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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

OR

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

COMMISSION FILE NUMBER: 001-33097

GLADSTONE COMMERCIAL CORPORATION
(Exact name of registrant as specified in its charter)

MARYLAND	**02-0681276**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

1521 WESTBRANCH DRIVE, SUITE 200
MCLEAN, VIRGINIA 22102
(Address of principal executive office)

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $0.001 per share	NASDAQ Global Select Market
7.75% Series A Cumulative Redeemable Preferred Stock, par value $0.001 per share	NASDAQ Global Select Market
7.50% Series B Cumulative Redeemable Preferred Stock, par value $0.001 per share	NASDAQ Global Select Market
(Title of Each Class)	(*Name of exchange on which registered)*

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes☐ No ☑.

Indicate by check if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes☐ No ☑.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☑	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes☐ No ☑ .

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2009, based on the closing price on that date of $12.96 on the Nasdaq Global Market, was $103,972,270. For the purposes of calculating this amount only, all directors and executive officers of the registrant have been treated as affiliates.

The number of shares of the registrant's Common Stock, $0.001 par value, outstanding as of February 19, 2010 was 8,563,264.

Documents Incorporated by Reference: Portions of the registrant's Proxy Statement relating to the Registrant's 2010 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

GLADSTONE COMMERCIAL CORPORATION
FORM 10-K FOR THE YEAR ENDED
DECEMBER 31, 2009

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Forward-Looking Statements

All statements contained herein, other than historical facts, may constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933(the “Securities Act”), as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements may relate to, among other things, future events or our future performance or financial condition. In some cases, you can identify forward-looking statements by terminology such as “may,” “might,” “believe,” “will,” “provided,” “anticipate,” “future,” “could,” “growth,” “plan,” “intend,” “expect,” “should,” “would,” “if,” “seek,” “possible,” “potential,” “likely” or the negative of such terms or comparable terminology. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our 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. Such factors include, among others: (1) further adverse changes in the economy and the capital markets; (2) risks associated with negotiation and consummation of pending and future transactions; (3) the loss of one or more of our executive officers, in particular David Gladstone, Terry Lee Brubaker, or George Stelljes III; (4) changes in our business strategy; (5) availability, terms and deployment of capital, including the ability to maintain and borrow under our existing line of credit, arrange for long-term mortgages on our properties, secure one or more additional long-term credit facilities, and to raise equity capital; (6) changes in our industry, interest rates, exchange rates or the general economy; (7) the degree and nature of our competition; and (8) those factors described in the “Risk Factors” section of this Form 10-K. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Form 10-K.

Item 1. Business

Overview

Gladstone Commercial Corporation (which we refer to as “we,” “us,” or the “Company,”) 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 and commercial real property and selectively making long-term industrial and commercial mortgage loans. Most of our portfolio of real estate we currently own is leased to a wide cross section of tenants ranging from small businesses to large public companies, many of which are corporations that do not have publicly rated debt. We have in the past entered into, and intend in the future to enter into, purchase agreements for real estate having triple net leases with terms of approximately 10 to 15 years and built in rental increases. Under a triple net lease, the tenant is required to pay all operating, maintenance and insurance costs and real estate taxes with respect to the leased property. We currently own a total of 64 properties and hold one mortgage loan.

We conduct substantially all of our activities, including the ownership of all of our properties, through Gladstone Commercial Limited Partnership, a Delaware limited partnership that we refer to as our Operating Partnership. We control our Operating Partnership through our ownership of GCLP Business Trust II, a Massachusetts business trust, which is the general partner of our Operating Partnership, and of GCLP Business Trust I, a Massachusetts business trust, which currently holds all of the limited partnership units of our Operating Partnership. We expect that our Operating Partnership may issue limited partnership units from time to time in exchange for industrial and commercial real property. Limited partners who hold limited partnership units in our Operating Partnership will be entitled to redeem these units for cash or, at our election, shares of our common stock on a one-for-one basis at any time.

Our Operating Partnership is also the sole member of Gladstone Lending, LLC, which we refer to as Gladstone Lending. Gladstone Lending is a Delaware limited liability company that was formed to hold all of our real estate mortgage loans.

Recent Developments

Financing Activities:

On November 4, 2009, we entered into an Open Market Sale Agreement, or the Open Market Sale Agreement, with Jefferies & Company, Inc., or Jefferies, under which we may, from time to time, offer and sell shares of our common stock with an aggregate sales price of up to $25.0 million through Jefferies, or to Jefferies, for resale. To date, we have not sold any shares of our common stock under the Open Market Sale Agreement.

On November 19, 2009, we entered into a dealer manager agreement, or the Dealer Manager Agreement, with Halcyon Capital Markets, LLC, or Halcyon, pursuant to which Halcyon will act as our dealer manager in connection with a proposed continuous private offering of up to 3,333,333 shares of our newly designated senior common stock at $15.00 per share. This offering is only being made to accredited investors. To date, we have not sold any shares of senior common stock under the Dealer Manager Agreement.

On November 24, 2009, we, through our wholly-owned subsidiary Gladstone Commercial Limited Partnership, exercised our option under our existing credit agreement with KeyBank National Association and certain other parties to extend the term of our $50 million line of credit by one year, resulting in a new maturity date of December 29, 2010. The loan was originally set to expire on December 29, 2009. During the year ended December 31, 2009, we had net borrowings under our line of credit of approximately $21.7 million, with $33.2 million outstanding at December 31, 2009. The proceeds from borrowings under the line of credit were used to pay off a $20.0 million unsecured short-term loan with KeyBank and fund other capital improvements at certain of our properties.

Leasing Activities:

On May 19, 2009, we extended the lease with one of our tenants on our property located in Eatontown, New Jersey for a period of 15 years, and the tenant has two options to extend the lease for additional periods of 5 years each. The lease was originally set to expire in August 2011, and will now expire in April 2024. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately $540,000.

On November 18, 2009, we extended the lease with one of our tenants in our property located in Akron, Ohio for a period of five years. The lease was originally set to expire in February 2010, and will now expire in March 2015. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately $160,000.

Dispositions:

On July 17, 2009, we sold our property located in Norfolk, Virginia for $1.15 million, for a gain on the sale of approximately $160,000. The proceeds from the sale were used to pay down our line of credit.

Our Investment Objectives and Our Strategy

Our principal investment objectives are to generate income from rental properties and, to a much lesser extent, mortgage loans, which we use to fund our continuing operations and to pay out monthly cash distributions to our stockholders. We intend to grow the distribution to stockholders over time, and to increase the value of our common stock. Our primary strategy to achieve our investment objectives is to invest in and own a diversified portfolio of leased industrial and commercial real estate that we believe will produce stable cash flow and increase in value. We expect to sell some of our real estate assets from time to time when our external adviser, Gladstone Management Corporation, which we refer to as our Adviser, determines that doing so would be advantageous to us and our stockholders. We also expect to occasionally make mortgage loans secured by income-producing commercial or industrial real estate, which loans may have some form of equity participation.

Our strategy includes the use of leverage so that we may make more investments than would otherwise be possible in order to maximize potential returns to stockholders. We are not limited with respect to the amount of leverage that we may use for the acquisition of any specific property. We intend to use non-recourse mortgage financing that will allow us to limit our loss exposure on any property to the amount of equity invested in such property. However, the market for long-term mortgages, as we have traditionally accessed, continues to be frozen as the collateralized mortgage-backed securities, or CMBS, market has virtually disappeared. With the closure of the CMBS market, many banks are not lending on commercial real estate as they are no longer able to sell these loans to the CMBS market and are not willing or able to keep these loans on their balance sheets. We are now seeing banks only willing to issue medium-term mortgages, between two to five years, on substantially less favorable terms. As a result, we intend to focus on using medium-term mortgages to finance our real estate until the market for long-term mortgages returns.

Investment Policies and Policies with Respect to Certain Activities

Types of Investments

Overview

We intend that substantially all of our investments will be generated from the ownership of income-producing real property or, to a much lesser extent, mortgage loans secured by real property. We expect that the vast majority of our investments will be structured as net leases, but if a net lease would have an adverse impact on a potential tenant, or would otherwise be inappropriate for us, we may structure our investment as a mortgage loan. Investments are not restricted as to geographical areas, but we expect that most of our investments in real estate will be made within the continental United States. Some of our investments may also be made through joint ventures that would permit us to own interests in large properties without restricting the diversity of our portfolio. Our stockholders are not afforded the opportunity to evaluate the economic merits of our investments or the terms of any dispositions of properties. See "*Risk Factors—Our success depends on the performance of our Adviser and if our Adviser makes inadvisable investment or management decisions, our operations could be materially adversely impacted*."

We anticipate that we will make substantially all of our investments through our Operating Partnership and Gladstone Lending. Our Operating Partnership and Gladstone Lending may acquire interests in real property or mortgage loans in exchange for the issuance of limited partnership units, for cash or through a combination of both. Units issued by our Operating Partnership will be redeemable for cash or, at our election, shares of our common stock on a one-for-one basis at any time. However, we may in the future also conduct some of our business and hold some of our interests in real properties or mortgage loans through one or more wholly-owned subsidiaries, each classified as a qualified REIT subsidiary, or QRS.

Property Acquisitions and Net Leasing

To date a majority of our properties have been purchased from owners that have leased their properties to non-affiliated tenants, and while we have engaged in some transactions with tenants who have consummated sale-leaseback transactions, this is not the dominant portion of our portfolio. We expect that some of our sale-leaseback transactions will be in conjunction with acquisitions, recapitalizations or other corporate transactions affecting our tenants. In these transactions, we may act as one of several sources of financing for these transactions by purchasing one or more properties from the tenant and by net leasing it to the tenant or its successor in interest. For a discussion of the risks associated with leasing property to leveraged tenants, see "*Risk Factors—Highly leveraged tenants or borrowers may be unable to pay rent or make mortgage payments, which could adversely affect our cash available to make distributions to our stockholders*."

In limited circumstances, we have granted tenants an option to purchase the leased property, and we anticipate granting these options to select tenants in the future. In these cases, we generally seek to fix the option purchase price at the greater of our purchase price for the property and the fair market value of the property at the time the option is exercised.

Our portfolio consists primarily of single-tenant commercial and industrial real property, however, we also consider multi-tenant commercial and industrial properties. We have not in the past and do not anticipate that in the future we will invest in residential properties. Generally, we lease properties to tenants that our Adviser deems creditworthy under leases that will be full recourse obligations of our tenants or their affiliates. In most cases, our leases will be “triple net leases” that require the tenant to pay all the operating costs, costs of maintenance, insurance and real estate taxes on the property. We seek to obtain lease terms of approximately 10 to 15 years with built-in rental increases.

Investments in Mortgage Loans

Although we expect such investments to be made sparingly, we may elect to structure our investment in a particular property as a mortgage loan secured by the property in situations where a standard net lease transaction would have an adverse tax impact on the seller of a property or would otherwise be inappropriate for us. We anticipate that most of our lending transactions will be loans secured by industrial or commercial property. We have not in the past and do not anticipate in the future we will invest in residential mortgages. Our Adviser will attempt to structure mortgage loans in a manner that would provide us with current income substantially similar to that which we could expect to receive had the investment been structured as a net lease transaction.

To the extent that we invest in mortgage loans, we will generally originate those loans. However, we may also purchase mortgage loans from other lenders if such transactions are consistent with our investment objectives. Our Adviser will service the mortgage loans in our portfolio by monitoring the collection of monthly principal and interest payments on our behalf.

Underwriting Criteria, Due Diligence Process and Negotiating Lease Provisions

We consider underwriting the real estate and the tenant for the property (or the borrower in the case of a mortgage loan) to be the most important aspects of making an investment. Evaluating the creditworthiness of the tenant or borrower and its ability to generate sufficient cash flow to make payments to us pursuant to the lease or the mortgage loan is the most important aspect of our underwriting procedures. In analyzing potential acquisitions of properties and leases, our Adviser reviews all aspects of the potential transaction, including tenant and real estate fundamentals, to determine whether potential acquisitions and leases can be structured to satisfy our acquisition criteria. The criteria listed below provide general guideposts that our Adviser may consider when underwriting leases and mortgage loans:

- *Credit Evaluation.* Our Adviser evaluates each potential tenant for its creditworthiness, considering factors such as management experience, industry position and fundamentals, operating history and capital structure. A prospective tenant that is deemed creditworthy does not necessarily mean that we will consider the tenant’s property to be “investment grade.” Our Adviser seeks tenants that range from small businesses, many of which do not have publicly rated debt, to large public companies. Our Adviser’s investment professionals have substantial experience in locating and financing these types of companies. By leasing properties to these tenants, we believe that we will generally be able to charge rent that is higher than the rent charged to tenants with unleveraged balance sheets and recognized credit, thereby enhancing current return from these properties as compared with properties leased to companies whose credit potential has already been recognized by the market. Furthermore, if a tenant’s credit does improve, the value of our lease or investment will likely increase (if all other factors affecting value remain unchanged). In evaluating a possible investment, we believe that the creditworthiness of a prospective tenant is normally a more significant factor than the unleased value of the property itself. While our Adviser selects tenants it believes to be creditworthy, tenants are not required to meet any minimum rating established by an independent credit rating agency. Our Adviser's standards for determining whether a particular tenant is creditworthy vary in accordance with a variety of factors relating to specific prospective tenants. The creditworthiness of a tenant is determined on a tenant by tenant and case by case basis. Therefore, general standards for creditworthiness cannot be applied.

- *Leases with Increasing Rent.* Our Adviser seeks to include a clause in each lease that provides for annual rent escalations over the term of the lease. These increases will generally be fixed, however certain leases are tied to increases in indices such as the consumer price index.

