GLADSTONE LAND Corp
Form 10-Q
August 02, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER: 001-35795

GLADSTONE LAND CORPORATION
(Exact name of registrant as specified in its charter)

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

(703) 287-5800
(Registrant’s telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

The number of shares of the registrant's Common Stock, $0.001 par value per share, outstanding as of August 1, 2016, was 10,024,875.

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GLADSTONE LAND CORPORATION
FORM 10-Q FOR THE QUARTER ENDED
JUNE 30, 2016
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PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
GLADSTONE LAND CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2016	December 31, 2015
ASSETS		
Investments in real estate, net	$268,581,945	$221,783,425
Lease intangibles, net	2,033,221	1,763,541
Cash and cash equivalents	2,077,250	2,532,522
Deferred financing costs related to borrowings under line of credit, net	124,410	132,495
Other assets, net	2,368,283	2,472,042
Total assets	$275,185,109	$228,684,025
LIABILITIES AND EQUITY		
LIABILITIES:		
Mortgage notes and bonds payable, net	$165,973,676	$141,578,935
Borrowings under line of credit	14,500,000	100,000
Accounts payable and accrued expenses	3,945,411	3,495,339
Due to related parties[1]	736,121	565,593
Other liabilities	7,802,760	4,937,439
Total liabilities	192,957,968	150,677,306
Commitments and contingencies[2]		
EQUITY:		
Stockholders' equity:		
Common stock, $0.001 par value; 20,000,000 shares authorized; 9,992,941 shares issued and outstanding as of June 30, 2016, and December 31, 2015	9,993	9,993
Additional paid-in capital	87,494,872	86,892,095
Accumulated deficit	(10,988,919)	(8,895,369)
Total stockholders' equity	76,515,946	78,006,719
Non-controlling interests in operating partnership	5,711,195	—
Total equity	82,227,141	78,006,719
TOTAL LIABILITIES AND EQUITY	$275,185,109	$228,684,025

(1) Refer to Note 5, "Related-Party Transactions," for additional information.
(2) Refer to Note 7, "Commitments and Contingencies," for additional information.
The accompanying notes are an integral part of these condensed consolidated financial statements.

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GLADSTONE LAND CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
OPERATING REVENUES:				
Rental revenue	$4,241,612	$2,780,456	$7,921,085	$5,402,783
Tenant recovery revenue	2,829	3,397	6,032	6,794
Total operating revenues	4,244,441	2,783,853	7,927,117	5,409,577
OPERATING EXPENSES:				
Depreciation and amortization	1,334,973	711,803	2,311,683	1,503,435
Property operating expenses	158,578	156,405	338,781	362,170
Acquisition-related expenses	24,648	178,016	119,872	348,697
Management fee[(1)]	385,586	328,392	772,740	624,140
Incentive fee[(1)]	158,877	—	158,877	—
Administration fee[(1)]	179,377	177,852	391,237	308,788
General and administrative expenses	408,365	336,714	839,691	734,068
Operating expenses before credits from Adviser	2,650,404	1,889,182	4,932,881	3,881,298
Credits to fees from Adviser[(1)]	—	—	—	(320,905)
Total operating expenses, net of credits to fees	2,650,404	1,889,182	4,932,881	3,560,393
OPERATING INCOME	1,594,037	894,671	2,994,236	1,849,184
OTHER INCOME (EXPENSE):				
Other income	8,643	1,593	103,284	21,023
Interest expense	(1,486,820)	(947,362)	(2,741,668)	(1,896,731)
Property and casualty recovery, net	—	20,809	—	20,809
Total other expense	(1,478,177)	(924,960)	(2,638,384)	(1,854,899)
NET INCOME (LOSS)	115,860	(30,289)	355,852	(5,715)
Less net income attributable to non-controlling interests	(8,047)	—	(13,623)	—
NET INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY	$107,813	$(30,289)	$342,229	$(5,715)
EARNINGS (LOSS) PER COMMON SHARE:				
Basic and diluted	$0.01	$(0.00)	$0.03	$(0.00)
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING				
Basic and diluted	9,992,941	8,439,855	9,992,941	8,098,681

(1) Refer to Note 5, “Related-Party Transactions,” for additional information.
The accompanying notes are an integral part of these condensed consolidated financial statements.

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GLADSTONE LAND CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(UNAUDITED)

	Common Stock Number of Shares	Par Value	Additional Paid-in Capital	Accumulated Deficit	Non-Controlling Interests	Total Equity
Balance at December 31, 2014	7,753,717	$ 7,754	$ 65,366,309	$ (5,404,735)	$ —	$ 59,969,328
Net income	—	—	—	568,545	—	568,545
Proceeds from issuance of common stock, net	2,239,224	2,239	21,525,786	—	—	21,528,025
Distributions	—	—	—	(4,059,179)	—	(4,059,179)
Balance at December 31, 2015	9,992,941	$ 9,993	$ 86,892,095	$ (8,895,369)	$ —	$ 78,006,719
Net income	—	—	—	342,229	13,623	355,852
Offering costs	—	—	(3,867)	—	(25,500)	(29,367)
Distributions	—	—	—	(2,435,779)	(122,137)	(2,557,916)
Issuance of OP Units as consideration in real estate acquisitions, net	—	—	—	—	6,451,853	6,451,853
Adjustment to non-controlling interests resulting from changes in ownership of the Operating Partnership	—	—	606,644	—	(606,644)	—
Balance at June 30, 2016	9,992,941	$ 9,993	$ 87,494,872	$ (10,988,919)	$ 5,711,195	$ 82,227,141

