

GLADSTONE LAND Corp  
Form 10-K  
March 27, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012**

**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)

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**MARYLAND**  
(State or other jurisdiction of

**54-1892552**  
(I.R.S. Employer

incorporation or organization)

Identification No.)

**1521 WESTBRANCH DRIVE, SUITE 200**

**MCLEAN, VIRGINIA 22102**

(Address of principal executive offices)

**(703) 287-5800**

(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

(Title of Each Class)	(Name of Each Exchange on which Registered)
Common Stock, \$0.001 par value per share	NASDAQ Global Market

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES  NO

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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  (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 Act). YES  NO

At June 29, 2012, the last business day of the registrant's most recently completed second fiscal quarter, there was no public market for the registrant's common stock. The Registrant's common stock began trading on the NASDAQ Global Market on January 29, 2013. Based on the closing price of \$15.25 of the registrant's common stock on the NASDAQ Global Market on March 15, 2013, the aggregate market value of its shares held by non-affiliates was \$57,470,601. For the purposes of calculating this amount only, all directors and executive officers of the registrant have been deemed to be affiliates.

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The number of shares of the registrant's Common Stock, \$0.001 par value per share, outstanding as of March 27, 2013, was 6,530,264.

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**GLADSTONE LAND CORPORATION**

**FORM 10-K FOR THE YEAR ENDED**

**DECEMBER 31, 2012**

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**FORWARD-LOOKING STATEMENTS**

Our disclosure and analysis in this Annual Report on Form 10-K, or Form 10-K, and the documents that are incorporated by reference herein, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements provide our current expectations or forecasts of future events and are not statements of historical fact. 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, expect, anticipates, future, intends, plans, believes, estimates or similar expressions or their negatives, as well as statements in 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 ability to implement our business plan, including our ability to expand geographically and expand beyond row crops;

pending transactions;

our projected operating results;

our ability to obtain future financing arrangements;

estimates relating to our future distributions;

estimates regarding potential rental rate increases;

our understanding of our competition and our ability to compete effectively;

market and industry trends;

estimates of future operating expenses, including payments to our Adviser (as defined herein) under the terms of our Advisory Agreement (as defined herein);

our compliance with tax laws, including our intention to elect or qualify as a real estate investment trust, or REIT, for federal income tax purposes; and

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use of proceeds of our Line of Credit (as defined herein), mortgage notes payable, initial public offering, or IPO, future stock offerings and other future capital resources, if any.

Forward-looking statements involve inherent uncertainty and may ultimately prove to be incorrect or false. You are cautioned to not place undue reliance on forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to:

the factors referenced in this Form 10-K, including those set forth in Item 1A. Risk Factors;

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

failure to qualify as a real estate investment trust, or REIT, and risks of changes in laws that affect REITs;

risks associated with negotiation and consummation of pending and future transactions;

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changes in our business strategy;

the adequacy of our cash reserves and working capital;

our failure to successfully integrate and operate acquired properties and operations;

defaults upon or non-renewal of leases by tenants;

decreased rental rates or increased vacancy rates;

the degree and nature of our competition, which is not limited to other real estate investment companies;

availability, terms and deployment of capital, including the ability to maintain and borrow under our Line of Credit, arrange for long-term mortgages on our properties and raise equity capital;

our Adviser's ability to identify, hire and retain highly-qualified personnel in the future;

changes in our industry or the general economy;

changes in real estate and zoning laws and increases in real property tax rates;

changes in governmental regulations, tax rates and similar matters;

environmental liabilities for certain of our properties and uncertainties and risks related to natural disasters; and

the loss of any of our key officers, such as Mr. David Gladstone, our chairman and chief executive officer or Mr. Terry Lee Brubaker, our vice chairman and chief operating officer.

This list of risks and uncertainties, however, is only a summary of some of the most important factors to us and is not intended to be exhaustive. You should carefully review the risks set forth herein under the caption Item 1A. Risk Factors. New factors may also emerge from time to time that could materially and adversely affect us. Except as otherwise may be required by law, we undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or actual operating results.

**ITEM 1. BUSINESS**

**Corporate Overview**

Gladstone Land Corporation (which we refer to as we, us or the Company) is a real estate company that was originally incorporated in California in 1997, was re-incorporated in Delaware in 2004 and re-incorporated under the General Corporation laws of the State of Maryland on March 24, 2011. We were primarily formed to invest in farmland located in major agricultural markets throughout the United States. On

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January 29, 2013, our shares of common stock began trading on the NASDAQ Global Market under the symbol LAND upon the pricing of our IPO.

