has historically maintained relatively low vacancy rates when compared to other types of rental real estate, and we believe that it is rare for good farmland not to be leased and farmed every year. Based on an informal survey we have taken of real estate agents, we believe a low percentage of the farmland in the areas that we initially intend to purchase property has remained un-rented during the past ten years. As a result, we believe there is a reduced risk of vacancy on our properties when compared to properties with structures, such as office buildings or industrial facilities.

## **Table of Contents**

### ***Diversified Portfolio***

We intend to acquire numerous properties in order to build a diversified portfolio. We believe that owning many properties farmed for multiple crop types in different geographic growing regions with a broad tenant base will reduce the risk of rental income reduction or depreciation of the land value. We may also purchase some smaller amount of agricultural real estate structures that are used by farmers for their crops, such as processing plants, freezer or cooler facilities, storage sheds, box barns and other similar structures that may already exist on some of the farms we buy. We rent one cooler and one box barn to the tenant on our West Gonzales Farm and one cooler to the tenant on our Trapnell Road Farms.

Members of our management team have experience in leasing farms that are used for strawberries, raspberries, tomatoes, beans, peppers, lettuce and other crops in California and Florida. We believe that this experience will provide us with an opportunity to lease land to a wide variety of different farmers from year to year and mitigates the risk of owning land dedicated to a single crop.

When a farmer only grows one crop, such as wheat, the farmer is subject to the risks specific to that one crop. We seek to have a diversification of crops on our various farms by renting the farms to tenants that specialize in growing a variety of different crops so that our ability to collect rent is not dependent on just one crop. In addition, we seek to diversify our investments in land that grows many different crops.

### ***Strong Tenants***

We intend to lease to corporate and independent farmers with sufficient experience and capital. We do not have the resources or the desire to farm the land we acquire, so we will rely on prospective tenants who have these resources and who desire to continue farming the land over the long term. We will seek tenants that have experience, financial strength and adhere to quality standards. We also will seek tenants that have selling and distribution experience or relationships with national marketers-distributors, as distribution is a key component to successful farming operations. For example, many farm operations include salespeople that have relationships with grocery store buyers and wholesale food groups. These salespeople are integral to getting the farm products sold as they are being harvested.

We expect that our tenants own and farm other properties that they may offer to us for purchase and then lease them back from us. Strong tenants also may have the operational scale to lease additional properties and could help us identify properties for future acquisition that they could farm. These kinds of tenants would enable us to increase our pipeline of potential acquisitions.

### ***Family-owned Properties***

We also believe that much of the real estate we are seeking to acquire is owned by families and farming businesses who would like to sell their property for cash or for interests in our Operating Partnership. According to the USDA, as of 2007, approximately 86% of farms in the United States were owned by families. Some of these sellers may wish to simultaneously lease their property back and continue their agricultural businesses under short-term, net leases. Sellers in these sale-leaseback transactions can then use the proceeds to repay existing indebtedness, for growth of their farming operations or in other business endeavors. We believe that the real estate that we acquire and do not simultaneously lease back to the seller can be leased at attractive rental rates to other independent or corporate farmers.

As an alternative to selling their real estate to us for cash, we believe that farm owners may be interested in exchanging their farmland for Units in our Operating Partnership in order to retain the ability to participate in the equity of our company and the potential appreciation in value of our properties. By making such an exchange, these farm owners would become investors in a more diversified portfolio of agricultural real estate. Under certain circumstances, the exchange of real estate for Units is a tax-free exchange under U.S. tax laws. In addition, because we intend to make cash distributions each month, Unit holders would receive regular monthly

## **Table of Contents**

cash distributions as well as participate in the future plans of our company. Finally, Unit holders would have the flexibility to redeem their Units in the future for cash, or at our election, shares of our common stock that they could then sell in the public market, thereby allowing these sellers to receive the value of their property in a tax-efficient manner. Because we expect the decision to issue Units to acquire real estate will generally be driven by the desires of the prospective seller, we do not know how frequently we will use this method to acquire properties. However, we believe that the utilization of Units to acquire properties will likely be a significant part of our property acquisition strategy.