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

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GLADSTONE LAND CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Six Months Ended June 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$355,852	$(5,715)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,311,683	1,503,435
Amortization of deferred financing costs	69,726	43,927
Amortization of deferred rent assets and liabilities, net	(84,813)	(125,739)
Property and casualty recovery, net	—	(20,809)
Allowance for doubtful accounts	50,820	—
Changes in operating assets and liabilities:		
Other assets	9,941	22,071
Accounts payable, accrued expenses and due to related parties	521,763	330,717
Other liabilities	3,029,581	(141,877)
Net cash provided by operating activities	6,264,553	1,606,010
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of new real estate	(34,375,908)	(35,279,105)
Capital expenditures on existing real estate	(7,883,458)	(1,589,150)
Decrease in restricted cash	—	132,741
Deposits on future acquisitions	(150,000)	(200,000)
Deposits applied against real estate investments	(416,725)	(350,000)
Deposits refunded	200,000	100,000
Insurance proceeds received capitalized as real estate additions	—	20,809
Net cash used in investing activities	(42,626,091)	(37,164,705)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of equity	—	14,895,206
Offering costs	(251,710)	(877,768)
Borrowings from mortgage notes payable	24,813,000	25,450,280
Repayments on mortgage note payable	(419,596)	(206,475)
Net borrowings from (repayments on) line of credit	14,400,000	(1,200,000)
Payment of financing fees	(77,512)	(116,333)
Distributions paid on common stock	(2,435,779)	(1,846,850)
Distributions paid to non-controlling interests in Operating Partnership	(122,137)	—
Net cash provided by financing activities	35,906,266	36,098,060
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(455,272)	539,365
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,532,522	2,619,342
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$2,077,250	$3,158,707
NON-CASH INVESTING AND FINANCING INFORMATION:		
Issuance of non-controlling interests in operating partnership in conjunction with acquisitions	$6,451,853	$—
Real estate additions included in Accounts payable, accrued expenses and due to related parties	1,485,479	1,421,863
Real estate additions included in Other liabilities	623,808	—
Real estate additions removed from Other liabilities	700,000	—
	13,598	259,776

Common stock offering and OP Unit issuance costs included in Accounts payable, accrued expenses and due to related parties		
Financing fees included in Accounts payable, accrued expenses and due to related parties	7,912	14,382

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

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GLADSTONE LAND CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1. BUSINESS

Business

Gladstone Land Corporation is a real estate investment trust ("REIT") that was re-incorporated in Maryland on March 24, 2011, having been previously re-incorporated in Delaware on May 25, 2004, and having been originally incorporated in California on June 14, 1997. We are primarily in the business of owning and leasing farmland, and we conduct substantially all of our operations through a subsidiary, Gladstone Land Limited Partnership (the "Operating Partnership"), a Delaware limited partnership. The Company owned 93.1% and 100.0% of the limited partnership interests in the Operating Partnership ("OP Units") as of June 30, 2016, and December 31, 2015, respectively (see Note 6, "Equity," for additional discussion regarding OP Units).

Subject to certain restrictions and limitations, and pursuant to contractual agreements, our business is managed by Gladstone Management Corporation (the "Adviser"), a Delaware corporation, and administrative services are provided to us by Gladstone Administration, LLC (the "Administrator"), a Delaware limited liability company. Our Adviser and Administrator are both affiliates of ours.

All further references herein to "we," "us," "our" and the "Company" refer, collectively, to Gladstone Land Corporation and its consolidated subsidiaries, except where indicated otherwise.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Financial Information

Our interim financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and pursuant to the requirements for reporting on Form 10-Q in accordance with Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. In the opinion of our management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair presentation of financial statements for the interim period have been included. The interim financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the U.S. Securities and Exchange Commission (the "SEC") on February 23, 2016 (the "Form 10-K"). The results of operations for the three and six months ended June 30, 2016, are not necessarily indicative of the results that may be expected for other interim periods or for the full fiscal year.

Use of Estimates

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

Reclassifications

Certain line items on the Condensed Consolidated Balance Sheet as of December 31, 2015, the Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2015, and the Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2015, have been reclassified to conform to the current period's presentation. These reclassifications had no impact on previously-reported stockholders' equity, net income or net change in cash and cash equivalents.

Non-controlling Interests

Non-controlling interests are interests in the Operating Partnership not owned by us. We evaluate whether non-controlling interests are subject to redemption features outside of our control. As of June 30, 2016, the non-controlling interests in the Operating Partnership are redeemable for cash or, at our option, shares of our common stock and thus are reported in the equity section of the Condensed Consolidated Balance Sheet but separate from stockholders' equity. The amount reported for non-controlling interests on the Condensed Statement of Operations represents the portion of income from the Operating Partnership not attributable to us.

