GLADSTONE LAND Corp
Form 10-Q
August 04, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM __________ TO __________

COMMISSION FILE NUMBER: 001-35795

GLADSTONE LAND CORPORATION

(Exact name of registrant as specified in its charter)

MARYLAND	**54-1892552**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1521 WESTBRANCH DRIVE, SUITE 100	
MCLEAN, VIRGINIA	**22102**
(Address of principal executive offices)	**(Zip Code)**

(703) 287-5800

(Registrant s telephone number, including area code)

Not Applicable

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨

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

(Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO x.

The number of shares of the registrant s Common Stock, $0.001 par value per share, outstanding as of August 4, 2014, was 6,530,264.

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GLADSTONE LAND CORPORATION

FORM 10-Q FOR THE QUARTER ENDED

JUNE 30, 2014

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

GLADSTONE LAND CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	June 30, 2014	December 31, 2013
ASSETS		
Real estate, at cost	$ 90,394,803	$ 78,478,053
Less: accumulated depreciation	(3,587,682)	(3,166,870)
Total real estate, net	86,807,121	75,311,183
Lease intangibles, net	641,600	311,064
Cash and cash equivalents	3,829,591	16,271,282
Restricted cash	1,529	41
Short-term investments	680,781	680,443
Deferred financing costs, net	812,809	309,933
Deferred offering costs	139,972	
Other assets	857,696	789,518
TOTAL ASSETS	$ 93,771,099	$ 93,673,464
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES		
Mortgage note payable	$ 41,331,998	$ 43,054,165
Borrowings under line of credit	3,000,000	100,000
Accounts payable and accrued expenses	676,627	1,097,270
Due to related parties[(1)]	314,404	160,719
Other liabilities	1,391,701	749,318
TOTAL LIABILITIES	46,714,730	45,161,472
Commitments and contingencies[(2)]		
STOCKHOLDERS EQUITY		
Common stock, $0.001 par value; 20,000,000 shares authorized; 6,530,264 shares issued and outstanding at both June 30, 2014, and December 31, 2013	6,530	6,530
Additional paid in capital	51,326,262	51,326,262
Distributions in excess of earnings	(4,276,423)	(2,820,800)
TOTAL STOCKHOLDERS EQUITY	47,056,369	48,511,992

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 93,771,099	$ 93,673,464

[1] Refer to Note 4, Related-Party Transactions, for additional information
[2] Refer to Note 8, Commitments and Contingencies, for additional information

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

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GLADSTONE LAND CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
OPERATING REVENUES:				
Rental revenues	$ 1,561,291	$ 949,756	$ 3,056,927	$ 1,864,339
Tenant recovery revenue	4,644		4,644	
Total operating revenues	1,565,935	949,756	3,061,571	1,864,339
OPERATING EXPENSES:				
Depreciation and amortization	330,486	177,323	618,517	337,359
Management fee[(1)]	236,531	25,136	477,495	84,301
Incentive fee[(1)]				41,037
Administration fee[(1)]	65,047	57,508	131,205	95,840
Professional fees	110,605	163,764	289,592	249,156
Acquisition-related expenses	177,334	4,266	220,746	21,137
Property operating expenses	81,480	28,972	147,065	47,467
General and administrative expenses	206,975	195,401	424,290	314,179
Operating expenses before credits from Adviser	1,208,458	652,370	2,308,910	1,190,476
Credits to fees from Adviser[(1)]		(41,037)		(41,037)
Total operating expenses, net of credits to fees	1,208,458	611,333	2,308,910	1,149,439
OPERATING INCOME	357,477	338,423	752,661	714,900
OTHER INCOME (EXPENSE):				
Interest income	4,327	14,818	9,975	25,445
Other income			749	
Interest expense	(405,797)	(276,047)	(779,837)	(556,446)
Property and casualty loss	(250,478)		(250,478)	
Total other expense	(651,948)	(261,229)	(1,019,591)	(531,001)
Net (loss) income before income taxes	(294,471)	77,194	(266,930)	183,899
Income tax provision	(6,623)	(46,838)	(13,246)	(106,027)
NET (LOSS) INCOME	$ (301,094)	$ 30,356	$ (280,176)	$ 77,872

(LOSS) EARNINGS PER COMMON SHARE:								
Basic and diluted	$	(0.05)	$	0.00	$	(0.04)	$	0.01
Distributions per common share	$	0.09	$	0.36	$	0.18	$	0.44
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING - basic and diluted		6,530,264		6,530,264		6,530,264		5,893,618

[(1)] Refer to Note 4, Related-Party Transactions, for additional information

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

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GLADSTONE LAND CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Six Months Ended June 30, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (280,176)	$ 77,872
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	618,517	337,359
Amortization of deferred financing fees	20,013	14,890
Amortization of deferred rent assets and liabilities, net	(60,971)	(52,956)
Property and casualty loss	250,478	
Changes in operating assets and liabilities:		
Other assets	81,945	(2,355,672)
Accounts payable, accrued expenses, and due to related parties	(405,464)	9,688
Other liabilities	512,893	276,628
Net cash provided by (used in) operating activities	737,235	(1,692,191)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of new real estate	11,161,635	(4,682,871)
Capital expenditures on existing real estate	(1,221,664)	
Increase in restricted cash	(1,488)	
Purchase of U.S. Treasuries		(19,994,981)
Maturity of U.S. Treasuries		20,000,000
Deposits on future acquisitions	(200,000)	
Deposits refunded	50,000	
Net cash used in investing activities	(12,534,787)	(4,677,852)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of equity		56,703,960
Offering costs	(124,972)	(4,687,579)
Repayments on mortgage note payable	(1,722,167)	(1,228,715)
Borrowings from line of credit	9,900,000	1,600,000
Repayments on line of credit	(7,000,000)	(1,600,000)
Financing fees	(521,553)	(12,230)
Distributions paid	(1,175,447)	(2,873,316)
Net cash (used in) provided by financing activities	(644,139)	47,902,120
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(12,441,691)	41,532,077
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	16,271,282	873,474

CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 3,829,591	$ 42,405,551
NON-CASH INVESTING AND FINANCING INFORMATION:		
Non-cash additions to real estate	$ 312,171	$ 1,978
Offering costs included in accounts payable and accrued expenses	15,000	
Financing fees included in accounts payable and accrued expenses	1,336	

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

GLADSTONE LAND CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1. BUSINESS AND ORGANIZATION

Business

Gladstone Land Corporation (the Company, we, us or our) was re-incorporated in Maryland on March 24, 2011, having been previously re-incorporated in Delaware on May 25, 2004, and having been originally incorporated in California on June 14, 1997. We are primarily in the business of owning and leasing farmland. Subject to certain restrictions and limitations, and pursuant to contractual agreements, our business is managed by Gladstone Management Corporation (the Adviser), a Delaware corporation, and administrative services are provided to us by Gladstone Administration, LLC (the Administrator), a Delaware limited liability company.