## **OUR INVESTMENT PROCESS**

### **Overview**

Once we have invested the net proceeds of this offering, we intend that substantially all of our investments will be in income-producing agricultural real property and, to a lesser extent, mortgages on agricultural real estate. We expect that the vast majority of our leases will be structured as triple-net leases, which require the tenants to pay operating expenses, maintenance, insurance and taxes, although some leases may not be made on a triple-net basis. If we make mortgage loans, we expect the ratio of loan amount to value of the real estate to be greater than for conventional mortgage loans on farms and the interest rate to be higher than for those conventional loans. Investments will not be restricted as to geographical areas, but we expect that many of our properties will be located in California and Florida. Prospective investors will not be afforded the opportunity to evaluate the economic merits of our investments or the terms of any dispositions of properties. See **Risk Factors**. Our success will depend on the performance of our Adviser and if our Adviser makes inadvisable investment or management decisions, our operations could be materially adversely impacted.

We anticipate that we will make substantially all of our investments through our Operating Partnership. Our Operating Partnership may acquire interests in real property in exchange for the issuance of Units, for cash or through a combination of both. Units issued by our Operating Partnership will be redeemable for cash or, at our election, shares of our common stock on a one-for-one basis at any time after holding the Units for one year. However, we may in the future hold some of our interests in real properties through one or more wholly owned subsidiaries, each classified as a qualified REIT subsidiary.

### **Property Acquisitions and Net Leasing**

We anticipate that a majority of the properties we purchase will be acquired from farmers or agricultural companies and that they or an independent farmer will simultaneously lease the properties back from us. These transactions will provide the tenants with an alternative to other financing sources, such as borrowing, mortgaging real property, or selling securities. We anticipate that some of our transactions will be in conjunction with acquisitions, recapitalizations or other corporate transactions affecting our tenants. We may act as one of several sources of financing for these transactions by purchasing one or more properties from the tenant and by net leasing it back to the tenant or its successor in interest. For a discussion of the risks associated with leasing property to leveraged tenants, see **Risk Factors**. Some of our tenants may be unable to pay rent, which could adversely affect our cash available to make distributions to our stockholders or otherwise impair the value of your investment.

We intend to own primarily single-tenant agricultural real property. Generally, we will lease properties to tenants that our Adviser deems creditworthy under leases that will be full recourse obligations of our tenants or their affiliates. We will generally seek to enter into short-term leases with terms of two to five years, which we believe is customary within the California and Florida farming industry. While we expect that we will renew most of these leases at the end of their terms, we believe that this strategy will also permit us to take advantage of increasing rental rates from year to year. However, there can be no assurance that this strategy will result in increasing rents upon renewal, and it may in fact result in decreasing rents.



## **Table of Contents**

We believe that most of the farmland that we are interested in purchasing can be rented at annual rental rates ranging from 4% to 6% of the properties' market values. However, there can be no assurance that we will be able to achieve this level of rental rates. Since rental contracts in the farming business are customarily short-term agreements, rental rates are renegotiated regularly. We expect that we will be able to increase the rental rates on our properties by 2% to 4% each year, although there can be no guarantee that we will be able to increase rents on any farmland to this extent or at all. Based on an informal survey of our tenants and real estate brokers with expertise in California and Florida, we estimate that farmers in these areas have average revenues ranging from \$23,100 to \$45,000 per acre per year, with a pre-rent profit from \$3,000 to \$11,250 per acre per year, and generally pay rent per year per acre in these locations from \$1,350 to \$3,400.

All of our leases will be approved by our Adviser's investment committee. Our Board of Directors has adopted a policy that we will not make an investment in any individual property with a cost in excess of 20% of our total assets at the time of investment. However, our Board of Directors may amend or waive this policy at any time or from time to time.