- *Diversification*. Our Adviser attempts to diversify our portfolio to avoid dependence on any one particular tenant, facility type, geographic location or tenant industry. By diversifying our portfolio, our Adviser intends to reduce the adverse effect on our portfolio of a single under-performing investment or a downturn in any particular industry or geographic region. Total rental income consisted of the following tenant industry classifications as of December 31, 2009 and December 31, 2008:

	December 31, 2009		**December 31, 2008**	
Industry Classification	Rental Income	Percentage of Rental Income	Rental Income	Percentage of Rental Income
Automobile	$ 1,166,654	2.8%	$ 1,166,654	2.9%
Beverage, Food & Tobacco	2,188,755	5.3%	2,079,113	5.3%
Buildings and Real Estate	2,025,668	4.9%	2,013,515	5.1%
Chemicals, Plastics & Rubber	3,173,514	7.6%	2,452,628	6.2%
Containers, Packaging & Glass	2,330,246	5.6%	2,288,909	5.8%
Diversified/Conglomerate Manufacturing	3,664,686	8.8%	3,165,747	8.0%
Diversified/Conglomerate Services	308,105	0.7%	308,105	0.8%
Electronics	6,164,789	14.9%	6,165,789	15.7%
Healthcare, Education & Childcare	6,145,415	14.8%	5,719,016	14.5%
Home & Office Furnishings	529,743	1.3%	529,743	1.3%
Insurance	722,866	1.7%	722,866	1.8%
Machinery	2,389,607	5.8%	2,241,752	5.7%
Oil & Gas	1,138,136	2.7%	1,152,443	2.9%
Personal & Non-Durable Consumer Products	1,354,721	3.3%	1,355,061	3.4%
Personal, Food & Miscellaneous Services	575,006	1.4%	575,006	1.5%
Printing & Publishing	2,189,033	5.3%	2,189,602	5.5%
Telecommunications	5,447,033	13.1%	5,446,338	13.6%
	$ 41,513,977	100.0%	$ 39,572,287	100.0%

- *Property Valuation.* The business prospects and the financial strength of the tenant are important aspects of the evaluation of any sale and leaseback of property, or acquisition of property subject to a net lease, particularly a property that is specifically suited to the needs of the tenant. We generally require quarterly unaudited and annual audited financial statements of the tenant in order to continuously monitor the financial performance of the property. We evaluate the financial capability of the tenant and its ability to perform per the terms of the lease. We may also examine the available operating results of prospective investment properties to determine whether or not projected rental levels are likely to be met. We then compute the value of the property based on historical and projected operating results. In addition, each property that we propose to purchase will be appraised by an independent appraiser. These appraisals may take into consideration, among other things, the terms and conditions of the particular lease transaction, the quality of the tenant's credit and the conditions of the credit markets at the time the lease transaction is negotiated. The appraised value may be greater than the construction cost or the replacement cost of a property, and the actual sale price of a property, if we resell the property in the future, may be greater or less than its appraised value. We generally limit our property acquisition cost or value to between $3 million and $30 million

- *Properties Important to Tenant Operations.* Our Adviser generally seeks to acquire investment properties that are essential or important to the ongoing operations of the prospective tenant. We believe that these investment properties provide better protection in the event a tenant becomes bankrupt, since leases on properties essential or important to the operations of a bankrupt tenant are typically less likely to be rejected in the bankruptcy or otherwise terminated.

- *Lease Provisions that Enhance and Protect Value*. When appropriate, our Adviser attempts to include provisions in our leases that require our consent to specified tenant activity or require the tenant to satisfy specific operating tests. These provisions may include, for example, operational or financial covenants of the tenant, as well as indemnification of us by the tenant against environmental and other contingent liabilities. We believe that these provisions serve to protect our investments from changes in the operating and financial characteristics of a tenant that may impact its ability to satisfy its obligations to us or that could reduce the value of our properties. We generally also seek covenants requiring tenants to receive our consent prior to any change in control of the tenant.
- *Credit Enhancement.* Our Adviser may also seek to enhance the likelihood of a tenant's lease obligations being satisfied through a cross-default with other tenant obligations, a letter of credit or a guaranty of lease obligations from each tenant's corporate parent. We believe that this type of credit enhancement, if obtained, provides us with additional financial security.

Underwriting of the Real Estate and Due Diligence Process

In addition to underwriting the tenant or borrower, we also underwrite the real estate to be acquired or secured by one of our mortgages. On our behalf, our Adviser performs a due diligence review with respect to each property, such as evaluating the physical condition of a property, zoning and site requirements to ensure the property is in conformance with all zoning regulations as well as an environmental site assessment, in an attempt to determine potential environmental liabilities associated with a property prior to its acquisition, although there can be no assurance that hazardous substances or wastes (as defined by present or future federal or state laws or regulations) will not be discovered on the property after we acquire it. See "*Risk Factors—Potential liability for environmental matters could adversely affect our financial condition*"

Our Adviser also reviews the structural soundness of the improvements on the property and may engage a structural engineer to review all aspects of the structures in order to determine the longevity of each building on the property. This review normally also includes the components of each building, such as the roof, the electrical wiring, the heating and air-conditioning system, the plumbing, parking lot and various other aspects such as compliance with state and federal building codes.

Our Adviser also physically inspects the real estate and surrounding real estate as part of determining the value of the real estate. All of our Adviser's due diligence is aimed at arriving at a valuation of the real estate under the assumption that it was not rented to the tenant we are considering. As part of this process, our Adviser may consider one or more of the following items:

- The comparable value of similar real estate in the same general area of the prospective property. In this regard, comparable property is hard to define since each piece of real estate has its own distinct characteristics. But to the extent possible, comparable property in the area that has sold or is for sale will be used to determine if the price being paid for the property is reasonable. The question of comparable properties' sale prices is particularly relevant if a property might be sold by us at a later date.
- The comparable real estate rental rates for similar properties in the same area of the prospective property.
- Alternative property uses that may offer higher value.
- The cost of replacing the property if it were to be sold.
- The assessed value as determined by the local real estate taxing authority.

In addition, our Adviser supplements its valuation with a real estate appraisal in connection with each investment that we consider. When appropriate, our Adviser may engage experts to undertake some or all of the due diligence efforts described above.

Additional Investment Considerations

Terms of Mortgage Loans

Some of the mortgage loans that we may make, purchase or otherwise acquire in the future, in addition to providing for base interest at a fixed or variable rate, may allow us to participate in the economic benefits of any increase in the value of the property securing repayment of the loan as though we were an equity owner of a portion of the property. In addition, it is possible that participation may take other forms where our Adviser deems participation available or otherwise appropriate, provided that such participation does not jeopardize our REIT tax status. The form and extent of our participation, if any, will vary with each transaction depending on factors such as credit support provided by the borrower, the interest rate on our mortgage loans and the anticipated and actual cash flow from the underlying real property. Our mortgage loans may include first mortgage loans, leasehold mortgage loans or conventional mortgage loans without equity enhancements. We have not in the past, nor do we intend in the future to make or invest in sub-prime mortgage loans.

Except as described below, any mortgage loan in our portfolio will generally be secured by real property with a demonstrable income-producing potential as well as a security interest in personal or mixed property connected with the real property.

In the event that we make or invest in a mortgage loan, we will generally require a mortgagee's title insurance policy or commitment as to the lien priority of a mortgage or the condition of title in connection with each mortgage loan. We also may obtain an independent appraisal for underlying real property, that our Adviser may consider when determining whether or not to make or invest in a particular mortgage loan. In making mortgage loans that, when combined with existing loans that are on a parity with or senior to our mortgage loan, exceed 85% of the appraised value of any underlying real property, our Adviser considers additional underwriting criteria such as the net worth of the borrower, the borrower's credit rating, if any, the anticipated cash flow of the borrower, any additional collateral or other credit enhancements provided by the borrower or its affiliates and other factors our Adviser deems appropriate. Where we think it is appropriate we may make mortgage loans that are subordinated to a first mortgage on a property. For example, if the property is subject to an economic development loan as a first mortgage at a particularly low interest rate, we may make a second mortgage loan on the property. However, we will not make a second mortgage loan on any property that we would not consider owning, subject to the existing senior financing, and leasing to the tenant.

From time to time, we may purchase mortgage loans, including loans being sold at a discount, from banks and other financial institutions if the subject property otherwise satisfies our underwriting criteria.

Other Investments

We may invest up to an aggregate of 10% of our net equity in unimproved or non-income-producing real property and in "equity interests." "Equity interests" are defined generally to mean stock, warrants or other rights to purchase the stock of, or other equity interests in, a tenant of a property, an entity to which we lend money or a parent or controlling person of a borrower or tenant, and we will not acquire equity interests in any entity other than in connection with a lease or mortgage loan transaction. We anticipate that equity interests will not exceed 5% of our net equity in the aggregate, and we will not make any such investment in equity interests if such investment would adversely affect our qualification as a REIT for tax purposes. To the extent that we hold equity interests in tenants or borrowers, we anticipate that they will generally be "restricted securities" as defined in Rule 144 under the Securities Act. Under this rule, we may be prohibited from reselling the equity securities without limitation until we have fully paid for and held any such securities for one year. The issuer of equity interests in which we invest may never register these interests under the federal securities laws, since any decision of an issuer to register its securities may depend on any number of factors, including the success of its operations.

We will generally invest in unimproved or non-income-producing property only when our Adviser believes that such property will appreciate in value or will increase the value of an adjoining or neighboring property that we own.

We might use taxable REIT subsidiaries to acquire or hold property, including equity interests, that may not be deemed to be REIT-qualified assets. Taxable REIT subsidiaries are taxed as ordinary corporations and any taxes paid by such entity will reduce cash available to us for payment of distributions to our stockholders.

Temporary Investments

Our working capital and other reserves are invested in permitted temporary investments. Our Adviser evaluates the relative risks and rates of return, our cash needs and other appropriate considerations when making short-term investments on our behalf. The rates of return of permitted temporary investments may be less than or greater than what would be obtainable from real estate investments.

If at any time the character of our investments would cause us to be deemed to be an "investment company" for purposes of the Investment Company Act of 1940, which we refer to as the 1940 Act, we will take the necessary action to ensure that we are not deemed to be an "investment company." Our Adviser will continually review our investment activity and the composition of our portfolio to ensure that we do not come within the application of the 1940 Act. If we were to be deemed an investment company under the 1940 Act, it would result in penalties and substantial additional operating costs.

Qualified REIT Subsidiaries

While we intend to conduct substantially all of our activities through our Operating Partnership and Gladstone Lending, we may also form one or more wholly-owned qualified REIT subsidiaries, or QRSs, to purchase properties. These QRSs would be formed for the sole purpose of acquiring a specific property or properties located in one or more states and would have organizational documents that are substantially similar in all relevant ways to our organizational documents and comply with all applicable state securities laws and regulations.

Joint Ventures

In the future, we may also enter into joint ventures, partnerships and other mutual arrangements with real estate developers, property owners and others for the purpose of obtaining an equity interest in a property in accordance with our investment policies. Joint venture investments could permit us to own interests in large properties without unduly restricting the diversity of our portfolio. We will not enter into a joint venture to make an investment that we would not otherwise be permitted to make on our own. We expect that in any joint venture the cost of structuring joint investments would be shared ratably by us and the other participating investors.

Use of Leverage

Non-recourse Financing

Our strategy is to use long-term mortgage borrowings as a financing mechanism in amounts that we believe will maximize the return to our stockholders. As discussed above in *Our Investment Objectives and Our Strategy*, long-term mortgages are currently unavailable to us, and we will focus on medium-term mortgages until the market returns. Currently, all of our long-term mortgage borrowings are structured as non-recourse to us, and we intend to structure any medium-term mortgages in the same manner, with limited exceptions that would trigger recourse to us only upon the occurrence of certain fraud, misconduct, environmental or bankruptcy events. The use of non-recourse financing allows us to limit our exposure to the amount of equity invested in the properties pledged as collateral for our borrowings. Non-recourse financing generally restricts a lender's claim on the assets of the borrower and, as a result, the lender generally may look only to the property securing the debt for satisfaction of the debt. We believe that this financing strategy, to the extent available, protects our other assets. However, we can provide no assurance that non-recourse financing will be available on terms acceptable to us, or at all, and there may be circumstances where lenders have recourse to our other assets. There is no limitation on the amount we may borrow against any single investment property.

We believe that, by operating on a leveraged basis, we will have more funds available and, therefore, will make more investments than would otherwise be possible if we operated on a non-leveraged basis. We believe that this creates a more diversified portfolio and maximizes potential returns to our stockholders. We may refinance properties during the term of a loan when we believe it is advantageous.

Recourse Financing

Borrowings under our $50.0 million short-term line of credit, which is secured by those properties pledged to the borrowing base under the line of credit are considered recourse financing, which means that our lenders have a claim against our assets. We intend to use our existing line of credit as a warehouse line of credit whereby we borrow on a short-term basis until long-term financing can be arranged, however until we obtain replacement financing for our existing line of credit, which matures in December 2010, we will use the line primarily for working capital.

Other Investment Policies

Working Capital Reserves

We may establish a working capital reserve, which we would anticipate to be sufficient to satisfy our liquidity requirements. Our liquidity could be adversely affected by unanticipated costs, greater-than-anticipated operating expenses or cash shortfalls in funding our distributions to stockholders. To the extent that the working capital reserve is insufficient to satisfy our cash requirements, additional funds may be produced from cash generated from operations or through short-term borrowings. In addition, subject to limitations described in this report, we may incur indebtedness in connection with:

- the acquisition of any property;
- the refinancing of the debt upon any property; or
- the leveraging of any previously unleveraged property.

For additional information regarding our borrowing strategy, see "*Investment Policies and Policies with Respect to Certain Activities—Use of Leverage*"

Holding Period for and Sale of Investments; Reinvestment of Sale Proceeds

We intend to hold each property we acquire for an extended period. However, circumstances might arise which could result in the early sale of some properties if, in the judgment of our Adviser, the sale of the property is in the best interest of us and our stockholders.

The determination of whether a particular property should be sold or otherwise disposed of will be made after consideration of all relevant factors, including prevailing economic conditions, with a view to achieving maximum capital appreciation. The selling price of a property which is subject to a net lease will be determined in large part by the amount of rent payable under the lease, the remaining term of the lease, and the creditworthiness of the tenant. In connection with our sales of properties, we may lend the purchaser all or a portion of the purchase price. In these instances, our taxable income may exceed the cash received by us in connection with any such sale, which could cause us to delay required distributions to our stockholders.

The terms of any sale will be dictated by custom in the area in which the property being sold is located and the then-prevailing economic conditions. A decision to provide financing to any purchaser would be made only after an investigation into and consideration of the same factors regarding the purchaser, such as creditworthiness and likelihood of future financial stability, as are undertaken when we consider a net lease or mortgage loan transaction.