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, and since 2004, our operations have consisted solely of leasing our farms to independent tenant farmers and larger, corporate tenant farmers. Our farmland is predominantly concentrated in locations where tenants are able to grow annual row crops such as berries, lettuce and other row crops, which are planted and harvested annually or more frequently. We have not purchased land to grow grains but may in the future. In the future we may acquire land with fruit or nut trees, bushes, wine berries and wine grapes. We may also acquire property related to farming, such as storage facilities utilized for cooling crops, freezer buildings, facilities used for storage and assembling boxes, known as box barns, silos, storage facilities, green houses, processing plants, packaging buildings and distribution centers. As of March 25, 2013, we owned twelve farms, leased to eight separate tenants, including two cooler buildings and one box barn, which is a facility used for storage and



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assembly of boxes for shipping produce. Five of these farms 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 farm near Oxnard, or our West Gonzales 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, or TRS.

To a lesser extent, we may provide senior secured first lien mortgages to farmers for the purchase of farmland and properties related to farming. We expect that any mortgages we make would be secured by farming properties that have a successful history of crop production and profitable farming operations and that, over time, such mortgages would not exceed 5.0% of the fair value of our total assets. As of March 25, 2013, we did not hold any mortgages, and we have not currently identified any properties for which to make loans secured by mortgages.

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 Gladstone Land Limited Partnership, which we refer to as our Operating Partnership. We are the manager and 100% owner of Gladstone Land Partners, LLC, which we refer to as Land Partners, which is the sole general partner of our Operating Partnership, and we currently hold, directly and indirectly through Land Partners, 100% of its outstanding limited partnership units, or Units. In the future, we may offer an equity ownership in our Operating Partnership by issuing Units to farmland owners from time to time in consideration for acquiring their farms, such as through a partnership or a limited liability company. Holders of 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. Farmland owners who exchange their farms for Units may be able to do so in a tax-free exchange under U.S. federal income tax laws.

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 either December 31, 2013, or December 31, 2014. Because we must distribute our accumulated non-REIT earnings and profits by December 31 of the year for which we first elect REIT status, it is possible that our distributions may not be sufficient to satisfy this requirement 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.

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 have elected for Gladstone Land Advisers, Inc., a wholly-owned subsidiary of our Operating Partnership, to be taxed as a taxable REIT subsidiary, or TRS. We may own or manage our assets and engage in other activities through Gladstone Land Advisers or another TRS we form or acquire when we deem it necessary or advisable. The taxable income generated by any TRS will be subject to regular corporate income tax. Currently, we do not have any operations in our TRS.

Our business and real estate portfolio investments are managed by our Adviser, which is a registered investment adviser with the Securities and Exchange Commission, or SEC. Our Adviser is owned and controlled by David Gladstone, our chief executive officer, president, chairman of our Board of Directors and our largest stockholder.

### **Our Investment 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, (3) appreciation of our land, and (4) capital gains derived from the sale of our properties. Our primary strategy to achieve our business objective is to invest in and diversify our current portfolio of net leased 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 we acquire the property from them. We expect to hold acquired properties for many years and to generate stable and increasing rental income from leasing these properties.

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*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 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 also expand into other areas in the United States.

*Expanding our Operations beyond Row Crops in Produce and Berries.* Currently, the tenants who farm our properties grow only row crops dedicated to produce, such as lettuce and tomatoes, and berries, such as strawberries and raspberries. In the future, we will seek to expand into other crops, such as wheat, rice and corn, and into tree and vine crops, such as nuts and fruits.

*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.

*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, over time, our mortgages held will exceed 5.0% of the fair value of our total 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.

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 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 received from our IPO which closed in January 2013, although we have not yet entered into binding purchase agreements to acquire any properties. 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.

## **Our Investment Process**

### *Types of Investments*

We expect 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. 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 those for conventional loans. Investments will not be restricted as to geographical areas, but currently, all of our properties are located in California and Florida.

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: common shares, Operating Units or cash or through a combination of the three. 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 currently, and may in the future, hold some or all of our interests in real properties through one or more wholly-owned subsidiaries, each classified as a qualified REIT subsidiary.



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

We anticipate that many of the farms 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 also expect that many of the farms we acquire will be purchased from owners that do not farm the property but rather lease the property to tenant farmers. In situations such as these, we intend to have a lease in place prior to or simultaneously with acquiring the property. For a discussion of the risks associated with leasing property to leveraged tenants, see *Risk Factors Risks Relating to our Business and Operations 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 many farmland communities, including those in California and Florida. 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 increase rental rates. However, there can be no assurance that this strategy will result in increasing rents upon renewal, and it may result in decreasing rents.

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 for annual row crops are customarily short-term agreements, rental rates are renegotiated regularly to market rates. However, if we invest in land with longer term plants such as trees, bushes and vines, we would expect leases on these types of properties to be longer.

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.

### ***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 quality farmland that can be used for many different crops and that is located in desirable locations is essential to our success.