Organization

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

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

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Financial Information

Our interim financial statements are prepared in accordance with United States (U.S.) generally accepted accounting principles (GAAP) for interim financial information and pursuant to the requirements for reporting on Form 10-Q in accordance with Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. In the opinion of our management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair presentation of financial statements for the interim period have been included. The results of the interim period reported herein are not indicative of the results to be expected for the full year. The interim financial statements and accompanying notes should be read in conjunction with the condensed consolidated financial statements and notes thereto included in our Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on February 24, 2014.

Out-of-Period Adjustment

During the three months ended September 30, 2013, and the three months ended December 31, 2013, we recorded adjustments to our income tax provision and to other assets that were related to our 2011 and 2012 provision reconciliation. As a result of the correction of these errors, we understated net income by $30,800 for the both three and nine months ended September 30, 2013, and by $9,638 and $40,438 for the three months and year ended December 31, 2013, respectively. We concluded that these adjustments were not material to the 2011, 2012 or 2013 results of operations; as such, these adjustments were recorded during 2013, with no impact on the six months ended June 30, 2013.

Use of Estimates

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

Real Estate and Lease Intangibles

Our investments in real estate consist of farmland and improvements made to the farmland, consisting of buildings; irrigation and drain systems; coolers, which are storage facilities used for cooling crops; box barns, which are facilities used for storing and assembling boxes; and horticulture acquired in connection with the land purchase, which currently consists of blueberry bushes and lemon trees. We record investments in real estate at cost and capitalize improvements and replacements when they extend the useful life or improve the efficiency of the asset. We expense costs of repairs and maintenance as such costs are incurred. We compute depreciation using the straight-line method over the shorter of the estimated useful life or 39 years for buildings and improvements, the shorter of the estimated useful life or 25 years for horticulture acquired in connection with the purchase of farmland, 5 to 7 years for equipment and fixtures and the shorter of the useful life or the remaining lease term for leasehold interests.

Certain of our acquisitions involve sale-leaseback transactions with newly-originated leases, which we account for as asset acquisitions under Accounting Standards Codification (ASC) 360, Property, Plant and Equipment. In the case of an asset acquisition, we will capitalize the transaction costs incurred in connection with the acquisition. Other of our acquisitions involve the acquisition of farmland that is already being operated as rental property and has a lease in place that we assume at the time of acquisition, which we will generally consider to be a business combination under ASC 805, Business Combinations. When an acquisition is considered a business combination, ASC 805 requires that the purchase price of real estate be allocated to the tangible assets acquired and liabilities assumed, consisting of land, buildings, improvements, horticulture and long-term debt; and identifiable intangible assets and liabilities, typically the value of above-market and below-market leases, in-place leases, unamortized lease origination costs and tenant relationships, based in each case on their fair values. ASC 805 also requires that all expenses related to the acquisition be expensed as incurred, rather than capitalized into the cost of the acquisition.

Whether our acquisitions are treated as an asset acquisition under ASC 360 or a business combination under ASC 805, the fair value of the purchase price is allocated among the assets acquired and any liabilities assumed. Management s estimates of fair value are made using methods similar to those used by independent appraisers, such as a sales comparison approach, a cost approach and an income capitalization approach or discounted cash flow analysis. Factors considered by management in its analysis include an estimate of carrying costs during hypothetical, expected lease-up periods, taking into consideration current market conditions and costs to execute similar leases. We also consider information obtained about each property as a result of our pre-acquisition due diligence, marketing and

leasing activities in estimating the fair value of the tangible and intangible assets acquired and liabilities assumed. In estimating carrying costs, management also includes lost reimbursement of real estate taxes, insurance and other operating expenses, as well as estimates of lost rental income at market rates during the hypothetical, expected lease-up periods, which typically range from 3 to 12 months, depending on specific local market conditions. Management also estimates costs to execute similar leases, including leasing commissions, legal and other related expenses, to the extent that such costs are not already incurred in connection with a new lease origination as part of the transaction. While management believes these estimates to be reasonable based on the information available at the time of acquisition, the preliminary purchase price allocation may be adjusted if management obtains more information regarding the valuations of the assets acquired or liabilities assumed.

We allocate purchase price to the fair value of the tangible assets and liabilities of an acquired property by valuing the property as if it were vacant. The as-if-vacant value is allocated to land, buildings, improvements and horticulture, based on management s determination of the fair values of these assets. Real estate depreciation expense on these tangible assets was $296,946 and $556,509 for the three and six months ended June 30, 2014, respectively, and $148,046 and $283,101 for the three and six months ended June 30, 2013, respectively.

We record above-market and below-market in-place lease values for acquired properties based on the present value (using an interest rate that reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management s estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining, non-cancelable term of the lease. When determining the non-cancelable term of the lease, we evaluate whether fixed-rate renewal options, if any, should be included.

In connection with our 2014 acquisitions, we allocated $45,675 of the purchase price to above-market lease values. The fair value of capitalized above-market leases, included as part of Other assets in the accompanying *Condensed Consolidated Balance Sheets*, is amortized as a reduction of rental income on a straight-line basis over the remaining, non-cancelable terms of the respective leases, including that of any fixed-price or below-market renewal options. Total amortization related to above-market lease values was $461 for both the three and six months ended June 30, 2014. There were no above-market lease values recorded prior to 2014. In connection with our 2014, 2013 and 2012 acquisitions, we allocated $49,976, $161,547 and $98,808, respectively, of the purchase price to below-market lease values. The fair value of capitalized below-market leases, included as part of Other liabilities in the accompanying *Condensed Consolidated Balance Sheets*, is amortized as an increase to rental income on a straight-line basis over the remaining, non-cancelable terms of the respective leases, including that of any fixed-price or below-market renewal options. Total amortization related to below-market lease values was $20,980 and $40,874 for the three and six months ended June 30, 2014, respectively, while no such amortization was recorded for the three or six months ended June 30, 2013. Prior to 2012, all acquired leases were determined to be at market.

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

The value of in-place leases and unamortized lease origination costs are amortized to expense on a straight-line basis over the remaining terms of the respective leases assumed upon acquisition, which range from 1 to 10 years. The value of customer relationship intangibles, which is the benefit to us resulting from the likelihood of an existing tenant renewing its lease at the existing property or entering a lease at a different property owned by us, is amortized to expense over the remaining lease term and any anticipated renewal periods in the respective leases. Should a tenant terminate its lease, the unamortized portion of the above-market and below-market lease values, in-place lease values, lease origination costs and tenant relationship intangibles will be immediately charged to the related income or expense.