### **Underwriting Criteria and Due Diligence Process**

#### ***Selecting the Property***

We consider selecting the right properties to purchase or finance as the most important aspect of our business. Buying good farmland that can be used for many different crops and that is located in desirable locations is essential to our success.

Our management team and their real estate contacts in California and Florida are very familiar with the properties located in our general farming areas. We believe that our management team is experienced in selecting valuable farmland and will use this expertise to identify promising properties. The following is a list of factors we believe are important in the selection of farmland:

*Property Availability.* The USDA reported that in 2007 there were 1.7 million cropland farms in the U.S. on a total of 406 million acres of land. We estimate that 0.5% to 1.0% of these farms are for sale in a year (2-4 million acres). In the geographic regions we are targeting, we estimate that there will be approximately 50,000 acres of farmland that could grow annual fresh produce crops for sale each year worth approximately \$2.0 billion.

*Water availability.* Availability of water is essential to farming. We will seek to purchase properties with ample access to water. We do not intend to buy or finance any property that does not have an operating water well on it or rights to use a well or other source that is located nearby.

*Soil composition.* In addition to water, for farming efforts to be successful the soil must be suitable for growing crops. We will not buy or finance any real property that does not have soil conditions that we believe are favorable for growing annual row crops, except to the extent that a portion of an otherwise suitable property, while not favorable for growing annual row crops, may be utilized to build coolers, freezers, packing houses or other properties used in farming businesses.

*Location.* Farming annual row crops also requires optimal climate and growing seasons. Initially we intend to purchase properties that are located near the Pacific coast in California and in Florida in order to take advantage of climate conditions that are needed to grow fresh produce crops. We intend to purchase properties that are located in close proximity to our current farmland in California and Florida, in order to take advantage of that proximity. Over time, we expect to expand throughout the United States in locations with productive farmland with financially sound farming tenants.

*Price.* We intend to purchase and finance properties that we believe are a good value and that we will be able to profitably rent for farming over the long term. Generally, the closer that a property is located to urban developments, the higher the value of the property. As a result, properties that are currently

## **Table of Contents**

located in close proximity to urban developments are likely to be too expensive to justify farming over an extended period of time. In our experience, farmland sale prices range from 4% to 6% initial cash yields, with our properties averaging a 5% initial cash yield for a price per acre of \$20,000 to \$80,000.

On our behalf, our Adviser will perform a due diligence review with respect to each potential property. Such review will include an evaluation of the physical condition of a property and an environmental site assessment to determine potential environmental liabilities associated with a property prior to its acquisition. One of the criteria that we look for in our due diligence review is whether mineral rights to such property, which constitute a separate estate from the surface rights to the property, have been sold to a third party. We generally seek to invest in properties where mineral rights have not been sold to third parties; however, in cases where access to mineral rights would not affect the surface farming operations, we may enter into a lease agreement for the extraction of minerals or other subterranean resources, as we have done in the West Gonzales Farm property. We may seek to acquire mineral rights in connection with the acquisition of future properties to the extent such mineral rights have been sold off and the investment acquisition of such rights is considered to be favorable after our due diligence review. Despite the conduct of these reviews, there can be no assurance that hazardous substances or waste, as determined under present or future federal or state laws or regulations, will not be discovered on the property after we acquire it. See Risk Factors Potential liability for environmental matters could adversely affect our financial condition.

Our Adviser will also physically inspect each property and the real estate surrounding it in order to estimate its value. Our Adviser's due diligence will be primarily focused on valuing each property independently of its rental value to particular tenants to whom we plan to rent. The real estate valuations our Adviser performs will consider one or more of the following items, but may not consider all of them:

The comparable value of similar real estate in the same general area of the prospective property. In this regard, comparable property is hard to define since each piece of real estate has its own distinct characteristics. But to the extent possible, comparable property in the area that has sold or is for sale will be used to determine if the price being paid for the property is reasonable.

The comparable real estate rental rates for similar properties in the same area of the prospective property.

Alternative uses for the property in order to determine if there is another use for the property that would give it higher value, including potential future conversion to urban or suburban uses such as commercial or residential development.

