

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) February 27, 2007

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.)
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))

Item 2.02 Results of Operations and Financial Condition.

On February 27, 2007, Gladstone Commercial Corporation issued a press release announcing its financial results for the year ended December 31, 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 February 27, 2007

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.

February 27, 2007

Gladstone Commercial Corporation  
(Registrant)  
By: /s/ Harry Brill  
-----  
(Harry Brill, Chief Financial Officer)

EXHIBIT INDEX

Exhibit No.  
- - - - -

Description  
- - - - -

99.1

Press release dated February 27, 2007

## Gladstone Commercial Announces 2006 Year-End Results

- Reports net income available to common stockholders of approximately \$2.2 million or \$0.27 per diluted weighted average common share
- Reports funds from operations ("FFO") of approximately \$9.4 million or \$1.18 per diluted weighted average common share
- Purchased nine properties for a total investment of approximately \$78.5 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
- Acquired one property in satisfaction of a mortgage loan for approximately \$11.3 million

MCLEAN, Va.--(BUSINESS WIRE)--Feb. 27, 2007--Gladstone Commercial Corp. (NASDAQ:GOOD) (the "Company") today reported financial results for the year ended December 31, 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 year ended December 31, 2006 was \$2,185,938, or \$0.27 per share, compared to \$3,601,945, or \$0.47 per share, for the same period one year ago. Net income results when compared to the same period last year were affected 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 Company's 2003 Equity Incentive Plan, as amended (the "2003 Plan"), the write-off of deferred financing fees related to the termination of the line of credit with Branch Banking & Trust ("BB&T"), and dividends paid on the Company's preferred stock, partially offset by the gain on the sale of the two Canadian properties in July.

FFO for the year ended December 31, 2006 was \$9,428,822, or \$1.18 per share, compared to \$7,253,064, or \$0.94 per share, for the same period one year ago. FFO for the quarter ended December 31, 2006 was \$2,293,178, or \$0.28 per share, compared to \$2,326,026, or \$0.30 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 December 31, 2006	For the three months ended December 31, 2005	For the year ended December 31, 2006	For the year ended December 31, 2005
Net income	\$895,853	\$1,049,819	\$4,372,828	\$3,601,945
Less:				
Dividends attributable to preferred stock	(873,696)	-	(2,186,890)	-
Net income available to common stockholders	22,157	1,049,819	2,185,938	3,601,945
Add: Real estate depreciation and amortization, including discontinued operations	2,271,021	1,276,207	8,349,474	3,651,119
Less: Gain on sale of real estate, net of taxes paid	-	-	(1,106,590)	-

FFO available to common stockholders	\$2,293,178	\$2,326,026	\$9,428,822	\$7,253,064
Weighted average shares outstanding - basic	8,052,148	7,672,000	7,827,781	7,670,219
Weighted average shares outstanding - diluted	8,196,605	7,737,297	7,986,690	7,723,220
Basic net income per weighted average common share	\$0.00	\$0.14	\$0.28	\$0.47
Diluted net income per weighted average common share	\$0.00	\$0.14	\$0.27	\$0.47
Basic FFO per weighted average common share	\$0.28	\$0.30	\$1.20	\$0.95
Diluted FFO per weighted average common share	\$0.28	\$0.30	\$1.18	\$0.94

Year-end highlights:

- Purchased nine properties with an aggregate of approximately 979,000 square feet for an aggregate purchase price of approximately \$78.5 million;
- Sold two properties for a net gain on sale after taxes of approximately \$1.1 million; and
- Acquired one property 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. All outstanding stock options were exercised before December 31, 2006. The acceptance of the offer allowed 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 (the "Administration Agreement") between the Company and Gladstone Administration, LLC, a wholly-owned subsidiary of the Adviser. The Company terminated the 2003 Plan on December 31, 2006. Upon termination of the 2003 Plan, the Company implemented the Amended Advisory Agreement and Administration Agreement effective on January 1, 2007.

On December 29, 2006, the Company entered into a \$75 million senior revolving credit agreement with a syndicate of banks led by KeyBank National Association, which matures on December 29, 2009 with an option to extend for an additional year. The new revolving credit facility replaces a previous facility led by BB&T, which was terminated upon the closing of the new line.

"Our year end results were affected by several non-recurring items, including stock option expense associated with the amendment of options granted under the 2003 Plan and the write-off of deferred financing fees related to the termination of the line of credit with BB&T totaling approximately \$985,000 or \$0.12 per share," said Chip Stelljes, Executive Vice President and Chief Investment Officer. "These non-recurring expenses were positively offset by the nine properties acquired during the year, along with the sale of the two Canadian properties. We also 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. We believe the property dispositions, the successful leasing of the Michigan property, along with the acquisition of nine properties during the year will benefit our shareholders over the long term and will result in a stronger and more focused portfolio in 2007."

