GLADSTONE COMMERCIAL CORP
Form 10-Q
October 27, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

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 100	
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 x 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 x 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 x
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 x

The number of shares of the registrant s Common Stock, $0.001 par value, outstanding as of October 27, 2015 was 22,065,674.

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GLADSTONE COMMERCIAL CORPORATION

FORM 10-Q FOR THE QUARTER ENDED

SEPTEMBER 30, 2015

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Gladstone Commercial Corporation

Condensed Consolidated Balance Sheets

(Dollars in Thousands, Except Share and Per Share Data)

(Unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
Real estate, at cost	$ 761,458	$ 722,565
Less: accumulated depreciation	104,877	92,133
Total real estate, net	656,581	630,432
Lease intangibles, net	105,963	98,814
Real estate and related assets held for sale, net	16,832	
Mortgage note receivable	5,900	5,600
Cash and cash equivalents	3,730	8,599
Restricted cash	4,761	3,547
Funds held in escrow	10,936	11,096
Deferred rent receivable, net	25,098	21,728
Deferred financing costs, net	6,011	6,213
Other assets	2,671	1,765
TOTAL ASSETS	$ 838,483	$ 787,794
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES		
Mortgage notes payable	$ 482,912	$ 459,299
Borrowings under line of credit	55,500	43,300
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 September 30, 2015 and December 31, 2014, respectively	38,500	38,500
Deferred rent liability, net	9,014	8,594
Asset retirement obligation	3,542	3,616
Accounts payable and accrued expenses	7,820	8,285
Liabilities related to assets held for sale	1,304	
Due to Adviser and Administrator [(1)]	1,820	916
Other liabilities	7,644	7,612
Total Liabilities	$ 608,056	$ 570,122

Commitments and contingencies [2]				
STOCKHOLDERS EQUITY				
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 September 30, 2015 and December 31, 2014, respectively	$	2	$	2
Senior common stock, par value $0.001 per share; 7,500,000 shares authorized and 993,069 and 809,411 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively		1		1
Common stock, par value $0.001 per share, 38,500,000 shares authorized and 21,743,779 and 19,589,606 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively		22		20
Additional paid in capital		408,401		369,748
Notes receivable - employee				(375)
Distributions in excess of accumulated earnings		(177,999)		(151,724)
Total Stockholders Equity		230,427		217,672
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	838,483	$	787,794

(1) Refer to Note 2 Related-Party Transactions

(2) Refer to Note 9 Commitments and Contingencies

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

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Gladstone Commercial Corporation

Condensed Consolidated Statements of Operations

(Dollars in Thousands, Except Share and Per Share Data)

(Unaudited)

	For the three months ended September 30, 2015	For the three months ended September 30, 2014	For the nine months ended September 30, 2015	For the nine months ended September 30, 2014
Operating revenues				
Rental revenue	$ 20,653	$ 18,368	$ 59,953	$ 52,573
Tenant recovery revenue	437	549	1,195	1,870
Interest income from mortgage note receivable	285	97	835	97
Total operating revenues	21,375	19,014	61,983	54,540
Operating expenses				
Depreciation and amortization	9,006	7,516	26,160	21,107
Property operating expenses	1,612	1,202	3,752	3,834
Acquisition related expenses	138	233	589	1,202
Base management fee (1)	872	741	2,589	2,031
Incentive fee (1)	621	1,538	4,054	4,305
Administration fee (1)	326	260	1,054	1,238
General and administrative	446	538	1,675	1,495
Impairment charge	622	280	622	14,238
Total operating expenses before credit to incentive fee	13,643	12,308	40,495	49,450
Credit to incentive fee (1)		(851)	(2,500)	(3,013)
Total operating expenses	13,643	11,457	37,995	46,437
Other expense				
Interest expense	(7,142)	(6,679)	(20,912)	(19,463)
Distributions attributable to Series C mandatorily redeemable preferred stock	(686)	(686)	(2,057)	(2,057)
Gain on sale of real estate				1,240
Other income		37	11	111
Total other expense	(7,828)	(7,328)	(22,958)	(20,169)
Net (loss) income	(96)	229	1,030	(12,066)