Our management team works with real estate contacts in agricultural markets throughout the United States to assess available properties and 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 important factors in our selection of farmland:

*Water availability.* Availability of water is essential to farming. We will seek to purchase properties with ample access to water through an operating water well on it or rights to use a well or other source that is located nearby. However, we may consider properties that rely on rainfall for water if the tenant on that property mitigates the drought risk by purchasing drought insurance. Typically the leases on properties that rely on rainfall would be longer-term in nature.

*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 the crop farmed on the property, except to the extent that a portion of an otherwise suitable property, while not favorable for growing the crop farmed on the property, may be utilized to build coolers, which are storage facilities utilized for cooling crops, freezer buildings, packing houses, silos, facilities used for storage and assembling boxes, known as box barns, storage facilities, green houses, or other property used in the farming business.

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

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*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 located in close proximity to urban developments are likely to be too expensive to justify farming over an extended period of time, and, therefore, we are unlikely to invest in such properties.

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 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 Risks Relating to our Business and Operations 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:

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 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 addition, our Adviser may supplement its valuation estimate with an independent real estate appraisal in connection with each investment that it considers. 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, Due Diligence Process and Negotiating Lease Provisions*

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 evaluate the creditworthiness of the tenant and assess its ability to generate sufficient cash flow from its agricultural operations to make payments to us pursuant to our lease. Because our tenants are in the farming industry, their cash flows may fluctuate according to season. The following is a list of criteria that our Adviser may 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 successfully.



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*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 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 to those farmers that are committed to farming in a manner that will generate high-quality crops. We intend to identify such commitment through their track records of selling produce into established distribution chains and outlets.

*Lease Provisions that Enhance and Protect Value.* When appropriate, our Adviser attempts to include provisions in our leases that require our consent to specified tenant activity or require the tenant to satisfy specific operating tests. These provisions may include, for example, operational or financial covenants of the tenant, as well as indemnification of us by the tenant against environmental and other contingent liabilities. We believe that these provisions serve to protect our investments from changes in the operating and financial characteristics of a tenant that may impact its ability to satisfy its obligations to us or that could reduce the value of our properties. Our Adviser generally also seeks covenants requiring tenants to receive our consent prior to any change in control of 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 each tenant's corporate affiliates, if any. We believe that this type of credit enhancement, if obtained, provides us with additional financial security. These same enhancements may apply to mortgage loans.

*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, Midwest and the Mid-Atlantic. We will also attempt to diversify our portfolio by expanding our current operations, which consist of row crops dedicated to produce and berries, into other crop types such as wheat, rice and corn and also tree, bush and vine crops, such as nuts and fruits.

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.

### ***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 begins with a 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.

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*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 with a history of successful crop production and profitable farming operations.

*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 many of the following:

an independent appraisal;

land record searches for possible restrictions;

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.

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### *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, packing houses, facilities used for storage and assembling boxes, known as box barns, silos, storage facilities, green houses and similar improved property to rent to independent farmers in connection with the services provided to independent farmers. We may also build these types of buildings on property that we purchase if there is sufficient business to make this worthwhile. We do not expect these 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 our cash on hand, including the net proceeds of the IPO, 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 Internal Revenue Code of 1986, as amended, or the Code.

If at any time the character of our investments would cause us to be deemed an investment company, as defined in 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.

### *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.

### *Use of Leverage*

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; however, this may not be possible. 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 favorable to us, if 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 charter nor our bylaws impose any limitation on our borrowing.

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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.

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 that 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 Form 10-K, 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 several 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.

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.



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### *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;

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;

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.

### **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.

### **Conflict of Interest Policy**

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We have adopted policies to reduce potential conflicts of interest. 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.

We have adopted a policy that, without the approval of a majority of our independent directors, we will not:

acquire from or sell to any of our officers, directors or our Adviser s or Gladstone Administration, LLC s, or our Administrator s, employees, or any entity in which any of our officers, directors or such employees has an interest of more than 5%, any assets or other property;



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borrow from any of our directors, officers or our Adviser s or Administrator s employees, or any entity in which any of our officers, directors or such employees has an interest of more than 5%; or

engage in any other transaction with any of our directors, officers or our Adviser s or Administrator s employees, or any entity in which any of our directors, officers or such employees has an interest of more than 5%.

