

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.

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**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
<b>ASSETS</b>		
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
<b>TOTAL ASSETS</b>	<b>\$ 378,902,689</b>	<b>\$ 315,766,022</b>
 <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>LIABILITIES</b>		
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
<b>Total Liabilities</b>	<b>236,534,621</b>	<b>163,541,846</b>
 <b>STOCKHOLDERS EQUITY</b>		
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	\$	\$
NON-CASH FINANCING ACTIVITIES			
Fixed rate debt assumed in connection with acquisitions	\$ 4,506,689	\$ 30,129,654	\$
Assumption of mortgage notes payable by buyer	\$	\$ 4,846,925	\$
Notes receivable issued in exchange for common stock associated with the exercise of employee stock options	\$	\$ 2,769,954	\$ 75,000
Acquisition of building in satisfaction of mortgage note receivable	\$	\$ 11,316,774	\$

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

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**GLADSTONE COMMERCIAL CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization and Significant Accounting Policies**

Gladstone Commercial Corporation (the Company) is a Maryland corporation that operates in a manner so as to qualify as a real estate investment trust (REIT) for federal income tax purposes and was incorporated on February 14, 2003 under the General Corporation Law of Maryland for the purpose of engaging in the business of investing in real estate properties net leased to creditworthy entities and making mortgage loans to creditworthy entities. Subject to certain restrictions and limitations, the business of the Company is managed by Gladstone Management Corporation, a Delaware corporation (the Adviser).

***Subsidiaries***

The Company conducts substantially all of its operations through a subsidiary, Gladstone Commercial Limited Partnership, a Delaware limited partnership, (the Operating Partnership). As the Company currently owns all of the general and limited partnership interests of the Operating Partnership through GCLP Business Trust I and II as disclosed below, the financial position and results of operations of the Operating Partnership are consolidated with those of the Company.

Gladstone Commercial Partners, LLC, a Delaware limited liability company (Commercial Partners) and a subsidiary of the Company, was organized to engage in any lawful act or activity for which a limited liability company may be organized in Delaware. Commercial Partners has the power to make and perform all contracts and to engage in all activities to carry out the purposes of the Company, and all other powers available to it as a limited liability company. As the Company currently owns all of the membership interests of Commercial Partners, the financial position and results of operations of Commercial Partners are consolidated with those of the Company.

Gladstone Lending, LLC, a Delaware limited liability company (Gladstone Lending), and a subsidiary of the Company, was created to conduct all operations related to real estate mortgage loans of the Company. As the Operating Partnership currently owns all of the membership interests of Gladstone Lending, the financial position and results of operations of Gladstone Lending are consolidated with those of the Company.

Gladstone Commercial Advisers, Inc., a Delaware corporation (Commercial Advisers) and a subsidiary of the Company, is a taxable REIT subsidiary (TRS), which was created to collect all non-qualifying income related to the Company's real estate portfolio. It is currently anticipated that this income will predominately consist of fees received by the Company related to the leasing of real estate. There have been no such fees earned to date. Since the Company owns 100% of the voting securities of Commercial Advisers, the financial position and results of operations of Commercial Advisers are consolidated with those of the Company.

GCLP Business Trust I and GCLP Business Trust II, subsidiaries of the Company, each are business trusts formed under the laws of the Commonwealth of Massachusetts on December 28, 2005. The Company transferred its 99% limited partnership interest in the Operating Partnership to GCLP Business Trust I in exchange for 100 trust shares. Commercial Partners transferred its 1% general partnership interest in the Operating Partnership to GCLP Business Trust II in exchange for 100 trust shares.

***Investments in real estate***

The Company records investments in real estate at cost and capitalizes improvements and replacements when they extend the useful life or improve the efficiency of the asset. The Company expenses costs of repairs and maintenance as incurred. The Company computes depreciation using the straight-line method over the estimated useful life of 39 years for buildings and improvements, five to seven years for equipment and fixtures and the shorter of the useful life or the remaining lease term for tenant improvements and leasehold interests.

The Company accounts for its acquisitions of real estate in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 141, Business Combinations, which requires the purchase price of real estate to be allocated to the acquired tangible assets and liabilities, consisting of land, building, tenant improvements, long-term debt and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, the value of in-place leases, the value of unamortized lease origination costs and the value of tenant relationships, based in each case on their fair values.

Management's estimates of value are made using methods similar to those used by independent appraisers (e.g., discounted cash flow analysis). Factors considered by management in its analysis include an estimate of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets and liabilities acquired. In estimating carrying costs, management also includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, which primarily range from nine to eighteen months, depending on specific local market conditions. Management also estimates costs to execute similar leases including leasing commissions, legal and other related expenses to the extent that such costs are not already incurred in connection with a new lease origination as part of the transaction.

The Company allocates purchase price to the fair value of the tangible assets of an acquired property by valuing the property as if it were vacant. The as-if-vacant value is allocated to land, building, and tenant improvements based on management's determination of the relative fair values of these assets. Real estate depreciation expense on these tangible assets, including discontinued operations, was \$7,143,215, \$5,351,412 and \$2,623,753 for the years ended December 31, 2007, 2006, and 2005 respectively.

Above-market and below-market in-place lease values for owned properties are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market lease values, included in the accompanying balance sheet as part of deferred rent receivable, are amortized as a reduction of rental income over the remaining non-cancelable terms of the respective leases. Total amortization related to above-market lease values was \$253,496, \$253,496 and \$178,070 for the years ended December 31, 2007, 2006, and 2005 respectively. The capitalized below-market lease values, included in the accompanying balance sheet as deferred rent liability, are amortized as an increase to rental income over the remaining non-cancelable terms of the respective leases. Total amortization related to below-market lease values was \$785,564 and \$696,261 for the years ended December 31, 2007 and 2006 respectively. There was no amortization related to below-market lease values in 2005.

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



The value of in-place leases and unamortized lease origination costs are amortized to expense over the remaining term of the respective leases, which generally range from five to twenty years. The value of customer relationship intangibles, which is the benefit to the Company resulting from the likelihood of an existing tenant renewing its lease, are amortized to expense over the remaining term and any anticipated renewal periods in the respective leases, but in no event does the amortization period for intangible assets exceed the remaining depreciable life of the building. Should a tenant terminate its lease, the unamortized portion of the above-market and below-market lease values, in-place lease values, unamortized lease origination costs and customer relationship intangibles will be charged to expense. Total amortization expense related to these intangible assets, including discontinued operations, was \$3,385,243, \$2,998,062 and \$1,027,367 for the years ended December 31, 2007, 2006, and 2005 respectively. The following table summarizes the net value of other intangible assets and the accumulated amortization for each intangible asset class:

	December 31, 2007		December 31, 2006	
	Lease Intangibles	Accumulated Amortization	Lease Intangibles	Accumulated Amortization
In-place leases	\$ 12,660,732	\$ (3,414,868)	\$ 10,738,319	\$ (1,907,668)
Leasing costs	9,290,026	(2,114,233)	5,891,099	(1,267,829)
Customer relationships	14,599,726	(2,031,827)	10,962,963	(1,000,188)
	\$ 36,550,484	\$ (7,560,928)	\$ 27,592,381	\$ (4,175,685)

The estimated aggregate amortization expense for the next five fiscal years is as follows:

Year	Estimated Amortization Expense
2008	\$ 3,442,888
2009	3,314,527
2010	3,232,433
2011	3,089,169
2012	2,736,211

### ***Impairment***

#### *Investments in Real Estate*

The Company accounts for the impairment of real estate in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which requires that the Company periodically review the carrying value of each property to determine if circumstances that indicate impairment in the carrying value of the investment exist or that depreciation periods should be modified. If circumstances support the possibility of impairment, the Company prepares a projection of the undiscounted future cash flows, without interest charges, of the specific property and determines if the investment in such property is recoverable. If impairment is indicated, the carrying value of the property would be written down to its estimated fair value based on the Company's best estimate of the property's discounted future cash flows. There have been no impairments recognized on the Company's real estate assets at December 31, 2007.

*Provision for Loan Losses*

The Company's accounting policies require that it reflect in its financial statements an allowance for estimated credit losses with respect to mortgage loans it has made based upon its evaluation of known and inherent risks associated with its private lending assets. Management reflects provisions for loan losses based upon its assessment of general market conditions, its internal risk management policies and credit risk rating system, industry loss experience, its assessment of the likelihood of delinquencies or defaults, and the value of the collateral underlying its investments. Actual losses, if any, could ultimately differ from these estimates. There have been no provisions for loan losses in the Company's history.

***Cash and cash equivalents***

The Company considers all short-term, highly liquid investments that are both readily convertible to cash and have a maturity of three months or less at the time of purchase to be cash equivalents; except that any such investments purchased with funds held in escrow or similar accounts are classified as restricted cash. Items classified as cash equivalents include commercial paper and money-market funds. All of the Company's cash and cash equivalents at December 31, 2007 were held in the custody of two financial institutions, and the Company's balance at times may exceed federally insurable limits. The Company mitigates this risk by depositing funds with major financial institutions.

