

GLADSTONE COMMERCIAL CORP

Form 10-Q

July 30, 2013

[Table of Contents](#)

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

**FORM 10-Q**

(Mark One)

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

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 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)

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**MARYLAND**  
(State or other jurisdiction of

**02-0681276**  
(I.R.S. Employer

incorporation or organization)

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 ☐

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 July 30, 2013 was 14,175,648.

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**Table of Contents**

**GLADSTONE COMMERCIAL CORPORATION**

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

**JUNE 30, 2013**

**TABLE OF CONTENTS**

	PAGE
<b>PART I FINANCIAL INFORMATION</b>	
Item 1. Financial Statements (Unaudited)	
<u>Condensed Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012</u>	3
<u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2013 and 2012</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2013 and 2012</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	41
Item 4. <u>Controls and Procedures</u>	42
<b>PART II OTHER INFORMATION</b>	
Item 1. <u>Legal Proceedings</u>	43
Item 1A. <u>Risk Factors</u>	43
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
Item 3. <u>Defaults Upon Senior Securities</u>	43
Item 4. <u>Mine Safety Disclosures</u>	43
Item 5. <u>Other Information</u>	43
Item 6. <u>Exhibits</u>	43
<u>SIGNATURES</u>	46

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

	June 30, 2013	December 31, 2012
<b>ASSETS</b>		
Real estate, at cost	\$ 564,952	\$ 533,753
Less: accumulated depreciation	72,712	65,730
Total real estate, net	492,240	468,023
Lease intangibles, net	60,797	57,254
Cash and cash equivalents	4,023	5,546
Restricted cash	4,037	2,935
Funds held in escrow	7,708	7,591
Deferred rent receivable, net	16,695	15,124
Deferred financing costs, net	5,961	6,569
Other assets	2,679	1,737
<b>TOTAL ASSETS</b>	<b>\$ 594,140</b>	<b>\$ 564,779</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Mortgage notes payable	\$ 359,240	\$ 359,185
Borrowings under line of credit	11,200	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 June 30, 2013 and December 31, 2012, respectively	38,500	38,500
Deferred rent liability, net	5,104	5,379
Asset retirement obligation liability	3,819	3,755
Accounts payable and accrued expenses	3,359	4,715
Due to Adviser and Administrator <sup>(1)</sup>	848	1,175
Other liabilities	5,688	4,705
<b>Total Liabilities</b>	<b>\$ 427,758</b>	<b>\$ 442,414</b>
<b>Commitments and contingencies <sup>(2)</sup></b>		
<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 June 30, 2013 and December 31, 2012, respectively	\$ 2	\$ 2
Senior common stock, par value \$0.001 per share; 7,500,000 shares authorized and 306,053 and 179,511 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively		
Common stock, par value \$0.001 per share, 38,500,000 shares authorized and 14,017,648 and 11,083,584 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	14	11
Additional paid in capital	269,554	215,470
Notes receivable - employee	(375)	(410)
Distributions in excess of accumulated earnings	(102,813)	(92,708)
<b>Total Stockholders' Equity</b>	<b>166,382</b>	<b>122,365</b>

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 594,140	\$ 564,779
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(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 June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
<b>Operating revenues</b>				
Rental income	\$ 14,190	\$ 12,323	\$ 27,856	\$ 24,336
Tenant recovery revenue	68	87	437	171
<b>Total operating revenues</b>	<b>14,258</b>	<b>12,410</b>	<b>28,293</b>	<b>24,507</b>
<b>Operating expenses</b>				
Depreciation and amortization	5,220	3,992	10,121	7,896
Property operating expenses	564	353	1,300	686
Acquisitions related expense	274	528	459	688
Base management fee <sup>(1)</sup>	451	372	804	765
Incentive fee <sup>(1)</sup>	933	787	1,864	1,686
Administration fee <sup>(1)</sup>	367	265	730	575
General and administrative	477	404	866	787
<b>Total operating expenses before credit to incentive fee</b>	<b>8,286</b>	<b>6,701</b>	<b>16,144</b>	<b>13,083</b>
Credit to incentive fee <sup>(1)</sup>	(917)	(674)	(1,502)	(1,259)
<b>Total operating expenses</b>	<b>7,369</b>	<b>6,027</b>	<b>14,642</b>	<b>11,824</b>
<b>Other income (expense)</b>				
Interest expense	(5,764)	(4,885)	(11,425)	(9,458)
Distributions attributable to Series C mandatorily redeemable preferred stock	(686)	(686)	(1,372)	(1,143)
Other income	12	42	29	73
<b>Total other expense</b>	<b>(6,438)</b>	<b>(5,529)</b>	<b>(12,768)</b>	<b>(10,528)</b>
<b>Net income</b>	<b>451</b>	<b>854</b>	<b>883</b>	<b>2,155</b>
Distributions attributable to Series A and B preferred stock	(1,023)	(1,024)	(2,047)	(2,047)
Distributions attributable to senior common stock	(69)	(22)	(122)	(41)
<b>Net (loss) income available to common stockholders</b>	<b>\$ (641)</b>	<b>\$ (192)</b>	<b>\$ (1,286)</b>	<b>\$ 67</b>
<b>Earnings per weighted average share of common stock - basic &amp; diluted</b>				
(Loss) income from continuing operations (net of dividends attributable to preferred stock)	\$ (0.05)	\$ (0.02)	\$ (0.11)	\$ 0.01
<b>Net (loss) income available to common stockholders</b>	<b>\$ (0.05)</b>	<b>\$ (0.02)</b>	<b>\$ (0.11)</b>	<b>\$ 0.01</b>

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Dividends declared per share of common stock	\$ 0.375	\$ 0.375	\$ 0.75	\$ 0.75
Weighted average shares of common stock outstanding				
Basic	12,380,402	10,945,379	11,808,701	10,945,379
Diluted	12,380,402	10,945,379	11,808,701	11,011,259
Earnings per weighted average share of senior common stock	\$ 0.26	\$ 0.26	\$ 0.52	\$ 0.53
Weighted average shares of senior common stock outstanding - basic				
	261,754	84,361	233,633	75,738