

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 8-K  
CURRENT REPORT

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

Date of Report (Date of earliest event reported) October 31, 2006

Gladstone Commercial Corporation  
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation)	0-50363 (Commission File Number)	020681276 (IRS Employer Identification No.)
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1521 Westbranch Drive, Suite 200 McLean, Virginia (Address of principal executive offices)	22102 (Zip Code)
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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))

Item 2.02 Results of Operations and Financial Condition.

On October 31, 2006, Gladstone Commercial Corporation issued a press release announcing its financial results for the third quarter ended September 30, 2006. The text of the press release is included as an exhibit to this Form 8-K. Pursuant to the rules and regulations of the Securities and Exchange Commission, such exhibit and the information set forth therein and herein are deemed to be furnished and shall not be deemed to be filed.

Item 9.01 Financial Statements and Exhibits.

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.
- (d) Exhibits.

Exhibit No. -----	Description -----
99.1	Press release dated October 31, 2006

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)

October 31, 2006

By: /s/ Harry Brill  
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(Harry Brill, Chief Financial Officer)

EXHIBIT INDEX

Exhibit No.  
- -----

Description  
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99.1

Press release dated October 31, 2006

## Gladstone Commercial Announces Third Quarter Results

- Reports net income available to common stockholders of approximately \$1.3 million or \$0.16 per diluted weighted average common share
- Reports funds from operations ("FFO") of approximately \$2.3 million or \$0.29 per diluted weighted average common share
- Purchased four properties for a total investment of approximately \$7.7 million
- Sold two properties for a net gain on sale after taxes of approximately \$1.1 million or \$0.14 per diluted weighted average common share

MCLEAN, Va.--(BUSINESS WIRE)--xx--Gladstone Commercial Corp. (NASDAQ:GOOD) (the "Company") today reported financial results for the quarter ended September 30, 2006. 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, 2006 was \$1,293,044, or \$0.16 per share, compared to \$867,411, or \$0.11 per share, for the same period one year ago. Net income available to common stockholders for the nine months ended September 30, 2006 was \$2,163,784, or \$0.27 per share, compared to \$2,552,128, or \$0.33 per share for the same period one year ago. Net income results when compared to the same period last year were affected by the gain on the sale of the two Canadian properties in July, partially offset by increased interest expense associated with the leveraging of the Company's properties, stock option expense associated with the amendment of options granted under the 2003 Equity Incentive Plan, as amended (the "2003 Plan"), and dividends paid on the Company's preferred stock.

FFO for the quarter ended September 30, 2006 was approximately \$2.3 million, or \$0.29 per share, compared to approximately \$2.0 million, or \$0.26 per share, for the same period one year ago. FFO for the nine months ended September 30, 2006 was approximately \$7.1 million, or \$0.90 per share, compared to approximately \$4.9 million, or \$0.64 per share for the same period one year ago. 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, 2006	For the three months ended September 30, 2005	For the nine months ended September 30, 2006	For the nine months ended September 30, 2005
Net income	\$1,777,419	\$867,411	\$3,476,978	\$2,552,128
Less: Dividends attributable to preferred stock	(484,375)	-	(1,313,194)	-
Net income available to common stockholders	\$1,293,044	\$867,411	\$2,163,784	\$2,552,128
Add: Real estate depreciation and amortization, including discontinued operations	2,162,640	1,140,181	6,078,450	2,374,912
Less: Gain on sale of real estate, net of taxes paid	(1,106,590)	-	(1,106,590)	-
FFO available to common stockholders	2,349,094	2,007,592	7,135,644	4,927,040
Weighted average shares outstanding - basic	7,820,376	7,672,000	7,752,170	7,669,619

Weighted average shares outstanding - diluted	7,981,071	7,725,667	7,896,860	7,718,441
Basic net income per weighted average common share	\$0.16	\$0.11	\$0.28	\$0.33
Diluted net income per weighted average common share	\$0.16	\$0.11	\$0.27	\$0.33
Basic FFO per weighted average common share	\$0.30	\$0.26	\$0.92	\$0.64
Diluted FFO per weighted average common share	\$0.29	\$0.26	\$0.90	\$0.64

Third quarter highlights:

- Purchased four properties with approximately 121,000 square feet for an aggregate purchase price of approximately \$7.7 million;
- Sold two properties for a net gain on sale after taxes of approximately \$1.1 million; and
- Acquired one building in satisfaction of the mortgage loan on the Sterling Heights, Michigan property for approximately \$11.3 million.