***Restricted cash***

Restricted cash consists of security deposits and funds held in escrow for certain tenants. The funds held in escrow are for capital improvements, taxes, insurance and other replacement reserves for certain of our tenants. These funds will be released to the tenants upon completion of agreed upon tasks as specified in the lease agreements, mainly consisting of maintenance and repairs on the buildings, and when evidence of insurance and tax payments has been submitted to the Company.

***Funds held in escrow***

Funds held in escrow consist of funds held by certain of the Company's lenders for properties held as collateral by these lenders. These funds consist of replacement reserves for capital improvements, repairs and maintenance, insurance and taxes. These funds will be released to the Company upon completion of agreed upon tasks as specified in the mortgage agreements, mainly consisting of maintenance and repairs on the buildings, and when evidence of insurance and tax payments has been submitted to the lenders.

***Deferred financing costs***

Deferred financing costs consist of costs incurred to obtain long-term financing, including legal fees, origination fees, and administrative fees. The costs are deferred and amortized using the straight-line method, which approximates the effective interest method, over the term of the financing secured. The Company incurred \$1,409,320, \$3,242,881, and \$2,021,115 in deferred financing costs during the years ended December 31, 2007, 2006 and 2005, respectively. Total amortization expense related to deferred financing costs, including discontinued operations, was \$717,195, \$1,207,198 and \$260,099 for the years ended December 31, 2007, 2006, and 2005 respectively. Amortization of financing costs are included in the interest expense line item in the consolidated financial statements.

***Revenue recognition***

Rental revenue includes rents that each tenant pays in accordance with the terms of its respective lease reported on a straight-line basis over the non-cancelable term of the lease. Certain of the Company's leases currently contain rental increases at specified intervals, and straight-line basis accounting requires the Company to record an asset, and include in revenues, deferred rent receivable that will be received if the tenant makes all rent payments required through the expiration of the initial term of the lease. Deferred rent receivable in the accompanying balance sheet includes the cumulative difference between rental revenue as recorded on a straight line basis and rents received from the tenants in accordance with the lease terms, along with the capitalized above-market lease values of certain acquired properties.

Accordingly, the Company determines, in its judgment, to what extent the deferred rent receivable applicable to each specific tenant is collectible. The Company reviews deferred rent receivable, as it relates to straight line rents, on a quarterly basis and takes into consideration the tenant's payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates and economic conditions in the area in which the property is located. In the event that the collectibility of deferred rent with respect to any given tenant is in doubt, the Company records an increase in the allowance for uncollectible accounts or records a direct write-off of the specific rent receivable, which would have an adverse effect on the net income for the year in which the reserve is increased or the direct write-off is recorded and would decrease total assets and stockholders' equity. No such reserves have been recorded as of December 31, 2007.

Management considers its loans and other lending investments to be held-for-investment. The Company reflects held-for-investment investments at amortized cost less allowance for loan losses, acquisition premiums or discounts, and deferred loan fees. On occasion, the Company may acquire loans at small premiums or discounts based on the credit characteristics of such loans. These premiums or discounts are recognized as yield adjustments over the lives of the related loans. Loan origination or exit fees, as well as direct loan origination costs, are also deferred and recognized over the lives of the related loans as yield adjustments. If loans with premiums, discounts, loan origination or exit fees are prepaid, the Company immediately recognizes the unamortized portion as a decrease or increase in the prepayment gain or loss. Interest income is recognized using the effective interest method applied on a loan-by-loan basis. Prepayment penalties or yield maintenance payments from borrowers are recognized as additional income when received.

Certain of our mortgage loans and leases have embedded derivatives in the form of interest rate floors and ceilings. These embedded derivatives do not require separate accounting under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities.

#### ***Income taxes***

The Company has operated and intends to continue to operate in a manner that will allow it to qualify as a REIT under the Internal Revenue Code of 1986, as amended, and accordingly will not be subject to federal income taxes on amounts distributed to stockholders (except income from foreclosure property), provided it distributes at least 90% of its REIT taxable income to its stockholders and meets certain other conditions. To the extent that the Company satisfies the distribution requirement but distributes less than 100% of its taxable income, the Company will be subject to federal corporate income tax on its undistributed income.

Commercial Advisers is a wholly-owned TRS that is subject to federal and state income taxes. Though Commercial Advisers has had no activity to date, the Company would account for any future income taxes in accordance with the provisions of SFAS No. 109, Accounting for Income Taxes. Under SFAS No. 109, the Company accounts for income taxes using the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

In July of 2006, the Financial Accounting Standards Board ( FASB ) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109 ( FIN 48 ). FIN 48 provides guidance for the financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return, and provides guidance on recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition of tax positions. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 effective for the fiscal year beginning January 1, 2007, and the adoption had no impact on the Company's results of operations.

***Segment information***

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information provides standards for public companies relating to the reporting of financial and descriptive information about their operating segments in financial statements. Operating segments are defined as components of an enterprise for which separate financial information is available and is evaluated regularly by the chief operating decision maker or decision making group in determining how to allocate resources and in assessing performance. Company management is the chief decision making group. As discussed in Note 10, the Company's operations are derived from two operating segments, one segment purchases real estate (land, buildings and other improvements), which is simultaneously leased to existing users, and the other segment originates mortgage loans and collects principal and interest payments.

***Foreign Currency Transactions***

The Company purchased two properties in Canada in October of 2004. These properties were classified as held for sale as of June 30, 2006, and were sold in July 2006. All gains and losses from foreign currency transactions are reflected in discontinued operations in the Company's consolidated financial statements. Rental payments from these properties were received in Canadian dollars. In accordance with SFAS No. 52, Foreign Currency Translation, the rental revenue received was recorded using the exchange rate as of the transaction date, which was the first day of each month. In addition to rental payments that were denominated in Canadian dollars, the Company also had a bank account in Canada and the long-term financings on the two Canadian properties were also issued in Canadian dollars. All cash, deferred rent assets and mortgage notes payable related to the Canadian properties were re-valued at each balance sheet date to reflect the then current exchange rate. The gains or losses from the valuation of the cash were recorded on the income statement as a realized gain or loss, and the valuation of the deferred rent assets and mortgage notes payable was recorded on the income statement as unrealized gains or losses on the translation of assets and liabilities. A realized foreign currency gain of \$33,359 was recorded for the year ended December 31, 2007. Realized foreign currency losses of \$202,938 and \$6,278 were recorded for the years ended December 31, 2006, and 2005, respectively. A realized gain of \$1,422,026 related to the sale of the Canadian properties was recognized for the year ended December 31, 2006. An unrealized foreign currency loss of \$212,279 was recorded for the year ended December 31, 2005. There were no unrealized foreign currency losses during the years ended December 31, 2007 and 2006, respectively. These realized gains and losses were from the valuation of cash, tax payments made to the Canadian government, and the previously unrealized foreign currency losses associated with the valuation of the deferred rent assets and mortgage notes payable that became realized foreign currency losses as of the date of sale.

***Asset retirement obligations***

In March of 2005, the FASB issued Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (FIN 47). FIN 47 requires an entity to recognize a liability for a conditional asset retirement obligation when incurred if the liability can be reasonably estimated. FIN 47 clarifies that the term Conditional Asset Retirement Obligation refers to a legal obligation (pursuant to existing laws or by contract) to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The Company has accrued a liability and corresponding increase to the cost of the related properties for disposal related to all properties constructed prior to 1985 that have, or may have, asbestos present in the building. The Company accrued a liability during the year ended December 31, 2007 of \$63,980 related to properties acquired during the period. The Company also recorded expense of \$116,478 and \$139,074, during the years ended December 31, 2007 and 2006 respectively, including discontinued operations, related to the cumulative accretion of the obligation. The Company adopted FIN 47 as of December 31, 2005, but did not record the liability and the related cumulative effect as of December 31, 2005 because the Company deemed the impact of its initial estimates immaterial and worked to further refine these estimates.

***Real estate held for sale and discontinued operations***

SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, requires that the results of operations of any properties which have been sold, or are held for sale, be presented as discontinued operations in the Company's consolidated financial statements in both current and prior periods presented. Income items related to held for sale properties are listed separately on the Company's consolidated income statement. Real estate assets held for sale are measured at the lower of the carrying amount or the fair value, less the cost to sell, and are listed separately on the Company's consolidated balance sheet for the current period. Once properties are listed as held for sale, no further depreciation is recorded.