We may continually reinvest the proceeds of property sales in investments that either we or our Adviser believe will satisfy our investment policies.

Investment Limitations

There are numerous limitations on the manner in which we may invest our funds, which unless otherwise noted below, may be amended or waived by the Board of Directors at anytime. The Board of Directors has adopted a policy that we will not:

- invest in real property owned by our Adviser, any of its affiliates or any business in which our Adviser or any of its subsidiaries have invested except that we may lease property to existing and prospective portfolio companies of current or future affiliates, such as Gladstone Capital Corporation, Gladstone Investment Corporation and entities advised by our Adviser, so long as that entity does not control the portfolio company and the transaction is approved by both companies' board of directors (this policy may not be changed without the approval of our stockholders);
- invest in commodities or commodity futures contracts, with this limitation not being applicable to futures contracts when used solely for the purpose of hedging in connection with our ordinary business of investing in properties and making mortgage loans;
- invest in contracts for the sale of real estate unless the contract is appropriately recorded in the chain of title;
- invest in any individual property with a cost in excess of 20% of our total assets at the time of investment;
- make investments in unimproved property or indebtedness secured by a deed of trust or mortgage loans on unimproved property in excess of 10% of our total assets. "Unimproved real property" is property which has the following three characteristics:
  - the property was not acquired for the purpose of producing rental or other operating income;
  - no development or construction is in process on the property; and
  - no development or construction on the property is planned in good faith to commence on the property within one year of acquisition;
- issue equity securities on a deferred payment basis or other similar arrangement;
- issue debt securities in the absence of adequate cash flow to cover debt service;

- issue “redeemable securities” as defined in Section 2(a)(32) of the 1940 Act;
- grant warrants or options to purchase shares of our stock to our Adviser or its affiliates;
- engage in trading, as compared with investment activities, or engage in the business of underwriting, or the agency distribution of, securities issued by other persons;
- acquire securities in any company holding investments or engaging in activities prohibited in the foregoing clauses; or
- make or invest in mortgage loans that are subordinate to any mortgage or equity interest of any of our affiliates.

Conflict of Interest Policy

We have adopted policies to reduce potential conflicts of interest. In addition, our directors are subject to certain provisions of Maryland law that are designed to minimize conflicts. However, we cannot assure you that these policies or provisions of law will reduce or eliminate the influence of these conflicts.

Under our current conflict of interest policy, without the approval of a majority of our disinterested directors, we will not:

- acquire from or sell to any of our officers, directors or employees, or any entity in which any of our officers, directors or employees has an interest of more than 5%, any assets or other property;
- borrow from any of our directors, officers or employees, or any entity, other than Gladstone Land Corporation or Gladstone Management Corporation, our Adviser, in which any of our officers, directors or employees has an interest of more than 5%. or
- engage in any other transaction with any of our directors, officers or employees, or any entity in which any of our directors, officers or employees has an interest of more than 5% (except that our Adviser may lease office space in a building that we own, provided that the rental rate under the lease is determined by our independent directors to be at a fair market rate).

Our policy also prohibits us from purchasing any real property owned by or co-investing with our Adviser, any of its affiliates or any business in which our Adviser or any of its subsidiaries have invested, except that we may lease property to existing and prospective portfolio companies of current or future affiliates, such as Gladstone Capital Corporation or Gladstone Investment Corporation and other entities advised by our Adviser, so long as that entity does not control the portfolio company and the transaction is approved by both companies’ board of directors. If we decide to change this policy on co-investments with our Adviser or its affiliates, we will seek our stockholders’ approval.

Future Revisions in Policies and Strategies

Our independent directors periodically review our investment policies to evaluate whether they are in the best interest of us and our stockholders. Our investment procedures, objectives and policies may vary as new investment techniques are developed or as regulatory requirements change, and except as otherwise provided in our bylaws or articles of incorporation, may be altered by a majority of our directors (including a majority of our independent directors) without the approval of our stockholders, to the extent that our board of directors determines that such modification is in the best interest of our stockholders. Among other factors, developments in the market which affect the policies and strategies described in this report or which change our assessment of the market may cause our board of directors to revise our investment policies and strategies.

Our Adviser and Administrator

Our business is managed by our Adviser. The officers, directors and employees of our Adviser have significant experience in making investments in and lending to businesses of all sizes, including investing in real estate and making mortgage loans. We have entered into an advisory agreement with our Adviser under which our Adviser is responsible for managing our assets and liabilities, for operating our business on a day-to-day basis and for identifying, evaluating, negotiating and consummating investment transactions consistent with our investment policies as determined by our Board of Directors from time to time. Gladstone Administration LLC, or our Administrator, employs our chief financial officer, chief compliance officer, internal counsel, treasurer and their respective staffs.

David Gladstone, our chairman and chief executive officer, is also the chairman, chief executive officer and the controlling stockholder of our Adviser. Terry Lee Brubaker, our vice chairman, secretary and chief operating officer and a member of our board of directors, also serves in the same capacities for our Adviser. George Stelljes III, our president and chief investment officer and a member of our board of directors, also serves in the same capacities for our Adviser.

Our Adviser maintains an investment committee that approves each of our investments. This investment committee is comprised of Messrs. Gladstone, Brubaker and Stelljes. We believe that our Adviser's investment committee review process gives us a unique competitive advantage over other REITs because of the substantial experience and perspective that the members possess in evaluating the blend of corporate credit, real estate and lease terms that combine to provide an acceptable risk for our investments.

Our Adviser's board of directors has empowered its investment committee to authorize and approve our investments, subject to the terms of the advisory agreement. Before we acquire any property, the transaction is reviewed by our Adviser's investment committee to ensure that, in its view, the proposed transaction satisfies our investment criteria and is within our investment policies. Approval by our Adviser's investment committee is generally the final step in the property acquisition approval process, although the separate approval of our board of directors is required in certain circumstances described below. For further detail on this process, please see "*Underwriting Criteria, Due Diligence Process and Negotiating Lease Provisions*."

Our Adviser is headquartered in McLean, Virginia, a suburb of Washington D.C., and also has offices in New York, New Jersey, Illinois, Texas and Georgia.

Investment Advisory and Administration Agreements

Many of the services performed by our Adviser and Administrator in managing our day-to-day activities are summarized below. This summary is provided to illustrate the material functions which our Adviser and Administrator perform for us pursuant to the terms of the advisory and administration agreements, respectively, but it is not intended to include all of the services which may be provided to us by third parties.

Investment Advisory Agreement

On January 1, 2007, we entered into an amended and restated investment advisory agreement with our Adviser, which we refer to as the Advisory Agreement, and an administration agreement with our Administrator, which we refer to as the Administration Agreement.

Under the terms of the Advisory Agreement, we are responsible for all expenses incurred for our direct benefit. Examples of these expenses include legal, accounting, interest on short-term debt and mortgages, tax preparation, directors and officers insurance, stock transfer services, stockholder related fees, consulting and related fees. All of these charges are incurred directly by us rather than by our Adviser for our benefit. Accordingly, we did not make any reimbursements to our Adviser for these amounts.

In addition, we are also responsible for all fees charged by third parties that are directly related to our business, which may include real estate brokerage fees, mortgage placement fees, lease-up fees and transaction structuring fees (although we may be able to pass some or all of such fees on to our tenants and borrowers). In the event that any of these expenses are incurred on our behalf by our Adviser, we are required to reimburse our Adviser on a dollar-for-dollar basis for all such amounts. During the years ended December 31, 2009, 2008 and 2007, none of these expenses were incurred by our Adviser or by us directly. The actual amount of such fees that we incur in the future will depend largely upon the aggregate costs of the properties we acquire, the aggregate amount of mortgage loans we make, and the extent to which we are able to shift the burden of such fees to our tenants and borrowers. Accordingly, the amount of these fees that we will pay in the future is not determinable at this time. We do not presently expect that our Adviser will incur any of these fees on our behalf.

Management Services and Fees under the Advisory Agreement

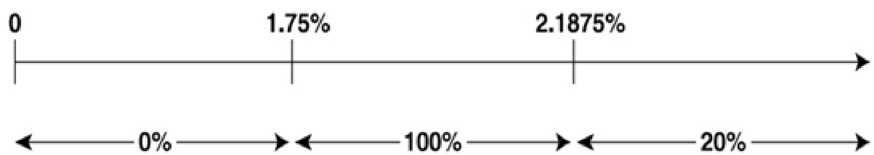
The Advisory Agreement provides for an annual base management fee equal to 2.0% of our total stockholders' equity, less the recorded value of any preferred stock, and an incentive fee based on funds from operations, or FFO. Our Adviser does not charge acquisition or disposition fees when we acquire or dispose of properties as is common in other REITs. Furthermore, there are no fees charged when our Adviser secures long or short term credit or arranges mortgage loans on our properties.

For purposes of calculating the incentive fee, FFO includes any realized capital gains and capital losses, less any distributions paid on preferred stock, but FFO does not include any unrealized capital gains or losses. The incentive fee would reward our Adviser if our quarterly FFO, before giving effect to any incentive fee, or pre-incentive fee FFO, exceeds 1.75%, or the hurdle rate, of total stockholders' equity, less the recorded value of any preferred stock. We pay our Adviser an incentive fee with respect to our pre-incentive fee FFO in each calendar quarter as follows:

- no incentive fee in any calendar quarter in which our pre-incentive fee FFO does not exceed the hurdle rate of 1.75% (7% annualized);
- 100% of the amount of the pre-incentive fee FFO that exceeds the hurdle rate, but is less than 2.1875% in any calendar quarter (8.75% annualized); and
- 20% of the amount of our pre-incentive fee FFO that exceeds 2.1875% in any calendar quarter (8.75% annualized).

Quarterly Incentive Fee Based on FFO

Pre-incentive fee FFO
(expressed as a percentage of total common stockholders' equity)



Percentage of pre-incentive fee FFO allocated to incentive fee

The incentive fee may be reduced because of our line of credit covenant which limits distributions to our stockholders to 95% of FFO.

Administration Agreement

Under the Administration Agreement, we pay separately for our allocable portion of our Administrator's overhead expenses in performing its obligations including, but not limited to, rent for employees of our Administrator, and our allocable portion of the salaries and benefits expenses of our chief financial officer, chief compliance officer, internal counsel, treasurer and their respective staffs. Our allocable portion of expenses is derived by multiplying our Administrator's total expenses by the percentage of our total assets at the beginning of each quarter in comparison to the total assets of all companies managed by our Adviser under similar agreements.

Adviser Duties and Authority under the Advisory Agreement

Under the terms of the advisory agreement, our Adviser is required to use its best efforts to present to us investment opportunities consistent with our investment policies and objectives as adopted by our board of directors. In performing its duties, our Adviser, either directly or indirectly by engaging an affiliate:

- finds, evaluates, and enters into contracts to purchase real estate and make mortgage loans on our behalf in compliance with our investment procedures, objectives and policies, subject to approval of our board of directors, where required;
- provides advice to us and acts on our behalf with respect to the negotiation, acquisition, financing, refinancing, holding, leasing and disposition of real estate investments;
- takes the actions and obtains the services necessary to effect the negotiation, acquisition, financing, refinancing, holding, leasing and disposition of real estate investments; and
- provides day-to-day management of our business activities and other administrative services for us as requested by our board of directors.

Our board of directors has authorized our Adviser to make investments in any property on our behalf without the prior approval of our board if the following conditions are satisfied:

- our Adviser has obtained an independent appraisal for the property indicating that the total cost of the property does not exceed its appraised value; and
- our Adviser has concluded that the property, in conjunction with our other investments and proposed investments, is reasonably expected to fulfill our investment objectives and policies as established by our board of directors then in effect.

The actual terms and conditions of transactions involving investments in properties and mortgage loans are determined in the sole discretion of our Adviser, subject at all times to compliance with the foregoing requirements. Some types of transactions, however, require the prior approval of our board of directors, including a majority of our independent directors, including the following:

- loans not secured or otherwise supported by real property;
- any acquisition or mortgage loan which at the time of investment would have a cost exceeding 20% of our total assets;
- transactions that involve conflicts of interest with our Adviser (other than reimbursement of expenses in accordance with the Advisory Agreement); and
- the lease of assets to our Adviser, its affiliates or any of our officers or directors.

Our Adviser and Administrator also engage in other business ventures and, as a result, their resources are not dedicated exclusively to our business. For example, our Adviser and Administrator also serve as the external adviser to Gladstone Capital Corporation and Gladstone Investment Corporation, both publicly traded business development companies affiliated with us, and Gladstone Land Corporation, a private agricultural real estate company. However, under the Advisory Agreement, our Adviser is required to devote sufficient resources to the administration of our affairs to discharge its obligations under the agreement. The Advisory Agreement is not assignable or transferable by either us or our Adviser without the consent of the other party, except that our Adviser may assign the Advisory Agreement to an affiliate for whom our Adviser agrees to guarantee its obligations to us. Either we or our Adviser may assign or transfer the Advisory Agreement to a successor entity.

Employees

We do not currently have any employees and do not expect to have any employees in the foreseeable future. Currently, services necessary for our business are provided by individuals who are employees of our Adviser and our Administrator pursuant to the terms of the Advisory Agreement and the Administration Agreement, respectively. Each of our executive officers is an employee or officer, or both, of our Adviser or our Administrator. No employee of our Adviser or our Administrator will dedicate all of his or her time to us. However, we expect that 15-20 full time employees of our Adviser or our Administrator will spend substantial time on our matters during calendar year 2010. To the extent that we acquire more investments, we anticipate that the number of employees of our Adviser and our Administrator who devote time to our matters will increase.

As of December 31, 2009, our Adviser and our Administrator collectively had 51 full-time employees. A breakdown of these employees is summarized by functional area in the table below:

Number of Individuals	Functional Area
11	Executive Management
32	Investment Management, Portfolio Management and Due Diligence
8	Administration, Accounting, Compliance, Human Resources, Legal and Treasury

Competition

We compete with a number of other real estate companies and traditional mortgage lenders, many of whom have greater marketing and financial resources than we do. Principal factors of competition in our primary business of investing in and owning leased industrial and commercial real property are the quality of properties, leasing terms, attractiveness and convenience of location. Additionally, our ability to compete depends upon, among other factors, trends of the national and local economies, investment alternatives, financial condition and operating results of current and prospective tenants and borrowers, availability and cost of capital, taxes and governmental regulations.