In August 2006, the Company ceased accruing revenues on its mortgage loan secured by an industrial property in Sterling Heights, Michigan, placed the borrower in default and began pursuing available remedies under its mortgage, including instituting foreclosure proceedings on the property. At the foreclosure sale on September 22, 2006, the Company was the successful bidder. The Company recorded the real estate asset at approximately \$11.3 million, which equaled the outstanding principal balance and accrued, non-default interest due under the mortgage loan to the Company. On October 20, 2006, the Company executed a lease with a new tenant for the property, with a term of ten years. The lease provides for annual rents of approximately \$1.1 million in 2007, with prescribed escalations thereafter. The Company also pursued its deficiency relating to default interest, expenses and prepayment fees of approximately \$650,000 against the borrower and its affiliated tenant who had filed for bankruptcy protection and collected approximately \$655,000 from the tenant and borrower in October 2006.

On August 31, 2006, all the holders of outstanding stock options accepted the Company's offer to amend their stock options and accelerate the expiration date of the outstanding options to December 31, 2006. Therefore, all currently outstanding stock options must be exercised before December 31, 2006 or will be forfeited on December 31, 2006. The acceptance of the offer allows the Company to enter into an amended and restated investment advisory agreement (the "Amended Advisory Agreement") with the Company's external investment adviser, Gladstone Management Corporation (the "Adviser"), and an administration agreement between the Company and Gladstone Administration, LLC, a wholly owned subsidiary of the Adviser. The Company intends to terminate the 2003 Plan on December 31, 2006. Upon termination of the 2003 Plan, the Company will implement the Amended Advisory Agreement effective on January 1, 2007, the first day of the Company's 2007 fiscal year.

"Our third quarter results were positively affected by the sale of the two Canadian properties for a net gain of \$1.1 million. Subsequent to quarter end, we signed a ten year lease with a new tenant for our Sterling Heights, Michigan property, allowing us to create an income producing asset from the previously defaulted mortgage loan on the property," said Chip Stelljes, Executive Vice President and Chief Investment Officer. "We believe the property disposition, the successful leasing of the Michigan property, along with the acquisition of four properties in the third quarter, will benefit our shareholders over the long term and will result in a stronger and more focused portfolio."

Subsequent to quarter end, the Company:

- Declared monthly cash dividends on common stock of \$0.12 per common share for each of the months of October, November, and December 2006;

- Declared monthly cash dividends on Series A Preferred Stock of \$0.1614583 per share for the months of October, November, and December 2006; and
- Completed the public offering of 1,150,000 shares of Series B Preferred Stock for net proceeds to the Company of approximately \$27.4 million.

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, 2006, including the footnotes to the financial statements contained therein. The Company has filed the Form 10-Q today with the SEC and the Form 10-Q can be retrieved from the SEC website at [www.SEC.gov](http://www.SEC.gov) or our website at [www.GladstoneCommercial.com](http://www.GladstoneCommercial.com).

The Company will hold a conference call Wednesday, November 1, 2006 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 December 1, 2006. To hear the replay, please dial (877) 660-6853, access playback account 286 and use ID code 217123.

Gladstone Commercial Corporation is a publicly traded real estate investment trust that focuses on investing in and owning triple-net leased industrial and commercial 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 September 30, 2006, as filed with the Securities and Exchange Commission 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, 2005, as filed with the Securities and Exchange Commission on February 28, 2006, and the

