

# Gladstone Commercial Announces Third Quarter 2007 Results

**-- Reports net income available to common stockholders of approximately \$0.6 million, or \$0.07 per diluted weighted average common share**

**-- Reports funds from operations ("FFO") of approximately \$3.2 million, or \$0.38 per diluted weighted average common share**

**-- Purchased four properties for a total investment of approximately \$31.7 million**

MCLEAN, Va.--(BUSINESS WIRE)--

Gladstone Commercial Corp. (NASDAQ:GOOD) (the "Company") today reported financial results for the quarter ended September 30, 2007. A description of FFO, a relative non-GAAP ("Generally Accepted Accounting Principles in the United States") financial measure, is located at the end of this news release. All per share references are fully diluted weighted average common shares, unless otherwise noted.

Net income available to common stockholders for the quarter ended September 30, 2007 was \$567,022, or \$0.07 per share, compared to \$1,293,044, or \$0.16 per share, for the same period one year ago, a decrease of 56%. Net income available to common stockholders for the nine months ended September 30, 2007 was \$1,606,803, or \$0.19 per share, compared to \$2,163,784, or \$0.27 per share, for the same period one year ago, a decrease of 26%. Net income results when compared to the same period last year were affected by increased expenses attributable to the acquisition of nine properties since September 30, 2006, interest expense associated with leveraging the Company's properties, dividends paid on the Company's preferred stock and the gain on the sale of the two Canadian properties in July 2006, partially offset by increased revenues related to the acquisition of the nine properties.

FFO for the quarter ended September 30, 2007 was approximately \$3.2 million, or \$0.38 per share, compared to approximately \$2.3 million, or \$0.29 per share, for the same period one year ago, an increase of approximately 38%. FFO for the nine months ended September 30, 2007 was approximately \$9.3 million, or \$1.08 per share, compared to approximately \$7.1 million, or \$0.90 per share, for the same period one year ago, an increase of approximately 30%. A reconciliation of net income, which the Company believes is the most directly comparable GAAP measure to FFO, is set forth below:

For the three months ended September 30,		For the nine months ended September 30,	
2007	2006	2007	2006
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Net income	\$1,590,460	\$1,777,419	\$4,677,115	\$3,476,978
Less: Dividends attributable to preferred stock	(1,023,438)	(484,375)	(3,070,312)	(1,313,194)
Net income available to common stockholders	\$567,022	\$1,293,044	\$1,606,803	\$2,163,784
Add: Real estate depreciation and amortization, including discontinued operations	2,668,383	2,162,640	7,722,349	6,078,450
Less: Gain on sale of real estate, net of taxes paid	-	(1,106,590)	(78,667)	(1,106,590)
FFO available to common stockholders	\$3,235,405	\$2,349,094	\$9,250,485	\$7,135,644
Weighted average shares outstanding - basic	8,565,264	7,820,376	8,565,264	7,752,170
Weighted average shares outstanding - diluted	8,565,264	7,981,071	8,565,264	7,896,860
Basic net income per weighted average common share	\$0.07	\$0.16	\$0.19	\$0.28
Diluted net income per weighted average common share	\$0.07	\$0.16	\$0.19	\$0.27
Basic FFO per weighted average common share	\$0.38	\$0.30	\$1.08	\$0.92
Diluted FFO per weighted average common share	\$0.38	\$0.29	\$1.08	\$0.90

Third quarter highlights:

- Purchased four fully occupied properties with approximately 212,000 square feet for approximately \$31.7 million; and
- Assumed a mortgage note in connection with an acquisition for approximately \$4.5 million.

"Our results were positively impacted by the four acquisitions completed during the quarter. Approximately \$19.1 million of these acquisitions were purchased during the last week of the quarter, thus we expect our earnings to continue to grow for the remainder of the year as we will realize the full benefit of holding these acquisitions for the entire fourth quarter. We are excited about the opportunities that are currently available in the marketplace and our

pipeline remains very strong," said Chip Stelljes, President and Chief Investment Officer.

