

# Gladstone Commercial Announces Second Quarter 2007 Results

**-- Reports net income available to common stockholders of approximately \$0.5 million, or \$0.06 per diluted weighted average common share**

**-- Reports funds from operations ("FFO") of approximately \$3.2 million, or \$0.37 per diluted weighted average common share**

**-- Purchased one property for a total investment of approximately \$11.2 million**

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

Gladstone Commercial Corp. (NASDAQ:GOOD) (the "Company") today reported financial results for the quarter ended June 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 June 30, 2007 was \$532,875, or \$0.06 per share, compared to \$368,390, or \$0.04 per share, for the same period one year ago, an increase of 45%. Net income available to common stockholders for the six months ended June 30, 2007 was \$1,039,780, or \$0.12 per share, compared to \$870,746, or \$0.11 per share, for the same period one year ago, an increase of 19%. Net income results when compared to the same period last year were affected by increased revenues related to the acquisition of 10 properties since June 30, 2006, partially offset by increased expenses attributable to the 10 properties, interest expense associated with the leveraging of the Company's properties and dividends paid on the Company's preferred stock. Net income results for the three and six months ended June 30, 2007 include a full waiver of the incentive fee, approximately \$1.2 million for the six month period, from the Company's Adviser, Gladstone Management Corporation.

FFO for the quarter ended June 30, 2007 was approximately \$3.2 million, or \$0.37 per share, compared to approximately \$2.4 million, or \$0.31 per share, for the same period one year ago, an increase of 29%. FFO for the six months ended June 30, 2007 was approximately \$6.1 million, or \$0.71 per share, compared to approximately \$4.8 million, or \$0.61 per share, for the same period one year ago, an increase of 27%. 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 June 30,

For the six months  
ended June 30,

	2007	2006	2007	2006
Net income	\$1,556,312	\$852,765	\$3,086,654	\$1,699,565
Less: Dividends attributable to preferred stock	(1,023,437)	(484,375)	(2,046,874)	(828,819)
Net income available to common stockholders	\$532,875	\$368,390	\$1,039,780	\$870,746
Add: Real estate depreciation and amortization, including discontinued operations	2,636,154	2,081,072	5,053,966	3,915,819
FFO available to common stockholders	\$3,169,029	\$2,449,462	\$6,093,746	\$4,786,565
Weighted average shares outstanding - basic	8,565,264	7,762,503	8,565,264	7,717,501
Weighted average shares outstanding - diluted	8,565,264	7,911,871	8,565,264	7,858,146
Basic net income per weighted average common share	\$0.06	\$0.05	\$0.12	\$0.11
Diluted net income per weighted average common share	\$0.06	\$0.04	\$0.12	\$0.11
Basic FFO per weighted average common share	\$0.37	\$0.32	\$0.71	\$0.62
Diluted FFO per weighted average common share	\$0.37	\$0.31	\$0.71	\$0.61

Second quarter highlights:

- Purchased one property with approximately 102,000 square feet for approximately \$11.2 million; and
- Borrowed approximately \$14.2 million pursuant to a long-term note payable collateralized by security interests in three properties, which accrues interest at a rate of 6.11% per year.

"Our results were positively impacted by the five acquisitions completed in 2007, and we expect our earnings to continue grow throughout the remainder of 2007. 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:

- Purchased one property with approximately 21,000 square feet

for approximately \$6.8 million; 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 July, August and September 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 June 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, August 1, 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 September 1, 2007. To hear the replay, please dial (877) 660-6853, access playback account 286 and use ID code 249134.

