

GLADSTONE COMMERCIAL CORP

Form 8-K/A

July 29, 2005

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 8-K/A
CURRENT REPORT**

Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 18, 2005

Gladstone Commercial Corporation

(Exact name of registrant as specified in its chapter)

Maryland

(State or other jurisdiction
of incorporation)

0-50363

(Commission
File Number)

02-0681276

(IRS Employer
Identification No.)

1521 Westbranch Drive, Suite 200

McLean, Virginia

(Address of principal executive offices)

22102

(Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Gladstone Commercial Corporation
Amendment No. 1 to Current Report on Form 8-K/A

Gladstone Commercial Corporation (the Company) hereby amends Items 2.01 and 9.01 of its Current Report on Form 8-K, which was filed on May 18, 2005, as set forth in the pages attached hereto:

Item 2.01 Acquisition or Disposition of Assets

Financial statements for: 2525 North Woodlawn Avenue, Wichita, KS are presented in Item 9.01.

Item 9.01 Financial Statements and Exhibits

(a) Financial Statements of Business Acquired:

Audited historical summary of revenue of 2525 North Woodlawn Avenue, Wichita, KS for the year ended December 31, 2004 and unaudited historical summaries of revenues for the three months ended March 31, 2005 and 2004.

(b) Pro Forma Financial Information

Pro forma Condensed Consolidated Balance Sheet of the Company as of March 31, 2005.

Pro forma Consolidated Statement of Income of the Company for the year ended December 31, 2004 (unaudited) and the three months ended March 31, 2005 (unaudited).

Notes to Pro Forma Consolidated Balance Sheet and Statement of Income (unaudited).

(c) Exhibits.

There are no exhibits filed with this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Gladstone Commercial Corporation
(Registrant)

July 29, 2005

By: /s/ Harry Brill

(Harry Brill, Chief Financial Officer)

**2525 North
Woodlawn Avenue
Historical Summary
December 31, 2004**

**2525 North Woodlawn Avenue
Historical Summary of Revenue
Year Ended December 31, 2004**

| | Page(s) |
|--|----------------|
| Report of Independent Auditors | 1 |
| Historical Summary of Revenue for the Year ended December 31, 2004 | 2 |
| Historical Summaries of Revenue for the Three Months Ended March 30, 2005 and 2004 (unaudited) | 3 |
| Notes to Historical Summary | 4-5 |

Report of Independent Auditors

To Gladstone Commercial Corporation

We have audited the accompanying historical summary of revenue of 2525 North Woodlawn Avenue (the Property) as described in Note 1 for the year ended December 31, 2004. This historical summary is the responsibility of the Property s management; our responsibility is to express an opinion on this historical summary based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the historical summary is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the historical summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall historical summary presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying historical summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission (for inclusion on Form 8-K of Gladstone Commercial Corporation) as described in Note 2, and is not intended to be a complete presentation of the Property s revenue and expenses.

In our opinion, the historical summary referred to above presents fairly, in all material respects, the revenue, as described in Note 2, of the Property for the year ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ PricewaterhouseCoopers LLP

McLean, VA

July 13, 2005

**2525 North Woodlawn Avenue
Historical Summary of Revenue
Year Ended December 31, 2004**

Revenue
Base rents

\$1,295,964

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

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2525 North Woodlawn Avenue
Historical Summaries of Revenue
Three Months Ended March 31, 2005 and 2004 (unaudited)

| | 2005 | 2004 |
|----------------|-------------|-------------|
| Revenue | | |
| Base rents | \$323,991 | \$323,991 |