Subsequent to year end, the Company:

- Declared monthly cash dividends on common stock of \$0.12 per common share for each of the months of January, February and March 2007;
- Declared monthly cash dividends on Series A Cumulative Redeemable Preferred Stock of \$0.1614583 per share for the months of January, February and March 2007;
- Declared monthly cash dividends on Series B Cumulative Redeemable Preferred Stock of \$0.15625 per share for the months of January, February and March 2007; and
- Acquired two properties with an aggregate of 175,500 square feet for a purchase price of approximately \$15.7 million.

The financial statements attached below are without footnotes so readers should obtain and carefully review the Company's Form 10-K for the year ended December 31, 2006, including the footnotes to the financial statements contained therein. The Company has filed the Form 10-K today with the SEC and the Form 10-K 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, February 28, 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 March 28, 2007. To hear the replay, please dial (877) 660-6853, access playback account 286 and use ID code 230522.

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-K for the year ended December 31, 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, 2006, as filed with the Securities and Exchange Commission on February 27, 2007. The risk factors set forth in the Form 10-K for the year ended December 31, 2006 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

	December 31, 2006	December 31, 2005
	-----	-----
ASSETS		
Real estate, net of accumulated depreciation of \$8,595,419 and \$3,408,878, respectively	\$235,118,123	\$161,634,761
Lease intangibles, net of accumulated amortization of \$4,175,685 and \$1,221,413, respectively	23,416,696	13,947,484
Mortgage notes receivable	10,000,000	21,025,815
Cash and cash equivalents	36,005,686	1,740,159
Restricted cash	1,225,162	1,974,436
Funds held in escrow	1,635,819	1,041,292
Interest receivable - mortgage note	-	70,749
Interest receivable - employees	43,716	-
Deferred rent receivable	3,607,279	2,590,617
Deferred financing costs, net of accumulated amortization of \$1,467,297 and \$260,099, respectively	3,713,004	1,811,017
Prepaid expenses	521,290	385,043
Deposits on real estate	300,000	600,000
Accounts receivable	179,247	225,581
	-----	-----
TOTAL ASSETS	\$315,766,022	\$207,046,954
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES		
Mortgage notes payable	\$154,494,438	\$61,558,961
Borrowings under line of credit	-	43,560,000
Deferred rent liability	4,718,599	-
Asset retirement obligation liability	1,631,294	-
Accounts payable and accrued expenses	673,410	493,002
Due to adviser	183,042	164,155

Rent received in advance, security deposits and funds held in escrow	1,841,063	2,322,300
	-----	-----
Total Liabilities	163,541,846	108,098,418
	-----	-----
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 at December 31, 2006	2,150	-
Common stock, \$0.001 par value, 17,700,000 shares authorized and 8,565,264 and 7,672,000 shares issued and outstanding, respectively	8,565	7,672
Additional paid in capital	170,640,979	105,502,544
Notes receivable - employees	(3,201,322)	(432,282)
Distributions in excess of accumulated earnings	(15,226,196)	(6,129,398)
	-----	-----
Total Stockholders' Equity	152,224,176	98,948,536
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$315,766,022	\$207,046,954
	=====	=====

Gladstone Commercial Corporation  
Consolidated Statements of Operations

	For the year ended December 31,		
	2006	2005	2004
	-----	-----	-----
Operating revenues			
Rental income	\$23,964,035	\$10,853,903	\$3,210,142
Interest income from mortgage notes receivable	1,845,231	1,915,795	981,187
Tenant recovery revenue	136,280	111,808	-
	-----	-----	-----
Total operating revenues	25,945,546	12,881,506	4,191,329
	-----	-----	-----
Operating expenses			
Depreciation and amortization	8,297,174	3,521,128	946,971
Management advisory fee	2,902,053	2,118,040	1,187,776
Professional fees	953,066	563,205	448,969
Taxes and licenses	193,032	242,803	13,603
Insurance	417,909	274,166	250,816
General and administrative	469,260	249,791	276,192
Shareholder related expenses	311,049	215,907	152,408
Asset retirement obligation expense	129,142	-	-
Stock option compensation expense	394,411	-	-
	-----	-----	-----
Total operating expenses	14,067,096	7,185,040	3,276,735
	-----	-----	-----
Other income (expense)			
Interest income from temporary investments	76,772	126,826	608,617
Interest income - employee loans	125,788	21,041	6,042
Other income	380,915	-	-
Interest expense	(9,104,894)	(2,333,376)	-
	-----	-----	-----
Total other income (expense)	(8,521,419)	(2,185,509)	614,659
	-----	-----	-----
Income from continuing operations	3,357,031	3,510,957	1,529,253
	-----	-----	-----
Discontinued operations			
Income from discontinued operations	112,145	309,545	94,675
Net realized loss from foreign currency			