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 MEASURES

##### 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 June 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)

	June 30, 2007	December 31, 2006
	-----	-----
ASSETS		
Real estate, net of accumulated depreciation of \$11,947,461 and \$8,595,419, respectively	\$280,541,611	\$235,118,123
Lease intangibles, net of accumulated amortization of \$5,877,604 and \$4,175,685, respectively	26,038,291	23,416,696
Mortgage notes receivable	10,000,000	10,000,000
Cash and cash equivalents	9,681,885	36,005,686
Restricted cash	1,469,750	1,225,162
Funds held in escrow	1,789,814	1,635,819
Interest receivable - mortgage note	83,333	-
Interest receivable - employees	52,735	43,716
Deferred rent receivable	4,277,061	3,607,279
Deferred financing costs, net of accumulated amortization of \$1,800,471 and \$1,467,297, respectively	4,067,858	3,713,004
Prepaid expenses	456,354	521,290
Deposits on real estate	300,000	300,000
Accounts receivable	387,747	179,247
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TOTAL ASSETS	\$339,146,439	\$315,766,022
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Mortgage notes payable	\$182,124,367	\$154,494,438
Deferred rent liability	4,325,817	4,718,599
Asset retirement obligation liability	1,752,378	1,631,294
Accounts payable and accrued expenses	588,581	673,410
Due to adviser	682,481	183,042
Rent received in advance, security deposits and funds held in escrow	2,175,708	1,841,063
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Total Liabilities	191,649,332	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	(2,801,180)	(3,201,322)
Distributions in excess of accumulated earnings	(20,353,407)	(15,226,196)
	-----	-----
Total Stockholders' Equity	147,497,107	152,224,176
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$339,146,439	\$315,766,022
	=====	=====

Gladstone Commercial Corporation  
Consolidated Statements of Operations  
(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2007	2006	2007	2006
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Operating revenues				
Rental income	\$7,732,322	\$6,027,830	\$14,810,358	\$10,894,906
Interest income from mortgage notes receivable	252,778	558,434	502,778	1,111,346
Tenant recovery revenue	94,468	43,798	150,203	49,420
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Total operating				

revenues	8,079,568	6,630,062	15,463,339	12,055,672
Operating expenses				
Depreciation and amortization	2,636,154	2,064,312	5,053,966	3,863,519
Base management fee	471,091	719,392	953,135	1,372,134
Administration fee	210,126	-	417,144	-
Incentive fee	633,805	-	1,219,573	-
Professional fees	174,677	232,960	324,108	431,418
Taxes and licenses	50,178	39,069	65,185	89,963
Insurance	114,556	102,845	260,808	185,842
General and administrative	133,406	95,602	245,308	143,420
Directors fees	54,250	27,500	108,500	61,000
Stockholder related expenses	75,361	183,596	174,978	248,065
Asset retirement obligation expense	28,942	24,940	57,102	71,641
Stock option compensation expense	-	33,602	-	79,818
Total operating expenses before credit from Adviser	4,582,546	3,523,818	8,879,807	6,546,820
Credit to incentive fee	(633,805)	-	(1,219,573)	-
Total operating expenses	3,948,741	3,523,818	7,660,234	6,546,820
Other income (expense)				
Interest income from temporary investments	63,269	4,057	292,285	11,431
Interest income - employee loans	56,458	28,589	116,880	34,137
Other income	9,817	10,400	18,231	10,400
Interest expense	(2,702,612)	(2,155,968)	(5,217,073)	(3,774,536)
Total other expense	(2,573,068)	(2,112,922)	(4,789,677)	(3,718,568)
Income from continuing operations	1,557,759	993,322	3,013,428	1,790,284
Discontinued operations				
(Loss) income from discontinued operations	(1,503)	71,215	(5,504)	109,253
Net realized income				