Total amortization expense related to these intangible assets, in aggregate, was $33,540 and $62,008 for the three and six months ended June 30, 2014, respectively, and $29,277 and $54,258 for the three and six months ended June 30, 2013, respectively.

Impairment of Real Estate Assets

We account for the impairment of our tangible and identifiable intangible real estate assets in accordance with ASC 360, Property, Plant, and Equipment, which requires us to periodically review the carrying value of each property to determine whether indicators of impairment exist. Such indicators may include, but are not limited to, declines in a property s operating performance, deteriorating market conditions and environmental or legal concerns. If circumstances support the possibility of impairment, we prepare a projection of the total undiscounted future cash flows of the specific property, including proceeds from disposition without interest charges, and compare them to the net book value of the property to determine whether the carrying value of the property is recoverable. In performing the analysis, we consider such factors as the tenants payment history and financial condition, the likelihood of lease renewal, agricultural and business conditions in the regions in which our farms are located and whether there are indications that the fair value of the real estate has decreased. If the carrying amount is more than the aggregate undiscounted future cash flows, we would recognize an impairment loss to the extent the carrying value exceeds the estimated fair value of the property.

We evaluate our entire property portfolio each quarter for any impairment indicators and perform an impairment analysis on those select properties that have an indication of impairment. During the three months ended June 30, 2014, we had two separate fires that partially damaged structure on each of two properties, which constituted an indicator of impairment. However, in accordance with ASC 360, we assessed the recoverability of the two properties and determined that the net carrying value of each property was fully recoverable. Therefore, no impairment loss was recorded; however, casualty losses were recognized for each event. See *Involuntary Conversions and Property and Casualty Losses* below for further detail. We further concluded that none of our properties were impaired as of June 30, 2014, and we will continue to monitor our portfolio for any indicators of impairment. There have been no impairments recognized on real estate assets since our inception.

Tenant Improvements

From time to time, our tenants may pay for improvements on certain of our properties, in which case we will record the cost of such improvements as an asset, tenant improvements, along with a corresponding liability, deferred rent liability, on our balance sheet. Tenant improvements will be depreciated and the deferred rent liability amortized as an addition to rental income, each over the shorter of the useful life of the respective improvement or the remaining term of the existing lease in place. In determining whether the tenant or the Company is the owner, for accounting purposes, of such improvements, several factors will be considered, including, but not limited to: (i) whether the tenant or landlord retains legal title to the improvements upon expiration of the lease; (ii) whether the lease stipulates how such improvements should be treated; (iii) the uniqueness of the improvements (i.e., whether the improvements were made to meet the specific needs or for the benefit of the tenant leasing the property, or if the improvements generally increased the value or extended the useful life of the asset improved upon); (iv) the expected useful life of the improvements relative to the remaining length of the lease; and (v) whether the tenant or the Company constructs or directs construction of the improvements. The determination of who owns the tenant improvements, for accounting purposes, is subject to significant judgment.

When improvements on properties are paid for by us, we record such costs as building improvements and depreciate the costs over the estimated useful life of the improvement.

Restricted Cash

Restricted cash as of June 30, 2014, and December 31, 2013, consisted solely of accrued interest owed on funds held in escrow related to the acquisition of a property in December 2013. During the three and six months ended June 30, 2014, we have accrued $748 and $1,488, respectively, of accrued interest on these funds held in escrow.

Short-term Investments

We consider short-term investments to consist of any highly-liquid securities that have an original maturity of less than one year but greater than three months at the time of purchase. As of June 30, 2014, and December 31, 2013, short-term investments consisted of approximately $0.7 million held in a certificate of deposit (CD). The CD originally matured on September 6, 2013; however, upon maturity, the balance was rolled into a new, 12-month CD with a maturity date of September 6, 2014. Due to the short-term nature of the CD, the amortized cost of the security was deemed to approximate its fair value as of both June 30, 2014 and December 31, 2013. During the three and six months ended June 30, 2013, we also held $20.0 million of short-term U.S. Treasury Bills that matured on June 27, 2013, and were subsequently invested in a money-market deposit account. As of both June 30, 2014, and December 31, 2013, our short-term investments were classified as held-to-maturity and were recorded at their amortized cost on the *Condensed Consolidated Balance Sheets*.

Total income earned on these short-term investments is included in Interest income on the accompanying *Condensed Consolidated Statements of Operations* and totaled $170 and $337 for the three and six months ended June 30, 2014, respectively, and $3,350 and $5,361 for the three and six months ended June 30, 2013, respectively.

Deferred Financing Costs

Deferred financing costs consist of costs incurred to obtain financing, including legal fees, origination fees and administrative fees. These costs are deferred and amortized over the term of the related financing using the straight-line method due to the revolving nature of the financing instrument. Upon early extinguishment of any borrowings, the unamortized portion of the related deferred financing costs will be immediately charged to expense. Total amortization expense related to deferred financing costs is included in Interest expense on the accompanying *Condensed Consolidated Statements of Operations*. Accumulated amortization of deferred financing costs was $84,160 and $64,148 as of June 30, 2014, and December 31, 2013, respectively.

Effective May 9, 2014, we entered into a new agreement with Metropolitan Life Insurance Company (MetLife) for a new mortgage loan and credit facility. In connection with this transaction, we incurred $522,644 of financing costs, which will be amortized over the term of the new facility. In addition, in accordance with ASC 470, Debt, as the borrowing capacity of our new facility is greater than that of our prior facility with MetLife, the unamortized deferred financing costs from our prior facility should be associated with the new facility. As such, $298,614 of unamortized deferred financing costs from our prior facility was also deferred and will be amortized over the term of the new facility

Deferred Offering Costs

We account for deferred offering costs in accordance with SEC Staff Accounting Bulletin (SAB), Topic 5.A, which states that incremental costs directly attributable to a proposed or actual offering of securities may properly be deferred and charged against the gross proceeds of the offering. Accordingly, we record costs incurred related to public offerings of equity securities on our *Condensed Consolidated Balance Sheets* and pro-ratably apply these amounts to the proceeds of equity as stock is issued. The deferred offering costs on our *Condensed Consolidated Balance Sheets* as of June 30, 2014, are related to the filing and preparation of a registration statement on Form S-3, which was declared effective by the U.S. Securities and Exchange Commission (the SEC) on April 2, 2014.