Distributions attributable to Series A and B preferred stock		(1,023)		(1,023)		(3,070)		(3,070)
Distributions attributable to senior common stock		(263)		(137)		(748)		(347)
Net loss attributable to common stockholders	$	(1,382)	$	(931)	$	(2,788)	$	(15,483)
Loss per weighted average share of common stock - basic & diluted								
Loss attributable to common shareholders	$	(0.06)	$	(0.05)	$	(0.13)	$	(0.93)
Weighted average shares of common stock outstanding								
Basic		21,403,808		17,739,084		20,820,559		16,685,162
Diluted		21,403,808		17,739,084		20,820,559		16,685,162
Earnings per weighted average share of senior common stock	$	0.26	$	0.26	$	0.79	$	0.79
Weighted average shares of senior common stock outstanding - basic		993,069		518,592		948,347		438,196

(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 nine months ended September 30, 2015	2014
Cash flows from operating activities:		
Net income (loss)	$ 1,030	$ (12,066)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	26,160	21,107
Impairment charge	622	14,238
Gain on sale of real estate		(1,240)
Amortization of deferred financing costs	1,358	1,209
Amortization of deferred rent asset and liability, net	(394)	(266)
Amortization of discount and premium on assumed debt	(231)	(190)
Asset retirement obligation expense	114	(96)
Increase in other assets	(946)	(322)
Increase in deferred rent liability		311
Increase in deferred rent receivable	(3,034)	(2,808)
Increase (decrease) in accounts payable, accrued expenses, and amount due Adviser and Administrator	1,045	(538)
(Decrease) increase in other liabilities	(315)	238
Leasing commissions paid	(532)	(898)
Net cash provided by operating activities	24,877	18,679
Cash flows from investing activities:		
Acquisition of real estate and related intangible assets	(71,248)	(83,564)
Improvements of existing real estate	(4,969)	(5,416)
Proceeds from sale of real estate		11,162
Issuance of mortgage note receivable	(300)	(5,600)
Receipts from lenders for funds held in escrow	2,952	1,670
Payments to lenders for funds held in escrow	(2,792)	(6,394)
Receipts from tenants for reserves	3,068	2,484
Payments to tenants from reserves	(1,992)	(3,892)
(Increase) decrease in restricted cash	(1,214)	1,510
Deposits on future acquisitions	(1,700)	(2,000)
Deposits applied against acquisition of real estate investments	1,700	2,000
Net cash used in investing activities	(76,495)	(88,040)

Cash flows from financing activities:				
Proceeds from issuance of equity		39,495		42,636
Offering costs paid		(892)		(2,443)
Borrowings under mortgage notes payable		61,059		33,635
Payments for deferred financing costs		(1,157)		(711)
Principal repayments on mortgage notes payable		(37,216)		(6,085)
Principal repayments on employee notes receivable		375		
Borrowings from line of credit		73,200		67,250
Repayments on line of credit		(61,000)		(46,050)
Increase (decrease) in security deposits		138		(103)
Distributions paid for common, senior common and preferred stock		(27,253)		(22,077)
Net cash provided by financing activities		46,749		66,052
Net decrease in cash and cash equivalents		(4,869)		(3,309)
Cash and cash equivalents, beginning of period		8,599		8,546
Cash and cash equivalents, end of period	$	3,730	$	5,237
NON-CASH INVESTING AND FINANCING INFORMATION				
Increase in asset retirement obligation	$	56	$	162
Fixed rate principal debt assumed in connection with acquisition	$		$	10,147
Senior common dividend issued in the dividend reinvestment program	$	53	$	142
Capital improvements included in accounts payable and accrued expenses	$	4,954	$	5,774

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

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Gladstone Commercial Corporation

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Organization, Basis of Presentation and Significant Accounting Policies

Gladstone Commercial Corporation is a real estate investment trust, or REIT, that was incorporated under the General Corporation Laws of the State of Maryland on February 14, 2003, primarily for the purpose of investing in and owning net leased industrial, commercial and retail real property and selectively making long-term industrial and commercial mortgage loans. Subject to certain restrictions and limitations, our business is managed by Gladstone Management Corporation, a Delaware corporation, or the Adviser, and administrative services are provided by Gladstone Administration, LLC, a Delaware limited liability company, or the Administrator, each pursuant to a contractual arrangement with us. Our Adviser and Administrator collectively employ all of our personnel and pay their salaries, benefits, and general expenses directly. Gladstone Commercial Corporation conducts substantially all of its operations through a subsidiary, Gladstone Commercial Limited Partnership, a Delaware limited partnership, or the Operating Partnership.