Critical Accounting Policies

The preparation of financial statements in accordance with GAAP requires management to make judgments that are subjective in nature in order to make certain estimates and assumptions, and the application of these accounting policies involves the exercise of judgment regarding the use of assumptions as to future uncertainties. A summary of our significant accounting policies is provided in Note 2 to our consolidated financial statements included in our Form 10-K. There were no material changes to our significant accounting policies during the six months ended June 30, 2016.

Recently-Issued Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2015-03, “Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-03”), which simplifies the presentation of debt issuance costs. ASU 2015-03 requires the presentation of debt issuance costs on the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred financing cost. ASU 2015-03 is effective for annual periods beginning after December 15, 2015, and we adopted this provision during the three months ended March 31, 2016. As of both June 30, 2016, and December 31, 2015, we had unamortized deferred financing costs related to mortgage notes and bonds payable of approximately $1.1 million, which costs have been reclassified from Deferred financing costs, net, as reported on the Consolidated Balance Sheet as of December 31, 2015, in the Form 10-K, to Mortgage notes and bonds payable, net on the accompanying Condensed Consolidated Balance Sheets. All periods presented have been retroactively adjusted.

The following table summarizes the retrospective adjustment and the overall impact on the previously-reported consolidated financial statements:

	As of December 31, 2015	
	As Previously Reported	Retrospective Application
Deferred financing costs related to mortgage notes and bonds payable[(1)]	$ 1,054,222	$ —
Mortgage notes and bonds payable, net	142,633,157	141,578,935

[(1)] Included as part of Deferred financing costs, net, as reported on the Consolidated Balance Sheet in the Form 10-K.

In August 2015, the FASB issued ASU No. 2015-15, “Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements” (“ASU 2015-15”), which codifies an SEC staff announcement that entities are permitted to defer and present debt issuance costs related to line of credit arrangements as assets. ASU 2015-15 was effective immediately. As of each June 30, 2016, and December 31, 2015, we had unamortized deferred financing costs of approximately $0.1 million related to our line of credit, and we will continue to present debt issuance costs related to line of credit arrangements as an asset on the accompanying Condensed Consolidated Balance Sheets.

On January 1, 2016, we adopted accounting guidance under Accounting Standards Codification (“ASC”) Topic 810, “Consolidations: Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities,” (“ASC 810”), which modifies the analysis we must perform to determine whether we should consolidate certain types of legal entities. The guidance does not amend the existing disclosure requirements for variable interest entities (“VIEs”) or voting interest model entities, but it modifies the requirements to qualify as a voting interest model entity. Under the revised guidance, our Operating Partnership will qualify as a VIE; however, as we already consolidate the Operating Partnership in our balance sheets, the identification of our Operating Partnership as a VIE has no impact on our consolidated financial statements. There were no other legal entities qualifying under the scope of the revised guidance that were consolidated as a result of the adoption of this guidance. In addition, there were no other voting interest model entities under prior existing guidance determined to be VIEs under the revised guidance.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842): An Amendment of the FASB Accounting Standards Codification” (“ASU 2016-02”). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the leases is effectively a financed purchase by the lessee, which classification determines whether lease expense is recognized based on an effective interest method or on a straight-line basis, respectively, over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months, regardless of the classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASU 2016-02 supersedes the previous leasing standard, ASC 840, "Leases," and is effective on January 1, 2019, with early

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adoption permitted. We are currently evaluating the overall impact of ASU 2016-02. We expect our legal expenses to increase marginally, as the new standard requires us to expense indirect leasing costs that were previously capitalized; however, we do not expect ASU 2016-02 to materially impact our consolidated financial statements, as we do not currently have any lease arrangements for which we are the lessee.

NOTE 3. REAL ESTATE AND INTANGIBLE ASSETS

All of our properties are wholly owned on a fee-simple basis. The following table provides certain summary information about our 47 farms as of June 30, 2016:

Property Name	Location	Date Acquired	Number of Farms	Total Acres	Farm Acres	Lease Expiration Date	Net Cost Basis[(1)]	Encumbrances[(2)]
San Andreas	Watsonville, CA	6/16/1997	1	307	238	12/31/2020	$4,766,850	$ 5,419,371
West Gonzales	Oxnard, CA	9/15/1998	1	653	502	6/30/2020	12,087,278	27,572,207
West Beach	Watsonville, CA	1/3/2011	3	196	195	12/31/2023	9,284,807	5,279,214
Dalton Lane	Watsonville, CA	7/7/2011	1	72	70	10/31/2020	2,678,229	1,749,149
Keysville Road	Plant City, FL	10/26/2011	2	61	56	6/30/2020	1,239,809	897,600
Colding Loop	Wimauma, FL	8/9/2012	1	219	181	6/14/2018	3,900,918	2,640,000
Trapnell Road	Plant City, FL	9/12/2012	3	124	110	6/30/2017	3,862,689	2,522,250
38th Avenue	Covert, MI	4/5/2013						