Other Assets

Other assets consist primarily of income taxes receivable, deferred rent, insurance proceeds receivable, prepaid expenses, deposits on potential real estate acquisitions, above-market lease values and other miscellaneous receivables.

Revenue Recognition

Rental revenue includes rents that each tenant pays in accordance with the terms of its respective lease, reported evenly over the non-cancelable term of the lease. Some of our leases contain rental increases at specified intervals; we recognize such revenues on a straight-line basis. Deferred rent receivable, included in Other assets on the accompanying *Condensed Consolidated Balance Sheets*, includes the cumulative difference between rental revenue, as recorded on a straight-line basis, and rents received from the tenants in accordance with the lease terms. Capitalized above-market and below-market leases are included in Other assets and Other liabilities, respectively, on the accompanying *Condensed Consolidated Balance Sheets*, the values of which are amortized against or into rental income over the life of the respective leases. In addition, we determine, in our judgment, to what extent the deferred rent receivable applicable to each specific tenant is collectable. We periodically review deferred rent receivable as it relates to straight-line rents and take into consideration the tenant s payment history, the financial condition of the tenant, business conditions of the industry in which the tenant operates and economic and agricultural conditions in the geographic area in which the property is located. In the event that the collectability of deferred rent with respect to

any given tenant is in doubt, we record an allowance for uncollectable accounts or record a direct write-off of the specific rent receivable. No such reserves or direct write-offs have been recorded to date.

Tenant reimbursement revenue includes payments received from tenants as reimbursements for certain operating expenses, such as property taxes and insurance premiums. These expenses and their subsequent reimbursements are recognized under property operating expenses as incurred and tenant reimbursements as earned, respectively, which typically occur and are recorded in the same periods.

Involuntary Conversions and Property and Casualty Losses

We account for involuntary conversions, for example, when a nonmonetary asset, such as property or equipment, is involuntarily converted to a monetary asset, such as insurance proceeds, in accordance with ASC 605, Revenue Recognition Gains and Losses, which requires us to recognize a gain or a loss equal to the difference between the carrying amount of the nonmonetary asset and the amount of monetary assets received. Further, in accordance with ASC 450, Contingencies, if recovery of the loss is considered to be probable, we will recognize a receivable for the amount expected to be covered by insurance proceeds, not to exceed the related loss recognized.

During the three months ended June 30, 2014, we had two separate fires that partially damaged structures on two of our properties. While our assessment of the overall damage is still ongoing, we currently estimate that the assets damaged by the fires had an aggregate carrying value of approximately $250,000, which has been recorded as Property and casualty loss on the accompanying *Condensed Consolidated Statements of Operations*. Further, both assets were insured at the time of the fires, either by the tenant or by us, and at least partial recovery of these costs is considered probable. However, we are still in the process of assessing the amount expected to be recovered, as well as the collectability of such amounts; thus, no offset to the loss has been recorded at this time.

See Footnote 3, Real Estate and Intangible Assets, for further information on these events.

Income Taxes

We believe that we have completed all significant actions necessary to convert to a real estate investment trust (REIT), effective January 1, 2013; therefore, beginning with our taxable year ended December 31, 2013, we intend to elect to be taxed as a REIT for federal income tax purposes. As a REIT, we generally will not be subject to federal income taxes on amounts that we distribute to our stockholders (except income from any foreclosure property), provided that, on an annual basis, we distribute at least 90% of our REIT taxable income (determined without regard to the deduction for dividends paid and excluding net capital gains) to our stockholders and meet certain other conditions. To the extent that we satisfy the annual distribution requirement but distribute less than 100% of our taxable income, we will be subject to an excise tax on our undistributed taxable income.

For all tax years prior to 2013, our net income was taxed at regular corporate tax rates for both federal and state purposes, and we accounted for such income taxes in accordance with the provisions of ASC 740, Income Taxes. Under ASC 740-10-25, we account for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. In estimating future tax consequences, we consider all future events, other than changes in tax laws or rates. The effect on deferred tax assets and liabilities of a change in tax rates will be recognized as income or expense in the period of enactment.

In addition, ASC 740 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC 740, we may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not (defined as a likelihood of more than 50%) that the tax position, based on the technical merits of the position, will be sustained upon examination by taxing authorities, including resolutions of any related appeals or litigation processes. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater-than-fifty-percent likelihood of being realized upon ultimate settlement. If a tax position does not meet the more-likely-than-not recognition threshold, despite our belief that the filing position is supportable, the benefit of that tax position is not recognized in the *Condensed Consolidated Statements of Operations*. ASC 740 also provides guidance on derecognition, classification, interest and penalties on income taxes, as well

as accounting in interim periods, and requires increased disclosures. We recognize interest and penalties, as applicable, related to unrecognized tax benefits as General and administrative expense on the *Condensed Consolidated Statements of Operations*. We recognize unrecognized tax benefits in the period that the uncertainty is eliminated by either affirmative agreement of the uncertain tax position by the applicable taxing authority or by expiration of the applicable statute of limitation. We have performed a review of our tax positions and determined that, as of June 30, 2014, and December 31, 2013, we had no material uncertain tax positions.

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A reconciliation between the U.S. statutory federal income tax rate and our effective income tax rate for the six months ended June 30, 2014 and 2013 is provided in the following table:

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
U.S. statutory federal income tax rate	0.0%	34.0%
State taxes, net of U.S. federal income tax benefit	0.0%	23.4%
Other adjustments[(1)]	-5.0%	0.3%
Effective tax rate	**-5.0%**	**57.7%**

(1) Adjustments made to the 2014 income tax provision relate to taxes owed to the state of California, as a result of the land transfers from prior years, mentioned above.

The provision for income taxes included in our *Condensed Consolidated Financial Statements* for both 2014 and 2013 were all current.

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

Segment Reporting

We do not evaluate performance on a property-specific or transactional basis, nor do we distinguish our principal business or group our operations on a geographical basis for purposes of measuring performance. Thus, we believe we have a single operating segment for reporting purposes in accordance with GAAP, that segment being farmland and farm-related properties.

Comprehensive Income (Loss)

For the three and six months ended June 30, 2014 and 2013, net (loss) income equaled comprehensive (loss) income; therefore, a separate statement of comprehensive income is not included in the accompanying *Condensed Consolidated Financial Statements*.

Recently-Issued Accounting Guidance

The Financial Accounting Standards Board (the FASB) issued Accounting Standards Update No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity in April 2014. Under this revised guidance, only disposals representing a strategic shift in operations, such as a disposal of a major geographic area, a major line of business or a major equity method investment, will be presented as discontinued operations. As an emerging growth company, the standard is effective for us with respect to (a) all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and

interim periods within annual periods beginning on or after December 15, 2015, and (b) all activities that, upon acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within annual periods beginning on or after December 15, 2015. We currently anticipate that this standard will not have a significant impact on our financial position, results of operations or cash flows.