Subsequent to quarter end, the Company:

- Borrowed \$16.0 million pursuant to a long-term mortgage note payable collateralized by security interests in three properties, which accrues interest at a rate of 6.63% per year; and
- Declared monthly cash dividends of \$0.12 per share on the common stock, \$0.1614583 per share on the Series A Preferred Stock, and \$0.15625 per share on the Series B Preferred Stock, for each of the months of October, November and December 2007.

The financial statements attached below are without footnotes so readers should obtain and carefully review the Company's Form 10-Q for the quarter ended September 30, 2007, including the footnotes to the financial statements contained therein. The Company has filed the Form 10-Q today with the Securities and Exchange Commission ("SEC") and the Form 10-Q can be retrieved from the SEC's website at [www.sec.gov](http://www.sec.gov) or the Company's website at [www.GladstoneCommercial.com](http://www.GladstoneCommercial.com).

The Company will hold a conference call Wednesday, October 31, 2007 at 8:30 a.m. ET to discuss its earnings results. Please call (877) 407-8031 to enter the conference. An operator will monitor the call and set a queue for the questions.

The conference call replay will be available two hours after the call and will be available through November 30, 2007. To hear the replay, please dial (877) 660-6853, access playback account 286 and use ID code 258980.

Gladstone Commercial Corporation is a publicly traded real estate investment trust that focuses on investing in and owning triple-net leased industrial, commercial and retail real estate properties and selectively making long-term mortgage loans. Additional information can be found at [www.GladstoneCommercial.com](http://www.GladstoneCommercial.com).

For further information, contact Investor Relations at 703-287-5835.

#### NON-GAAP FINANCIAL MEASURE

#### Funds from Operations

The National Association of Real Estate Investment Trusts ("NAREIT") developed FFO as a relative non-GAAP supplemental measure of operating performance of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. FFO, as defined by NAREIT, is net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus depreciation and amortization of real estate assets, and after adjustments for unconsolidated partnerships and joint ventures. FFO does not represent cash flows from operating activities determined in accordance with GAAP (which, unlike FFO, generally reflects all cash effects of transactions and other events in the determination of net income), and should not be considered an alternative to net income as an indication of the Company's performance or to cash flow from operations as a measure of liquidity or ability to make distributions.

The Company believes that FFO per share provides investors with a further context for

evaluating the Company's financial performance and as a supplemental measure to compare the Company to other REITs; however, comparisons of the Company's FFO to the FFO of other REITs may not necessarily be meaningful due to potential differences in the application of the NAREIT definition used by such other REITs.

To learn more about FFO please refer to the Form 10-Q for the quarter ended September 30, 2007, as filed with the SEC today.

This press release may include statements that may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements with regard to the future performance of the Company and the closing of any transaction. Words such as "may," "will," "believes," "anticipates," "intends," "expects," "projects," "estimates" and "future" or similar expressions are intended to identify forward-looking statements. These forward-looking statements inherently involve certain risks and uncertainties, although they are based on the Company's current plans, expectations and beliefs that are believed to be reasonable as of the date of this press release. Factors that may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements include, among others, those factors listed under the caption "Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the SEC on February 27, 2007, and the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, as filed on May 1, 2007. The risk factors set forth in the Form 10-K and Form 10-Q under the caption "Risk Factors" are specifically incorporated by reference into this press release. All forward-looking statements are based on current plans, expectations and beliefs and speak only as of the date of such statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Gladstone Commercial Corporation  
Consolidated Balance Sheets  
(Unaudited)

	September 30, 2007	December 31, 2006
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<b>ASSETS</b>		
Real estate, net of accumulated depreciation of \$13,771,428 and \$8,595,419, respectively	\$309,420,504	\$235,118,123
Lease intangibles, net of accumulated amortization of \$6,722,025 and \$4,175,685, respectively	27,607,486	23,416,696
Mortgage notes receivable	10,000,000	10,000,000
Cash and cash equivalents	1,824,794	36,005,686
Restricted cash	1,500,858	1,225,162
Funds held in escrow	1,638,520	1,635,819
Interest receivable - mortgage note	83,333	-
Interest receivable - employees	52,728	43,716
Deferred rent receivable	4,664,502	3,607,279
Deferred financing costs, net of accumulated amortization of \$1,977,287 and \$1,467,297, respectively	3,973,775	3,713,004