Company's Quarterly Reports on Form 10-Q for the quarters ended June 30, 2006 and September 30, 2006, as filed with the Securities and Exchange Commission on August 8, 2006, and today, respectively. The risk factors set forth in the Form 10-K and Form 10-Qs under the caption "Risk Factors" are specifically incorporated by references 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, 2006	December 31, 2005
	-----	-----
<b>ASSETS</b>		
Real estate, net of accumulated depreciation of \$7,106,263 and \$3,408,878, respectively	\$236,573,888	\$161,634,761
Lease intangibles, net of accumulated amortization of \$3,393,819 and \$1,221,413, respectively	24,198,562	13,947,484
Mortgage notes receivable	10,000,000	21,025,815
Cash and cash equivalents	614,784	1,740,159
Restricted cash	1,644,889	1,974,436
Funds held in escrow	1,514,701	1,041,292
Interest receivable - mortgage note	-	70,749
Interest receivable - employees	41,346	-
Deferred rent receivable	3,342,398	2,590,617
Deferred financing costs, net of accumulated amortization of \$725,040 and \$260,099, respectively	2,911,643	1,811,017
Prepaid expenses	435,196	385,043
Deposits on real estate	-	600,000
Accounts receivable	225,073	225,581
	-----	-----
<b>TOTAL ASSETS</b>	<b>\$281,502,480</b>	<b>\$207,046,954</b>
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Mortgage notes payable	\$118,516,249	\$61,558,961
Borrowings under line of credit	35,660,000	43,560,000
Deferred rent liability	4,914,989	-
Asset retirement obligation liability	1,604,416	-
Accounts payable and accrued expenses	695,330	493,002
Due to adviser	210,277	164,155
Rent received in advance, security deposits and funds held in escrow	2,045,850	2,322,300
	-----	-----
Total Liabilities	163,647,111	108,098,418
	-----	-----
<b>STOCKHOLDERS' EQUITY</b>		
Redeemable preferred stock, \$0.001 par value; \$25 liquidation preference; 1,150,000 shares authorized and 1,000,000 shares issued and outstanding at September 30, 2006	1,000	-
Common stock, \$0.001 par value, 18,850,000 shares authorized and 7,850,901 and 7,672,000 shares issued and outstanding, respectively	7,851	7,672
Additional paid in capital	132,448,681	105,502,544
Notes receivable - employees	(2,259,036)	(432,282)
Distributions in excess of accumulated earnings	(12,343,127)	(6,129,398)
	-----	-----
Total Stockholders' Equity	117,855,369	98,948,536
	-----	-----
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$281,502,480</b>	<b>\$207,046,954</b>
	=====	=====

Gladstone Commercial Corporation  
Consolidated Statements of Operations  
(unaudited)

	For the three months ended		For the nine months ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Operating revenues				
Rental income	\$6,214,295	\$3,307,759	\$17,109,203	\$7,103,591
Interest income from mortgage notes receivable	478,329	553,968	1,589,675	1,351,197
Tenant recovery revenue	43,352	28,208	92,772	69,808
Total operating revenues	6,735,976	3,889,935	18,791,650	8,524,596
Operating expenses				
Depreciation and amortization	2,162,640	1,107,672	6,026,150	2,277,432
Management advisory fee	656,916	609,171	2,029,050	1,564,826
Professional fees	167,353	87,896	598,771	428,781
Taxes and licenses	24,812	36,952	114,774	188,347
Insurance	113,453	70,244	299,296	207,648
General and administrative	115,349	61,074	319,784	166,410
Shareholder related expenses	34,414	45,868	282,478	170,285
Asset retirement obligation expense	30,619	-	102,263	-
Stock option compensation expense	314,593	-	394,411	-
Total operating expenses	3,620,149	2,018,877	10,166,977	5,003,729
Other income (expense)				
Interest income from temporary investments	2,006	10,093	13,437	117,806
Interest income - employee loans	41,346	5,562	75,483	15,483
Other income	-	-	10,400	-
Interest expense	(2,494,221)	(865,237)	(6,268,757)	(1,156,259)
Total other expense	(2,450,869)	(849,582)	(6,169,437)	(1,022,970)
Income from continuing operations	664,958	1,021,476	2,455,236	2,497,897
Discontinued operations				
Income from discontinued operations	6,915	70,504	116,169	281,602
Net realized loss from foreign currency transactions	(1,044)	(340)	(201,017)	(3,277)
Net unrealized loss from foreign currency transactions	-	(224,229)	-	(224,094)
Gain on sale of real estate	1,422,026	-	1,422,026	-
Taxes on sale of real estate	(315,436)	-	(315,436)	-
Total discontinued operations	1,112,461	(154,065)	1,021,742	54,231
Net income	1,777,419	867,411	3,476,978	2,552,128
Dividends				