***Recently Issued Accounting Pronouncements***

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 (SAB 108). SAB 108 addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements and requires registrants to consider the effect of all carry over and reversing effects of prior year misstatements when quantifying errors in current year financial statements. SAB 108 does not change the SEC's previous guidance in SAB No. 99, Materiality, on evaluating the materiality of misstatements. A registrant applying the new guidance for the first time that identifies material errors in existence at the beginning of the first fiscal year ending after November 15, 2006, may correct those errors through a one-time cumulative effect adjustment to beginning-of-year retained earnings. The cumulative effect alternative is available only if the application of the new guidance results in a conclusion that a material error exists as of the beginning of the first fiscal year ending after November 15, 2006, and those misstatements were determined to be immaterial based on a proper application of the registrant's previous method for quantifying misstatements. The Company adopted SAB 108 effective for the fiscal year beginning January 1, 2007, and the adoption had no impact on the Company's results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is required to adopt the provisions of SFAS 157 beginning with the fiscal year beginning January 1, 2008. The Company believes there will be no impact of the adoption on its results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 allows entities to measure at fair value many financial instruments and certain other assets and liabilities that are not otherwise required to be measured at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS 159 effective for the fiscal year beginning January 1, 2007, and the adoption had no impact on the Company's results of operations. The Company believes there will be no impact of the adoption on its results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations, SFAS No. 141(R), which replaces SFAS No. 141, Business Combinations (SFAS 141R). SFAS 141R significantly changes the accounting for acquisitions involving business combinations, as it requires that the assets and liabilities of all business combinations be recorded at fair value, with limited exceptions. SFAS 141R also requires that all expenses related to the acquisition be expensed as incurred, rather than capitalized into the cost of the acquisition as had been the previous accounting under SFAS 141. SFAS 141R is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008.

*Use of estimates*

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

*Reclassifications*

Certain amounts from prior years' financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported net income or stockholders' equity.

**2. Management Advisory Fee**

The Company has been externally managed pursuant to a contractual investment advisory arrangement with its Adviser, under which its Adviser has directly employed all of the Company's personnel and paid its payroll, benefits, and general expenses directly. The Company's initial investment advisory agreement with its Adviser was in place from August 12, 2003 through December 31, 2006 (the "Initial Advisory Agreement"). On January 1, 2007, the Company entered into an amended and restated investment advisory agreement with its Adviser (the "Amended Advisory Agreement") and an administration agreement (the "Administration Agreement") with Gladstone Administration, LLC (the "Administrator"). The management services and fees in effect under the Initial Advisory, Amended Advisory and Administration Agreements are described below.

*Initial Advisory Agreement*

Under the Initial Advisory Agreement, the Company was required to reimburse its Adviser for its pro rata share of its Adviser's payroll and benefits expenses on an employee-by-employee basis, based on the percentage of each employee's time devoted to the Company's matters. During the years ended December 31, 2006 and 2005, these expenses were approximately \$2,266,000 and \$1,547,000, respectively.

The Company was also required to reimburse its Adviser for its pro rata portion of all other expenses of its Adviser not reimbursed under the Initial Advisory Agreement (overhead expenses), equal to the total overhead expenses of its Adviser, multiplied by the ratio of hours worked by its Adviser's employees on the Company's projects to the total hours worked by its Adviser's employees. However, the Company was only required to reimburse its Adviser for its portion of its overhead expenses if the amount of payroll and benefits the Company reimbursed to its Adviser was less than 2.0% of the Company's average invested assets for the year. Additionally, the Company was only required to reimburse its Adviser for overhead expenses up to the point that reimbursed overhead expenses and payroll and benefits expenses, on a combined basis, equaled 2.0% of the Company's average invested assets for the year. The Adviser billed the Company on a monthly basis for these amounts. The Adviser was required to reimburse the Company annually for the amount by which overhead expenses billed to and paid by the Company exceeded this combined 2.0% limit during a given year. The overhead expenses never exceeded the combined 2.0% limit and, consequently, the Company never received any reimbursement. During the years ended December 31, 2006 and 2005, the Company reimbursed its Adviser approximately \$636,000 and \$571,000, respectively, of overhead expenses.

*Amended Advisory Agreement*

The Amended Advisory Agreement provides for an annual base management fee equal to 2% of the Company's total stockholders' equity, less the recorded value of any preferred stock, and an incentive fee based on funds from operations (FFO). For the year ended December 31, 2007, the Company recorded a base management fee of \$1,858,120. For purposes of calculating the incentive fee, FFO includes any realized capital gains and capital losses, less any dividends paid on preferred stock, but FFO does not include any unrealized capital gains or losses. The incentive fee will reward the Adviser if the Company's quarterly FFO, before giving effect to any incentive fee (pre-incentive fee FFO), exceeds 1.75%, or 7% annualized, (the "hurdle rate") of total stockholders' equity, less the recorded value of any preferred stock. The Adviser will receive 100% of the amount of the pre-incentive fee FFO that exceeds the hurdle rate, but is less than 2.1875% of the Company's pre-incentive fee FFO. The Adviser will also receive an incentive fee of 20% of the amount of the Company's pre-incentive fee FFO that exceeds 2.1875%.

For the year ended December 31, 2007, the Company recorded an incentive fee of \$2,564,365 offset by a credit from an unconditional and irrevocable voluntary waiver issued by the Adviser of \$2,321,597, for a net incentive fee for the year ended December 31, 2007 of \$242,768. The board of directors of the Company accepted the Adviser's offer to waive a portion of the incentive fee for the year ended December 31, 2007 in order to maintain the current level of distributions to the Company's stockholders.

*Administration Agreement*

Under the Administration Agreement, the Company pays separately for its allocable portion of the Administrator's overhead expenses in performing its obligations including, but not limited to, rent for employees of the Administrator, and its allocable portion of the salaries and benefits expenses of its chief financial officer, chief compliance officer, controller, treasurer and their respective staffs. The amount of overhead expenses allocated to the Company is determined by calculating the percentage of total assets of the Company to the total assets managed by the Administrator. For the year ended December 31, 2007, the Company recorded an administration fee of \$837,898.

**3. Stock Options**

In December of 2004, FASB issued SFAS No. 123(R), *Share-Based Payment*. The new standard was effective for awards that are granted, modified, or settled in cash for annual periods beginning after June 15, 2005. The Company previously accounted for its stock option plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations and disclosure requirements established by SFAS No. 123, *Accounting for Stock-Based Compensation*. In this regard, the options under the plan had been granted to individuals who are the Company's officers, and who would qualify as leased employees under FASB Interpretation No. 44 (FIN 44), *Accounting for Certain Transactions Involving Stock Compensation*, an Interpretation of APB Opinion No. 25. Under APB Opinion No. 25, no expense was recorded in the income statement for the Company's stock options. The pro forma effects on income for stock options were instead disclosed in a footnote to the financial statements. Under SFAS No. 123(R), all share-based compensation cost was measured at the grant date, based on the fair value of the award, and was recognized as an expense in the income statement over an employee's requisite service period.

The Company adopted SFAS No. 123(R) on January 1, 2006 using the modified prospective approach. Under the modified prospective approach, stock-based compensation expense was recorded for the unvested portion of previously issued awards that remained outstanding at January 1, 2006 using the same estimate of the grant date fair value and the same attribution method used to determine the pro forma disclosure under SFAS No. 123. SFAS No. 123(R) also requires that all share-based payments to employees after January 1, 2006, including employee stock options, be recognized in the financial statements as stock-based compensation expense based on the fair value on the date of grant. The Company recorded total stock option compensation expense of \$394,411 for the year ended December 31, 2006. As the Company terminated its stock option plan on December 31, 2006 there were no stock options outstanding, and therefore, no stock option compensation expense was recorded for the year ended December 31, 2007.

The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair-value recognition provisions of SFAS No. 123(R) to stock options, stock appreciation rights, performance units and restricted stock units for periods prior to adoption of SFAS No. 123(R).

	For the year ended December 31, 2005
Net income, as reported	\$ 3,601,945
Less: Stock-based compensation expense determined using the fair value based method	(187,483)
Net income, pro-forma	\$ 3,414,462
Basic, as reported	\$ 0.47
Basic, pro-forma	\$ 0.45
Diluted, as reported	\$ 0.47
Diluted, pro-forma	\$ 0.44

The stock-based compensation expense under the fair value method, as reported in the above table, was computed using an estimated weighted average fair value of \$1.26 using the Black-Scholes option-pricing model, based on options issued from date of inception forward, and the following weighted-average assumptions: dividend yield of 5.07%, risk-free interest rate of 2.61%, expected volatility factor of 18.15%, and expected lives of 3 years.