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

2525 North Woodlawn Avenue
Notes to Historical Summary
December 31, 2004

1. Business

The accompanying historical summary of revenue relates to the operations of 2525 North Woodlawn Avenue (the Property), consisting of the revenue of one office building located in Wichita, Kansas.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying historical summary of revenue was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission in connection with Gladstone Commercial Corporation's (Gladstone) acquisition of the Property. The historical summary is not representative of the actual operations of the Property for the period presented nor indicative of future operations as certain expenses, primarily depreciation, amortization and interest expense, which may not be comparable to the expenses expected to be incurred by Gladstone in future operations of the Property, have been excluded. Additionally, Gladstone's lease with the tenant is structured in such a way that the tenant is responsible for substantially all of the Property's operating expenses. As Gladstone does not expect to incur any operating expenses in the future operations of the Property, they have been excluded from this historical summary. Should the tenant fail to pay these expenses, Gladstone could be obligated to pay such expenses. However, the Property is currently exempted from property taxes and such expenses are not expected to be significant.

Revenue Recognition

Revenue is recognized on a straight-line basis over the terms of the related lease.

Use of Estimates

The preparation of this historical summary in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenue during the reporting period. Actual results may differ from these estimates.

Major Tenant

During 2004, the Property's total base rent of \$1,295,964 was attributable to one tenant.

3. Rentals

On October 1, 2000, the Property entered into a lease agreement with its sole tenant for the entire office building. The lease had an initial term of twelve years with two five-year options. Future minimum rentals as of December 31, 2004 to be received under this tenant lease are as follows:

| Years Ending | |
|---------------------|--------------|
| 2005 | \$ 1,278,155 |
| 2006 | 1,298,211 |
| 2007 | 1,308,248 |

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| | |
|------------|---------------|
| 2008 | 1,338,359 |
| 2009 | 1,338,359 |
| Thereafter | 3,680,487 |
| Total | \$ 10,241,819 |

**2525 North Woodlawn Avenue
Notes to Historical Summary
December 31, 2004**

4. Unaudited Interim Historical Summaries

The historical summaries of revenue for the three months ended March 31, 2005 and 2004 are unaudited. As a result, these interim historical summaries should be read in conjunction with the historical summary and notes included in the December 31, 2004 historical summary of revenue. The interim historical summaries reflect all adjustments which management believes are necessary for the fair presentation of the historical summaries of revenue for the interim periods presented. These adjustments are of a normal recurring nature. The historical summaries of revenue for such interim periods are not necessarily indicative of the results of the entire year.

Gladstone Commercial Corporation
Pro Forma Consolidated Financial Information
(unaudited)

The following information reflects pro forma consolidated balance sheet data as of March 31, 2005 of Gladstone Commercial Corporation (the Company) and the pro forma consolidated statements of income for the year ended December 31, 2004 and the three months ended March 31, 2005.

The pro forma consolidated balance sheet data is presented as if the acquisition of the property occurred on March 31, 2005.

The pro forma consolidated statements of income for the year ended December 31, 2004 and the three months ended March 31, 2005 is presented as if the acquisition of the property occurred on January 1, 2004.

The pro forma financial information does not purport to present the financial position or results of operations of the Company and the transactions and events assumed therein occurred on the dates specified, nor are they necessarily indicative of the results of operations that may be achieved in the future.

The pro forma consolidated financial statements are based on certain assumptions and adjustments described in the notes to the pro forma consolidated balance sheet and statements of income and should be read in conjunction therewith and with the consolidated financial statements and related notes of the Company included in its December 31, 2004 10K, and its March 31, 2005 10Q and the Historical Summary of Revenue and related Notes to Historical Summary of Revenue of the acquired property included elsewhere in this report.