The FASB issued ASC 606, Revenue from Contracts with Customers, in May 2014. This revenue standard contains principles that an entity should apply to determine the measurement of revenue and timing of when it should be recognized. This standard is effective for our fiscal year beginning January 1, 2017, and we are currently evaluating any impact from adoption.

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NOTE 3. REAL ESTATE AND INTANGIBLE ASSETS

All of our properties are wholly-owned on a fee-simple basis. The following table provides certain summary information about our 26 farms as of June 30, 2014:

Property Name	Location	Date Acquired	Number of Farms	Total Acres	Farmable Acres	Lease Expiration Date	Net Cost Basis[(1)]	Encumbrances
San Andreas	Watsonville, CA	6/16/1997	1	307	237	12/31/2020	$ 4,846,052	$ 3,804,117
West Gonzales	Oxnard, CA	9/15/1998	1	653	502	6/30/2020	12,104,670	19,354,256
West Beach	Watsonville, CA	1/3/2011	3	196	195	12/31/2023	8,406,970	3,705,734
Dalton Lane	Watsonville, CA	7/7/2011	1	72	70	10/31/2015	2,712,226	1,227,811
Keysville Road	Plant City, FL	10/26/2011	2	59	50	7/1/2016	1,230,757	
Colding Loop	Wimauma, FL	8/9/2012	1	219	181	6/14/2018	3,952,995	
Trapnell Road	Plant City, FL	9/12/2012	3	124	110	6/30/2017	4,187,395	
38th Avenue	Covert, MI	4/5/2013	1	119	89	4/4/2020	1,502,132	586,359
Sequoia Street	Brooks, OR	5/31/2013	1	218	206	5/31/2028	3,166,337	1,355,490
Natividad Road	Salinas, CA	10/21/2013	1	166	166	10/31/2024	7,436,725	3,060,783
20th Avenue	South Haven, MI	11/5/2013	3	151	94	11/4/2018	1,898,408	874,510
Broadway Road	Moorpark, CA	12/16/2013	1	60	60	12/15/2023	2,979,594	1,311,764
Oregon Trail	Echo, OR	12/27/2013	1	1,895	1,640	12/31/2023	14,030,734	6,121,567
East Shelton	Willcox, AZ	12/27/2013	1	1,761	1,320	2/29/2024	7,839,407	2,929,607
Collins Road	Clatskanie, OR	5/30/2014	2	200	157	9/30/2024	2,590,516	
Spring Valley	Watsonville, CA	6/13/2014	1	145	110	9/30/2016	5,945,266	
McIntosh Road	Dover, FL	6/20/2014	2	94	78	6/30/2017	2,618,537	
			26	**6,439**	**5,265**		**$ 87,448,721**	**$ 44,331,998**

(1) Consists of the initial acquisition price (including the costs allocated to both tangible and intangible assets), plus subsequent improvements and other capitalized costs associated with the properties, and adjusted for depreciation and amortization accumulated through June 30, 2014.

Real Estate

The following table sets forth the components of our investments in tangible real estate assets as of June 30, 2014, and December 31, 2013:

	June 30, 2014	December 31, 2013
Real estate:		
Land and land improvements	$ 72,814,550	$ 63,944,307
Buildings and improvements	3,008,848	2,193,255
Coolers	5,098,330	5,293,796

Irrigation system	7,913,735	6,007,845
Horticulture	1,559,340	1,038,850
Real estate, gross	90,394,803	78,478,053
Accumulated depreciation	(3,587,682)	(3,166,870)
Real estate, net	**$ 86,807,121**	**$ 75,311,183**

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New Real Estate Activity

2014 New Real Estate Activity

During the six months ended June 30, 2014, we acquired five farms in three separate transactions, which are summarized in the table below.

rty	Property Location	Acquisition Date	Total Acreage	Number of Farms	Primary Crop(s)	Lease Term	Renewal Options	Total Purchase Price	Acquisition Costs[1]	Annu Stra li Re
s Road	Clatskanie, OR	5/30/2014	200	2	Blueberries	10.3 years	3 (5 years each)	$ 2,591,333	$ 58,441	$ 18
Valley	Watsonville, CA	6/13/2014	145	1	Strawberries	2.3 years	None	5,900,000	48,915	27
osh Road	Dover, FL	6/20/2014	94	2	Strawberries	3.0 years	None	2,666,000	61,190	13
			439	5				$ 11,157,333	$ 168,546	$ 58

(1) Each of the properties acquired during the six months ended June 30, 2104, were accounted for as a business combination under ASC 805; therefore, the related costs associated with the acquisitions were expensed in the period incurred. However, $7,175 of these acquisition costs were direct costs incurred related to reviewing and assigning leases we assumed upon acquisition; therefore, we capitalized these costs as part of leasing costs. Further, $19,277 of the acquisition costs related to the closing of McIntosh Road was expensed prior to 2014.

(2) Annualized straight-line amount is based on the minimum rental payments required per the lease and includes the amortization of any above-market and below-market leases recorded.

No new debt was issued related to any of the properties acquired during the six months ended June 30, 2014; however, we funded a portion of the acquisitions with a draw on our new line of credit with MetLife.

As noted in the table above, all acquisitions during the six months ended June 30, 2014, were accounted for as business combinations in accordance with ASC 805, as there was a leasing history on the property or a lease in place that we assumed upon acquisition. As such, the fair value of all assets acquired and liabilities assumed were determined in accordance with ASC 805, and all acquisition-related costs were expensed as incurred.

We determined the fair value of acquired assets and liabilities assumed related to the properties acquired during the six months ended June 30, 2014, to be as follows:

operty me	Land and Land Improvements	Buildings	Irrigation System	Site Improvements	Horticulture[1]	In-place Leases	Leasing Commissions[2]	Customer Relationships	Above (Below)-Market Leases	Total Acquisitio Cost
llins ad	$ 1,252,387	$ 555,667	$	$ 126,719	$ 520,993	$ 45,086	$ 71,085	$ 24,796	$	$ 2,596,73
	5,576,138	5,781	200,855			83,487	17,998	66,217	(49,976)	5,900,50

ring lley										
Intosh ad	1,970,074	30,745	537,254	2,846		34,674	18,041	27,966	45,675	2,667,27
	$ 8,798,599	$ 592,193	$ 738,109	$ 129,565	$ 520,993	$ 163,247	$ 107,124	$ 118,979	$ (4,301)	$ 11,164,50

(1) Horticulture acquired on Collins Road consists of various types of blueberry bushes.