A summary of the status of the Company's 2003 Equity Incentive Plan from February 14, 2003 (inception) through December 31, 2006 (termination) is as follows:

	Shares	Weighted Average Exercise Price
Options outstanding at February 14, 2003		
Granted	629,000	\$ 15.00
Exercised		
Options outstanding at December 31, 2003, of which 629,000 shares were exercisable	629,000	\$ 15.00
Granted	280,000	\$ 16.22
Exercised	(25,000)	\$ 15.00
Forfeited	(15,000)	\$ 15.73
Options outstanding at December 31, 2004, of which 599,000 shares were exercisable	869,000	\$ 15.39
Granted	64,500	\$ 15.47
Exercised	(5,000)	\$ 15.00
Forfeited	(12,500)	\$ 15.48



Options outstanding at December 31, 2005, of which 744,250 shares were exercisable	916,000	\$ 15.39
Granted		\$
Exercised	(916,000)	\$ 15.40
Forfeited		\$
Options outstanding and exercisable at December 31, 2006		\$

The following table is a summary of all outstanding notes issued to employees of the Adviser for the exercise of stock options:

Date Issued	Number of Options Exercised	Strike Price of Options Exercised	Amount of Promissory Note Issued to Employees	Outstanding	Term of Note	Interest Rate on Note
				Balance of Employee Loans at 12/31/07		
Sep-04	25,000	\$ 15.00	\$ 375,000	\$ 368,161	9 years	5.00%
May-05	5,000	15.00	75,000	57,796	9 years	6.00%
Apr-06	12,422	16.10	199,994	199,994	9 years	7.77%
May-06	50,000	16.85	842,500	842,500	10 years	7.87%
May-06	15,000	16.10	241,500	241,500	10 years	7.87%
May-06	2,500	16.01	40,000	39,012	10 years	7.87%
May-06	2,000	16.10	32,200	32,200	10 years	7.87%
May-06	2,000	16.10	32,200	32,200	10 years	7.87%
May-06	2,000	16.68	33,360	33,360	10 years	7.87%
May-06	2,000	15.00	30,000	30,000	10 years	7.87%
Oct-06	12,000	16.10	193,200	193,200	9 years	8.17%
Nov-06	25,000	15.00	375,000	325,000	9 years	8.15%
Dec-06	25,000	15.00	375,000	375,000	10 years	8.12%
	204,922		\$ 3,219,954	\$ 2,769,923		

In accordance with Emerging Issues Task Force No. 85-1, Classifying Notes Received for Sale of Stock, receivables from employees for the issuance of capital stock to employees prior to the receipt of cash payment should be reflected in the balance sheet as a reduction to stockholders' equity. Therefore, these notes were recorded as loans to employees and are included in the equity section of the accompanying consolidated balance sheets.

#### 4. Earnings per Common Share

The following tables set forth the computation of basic and diluted earnings per share for the years ended December 31, 2007, 2006 and 2005:

	For the year ended December 31,		
	2007	2006	2005
Net income available to common stockholders	\$ 2,046,479	\$ 2,185,938	\$ 3,601,945
Denominator for basic weighted average shares	8,565,264	7,827,781	7,670,219
Dilutive effect of stock options		158,909	53,001
Denominator for diluted weighted average shares	8,565,264	7,986,690	7,723,220
Basic earnings per common share	\$ 0.24	\$ 0.28	\$ 0.47
Diluted earnings per common share	\$ 0.24	\$ 0.27	\$ 0.47



**5. Real Estate**

A summary of the 53 properties held by the Company as of December 31, 2007 is as follows:

Date Acquired	Location	(unaudited) Square Footage	Property Description	Net Real Estate
Dec-03	Raleigh, North Carolina	58,926	Office	\$ 4,628,337
Jan-04	Canton, Ohio	54,018	Office and Warehouse	2,923,963
Apr-04	Akron, Ohio	83,891	Office and Laboratory	8,106,036
Jun-04	Charlotte, North Carolina	64,500	Office	8,451,345
Jul-04	Canton, North Carolina	228,000	Commercial and Manufacturing	4,749,579
Aug-04	Snyder Township, Pennsylvania	290,000	Commercial and Warehouse	6,102,338
Aug-04	Lexington, North Carolina	154,000	Commercial and Warehouse	2,778,380
Sep-04	Austin, Texas	51,933	Flexible Office	6,803,840
Oct-04	Norfolk, Virginia	25,797	Commercial and Manufacturing	885,442
Oct-04	Mt. Pocono, Pennsylvania	223,275	Commercial and Manufacturing	5,699,851
Feb-05	San Antonio, Texas	60,245	Flexible Office	7,638,439
Feb-05	Columbus, Ohio	39,000	Industrial	2,615,717
Apr-05	Big Flats, New York	120,000	Industrial	6,310,146
May-05	Wichita, Kansas	69,287	Office	10,577,368
May-05	Arlington, Texas	64,000	Warehouse and Bakery	3,857,133
Jun-05	Dayton, Ohio	59,894	Office	2,339,980
Jul-05	Eatontown, New Jersey	30,268	Office	4,606,747
Jul-05	Franklin Township, New Jersey	183,000	Office and Warehouse	7,439,940
Jul-05	Duncan, South Carolina	278,020	Office and Manufacturing	15,415,164
Aug-05	Hazelwood, Missouri	51,155	Office and Warehouse	2,950,754
Sep-05	Angola, Indiana	52,080	Industrial	1,116,968
Sep-05	Angola, Indiana	50,000	Industrial	1,116,968
Sep-05	Rock Falls, Illinois	52,000	Industrial	1,116,969
Oct-05	Newburyport, Massachusetts	70,598	Industrial	6,798,268
Oct-05	Clintonville, Wisconsin	291,142	Industrial	4,502,040
Dec-05	Maple Heights, Ohio	347,218	Industrial	11,099,726
Dec-05	Richmond, Virginia	42,213	Office	5,809,099
Dec-05	Toledo, Ohio	23,368	Office	2,939,026
Feb-06	South Hadley, Massachusetts	150,000	Industrial	3,113,051
Feb-06	Champaign, Illinois	108,262	Office	13,878,032
Feb-06	Roseville, Minnesota	359,540	Office	26,408,409
May-06	Burnsville, Minnesota	114,100	Office	11,768,380
Jun-06	Menomonee Falls, Wisconsin	125,692	Industrial	7,265,105
Jul-06	Baytown, Texas	12,000	Office	2,558,544
Sep-06	Sterling Heights, Michigan	532,869	Industrial	11,072,192

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Sep-06	Birmingham, Alabama	63,514	Industrial	1,527,220
Sep-06	Montgomery, Alabama	29,472	Industrial	1,527,220
Sep-06	Columbia, Missouri	16,275	Industrial	1,527,220
Jan-07	Mason, Ohio	60,000	Office	6,856,787
Feb-07	Raleigh, North Carolina	115,500	Industrial	6,993,551
Mar-07	Tulsa, Oklahoma	238,310	Manufacturing	13,706,553
Mar-07	Hialeah, Florida	132,337	Industrial	10,094,438
May-07	Tewksbury, Massachusetts	102,200	Industrial	10,134,413
Jul-07	Mason, Ohio	21,264	Retail	6,101,665
Sep-07	Cicero, New York	71,880	Industrial	5,276,588
Sep-07	Grand Rapids, Michigan	63,235	Office	12,052,923
Sep-07	Bolingbrook, Illinois	55,869	Industrial	6,238,674
Dec-07	Decatur, Georgia	26,600	Office	2,880,207
Dec-07	Lawrenceville, Georgia	12,412	Office	2,880,207
Dec-07	Snellville, Georgia	3,800	Office	2,880,207
Dec-07	Covington, Georgia	5,000	Office	2,880,207
Dec-07	Cumming, Georgia	13,919	Office	2,880,208
Dec-07	Conyers, Georgia	6,400	Office	2,880,208
	Total real estate, net	5,558,278		\$ 324,761,772

The following table sets forth the components of the Company's investments in real estate:

	December 31, 2007	December 31, 2006
Real estate:		
Land	\$ 48,867,482	\$ 33,764,113
Building	283,829,987	204,115,481
Tenant improvements	7,802,937	5,833,948
Accumulated depreciation	(15,738,634)	(8,595,419)
Real estate, net	\$ 324,761,772	\$ 235,118,123

On January 5, 2007, the Company acquired a 60,000 square foot office building in Mason, Ohio for approximately \$7.88 million, including transaction costs. At closing, the Company was assigned the previously existing triple net lease with the sole tenant, which had a remaining term of approximately six years. The tenant has two options to extend the lease for additional periods of five years each. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately \$0.68 million.

On February 16, 2007, the Company acquired an 115,500 square foot industrial building in Raleigh, North Carolina for approximately \$7.80 million, including transaction costs. At closing, the Company was assigned the previously existing triple net lease with the sole tenant, which had a remaining term of approximately three years. The tenant has one option to extend the lease for an additional period of five years. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately \$0.66 million.

On March 1, 2007, the Company acquired the leasehold interest in a 238,310 square foot office building in Tulsa, Oklahoma for \$15.81 million, including transaction costs. Under the terms of the leasehold interest, the Company has a ground lease on which the property is located that has a remaining term, including renewal options, of approximately 34.5 years. The annual amount of ground lease payments, reimbursable to us by the tenant, is approximately \$134,000. Upon acquisition of the leasehold interest in the building, the Company was assigned the previously existing triple net lease with the sole tenant, which had a remaining term of approximately 12.5 years at the time of assignment. The tenant also has two options to extend the lease for additional periods of five years each. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately \$1.57 million.