All further references herein to we, our, us and the Company mean Gladstone Commercial Corporation and its consolidated subsidiaries, except where it is made clear that the term means only Gladstone Commercial Corporation.

Interim Financial Information

Our interim financial statements are prepared in accordance with U.S. generally accepted accounting principles, or GAAP, for interim financial information and pursuant to the requirements for reporting on Form 10-Q and in accordance with Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. The year-end balance sheet data presented herein was derived from audited financial statements, but does not include all disclosures required by GAAP. In the opinion of our management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair presentation of financial statements for the interim period, have been included. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the U.S. Securities and Exchange Commission on February 18, 2015. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for other interim periods or for the full fiscal year.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could materially differ from those estimates.

Critical Accounting Policies

The preparation of our financial statements in accordance with GAAP requires management to make judgments that are subjective in nature to make certain estimates and assumptions. Application of these accounting policies involves the exercise of judgment regarding the use of assumptions as to future uncertainties, and as a result, actual results could differ materially from these estimates. A summary of all of our significant accounting policies is provided in Note 1 to our condensed consolidated financial statements included in our 2014 Form 10-K. There were no material changes to our critical accounting policies during the nine months ended September 30, 2015.

Recently Issued Accounting Pronouncements

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis (ASU-2015-02), which amends or supersedes the scope and consolidation guidance under existing GAAP. The new standard changes the way a reporting entity evaluates whether a) limited partnerships and similar entities should be consolidated, b) fees paid to decision makers or service provides are variable interests in a variable interest entity, or VIE, and c) variable interests in a VIE held by related parties require the reporting entity to consolidate the VIE. ASU 2015-02 also eliminates the VIE consolidation model based on majority exposure to variability that applied to certain investment companies and similar entities. We do not anticipate a material impact on our financial position, results of operations or cash flows from adopting this standard. ASU 2015-02 is effective for annual and interim reporting periods beginning after December 15, 2015, with early adoption permitted.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs (ASU-2015-03), which simplifies the presentation of debt issuance costs. We do not anticipate a material impact on our financial position, results of operations or cash flows from adopting this standard. ASU 2015-03 is effective for annual and interim reporting periods beginning after December 15, 2015 with early adoption permitted.

In August 2015, the FASB issued ASU 2015-15, Interest Imputation of Interest (Subtopic 835-30) (ASU 2015-15), which codifies an SEC staff announcement that entities are permitted to defer and present debt issuance costs related to line of credit arrangements as assets. We have assessed the impact of ASU 2015-15 and identified no impact on our financial position, results of operations or cash flows from adopting this standard. ASU 2015-15 was effective immediately.

In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments (ASU 2015-16), pertaining to entities that have reported provisional amounts for items in a business combination for which the accounting is incomplete by the end of the reporting period in which the combination occurs and during the measurement period have an adjustment to provisional amounts recognized. The guidance requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. Any adjustments should be calculated as if the accounting had been completed at the acquisition date. We are currently assessing the impact of ASU 2015-16 do not anticipate a material impact on our financial position, results of operations or cash flows from adopting this standard. ASU 2015-16 is effective for annual and interim periods beginning after December 15, 2015 with early adoption permitted.

2. Related-Party Transactions

Gladstone Management and Gladstone Administration

We are externally managed pursuant to contractual arrangements with our Adviser and our Administrator, which collectively employ all of our personnel and pay their salaries, benefits, and general expenses directly. Both our Adviser and Administrator are affiliates of ours, as their parent company is controlled by Mr. David Gladstone, our chairman and chief executive officer. We have an advisory agreement with our Adviser, and an administration agreement with our Administrator, or the Administration Agreement. The services and fees under the advisory agreement and Administration Agreement are described below. At September 30, 2015 and December 31, 2014, $1.8 million and $0.9 million, respectively, was collectively due to our Adviser and Administrator.