transactions	(202,938)	(6,278)	-
Net unrealized loss from foreign currency transactions	-	(212,279)	-
Gain on sale of real estate	1,422,026	-	-
Taxes on sale of real estate	(315,436)	-	-
	-----	-----	-----
Total discontinued operations	1,015,797	90,988	94,675
	-----	-----	-----
Net income	4,372,828	3,601,945	1,623,928
	-----	-----	-----
Dividends attributable to preferred stock	(2,186,890)	-	-
	-----	-----	-----
Net income available to common stockholders	\$2,185,938	\$3,601,945	\$1,623,928
	=====	=====	=====
Earnings per weighted average common share - basic			
Income from continuing operations (net of dividends attributable to preferred stock)	\$0.15	\$0.46	\$0.20
Discontinued operations	0.13	0.01	0.01
	-----	-----	-----
Net income available to common stockholders	\$0.28	\$0.47	\$0.21
	=====	=====	=====
Earnings per weighted average common share - diluted			
Income from continuing operations (net of dividends attributable to preferred stock)	\$0.14	\$0.46	\$0.20
Discontinued operations	0.13	0.01	0.01
	-----	-----	-----
Net income available to common stockholders	\$0.27	\$0.47	\$0.21
	=====	=====	=====
Weighted average shares outstanding			
Basic	7,827,781	7,670,219	7,649,855
	=====	=====	=====
Diluted	7,986,690	7,723,220	7,708,534
	=====	=====	=====

Gladstone Commercial Corporation  
Consolidated Statements of Cash Flows

For the year ended December 31,

	----- 2006	2005	2004 -----
Cash flows from operating activities:			
Net income	\$4,372,828	\$3,601,945	\$1,623,928
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization, including discontinued operations	8,349,474	3,651,119	973,345
Amortization of deferred financing costs, including discontinued operations	1,207,198	260,099	-
Amortization of deferred rent asset	253,496	178,070	-
Amortization of deferred rent liability	(696,261)	-	-
Asset retirement obligation expense,			



including discontinued operations	139,074	-	-
Increase in deferred rent receivable	(1,270,159)	(562,133)	(210,846)
Stock compensation	394,411	-	-
Increase in mortgage notes payable due to change in value of foreign currency	202,066	209,395	-
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	(5,954)	(64,795)
(Increase) decrease in employee interest receivable	(43,716)	4,792	(4,792)
Increase in prepaid expenses and other assets	(89,913)	(425,120)	5,928
Increase in accounts payable, accrued expenses, and amount due adviser	196,294	359,537	63,325
Increase in rent received in advance and security deposits	695,988	488,913	214,066
	-----	-----	-----
Net cash provided by operating activities	12,023,802	7,760,663	2,600,159
	-----	-----	-----

Cash flows from investing activities:

Real estate investments	(48,339,307)	(117,531,731)	(58,875,648)
Proceeds from sales of real estate	2,102,567	-	-
Issuance of mortgage note receivable	-	(10,000,000)	(11,170,000)
Principal repayments on mortgage notes receivable	44,742	81,902	62,283
Net payments to lenders for reserves held in escrow	(3,346,216)	(1,041,292)	-
Increase in reserves from tenants	1,574,464	158,646	-
Deposits on future acquisitions	(900,000)	(2,686,000)	(775,000)
Deposits applied against real estate investments	1,200,000	1,986,000	725,000
Refunds of deposits on real estate	-	150,000	-
	-----	-----	-----
Net cash used in investing activities	(47,663,750)	(128,882,475)	(70,033,365)
	-----	-----	-----

Cash flows from financing activities:

Proceeds from share issuance	65,089,026	-	-
Redemption of shares for payment of taxes	(457,634)	-	-
Offering costs	(2,654,279)	-	(7,730)
Borrowings under mortgage notes payable	68,055,000	61,419,179	-
Principal repayments on mortgage notes payable	(604,318)	(70,479)	-
Borrowings from line of credit	71,400,400	85,460,000	-
Repayments on line of credit	(114,960,400)	(41,900,000)	-
Increase (decrease) in restricted cash	749,274	(513,761)	-
Principal repayments on employee loans	914	17,718	-
Payments for deferred financing costs	(3,242,881)	(2,021,115)	(50,000)
Dividends paid for common			

and preferred	(13,469,627)	(8,283,860)	(2,830,540)
Net cash provided by (used in) financing activities	69,905,475	94,107,682	(2,888,270)
Net increase (decrease) in cash and cash equivalents	34,265,527	(27,014,130)	(70,321,476)
Cash and cash equivalents, beginning of period	1,740,159	28,754,289	99,075,765
Cash and cash equivalents, end of period	\$36,005,686	\$1,740,159	\$28,754,289
Cash paid during period for interest	\$8,045,342	\$2,014,236	\$-
NON-CASH INVESTING ACTIVITIES			
Increase in asset retirement obligation	\$1,631,294	\$-	\$-
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	\$2,769,954	\$75,000	\$375,000
Acquisition of building in satisfaction of mortgage note receivable	\$11,316,774	\$-	\$-

CONTACT: Gladstone Commercial Corp.  
Robert Johnson, 703-287-5835