Consistent with the provisions of the Sarbanes-Oxley Act of 2002, we will not extend credit, or arrange for the extension of credit, to any of our directors and officers. Under the Maryland General Corporation Law, or the MGCL, a contract or other transaction between us and one of our directors or officers or any other entity in which one of our directors or officers is also a director or officer or has a material financial interest is not void or voidable solely on the grounds of the common directorship or interest, the fact that the director or officer was present at the meeting at which the contract or transaction was approved or the fact that the director s vote was counted in favor of the contract or transaction if:

the material facts relating to the common directorship or interest and as to the transaction are disclosed to our Board of Directors or a committee of our Board, and our Board or the committee in good faith authorizes the contract or transaction by the affirmative vote of a majority of the directors not interested in the contract or transaction, even if the disinterested directors do not constitute a quorum of the Board or committee;

the fact of the common directorship or interest is disclosed to our stockholders entitled to vote on the contract or transaction, and the contract or transaction is approved or ratified by a majority of the votes cast by the stockholders entitled to vote on the matter, other than shares owned of record or beneficially by the interested director or corporation or entity; or

the contract or transaction is fair and reasonable to us as of the time authorized, approved or ratified by the Board of Directors, a committee or the stockholders.

Our policy also prohibits us from purchasing any real property from, or co-investing in any real property with, our Adviser, any of its affiliates or any business in which our Adviser or any of its subsidiaries have invested. If we decide to change this policy on co-investments with our Adviser or its affiliates, we will seek approval of our independent directors.

## **Code of Ethics**

The Company and its affiliates, Gladstone Capital Corporation, Gladstone Investment Corporation, Gladstone Commercial Corporation, Gladstone Management Corporation, Gladstone Administration, LLC, and Gladstone Securities, LLC, have adopted a code of ethics and business conduct applicable to all personnel of such companies that complies with the guidelines set forth in Item 406 of Regulation S-K of the Securities Act of 1933. This code, among other things, establishes procedures for personal investments, restricts certain transactions by such personnel and requires the reporting of certain transactions and holdings by such personnel. A copy of this code is available for review, free of charge, at our website at [www.GladstoneLand.com](http://www.GladstoneLand.com). We intend to provide any required disclosure of any amendments to or waivers of the provisions of this code by posting information regarding any such amendment or waiver to our website within four days of its effectiveness.

## **Our Adviser and Administrator**

### ***Gladstone Management Corporation***

Our business is managed by our Adviser, Gladstone Management Corporation, which was incorporated in 2002. The officers, directors and employees of our Adviser have significant experience in making investments in and lending to small and medium-sized businesses and investing in real estate and making mortgage loans. We entered into an Advisory Agreement with our Adviser, or the Advisory Agreement, under which our Adviser will be responsible for managing our assets and liabilities, for operating our business on a day-to-day basis and for identifying, evaluating, negotiating and consummating investment transactions consistent with our investment policies as determined by our Board of Directors from time to time.

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David Gladstone (our chairman, chief executive officer, president and largest stockholder), is also the chairman, chief executive officer and the indirect, sole stockholder of our Adviser. Terry Lee Brubaker (our vice chairman and chief operating officer) serves as vice chairman and chief operating officer of our Adviser.

Our Adviser will maintain an investment committee that will screen our investments. This investment committee is currently comprised of Messrs. Gladstone and Brubaker. We believe that our Adviser's investment committee review process will give us a unique competitive advantage over other investors in agricultural real estate because of the substantial experience and perspective that the members of our Adviser's investment committee possess in evaluating the blend of corporate credit, real estate and lease terms that combine to provide an acceptable risk for investment.

Our Adviser's board of directors has empowered its investment committee to authorize and approve our investments, subject to the terms of the Advisory Agreement. Before we acquire any property, the transaction will be reviewed by our Adviser's investment committee to ensure that, in its view, the proposed transaction satisfies our investment criteria and is within our investment policies. Approval by our Adviser's investment committee will generally be the final step in the property acquisition approval process, although the separate approval of our Board of Directors will be required in certain circumstances described below.

Our Adviser is headquartered in McLean, Virginia, a suburb of Washington D.C., and also has offices in several other states.

### ***Gladstone Administration, LLC***

The holding company which owns our Adviser also has a 100% interest in our Administrator, which employs our chief financial officer and treasurer, chief compliance officer, internal counsel and their respective staffs. Our Administrator provides administrative services to us and our affiliates, including Gladstone Capital, Gladstone Investment and Gladstone Commercial. The services performed by our Administrator include the managing of financial reporting, accounting for our properties, stockholder reporting, treasury functions, compliance function, legal services and similar services.

David Gladstone (our chairman, chief executive officer, president and largest stockholder) is the indirect sole stockholder of our Administrator and serves as its chairman, chief executive officer and president. Terry Lee Brubaker (our vice chairman and chief operating officer) serves as chief operating officer of our Administrator and is vice chairman of the board of managers of our Administrator.

