

GLADSTONE COMMERCIAL CORP

Form 10-Q

April 29, 2013

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2013**

**OR**

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

**FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**

**COMMISSION FILE NUMBER: 001-33097**

**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**  
(Address of principal executive offices)

**22102**  
(Zip Code)

**(703) 287-5800**  
(Registrant's telephone number, including area code)

**Not Applicable**  
(Former name, former address and formal fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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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  (Do not check if a smaller reporting company) Smaller reporting company

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

The number of shares of the registrant's Common Stock, \$0.001 par value, outstanding as of April 26, 2013 was 11,432,648.

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**GLADSTONE COMMERCIAL CORPORATION**

**FORM 10-Q FOR THE QUARTER ENDED**

**MARCH 31, 2013**

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**Table of Contents****Gladstone Commercial Corporation****Condensed Consolidated Balance Sheets****(Dollars in Thousands, Except Share and Per Share Data)****(Unaudited)**

	March 31, 2013	December 31, 2012
<b>ASSETS</b>		
Real estate, at cost	\$ 538,509	\$ 533,753
Less: accumulated depreciation	69,133	65,730
Total real estate, net	469,376	468,023
Lease intangibles, net	57,156	57,254
Cash and cash equivalents	7,279	5,546
Restricted cash	3,849	2,935
Funds held in escrow	7,193	7,591
Deferred rent receivable, net	15,890	15,124
Deferred financing costs, net	6,304	6,569
Other assets	2,151	1,737
<b>TOTAL ASSETS</b>	<b>\$ 569,198</b>	<b>\$ 564,779</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>LIABILITIES</b>		
Mortgage notes payable	\$ 361,035	\$ 359,185
Borrowings under line of credit	26,400	25,000
Series C mandatorily redeemable preferred stock, par value \$0.001 per share; \$25 per share liquidation preference; 1,700,000 shares authorized; and 1,540,000 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	38,500	38,500
Deferred rent liability, net	5,221	5,379
Asset retirement obligation liability	3,786	3,755
Accounts payable and accrued expenses	4,165	4,715
Due to Adviser and Administrator <sup>(1)</sup>	1,069	1,175
Other liabilities	5,374	4,705
<b>Total Liabilities</b>	<b>\$ 445,550</b>	<b>\$ 442,414</b>
Commitments and contingencies <sup>(2)</sup>		
<b>STOCKHOLDERS EQUITY</b>		
Series A and B redeemable preferred stock, par value \$0.001 per share; \$25 per share liquidation preference; 2,300,000 shares authorized and 2,150,000 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	\$ 2	\$ 2
Senior common stock, par value \$0.001 per share; 7,500,000 shares authorized and 219,859 and 60,290 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively		
Common stock, par value \$0.001 per share, 38,500,000 shares authorized and 11,396,448 and 11,083,584 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	11	11

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Additional paid in capital	221,578	215,470
Notes receivable - employees	(375)	(410)
Distributions in excess of accumulated earnings	(97,568)	(92,708)
Total Stockholders' Equity	123,648	122,365
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 569,198</b>	<b>\$ 564,779</b>

(1) Refer to Note 2 Related-Party Transactions

(2) Refer to Note 7 Commitments and Contingencies

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

**Table of Contents****Gladstone Commercial Corporation****Condensed Consolidated Statements of Operations****(Dollars in Thousands, Except Per Share Data)****(Unaudited)**

	For the three months ended March 31,	
	2013	2012
Operating revenues		
Rental income	\$ 13,666	\$ 12,014
Tenant recovery revenue	369	86
Total operating revenues	14,035	12,100
Operating expenses		
Depreciation and amortization	4,901	3,904
Property operating expenses	737	333
Due diligence expense	185	160
Base management fee <sup>(1)</sup>	353	393
Incentive fee <sup>(1)</sup>	931	899
Administration fee <sup>(1)</sup>	362	310
General and administrative	389	383
Total operating expenses before credits from Adviser	7,858	6,382
Credit to incentive fee <sup>(1)</sup>	(585)	(585)
Total operating expenses	7,273	5,797
Other income (expense)		
Interest expense	(5,661)	(4,572)
Distributions attributable to mandatorily redeemable preferred stock	(686)	(457)
Other income	18	27
Total other expense	(6,329)	(5,002)
Net income	433	1,301
Distributions attributable to preferred stock	(1,023)	(1,023)
Distributions attributable to senior common stock	(53)	(19)
Net (loss) income available to common stockholders	\$ (643)	\$ 259
Earnings per weighted average share of common stock - basic & diluted		
(Loss) income from continuing operations (net of dividends attributable to preferred stock)	\$ (0.06)	\$ 0.02
Net (loss) income available to common stockholders	\$ (0.06)	\$ 0.02

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Weighted average shares of common stock outstanding		
Basic	11,230,647	10,945,379
Diluted	11,230,647	11,006,597
Earnings per weighted average share of senior common stock	\$ 0.26	\$ 0.27
Weighted average shares of senior common stock outstanding - basic	204,582	70,333

(1) Refer to Note 2 Related-Party Transactions

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



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**Gladstone Commercial Corporation**  
**Condensed Consolidated Statements of Cash Flows**

(Dollars in Thousands)

(Unaudited)

	For the three months ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 433	\$ 1,301
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,901	3,904
Amortization of deferred financing costs	405	320
Amortization of deferred rent asset and liability, net	(98)	(168)
Amortization of discount and premium on assumed debt	(42)	16
Asset retirement obligation expense	31	40
(Increase) decrease in other assets	(465)	73
Increase in deferred rent receivable	(826)	(354)
(Decrease) increase in accounts payable, accrued expenses, and amount due Adviser and Administrator	(637)	1,208
(Decrease) increase in other liabilities	(264)	388
Leasing commissions paid	(384)	(1,101)
Net cash provided by operating activities	3,054	5,627
Cash flows from investing activities:		
Acquisition of real estate and related intangible assets	(5,650)	(10,775)
Improvements of existing real estate	(121)	(1,088)
Receipts from lenders for funds held in escrow	1,228	316
Payments to lenders for funds held in escrow	(830)	(785)
Receipts from tenants for reserves	1,456	726
Payments to tenants from reserves	(541)	(278)
Increase in restricted cash	(915)	(581)
Deposits on future acquisitions		(100)
Deposits refunded	50	
Net cash used in investing activities	(5,323)	(12,565)
Cash flows from financing activities:		
Proceeds from issuance of equity	6,484	234
Offering costs		