Gladstone Commercial Corporation
Pro Forma Consolidated Balance Sheet as of March 31, 2005 (unaudited)

| | Gladstone Commercial Corporation A | Purchase of The Property B | Pro Forma Company Consolidated |
|--|--|---|--------------------------------------|
| ASSETS: | | | |
| Real estate: | | | |
| Land | \$ 8,922,000 | \$ 1,525,000 | \$ 10,447,000 |
| Building | 61,848,662 | 9,586,889 | 71,435,551 |
| Tenant improvements | 1,664,122 | 119,182 | 1,783,304 |
| Accumulated depreciation | (1,208,768) | | (1,208,768) |
| | 71,226,016 | 11,231,071 | 82,457,087 |
| Mortgage note receivable | 11,081,931 | | 11,081,931 |
| Cash and cash equivalents | 18,804,004 | (13,389,735) | 5,414,269 |
| Interest receivable | 75,794 | | 75,794 |
| Prepaid assets | 203,026 | | 203,026 |
| Other assets | 1,576,993 | | 1,576,993 |
| Deferred rent asset | | 1,587,822 | 1,587,822 |
| Lease intangibles | 4,023,315 | 570,842 | 4,594,157 |
| Total Assets | \$ 106,991,079 | \$ 13,389,735 | \$ 106,991,079 |
| LIABILITIES & STOCKHOLDERS EQUITY | | | |
| Liabilities: | | | |
| Due to Adviser | \$ 142,598 | \$ | \$ 142,598 |
| Accounts payable and accrued expenses | 417,464 | | 417,464 |
| Mortgage note payable | 3,150,000 | | 3,150,000 |
| Rent received in advance, security deposits and funds held in escrow | 1,432,991 | | 1,432,991 |
| Total Liabilities | \$ 5,143,053 | | 5,143,053 |
| Stockholders Equity: | | | |
| Common stocks | 7,667 | | 7,667 |
| Additional paid-in capital | 105,427,549 | | 105,427,549 |
| Notes receivable employees | (374,792) | | (374,792) |
| Retained deficit | (3,212,398) | | (3,212,398) |
| Total Stockholders Equity | 101,848,026 | | 101,848,026 |
| Total Liabilities and Stockholders Equity | \$ 106,991,079 | \$ 13,389,735 | \$ 106,991,079 |

See accompanying notes to the pro forma consolidated balance sheet and consolidated statement of income.

Gladstone Commercial Corporation
Pro Forma Consolidated Statement of Income for the year ended December 31, 2004 (unaudited)

| | Gladstone Commercial Corporation C | The Properties D | Pro Forma Adjustments E | Pro Forma Company Consolidated |
|--|--|----------------------------|--------------------------------------|--------------------------------------|
| OPERATING REVENUES: | | | | |
| Base rents | \$3,331,215 | \$ 1,295,964 | \$(215,148) | \$4,412,031 |
| Interest income from mortgage loans | 981,187 | | | 981,187 |
| Total operating revenues: | 4,312,402 | 1,295,964 | (215,148) | 5,393,218 |
| OPERATING EXPENSES: | | | | |
| Management advisory fee | 1,187,776 | | | 1,187,776 |
| Depreciation & amortization | 973,345 | | 344,180 | 1,317,525 |
| Insurance | 250,816 | | | 250,816 |
| Directors fees | 106,917 | | | 106,917 |
| Professional fees | 448,969 | | | 448,969 |
| General & administrative | 335,310 | | | 335,310 |
| Total operating expenses: | 3,303,133 | | 344,180 | 3,647,313 |
| Net income from operations | 1,009,269 | 1,295,964 | (559,328) | 1,745,905 |
| INTEREST INCOME | 614,659 | | | 614,659 |
| NET INCOME/(LOSS) | \$ 1,623,928 | \$ 1,295,964 | \$ (559,328) | \$ 2,360,564 |
| Earnings per weighted average common share | | | | |
| Basic | \$ 0.21 | \$ 0.17 | \$ (0.07) | \$ 0.31 |
| Diluted | \$ 0.21 | \$ 0.17 | \$ (0.07) | \$ 0.31 |
| Weighted average shares outstanding | | | | |
| Basic | 7,649,855 | 7,649,855 | 7,649,855 | 7,649,855 |
| Diluted | 7,708,534 | 7,708,534 | 7,708,534 | 7,708,534 |

See accompanying notes to the pro forma consolidated balance sheet and consolidated statement of income.