The assessed value as determined by the local real estate taxing authority. In certain states, including California and Florida, many farms may be protected from increases in real estate taxes.

In addition, our Adviser will supplement its valuation estimate with an independent real estate appraisal in connection with each investment that we consider. These appraisals may take into consideration, among other things, the terms and conditions of the particular lease transaction, the quality of the tenant's credit and the conditions of the credit markets at the time the lease transaction is negotiated. The actual sale price of a property, if sold by us, may be greater or less than its appraised value.

When appropriate, our Adviser may engage experts to undertake some or all of the due diligence efforts described above.

### ***Underwriting the Tenant***

In addition to property selection, underwriting the tenant that will lease the property will also be an important aspect of many of our investments. Our Adviser will carefully evaluate the creditworthiness of the

## **Table of Contents**

tenant and assess its ability to generate sufficient cash flow from its agricultural operations to make payments to us pursuant to our lease. The following is a list of criteria that our Adviser will consider when evaluating potential tenants for our properties, although all criteria may not be present for each lease:

*Experience.* We believe that experience is the most significant characteristic when determining the creditworthiness of a tenant. Therefore, we will seek to rent our properties to farmers that have an extensive track record of farming their particular crops.

*Financial Strength.* We will seek to rent to farmers that have financial resources to invest in planting and harvesting their crops. We will generally require annual financial statements of the tenant in order to evaluate the financial capability of the tenant and its ability to perform its obligations under the lease.

*Adherence to Quality Standards.* We intend to lease our properties only to those farmers that are committed to farming in a manner that will generate high-quality produce.

While our Adviser will select tenants it believes to be creditworthy, tenants will not be required to meet any minimum rating established by an independent credit rating agency. Our Adviser's standards for determining whether a particular tenant is creditworthy will vary in accordance with a variety of factors relating to specific prospective tenants. The creditworthiness of a tenant will be determined on a tenant-by-tenant and case-by-case basis. Therefore, general standards for creditworthiness cannot be applied. We monitor the creditworthiness of our tenants on an ongoing basis by conducting site visits of the properties to ensure farming operations are taking place as expected and to assess the general maintenance of the properties.

### ***Diversification***

Our Adviser will attempt to diversify our portfolio to avoid dependence on any one particular tenant or geographic location. By diversifying our portfolio, our Adviser intends to reduce the adverse effect on our portfolio of a single underperforming investment or a downturn in any particular geographic region. Many of the areas in which we purchase or finance properties are likely to have their own microclimates and will not be similarly affected by weather or other natural occurrences at the same time. For example, we currently lease land in California as far south as Oxnard and as far north as Watsonville, which are over 400 miles apart, each of which has distinct weather and other characteristics. In addition to the California coast, we own properties in central Florida. Over time, we expect to expand our geographic focus to other areas of the Southeast and the Mid-Atlantic.

### ***Lease and Mortgage Provisions that Enhance and Protect Value***

When appropriate, our Adviser will attempt to include provisions in our leases and mortgages that require our consent to specified activities or that require the tenant or borrower to satisfy specific operating tests. These provisions may include, for example, operational or financial covenants, as well as indemnification of us by the tenant or borrower against environmental and other contingent liabilities. We believe that these provisions will protect our investments from changes in the operating and financial characteristics of a tenant or borrower that may impact its ability to satisfy its obligations to us or that could reduce the value of our properties. We will also seek covenants requiring tenants or borrowers to receive our consent prior to any change in control transaction involving the tenant.

### ***Credit Enhancement***

Our Adviser may also seek to enhance the likelihood of a tenant's lease obligations being satisfied through a cross-default with other tenant obligations, a letter of credit or a guaranty of lease obligations from the tenant's corporate affiliates, if any. We believe that any such credit enhancement would provide us with additional financial security. These same enhancements may apply to our mortgage terms.