Prepaid expenses	547,500	521,290
Deposits on real estate	-	300,000
Accounts receivable	31,877	179,247
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TOTAL ASSETS	\$361,345,877	\$315,766,022
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Mortgage notes payable	\$186,416,801	\$154,494,438
Borrowings under line of credit	20,000,000	-
Deferred rent liability	4,129,426	4,718,599
Asset retirement obligation liability	1,781,817	1,631,294
Accounts payable and accrued expenses	993,915	673,410
Due to adviser	788,533	183,042
Rent received in advance, security deposits and funds held in escrow	2,254,293	1,841,063
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Total Liabilities	216,364,785	163,541,846
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STOCKHOLDERS' EQUITY		
Redeemable preferred stock, \$0.001 par value; \$25 liquidation preference; 2,300,000 shares authorized and 2,150,000 shares issued and outstanding	2,150	2,150
Common stock, \$0.001 par value, 17,700,000 shares authorized and 8,565,264 shares issued and outstanding	8,565	8,565
Additional paid in capital	170,640,979	170,640,979
Notes receivable - employees	(2,800,724)	(3,201,322)
Distributions in excess of accumulated earnings	(22,869,878)	(15,226,196)
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Total Stockholders' Equity	144,981,092	152,224,176
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TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$361,345,877	\$315,766,022
	=====	=====

Gladstone Commercial Corporation  
Consolidated Statements of Operations  
(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2007	2006	2007	2006
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Operating revenues				
Rental income	\$8,024,305	\$6,214,295	\$22,834,663	\$17,109,203
Interest income from mortgage notes receivable	255,555	478,329	758,333	1,589,675
Tenant recovery revenue	80,648	43,352	230,851	92,772
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Total operating				

revenues	8,360,508	6,735,976	23,823,847	18,791,650
Operating expenses				
Depreciation and amortization	2,668,383	2,162,640	7,722,349	6,026,150
Property operating expenses	204,972	145,058	597,273	435,495
Base management fee	459,202	656,916	1,412,337	2,029,050
Incentive fee	677,104	-	1,896,677	-
Administration fee	175,852	-	592,996	-
Professional fees	118,371	167,353	442,479	598,771
Insurance	53,943	54,662	171,275	154,868
Directors fees	66,250	33,500	174,750	94,500
Stockholder related expenses	40,991	34,414	215,969	282,478
Asset retirement obligation expense	29,440	30,619	86,542	102,263
General and administrative	17,452	20,394	79,119	48,991
Stock option compensation expense	-	314,593	-	394,411
Total operating expenses before credit from Adviser	4,511,960	3,620,149	13,391,766	10,166,977
Credit to incentive fee	(526,991)	-	(1,746,564)	-
Total operating expenses	3,984,969	3,620,149	11,645,202	10,166,977
Other income (expense)				
Interest income from temporary investments	33,105	2,006	325,390	13,437
Interest income - employee loans	52,728	41,346	169,608	75,483
Other income	9,896	-	28,127	10,400
Interest expense	(2,920,270)	(2,494,221)	(8,137,343)	(6,268,757)
Total other expense	(2,824,541)	(2,450,869)	(7,614,218)	(6,169,437)
Income from continuing operations	1,550,998	664,958	4,564,427	2,455,236
Discontinued operations				
Income from				

discontinued operations	5,975	6,915	471	116,169
Net realized income (loss) from foreign currency transactions	33,487	(1,044)	33,550	(201,017)
Gain on sale of real estate	-	1,422,026	-	1,422,026
Taxes (paid) refunded on sale of real estate	-	(315,436)	78,667	(315,436)
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Total discontinued operations	39,462	1,112,461	112,688	1,021,742
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Net income	1,590,460	1,777,419	4,677,115	3,476,978
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Dividends attributable to preferred stock	(1,023,438)	(484,375)	(3,070,312)	(1,313,194)
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Net income available to common stockholders	\$567,022	\$1,293,044	\$1,606,803	\$2,163,784
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Earnings per weighted average common share - basic				
Income from continuing operations (net of dividends attributable to preferred stock)	\$0.07	\$0.02	\$0.18	\$0.15
Discontinued operations	-	0.14	0.01	0.13
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Net income available to common stockholders	\$0.07	\$0.16	\$0.19	\$0.28
	=====	=====	=====	=====
Earnings per weighted average common share - diluted				
Income from continuing operations (net of dividends attributable to preferred				