Base Management Fee

On July 24, 2015, we entered into an amended and restated advisory agreement, or the Amended Advisory Agreement, with the Adviser. Our entrance into the agreement was approved unanimously by our Board of Directors, including separate and unanimous approval by the independent directors on our Board of Directors.

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Pursuant to the terms of the Amended Advisory Agreement, effective July 1, 2015, the calculation of the annual base management fee equals 1.5% of our adjusted total stockholders equity, which is our total stockholders equity (before giving effect to the base management fee and incentive fee), adjusted to exclude the effect of any unrealized gains or losses that do not affect realized net income (including impairment charges) and adjusted for any one-time events and certain non-cash items (the later to occur for a given quarter only upon the approval of our Compensation Committee). The fee is calculated and accrued quarterly as 0.375% per quarter of such adjusted total stockholders equity figure.

Prior to its amendment and restatement on July 24, 2015, our then-existing advisory agreement with the Adviser, or the Former Advisory Agreement, provided for an annual base management fee equal to 2.0% of our common stockholders equity, which was our total stockholders equity, less the recorded value of any preferred stock and adjusted to exclude the effect of any unrealized gains, losses, or other items that did not affect realized net income (including impairment charges).

For the three and nine months ended September 30, 2015, we recorded a base management fee of $0.9 million and $2.6 million, respectively, and for the three and nine months ended September 30, 2014, we recorded a base management fee of $0.7 million and $2.0 million, respectively.

Incentive Fee

Under the Amended Advisory Agreement, effective July 1, 2015, the calculation of the incentive fee was revised to reward the Adviser in circumstances where our quarterly Core FFO (defined at the end of this paragraph), before giving effect to any incentive fee, or pre-incentive fee Core FFO, exceeds 2.0% quarterly, or 8.0% annualized, of adjusted total stockholders equity (after giving effect to the base management fee but before giving effect to the incentive fee). We refer to this as the new hurdle rate. The Adviser will receive 15.0% of the amount of our pre-incentive fee Core FFO that exceeds the new hurdle rate. However, in no event shall the incentive fee for a particular quarter exceed by 15.0% (the cap) the average quarterly incentive fee paid by us for the previous four quarters (excluding quarters for which no incentive fee was paid). Core FFO is defined as GAAP net income (loss) available to common stockholders, excluding the incentive fee, depreciation and amortization, any realized and unrealized gains, losses or other non-cash items recorded in net income (loss) available to common stockholders for the period, and one-time events pursuant to changes in GAAP.

The incentive fee under the Former Advisory Agreement rewarded the Adviser in circumstances where our quarterly FFO, before giving effect to any incentive fee, or pre-incentive fee FFO, exceeded 1.75%, or 7.0% annualized, or the hurdle rate, of common stockholders equity. Funds from operations, or FFO, included any realized capital gains and capital losses, less any distributions paid on preferred stock and Senior Common Stock, but FFO did not include any unrealized capital gains or losses (including impairment charges). The Adviser received 100.0% of the amount of the pre-incentive fee FFO that exceeded the hurdle rate, but was less than 2.1875% of our common stockholders equity. The Adviser also received an incentive fee of 20.0% of the amount of our pre-incentive fee FFO that exceeded 2.1875% of common stockholders equity.

For the three and nine months ended September 30, 2015, we recorded an incentive fee of $0.6 million and $4.1 million, respectively, offset by credits related to unconditional, voluntary and irrevocable waivers issued by the Adviser of $0.00 and $2.5 million, respectively, resulting in a net incentive fee for the three and nine months ended September 30, 2015, of $0.6 million and $1.6 million, respectively. For the three and nine months ended September 30, 2014, we recorded an incentive fee of $1.5 million and $4.3 million, respectively, offset by credits related to unconditional, voluntary and irrevocable waivers issued by the Adviser of $0.8 million and $3.0 million, respectively, resulting in a net incentive fee for the three and nine months ended September 30, 2014, of $0.7 million and $1.3 million, respectively. Our Board of Directors accepted the Adviser s offer to waive, on a quarterly basis, a portion of the incentive fee for the six months covering January 1, 2015 through June 30, 2015, and for the three and nine months ended September 30, 2014, in order to support the current level of distributions to our stockholders. Due to the Amended Advisory agreement, the Advisor did not waive any portion of the incentive fee for the three months ended September 30, 2015. Waivers cannot be recouped by the Adviser in the future.