## **Table of Contents**

### ***Mortgage Loans***

#### ***Borrower Selection***

Our value-oriented investment philosophy is primarily focused on maximizing yield relative to risk. Upon identifying a potential mortgage opportunity, our Adviser will perform an initial screen to determine whether pursuing intensive due diligence is merited. As part of this process, we have identified several criteria we believe are important in evaluating and investing in prospective borrowers. These criteria provide general guidelines for our investment decisions. However, each prospective borrower may not meet all of these criteria:

*Positive cash flow.* Our investment philosophy places a premium on fundamental credit analysis. We intend to generally focus on borrowers to which we can lend at relatively low multiples of operating cash flow and that are profitable at the time of investment on an operating cash flow basis. Although we will obtain liens on the underlying real estate and other collateral, we are primarily focused on the predictability of future cash flow from their operations.

*Seasoned management with significant equity ownership.* Strong, committed management teams are important to the success of any farm and we intend to invest in farm businesses where strong management teams are already in place.

*Strong competitive position.* We seek to lend to farm businesses that have developed competitive advantages and defensible market positions within their respective markets and are well-positioned to capitalize on growth opportunities.

*Exit strategy.* We seek to lend to farm businesses that we believe will generate consistent cash flow to repay our loans and reinvest in their respective businesses. We expect such internally generated cash flow in these farms to be a key means by which we exit from our loans.

#### ***Mortgage Loan Terms***

We expect that most of the mortgage loans we make will contain some or all of the following terms and conditions:

*Loan to value.* We will consider the appraised value of each property when we consider a mortgage on that property. Our goal is to loan an amount that is no more than 75% of the appraised value of the real estate. However, there may be circumstances in which we may increase the percentage, such as for land that we would like to own or for a borrower that is well-capitalized.

*Cash flow coverage.* We expect most borrowers to have a farming operation that has and is expected to continue to have substantial cash flow from its operations. We will seek to have cash flow generated by the businesses to be at least 1.2 times the amount of the mortgage payments. However, there may be circumstances in which we may lower that ratio below 1.2, such as for land we would like to own and for borrowers that have cash flow from other operations.

*Term.* In general we expect to make mortgage loans of three to five years that will be interest-only, with the entire principal amount due at the end of the term.

*Guarantees.* In general we do not expect the owner of the property to personally guarantee the mortgage. However, we do expect the owner to pledge any assets or crops planted on the property as collateral for the loan.

#### ***Property Review***

We expect to perform a standard review of the property that will be collateral for the mortgage, including most of the following:

an independent appraisal;

land record searches for possible restrictions;

## **Table of Contents**

water samples and availability;

soil samples;

environmental analysis;

zoning analysis;

crop yields;

possible future uses of the property; and

government regulation impacting the property including taxes and restrictions.

### *Underwriting the Borrower*

We view underwriting a borrower in the same way as underwriting a tenant, with criteria similar to those for tenants described above. We believe that, for assessing credit risk, a borrower and tenant are functionally the same, as they each are operating a farm business and will owe us money, either as rent or as interest and principal on a loan.

### *Other Investments*

From time to time, we may purchase cooling buildings, freezer buildings and similar improved property to rent to independent farmers in connection with the services provided to independent farmers. We may also build a freezer or cooler on property that we purchase if there is sufficient business to make this worthwhile. To a lesser extent, we may buy packing houses to clean and pack fresh vegetables. We do not expect this to be a material portion of the land and buildings that we purchase.

### *Temporary Investments*

There can be no assurance as to when our capital may be fully invested in real properties or mortgages. Pending investment in real properties or mortgages, we intend to invest the net proceeds of this offering in permitted temporary investments, which include short-term U.S. Government securities, bank certificates of deposit and other short-term liquid investments. We also may invest in securities that qualify as real estate assets and produce qualifying income under the REIT provisions of the Code.