On March 9, 2007, the Company acquired a 132,337 square foot industrial building in Hialeah, Florida for approximately \$10.29 million, including transaction costs. At closing, the Company extended a 15 year triple net lease with the sole tenant, and the tenant has five options to extend the lease for additional periods of five years each. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately \$1.0 million.

On May 17, 2007, the Company acquired a 102,200 square foot industrial building in Tewksbury, Massachusetts for approximately \$11.25 million, including transaction costs. At closing, the Company extended a 10 year triple net lease with the sole tenant, and the tenant has three options to extend the lease for additional periods of five years each. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately \$0.92 million.

On July 13, 2007, the Company acquired a 21,264 square foot retail building in Mason, Ohio for approximately \$6.77 million, including transaction costs. At closing, the Company was assigned the previously existing triple net lease with the sole tenant, which had a remaining term of approximately 20 years. The tenant has five options to extend the lease for additional periods of five years each. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately \$0.58 million.

On September 6, 2007, the Company acquired a 71,880 square foot office building in Cicero, New York for approximately \$5.81 million, including transaction costs, which was funded by a combination of cash on hand, and the assumption of approximately \$4.5 million of financing on the property. The financing was recorded at fair value at the time of acquisition. At closing, the Company was assigned the previously existing triple net lease with the sole tenant, which had a remaining term of approximately 13 years. The tenant has two options to extend the lease for additional periods of five years each. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately \$0.53 million.

On September 28, 2007, the Company acquired a 63,235 square foot office building in Grand Rapids, Michigan for approximately \$12.38 million, including transaction costs. At closing, the Company was assigned the previously existing triple net lease with the sole tenant, which had a remaining term of approximately nine years. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately \$1.03 million.

On September 28, 2007, the Company acquired a 55,869 square foot industrial building in Bolingbrook, Illinois for approximately \$6.71 million, including transaction costs. At closing, the Company was assigned the previously existing triple net lease with the sole tenant, which had a remaining term of approximately seven years. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately \$0.62 million.

On December 13, 2007, the Company acquired six separate medical office properties from a single seller: a 26,600 square foot building located in Decatur, Georgia; a 12,412 square foot building located in Lawrenceville, Georgia; a 3,800 square foot building located in Snellville, Georgia; a 5,000 square foot building located in Covington, Georgia; a 13,919 square foot building located in Cumming, Georgia; and a 6,400 square foot building located in Conyers, Georgia. These six properties were acquired for an aggregate cost to the Company of approximately \$19.52 million, including transaction costs, and the purchase was funded using borrowings from the Company's line of credit. At closing, the Company was assigned the previously existing triple net lease with the sole tenant, which had a remaining term of approximately 19 years, with four options to extend the lease for additional periods of five years each. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately \$1.74 million.

In accordance with SFAS No. 141, Business Combinations, the Company allocated the purchase price of the properties acquired during the year ended December 31, 2007 as follows:

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			Tenant		Customer		Total
	Land	Building	Improvements	In-place	Leasing	relationships	Purchase
				leases	Costs		Price
Mason, Ohio	\$ 797,274	\$ 5,962,067	\$ 296,277	\$	\$ 144,703	\$ 683,471	\$ 7,883,792
Raleigh, North Carolina	1,605,551	5,464,586	48,767	142,209	64,110	478,083	7,803,306
Tulsa, Oklahoma		13,858,489	198,738	437,117	587,605	723,168	15,805,117
Hialeah, Florida	3,562,455	6,619,258			817	104,508	10,287,038
Tewksbury, Massachusetts	1,394,902	8,637,010	256,233	421,446	865	535,416	11,245,872
Mason, Ohio	1,201,338	4,854,457	106,439		416,142	189,699	6,768,075
Cicero, New York	299,066	5,018,628		151,734	226,998	114,505	5,810,931
Grand Rapids, Michigan	1,629,270	10,196,137	303,929		246,042		12,375,378
Bolingbrook, Illinois	1,271,543	4,926,314	76,157	287,488	146,364		6,707,866
Decatur, Georgia	1,300,963	4,836,034	250,341	190,506	357,834	287,054	7,222,732
Lawrenceville, Georgia	521,243	2,817,869	134,276	100,375	188,625	172,103	3,934,491
Snellville, Georgia	449,406	429,012	37,570	21,750	43,097	39,955	1,020,790
Covington, Georgia	199,451	944,807	49,863	31,460	60,858	57,743	1,344,182
Cumming, Georgia	670,284	2,984,821	146,609	97,781	202,017	177,026	4,278,538
Conyers, Georgia	226,526	1,237,558	63,790	40,547	78,203	74,029	1,720,653
	\$ 15,129,272	\$ 78,787,047	\$ 1,968,989	\$ 1,922,413	\$ 2,764,280	\$ 3,636,760	\$ 104,208,761

The weighted average amortization period, for properties acquired during the year ended December 31, 2007, for in-place leases was approximately 13.1 years, for leasing costs was approximately 13.6 years, for customer relationships was approximately 25.9 years, and for all intangible assets was approximately 18.2 years. There were no above or below market lease intangibles allocated to the purchase price for the 10 acquisitions in 2007.

Future operating lease payments under non-cancelable leases, excluding customer reimbursement of expenses, in effect at December 31, 2007, were as follows:

Year	Lease Payments
2008	\$ 33,349,411
2009	32,781,897
2010	32,455,803
2011	31,969,623
2012	31,208,006
Thereafter	150,643,238



In accordance with the lease terms, substantially all tenant expenses are required to be paid by the tenant, however, the Company would be required to pay property taxes on the respective properties, and ground lease payments on the property located in Tulsa, Oklahoma, in the event the tenant fails to pay them. The total annualized property taxes for all properties outstanding as of December 31, 2007, was approximately \$5.1 million, and the total annual ground lease payments on the Tulsa, Oklahoma property were approximately \$134,000.

**6. Discontinued Operations**

On July 21, 2006, the Company sold its two Canadian properties for approximately \$6.9 million, for a gain on the sale of approximately \$1.4 million. The Company paid and expensed approximately \$315,000 in taxes related to the gain on the sale in 2006. The 2006 tax returns were subsequently filed in March of 2007, and the amount owed was approximately \$236,000. The Company received a refund in the amount of approximately \$79,000, which is reflected on the income statement in discontinued operations under taxes on sale of real estate. The operating expense during the year ended December 31, 2007 is legal fees related to the Canadian entities which are currently in the process of dissolution partially offset by interest income earned on letters of credit posted with the taxing agencies as part of the sale.

The Company classified its two Canadian properties as discontinued operations, in accordance with the provisions of SFAS 144. The table below summarizes the components of income from discontinued operations:

	For the year ended December 31,		
	2007	2006	2005
Operating revenue	\$	\$ 342,629	\$ 583,830
Operating expense	(3,312)	(22,732)	(23,537)
Taxes & licenses	78,667	(11,736)	(6,448)
Interest expense		(143,716)	(114,309)
Depreciation expense		(52,300)	(129,991)
Gain on sale of real estate		1,106,590	
Realized and unrealized gain (loss) on foreign currency transactions	33,359	(202,938)	(218,557)
Income from discontinued operations	\$ 108,714	\$ 1,015,797	\$ 90,988

#### **7. Mortgage Note Receivable**

On April 15, 2005, the Company originated a mortgage loan in the amount of \$10.0 million collateralized by an office building in McLean, Virginia, where the Company's Adviser and Administrator are subtenants in the building. The loan was funded using a portion of the net proceeds from the Company's initial public offering. This 12 year mortgage loan accrues interest at the greater of 7.5% per year or the one month London Interbank Offered Rate ( LIBOR ) rate plus 6.0% per year, with a ceiling of 10.0%. The interest rate as of December 31, 2007 was capped at 10.0%. The mortgage loan is interest only for the first nine years of the term, with payments of principal commencing after the initial period. The balance of the principal and all interest remaining is due at the end of the 12 year term.

#### **8. Mortgage Notes Payable**

As of December 31, 2007 the Company had 14 fixed-rate mortgage notes payable collateralized by a total of 33 properties. Each of these notes is in a separate borrowing entity which holds the real estate collateral. The Company is not a co-borrower but has limited recourse liabilities that could result from: a borrower voluntarily filing for bankruptcy, improper conveyance of a property, fraud or material misrepresentation, misapplication or misappropriation of rents, security deposits, insurance proceeds or condemnation proceeds, and physical waste or damage to the property resulting from a borrower's gross negligence or willful misconduct. The Company also indemnifies lenders against claims resulting from the presence of hazardous substances or activity involving hazardous substances in violation of environmental laws on a property. The weighted-average interest rate on the mortgage notes payable as of December 31, 2007 was approximately 5.8%. A summary of the mortgage notes payable is below:

Date of Issuance of Note	Principal Maturity Date	Interest Rate	Principal Balance Outstanding	
			December 31, 2007	December 31, 2006
3/16/2005	4/1/2030	6.33%	\$ 3,003,582	\$ 3,060,093
8/25/2005	9/1/2015	5.33%	21,664,476	21,757,000
9/12/2005	9/1/2015	5.21%	12,588,000	12,588,000
12/21/2005	12/8/2015	5.71%	19,456,000	19,456,000
2/21/2006	12/1/2013	5.91%	9,480,063	9,620,050
2/21/2006	6/30/2014	5.20%	19,782,270	20,104,716
3/29/2006	4/1/2016	5.92%	17,000,000	17,000,000
4/27/2006	5/5/2016	6.58%	14,514,214	14,753,579
11/22/2006	12/1/2016	5.76%	14,309,000	14,309,000
12/22/2006	1/1/2017	5.79%	21,846,000	21,846,000
2/8/2007	3/1/2017	6.00%	13,775,000	
6/5/2007	6/8/2017	6.11%	14,240,000	
9/6/2007	12/11/2015	5.81%	4,487,205	
10/15/2007	11/8/2017	6.63%	15,974,661	
			\$ 202,120,471	\$ 154,494,438

The fair market value of all fixed-rate debt outstanding as of December 31, 2007 was approximately \$192.6 million, as compared to the carrying value stated above of approximately \$202.1 million.