(2) Leasing commissions represent the allocable portion of the purchase price, as well as direct costs that were incurred related to reviewing and assigning leases we assumed upon acquisition. Direct leasing costs incurred in connection with the properties acquired during the six months ended June 30, 2014, totaled $7,175.

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Below is a summary of the total revenue and earnings recognized on the properties acquired during the three and six months ended June 30, 2014:

Property Name	Acquisition Date	For the Three and Six Months Ended June 30, 2014 Rental Revenue	Earnings (1)
Collins Road	5/30/2014	$ 16,072	$ 8,278
Spring Valley	6/13/2014	13,545	8,335
McIntosh Road	6/20/2014	4,183	951
		$ 33,800	$ 17,564

(1) Earnings are calculated as net income less interest expense (if debt was issued to acquire the property), income taxes and any acquisition-related costs that are required to be expensed if the acquisition is treated as a business combination under ASC 805.

2013 New Real Estate Activity

During the six months ended June 30, 2013, we acquired two farms in two separate transactions, which are summarized in the table below.

Property Name	Property Location	Acquisition Date	Total Acreage	Number of Farms	Crop Grown	Lease Term	Renewal Options	Total Purchase Price	Acquisition Costs(1)	Annualized Straight-line Rent(2)
38th Avenue	Covert, MI	4/5/2013	119	1	Blueberries	7.0 years	1 (7 years)	$ 1,341,000	$ 38,200	$ 87,286
Sequoia Street	Brooks, OR	5/31/2013	218	1	Blueberries	15.0 years	3 (5 years each)	3,100,000	108,210	193,617
			337	2				$ 4,441,000	$ 146,410	$ 280,903

(1) Each of the properties acquired during the six months ended June 30, 2013, were accounted for as an asset acquisition under ASC 360; therefore, the related costs associated with the acquisitions were capitalized and included as part of the fair value allocation of the tangible assets acquired. In addition, $13,377 of these costs were capitalized as direct leasing costs we incurred as part of these acquisitions.

(2) Annualized straight-line amount is based on the minimum rental payments required per the lease.

Both of the acquisitions in the table above were purchased using proceeds from the January 2013 IPO; thus, no additional debt was issued to finance either transaction.

As noted in the above table, both acquisitions during the six months ended June 30, 2013, were accounted for as asset acquisitions in accordance with ASC 360, as there was not a lease in place on the property that we assumed upon acquisition. Accordingly, all acquisition-related costs were capitalized and allocated pro-ratably to the fair value of all identifiable tangible assets. In addition, none of the purchase price was allocated to intangible assets; however, the costs we incurred in connection with originating the new leases on the properties were capitalized.

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We determined the fair value of acquired assets and liabilities assumed related to the properties acquired during the six months ended June 30, 2013, to be as follows:

Property Name	Land	Building	Drain System	Horticulture[1]	Leasing Commissions [2]	Total Acquisition Cost
38th Avenue	$ 647,431	$ 42,720	$ 240,105	$ 447,035	$ 3,842	$ 1,381,133
Sequoia Street	2,494,911	279,496	424,268		9,535	3,208,210
	$ 3,142,342	$ 322,216	$ 664,373	$ 447,035	$ 13,377	$ 4,589,343

(1) Horticulture acquired on the 38th Avenue property consists of various types of high-bush variety blueberry bushes.

(2) None of the purchase price was allocated to any intangibles; however, we incurred $13,377 of direct leasing costs in connection with the properties acquired during the six months ended June 30, 2013.

Below is a summary of the total revenue and earnings recognized on the properties acquired during the six months ended June 30, 2013:

Property Location	Acquisition Date	For the Three and Six Months Ended June 30, 2013 Rental Revenue	Earnings [1]
38th Avenue	4/5/2013	$ 20,851	$ 11,297
Sequoia Street	5/31/2013	16,135	12,058
		$ 36,986	$ 23,355

(1) Earnings are calculated as net income less interest expense, if debt was issued to acquire the property, income taxes and any acquisition-related costs that are required to be expensed if the acquisition is treated as a business combination under ASC 805.

Acquired Intangibles and Liabilities

For acquisitions treated as business combinations, the purchase price was allocated to the identifiable intangible assets and liabilities in accordance with ASC 805. No purchase price was allocated to any intangible assets related to acquisitions treated as asset acquisitions under ASC 360. However, the costs we incurred in connection with setting up new leases or reviewing existing leases on the properties were capitalized over the lives of the respective leases. The following table shows the weighted-average amortization period, in years, for the intangible assets acquired and liabilities assumed during the six months ended June 30, 2014 and 2013:

Intangible Assets and Liabilities	**2014**	**2013**
In-place leases	4.7	
Leasing commissions	7.8	12.7
Customer relationships	7.3	
Above-market leases	3.0	
Below-market leases	2.3	
All intangible assets and liabilities	**5.6**	**12.7**

Pro-Forma Financials

We acquired five farms during the six months ended June 30, 2014, and two farms during the six months ended June 30, 2013. The following table reflects pro-forma consolidated statements as if the properties were acquired at the beginning of the previous period. The table below reflects pro-forma financials for all farms acquired, regardless of whether they were treated as asset acquisitions or business combinations.

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	For the Six Months Ended June 30,	
	2014	2013
	(Unaudited)	*(Unaudited)*
Operating Data:		
Total operating revenue	$ 3,317,410	$ 2,277,080
Total operating expenses	(2,268,698)	(1,299,947)
Other expenses	(1,052,043)	(563,454)
Net income before income taxes	(3,331)	413,680
Provision for income taxes	(13,246)	(237,817)
Net (loss) income	$ (16,577)	$ 175,863
Share and Per Share Data:		
(Loss) earnings per share of common stock - basic and diluted	$	$ 0.03
Weighted average common shares outstanding - basic and diluted	6,530,264	5,967,538

Significant Existing Real Estate Activity

On January 20, 2014, we completed the work for the expansion and upgrade of the cooling facility on Trapnell Road, for which we agreed to incur the costs, up to a maximum of $450,000. We expended a total of $446,108 in connection with this project, and, in accordance with the lease amendment executed on October 21, 2013, we will earn additional rental income on the costs incurred related to this project at an initial annual rate of 8.5%, with prescribed rental escalations provided for in the lease.