If at any time the character of our investments would cause us to be deemed an investment company for purposes of the Investment Company Act of 1940, we will take the necessary action to ensure that we are not deemed to be an investment company. Our Adviser will continually review our investment activity and the composition of our portfolio to ensure that we do not come within the application of the Investment Company Act. Our working capital and other reserves will be invested in permitted temporary investments. Our Adviser will evaluate the relative risks and rates of return, our cash needs and other appropriate considerations when making short-term investments on our behalf. The rates of return of permitted temporary investments may be less than or greater than would be obtainable from real estate investments.

### **Qualified REIT Subsidiaries**

While we intend to conduct substantially all of our investment activities through our Operating Partnership, we may establish one or more entities called qualified REIT subsidiaries to purchase properties. These entities would be formed for the sole purpose of acquiring a specific property or properties and would have organizational documents:

that are substantially similar in all relevant ways to our organizational documents;

that comply with all applicable state securities laws and regulations; and

that comply with the applicable terms and conditions set forth in this prospectus.

## **Table of Contents**

### **Joint Ventures**

We may enter into joint ventures, partnerships and other mutual arrangements with real estate developers, property owners and others for the purpose of obtaining an equity interest in a property in accordance with our investment policies. Many REITs have used joint ventures as sources of capital during periods where debt or equity capital was either unavailable or not available on favorable terms. Joint venture investments could permit us to own interests in large properties without unduly restricting the diversity of our portfolio. We will not enter into a joint venture to make an investment that we would not otherwise be permitted to make on our own. We expect that in any joint venture the cost of structuring joint investments would be shared ratably by us and the other participating investors.

### **Taxable REIT Subsidiaries**

While we intend to conduct substantially all of our investment activities through our Operating Partnership, we may establish one or more wholly owned subsidiaries that are taxable REIT subsidiaries, or TRSs, and we currently own one entity, Gladstone Land Advisers, Inc., that we intend will make an election to be taxed as a TRS, upon our election to be taxed as a REIT. A TRS would be consolidated with us for financial accounting purposes but would be fully taxable as a corporation. TRSs may provide services and earn revenues that would potentially disqualify us from satisfying the REIT requirements under applicable tax law if we earned them directly.

To the extent that Gladstone Land Advisers or any other TRS that we may establish in the future has after-tax income, its Board of Directors could, but would not be required to, declare a dividend to be paid to us as its sole stockholder. That dividend would then become income to us and we would generally pay this income out to our stockholders as a distribution.

### **Use of Leverage**

#### ***Non-recourse financing***

Our strategy is to use borrowings as a financing mechanism in amounts that we believe will maximize the return to our stockholders. We generally expect to enter into borrowing arrangements directly or indirectly through our Operating Partnership. We will seek to structure all borrowings as non-recourse loans. The use of non-recourse financing allows us to limit our exposure to the amount of equity invested in the properties pledged as collateral for our borrowings. Non-recourse financing generally restricts a lender's claim on the assets of the borrower and, as a result, the lender generally may look only to the property securing the debt for satisfaction of the debt. We believe that this financing strategy, to the extent available, will protect our other assets. However, we can provide no assurance that non-recourse financing will be available on terms acceptable to us, or at all, and there may be circumstances where lenders have recourse to our other assets. There is no limitation on the amount we may borrow against any single investment property. Neither our articles of incorporation nor our bylaws impose any limitation on our borrowing, but our Board of Directors has adopted a policy limiting our aggregate borrowings to two times our total equity. Our Board of Directors may change this policy at any time.

We believe that, by operating on a leveraged basis, we will have more funds available and, therefore, will be able to make more investments than would otherwise be possible. We believe that this will result in a more diversified portfolio. Our Adviser will use its best efforts to obtain financing on the most favorable terms available to us.

We anticipate that prospective lenders may also seek to include in loans to us provisions whereby the termination or replacement of our Adviser would result in an event of default or an event requiring the immediate repayment of the full outstanding balance of the loan. We will generally seek to avoid the inclusion of these provisions and will attempt to negotiate loan terms that allow us to replace or terminate our Adviser if the action is approved by our Board of Directors. The replacement or termination of our Adviser may, however, require the prior consent of a lender.