Scheduled principal payments of mortgage notes payable are as follows:

Year	Scheduled principal payments
2008	\$ 1,594,392
2009	2,254,470
2010	2,389,806
2011	2,676,907
2012	2,953,229
Thereafter	190,251,667
	\$ 202,120,471

On February 8, 2007, through wholly-owned subsidiaries, the Company borrowed approximately \$13.8 million pursuant to a long-term note payable from KeyBank, which is collateralized by security interests in its Austin, Texas property, its Richmond, Virginia property and its Baytown, Texas property in the amounts of approximately \$6.5 million, \$5.3 million and \$2.0 million, respectively. The note accrues interest at a rate of 6.0% per year and the Company may not repay this note prior to maturity, or the Company would be subject to a substantial prepayment penalty. The note has a maturity date of March 1, 2017. The Company used the proceeds from the note for acquisitions of properties.

On June 5, 2007, through wholly-owned subsidiaries, the Company borrowed approximately \$14.2 million pursuant to a long-term note payable from Countrywide Commercial Real Estate Finance, which is collateralized by security interests in its Menomonee Falls, Wisconsin property, its Hazelton, Missouri property and its Raleigh, North Carolina property in the amounts of approximately \$6.9 million, \$2.4 million and \$4.9 million, respectively. The note accrues interest at a rate of 6.11% per year and the Company may not repay this note prior to the last three months of the term,

or the Company would be subject to a substantial prepayment penalty. The note has a maturity date of June 8, 2017. The Company used the proceeds from the note to pay down the outstanding balance on the line of credit.

On September 6, 2007, the Company assumed approximately \$4.5 million of indebtedness pursuant to a long-term note payable from Citigroup Global Markets Realty Corporation, in connection with the Company's acquisition, on the same date, of a property located in Cicero, New York. The note accrues interest at a rate of 5.81% per year, and the Company may not repay this note prior to the last two months of the term, or the Company would be subject to a substantial prepayment penalty. The note matures on December 11, 2015.

On October 15, 2007, through wholly-owned subsidiaries, the Company borrowed \$16.0 million pursuant to a long-term note payable from Countrywide Commercial Real Estate Finance, which is collateralized by security interests in its Mt. Pocono, Pennsylvania property, its Raleigh, North Carolina property and its Mason, Ohio property in the amounts of approximately \$5.4 million, \$5.6 million and \$5.0 million, respectively. The note accrues interest at a rate of 6.63% per year and the Company may not repay this note prior to the last three months of the term, or the Company would be subject to a substantial prepayment penalty. The note has a maturity date of November 8, 2017. The Company used the proceeds from the note to pay down the outstanding balance on the line of credit.

### **9. Stockholders' Equity**

The 7.75% Series A Cumulative Redeemable Preferred Stock (the "Series A Preferred Stock"), has a par value of \$0.001 per share, and there are currently 1,000,000 shares issued and outstanding. The Series A Preferred Stock may be redeemed at a liquidation preference in the amount of \$25.00 per share plus any unpaid dividends at the election of the Company on or after January 30, 2011. These securities have no stated maturity, sinking fund or mandatory redemption and are not convertible into any other securities of the Company. The Series A Preferred Stock is traded on the NASDAQ Global Market under the trading symbol GOODP.

The 7.5% Series B Cumulative Redeemable Preferred Stock (the "Series B Preferred Stock"), has a par value \$0.001 per share, and there are currently 1,150,000 shares issued and outstanding. The Series B Preferred Stock may be redeemed at a liquidation preference in the amount of \$25.00 per share plus any unpaid dividends at the election of the Company on or after October 31, 2011. These securities have no stated maturity, sinking fund or mandatory redemption and are not convertible into any other securities of the Company. The Series B Preferred Stock is traded on the NASDAQ Global Market under the trading symbol GOODO.

Dividends paid per common share for the year ended December 31, 2007, 2006 and 2005 were \$1.44, \$1.44 and \$0.96 per share, respectively. Dividends paid per share of Series A Preferred Stock for the year ended December 31, 2007 and 2006 were approximately \$1.94 and \$1.79 per share, respectively. Dividends paid per share of Series B Preferred Stock for the year ended December 31, 2007 and 2006 were approximately \$1.88 and \$0.34, respectively. The tax status of the distributions is reflected in the table below:

	Ordinary Income	Return of Capital	Long-Term Capital Gains
<b>Common Stock</b>			
For the year ended December 31, 2004	68.97050%	31.02945%	0.00000%
For the year ended December 31, 2005	50.44580%	49.55420%	0.00000%
For the year ended December 31, 2006	2.06500%	95.60560%	2.32940%
For the year ended December 31, 2007	25.86040%	74.13960%	0.00000%
<b>Series A Preferred Stock</b>			
For the year ended December 31, 2006	46.99260%	0.00000%	53.00740%
For the year ended December 31, 2007	100.00000%	0.00000%	0.00000%
<b>Series B Preferred Stock</b>			
For the year ended December 31, 2006	46.99260%	0.00000%	53.00740%
For the year ended December 31, 2007	100.00000%	0.00000%	0.00000%

**10. Segment Information**

As of December 31, 2007, the Company's operations were derived from two operating segments. One segment purchases real estate (land, buildings and other improvements), which is simultaneously leased to existing users and the other segment extends mortgage loans and collects principal and interest payments. The following table summarizes the Company's consolidated operating results and total assets by segment as of and for the years ended December 31, 2007, 2006 and 2005:

## As of and for the year ended December 31, 2007

	Real Estate Leasing	Real Estate Lending	Other	Total
Operating revenues	\$ 31,779,650	\$ 1,013,889	\$	\$ 32,793,539
Operating expenses	(23,031,267)		(4,354,904)	(27,386,171)
Other income			624,147	624,147
Discontinued operations	108,714			108,714
Net income (loss)	\$ 8,857,097	\$ 1,013,889	\$ (3,730,757)	\$ 6,140,229
Total Assets	\$ 360,844,356	\$ 10,000,000	\$ 8,058,333	\$ 378,902,689

## As of and for the year ended December 31, 2006

	Real Estate Leasing	Real Estate Lending	Other	Total
Operating revenues	\$ 24,100,315	\$ 1,845,231	\$	\$ 25,945,546
Operating expenses	(18,177,002)		(4,994,988)	(23,171,990)
Other income			583,475	583,475
Discontinued operations	1,015,797			1,015,797
Net income (loss)	\$ 6,939,110	\$ 1,845,231	\$ (4,411,513)	\$ 4,372,828
Total Assets	\$ 264,511,627	\$ 10,000,000	\$ 41,254,395	\$ 315,766,022

## As of and for the year ended December 31, 2005

	Real Estate Leasing	Real Estate Lending	Other	Total
Operating revenues	\$ 10,965,711	\$ 1,915,795	\$	\$ 12,881,506
Operating expenses	(6,260,781)		(3,257,635)	(9,518,416)
Other income			147,867	147,867
Discontinued operations	90,988			90,988
Net income (loss)	\$ 4,795,918	\$ 1,915,795	\$ (3,109,768)	\$ 3,601,945
Total Assets	\$ 179,848,595	\$ 21,096,564	\$ 6,101,795	\$ 207,046,954

The amounts included under the other column in the tables above include other income, which consists of interest income and any other miscellaneous income earned, and operating expenses that were not specifically derived from either operating segment

**11. Line of Credit and Short-Term Loan**

On December 29, 2006, the Company entered into a \$75 million senior revolving credit agreement with a syndicate of banks led by KeyBank National Association, which matures on December 29, 2009 with an option to extend for an additional year. The Company subsequently increased the availability under the line of credit to \$95 million in November 2007. The credit facility replaced a previous facility led by BB&T, which was terminated upon the closing of the new line. The interest rate charged on the advances under the facility is based on the LIBOR, the prime rate or the federal funds rate, depending on market conditions, and adjusts periodically. The unused portion of the line of credit is subject to a fee of 0.15% per year. The Company's ability to access this funding source is subject to the Company continuing to meet customary lending requirements such as compliance with financial and operating covenants and meeting certain lending limits. One such covenant requires the Company to limit its distributions to stockholders to 95% of its funds from operations, beginning with the quarter ended December 31, 2007. In addition, the maximum amount the Company may draw under this agreement is based on a percentage of the value of properties pledged as collateral to the banks, which must meet agreed upon eligibility standards. As the Company arranges for long-term mortgages for these pledged properties, the banks will release the properties from the line of credit and reduce the availability under the line of credit by the advanced amount of the removed property. Conversely, as the Company purchases new properties meeting the eligibility standards, the Company may pledge these new properties to obtain additional advances under this agreement. The Company may use the advances under the line of credit for both general corporate purposes and the acquisition of new investments. As of December 31, 2007, there was \$4.4 million outstanding under the line of credit at an interest rate of approximately 6.95%. At December 31, 2007, the remaining borrowing capacity available under the line of credit was \$90.6 million.