Available Information

Copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments, if any, to those reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge through our website at www.GladstoneCommercial.com and on the Security and Exchange Commission’s website at www.sec.gov. A request for any of these reports may also be submitted to us by writing: Investor Relations, Gladstone Commercial Corporation, 1521 Westbranch Drive, Suite 200, McLean, VA 22102, or by calling our toll-free investor relations line at 1-866-366-5745.

Item 1A. Risk Factors

An investment in our securities involves a number of significant risks and other factors relating to our structure and investment objectives. As a result, we cannot assure you that we will achieve our investment objectives. You should consider carefully the following information before making an investment in our securities.

Risk related to the economy

The current state of the economy and the capital markets increases the possibility of adverse effects on our financial position, results of operations and common stock price. Continued adversity in the capital markets could impact our ability to raise capital and limit our ability to make new investments.

The United States remains in a recession, and, as a result, conditions within the global credit markets and the U.S. real estate credit markets in particular continue to experience dislocation and stress. While we are seeing signs of economic improvement and stabilization in the equity markets, the debt markets are still challenging, and we do not know if adverse conditions will again intensify, nor are we able to gauge the full extent to which the disruptions will affect us. The stress to the global credit markets has resulted in an extreme tightening of liquidity and while the United States government has implemented plans designed to ease the credit markets, the credit markets remain very constricted for commercial real estate. Continued weak economic and credit conditions could adversely impact the financial condition of one or more of our tenants or our borrower and, therefore, could make a tenant or borrower bankruptcy, and payment default on the related lease or loan, more likely. As of December 31, 2009, all of our tenants and borrower were paying as agreed, however, there is no guarantee this will continue. The recession generally, and the disruptions in the capital markets in particular, have decreased liquidity and increased our cost of equity capital which has impacted our ability to raise capital and in turn greatly reduced our ability to make new investments as we did not acquire any properties during 2009. The longer these conditions persist, the greater the probability that these factors will have an adverse effect on our liquidity, financial condition, results of operations, ability to pay distributions to stockholders and the price of our common stock.

Risks related to our financing

Our line of credit contains various covenants which, if not complied with, could accelerate our repayment obligations, thereby materially and adversely affecting our liquidity, financial condition, results of operations and ability to pay distributions to stockholders.

The agreement governing our line of credit requires us to comply with certain financial and operational covenants. These covenants require us to, among other things, maintain certain financial ratios, including fixed charge coverage, debt service coverage and a minimum net worth. We are also required to limit our distributions to stockholders to 95% of our FFO, and continued compliance with this covenant may require us to limit our distributions to stockholders. As of December 31, 2009, we were in compliance with these covenants. However, our continued compliance with these covenants depends on many factors, and could be impacted by current economic conditions, and thus there are no assurances that we will continue to comply with these covenants. In addition, our lender has the option to obtain updated appraisals for the properties pledged to the line of credit as borrowing base collateral if the lender believes there has been a material adverse change to the value of any of the pledged properties. If the aggregate value of the updated appraisals is lower than the current aggregate value of appraisals, it would lower the amount of our borrowing base and reduce the amount we could borrow under the line of credit with that borrowing base. If the line is fully drawn, and the value of the borrowing base is reduced because of a lower aggregate updated appraisal value, we would be required to repay a portion of the outstanding line. Failure to comply with these covenants would result in a default which, if we were unable to obtain a waiver from the lenders, could accelerate our repayment obligations under the line of credit and thereby have a material adverse impact on our liquidity, financial condition, results of operations and ability to pay distributions to stockholders.

Our ability to obtain replacement financing on our line of credit on terms favorable to us, or at all, could adversely impact our liquidity and ability to fund new investments.

Our revolving line of credit matures in December 2010. Our ability to obtain replacement financing at the time of maturity could be constrained by current economic conditions affecting the credit markets generally. In the event that we are not able to obtain replacement financing for our credit facility on favorable terms, or at all, could have a material adverse effect on our liquidity, our ability to make distributions to our stockholders and our ability to fund new investments.

Our business strategy relies heavily on external financing, which may expose us to risks associated with leverage such as restrictions on additional borrowing and payment of distributions to stockholders, risks associated with balloon payments, and risk of loss of our equity upon foreclosure.

Our current business strategy involves the use of leverage so that we may make more investments than would otherwise be possible in order to maximize potential returns to stockholders. If the income generated by our properties and other assets fails to cover our debt service, we could be forced to reduce or eliminate distributions to our stockholders and may experience losses.

Our ability to achieve our investment objectives will be affected by our ability to borrow money in sufficient amounts and on favorable terms. We expect that we will borrow money that will be secured by our properties and that these financing arrangements will contain customary covenants such as those that limit our ability, without the prior consent of the lender, to further mortgage the applicable property or to discontinue insurance coverage. Accordingly, we may be unable to obtain the degree of leverage we believe to be optimal, which may cause us to have less cash for distribution to stockholders than we would have with an optimal amount of leverage. Our use of leverage could also make us more vulnerable to a downturn in our business or the economy, as it may become difficult to meet our debt service obligations if our cash flows are reduced due to tenant defaults. There is also a risk that a significant increase in the ratio of our indebtedness to the measures of asset value used by financial analysts may have an adverse effect on the market price of our common stock.

Some of our debt financing arrangements may require us to make lump-sum or “balloon” payments at maturity. Our ability to make a balloon payment at maturity is uncertain and may depend upon our ability to obtain additional financing or to sell the financed property. At the time the balloon payment is due, we may not be able to refinance the balloon payment on terms as favorable as the original loan or sell the property at a price sufficient to make the balloon payment, which could adversely affect the amount of distributions to our stockholders.

We intend to acquire additional properties by using our line of credit and by continuing to seek long-term financing, where we will borrow all or a portion of the purchase price of a potential acquisition and securing the loan with a mortgage on some or all of our existing real property. However, the market for long-term mortgages remains frozen in the current economic environment as the collateralized mortgage-backed securities, or CMBS, market has virtually disappeared. We are now only seeing banks willing to issue medium-term mortgages, between two and five years, on substantially less favorable terms than were previously available. Consequently, we intend to focus on using medium-term mortgages to finance our real estate until the market for long-term mortgages returns. To date we have obtained approximately $253 million in long-term financing, which we have used to acquire additional properties. If we are unable to make our debt payments as required, a lender could foreclose on the property securing its loan. This could cause us to lose part or all of our investment in such property which in turn could cause the value of our securities or the amount of distributions to our stockholders to be reduced.

Interest rate changes may adversely affect our results of operations.

We may experience interest rate volatility in connection with mortgage loans on our properties or other variable-rate debt that we may obtain from time to time. We currently have one variable rate mortgage loan, certain of our leases contain escalations based on market interest rates, and the interest rate on our existing line of credit is variable. Although we seek to mitigate this risk by structuring such provisions to contain a minimum interest rate or escalation rate, as applicable, these features do not eliminate this risk. We are also exposed to the effects of interest rate changes as a result of the holding of our cash and cash equivalents in short-term, interest-bearing investments. We have not entered into any derivative contracts to attempt to further manage our exposure to interest rate fluctuations. A significant change in interest rates could have an adverse impact on our results of operations.

Risks related to the real estate industry

We are subject to certain risks associated with real estate ownership and lending which could reduce the value of our investments.

Our investments include net leased industrial and commercial property and mortgage loans secured by industrial and commercial real estate. Our performance, and the value of our investments, is subject to risks incident to the ownership and operation of these types of properties, including:

- changes in the general economic climate;
- changes in local conditions such as an oversupply of space or reduction in demand for real estate;
- changes in interest rates and the availability of financing;
- competition from other available space; and
- changes in laws and governmental regulations, including those governing real estate usage, zoning and taxes.

The debt obligations of our tenants and borrowers are dependent upon certain factors which neither we nor our tenants or borrowers control, such as national, local and regional business and economic conditions, government economic policies, and the level of interest rates. As discussed in "*Risk related to the economy"* above, the credit markets have tightened resulting in a significant contraction in available liquidity. Accordingly, the credit market constraints and recession may increase the operating expenses of our tenants and borrowers and decrease their ability to make lease or mortgage payments, and thereby adversely affect our liquidity, financial condition, results of operations and ability to pay distributions to our stockholders.

Competition for the acquisition of real estate may impede our ability to make acquisitions or increase the cost of these acquisitions.

We compete for the acquisition of properties with many other entities engaged in real estate investment activities, including financial institutions, institutional pension funds, other REITs, other public and private real estate companies and private real estate investors. These competitors may prevent us from acquiring desirable properties or may cause an increase in the price we must pay for real estate. Our competitors may have greater resources than we do, and may be willing to pay more for certain assets or may have a more compatible operating philosophy with our acquisition targets. In particular, larger REITs may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. Our competitors may also adopt transaction structures similar to ours, which would decrease our competitive advantage in offering flexible transaction terms. In addition, the number of entities and the amount of funds competing for suitable investment properties may increase, resulting in increased demand and increased prices paid for these properties.

Our ownership of properties through ground leases exposes us to risks which are different than those resulting from our ownership of fee title to other properties.

We have acquired an interest in certain of our properties by acquiring a leasehold interest in the land underlying the property, and we may acquire additional properties in the future that are subject to similar ground leases. In this situation, we have no economic interest in the land underlying the property and do not control this land. Because we do not control the underlying land, this type of ownership interest poses potential risks for our business because (i) if the ground lease terminates for any reason, we will lose our interest in the property, including any investment that we made in the property, (ii) if our tenant defaults under the previously existing lease, we will continue to be obligated to meet the terms and conditions of the ground lease without the annual amount of ground lease payments reimbursable to us by the tenant, and (iii) if the third party owning the land under the ground lease disrupts our use either permanently or for a significant period of time, then the value of our assets could be impaired and our results of operations could be adversely affected.

Risks related to our tenants, borrowers and properties

Highly leveraged tenants and borrowers may be unable to pay rent or make mortgage payments, which could adversely affect our cash available to make distributions to our stockholders.

Some of our tenants and borrowers may have recently been either restructured using leverage, or acquired in a leveraged transaction. Tenants and borrowers that are subject to significant debt obligations may be unable to make their rent or mortgage payments if there are adverse changes to their businesses or because of the impact of the recession discussed in "*Risk related to the economy.*" Tenants that have experienced leveraged restructurings or acquisitions will generally have substantially greater debt and substantially lower net worth than they had prior to the leveraged transaction. In addition, the payment of rent and debt service may reduce the working capital available to leveraged entities and prevent them from devoting the resources necessary to remain competitive in their industries.

In situations where management of the tenant or borrower will change after a transaction, it may be difficult for our Adviser to determine with certainty the likelihood of the tenant's or borrower's business success and of its ability to pay rent or make mortgage payments throughout the lease or loan term. These companies generally are more vulnerable to adverse economic and business conditions, and increases in interest rates.

Leveraged tenants and borrowers are more susceptible to bankruptcy than unleveraged tenants. Bankruptcy of a tenant or borrower could cause:

- the loss of lease or mortgage payments to us;
- an increase in the costs we incur to carry the property occupied by such tenant;
- a reduction in the value of our securities; or
- a decrease in distributions to our stockholders.

Under bankruptcy law, a tenant who is the subject of bankruptcy proceedings has the option of continuing or terminating any unexpired lease. If a bankrupt tenant terminates a lease with us, any claim we might have for breach of the lease (excluding a claim against collateral securing the claim) will be treated as a general unsecured claim. Our claim would likely be capped at the amount the tenant owed us for unpaid rent prior to the bankruptcy unrelated to the termination, plus the greater of one year's lease payments or 15% of the remaining lease payments payable under the lease (but no more than three years' lease payments). In addition, due to the long-term nature of our leases and terms providing for the repurchase of a property by the tenant, a bankruptcy court could re-characterize a net lease transaction as a secured lending transaction. If that were to occur, we would not be treated as the owner of the property, but might have additional rights as a secured creditor.

Net leases may not result in fair market lease rates over time.

We expect a large portion of our rental income to come from net leases and net leases frequently provide the tenant greater discretion in using the leased property than ordinary property leases, such as the right to sublease the property, subject to our approval, to make alterations in the leased premises and to terminate the lease prior to its expiration under specified circumstances. Further, net leases are typically for longer lease terms and, thus, there is an increased risk that contractual rental increases in future years will fail to result in fair market rental rates during those years. As a result, our income and distributions to our stockholders could be lower than they would otherwise be if we did not engage in net leases.

Many of our tenants are small and medium size businesses, which exposes us to additional risks unique to these entities.

Leasing real property or making mortgage loans to small and medium-sized businesses exposes us to a number of unique risks related to these entities, including the following:

- *Small and medium-sized businesses may have limited financial resources and may not be able to make their lease or mortgage payments on a timely basis, or at all.* A small or medium-sized tenant or borrower is more likely to have difficulty making its lease or mortgage payments when it experiences adverse events, such as the failure to meet its business plan, a downturn in its industry or negative economic conditions. In addition, because of the lack of available credit in the current marketplace, as discussed further in "*Risk related to the economy"* above, our tenants might not be able to obtain the financing necessary to fund their working capital, which could hinder their ability to make their lease or mortgage payment on a timely basis, or at all.

- *Small and medium-sized businesses typically have narrower product lines and smaller market shares than large businesses.* Because our target tenants and borrowers are smaller businesses, they will tend to be more vulnerable to competitors' actions and market conditions, as well as general economic downturns. In addition, our target tenants and borrowers may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and other capabilities and a larger number of qualified managerial and technical personnel.

- *There is generally little or no publicly available information about our target tenants and borrowers.* Many of our tenants and borrowers are likely to be privately owned businesses, about which there is generally little or no publicly available operating and financial information. As a result, we will rely on our Adviser to perform due diligence investigations of these tenants and borrowers, their operations and their prospects. We may not learn all of the material information we need to know regarding these businesses through our investigations.