## **Table of Contents**

We may refinance properties during the term of a loan when, in the opinion of our Adviser, a decline in interest rates makes it advisable to prepay an existing mortgage loan, when an existing mortgage loan matures or if an attractive investment becomes available and the proceeds from the refinancing can be used to make such investment. The benefits of the refinancing may include an increase in cash flow resulting from reduced debt service requirements, an increase in distributions to stockholders from proceeds of the refinancing, if any, or an increase in property ownership if some refinancing proceeds are reinvested in real estate.

### **Other Investment Policies**

#### ***Working Capital Reserves***

We may establish a working capital reserve in an amount equal to approximately 3% of the net proceeds of this offering, which we anticipate to be sufficient to satisfy our liquidity requirements. Our liquidity could be adversely affected by unanticipated costs, greater-than-anticipated operating expenses or cash shortfalls in funding our distributions. To the extent that the working capital reserve is insufficient to satisfy our cash requirements, additional funds may be produced from cash generated from operations or through short-term borrowings. In addition, subject to limitations described in this prospectus, we may incur indebtedness in connection with:

the acquisition of any property;

the refinancing of the debt upon any property; or

the leveraging of any previously unleveraged property.

For additional information regarding our borrowing strategy, see [Our Investment Process](#) [Use of Leverage](#).

#### ***Holding Period For and Sale of Investments; Reinvestment of Sale Proceeds***

We intend to hold each property we acquire for an extended period until it can be sold for conversion into urban or suburban uses, such as residential or commercial development. However, circumstances might arise which could result in the earlier sale of some properties. We may sell a property before the end of its expected holding period if in the judgment of our Adviser the sale of the property is in the best interest of our stockholders. The determination of whether a particular property should be sold or otherwise disposed of will be made after consideration of all relevant factors, including prevailing economic conditions, with a view to achieving maximum capital appreciation. No assurance can be given that the foregoing objective will be realized. The selling price of a property which is subject to a net lease will be determined in large part by the amount of rent payable under the lease and the creditworthiness of the tenant. In connection with our sales of properties we may lend the purchaser all or a portion of the purchase price. In these instances, our taxable income may exceed the cash received in the sale, which could cause us to delay required distributions to our stockholders. See [Federal Income Tax Consequences of our Status as a REIT](#) [Distribution Requirements](#).

The terms of any sale will be dictated by custom in the area in which the property being sold is located and the then-prevailing economic conditions. A decision to provide financing to any purchaser would be made only after an investigation into and consideration of the same factors regarding the purchaser, such as creditworthiness and likelihood of future financial stability, as are undertaken when we consider a net lease transaction. We may continually reinvest the proceeds of property sales in investments that either we or our Adviser believe will satisfy our investment policies.

#### ***Investment Limitations***

There are numerous limitations on the manner in which we may invest our funds. We have adopted a policy that without the permission of our Board of Directors, we will not:

invest 20% or more of our total assets in a particular property or mortgage at the time of investment;



**Table of Contents**

invest in real property owned by our Adviser, any of its affiliates or any business in which our Adviser or any of its affiliates have invested;

invest in commodities or commodity futures contracts, with this limitation not being applicable to futures contracts when used solely for the purpose of hedging in connection with our ordinary business of investing in properties and making mortgage loans;

invest in contracts for the sale of real estate unless the contract is in recordable form and is appropriately recorded in the chain of title;

invest more than 10% of our total assets in unimproved real property or debt secured by unimproved property, meaning property that was not acquired for the purpose of producing rental or other operating income and on which there is no development or construction in process or planned in good faith to commence within one year of acquisition;

issue equity securities on a deferred payment basis or other similar arrangement;

grant warrants or options to purchase shares of our stock to our Adviser or its affiliates;

engage in trading, as compared with investment activities, or engage in the business of underwriting, or the agency distribution of, securities issued by other persons;

invest more than 5% of the value of our assets in the securities of any one issuer if the investment would cause us to fail to qualify as a REIT;

invest in securities representing more than 10% of the outstanding securities (by vote or value) of any one issuer if the investment would cause us to fail to qualify as a REIT;

acquire securities in any company holding investments or engaging in activities prohibited in the foregoing clauses; or

make or invest in mortgage loans that are subordinate to any mortgage or equity interest of any of our affiliates.

