

GLADSTONE COMMERCIAL CORP
Form 10-K/A
May 15, 2008

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K/A
(Amendment No. 1)**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007
OR**

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

**COMMISSION FILE NUMBER: 0-50363
GLADSTONE COMMERCIAL CORPORATION
(Exact name of registrant as specified in its charter)**

MARYLAND

*(State or other jurisdiction of incorporation or
organization)*

02-0681276

(I.R.S. Employer Identification No.)

**1521 WESTBRANCH DRIVE, SUITE 200
MCLEAN, VIRGINIA 22102**

(Address of principal executive office)

(703) 287-5800

(Registrant's telephone number, including area code)

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

Common Stock, par value \$0.001 per share	NASDAQ Global Market
7.75% Series A Cumulative Redeemable Preferred Stock, par value \$0.001 per share	NASDAQ Global Market
7.50% Series B Cumulative Redeemable Preferred Stock, par value \$0.001 per share	NASDAQ Global Market

(Title of Each Class)

*(Name of exchange on which
registered)*

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

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

Indicate by check 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 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 10-K or any amendment to this Form 10-K.

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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

Smaller reporting
company

(Do not check if a 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 .

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2007, based on the closing price on that date of \$19.60 on the Nasdaq Global Market, was \$156,540,552. For the purposes of calculating this amount only, all directors and executive officers of the registrant have been treated as affiliates.

The number of shares of the registrant's Common Stock, \$0.001 par value, outstanding as of February 22, 2008 was 8,565,264.

Documents Incorporated by Reference: Portions of the registrant's Proxy Statement relating to the Registrant's 2008 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

EXPLANATORY NOTE

This Amendment No. 1 on form 10-K/A (this Amendment) amends the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007, which the Registrant previously filed with the Securities and Exchange Commission on February 27, 2008 (the Original Filing). The Registrant is filing this Amendment for the sole purpose of correcting a typographical error which resulted in a transposition within the columns in the table in Footnote No. 9 to the Consolidated Financial Statements. The percentages for the tax status of distributions for ordinary income and return of capital for the year ended December 31, 2007, as it related to common stock, were inadvertently transposed. In addition, as required by Rule 12b-15 under the Securities Exchange Act of 1934, new certifications by our principal executive officer and principal financial officer are filed as exhibits to this Amendment. Except as described above, the Original Filing has not been amended, updated or otherwise modified.

PART II

Item 8. Financial Statements and Supplementary Data

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2007 and December 31, 2006

Consolidated Statements of Operations for the years ended December 31, 2007, 2006 and 2005

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2007, 2006 and 2005

Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005

Notes to Financial Statements

Schedule III Real Estate and Accumulated Depreciation

Schedule IV Mortgage Loans on Real Estate

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of
Gladstone Commercial Corporation:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Gladstone Commercial Corporation and its subsidiaries at December 31, 2007 and December 31, 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

McLean, VA

February 27, 2008

GLADSTONE COMMERCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31, 2007	December 31, 2006
ASSETS		
Real estate, net of accumulated depreciation of \$15,738,634 and \$8,595,419, respectively	\$ 324,761,772	\$ 235,118,123
Lease intangibles, net of accumulated amortization of \$7,560,928 and \$4,175,685, respectively	28,989,556	23,416,696
Mortgage notes receivable	10,000,000	10,000,000
Cash and cash equivalents	1,356,408	36,005,686
Restricted cash	1,914,067	1,225,162
Funds held in escrow	1,401,695	1,635,819
Interest receivable mortgage note	86,111	
Interest receivable employees	39,280	43,716
Deferred rent receivable	5,094,799	3,607,279
Deferred financing costs, net of accumulated amortization of \$2,184,492 and \$1,467,297, respectively	4,405,129	3,713,004
Prepaid expenses	522,348	521,290
Deposits on real estate	300,000	300,000
Accounts receivable	31,524	179,247
TOTAL ASSETS	\$ 378,902,689	\$ 315,766,022
 LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES		
Mortgage notes payable	\$ 202,120,471	\$ 154,494,438
Short-term loan and borrowings under line of credit	24,400,000	
Deferred rent liability	3,933,035	4,718,599
Asset retirement obligation liability	1,811,752	1,631,294
Accounts payable and accrued expenses	778,949	673,410
Due to adviser	784,301	183,042
Rent received in advance, security deposits and funds held in escrow	2,706,113	1,841,063
Total Liabilities	236,534,621	163,541,846
 STOCKHOLDERS EQUITY		
Redeemable preferred stock, \$0.001 par value; \$25 liquidation preference; 2,300,000 shares authorized and 2,150,000 shares issued and outstanding	2,150	2,150
Common stock, \$0.001 par value, 17,700,000 shares authorized and 8,565,264 shares issued and outstanding	8,565	8,565
Additional paid in capital	170,640,979	170,640,979