- *Small and medium-sized businesses generally have less predictable operating results.* We expect that many of our tenants and borrowers may experience significant fluctuations in their operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, may require substantial additional capital to support their operations, to finance expansion or to maintain their competitive positions, may otherwise have a weak financial position or may be adversely affected by changes in the business cycle. Our tenants and borrowers may not meet net income, cash flow and other coverage tests typically imposed by their senior lenders. The failure of a tenant or borrower to satisfy financial or operating covenants imposed by senior lenders could lead to defaults and, potentially, foreclosure on credit facilities, which could additionally trigger cross-defaults in other agreements. If this were to occur, it is possible that the ability of the tenant or borrower to make required payments to us would be jeopardized.

- *Small and medium-sized businesses are more likely to be dependent on one or two persons.* Typically, the success of a small or medium-sized business also depends on the management talents and efforts of one or two persons or a small group of persons. The death, disability or resignation of one or more of these persons could have a material adverse impact on our tenant or borrower and, in turn, on us.

- *Small and medium-sized businesses may have limited operating histories.* While we intend to target as tenants and borrowers stable companies with proven track records, we may lease properties or lend money to new companies that meet our other investment criteria. Tenants or borrowers with limited operating histories will be exposed to all of the operating risks that new businesses face and may be particularly susceptible to, among other risks, market downturns, competitive pressures and the departure of key executive officers.

We may not have funding for future tenant improvements.

When a tenant at one of our properties does not renew its lease or otherwise vacates its space in one of our buildings, it is likely that, in order to attract one or more new tenants, we will be required to expend substantial funds for tenant improvements and tenant refurbishments to the vacated space. We cannot assure you that we will have sufficient sources of funding available to us for such purposes in the future.

Our real estate investments may include special use and single or multi-tenant properties that may be difficult to sell or re-lease upon tenant defaults or early lease terminations.

We focus our investments on commercial and industrial properties, a number of which include manufacturing facilities, special use storage or warehouse facilities and special use single or multi-tenant properties. These types of properties are relatively illiquid compared to other types of real estate and financial assets. This illiquidity will limit our ability to quickly change our portfolio in response to changes in economic or other conditions. With these properties, if the current lease is terminated or not renewed or, in the case of a mortgage loan, if we take such property in foreclosure, we may be required to renovate the property or to make rent concessions in order to lease the property to another tenant or sell the property. In addition, in the event we are forced to sell the property, we may have difficulty selling it to a party other than the tenant or borrower due to the special purpose for which the property may have been designed.

These and other limitations may affect our ability to sell or re-lease properties without adversely affecting returns to our stockholders.

Our real estate investments have a limited number of tenants and are concentrated in a limited number of industries, which subjects us to an increased risk of significant loss if any one of these tenants is unable to pay or if particular industries experience downturns.

As of December 31, 2009, we owned 64 properties and had 50 tenants in these properties, and our 5 largest tenants accounted for approximately 24.0% of our total rental income. A consequence of a limited number of tenants is that the aggregate returns we realize may be substantially adversely affected by the unfavorable performance of a small number of tenants. We do not have fixed guidelines for industry concentration and our investments could potentially be concentrated in relatively few industries. As of December 31, 2009, 14.9% of our total rental income was earned from tenants in the electronic industry, 14.8% of our total rental income was earned from tenants in the healthcare, education and childcare industry and 13.1% of our total rental income was earned from tenants in the telecommunications industry. As a result, a downturn in an industry in which we have invested a significant portion of our total assets could have a material adverse effect on us.

The inability of a tenant in a single tenant property to pay rent will reduce our revenues and increase our carrying costs of the building.

Since most of our properties are occupied by a single tenant, the success of our investments will be materially dependent on the financial stability of these tenants. If a tenant defaults, our rental revenues would be reduced and our expenses associated with carrying the property would increase, as we will be responsible for payments such as taxes and insurance. Lease payment defaults by these tenants could adversely affect our cash flows and cause us to reduce the amount of distributions to stockholders. In the event of a default by a tenant, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and re-leasing our property. If a lease is terminated, there is no assurance that we will be able to lease the property for the rent previously received or sell the property without incurring a loss.

Liability for uninsured losses could adversely affect our financial condition.

Losses from disaster-type occurrences (such as wars or earthquakes) may be either uninsurable or not insurable on economically viable terms. Should an uninsured loss occur, we could lose our capital investment or anticipated profits and cash flow from one or more properties.

Potential liability for environmental matters could adversely affect our financial condition.

Our purchase of industrial and commercial properties subjects us to the risk of liabilities under federal, state and local environmental laws. Some of these laws could subject us to:

- responsibility and liability for the cost of removal or remediation of hazardous substances released on our properties, generally without regard to our knowledge of or responsibility for the presence of the contaminants;
- liability for the costs of removal or remediation of hazardous substances at disposal facilities for persons who arrange for the disposal or treatment of these substances; and
- potential liability for common law claims by third parties for damages resulting from environmental contaminants.

We generally include provisions in our leases making tenants responsible for all environmental liabilities and for compliance with environmental regulations, and requiring tenants to reimburse us for damages or costs for which we have been found liable. However, these provisions will not eliminate our statutory liability or preclude third party claims against us. Even if we were to have a legal claim against a tenant to enable us to recover any amounts we are required to pay, there are no assurances that we would be able to collect any money from the tenant. Our costs of investigation, remediation or removal of hazardous substances may be substantial. In addition, the presence of hazardous substances on one of our properties, or the failure to properly remediate a contaminated property, could adversely affect our ability to sell or lease the property or to borrow using the property as collateral.

We obtain environmental site assessments, or ESAs, on all of our properties at the time of acquisition. The ESAs are intended to identify potential environmental contamination. The ESAs include a historical review of the property, a review of certain public records, a preliminary investigation of the site and surrounding properties, screening for the presence of hazardous substances and underground storage tanks, and the preparation and issuance of a written report.

The ESAs that we have obtained have not revealed any environmental liability or compliance concerns that we believe would have a material adverse effect on our business, assets, results of operations or liquidity, nor are we aware of any such liability. Nevertheless, it is possible that these ESAs do not reveal all environmental liabilities or that there are material environmental liabilities or compliance concerns that we are not aware of. Moreover, we cannot assure you that (i) future laws, ordinances or regulations will not impose material environmental liability, or (ii) the current environmental condition of a property will not be affected by the condition of properties in the vicinity of the property (such as the presence of leaking underground storage tanks) or by third parties unrelated to us.

If a sale-leaseback transaction is re-characterized in a tenant's bankruptcy proceeding, our financial condition could be adversely affected.

We may enter into sale-leaseback transactions, whereby we would purchase a property and then lease the same property back to the person from whom we purchased it. In the event of the bankruptcy of a tenant, a transaction structured as a sale-leaseback may be re-characterized as either a financing or a joint venture, either of which outcomes could adversely affect our business. If the sale-leaseback were re-characterized as a financing, we might not be considered the owner of the property, and as a result would have the status of a creditor in relation to the tenant. In that event, we would no longer have the right to sell or encumber our ownership interest in the property. Instead, we would have a claim against the tenant for the amounts owed under the lease, with the claim arguably secured by the property. The tenant/debtor might have the ability to propose a plan restructuring the term, interest rate and amortization schedule of its outstanding balance. If confirmed by the bankruptcy court, we could be bound by the new terms, and prevented from foreclosing our lien on the property. If the sale-leaseback were re-characterized as a joint venture, we could be treated as a co-venturer with our lessee with regard to the property. As a result, we could be held liable, under some circumstances, for debts incurred by the lessee relating to the property. Either of these outcomes could adversely affect our cash flow and our ability to pay distributions to stockholders.

Risks related to our Adviser

We are dependent upon our key management personnel, who are employed by our Adviser, for our future success, particularly David Gladstone, Terry Lee Brubaker and George Stelljes III.

We are dependent on our senior management and other key management members to carry out our business and investment strategies. Our future success depends to a significant extent on the continued service and coordination of our senior management team, particularly David Gladstone, our chairman and chief executive officer, Terry Lee Brubaker, our vice chairman and chief operating officer, and George Stelljes III, our president and chief investment officer, all of whom are subject to an employment agreement with our Adviser. The departure of any of our executive officers or key employees could have a material adverse effect on our ability to implement our business strategy and to achieve our investment objectives.

Our success depends on the performance of our Adviser and if our Adviser makes inadvisable investment or management decisions, our operations could be materially adversely impacted.

Our ability to achieve our investment objectives and to pay distributions to our stockholders is dependent upon the performance of our Adviser in evaluating potential investments, selecting and negotiating property purchases and dispositions and mortgage loans, selecting tenants and borrowers, setting lease or mortgage loan terms and determining financing arrangements. Accomplishing these objectives on a cost-effective basis is largely a function of our Adviser's marketing capabilities, management of the investment process, ability to provide competent, attentive and efficient services and our access to financing sources on acceptable terms. Our stockholders have no opportunity to evaluate the terms of transactions or other economic or financial data concerning our investments and must rely entirely on the analytical and management abilities of our Adviser and the oversight of our board of directors. If our Adviser or our board of directors makes inadvisable investment or management decisions, our operations could be materially adversely impacted. As we grow, our Adviser may be required to hire, train, supervise and manage new employees. Our Adviser's failure to effectively manage our future growth could have a material adverse effect on our business, financial condition and results of operations.

We may have conflicts of interest with our Adviser and other affiliates.

Our Adviser manages our business and locates, evaluates, recommends and negotiates the acquisition of our real estate investments. At the same time, our advisory agreement permits our Adviser to conduct other commercial activities and provide management and advisory services to other entities, including Gladstone Capital Corporation, Gladstone Investment Corporation and Gladstone Land Corporation, an entity affiliated with our chairman David Gladstone. Moreover, with the exception of our chief financial officer, all of our officers and directors are also officers and directors of Gladstone Capital Corporation and Gladstone Investment Corporation, which actively make loans to and invest in small and medium-sized companies. As a result, we may from time to time have conflicts of interest with our Adviser in its management of our business and with Gladstone Capital and Gladstone Investment, which may arise primarily from the involvement of our Adviser, Gladstone Capital, Gladstone Investment, Gladstone Land and their affiliates in other activities that may conflict with our business.

Examples of these potential conflicts include:

- our Adviser may realize substantial compensation on account of its activities on our behalf, and may, therefore, be motivated to approve acquisitions solely on the basis of increasing compensation to itself;
- we may experience competition with our affiliates for financing transactions;
- our Adviser may earn fee income from our borrowers or tenants; and
- our Adviser and other affiliates such as Gladstone Capital, Gladstone Investment and Gladstone Land could compete for the time and services of our officers and directors.

These and other conflicts of interest between us and our Adviser and other affiliates could have a material adverse effect on the operation of our business and the selection or management of our real estate investments.

Our Adviser is not obligated to provide a waiver of the incentive fee, which could negatively impact our earnings and our ability to maintain our current level of, or increase, distributions to our stockholders.

The Advisory Agreement contemplates a quarterly incentive fee based on our funds from operations. Our Adviser has the ability to issue a full or partial waiver of the incentive fee for current and future periods, however, our Adviser is not required to issue any waiver. Any waiver issued by our Adviser is an unconditional and irrevocable waiver. For the years ended December 31, 2009, 2008 and 2007, an unconditional and irrevocable voluntary waiver was issued by our Adviser for approximately $0.7 million, $2.2 million and $2.3 million, respectively. If our Adviser does not issue this waiver in future quarters, it could negatively impact our earnings and may compromise our ability to maintain our current level of, or increase, distributions to our stockholders, which could have a material adverse impact on our stock price.

We may be obligated to pay our Adviser incentive compensation even if we incur a loss.

The Advisory Agreement entitles our Adviser to incentive compensation based on our FFO, which rewards the Adviser if our quarterly FFO (before giving effect to any incentive fee) exceeds 1.75% (7% annualized) of our total stockholders' equity (less the recorded value of any preferred stock). Our pre-incentive fee FFO for incentive compensation purposes excludes the effect of any unrealized gains, losses or other items that do not affect realized net income that we may incur in the fiscal quarter, even if such losses result in a net loss on our statement of operations for that quarter. Thus, we may be required to pay our Adviser incentive compensation for a fiscal quarter even if we incur a net loss for that quarter.

Risks of being a REIT

We may not qualify as a REIT for federal income tax purposes, which would subject us to federal income tax on our taxable income at regular corporate rates, thereby reducing the amount of funds available for paying distributions to our stockholders.

We have historically operated and intend to continue to operate in a manner that will allow us to qualify as a REIT for federal income tax purposes. Our qualification as a REIT depends on our ability to meet various requirements set forth in the Internal Revenue Code concerning, among other things, the ownership of our outstanding common stock, the nature of our assets, the sources of our income and the amount of our distributions to our stockholders. The REIT qualification requirements are extremely complex, and interpretations of the federal income tax laws governing qualification as a REIT are limited. Accordingly, we cannot be certain that we will be successful in operating so as to qualify as a REIT. At any time new laws, interpretations or court decisions may change the federal tax laws relating to, or the federal income tax consequences of, qualification as a REIT. It is also possible that future economic, market, legal, tax or other considerations may cause our board of directors to revoke our REIT election, which it may do without stockholder approval.

If we lose or revoke our REIT status, we will face serious tax consequences that will substantially reduce the funds available for distribution to you because:

- we would not be allowed a deduction for distributions to stockholders in computing our taxable income, we would be subject to federal income tax at regular corporate rates and we might need to borrow money or sell assets in order to pay any such tax;
- we could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and
- unless we are entitled to relief under statutory provisions, we would be prevented from re-qualifying to be taxed as a REIT for the four taxable years following the year during which we ceased to qualify.

In addition, if we fail to qualify as a REIT, all distributions to stockholders would be subject to tax to the extent of our current and accumulated earnings and profits. If we were taxed as a regular corporation, corporate distributees might be eligible for the dividends received deduction, but we would not be required to make distributions to stockholders.

We have not sought a ruling from the Internal Revenue Service that we qualify as a REIT, nor do we intend to do so in the future.

An IRS determination that we do not qualify as a REIT would deprive our stockholders of the tax benefits of our REIT status only if the IRS determination is upheld in court or otherwise becomes final. To the extent that we challenge an IRS determination that we do not qualify as a REIT, we may incur legal expenses that would reduce our funds available for distribution to our stockholders. As a result of all these factors, our failure to qualify as a REIT could impair our ability to expand our business and raise capital, and would adversely affect the value of our common stock.