***Conflict of Interest Policy***

We have adopted policies to reduce potential conflicts of interest. For a description of these policies, see *Conflicts of Interest* *Conflict of Interest Policy*. In addition, our directors are subject to certain provisions of Maryland law that are designed to minimize conflicts. However, we cannot assure you that these policies or provisions of law will reduce or eliminate the influence of these conflicts.

***Future Revisions in Policies and Strategies***

Our independent directors will review our investment policies at least annually to determine that the policies we are following are in the best interest of our stockholders. The methods of implementing our investment policies also may vary as new investment techniques are developed. The methods of implementing our investment procedures, objectives and policies, except as otherwise provided in our bylaws or articles of incorporation, may be altered by a majority of our directors, including a majority of our independent directors, without the approval of our stockholders, to the extent that our Board of Directors determines that such modification is in the best interest of the stockholders.

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Among other factors, developments in the market which affect the policies and strategies mentioned in this prospectus or which change our assessment of the market may cause our Board of Directors to revise our investment policies and strategies.

**Table of Contents**

**OUR CURRENT PROPERTIES**

A summary of our twelve current farm properties is below. The aggregate appraised value of these properties, comprised of 1,631 acres of farmland in California and Florida, of which approximately 1,344 acres are farmable, is approximately \$75.5 million. The aggregate cost basis of these properties is \$40.3 million. We commission third-party appraisals on each of our properties every two to three years. The most recent appraisals on our properties range from 2011 to 2012. Because of the relatively low volatility of farmland prices compared to other types of real estate, we believe updating appraisals every few years is sufficient. Although we believe these appraisals are reasonable, appraisals are only estimates of value as of their respective dates and should not be relied on as a measure of the values that we would necessarily realize if we were to sell these properties. Corporate and independent farmers actively manage the operations of these properties to plant, harvest and fresh fruits and vegetables. We do not farm the properties and do not take any crop risk. Our tenants take the risk of growing crops on our properties.

We track the weighted-average yield on our properties as a way of measuring the income generation of the particular properties and our portfolio as a whole. We calculate the weighted-average yield on our portfolio by taking the annualized GAAP straight-line rents, reflected as rental income on our condensed consolidated statements of operations, of each property as a percentage of the acquisition cost and subsequent improvements. As of June 30, 2012, the annualized weighted-average yield on our properties was approximately 10.0%, which does not take into account the effects of the properties that we purchased after June 30, 2012. Because this weighted-average yield is determined on an unleveraged basis, it does not account for the interest expense incurred on the mortgages placed on these properties, which on an annualized basis is approximately \$0.8 million.

Our current farmland leases typically range from two to five years in length. Our tenants spend considerable time and capital to maintain these properties and therefore we believe they will renew their leases at the time of lease expiration. In 2011, we extended the lease on the San Andreas Farm for four years and the lease on the West Beach Farms for two years, and in 2012 we extended the Dalton Lane Farm lease for three years. We offer our tenants renewal terms that we believe are in line with market conditions, and as a result, to date, we have not had a tenant vacate any of our properties. If a tenant chooses not to renew a lease in the future, we believe that we will be able to locate other farmers who would be willing to lease the property.

**San Andreas Farm**

We acquired the San Andreas Farm, consisting of 306 acres of farmland near Watsonville, California, in 1997, for a purchase price of approximately \$4.4 million. Subsequent to its acquisition, we have added approximately \$0.5 million of improvements to the property, for a total cost basis of \$4.9 million as of June 30, 2012. We hold the San Andreas Farm in fee simple through our wholly owned subsidiary San Andreas Road Watsonville, LLC. On August 7, 2012, Nicholson & Company, an independent certified general real estate appraiser, concluded that the value of the property