Capital Gain Fee

Under the Amended Advisory Agreement, effective July 1, 2015, we will pay to the Adviser a capital gains-based incentive fee that will be calculated and payable in arrears as of the end of each fiscal year (or upon termination of the agreement). In determining the capital gain fee, we will calculate aggregate realized capital gains and aggregate realized capital losses for the applicable time period. For this purpose, aggregate realized capital gains and losses, if any, equals the realized gain or loss calculated by the difference between the sales price of the property, less any costs to sell the property and the current gross value of the property (which is calculated as the original acquisition price plus any subsequent non-reimbursed capital improvements). At the end of the fiscal year, if this number is positive, then the capital gain fee payable for such time period shall equal 15.0% of such amount. We did not incur a capital gain fee for the three and nine months ended September 30, 2015.

Termination Fee

The Amended Advisory Agreement includes a termination fee whereby, in the event of our termination of the agreement without cause (with 120 days prior written notice and the vote of at least two-thirds of our independent directors), a termination fee would be payable to the Adviser equal to two times the sum of the average annual base management fee and incentive fee earned by the Adviser during the 24-month period prior to such termination. A termination fee is also payable if the Adviser terminates the agreement after the Company has defaulted and applicable cure periods have expired. The agreement may also be terminated for cause by us (with 30 days prior written notice and the vote of at least two-thirds of our independent directors), with no termination fee payable. Cause is defined in the agreement to include if the Adviser breaches any material provisions of the agreement, the bankruptcy or insolvency of the Adviser, dissolution of the Adviser and fraud or misappropriation of funds.

Administration Agreement

Pursuant to the Administration Agreement, we pay for our allocable portion of the Administrator s expenses in performing services to us, including, but not limited to, rent and the salaries and benefits of its personnel, including our chief financial officer, treasurer, chief compliance officer, general counsel and secretary (who also serves as our Administrator s president), and their respective staffs. Prior to July 1, 2014, our allocable portion was generally derived by multiplying that portion of the Administrator s expenses allocable to all funds managed by the Adviser by the percentage of our total assets at the beginning of each quarter in comparison to the total assets of all funds managed by the Adviser. As approved by our Board of Directors, effective July 1, 2014, our allocable portion of the Administrator s expenses is derived by multiplying our Administrator s total expenses by the approximate percentage of time the Administrator s employees perform services for us in relation to their time spent performing services for all companies serviced by our Administrator under contractual agreements. For the three and nine months ended September 30, 2015, we recorded an administration fee of $0.3 million and $1.1 million, respectively, and for the three and nine months ended September 30, 2014, we recorded an administration fee of $0.3 million and $1.2 million, respectively.

Gladstone Securities

Gladstone Securities, LLC, or Gladstone Securities, is a privately held broker dealer registered with the Financial Industry Regulatory Authority and insured by the Securities Investor Protection Corporation. Gladstone Securities is an affiliate of ours, as its parent company is controlled by Mr. David Gladstone, our chairman and chief executive officer. Mr. Gladstone also serves on the board of managers of Gladstone Securities.

Dealer Manager Agreement

In connection with the offering of our Senior Common Stock (see Note 10, Stockholders Equity, for further details) we entered into a Dealer Manager Agreement, dated March 25, 2011, or the Dealer Manager Agreement, with Gladstone Securities pursuant to which Gladstone Securities agreed to act as our exclusive dealer manager in connection with the offering. The Dealer Manager Agreement terminated

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according to its terms on March 28, 2015, requiring us to write-off $0.1 million of deferred offering costs to general and administrative expense. Pursuant to the terms of the Dealer Manager Agreement, Gladstone Securities was entitled to receive a sales commission in the amount of 7.0% of the gross proceeds of the shares of Senior Common Stock sold, plus a dealer manager fee in the amount of 3.0% of the gross proceeds of the shares of Senior Common Stock sold. In addition, we agreed to indemnify Gladstone Securities against various liabilities, including certain liabilities arising under the federal securities laws. We made approximately $0.3 million of payments during the three months ended March 31, 2015 and we made approximately $0.3 million and $0.4 million of payments during the three and nine months ended September 30, 2014, respectively, to Gladstone Securities pursuant to this agreement. All such payments are reflected as a component of Senior Common Stock costs as reflected in footnote 10.