### ***Amended Advisory Agreement***

#### ***Adviser Duties and Authority under the Amended Advisory Agreement***

Under the terms of the Amended Advisory Agreement, our Adviser is required to use its best efforts to present to us investment opportunities consistent with our investment policies and objectives as adopted by our Board of Directors. In performing its duties, our Adviser, either directly or indirectly by engaging an affiliate:

finds, evaluates, presents and recommends to us a continuing series of real estate investment opportunities consistent with our investment policies and objectives;

provides advice to us and acts on our behalf with respect to the negotiation, acquisition, financing, refinancing, holding, leasing and disposition of real estate investments;

enters into contracts to purchase real estate on our behalf in compliance with our investment procedures, objectives and policies, subject to approval of our Board of Directors, where required;

takes the actions and obtains the services necessary to effect the negotiation, acquisition, financing, refinancing holding, leasing and disposition of real estate investments; and

provides day-to-day management of our real estate activities and other administrative services.

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It is expected that each investment that we make will be approved or ratified by our Board of Directors. Our Board of Directors has authorized our Adviser to make investments in any property on our behalf without the prior approval of our Board if the following conditions are satisfied:

our Adviser has determined that the total cost of the property does not exceed its determined value; and

our Adviser has provided us with a representation that the property, in conjunction with our other investments and proposed investments, is reasonably expected to fulfill our investment objectives and policies as established by our Board of Directors then in effect.

The actual terms and conditions of transactions involving investments in properties shall be determined in the sole discretion of our Adviser, subject at all times to compliance with the foregoing requirements. Some types of transactions, however, will require the prior approval of our Board of Directors, including a majority of our independent directors, including, but not limited to, the following:

any acquisition which at the time of investment would have a cost exceeding 20% of our total assets; and

transactions that involve conflicts of interest with our Adviser (other than reimbursement of expenses in accordance with the Advisory Agreement).

Our Adviser and Administrator also engage in other business ventures and, as a result, their resources are not dedicated exclusively to our business. For example, our Adviser and Administrator also serve as the external adviser and administrator, respectively, to Gladstone Capital Corporation and Gladstone Investment Corporation, both publicly traded business development companies affiliated with us, and Gladstone Commercial Corporation, a publicly traded real estate company. However, under the Amended Advisory Agreement, our Adviser is required to devote sufficient resources to the administration of our affairs to discharge its obligations under the agreement. The Advisory Agreement is not assignable or transferable by either us or our Adviser without the consent of the other party, except that our Adviser may assign the Advisory Agreement to an affiliate for whom our Adviser agrees to guarantee its obligations to us. Either we or our Adviser may assign or transfer the Advisory Agreement to a successor entity.

### *Compensation of our Adviser under the Amended Advisory Agreement*

We and our Adviser amended the Advisory Agreement on February 1, 2013. A summary of the compensation under the Amended Advisory Agreement is below.

#### *Base Management Fee*

Under the terms of our Amended Advisory Agreement, we will pay an annual base management fee in 2013 equal to 1.0% of our adjusted stockholders' equity, which is equal to our total stockholders' equity at the end of each quarter less the recorded value of any preferred stock we may issue and any uninvested cash proceeds from the IPO, and an additional quarterly incentive fee, which is described below, based on funds from operations, or FFO. Beginning in 2014, we will pay an annual base management fee equal to 2.0% of our adjusted stockholders' equity at the end of each quarter, which will no longer exclude the uninvested cash proceeds from the IPO.

#### *Incentive Fee*

For purposes of calculating the incentive fee, FFO means net income, excluding gains (or losses) from debt restructuring and the sale of real property, plus depreciation and amortization on real estate assets and after adjustments for unconsolidated partnerships and joint ventures. The incentive fee would reward our Adviser if our quarterly FFO, before giving effect to any incentive fee, or pre-incentive fee FFO, exceeds 1.75%, or the hurdle rate, of total stockholders' equity, less the recorded value of any preferred stock. We will pay our Adviser an incentive fee with respect to our pre-incentive fee FFO quarterly as follows:

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no incentive fee in any calendar quarter in which our pre-incentive fee FFO does not exceed the hurdle rate of 1.75% of our adjusted stockholders' equity as of the end of that quarter;

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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 as of the end of any calendar quarter (which would be an 8.75% annualized return); and

20% of the amount of our pre-incentive fee FFO that exceeds 2.1875% of our adjusted stockholders equity as of the end of any calendar quarter (which would be an 8.75% annualized return).

**Quarterly Incentive Fee Based on FFO**

Pre-incentive fee FFO

*(expressed as a percentage of adjusted stockholders equity)*

Percentage of pre-incentive fee FFO allocated to incentive fee

***Amended Administration Agreement***

We and our Administrator amended the Administration Agreement on February 1, 2013.

Under 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 its employees, including, but not limited to, our chief financial officer and treasurer, chief compliance officer, internal counsel and their respective staffs.

Our allocable portion of these overhead expenses will be derived by multiplying our 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 under similar agreements.