Failure to make required distributions or to satisfy certain income requirements would subject us to tax.

In order to qualify as a REIT, each year we must distribute to our stockholders at least 90% of our taxable income, other than any net capital gains. To the extent that we satisfy the distribution requirement but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed income. In addition, we will incur a 4% nondeductible excise tax on the amount, if any, by which our distributions in any year are less than the sum of:

- 85% of our ordinary income for that year;
- 95% of our capital gain net income for that year; and
- 100% of our undistributed taxable income from prior years.

In addition, each year at least 95% of our gross income must be derived from passive sources in real estate and securities, and at least 75% of our gross income must be derived from real estate sources. If we fail to satisfy either of these gross income tests, but nonetheless continue to qualify as a REIT because we meet certain other requirements, we will incur a tax of up to 100% on the greater of the excess of 95% of our gross income over the amount of our qualifying income, or the excess of 75% of our gross income over the amount of our qualifying income.

We intend to pay out our income to our stockholders in a manner intended to satisfy the distribution requirement applicable to REITs and the foregoing gross income tests and, thus, avoid corporate income taxes and the 4% excise tax. Differences in timing between the recognition of income and the related cash receipts or the effect of required debt amortization payments could require us to borrow money or sell assets to pay out enough of our taxable income to satisfy the distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year. In the future, we may borrow funds to pay distributions to our stockholders and the limited partners of our Operating Partnership. Any funds that we borrow would subject us to interest rate and other market risks.

Because we must distribute a substantial portion of our net income to qualify as a REIT, we largely depend on third-party sources of capital to fund our future capital needs.

To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our taxable income each year, excluding capital gains. Because of this distribution requirement, it is not likely that we will be able to fund a significant portion of our future capital needs, including property acquisitions, from retained earnings. Therefore, we mostly rely on public and private debt and equity capital to fund our business. This capital may not be available on favorable terms or at all. Our access to additional capital is also dependent on the market's perception of our growth potential and our current and potential future earnings. Moreover, additional debt financings may substantially increase our leverage. As discussed in "*Risk related to the economy"* above, the current recession has severely decreased liquidity and increased our cost of debt and equity capital, thus limiting our ability to raise additional capital and to fund new property acquisitions.

Other risks

Recent accounting pronouncements may impact our results of operations.

Beginning January 1, 2009, Accounting Standards Codification, or ASC, 805, "Business Combinations," significantly changed the accounting for acquisitions involving business combinations, including our acquisition of properties with existing leases in place, as it requires that the assets and liabilities of all business combinations be recorded at fair value, with limited exceptions. ASC 805 requires that all expenses related to an acquisition be expensed as incurred, rather than capitalized into the cost of the acquisition as had been the previous accounting. ASC 805 was effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008. We anticipate that approximately 1% of the total acquisition price will be expensed as part of the acquisition, however this amount could differ significantly. Because we did not acquire any properties during 2009, this pronouncement did not have a significant impact on our operations during 2009. We expect, however, that the expensing of acquisition costs will lower our earnings during 2010 and any future years in which we acquire new properties.

We are subject to restrictions that may discourage a change of control. Certain provisions contained in our articles of incorporation and Maryland law may prohibit or restrict a change of control.

- Our articles of incorporation prohibit ownership of more than 9.8% of the outstanding shares of our capital stock by one person. This restriction may discourage a change of control and may deter individuals or entities from making tender offers for our capital stock, which offers might otherwise be financially attractive to our stockholders or which might cause a change in our management.

- Our board of directors is divided into three classes, with the term of the directors in each class expiring every third year. At each annual meeting of stockholders, the successors to the class of directors whose term expires at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. After election, a director may only be removed by our stockholders for cause. Election of directors for staggered terms with limited rights to remove directors makes it more difficult for a hostile bidder to acquire control of us. The existence of this provision may negatively impact the price of our securities and may discourage third-party bids to acquire our securities. This provision may reduce any premiums paid to stockholders in a change in control transaction.

- Certain provisions of Maryland law applicable to us prohibit business combinations with:

  - any person who beneficially owns 10% or more of the voting power of our common stock, referred to as an "interested stockholder;"

  - an affiliate of ours who, at any time within the two-year period prior to the date in question, was an interested stockholder; or

  - an affiliate of an interested stockholder.

These prohibitions last for five years after the most recent date on which the interested stockholder became an interested stockholder. Thereafter, any business combination with the interested stockholder must be recommended by our board of directors and approved by the affirmative vote of at least 80% of the votes entitled to be cast by holders of our outstanding shares of common stock and two-thirds of the votes entitled to be cast by holders of our common stock other than shares held by the interested stockholder. These requirements could have the effect of inhibiting a change in control even if a change in control were in our stockholders' interest. These provisions of Maryland law do not apply, however, to business combinations that are approved or exempted by our board of directors prior to the time that someone becomes an interested stockholder.

Market conditions could adversely affect the market price and trading volume of our securities.

The market price of our common and preferred stock may be highly volatile and subject to wide fluctuations, and the trading volume in our common and preferred stock may fluctuate and cause significant price variations to occur. Due to market volatility, our common stock significantly fluctuated during 2009. We cannot assure investors that the market price of our common stock will not fluctuate or decline further in the future. Some market conditions that could negatively affect our share price or result in fluctuations in the price or trading volume of our securities include:

- price and volume fluctuations in the stock market from time to time, which are often unrelated to the operating performance of particular companies;
- significant volatility in the market price and trading volume of shares of REITs, real estate companies or other companies in our sector, which is not necessarily related to the performance of those companies;
- price and volume fluctuations in the stock market as a result of terrorist attacks, or speculation regarding future terrorist attacks, in the United States or abroad;
- actual or anticipated variations in our quarterly operating results or distributions to stockholders;
- changes in our funds from operations or earnings estimates or the publication of research reports about us or the real estate industry generally;
- actions by institutional stockholders;
- speculation in the press or investment community;
- changes in regulatory policies or tax guidelines, particularly with respect to REITs; and
- investor confidence in the stock market.

Shares of common stock eligible for future sale may have adverse effects on our share price.

We cannot predict the effect, if any, of future sales of common stock, or the availability of shares for future sales, on the market price of our common stock. Sales of substantial amounts of common stock (including shares of common stock issuable upon the conversion of units of our operating partnership that we may issue from time to time or issuable upon conversion of our senior common stock), or the perception that these sales could occur, may adversely affect prevailing market prices for our common stock.

Legislative or regulatory action could adversely affect investors.

In recent years, numerous legislative, judicial and administrative changes have been made in the provisions of the federal and state income tax laws applicable to investments in REIT shares. Additional changes to tax laws are likely to continue to occur in the future, and we cannot assure you that any such changes will not adversely affect the taxation of our stockholders. Any such changes could have an adverse effect on an investment in our shares or on the market value or the resale potential of our properties.

Our Board of Directors may change our investment policy without stockholders' approval.

Subject to our co-investment policy, our Board of Directors will determine its investment and financing policies, growth strategy and its debt, capitalization, distribution, acquisition, disposition and operating policies. Our Board of Directors may revise or amend these strategies and policies at any time without a vote by stockholders. Accordingly, stockholders' control over changes in our strategies and policies is limited to the election of directors, and changes made by our Board of Directors may not serve the interests of stockholders and could adversely affect our financial condition or results of operations, including our ability to distribute cash to stockholders or qualify as a REIT.

If our Operating Partnership fails to maintain its status as a partnership or other form of pass-through entity for federal income tax purposes, its income may be subject to taxation.

As we hold all of the ownership interests in our Operating Partnership, it is currently disregarded for income tax purposes. We intend that it will qualify as a partnership for income tax purposes upon the admission of additional partners; however, if the IRS were to successfully challenge the status of our Operating Partnership as a partnership, it would be taxable as a corporation. In such event, this would reduce the amount of distributions that our Operating Partnership could make to us. This could also result in our losing REIT status and becoming subject to a corporate level tax on our own income. This would substantially reduce our cash available to pay distributions and the return on your investment. In addition, if any of the entities through which our Operating Partnership owns its properties, in whole or in part, loses its characterization as a partnership for federal income tax purposes, it would be subject to taxation as a corporation, thereby reducing distributions to our Operating Partnership. Such a recharacterization of an underlying property owner could also threaten our ability to maintain REIT status.

Our potential participation in joint ventures creates additional risk.

We may participate in joint ventures or purchase properties jointly with other unaffiliated entities. There are additional risks involved in these types of transactions. These risks include the potential of our joint venture partner becoming bankrupt or our economic or business interests diverging. These diverging interests could, among other things, expose us to liabilities of the joint venture in excess of our proportionate share of these liabilities. The partition rights of each owner in a jointly owned property could reduce the value of each portion of the divided property.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2009, we owned 64 properties of which the details are outlined in the table below:

Property	Year Built/ Improvements	Date of Purchase	Rentable Square Feet	Occupancy	Total Rental Income for the Year Ended December 31, 2009	Total Rental Income per Occupied Square Foot	Year of Lease Expiration
208 South Rogers Lane (Raleigh NC)	1997	12/23/2003	58,926	100%	$ 624,118	$ 10.59	2015
3874 Highland Park NW (Canton, OH)	1994	1/30/2004	54,018	100%	$ 337,625	$ 6.25	2014
260 Springside Drive (Akron, OH)	1968/1999	4/29/2004	83,891	100%	$ 1,063,216	$ 12.67	2015(1)
5815 Westpark Drive (Charlotte, NC)	1984/1995	6/30/2004	64,500	100%	$ 996,484	$ 15.45	2019
171 Great Oak Drive (Canton, NC)	1998	7/6/2004	228,000	100%	$ 600,145	$ 2.63	2024
Rt. 219, Tax Parcel No. 33-251-0246, (Snyder Township, PA)	1991	8/5/2004	290,000	100%	$ 930,522	$ 3.21	2014
9698 Old US Hwy. 52 (Lexington, NC)	1986	8/5/2004	154,000	100%	$ 424,964	$ 2.76	2014
9100 Highway 290 East (Austin, TX)	2001	9/16/2004	51,933	100%	$ 751,333	$ 14.47	2015
13 Industrial Park Drive (Mt. Pocono, PA)	1995-1999	10/15/2004	223,275	100%	$ 638,554	$ 2.86	2021
6550 First Park Ten Boulevard (San Antonio, TX)	1999	2/10/2005	60,245	100%	$ 769,793	$ 12.78	2014
4630 Journal Street (Columbus, OH)	1995	2/10/2005	39,000	100%	$ 308,105	$ 7.90	2015
199 Sing Sing Road (Big Flats, NY)	2001	4/15/2005	120,000	100%	$ 644,252	$ 5.37	2013
2525 North Woodlawn Avenue (Wichita, KS)	2000	5/18/2005	69,287	100%	$ 1,109,217	$ 16.01	2012
725 & 737 Great Southwest Pkwy (Arlington, TX)	1966	5/26/2005	64,000	100%	$ 580,596	$ 9.07	2013
4032 Linden Avenue (Dayton, OH)	1956	6/30/2005	59,894	100%	$ 268,042	$ 4.48	2018
81 Corbett Way (Eatontown, NJ)	1991	7/7/2005	30,268	100%	$ 536,989	$ 17.74	2024
17 & 20 Veronica Avenue (Franklin Township, NJ)	1978	7/11/2005	183,000	100%	$ 974,760	$ 5.33	2020
150 Ridgeview Center Drive (Duncan, SC)	1984/2001/2007	7/14/2005	222,670	100%	$ 1,539,286	$ 6.91	2020
170 Ridgeview Center Drive (Duncan, SC)	1984/2001/2007	7/14/2005	55,350	100%	$ 382,627	$ 6.91	2020
5656 Campus Parkway (Hazelwood, MO)	1977	8/5/2005	51,155	100%	$ 289,928	$ 5.67	2012
914 Wohlert Street (Angola, IN)	1982	9/2/2005	52,080	100%	$ 125,202	$ 2.40	2020
800 Growth Parkway (Angola, IN)	1998	9/2/2005	50,000	100%	$ 125,202	$ 2.50	2020
802 East 11th Street (Rock Falls, IL)	1988	9/2/2005	52,000	100%	$ 125,202	$ 2.41	2020

Item 2. Properties (Continued)

Property	Year Built/ Improvements	Date of Purchase	Rentable Square Feet	Occupancy	Total Rental Income for the Year Ended December 31, 2009	Total Rental Income per Occupied Square Foot	Year of Lease Expiration
2 Opportunity Way (Newburyport, MA)	1994	10/17/2005	86,308	100%	$ 891,492	$ 10.33	2015
255 Spring Street (Clintonville, WI)	1992	10/31/2005	291,142	100%	$ 575,006	$ 1.98	2020
5700 Lee Road (Maple Heights, OH)	1974	12/21/2005	347,218	100%	$ 1,138,136	$ 3.28	2015
7545 Midlothian Turnpike (Richmond, VA)	1972	12/30/2005	42,213	100%	$ 722,866	$ 17.12	2010
3930 Sunforest Court (Toledo, OH)	1979	12/30/2005	23,368	100%	$ 327,152	$ 14.00	2010
75 Canal Street (South Hadley, MA)	1978	2/15/2006	150,000	100%	$ 359,673	$ 2.40	2010
2101 Fox Drive (Champaign, IL)	1996	2/21/2006	20,400	100%	$ 295,220	$ 14.47	2013
2109 Fox Drive (Champaign, IL)	1996	2/21/2006	40,000	100%	$ 578,863	$ 14.47	2013
2215 Fox Drive (Champaign, IL)	1996	2/21/2006	25,000	100%	$ 361,790	$ 14.47	2013
2301 Fox Drive (Champaign, IL)	1996	2/21/2006	22,862	100%	$ 330,849	$ 14.47	2013
2470 Highcrest Road (Roseville, MN)	1964	2/21/2006	359,540	100%	$ 3,030,460	$ 8.43	2012
12000 Portland Avenue South (Burnsville, MN)	1984	5/10/2006	114,100	100%	$ 1,234,662	$ 10.82	2015
14701 Anthony Avenue (Menomonee Falls, WI)	1986/2000	6/30/2006	125,692	100%	$ 775,274	$ 6.17	2016
1025 Birdsong Drive (Baytown, TX)	1997	7/11/2006	12,000	100%	$ 254,121	$ 21.18	2013
42400 Merrill Road (Sterling Heights, MI)	1979/1989	9/22/2006	532,869	100%	$ 1,166,654	$ 2.19	2016
2150, 2200 Pinson Valley Parkway (Birmingham, AL)	1961/1980	9/29/2006	63,514	100%	$ 271,164	$ 4.27	2016
2325 West Fairview Avenue (Montgomery, AL)	1962/1989	9/29/2006	29,472	100%	$ 125,827	$ 4.27	2016
5221 N Highway 763 (Columbia, MO)	1978	9/29/2006	16,275	100%	$ 69,484	$ 4.27	2016
4690 Parkway Drive (Mason, OH)	2002	1/5/2007	60,000	100%	$ 681,270	$ 11.35	2013
201 South Rogers Lane (Raleigh, NC)	1994	2/16/2007	115,500	100%	$ 717,203	$ 6.21	2015
1110 West Tenkiller (Tulsa, OK)	2004	3/1/2007	238,310	100%	$ 1,565,794	$ 6.57	2019
3725 East 10th Court (Hialeah, FL)	1956/1992	3/9/2007	132,337	100%	$ 995,048	$ 7.52	2022
554 Clark Road (Tewksbury, MA)	1985/1989	5/17/2007	102,200	100%	$ 922,926	$ 9.03	2017
5324 Natorp Boulevard (Mason, OH)	2007	7/1/2007	21,264	100%	$ 583,131	$ 27.42	2027