On March 27, 2014, we executed a lease with a new tenant to occupy West Beach that commences on November 1, 2014, as the lease term with the current tenants on the property will expire on October 31, 2014. The new lease term is for nine years, through December 31, 2023, and provides for prescribed rent escalations over its life, with minimum annualized GAAP straight-line rental income of $540,469, representing a 20.7% increase over that of the current lease.

On June 17, 2014, we extended the lease with the tenant occupying San Andreas, which was originally set to expire in December 2014. The lease was extended for an additional six years, through December 2020, and provides for rent escalations over its life, with annualized, GAAP straight-line rental income of $566,592, representing a 31.3% increase over that of the previous lease.

Property and Casualty Losses

During April 2014, two separate fires occurred on two of our properties, partially damaging a structure on each property. One occurred on 20th Avenue, on which the majority of a residential house was destroyed by a fire. We estimated the carrying value of the portion of the residential house damaged by the fire to be approximately $94,000. The second fire occurred on West Gonzales and damaged a portion of the cooling facility on the property. The carrying value of the portion of the cooler damaged by the fire was estimated to be approximately $156,000. Thus, we have written down the carrying value of these properties on the accompanying *Condensed Consolidated Balance Sheets* by these respective amounts. Further, in accordance with ASC 605, we have also recorded a corresponding

Property and casualty loss line item on the *Condensed Consolidated Statements of Operations.*

Both assets were insured, either by the tenant or by us, at the time of the fires, and partial recovery of these costs is considered probable. However, we are still in the process of assessing the amount expected to be recovered, as well as the collectability of such amounts; thus, no offset to the loss has been recorded yet.

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Intangible Assets

The following table summarizes the carrying value of lease intangible assets and the accumulated amortization for each intangible asset class as of June 30, 2014, and December 31, 2013:

	June 30, 2014		December 31, 2013	
	Lease Intangibles	Accumulated Amortization	Lease Intangibles	Accumulated Amortization
In-place leases	$ 560,975	$ (280,852)	$ 397,728	$ (241,697)
Leasing Costs	256,876	(51,144)	146,558	(34,727)
Customer relationships	212,166	(56,421)	93,187	(49,985)
	$ 1,030,017	**$ (388,417)**	**$ 637,473**	**$ (326,409)**

The aggregate amortization expense for the remainder of 2014 and each of the five succeeding fiscal years and thereafter is as follows:

Period		Estimated Amortization Expense
For the remaining six months ending December 31:	2014	$ 113,054
For the fiscal years ending December 31:	2015	212,901
	2016	129,307
	2017	49,328
	2018	22,504
	2019	19,497
	Thereafter	95,009
		$ 641,600

Lease Expirations

The following table summarizes the lease expirations by year for our properties with leases in place as of June 30, 2014:

Year	Number of Expiring Leases	Expiring Leased Acreage	% of Total Acreage	Rental Revenue for the Six Months Ended June 30, 2014	% of Total Rental Revenue
2014 (1)	1	0	0.0%	$ 15,320	0.5%
2015	1	72	1.1%	71,250	2.3%
2016	2	204	3.2%	47,713	1.6%

2017	2	218	3.4%		143,436	4.7%
2018	2	370	5.7%		127,578	4.2%
2019	0	0	0.0%			0.0%
Thereafter	10	5,575	86.6%		2,651,630	86.7%
Totals	**18**	**6,439**	**100.0%**	**$**	**3,056,927**	**100.0%**

(1) Includes a surface area lease on a portion of one property leased to an oil company that is renewed on a year-to-year basis .

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Future Lease Payments

Future operating lease payments from tenants under all non-cancelable leases, excluding tenant reimbursement of expenses, for the remainder of 2014 and each of the five succeeding fiscal years and thereafter as of June 30, 2014, are as follows:

Period		Tenant Lease Payments
For the remaining six months ending December 31:	2014	$ 3,224,774
For the fiscal years ending December 31:	2015	6,539,854
	2016	6,430,992
	2017	6,005,651
	2018	5,689,606
	2019	5,696,871
	Thereafter	13,471,123
		$ 47,058,871

In accordance with the lease terms, substantially all operating expenses are required to be paid by the tenant; however, we would be required to pay real estate property taxes on the respective parcels of land in the event the tenants fail to pay them. The aggregate annual real estate property taxes for all parcels of land owned by us as of June 30, 2014, are approximately $550,000.

Portfolio Diversification and Concentrations

Diversification

The following table summarizes the geographic locations of our properties with leases in place as of June 30, 2014 and 2013:

	As of and For the Six Months Ended June 30, 2014					As of and For the Six Months Ended June 30, 2013				
State	Number of Farms	Total Acres	% of Total Acres	Rental Revenue	% of Total Rental Revenue	Number of Farms	Total Acres	% of Total Acres	Rental Revenue	% of Total Rental Revenue
California	9	1,599	24.8%	$ 2,051,017	67.1%	6	1,228	62.4%	$ 1,591,082	85.3%
Oregon	4	2,313	35.9%	492,121	16.1%	1	218	11.1%	16,135	0.9%
Florida	8	496	7.7%	240,304	7.9%	6	402	20.4%	236,271	12.7%
Arizona	1	1,761	27.4%	145,328	4.7%	0	0	0.0%		0.0%
Michigan	4	270	4.2%	128,157	4.2%	1	119	6.1%	20,851	1.1%
	26	**6,439**	**100.0%**	**$ 3,056,927**	**100.0%**	**14**	**1,967**	**100.0%**	**$ 1,864,339**	**100.0%**

Concentrations

Credit Risk

Two of our farms are leased to a single tenant, Dole Food Company (Dole). As of June 30, 2014, 960 acres were leased to Dole, representing 14.9% of the total acreage we owned. Furthermore, aggregate rental income attributable to Dole accounted for approximately $1.4 million, or 46.5%, of the rental income recorded during the six months ended June 30, 2014. Rental income from Dole accounted for 69.4% of the total rental income recorded during the six months ended June 30, 2013. If Dole fails to make rental payments or elects to terminate any of its leases, and the land cannot be re-leased on satisfactory terms, there would be a material adverse effect on our financial performance and ability to continue operations. No other individual tenant represented greater than 20.0% of the total rental income recorded during the six months ended June 30, 2014 or 2013.

Geographic Risk

9 of our 26 farms owned as of June 30, 2014, are located in California. As of June 30, 2014, our farmland in California accounted for 1,599 acres, or 24.8% of the total acreage we owned. Furthermore, these farms accounted for approximately $2.1 million, or 67.1%, of the rental income recorded during the six months ended June 30, 2014. Rental income from our farms in California accounted for 85.3% of the total rental income recorded by us during the six months ended June 30, 2013. Our other farms, located in Arizona, Florida, Michigan and Oregon, were purchased between October 2011 and June 2014. Though we seek to continue to further diversify geographically, should an unexpected natural disaster occur where our properties are located, there could be a material adverse effect on our financial performance and ability to continue operations. No other single state accounted for more than 20.0% of the total rental income recorded during the six months ended June 30, 2014 or 2013.