**Employees**

We do not currently have any employees and do not expect to have any employees in the foreseeable future. Currently, services necessary for our business are provided by individuals who are employees of our Adviser and our Administrator pursuant to the terms of the Advisory Agreement and the Administration Agreement, respectively. Each of our executive officers is an employee or officer, or both, of our Adviser or our Administrator. No employee of our Adviser or our Administrator will dedicate all of his or her time to us. However, we expect that approximately 10% of the full-time employees of our Adviser and our Administrator will spend substantial time on our matters during calendar year 2013. To the extent that we acquire more investments, we anticipate that the number of employees of our Adviser and our Administrator who devote time to our matters will increase and the number of our Adviser's employees working out of local offices, if any, where we buy land will also increase.

As of December 31, 2012, our Adviser and our Administrator, collectively, had 56 full-time employees. A breakdown thereof is summarized by functional area in the table below:

**Number of**

<b>Individuals</b>	<b>Functional Area</b>
10	Executive Management
34	Investment Management, Portfolio Management and Due Diligence
12	Administration, Accounting, Compliance, Human Resources, Legal and Treasury

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### **Competition**

Competition to our efforts to acquire farmland can come from many different entities. Developers, municipalities, individual farmers, agriculture corporations, institutional investors and others compete for farmland acreage. Investment firms that we might compete directly against could include agricultural investment firms such as Hancock Agricultural Investment Group, or Hancock, Prudential Agricultural Investments, or Prudential, and UBS Agrivest LLC, or UBS Agrivest. These firms engage in the acquisition, asset management, valuation and disposition of farmland properties. In addition to competition for direct investment in farmland we also expect to compete for mortgages with many local and national banks such as Rabobank, N.A., Bank of America, N.A., Wells Fargo Foothill, Inc., and others.

### **Environmental Matters**

As an owner of real estate, we will be subject to various federal, state and local environmental laws, regulations and ordinances and also could be liable to third parties resulting from environmental contamination or noncompliance at our properties. Environmental laws often impose liability without regard to whether the owner or operator knew of or was responsible for the presence of the contaminants. The costs of any required investigation or cleanup of these substances could be substantial. The liability is generally not limited under such laws and could exceed the property's value and the aggregate assets of the liable party. The presence of contamination or the failure to remediate contamination at our properties also may expose us to third-party liability for personal injury or property damage or adversely affect our ability to or lease the real property or to borrow using the real estate as collateral. These and other risks related to environmental matters are described in more detail in Item 1A. Risk Factors.

### **Tenants**

We rent our properties to both independent and corporate farmers. Two of our eight current leases, representing approximately 76.3% of our rental revenue for the year ended December 31, 2012, are with Dole Food Company, or Dole, under leases expiring in 2013 and 2014. We expect that our tenant base will become more diversified in the future as we acquire more farmland.

### **Available Information**

Copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and amendments, if any, to those reports filed or furnished with the Securities and Exchange Commission, or the SEC, pursuant to Section 13(a) or 15(d) of the Securities Exchange Act are available free of charge through our website at [www.GladstoneLand.com](http://www.GladstoneLand.com). A request for any of these reports may also be submitted to us by sending a written request addressed to Investor Relations, Gladstone Land Corporation, 1521 Westbranch Drive, Suite 200, McLean, VA 22102, or by calling our toll-free investor relations line at 1-866-366-5745. The public may read and copy materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov).

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### **ITEM 1A. RISK FACTORS**

*An investment in our securities involves a number of significant risks and other factors relating to our structure and investment objectives. As a result, we cannot assure you that we will achieve our investment objectives. You should consider carefully the following information before making an investment in our securities.*

#### **Risks Relating to our Business and Operations**

*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 eight current leases, representing approximately 76.3% of our rental revenue for the year ended December 31, 2012, 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.

*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.*

We estimate that we will purchase approximately 10 to 15 properties with the net proceeds from our IPO 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. 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.

*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 eight separate independent and corporate farmers. We are actively seeking and evaluating other farm properties to potentially purchase with the net proceeds from our IPO, but there is no guarantee that we will be able to invest the proceeds. 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.



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*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.

*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. Any significant delay in identifying and making investments that fit into our investment criteria or in disposing investments during suitable market conditions would have a material adverse effect on our ability to generate cash flow and make distributions to our stockholders.

*Our cash available for distribution to stockholders may not be sufficient to pay anticipated 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.*

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. 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, such excess will be treated for tax purposes as a gain from the sale or exchange of your shares. 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



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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. In addition, these companies' revenues and expenses may fluctuate according to the growing season, which may impact their ability to make regular lease payments.

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.

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 two 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.