Mortgage Financing Arrangement Agreement

We also entered into an agreement with Gladstone Securities, effective June 18, 2013, for it to act as our non-exclusive agent to assist us with arranging mortgage financing for properties we own. In connection with this engagement, Gladstone Securities may from time to time solicit the interest of various commercial real estate lenders or recommend to us third party lenders offering credit products or packages that are responsive to our needs. We pay Gladstone Securities a financing fee in connection with the services it provides to us for securing mortgage financing on any of our properties. The amount of these financing fees, which are payable upon closing of the financing, are based on a percentage of the amount of the mortgage, generally ranging from 0.15% to a maximum of 1.0% of the mortgage obtained. The amount of the financing fees may be reduced or eliminated, as determined by us and Gladstone Securities, after taking into consideration various factors, including, but not limited to, the involvement of any third party brokers and market conditions. We paid financing fees to Gladstone Securities of $0.02 million and $0.2 million during the three and nine months ended September 30, 2015, which are reflected as deferred financing costs in the condensed consolidated balance sheets, on total mortgages secured of $9.2 million and $64.3 million, or 0.3% of total mortgages secured. We paid financing fees of $0.02 million and $0.1 million during the three and nine months ended September 30, 2014, on total mortgages secured of $6.1 million and $33.6 million, or 0.3% of total mortgages secured. The agreement is scheduled to terminate on August 31, 2016, unless renewed or earlier terminated pursuant to the provisions contained therein.

3. Loss per Share of Common Stock

The following tables set forth the computation of basic and diluted loss per share of common stock for each of the three and nine months ended September 30, 2015 and 2014, respectively. We computed basic loss per share for the three and nine months ended September 30, 2015 and 2014, respectively, using the weighted average number of shares outstanding during the periods. Diluted loss per share for the three and nine months ended September 30, 2015 and 2014, reflects additional shares of common stock related to our convertible Senior Common Stock (if the effect would be dilutive), that would have been outstanding if dilutive potential shares of common stock had been issued, as well as an adjustment to net income available to common stockholders as applicable to common stockholders that would result from their assumed issuance (dollars in thousands, except per share amounts).

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	For the three months ended September 30, 2015	2014	For the nine months ended September 30, 2015	2014
Calculation of basic loss per share of common stock:				
Net loss attributable to common stockholders	$ (1,382)	$ (931)	$ (2,788)	$ (15,483)
Denominator for basic weighted average shares of common stock	21,403,808	17,739,084	20,820,559	16,685,162
Basic loss per share of common stock	$ (0.06)	$ (0.05)	$ (0.13)	$ (0.93)
Calculation of diluted loss per share of common stock:				
Net loss attributable to common stockholders	$ (1,382)	$ (931)	$ (2,788)	$ (15,483)
Net loss attributable to common stockholders plus assumed conversions (1)	$ (1,382)	$ (931)	$ (2,788)	$ (15,483)
Denominator for basic weighted average shares of common stock	21,403,808	17,739,084	20,820,559	16,685,162
Denominator for diluted weighted average shares of common stock (1)	21,403,808	17,739,084	20,820,559	16,685,162
Diluted loss per share of common stock	$ (0.06)	$ (0.05)	$ (0.13)	$ (0.93)

(1) We excluded convertible shares of Senior Common Stock of 828,444 and 791,582 from the calculation of diluted earnings per share for the three and nine months ended September 30, 2015, respectively, because it was anti-dilutive. We also excluded 429,673 and 362,162 shares of convertible Senior Common Stock from the calculation of diluted earnings per share for the three and nine months ended September 30, 2014, respectively, because it was anti-dilutive.

4. Real Estate and Intangible Assets

Real Estate

The following table sets forth the components of our investments in real estate as of September 30, 2015 and December 31, 2014 (dollars in thousands):

	September 30, 2015 (1)	December 31, 2014
Real estate:		
Land	$ 93,265	$ 88,394
Building and improvements	620,794	593,155

Tenant improvements		47,399		41,016
Accumulated depreciation		(104,877)		(92,133)
Real estate, net	$	656,581	$	630,432

(1) Does not include real estate held for sale as of September 30, 2015.