On December 21, 2007, the Company entered into a \$20 million unsecured term loan with KeyBank National Association, which matures on December 21, 2008 with an option to extend for an additional six months. The Company can exercise the option to extend the term as long as it is in compliance with all covenants under the loan at the time it exercises its option. The interest rate charged on the loan is based on the LIBOR, the prime rate or the federal funds rate, depending on market conditions, and adjusts periodically. The Company's ability to maintain this funding source is subject to it continuing to meet customary lending requirements such as compliance with financial and operating covenants and meeting certain lending limits. One such covenant requires the Company to limit distributions to its stockholders to 95% of its funds from operations, or FFO, beginning with the quarter ended December 31, 2007. As of December 31 2007, the interest rate on the short-term loan was approximately 7.44%.

## 12. Pro Forma Financial Information (unaudited)

The Company acquired 14 properties and one leasehold interest during the year ended December 31, 2007. The following table reflects pro-forma condensed consolidated income statements as if the 14 properties and one leasehold interest were acquired as of the beginning of the periods presented:

	For the year ended December 31,	
	2007	2006
<b>Operating Data:</b>		
Total operating revenue	\$ 37,261,725	\$ 30,413,732
Total operating expenses	(17,176,935)	(15,422,401)
Other expense	(13,898,935)	(11,530,105)
Income from continuing operations	6,185,855	3,461,226
Dividends attributable to preferred stock	(4,093,750)	(2,186,890)
Net income available to common stockholders	\$ 2,092,105	\$ 1,274,336
<b>Share and Per Share Data:</b>		
Basic net income	\$ 0.24	\$ 0.16
Diluted net income	\$ 0.24	\$ 0.16
Weighted average shares outstanding-basic	8,565,264	7,827,781
Weighted average shares outstanding-diluted	8,565,264	7,986,690

These pro-forma consolidated income statements are not necessarily indicative of what actual results would have been had the Company acquired the specified properties and leasehold interest as of the beginning of the periods presented.

**13. Quarterly Financial Information (unaudited)**

The following table reflects the quarterly results of operations for the years ended December 31, 2007 and 2006, certain amounts from prior quarters' financial statements have been reclassified to conform to the current quarter's presentation. These reclassifications had no effect on previously reported net income or stockholders' equity.

	Year ended December 31, 2007			
	Quarter ended March 31, 2007	Quarter ended June 30, 2007	Quarter ended September 30, 2007	Quarter ended December 31, 2007
Operating revenues	\$ 7,383,771	\$ 8,079,568	\$ 8,360,508	\$ 8,969,692
Operating expenses	3,711,491	3,948,741	3,984,969	4,176,429
Other expense	(2,216,609)	(2,573,068)	(2,824,541)	(3,326,176)
Income from continuing operations	1,455,671	1,557,759	1,550,998	1,467,087
Discontinued operations	74,673	(1,447)	39,462	(3,974)
Net income	1,530,344	1,556,312	1,590,460	1,463,113
Dividends attributable to preferred stock	(1,023,437)	(1,023,437)	(1,023,438)	(1,023,438)
Net income available to common stockholders	506,907	532,875	567,022	439,675
Net income available to common stockholders - basic	\$ 0.06	\$ 0.06	\$ 0.07	\$ 0.05
Net income available to common stockholders - diluted	0.06	0.06	0.07	0.05
Weighted average shares outstanding - basic	8,565,264	8,565,264	8,565,264	8,565,264
Weighted average shares outstanding - diluted	8,565,264	8,565,264	8,565,264	8,565,264
	Year ended December 31, 2006			
	Quarter ended March 31, 2006	Quarter ended June 30, 2006	Quarter ended September 30, 2006	Quarter ended December 31, 2006
Operating revenues	\$ 5,425,611	\$ 6,630,062	\$ 6,735,976	\$ 7,153,897
Operating expenses	3,022,998	3,523,818	3,620,149	3,900,131
Other income (expense)	(1,605,650)	(2,112,922)	(2,450,869)	(2,351,978)
Income from continuing operations	796,963	993,322	664,958	901,788
Discontinued operations	49,837	(140,557)	1,112,461	(5,944)
Net income	846,800	852,765	1,777,419	895,844
	(344,444)	(484,375)	(484,375)	(873,696)

Dividends attributable to preferred stock				
Net income available to common stockholders	502,356	368,390	1,293,044	22,148
Net income available to common stockholders - basic	\$ 0.07	\$ 0.05	\$ 0.16	\$ 0.00
Net income available to common stockholders - diluted	0.06	0.05	0.16	0.00
Weighted average shares outstanding - basic	7,672,000	7,762,503	7,820,376	8,052,148
Weighted average shares outstanding - diluted	7,821,658	7,911,871	7,981,071	8,196,605

#### 14. Subsequent Events

On January 8, 2008, the Company's Board of Directors declared cash dividends of \$0.125 per common share, \$0.1614583 per share of the Series A Preferred Stock, and \$0.15625 per share of the Series B Preferred Stock for each of the months of January, February and March of 2008. Monthly dividends will be payable on January 31, 2008, February 29, 2008 and March 31, 2008, to those stockholders of record for the dates of January 23, 2008, February 21, 2008 and March 21, 2008, respectively.

On January 29, 2008, the Company acquired a 42,900 square foot industrial building in Reading, Pennsylvania for approximately \$7.2 million, including transaction costs. At closing, the Company extended a 20 year triple net lease with the sole tenant, and the tenant has four options to extend the lease for additional periods of five years each. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately \$0.72 million.

On February 26, 2008, the Company acquired a 74,160 square foot office building in Fridley, Minnesota for approximately \$10.6 million, including transaction costs. At closing, the Company was assigned the previously existing triple net lease with the sole tenant, which had a remaining term of approximately five years. The tenant has two options to extend the lease for additional periods of five years each. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately \$0.95 million. The Company was also assigned a ground lease on the parking lot at the time of closing, which has a remaining term of approximately six years. At the end of the term, the Company has the option to purchase the land. The rent due under the ground lease has been prepaid by the current tenant through the end of the term.

**GLADSTONE COMMERCIAL CORPORATION**  
**SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION**  
**DECEMBER 31, 2007**

Property	Encumbrances	Initial Cost		Costs	Total Cost		Accumulated	Net Real	
		Land	Improvements	Capitalized Subsequent to Acquisition	Land	Improvements			Depreciation <sup>(1)</sup>
h ice	\$ 4,940,000	\$ 960,000	\$ 4,480,772	\$	\$ 960,000	\$ 4,480,772	\$ 5,440,772	\$ 812,435	\$ 4,628,337
, Office									
	2,950,000	186,739	3,082,007		186,739	3,082,007	3,268,746	344,783	2,923,963
Office & uilding	7,560,000	1,974,000	6,769,565	19,782	1,974,000	6,789,347	8,763,347	657,311	8,106,036
rth ice									
	7,094,700	741,296	8,423,389	59,190	741,296	8,482,579	9,223,875	772,530	8,451,345
n mmercial ring									
	3,003,582	150,000	5,050,000		150,000	5,050,000	5,200,000	450,421	4,749,579
ship,									
& uilding orth mmercial	5,760,000	100,000	6,573,902	6,907	100,000	6,580,809	6,680,809	578,471	6,102,338
	2,881,000	850,000	2,106,845	6,637	850,000	2,113,482	2,963,482	185,102	2,778,380
, Office	6,500,000	1,000,000	6,295,794	46,095	1,000,000	6,341,889	7,341,889	538,049	6,803,840
inia, & g									
		190,000	739,521	18,190	190,000	757,711	947,711	62,269	885,442
, & g									
	5,346,519	350,000	5,818,703	18,430	350,000	5,837,133	6,187,133	487,282	5,699,851
Texas, ce									
	7,260,000	843,000	7,513,750	22,673	843,000	7,536,423	8,379,423	740,984	7,638,439
hio, ilding	2,800,000	410,000	2,385,108		410,000	2,385,108	2,795,108	179,391	2,615,717