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Notes receivable - employees	(2,769,923)	(3,201,322)
Distributions in excess of accumulated earnings	(25,513,703)	(15,226,196)
Total Stockholders Equity	142,368,068	152,224,176
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 378,902,689	\$ 315,766,022

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

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GLADSTONE COMMERCIAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the year ended December 31,		
	2007	2006	2005
Operating revenues			
Rental income	\$ 31,469,297	\$ 23,964,035	\$ 10,853,903
Interest income from mortgage notes receivable	1,013,889	1,845,231	1,915,795
Tenant recovery revenue	310,353	136,280	111,808
 Total operating revenues	 32,793,539	 25,945,546	 12,881,506
 Operating expenses			
Depreciation and amortization	10,528,458	8,297,174	3,521,128
Property operating expenses	821,790	645,792	406,277
Base management fee	1,858,120	2,902,053	2,118,040
Incentive fee	2,564,365		
Administration fee	837,898		
Professional fees	625,349	953,066	563,205
Insurance	214,141	211,562	196,657
Directors fees	229,000	140,000	96,219
Stockholder related expenses	244,629	311,049	215,907
Asset retirement obligation expense	116,478	129,142	
General and administrative	102,999	82,847	67,607
Stock option compensation expense		394,411	
 Total operating expenses before credit from Adviser	 18,143,227	 14,067,096	 7,185,040
 Credit to incentive fee	 (2,321,597)		
 Total operating expenses	 15,821,630	 14,067,096	 7,185,040
 Other income (expense)			
Interest income from temporary investments	354,249	76,772	126,826
Interest income - employee loans	222,051	125,788	21,041
Other income	47,847	380,915	
Interest expense	(11,564,541)	(9,104,894)	(2,333,376)
 Total other expense	 (10,940,394)	 (8,521,419)	 (2,185,509)
 Income from continuing operations	 6,031,515	 3,357,031	 3,510,957
 Discontinued operations			
(Loss) income from discontinued operations	(3,312)	112,145	309,545

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Net realized income (loss) from foreign currency transactions	33,359	(202,938)	(6,278)
Net unrealized loss from foreign currency transactions			(212,279)
Gain on sale of real estate		1,422,026	
Taxes refunded (paid) on sale of real estate	78,667	(315,436)	
Total discontinued operations	108,714	1,015,797	90,988
Net income	6,140,229	4,372,828	3,601,945
Dividends attributable to preferred stock	(4,093,750)	(2,186,890)	
Net income available to common stockholders	\$ 2,046,479	\$ 2,185,938	\$ 3,601,945
Earnings per weighted average common share - basic			
Income from continuing operations (net of dividends attributable to preferred stock)	\$ 0.23	\$ 0.15	\$ 0.46
Discontinued operations	0.01	0.13	0.01
Net income available to common stockholders	\$ 0.24	\$ 0.28	\$ 0.47
Earnings per weighted average common share - diluted			
Income from continuing operations (net of dividends attributable to preferred stock)	\$ 0.23	\$ 0.14	\$ 0.46
Discontinued operations	0.01	0.13	0.01
Net income available to common stockholders	\$ 0.24	\$ 0.27	\$ 0.47
Weighted average shares outstanding			
Basic	8,565,264	7,827,781	7,670,219
Diluted	8,565,264	7,986,690	7,723,220

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

GLADSTONE COMMERCIAL CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Common Stock	Preferred Stock	Capital in Excess of Par Value	Notes Receivable From Sale of Common Stock	Distributions in Excess of Accumulated Earnings	Total Stockholders Equity
Issuance of Common Stock Under Stock Option Plan	5		74,995	(75,000)		
Repayment of Principal on Notes Receivable				17,718		17,718
Distributions Declared to Common Stockholders					(7,363,820)	(7,363,820)
Net income					3,601,945	3,601,945
Balance at December 31, 2005	\$ 7,672	\$	\$ 105,502,544	\$ (432,282)	\$ (6,129,398)	\$ 98,948,536
Issuance of Common Stock Under Stock Option Plan	893		13,650,453	(2,769,954)		10,881,392
Issuance of Preferred Stock		2,150	53,747,850			53,750,000
Public Offering Costs			(2,654,279)			(2,654,279)
Stock Option Compensation Expense			394,411			394,411
Repayment of Principal on Notes Receivable				914		914
Distributions Declared to Common and Preferred Stockholders					(13,469,626)	(13,469,626)