Gladstone Commercial Corporation
Pro Forma Consolidated Statement of Income for the three months ended March 31, 2005
(unaudited)

| | Gladstone Commercial Corporation F | The Properties G | Pro Forma Adjustments H | Pro Forma Company Consolidated |
|---|--|----------------------------|--------------------------------------|--------------------------------------|
| OPERATING REVENUES: | | | | |
| Base rents | \$1,847,007 | \$ 323,991 | \$ (\$53,787) | \$2,117,211 |
| Interest income from mortgage loans | 295,583 | | | 295,583 |
| Tenant recovery revenue | 2,043 | | | 2,043 |
| Total operating revenues: | 2,144,633 | 323,991 | (\$53,787) | 2,414,837 |
| OPERATING EXPENSES: | | | | |
| Management advisory fee | 471,861 | | | 471,861 |
| Depreciation & amortization | 537,755 | | 86,045 | 623,800 |
| Insurance | 70,383 | | | 70,383 |
| Directors fees | 24,000 | | | 24,000 |
| Professional fees | 331,244 | | | 331,244 |
| Taxes & Licenses | 128,273 | | | 128,273 |
| Interest Expense | 36,219 | | | 36,219 |
| General & administrative | 108,920 | | | 108,920 |
| Total expenses from operations: | 1,708,655 | | 86,045 | 1,794,700 |
| Net income from operations | 435,978 | 323,991 | (139,832) | 620,137 |
| INTEREST INCOME | 99,206 | | | 99,206 |
| NET INCOME/(LOSS) | \$ 535,184 | \$ 323,991 | \$ (139,832) | \$ 719,343 |
| Earnings per weighted average common share | | | | |
| Basic | \$ 0.07 | \$ 0.04 | \$ (0.02) | \$ 0.09 |
| Diluted | \$ 0.07 | \$ 0.04 | \$ (0.02) | \$ 0.09 |
| Weighted average shares outstanding | | | | |
| Basic | 7,667,000 | 7,667,000 | 7,667,000 | 7,667,000 |
| Diluted | 7,733,335 | 7,733,335 | 7,733,335 | 7,733,335 |

See accompanying notes to the pro forma consolidated balance sheet and consolidated statement of income.

Gladstone Commercial Corporation
Notes to Pro Forma Consolidated Balance Sheet and Consolidated Statements of Income
(unaudited)

- A** Reflects the Company's historical consolidated balance sheet as of March 31, 2005, as reported on Form 10-Q.
- B** Reflects the acquisition of the property for \$13,389,735 from available cash. The purchase price for the property acquired has been allocated to tangible and intangible assets acquired at their estimated fair values.
- C** Represents the historical consolidated statement of operations for the year ended December 31, 2004 as reported on Form 10-K.
- D** Reflects the historical summary of revenue and for the property for the year ended December 31, 2004.
- E** Reflects adjusted depreciation and amortization related to the acquisition of the property. The buildings have an estimated useful life of 39 years and the tenant improvements are being depreciated over their remaining lease terms of 7.4 years. The lease intangibles are being amortized over their remaining lease terms of 7.4 years. A portion of the property's acquisition price was allocated to above market rents and recorded as a deferred rent receivable on the balance sheet. The deferred rent asset is amortized against rental revenue, resulting in a credit adjustment to rental revenue.
- F** Represents the historical consolidated statement of operations for the three months ended March 31, 2005 as reported on Form 10-Q.
- G** Reflects the historical summary of revenue for the property for the three months ended March 31, 2005.
- H** Reflects adjusted depreciation and amortization related to the acquisition of the property. The buildings have an estimated useful life of 39 years and the tenant improvements are being depreciated over their remaining lease terms of 7.4 years. The lease intangibles are being amortized over their remaining lease terms of 7.4 years. A portion of the property's acquisition price was allocated to above market rents and recorded as a deferred rent receivable on the balance sheet. The deferred rent asset is amortized against rental revenue, resulting in a credit adjustment to rental revenue.