Real estate depreciation expense on the building and tenant improvement assets were $5.7 million and $16.4 million for the three and nine months ended September 30, 2015, respectively, and $4.9 million and $13.8 million for the three and nine months ended September 30, 2014, respectively.

2015 Real Estate Activity

During the nine months ended September 30, 2015, we acquired five properties, which are summarized below (dollars in thousands):

Location	Acquisition Date	Square Footage (unaudited)	Lease Term	Renewal Options	Total Purchase Price	Acquisition Expenses	Annualized GAAP Rent	Debt Issued
Richardson, TX (1)	3/6/2015	155,984	9.5 Years	2 (5 years each)	$ 24,700	$ 108	$ 2,708	$ 14,573
Birmingham, AL	3/20/2015	30,850	8.5 Years	1 (5 years)	3,648	76	333	N/A
Columbus, OH	5/28/2015	78,033	15.0 Years	2 (5 years each)	7,700	72	637	4,466
Salt Lake City, UT (1)	5/29/2015	86,409	6.5 Years	1 (5 years)	22,200	149	2,411	13,000
Atlanta, GA (2)	7/15/2015	78,151	Multiple (2)	2 (5 years)	13,000	109	1,291	7,540
Total		429,427			$ 71,248	$ 514	$ 7,380	$ 39,579

(1) The tenant occupying this property is subject to a gross lease.

(2) This building is 100% leased to one tenant through two leases. 30% of this space is leased for 15 years, while the remaining space is leased for 7 years.

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In accordance with Accounting Standards Codification, or ASC, 805, Business Combinations, we determined the fair value of the acquired assets related to the five properties acquired during the nine months ended September 30, 2015, as follows (dollars in thousands):

	Land	Building	Tenant Improvements	In-place Leases	Leasing Costs	Customer Relationships	Above Market Leases	Below Market Leases	Total Purchase Price
Richardson, TX	$ 2,709	$ 12,503	$ 2,761	$ 2,046	$ 1,791	$ 1,915	$ 975	$	$ 24,700
Birmingham, AL	650	1,683	351	458	146	360			3,648
Columbus, OH	1,338	3,511	1,547	1,144	672	567		(1,079)	7,700
Salt Lake City, UT	3,248	11,861	1,268	2,396	981	1,678	821	(53)	22,200
Atlanta, GA	2,271	7,862	916	750	548	723	44	(114)	13,000
	$ 10,216	$ 37,420	$ 6,843	$ 6,794	$ 4,138	$ 5,243	$ 1,840	$ (1,246)	$ 71,248

Below is a summary of the total revenue and earnings recognized on the five properties acquired during the nine months ended September 30, 2015 (dollars in thousands):

		For the three months ended September 30, 2015		For the nine months ended September 30, 2015	
Location	Acquisition Date	Rental Revenue	Earnings (1)	Rental Revenue	Earnings (1)
Richardson, TX	3/6/2015	$ 656	$ 96	$ 1,496	$ 423
Birmingham, AL	3/20/2015	83	(22)	177	84
Columbus, OH	5/28/2015	177	18	244	166
Salt Lake City, UT	5/29/2015	572	163	780	441
Atlanta, GA	7/15/2015	274	214	274	214
		$ 1,762	$ 469	$ 2,971	$ 1,328

(1) Earnings is calculated as net income exclusive of both interest expense and acquisition related costs that are required to be expensed under ASC 805.

Pro Forma

The following table reflects pro-forma consolidated statements of operations as if the properties acquired during the three and nine months ended September 30, 2015 and the twelve months ended December 31, 2014, respectively were acquired as of January 1, 2014. The pro-forma earnings for the three and nine months ended September 30, 2015 and 2014 were adjusted to assume that acquisition-related costs were incurred as of the previous period (dollars in thousands, except per share amounts):