Net income					4,372,828	4,372,828
Balance at December 31, 2006	\$ 8,565	\$ 2,150	\$ 170,640,979	\$ (3,201,322)	\$ (15,226,196)	\$ 152,224,176
Repayment of Principal on Notes Receivable				431,399		431,399
Distributions Declared to Common and Preferred Stockholders					(16,427,736)	(16,427,736)
Net income					6,140,229	6,140,229
Balance at December 31, 2007	\$ 8,565	\$ 2,150	\$ 170,640,979	\$ (2,769,923)	\$ (25,513,703)	\$ 142,368,068

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

GLADSTONE COMMERCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31,		
	2007	2006	2005
Cash flows from operating activities:			
Net income	\$ 6,140,229	\$ 4,372,828	\$ 3,601,945
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization, including discontinued operations	10,528,458	8,349,474	3,651,119
Amortization of deferred financing costs, including discontinued operations	717,195	1,207,198	260,099
Amortization of deferred rent asset	253,496	253,496	178,070
Amortization of deferred rent liability	(785,564)	(696,261)	
Asset retirement obligation expense, including discontinued operations	116,478	139,074	
Stock compensation		394,411	
Increase in mortgage notes payable due to change in value of foreign currency		202,066	209,395
Value of building acquired in excess of mortgage note satisfied, applied to interest income		(335,701)	
Gain on sale of real estate		(1,422,026)	
(Increase) decrease in mortgage interest receivable	(86,111)	70,749	(5,954)
Decrease (increase) in employee interest receivable	4,436	(43,716)	4,792
Increase in deferred rent receivable	(1,741,016)	(1,270,159)	(562,133)
Decrease (increase) in prepaid expenses and other assets	146,665	(89,913)	(425,120)
Increase in accounts payable, accrued expenses, and amount due adviser	625,398	196,294	359,537
Increase in rent received in advance	176,145	268,037	133,798
Net cash provided by operating activities	16,095,809	11,595,851	7,405,548
Cash flows from investing activities:			
Real estate investments	(105,599,587)	(48,339,307)	(117,531,731)
Proceeds from sales of real estate		2,102,567	
Issuance of mortgage note receivable			(10,000,000)
Principal repayments on mortgage notes receivable		44,742	81,902
Net payments to lenders for reserves held in escrow	(1,338,904)	(3,346,216)	(1,041,292)
(Decrease) increase in restricted cash	(688,905)	749,274	(513,761)
Deposits on future acquisitions	(2,110,000)	(900,000)	(2,686,000)
Deposits applied against real estate investments	2,110,000	1,200,000	1,986,000
Refunds of deposits on real estate			150,000
Net cash used in investing activities	(107,627,396)	(48,488,940)	(129,554,882)
Cash flows from financing activities:			

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Proceeds from share issuance		65,089,026	
Redemption of shares for payment of taxes		(457,634)	
Offering costs		(2,654,279)	
Borrowings under mortgage notes payable	48,521,690	68,055,000	61,419,179
Principal repayments on mortgage notes payable	(895,657)	(604,318)	(70,479)
Principal repayments on employee notes receivable from sale of common stock	431,399	914	17,718
Borrowings from short-term loan and line of credit	65,500,000	71,400,400	85,460,000
Repayments on line of credit	(41,100,000)	(114,960,400)	(41,900,000)
Increase in reserves from tenants	1,885,361	1,574,464	158,646
Increase in security deposits	376,572	427,951	355,115
Payments for deferred financing costs	(1,409,320)	(3,242,881)	(2,021,115)
Dividends paid for common and preferred	(16,427,736)	(13,469,627)	(8,283,860)
Net cash provided by financing activities	56,882,309	71,158,616	95,135,204
Net (decrease) increase in cash and cash equivalents	(34,649,278)	34,265,527	(27,014,130)
Cash and cash equivalents, beginning of period	36,005,686	1,740,159	28,754,289
Cash and cash equivalents, end of period	\$ 1,356,408	\$ 36,005,686	\$ 1,740,159
Cash paid during period for interest	\$ 10,693,440	\$ 8,045,342	\$ 2,014,236
NON-CASH INVESTING ACTIVITIES			
Increase in asset retirement obligation	\$ 180,458	\$ 1,631,294	\$
Additions to real estate included in accounts payable, accrued expenses, and amount due adviser	\$ 81,400	\$	\$