Property	Year Built/ Improvements	Date of Purchase	Rentable Square Feet	Occupancy	Total Rental Income for the Year Ended December 31, 2009	Total Rental Income per Occupied Square Foot	Year of Lease Expiration
7282 Willam Barry Boulevard (Cicero, NY)	2005	9/6/2007	71,880	100%	$ 529,743	$ 7.37	2020
1515 Arboretum Drive SE (Grand Rapids, MI)	2001	9/28/2007	63,235	100%	$ 1,029,184	$ 16.28	2016
4 Territorial Court (Bollingbrook, IL)	2002	9/28/2007	55,869	100%	$ 619,296	$ 11.08	2014
2349 Lawrenceville Highway (Decatur, GA)	1989	12/13/2007	16,740	100%	$ 404,159	$ 24.14	2026
2341 Lawrenceville Highway (Decatur, GA)	1989	12/13/2007	4,372	100%	$ 105,555	$ 24.14	2026
2339 Lawrenceville Highway (Decatur, GA)	1989	12/13/2007	5,488	100%	$ 132,498	$ 24.14	2026
311 Phillip Boulevard (Lawrenceville, GA)	2005	12/13/2007	12,412	100%	$ 349,871	$ 28.19	2026
2096 McGee Road (Snellville, GA)	1986	12/13/2007	3,800	100%	$ 90,815	$ 23.90	2026
7174 Wheat Street (Covington, GA)	2000	12/13/2007	5,000	100%	$ 119,493	$ 23.90	2026
1055 Haw Creek Parkway (Cumming, GA)	2004	12/13/2007	13,919	100%	$ 380,410	$ 27.33	2026
1293 Wellbrook Circle (Conyers, GA)	1994	12/13/2007	6,400	100%	$ 152,951	$ 23.90	2026
425 Gateway Drive (Reading, PA)	2007	1/29/2008	42,900	100%	$ 716,667	$ 16.71	2028
6499 University Avenue NE (Fridley, MN)	1985/2006	2/26/2008	74,160	100%	$ 946,380	$ 12.76	2013
7528 Auburn Road (Concord Township, OH)	1957/2008	3/31/2008	273,300	100%	$ 1,724,133	$ 6.31	2028
10021 Rodney Street (Pineville, NC)	1985	4/30/2008	74,950	100%	$ 438,282	$ 5.85	2028
28305 State Route 7 (Marietta, OH)	1992/2007	8/29/2008	223,458	100%	$ 896,743	$ 4.01	2028
400 Highpoint Drive (Chalfont, PA)	1987	8/29/2008	67,200	100%	$ 757,570	$ 11.27	2016
Totals			6,304,159		$ 41,513,977		

(1) Two tenants occupy this building, each with separate leases ending in the same year.

The following table summarizes the lease expirations by year for our properties for leases in place as of December 31, 2009:

Year of Lease Expiration	Square Feet	Number of Leases	Annualized Base Rental Revenue	% of Annualized Base Rent
2010	215,581	3	$ 1,409,691	3.4%
2011	—	0	—	0.0%
2012	479,982	3	4,429,605	10.7%
2013	438,422	6	4,673,341	11.3%
2014	614,132	5	3,082,200	7.4%
2015	896,876	8	6,728,265	16.2%
2016	898,257	5	4,195,157	10.1%
2017	102,200	1	922,926	2.2%
2018	59,894	1	268,042	0.7%
2019+	2,598,815	18	15,804,750	38.0%
Total	6,304,159	50	$ 41,513,977	100%

The following table summarizes the geographic locations of our properties for leases in place as of December 31, 2009:

State	Square Feet	Number of Leases	Annualized Base Rental Revenue	% of Annualized Base Rent
Ohio	1,185,411	11	$ 7,327,553	17.7%
Minnesota	547,800	3	5,211,502	12.6%
North Carolina	695,876	6	3,801,196	9.2%
Pennsylvania	623,375	4	3,043,313	7.3%
Texas	188,178	4	2,355,843	5.7%
Michigan	596,104	2	2,195,838	5.3%
Illinois	164,131	2	2,186,018	5.3%
Massachusetts	338,508	3	2,174,091	5.2%
All Other States	1,964,776	15	13,218,623	31.7%
Total	6,304,159	50	$ 41,513,977	100%

Item 3. Legal Proceedings

We are not currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2009.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the Nasdaq Global Market under the symbol "GOOD." The following table reflects the range of the high and low sale prices of our common stock on the Nasdaq Global Market and the distributions per share for the years ended December 31, 2009 and 2008. Distributions to stockholders are declared quarterly and paid monthly. Amounts presented represent the cumulative amount of the distributions declared for the months composing such quarter.

	Market price per share		Distributions
Quarter Ended	High	Low	Declared Per Share
3/31/2008	$ 18.50	$ 14.81	$ 0.375
6/30/2008	$ 18.50	$ 15.36	$ 0.375
9/30/2008	$ 17.38	$ 13.96	$ 0.375
12/31/2008	$ 15.89	$ 6.37	$ 0.375
3/31/2009	$ 10.20	$ 5.36	$ 0.375
6/30/2009	$ 16.21	$ 8.20	$ 0.375
9/30/2009	$ 14.50	$ 11.26	$ 0.375
12/31/2009	$ 14.19	$ 11.85	$ 0.375

In order to qualify as a REIT, we are required to make ordinary dividend distributions to our stockholders. The amount of these distributions must equal at least:

- the sum of (A) 90% of our "REIT taxable income" (computed without regard to the dividends paid deduction and capital gain) and (B) 90% of the net income (after tax), if any, from foreclosure property, less
- the sum of certain non-cash items.

For federal income tax purposes, distributions may consist of ordinary income, capital gains, nontaxable return of capital or a combination of those items. Distributions that exceed our current and accumulated earnings and profits (calculated for tax purposes) constitute a return of capital rather than a dividend, which reduces a stockholder's basis in the shares of common stock and will not be taxable to the extent that the distribution equals or is less than the stockholder's basis in the stock. To the extent a distribution exceeds both current and accumulated earnings and profits and the stockholder's basis in the stock, that distribution will be treated as a gain from the sale or exchange of that stockholder's shares. Every year, we notify stockholders of the taxability of distributions paid to stockholders during the preceding year.

As of February 4, 2010, there were approximately 9,788 beneficial owners of our common stock.

There were no unregistered sales of securities during the fiscal year ended December 31, 2009.

Item 6. Selected Financial Data

The following selected financial data for the fiscal years ended December 31, 2009, 2008, 2007, 2006 and 2005 is derived from our audited consolidated financial statements. Certain amounts from prior years' financial statements have been reclassified to discontinued operations and these reclassifications had no effect on previously reported net income or stockholders' equity. The data should be read in conjunction with our consolidated financial statements and notes thereto, included elsewhere in this report, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of this report.

	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2006	Year ended December 31, 2005
Operating Data:					
Total operating revenue	$ 42,608,937	$ 40,807,497	$ 32,690,038	$ 25,842,045	$ 12,778,005
Total operating expenses	(20,540,529)	(19,363,723)	(15,791,430)	(14,035,669)	(7,156,347)
Other expense	(17,668,460)	(16,570,753)	(10,940,394)	(8,521,419)	(2,185,509)
Income from continuing operations	4,399,948	4,873,021	5,958,214	3,284,957	3,436,149
Discontinued operations	203,100	39,926	182,015	1,087,871	165,796
Net income	$ 4,603,048	$ 4,912,947	$ 6,140,229	$ 4,372,828	$ 3,601,945
Dividends attributable to preferred stock	(4,093,750)	(4,093,750)	(4,093,750)	(2,186,890)	—
Net income available to common stockholders	$ 509,298	$ 819,197	$ 2,046,479	$ 2,185,938	$ 3,601,945
Share and Per Share Data:					
Earnings per weighted average common share — basic					
Income from continuing operations (net of dividends attributable to preferred stock)	$ 0.04	$ 0.09	$ 0.22	$ 0.14	$ 0.45
Discontinued operations	0.02	0.01	0.02	0.14	0.02
Net income available to common stockholders	$ 0.06	$ 0.10	$ 0.24	$ 0.28	$ 0.47
Earnings per weighted average common share — diluted					
Income from continuing operations (net of dividends attributable to preferred stock)	$ 0.04	$ 0.09	$ 0.22	$ 0.14	$ 0.45
Discontinued operations	0.02	0.01	0.02	0.13	0.02
Net income available to common stockholders	$ 0.06	$ 0.10	$ 0.24	$ 0.27	$ 0.47
Weighted average shares outstanding-basic	8,563,264	8,565,149	8,565,264	7,827,781	7,670,219
Weighted average shares outstanding-diluted	8,563,264	8,565,149	8,565,264	7,986,690	7,723,220
Cash dividends declared per common share	$ 1.50	$ 1.50	$ 1.44	$ 1.44	$ 0.96
Supplemental Data:					
Net income available to common stockholders	$ 509,298	$ 819,197	$ 2,046,479	$ 2,185,938	$ 3,601,945
Real estate depreciation and amortization, including discontinued operations	13,171,703	12,704,641	10,528,458	8,349,474	3,651,119
Less: Gain on sale of real estate, net of taxes paid	(160,038)	—	(78,667)	(1,106,590)	—
Funds from operations available to common stockholders (1)	13,520,963	13,523,838	12,496,270	9,428,822	7,253,064
Ratio of earnings to combined fixed charges and preferred dividends (2)	1.0x	1.0x	1.1x	1.1x	2.4x
Balance Sheet Data:					
Real estate, before accumulated depreciation	$ 390,753,892	$ 390,562,138	$ 340,500,406	$ 243,713,542	$ 165,043,639
Total assets	$ 416,865,373	$ 429,098,785	$ 378,902,689	$ 315,766,022	$ 207,046,954
Mortgage notes payable, term loan and borrowings under the line of credit	$ 285,961,651	$ 286,611,173	$ 226,520,471	$ 154,494,438	$ 105,118,961
Total stockholders' equity	$ 118,450,542	$ 130,495,260	$ 142,368,068	$ 152,224,176	$ 98,948,536
Total common shares outstanding	8,563,264	8,565,149	8,565,264	8,565,264	7,672,000

(1) Funds from Operations ("FFO") was developed by The National Association of Real Estate Investment Trusts ("NAREIT"), as a relative non-GAAP ("Generally Accepted Accounting Principles in the United States") 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 (loss) (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 in accordance with GAAP and should not be considered an alternative to either net income (loss) as an indication of our performance or to cash flow from operations as a measure of liquidity or ability to make distributions to stockholders. Comparison of FFO to similarly titled measures for other REITs may not necessarily be meaningful due to possible differences in the application of the NAREIT definition used by such REITs.

FFO available to common stockholders is FFO adjusted to subtract preferred share distributions. We believe that net income available to common stockholders is the most directly comparable GAAP measure to FFO available to common stockholders.

Basic funds from operations per share, or Basic FFO per share, and diluted funds from operations per share, or Diluted FFO per share, is FFO available to common stockholders divided by weighted average common shares outstanding and FFO available to common stockholders divided by weighted average common shares outstanding on a diluted basis, respectively, during a period. We believe that FFO available to common stockholders, Basic FFO per share and Diluted FFO per share are useful to investors because they provide investors with a further context for evaluating our FFO results in the same manner that investors use net income and earnings per share, or EPS, in evaluating net income available to common stockholders. In addition, since most REITs provide FFO available to common stockholders, Basic FFO and Diluted FFO per share information to the investment community, we believe these are useful supplemental measures for comparing us to other REITs. We believe that net income is the most directly comparable

GAAP measure to FFO, Basic EPS is the most directly comparable GAAP measure to Basic FFO per share, and that diluted EPS is the most directly comparable GAAP measure to Diluted FFO per share.