	For the three months ended September 30, (unaudited)		For the nine months ended September 30, (unaudited)	
	2015	2014	2015	2014
Operating Data:				
Total operating revenue	$ 21,402	$ 21,624	$ 64,059	$ 65,425
Total operating expenses	(13,539)	(13,222)	(38,651)	(53,311)
Other expenses	(7,820)	(8,029)	(23,485)	(23,120)[1]
Net income (loss)	43	373	1,923	(11,006)
Dividends attributable to preferred and senior common stock	(1,286)	(1,160)	(3,818)	(3,417)
Net loss attributable to common stockholders	$ (1,243)	$ (787)	$ (1,895)	$ (14,423)
Share and Per Share Data:				
Basic (loss) earnings per share of common stock - pro forma	$ (0.06)	$ (0.04)	$ (0.09)	$ (0.86)
Diluted (loss) earnings per share of common stock - pro forma	$ (0.06)	$ (0.04)	$ (0.09)	$ (0.86)
Basic (loss) earnings per share of common stock - actual	$ (0.06)	$ (0.05)	$ (0.13)	$ (0.93)
Diluted (loss) earnings per share of common stock - actual	$ (0.06)	$ (0.05)	$ (0.13)	$ (0.93)
Weighted average shares outstanding-basic	21,403,808	17,739,084	20,820,559	16,685,162
Weighted average shares outstanding-diluted	21,403,808	17,739,084	20,820,559	16,685,162

(1) $14.0 million of other expenses relates to the impairment charge recorded in operating expenses during the nine months ended September 30, 2014.

Significant Real Estate Activity on Existing Assets

On July 13, 2015 we executed a lease with a new tenant in our Raleigh, North Carolina property to occupy 86,886 square feet, representing 75.0% of the total square footage. The current tenant retained 18.0% of the space. Therefore, the building is approximately 93.0% occupied. The lease commenced on August 1, 2015 and will expire on December 31, 2027. The new lease provides for prescribed rent escalations over its life, with annualized straight line rents of approximately $0.5 million. The lease grants the tenant two extension options for an additional five years each. In connection with the execution of the lease, we provided $0.8 million in tenant improvements and $0.4 million in leasing commissions.

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On August 28, 2015 we modified a lease with one of our tenants in our multi-tenant Indianapolis, Indiana property. The tenant, which previously occupied 4,512 square feet, increased its square footage to 6,903 square feet and extended their lease term an additional 3 years through September 2021. The original lease term would have expired in October 2018. This lease contains prescribed rent escalations over its life with annualized straight line rents of approximately $0.1 million, a $0.03 million increase over the previous lease. In connection with the extension of the lease and modification of certain of its terms, we provided $0.06 million in tenant improvements.

On September 18, 2015 we executed a lease with a tenant to occupy a portion of our previously vacant property located in Baytown, Texas. The lease is for 57.0% of the building, and is for a seven year term. The lease provides for prescribed rent escalations over its life, with annualized straight line rents of approximately $0.13 million. The tenant has two options to renew the lease for an additional period of five years each. In connection with the execution of the lease, we provided $0.2 million in tenant improvements and $0.06 million in leasing commissions.

2014 Real Estate Activity

During the nine months ended September 30, 2014, we acquired eight properties, which are summarized in the table below (dollars in thousands):

Location	Acquisition Date	Square Footage	Lease Term	Renewal Options	Total Purchase Price	Acquisition Expenses	Annualized Straight Line Rent	Debt Issued & Assumed
Allen, TX	3/27/2014	21,154	12 Years	4 (5 years each)	$ 5,525	$ 33	$ 570	$ 3,481
Colleyville, TX	3/27/2014	20,355	12 Years	4 (5 years each)	4,523	33	467	2,849
Rancho Cordova, CA (4)	4/22/2014	61,358	10 Years	1 (5 year)	8,225	73	902	4,935
Coppell, TX	5/8/2014	21,171	12 Years	4 (5 years each)	5,838	26	601	3,816
Columbus, OH	5/13/2014	114,786	9.5 Years (1)	N/A (1)	11,800	70	1,278(3)	N/A
Taylor, PA	6/9/2014	955,935	10 Years	4 (5 years each)	39,000	730	3,400	22,600
Aurora, CO	7/1/2014	124,800	15 Years	2 (5 years each)	8,300	91	768	N/A
Indianapolis, IN (4)	9/3/2014	86,495	11.5 Years (2)	2 (5 years each)(2)	10,500	58	1,504(3)	6,100