attributable to preferred stock	(484,375)	-	(1,313,194)	-
Net income available to common stockholders	\$1,293,044	\$867,411	\$2,163,784	\$2,552,128
Earnings per weighted average common share - basic				
Income from continuing operations (net of dividends attributable to preferred stock)	\$0.02	\$0.13	\$0.15	\$0.32
Discontinued operations	0.14	(0.02)	0.13	0.01
Net income available to common stockholders	\$0.16	\$0.11	\$0.28	\$0.33
Earnings per weighted average common share - diluted				
Income from continuing operations (net of dividends attributable to preferred stock)	\$0.02	\$0.13	\$0.14	\$0.32
Discontinued operations	0.14	(0.02)	0.13	0.01
Net income available to common stockholders	\$0.16	\$0.11	\$0.27	\$0.33
Weighted average shares outstanding				
Basic	7,820,376	7,672,000	7,752,170	7,669,619
Diluted	7,981,071	7,725,667	7,896,860	7,718,441

Gladstone Commercial Corporation  
Consolidated Statements of Cash Flows  
(unaudited)

	For the nine months ended September 30, 2006	For the nine months ended September 30, 2005
Cash flows from operating activities:		
Net income	\$ 3,476,978	\$ 2,552,128
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, including discontinued operations	6,078,450	2,374,912
Amortization of deferred financing costs, including discontinued operations	464,941	158,457
Amortization of deferred rent asset	190,123	114,700
Amortization of deferred rent liability	(499,870)	-
Asset retirement obligation expense, including discontinued operations	112,195	-
Stock compensation	394,411	-
Increase in mortgage notes payable due to change in value of foreign currency	202,065	226,238
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)	-
Decrease (increase) in mortgage interest receivable	70,749	(2,716)



(Increase) decrease in employee interest receivable	(41,346)	111
Increase in prepaid expenses and other assets	(49,645)	(76,943)
Increase in deferred rent receivable	(941,903)	(369,624)
Increase in accounts payable, accrued expenses, and amount due adviser	248,449	302,532
Increase (decrease) in rent received in advance and security deposits	472,167	(259,509)
Net payments to lenders for operating reserves held in escrow	(2,001,065)	(81,640)
Increase in operating reserves from tenants	1,189,942	-
	-----	-----
Net cash provided by operating activities	7,608,914	4,938,646
	-----	-----
Cash flows from investing activities:		
Real estate investments	(48,311,928)	(80,763,736)
Proceeds from sales of real estate	2,106,112	-
Issuance of mortgage note receivable	-	(10,000,000)
Principal repayments on mortgage notes receivable	44,742	60,443
Increase in restricted cash	329,547	-
Net receipts from tenants for capital reserves	125,574	-
Net payments to lenders for capital reserves held in escrow	(536,476)	(1,006,602)
Deposits on future acquisitions	(600,000)	(1,600,000)
Deposits applied against real estate investments	1,200,000	1,400,000
	-----	-----
Net cash used in investing activities	(45,642,429)	(91,909,895)
	-----	-----
Cash flows from financing activities:		
Proceeds from share issuance	26,034,648	-
Offering costs	(1,308,496)	-
Borrowings under mortgage notes payable	31,900,000	41,964,045
Principal repayments on mortgage notes payable	(427,506)	(32,036)
Borrowings from line of credit	70,400,400	69,410,000
Repayments on line of credit	(78,300,400)	(45,600,000)
Principal repayments on employee loans	-	17,094
Payments for deferred financing costs	(1,699,798)	(1,595,299)
Dividends paid for common and preferred	(9,690,708)	(5,982,260)
	-----	-----
Net cash provided by financing activities	36,908,140	58,181,544
	-----	-----
Net decrease in cash and cash equivalents	(1,125,375)	(28,789,705)
Cash and cash equivalents, beginning of period	1,740,159	29,153,987
Cash and cash equivalents, end of period	\$ 614,784	\$ 364,282
	=====	=====
NON-CASH INVESTING ACTIVITIES		
Increase in asset retirement obligation	\$ 1,604,416	\$ -
	-----	-----
NON-CASH FINANCING ACTIVITIES		
Fixed rate debt assumed in connection with acquisitions	\$ 30,129,654	\$ -
	-----	-----
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	\$ 1,826,754	\$ 75,000
	-----	-----
Acquisition of building in satisfaction of mortgage note receivable	\$ 11,316,774	\$ -
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CONTACT: Gladstone Commercial Corp.  
Investor Relations:  
Kevin Cheetham, 703-287-5835