(loss) from foreign currency transactions	56	167	63	(649)
Net unrealized loss from foreign currency transactions	-	(211,939)	-	(199,323)
Taxes paid on sale of real estate	-	-	78,667	-
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Total discontinued operations	(1,447)	(140,557)	73,226	(90,719)
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Net income	1,556,312	852,765	3,086,654	1,699,565
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Dividends attributable to preferred stock	(1,023,437)	(484,375)	(2,046,874)	(828,819)
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Net income available to common stockholders	\$532,875	\$368,390	\$1,039,780	\$870,746
	=====	=====	=====	=====
Earnings per weighted average common share - basic				
Income from continuing operations (net of dividends attributable to preferred stock)	\$0.06	\$0.07	\$0.11	\$0.12
Discontinued operations	-	(0.02)	0.01	(0.01)
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Net income available to common stockholders	\$0.06	\$0.05	\$0.12	\$0.11
	=====	=====	=====	=====
Earnings per weighted average common share - diluted				
Income from continuing operations (net of dividends attributable to preferred stock)	\$0.06	\$0.06	\$0.11	\$0.12
Discontinued operations	-	(0.02)	0.01	(0.01)
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Net income available to common stockholders	\$0.06	\$0.04	\$0.12	\$0.11
	=====	=====	=====	=====
Weighted average shares outstanding				
Basic	8,565,264	7,762,503	8,565,264	7,717,501
	=====	=====	=====	=====
Diluted	8,565,264	7,911,871	8,565,264	7,858,146
	=====	=====	=====	=====

Gladstone Commercial Corporation  
Consolidated Statements of Cash Flows  
(Unaudited)

	For the six months ended June 30,	
	----- 2007	2006 -----
Cash flows from operating activities:		
Net income	\$3,086,654	\$1,699,565
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, including discontinued operations	5,053,966	3,915,819
Amortization of deferred financing costs, including discontinued operations	333,174	289,300
Amortization of deferred rent asset	126,748	126,748
Amortization of deferred rent liability	(392,782)	(303,478)
Asset retirement obligation expense, including discontinued operations	57,102	81,573
Increase in deferred rent receivable	(796,530)	(720,712)
Stock compensation	-	79,818
Increase in mortgage notes payable due to change in value of foreign currency	-	199,323
(Increase) decrease in mortgage interest receivable	(83,333)	3,609
Increase in employee interest receivable	(9,019)	(28,589)
(Increase) decrease in prepaid expenses and other assets	(143,564)	297,354
Increase in accounts payable, accrued expenses, and amount due adviser	414,610	65,606
Increase in rent received in advance	90,057	163,407
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Net cash provided by operating activities	7,737,083	5,869,343
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Cash flows from investing activities:		
Real estate investments	(53,035,069)	(40,506,626)
Principal repayments on mortgage notes receivable	-	44,742
Principal repayments on employee loans	400,142	-
Net payments to lenders for reserves held in escrow	(868,679)	(1,899,416)
Increase in restricted cash	(244,588)	(412,074)
Deposits on future acquisitions	(810,000)	(500,000)
Deposits applied against real estate investments	810,000	1,100,000
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Net cash used in investing activities	(53,748,194)	(42,173,374)
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Cash flows from financing activities:		
Proceeds from share issuance	-	25,485,010
Offering costs	-	(1,302,004)
Borrowings under mortgage notes payable	28,015,000	31,900,000
Principal repayments on mortgage notes payable	(385,070)	(302,410)
Borrowings from line of credit	4,200,000	60,000,400
Repayments on line of credit	(4,200,000)	(73,900,400)
Increase in reserves from tenants	818,745	1,093,252
Increase in security deposits	140,525	562,500
Payments for deferred financing costs	(688,025)	(1,650,237)
Dividends paid for common and preferred	(8,213,865)	(6,390,679)
	-----	-----
Net cash provided by financing activities	19,687,310	35,495,432
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Net decrease in cash and cash equivalents	(26,323,801)	(808,599)
Cash and cash equivalents, beginning of period	36,005,686	1,740,159
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Cash and cash equivalents, end of period	\$9,681,885	\$931,560
	=====	=====
NON-CASH INVESTING ACTIVITIES		
Increase in asset retirement obligation	\$121,084	\$1,510,330
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NON-CASH FINANCING ACTIVITIES		
Fixed rate debt assumed in connection with acquisitions	\$-	\$30,129,654
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Notes receivable issued in exchange  
for common stock associated with  
the exercise of employee stock  
options

\$-            \$1,826,754

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Source: Gladstone Commercial Corp.