stock)	\$0.07	\$0.02	\$0.18	\$0.14
Discontinued operations	-	0.14	0.01	0.13
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Net income available to common stockholders	\$0.07	\$0.16	\$0.19	\$0.27
	=====	=====	=====	=====
Weighted average shares outstanding				
Basic	8,565,264	7,820,376	8,565,264	7,752,170
	=====	=====	=====	=====
Diluted	8,565,264	7,981,071	8,565,264	7,896,860
	=====	=====	=====	=====

Gladstone Commercial Corporation  
Consolidated Statements of Cash Flows  
(Unaudited)

	For the nine months ended September 30,	
	2007	2006
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Cash flows from operating activities:		
Net income	\$4,677,115	\$3,476,978
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, including discontinued operations	7,722,349	6,078,450
Amortization of deferred financing costs, including discontinued operations	509,990	464,941
Amortization of deferred rent asset	190,122	190,123
Amortization of deferred rent liability	(589,173)	(499,870)
Asset retirement obligation expense, including discontinued operations	86,542	112,195
Stock compensation	-	394,411
Increase in mortgage notes payable due to change in value of foreign currency	-	202,065
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	(83,333)	70,749
Increase in employee interest receivable	(9,012)	(41,346)
Increase in deferred rent receivable	(1,247,345)	(941,903)
Decrease (increase) in prepaid expenses and other assets	121,160	(49,645)
Increase in accounts payable, accrued expenses, and amount due adviser	516,996	248,449
Increase in rent received in advance	137,534	53,097
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Net cash provided by operating activities	12,032,945	8,000,967
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Cash flows from investing activities:		
Real estate investments	(85,742,539)	(48,311,928)
Proceeds from sales of real estate	-	2,106,112
Principal repayments on mortgage notes receivable	-	44,742
Net payments to lenders for reserves held in escrow	(1,186,448)	(2,537,541)
Increase (decrease) in restricted cash	(275,696)	329,547
Deposits on future acquisitions	(1,310,000)	(600,000)
Deposits applied against real estate investments	1,610,000	1,200,000
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Net cash used in investing activities	(86,904,683)	(47,769,068)
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Cash flows from financing activities:		
Proceeds from share issuance	-	26,034,648
Offering costs	-	(1,308,496)
Borrowings under mortgage notes payable	32,521,691	31,900,000
Principal repayments on mortgage notes payable	(599,328)	(427,506)
Principal repayments on employee notes receivable from sale of common stock	400,598	-
Borrowings from line of credit	24,200,000	70,400,400
Repayments on line of credit	(4,200,000)	(78,300,400)
Increase in reserves from tenants	1,318,918	1,315,516
Increase in security deposits	140,525	419,070
Payments for deferred financing costs	(770,761)	(1,699,798)
Dividends paid for common and preferred	(12,320,797)	(9,690,708)
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Net cash provided by financing activities	40,690,846	38,642,726
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Net decrease in cash and cash equivalents	(34,180,892)	(1,125,375)
Cash and cash equivalents, beginning of period	36,005,686	1,740,159
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Cash and cash equivalents, end of period	\$1,824,794	\$614,784
	=====	=====
NON-CASH INVESTING ACTIVITIES		
Increase in asset retirement obligation	\$150,523	\$1,604,416
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Additions to real estate included in accounts payable, accrued expenses, and amount due adviser	\$409,000	\$-
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NON-CASH FINANCING ACTIVITIES		
Fixed rate debt assumed in connection with acquisitions	\$4,506,689	\$30,129,654
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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

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\$- \$1,826,754

Acquisition of building in satisfaction of  
mortgage note receivable

\$- \$11,316,774  
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**Source: Gladstone Commercial Corp.**