NOTE 4. RELATED-PARTY TRANSACTIONS

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

Prior Advisory and Administration Agreements

Prior Advisory Agreement

We entered into the Prior Advisory Agreement with our Adviser in 2004, pursuant to which the Adviser was responsible for managing us on a day-to-day basis and for identifying, evaluating, negotiating and consummating investment transactions consistent with our criteria. In exchange for such services, we paid the Adviser a management advisory fee, which consisted of the reimbursement of certain expenses of the Adviser. We reimbursed our Adviser for our pro-rata share of our Adviser s payroll and related benefit expenses on an employee-by-employee basis, based on the percentage of each employee s time devoted to our matters in relation to the time such employees devoted to all affiliated funds, collectively, advised by our Adviser. We also reimbursed the Adviser for general overhead expenses multiplied by the ratio of hours worked by the Adviser s employees on Company matters to the total hours worked by the Adviser s employees. We compensated our Adviser through reimbursement of our portion of the Adviser s payroll, benefits and general overhead expenses. This reimbursement was generally subject to a combined annual management advisory fee limitation of 2.0% of our average invested assets for the year, with certain exceptions. Reimbursement for overhead expenses was only required up to the point that reimbursed overhead expenses and payroll and benefits expenses, on a combined basis, equaled 2.0% of our average invested assets for the year, and general overhead expenses were required to be reimbursed only if the amount of payroll and benefits reimbursed to the Adviser was less than 2.0% of our average invested assets for the year. However, payroll and benefits expenses were required to be reimbursed by us to the extent that they exceed the overall 2.0% annual management advisory fee limitation. To the extent that overhead expenses payable or reimbursable by us exceeded this limit and our independent directors determined that the excess expenses were justified based on unusual and nonrecurring factors which they deemed sufficient, we were permitted to reimburse the Adviser in future years for the full amount of the excess expenses, or any portion thereof, but only to the extent that the reimbursement would not have caused our overhead expense reimbursements to exceed the 2.0% limitation in any one year. The management advisory fee under the Prior

Advisory Agreement never exceeded the annual cap.

Prior Administration Agreement

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

Amended and Restated Advisory and Administration Agreements

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

Amended Advisory Agreement

Base Management Fee

Under the terms of our Amended Advisory Agreement that went into effect on February 1, 2013, we pay an annual base management fee equal to a percentage of our adjusted stockholders equity, which is defined as our total stockholders equity at the end of each quarter less the recorded value of any preferred stock we may issue and, for 2013 only, any uninvested cash proceeds from the IPO. For 2013, the base management fee was set at 1.0% of our adjusted stockholders equity; however, since January 1, 2014, the base management fee equals 2.0% of our adjusted stockholders equity, which no longer excludes uninvested cash proceeds from the IPO.

Incentive Fee

Under the terms of our Amended Advisory Agreement, we also pay an additional quarterly incentive fee based on funds from operations (FFO). For purposes of calculating the incentive fee, our FFO, before giving effect to any incentive fee (our Pre-Incentive Fee FFO) will include any realized capital gains or losses, less any distributions 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% (7% annualized) of our total 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 total stockholders equity at the end of the quarter (8.75% annualized), and 20% of the amount of our Pre-Incentive Fee FFO that exceeds 2.1875% for the quarter.

For the three months ended March 31, 2013, we paid an incentive fee to our Adviser of $41,037; however, during the three months ended June 30, 2013, our Adviser issued a one-time, irrevocable waiver equal to the full amount of the incentive fee paid for the three months ended March 31, 2013, and such fee was credited to us during the three months ended June 30, 2013. There was no incentive fee earned by our Adviser for the three or six months ended June 30, 2014, as our Pre-Incentive Fee FFO did not exceed the hurdle rate.

Amended Administration Agreement

Under the terms of the Amended Administration Agreement that went into effect on February 1, 2013, we pay separately for our allocable portion of the Administrator s overhead expenses in performing its obligations, including rent and our allocable portion of the salaries and benefits expenses of our chief financial officer, treasurer, chief compliance officer, general counsel and secretary, who also serves as our Administrator s president, and their respective staffs. Unlike the Prior Administration Agreement, which provided that our allocable portion of these expenses be based on the percentage of time that our Administrator s personnel devoted to our affairs, under the Amended Administration Agreement, our allocable portion of these expenses is generally 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.

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The following table summarizes the management fees, incentive fees and associated credits and the administration fees reflected in our accompanying *Condensed Consolidated Statements of Operations*:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Management Fee:				
Allocated payroll and benefits	$	$	$	$ 38,668
Allocated overhead expenses				7,538
Prior management advisory fee[1]				46,206
Amended base management fee[2]	236,531	25,136	477,579	38,095
Total management fee[3]	**$ 236,531**	**$ 25,136**	**$ 477,579**	**$ 84,301**
Incentive Fee:				
Incentive Fee[3][4]	$	$	$	$ 41,037
Credit from voluntary, irrevocable waiver by Adviser s board of directors[3][4]		(41,037)		(41,037)
Net incentive fee	**$**	**$ (41,037)**	**$**	**$**
Administration Fee:				
Allocated payroll and benefits	$	$	$	$ 14,034
Allocated overhead expenses				4,498
Prior administration fee[1]				18,532
Amended administration fee[2]	65,047	57,508	131,205	77,308
Total administration fee[3]	**$ 65,047**	**$ 57,508**	**$ 131,205**	**$ 95,840**

(1) Pursuant to the Prior Advisory and Administration Agreements, respectively, as defined and described in further detail above, both of which were terminated on January 31, 2013.

(2) Pursuant to the Amended Advisory and Administration Agreements, respectively, as defined and described in further detail above, both of which became effective on February 1, 2013.

(3) Reflected as a line item on our accompanying *Condensed Consolidated Statements of Operations.*

(4) An incentive fee of $41,037 was paid to our Adviser for the three months ended March 31, 2013; however, during the three months ended June 30, 2013, our Adviser issued a one-time, irrevocable waiver equal to the full amount of the incentive fee due and payable to the Adviser for the three months ended March 31, 2013.

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Related Party Fees Due

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

	As of June 30, 2014	As of December 31, 2013
Management fee due to Adviser	$ 236,531	$ 91,823
Other due to Adviser[1]	12,826	9,834
Total due to Adviser	249,357	101,657

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