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New York, Building	5,630,000	275,000	6,459,318	33,666	275,000	6,492,984	6,767,984	457,838	6,310,146
Texas, Building	8,798,419	1,525,000	9,702,731	51,453	1,525,000	9,754,184	11,279,184	701,816	10,577,368
Bakery	4,168,000	635,964	3,431,307	37,604	635,964	3,468,911	4,104,875	247,742	3,857,133
, Office	2,078,000	525,000	1,876,992	119,736	525,000	1,996,728	2,521,728	181,748	2,339,980
ew	4,580,000	1,350,630	3,520,062	6,681	1,350,630	3,526,743	4,877,373	270,626	4,606,747
wnship, Office & Building	6,790,000	1,631,534	6,199,849		1,631,534	6,199,849	7,831,383	391,443	7,439,940
h ice & g	14,569,776	977,898	13,472,678	1,902,582	977,898	15,375,260	16,353,158	937,994	15,415,164
Missouri, Warehouse	2,360,000	763,178	2,309,058	29,962	763,178	2,339,020	3,102,198	151,444	2,950,754

**GLADSTONE COMMERCIAL CORPORATION**  
**SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)**  
**DECEMBER 31, 2007**

Description of Property	Encumbrances	Initial Cost		Costs	Total Cost		Accumulated Depreciation <sup>(1)</sup>	Net Real Estate	A	
		Land	Improvements	Capitalized Subsequent Acquisition	Land	Improvements				Total <sup>(2)</sup>
Indiana, Building	727,922	65,780	1,074,758		65,780	1,074,758	1,140,538	66,496	1,116,968	
Indiana, Building	727,922	131,559	1,129,874		131,559	1,129,874	1,261,433	66,496	1,116,968	
s, Illinois, Building	727,922	35,082	1,113,340		35,082	1,113,340	1,148,422	66,495	1,116,969	
port, setts, Building	6,846,000	628,690	6,504,056	42,895	628,690	6,546,951	7,175,641	377,373	6,798,268	10
le, a, Industrial uring	3,532,029	54,674	4,717,090		54,674	4,717,090	4,771,764	269,724	4,502,040	10
ights, Ohio, Building	10,896,000	1,608,976	10,065,475	37,869	1,608,976	10,103,344	11,712,320	612,594	11,099,726	12
l, Virginia Building	5,275,000	735,820	5,335,863	36,437	735,820	5,372,300	6,108,120	299,021	5,809,099	12
ho Industrial Building	3,000,000	263,068	2,811,801	39,916	263,068	2,851,717	3,114,785	175,759	2,939,026	12
lley, setts Building		470,636	2,765,376	10,000	470,636	2,775,376	3,246,012	132,961	3,113,051	2
n, Illinois ilding	9,480,063	3,645,770	10,803,824	10,546	3,645,770	10,814,370	14,460,140	582,108	13,878,032	2
Minnesota ilding	19,782,270	2,587,757	25,290,127		2,587,757	25,290,127	27,877,884	1,469,477	26,408,409	2
e, Minnesota ilding	12,000,000	3,510,711	8,746,407		3,510,711	8,746,407	12,257,118	488,738	11,768,380	5
ee Falls, n Industrial Building	6,940,000	624,700	6,910,616		624,700	6,910,616	7,535,316	270,211	7,265,105	6
Texas ilding	2,000,000	221,314	2,443,469		221,314	2,443,469	2,664,783	106,239	2,558,544	7
ights, Industrial Building		2,734,887	8,606,190	12,676	2,734,887	8,618,866	11,353,753	281,561	11,072,192	9
am, Alabama Building		326,516	1,241,666		326,516	1,241,666	1,568,182	40,963	1,527,220	9
		326,517	1,241,667		326,517	1,241,667	1,568,184	40,963	1,527,220	9

ery,  
Industrial

, Missouri  
Building

326,517	1,241,667	326,517	1,241,667	1,568,184	40,963	1,527,220	9
		31					

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**GLADSTONE COMMERCIAL CORPORATION**  
**SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)**  
**DECEMBER 31, 2007**

	Initial Cost		Costs Capitalized Subsequent to Acquisition	Total Cost		Accumulated Depreciation <sup>(1)</sup>	Net Re Estate		
	Land	Buildings & Improvements		Land	Buildings & Improvements				
Property Encumbrances	797,274	6,258,344		797,274	6,258,344	198,831	6,856		
	5,647,043	1,605,551	5,513,353	1,605,551	5,513,353	7,118,904	125,353	6,993	
			14,057,227		14,057,227	14,057,227	350,674	13,706	
		3,562,452	6,671,600	3,562,452	6,671,600	10,234,052	139,614	10,094	
		1,394,902	8,893,243	1,394,902	8,893,243	10,288,145	153,732	10,134	
	4,981,099	1,201,338	4,960,896	1,201,338	4,960,896	6,162,234	60,569	6,101	
	4,487,205	299,066	5,018,628	299,066	5,018,628	5,317,694	41,106	5,276	
		1,629,270	10,500,066	1,629,270	10,500,066	12,129,336	76,413	12,052	
		1,271,543	5,002,471	1,271,543	5,002,471	6,274,014	35,340	6,238	
		561,312	2,322,092	561,312	2,322,092	2,883,404	3,196	2,880	
		561,312	2,322,092	561,312	2,322,092	2,883,404	3,197	2,880	
		561,312	2,322,092	561,312	2,322,092	2,883,404	3,197	2,880	
		561,312	2,322,092	561,312	2,322,092	2,883,404	3,197	2,880	
		561,312	2,322,092	561,312	2,322,092	2,883,404	3,197	2,880	
		561,313	2,322,092	561,313	2,322,092	2,883,405	3,197	2,880	
	\$ 202,120,471	\$ 48,867,482	\$ 289,062,997	\$ 2,569,927	\$ 48,867,482	\$ 291,632,924	\$ 340,500,406	\$ 15,738,634	\$ 324,761



- (1) Depreciable life of all buildings is 39 years. Depreciable life of all improvements is the life of the respective leases on each building, which range from 5-20 years.
- (2) The aggregate cost for federal income tax purposes is the same as the total gross cost.

The following table reconciles the change in the balance of real estate during the years ended December 31, 2007, 2006, and 2005, respectively:

	2007	2006	2005
Balance at beginning of period	\$ 243,713,542	\$ 165,043,640	\$ 61,251,455
Acquisitions during period	95,396,039	83,466,860	103,792,185
Improvements or other additions	1,390,825	183,000	
Dispositions during period		(4,979,958)	
Balance at end of period	\$ 340,500,406	\$ 243,713,542	\$ 165,043,640

The following table reconciles the change in the balance of accumulated depreciation during the years ended December 31, 2007, 2006, and 2005, respectively:

	2007	2006	2005
Balance at beginning of period	\$ 8,595,419	\$ 3,408,879	\$ 785,125
Additions during period	7,143,215	5,351,414	2,623,754
Dispositions during period		(164,874)	
Balance at end of period	\$ 15,738,634	\$ 8,595,419	\$ 3,408,879

**GLADSTONE COMMERCIAL CORPORATION**  
**SCHEDULE IV MORTGAGE LOANS ON REAL ESTATE**  
**DECEMBER 31, 2007**

Location and Type of Real Estate	Type of Loan	Interest Rate	Final Maturity Date	Periodic Payment Term	Prior Lien	Face Amount of Mortgage	Carrying Amount of Mortgage	Principal Amount of Mortgage	Unamortized Interest
McLean, Virginia; Office Property	First Mortgage	1 month LIBOR +6%; Floor of 7.5%, Ceiling of 10%	5/30/2017	Monthly payment based upon a 24 year amortization term, which changes based on LIBOR, with a floor of 7.5% and a ceiling of 10%. Balloon payment at maturity is \$8,488,578.		\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000
						\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000

(1) The aggregate cost for federal income tax purposes is the same as the total gross cost.

The following table reconciles the change in the balance of mortgage loans on real estate during the years ended December 31, 2007, 2006, and 2005, respectively:

	2007	2006	2005
Balance at beginning of period	\$ 10,000,000	\$ 21,025,815	\$ 11,107,717
New mortgage loans			10,000,000
Collections of principal		(44,742)	(81,902)
Satisfaction of mortgage loan receivable		(10,981,073)	
Balance at end of period	\$ 10,000,000	\$ 10,000,000	\$ 21,025,815

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

**Exhibit      Description of Document**

- |       |   |
|-------|---|
| 31.1  | Certification of Chief Executive Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002. |
| 31 .2 | Certification of Chief Financial Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002. |
| 32 .1 | Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002. |
| 32 .2 | Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002. |

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Gladstone Commercial Corporation**

Date: May 15, 2008

By: /s/ Harry Brill

Harry Brill  
Chief Financial Officer

**Exhibit Index**

**Exhibit Description of Document**

- 31.1 Certification of Chief Executive Officer  
pursuant to Section 302 of The Sarbanes-Oxley  
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