*We may in the future invest in land that has more permanent crops and enter into long-term leases, which would expose us to various risks including interest rate risk and the risk of being unable to take advantage of prevailing market rates, which could have a material adverse effect on our results of operations and cash available for distribution to stockholders.*

In addition to short-term leases, we may in the future enter into long-term leases in which the rental rate is generally fixed subject to annual rent escalations. Annual rent escalations 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 values, with an adjustment to reflect the current values and/or rents. We do not expect to enter into leases that include variable rent based on the success of the harvest each year. If in the future we receive a significant portion of our revenues under long-term leases in which the rental rate is generally fixed, subject to annual rent escalations, we would be subject to interest rate risk in the event interest rates rise at a greater rate than any potential annual rent escalations. In addition, by entering into long-term leases, we would be subject to the risk that we would not be able to increase our rental rates if prevailing land values or rental rates have increased. Any inability to take advantage of increases in prevailing land values or rental rates could have a material adverse effect on our results of operations and cash available for distribution to stockholders.

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*We may in the future invest in farmland used for permanent crops, which has a higher risk profile than farmland used for annual row crops.*

We may in the future invest in farmland used for permanent crops, as opposed to 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. Permanent crops involve more risk than annual row crops because permanent crops require more time and capital to plant. As a result, permanent crops are more expensive to replace and more susceptible to disease and poor weather. If a farmer loses a permanent crop to drought, flooding, fire or disease, 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.

Permanent crop farmland also prevents the farmer from being able to rotate crop types to keep up with changing market conditions or changes to the weather or soil. If demand for one type of permanent crop decreases, the permanent crop farmer cannot easily convert the farm to another type of crop because permanent crop farmland is dedicated to one crop during the lifespan of the trees or vines and therefore cannot easily be rotated to adapt to changing environmental or market conditions.

In addition, permanent crops, which can generally endure long periods of time from harvest to consumption, allow for global shipment and trade. As a result, permanent crops are usually less insulated from the global market volatility than annual row crops. This will generally provide for less price stability of the harvested crop and therefore less stability of the underlying land value for cropland producing permanent crops. As a result permanent crop farms have a higher risk profile than annual row crop farms.

*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 the IPO, 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. If in the future we invest in farmland that depends upon rain water rather than local water access, our tenants on that farmland may be susceptible to extended droughts, and any failure on the part of such tenants to procure adequate drought insurance would impact the ability of such tenants to make rental payments, which would have a material adverse impact on our ability to generate returns on our properties.

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*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.

In addition, we may in the future invest in farmland used for permanent crops, which are more expensive to replace and more susceptible to disease and poor weather than annual row crops because permanent crops produce yearly crops without being replanted. If a farmer loses a permanent crop to drought, flooding, fire or disease, 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. Permanent crop farmland also prevents the farmer from being able to rotate crop types to keep up with changing market conditions or changes to the weather or soil. If demand for one type of permanent crop decreases, the permanent crop farmer cannot easily convert the farm to another type of crop because permanent crop farmland is dedicated to one crop during the lifespan of the trees or vines and therefore cannot easily be rotated to adapt to changing environmental or market conditions. As a result, the risks associated with weather conditions, seasonal variability, crop disease and other contaminants are magnified in the case of permanent crops.

*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 and their subsequent ability to comply with the terms of their leases, 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.

*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 and to maintain our qualification 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. 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.

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*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 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 our 306-acre farm near Watsonville, California, or the San Andreas Farm, that permits us to borrow up to \$4.8 million through April 2017, or the Line of Credit. As of December 31, 2012, the balance under the Line of Credit is \$0.1 million, the minimum balance required under the terms of the agreement. The Line of Credit accrues interest at a floating rate tied to LIBOR and is currently 3.25% per year. We expect to continue 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 Farm; three farms totaling 198 acres near Watsonville, California, or the West Beach Farms; 72 acres of farmland near Watsonville, California, or the Dalton Lane Farm; two farms totaling 59 acres near Plant City, Florida, or the Keysville Road Farms; 219 acres of farmland near Wimauma, Florida, or the Colding Loop Farms; and three farms totaling 124 acres near Plant City, Florida, or the Trapnell Road Farms. As of December 31, 2012, the balance outstanding under this mortgage loan is \$30.7 million. The loan currently has an annual interest rate of 3.5% and matures in January 2026. Once the net proceeds from our IPO 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.

*Competition for the acquisition of agricultural real estate may impede our ability to make acquisitions or increase the cost of these acquisitions.*

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

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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 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. 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.

*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.

*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

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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.



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*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 properties or other variable-rate debt that we may obtain from time to time. The interest rate on our existing line of credit is variable, and, although we seek to mitigate this risk by structuring such provisions to contain a minimum interest rate or escalation rate, as applicable, these features do not eliminate this risk. We are also exposed to the effects of interest rate changes as a result of holding cash and cash equivalents in short-term, interest-bearing investments. We have not entered into any derivative contracts to attempt to further manage our exposure to interest rate fluctuations. A significant change in interest rates could have an adverse impact on our results of operations.

*Joint venture investments could be adversely affected by our lack of sole decision making authority, our reliance on co-venturers' financial condition and disputes between our co-venturers and us.*

We may invest with third parties through partnerships, joint ventures or other entities, acquiring non-controlling interests in or sharing responsibility for managing the affairs of a property, partnership, joint venture or other entity. In such event, we will not have sole decision-making authority regarding the property, partnership, joint venture or other entity. Investments in partnerships, joint ventures or other entities may, under certain circumstances, involve risks not present were a third party not involved, including the possibility that partners or co-venturers may become bankrupt or fail to fund their share of required capital contributions. Partners or co-venturers also may have economic or other business interests or goals that are inconsistent with our business interests or goals and may be in a position to take actions contrary to our preferences, policies or objectives. Such investments also will have the potential risk of our reaching impasses with our partners or co-venturers on key decisions, such as a sale, because neither we nor the partner or co-venturer would have full control over the partnership or joint venture. Disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our management team from focusing its time and effort exclusively on our business. In addition, we may in some circumstances be liable for the actions of our third-party partners or co-venturers.

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*Our rights and the rights of our stockholders to take action against our directors and officers are limited.*

Maryland law provides that a director or officer has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be advisable and in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter (i) eliminates our directors' and officers' liability to us and our stockholders for money damages except for liability resulting from actual receipt of an improper benefit in money, property or services or active and deliberate dishonesty established by a final judgment and that is material to the cause of action and (ii) requires us to indemnify directors and officers for liability resulting from actions taken by them in those capacities to the maximum extent permitted by Maryland law. As a result, our stockholders and we may have more limited rights against our directors and officers than might otherwise exist under common law. In addition, we may be obligated to fund the defense costs incurred by our directors and officers.

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

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

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, chief executive officer and president, and Terry Lee Brubaker, our vice chairman and chief operating officer. Mr. Gladstone also serves as the chief executive officer of our Adviser, and Mr. Brubaker is also an executive officer 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.

*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 manages our real estate portfolio and locates, evaluates, recommends and negotiates the acquisition of our real estate investments and mortgage loans. At the same time, our Amended 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 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 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

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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.

*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.

*Our Adviser is not obligated to provide a waiver of the incentive fee, which could negatively impact our earnings and our ability to maintain our current level of, or increase, distributions to our stockholders.*

The Amended Advisory Agreement contemplates a quarterly incentive fee based on our FFO. Our Adviser has the ability to issue a full or partial waiver of the incentive fee for current and future periods; however, our Adviser is not required to issue any waiver. Any waiver issued by our Adviser is an unconditional and irrevocable waiver. If our Adviser does not issue this waiver in future quarters, it could negatively impact our earnings and may compromise our ability to maintain our current level of, or increase, distributions to our stockholders.

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

The Amended Advisory Agreement entitles our Adviser to incentive compensation based on our FFO, which rewards our Adviser if our quarterly pre-incentive fee FFO exceeds 1.75% (7.0% annualized) of our adjusted stockholders' equity. Our pre-incentive fee FFO for a particular quarter for incentive compensation purposes excludes 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.

## **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 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. Our chairman, chief executive officer, and president, David Gladstone, owns approximately 27% of our common stock, and the Gladstone Future Trust, for the benefit of Mr. Gladstone's children, owns approximately 15% of our common stock, in each case pursuant to an exception approved by our Board of Directors and in compliance with our articles of incorporation. The ownership 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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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 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 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.



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If we fail to elect to be treated as a REIT or to 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 our stockholders 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 domestic 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 as qualified dividends to the extent of our current and accumulated earnings and profits. The maximum U.S. federal income tax rate on the taxable portion of such qualified dividends is 20% for 2013 and thereafter. 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.

*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 were subject to regular corporate income taxation for our taxable year ended December 31, 2012, and will potentially be for the taxable year ending December 31, 2013, depending upon whether we 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 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.





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*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 and to maintain our qualification 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 December 31, 2012, we estimate that our non-REIT accumulated earnings and profits were approximately \$5.1 million. This amount does not include an additional \$2.1 million of federal income taxes related to \$6.1 million of non-REIT earnings and profits associated with a deferred intercompany gain resulting from land transfers, described elsewhere in this Form 10-K, that we will recognize immediately prior to the beginning of the initial taxable year for which we elect to be taxed as a REIT. 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.

*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 is 20% for 2013 and thereafter. Dividends payable by REITs, however, generally are not eligible for the reduced rates. 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 we fail to meet stock ownership diversification requireme*