The following table provides a reconciliation of our FFO for the years ended December 31, 2009, 2008, 2007, 2006 and 2005 to the most directly comparable GAAP measure, net income, and a computation of basic and diluted FFO per weighted average common share and basic and diluted net income per weighted average common share:

	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005
Net income	$ 4,603,048	$ 4,912,947	$ 6,140,229	$ 4,372,828	$ 3,601,945
Less: Distributions attributable to preferred stock	(4,093,750)	(4,093,750)	(4,093,750)	(2,186,890)	—
Net income available to common stockholders	509,298	819,197	2,046,479	2,185,938	3,601,945
Add: Real estate depreciation and amortization, including discontinued operations	13,171,703	12,704,641	10,528,458	8,349,474	3,651,119
Less: Gain on sale of real estate	(160,038)	—	(78,667)	(1,106,590)	—
FFO available to common stockholders	$ 13,520,963	$ 13,523,838	$ 12,496,270	$ 9,428,822	$ 7,253,064
Weighted average shares outstanding — basic	8,563,264	8,565,149	8,565,264	7,827,781	7,670,219
Weighted average shares outstanding — diluted	8,563,264	8,565,149	8,565,264	7,986,690	7,723,220
Basic net income per weighted average common share	$ 0.06	$ 0.10	$ 0.24	$ 0.28	$ 0.47
Diluted net income per weighted average common share	$ 0.06	$ 0.10	$ 0.24	$ 0.27	$ 0.47
Basic FFO per weighted average common share	$ 1.58	$ 1.58	$ 1.46	$ 1.20	$ 0.95
Diluted FFO per weighted average common share	$ 1.58	$ 1.58	$ 1.46	$ 1.18	$ 0.94
Distributions declared per common share	$ 1.50	$ 1.50	$ 1.44	$ 1.44	$ 0.96
Percentage of FFO paid per common share	95%	95%	99%	120%	102%

(2) The calculation of the ratio of earnings to combined fixed charges and preferred distributions is below. "Earnings" consist of net income from continuing operations before fixed charges. "Fixed charges" consist of interest expense, amortization of deferred financing fees and the portion of operating lease expense that represents interest. The portion of operating lease expense that represents interest is calculated by dividing the amount of rent expense, allocated to us by our Adviser as part of the administration fee payable under the Advisory Agreement, by three.

	For the year ended December 31, 2009	For the year ended December 31, 2008	For the year ended December 31, 2007	For the year ended December 31, 2006	For the year ended December 31, 2005
Net income from continuing operations	$ 4,399,948	$ 4,873,021	$ 5,958,214	$ 3,284,957	$ 3,436,149
Add: fixed charges	22,000,728	20,963,484	15,670,067	11,490,476	2,494,245
Less: preferred distributions	(4,093,750)	(4,093,750)	(4,093,750)	(2,186,890)	—
Earnings	$ 22,306,926	$ 21,742,755	$ 17,534,531	$ 12,588,543	$ 5,930,394
Fixed Charges:					
Interest expense	16,398,938	15,574,735	10,847,346	8,041,412	2,187,586
Amortization of deferred financing fees	1,495,598	1,283,952	717,195	1,207,198	260,098
Estimated interest component of rent	12,442	11,047	11,776	54,976	46,561
Preferred distributions	4,093,750	4,093,750	4,093,750	2,186,890	—
Total fixed charges and preferred distributions	22,000,728	20,963,484	15,670,067	11,490,476	2,494,245
Ratio of earnings to combined fixed charges and preferred distributions	1.0	1.0	1.1	1.1	2.4

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the notes thereto contained elsewhere in this Form 10-K.

OVERVIEW

General

We were 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 and commercial real property and selectively making long-term industrial and commercial mortgage loans. Most of the portfolio of real estate we currently own is leased to a wide cross section of tenants ranging from small businesses to large public companies, many of which are corporations that do not have publicly rated debt. We have in the past entered into, and intend in the future to enter into, purchase agreements for real estate having triple net leases with terms of approximately 10 to 15 years and built in rental increases. Under a triple net lease, the tenant is required to pay all operating, maintenance and insurance costs and real estate taxes with respect to the leased property. We are actively communicating with buyout funds, real estate brokers and other third parties to locate properties for potential acquisition or to provide mortgage financing in an effort to build our portfolio. At December 31, 2009, we owned 64 properties totaling approximately 6.3 million square feet, and had one mortgage loan outstanding. The total gross investment in these acquisitions, including the $10.0 million mortgage loan investment, was approximately $443.9 million at December 31, 2009.

Business Environment

The United States remains in a recession, and, as a result, conditions within the global credit markets and the U.S. real estate credit markets in particular continue to experience dislocation and stress. While we are beginning to see signs of economic improvement and stabilization in the equity markets, the debt markets are still difficult at best, and we do not know if adverse conditions will again intensify, nor are we able to gauge the full extent to which the disruptions will affect us. Additionally, conditions continue to disrupt our ability to price and finance new investment opportunities on attractive terms. We believe that it will take some time for the United States to fully recover from the recession. As a result, the continued weak economic conditions could still adversely impact the financial condition of one or more of our tenants and therefore, could make a tenant bankruptcy and payment default on the related lease or loan more likely. Currently, all of our properties are fully leased and all of our tenants and our borrower are current and paying in accordance with their leases and loan, respectively, however, we have three leases that expire in 2010, which comprise approximately 3.4% of our total annualized rental income. Two of these tenants have notified us that they will not renew their leases, and we are currently seeking new tenants for these properties In addition, we have $48.0 million of balloon principal payments due under one of our long-term mortgages in 2010, however the mortgage has three annual extension options through 2013, which we currently intend to exercise. We have no other balloon principal payments due under any of our mortgages until 2013. Our ability to make new investments is highly dependent upon external financing. Our principal sources of external financing generally include the issuance of equity securities, long-term mortgages secured by properties, and borrowings under our line of credit. The market for long-term mortgages remains frozen as the collateralized mortgage-backed securities, or CMBS, market has virtually disappeared. With the closure of the CMBS market, many banks are not lending on commercial real estate as they are no longer able to sell these loans to the CMBS market and are not willing or able to keep these loans on their balance sheets. We are now only seeing banks willing to issue medium-term mortgages, between two and five years, on substantially less favorable terms than were previously available. Consequently, we intend to focus on using medium-term mortgages to finance our real estate until the market for long-term mortgages returns. Our ability to increase the availability under our line of credit is dependent upon us pledging additional properties as collateral. Traditionally, we have pledged new properties to the line of credit as we arrange for long-term mortgages for these pledged properties. Currently, only nine of our properties do not have long-term mortgages, and eight of those are pledged as collateral under our line of credit. Our line of credit matures in December 2010, and we are currently in the process of searching for replacement financing for the line of credit.

On November 4, 2009, we entered into an open market sale agreement, or the Open Market Sale Agreement, with Jefferies & Company, Inc., or Jefferies, under which we may, from time to time, offer and sell shares of our common stock with an aggregate sales price of up to $25.0 million through or to Jefferies, for resale. To date, we have not sold any common stock under the Open Market Sale Agreement.

On November 19, 2009, we entered into a dealer manager agreement, or the Dealer Manager Agreement, with Halcyon Capital Markets, LLC, or Halcyon, pursuant to which Halcyon will act as our dealer manager in connection with a proposed continuous private offering of up to 3,333,333 shares of our newly designated senior common stock at $15.00 per share. To date, we have not sold any senior common stock under the Dealer Manager Agreement.

If we are able to raise equity capital in the near term, we will continue to invest in industrial and commercial real property as well as expand our investment portfolio to other categories, such as retail and medical properties. Furthermore, we intend to expand our mortgage lending activity to include purchasing mortgage loans from banks and CMBS pools.

However, until we are able to raise debt or equity capital, our near-term strategy is contingent upon building the value of our existing portfolio of properties by renegotiating existing leases and making capital improvements to our properties. Capital improvements will be limited to the extent we have available capital. We will continue to actively seek potential acquisitions and we will continue our strategy of making conservative investments in properties that have existing financing sufficient to weather the current economic conditions, and that are likely to produce attractive long-term returns for our stockholders.

Recent Events

Financing Activities:

On November 24, 2009, we through our wholly-owned subsidiary, Gladstone Commercial Limited Partnership, exercised our option under our existing credit agreement with KeyBank National Association, or KeyBank, and certain other parties to extend the term of our $50 million line of credit by one year, resulting in a new maturity date of December 29, 2010. The loan was originally set to expire on December 29, 2009. During the year ended December 31, 2009, we had net borrowings under our line of credit of approximately $21.7 million, with $33.2 million outstanding at December 31, 2009. The proceeds from borrowings under the line of credit were used to pay off a $20.0 million unsecured short-term loan with KeyBank and fund other capital improvements at certain of our properties.

Leasing Activities:

On May 19, 2009, we extended the lease on our property located in Eatontown, New Jersey for a period of 15 years, and the tenant has two options to extend the lease for additional periods of 5 years each. The lease was originally set to expire in August 2011, and will now expire in April 2024. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately $540,000.

On November 18, 2009, we extended the lease with one of our tenants in our property located in Akron, Ohio for a period of five years. The lease was originally set to expire in February 2010, and will now expire in March 2015. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately $160,000.

Dispositions:

On July 17, 2009, we sold our property located in Norfolk, Virginia for $1.15 million, for a gain on the sale of approximately $160,000. The proceeds from the sale were used to pay down our line of credit.

Industry Classifications

Gladstone Management Corporation, or our Adviser, seeks to diversify our portfolio to avoid dependence on any one particular tenant, geographic location or tenant industry. By diversifying our portfolio, our Adviser intends to reduce the adverse effect on our portfolio of a single under-performing investment or a downturn in any particular industry or geographic region. Our largest tenant at December 31, 2009 comprised approximately 7.3% of our total rental income, and our largest concentration of properties was located in Ohio, which accounted for approximately 17.7% of our total rental income. The table below reflects the breakdown of our total rental income by tenant industry classification for the year ended December 31, 2009 and 2008, respectively:

	December 31, 2009		December 31, 2008	
Industry Classification	Rental Income	Percentage of Rental Income	Rental Income	Percentage of Rental Income
Automobile	$ 1,166,654	2.8%	$ 1,166,654	2.9%
Beverage, Food & Tobacco	2,188,755	5.3%	2,079,113	5.3%
Buildings and Real Estate	2,025,668	4.9%	2,013,515	5.1%
Chemicals, Plastics & Rubber	3,173,514	7.6%	2,452,628	6.2%
Containers, Packaging & Glass	2,330,246	5.6%	2,288,909	5.8%
Diversified/Conglomerate Manufacturing	3,664,686	8.8%	3,165,747	8.0%
Diversified/Conglomerate Services	308,105	0.7%	308,105	0.8%
Electronics	6,164,789	14.9%	6,165,789	15.7%
Healthcare, Education & Childcare	6,145,415	14.8%	5,719,016	14.5%
Home & Office Furnishings	529,743	1.3%	529,743	1.3%
Insurance	722,866	1.7%	722,866	1.8%
Machinery	2,389,607	5.8%	2,241,752	5.7%
Oil & Gas	1,138,136	2.7%	1,152,443	2.9%
Personal & Non-Durable Consumer Products	1,354,721	3.3%	1,355,061	3.4%
Personal, Food & Miscellaneous Services	575,006	1.4%	575,006	1.5%
Printing & Publishing	2,189,033	5.3%	2,189,602	5.5%
Telecommunications	5,447,033	13.1%	5,446,338	13.6%
	$ 41,513,977	100.0%	$ 39,572,287	100.0%

Our Adviser and Administrator

Our Adviser is led by a management team which has extensive experience in our lines of business. Our Adviser is controlled by David Gladstone, our chairman and chief executive officer. Mr. Gladstone is also the chairman and chief executive officer of our Adviser. Terry Lee Brubaker, our vice chairman, chief operating officer, secretary and director, is a member of the board of directors of our Adviser and its vice chairman and chief operating officer. George Stelljes III, our president, chief investment officer and director, is a member of the board of directors of our Adviser and its president and chief investment officer. Gladstone Administration, LLC, or our Administrator, employs our chief financial officer, chief compliance officer, internal counsel, treasurer and their respective staffs.

Our Adviser and Administrator also provide investment advisory and administrative services to our affiliates, Gladstone Capital Corporation and Gladstone Investment Corporation, both publicly traded business development companies, as well as Gladstone Land Corporation, a private agricultural real estate company. With the exception of our chief financial officer, all of our executive officers serve as either directors or executive officers, or both, of Gladstone Capital Corporation and Gladstone Investment Corporation. In the future, our Adviser may provide investment advisory and administrative services to other funds, both public and private, of which it is the sponsor.

Advisory and Administration Agreements

We are externally managed pursuant to contractual arrangements with our Adviser and our Administrator, under which our Adviser and Administrator have directly employed all of our personnel and paid their payroll, benefits, and general expenses directly. On January 1, 2007, we entered into an advisory agreement with our Adviser, which we refer to as the Advisory Agreement, and an administration agreement with our Administrator, which we refer to as the Administration Agreement.

Under the terms of the Advisory Agreement, we are responsible for all expenses incurred for our direct benefit. Examples of these expenses include legal, accounting, interest on short-term debt and mortgages, tax preparation, directors and officers insurance, stock transfer services, stockholder related fees, consulting and related fees.

In addition, we are also responsible for all fees charged by third parties that are directly related to our business, which may include real estate brokerage fees, mortgage placement fees, lease-up fees and transaction structuring fees (although we may be able to pass some or all of such fees on to our tenants and borrowers). During the years ended December 31, 2009, 2008 and 2007, none of these expenses were incurred by us directly. The actual amount of such fees that we incur in the future will depend largely upon the aggregate costs of the properties we acquire, the aggregate amount of mortgage loans we make and the extent to which we are able to shift the burden of such fees to our tenants and borrowers. Accordingly, the amount of these fees that we will pay in the future is not determinable at this time.

Management Services and Fees under the Advisory Agreement

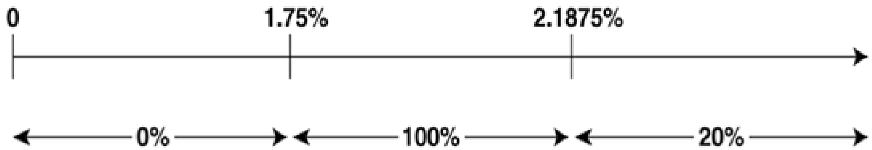
The Advisory Agreement provides for an annual base management fee equal to 2.0% of our total stockholders' equity, less the recorded value of any preferred stock, and an incentive fee based on funds from operations, or FFO. Our Adviser does not charge acquisition or disposition fees when we acquire or dispose of properties as is common in other REITs. Furthermore, there are no fees charged when our Adviser secures long or short term credit or arranges mortgage loans on our properties.

For purposes of calculating the incentive fee, FFO includes any realized capital gains and capital losses, less any distributions paid on preferred stock, but FFO does not include any unrealized capital gains or losses. The incentive fee would reward our Adviser if our quarterly FFO, before giving effect to any incentive fee, or pre-incentive fee FFO, exceeds 1.75%, or the hurdle rate, of total stockholders' equity, less the recorded value of any preferred stock. We pay our Adviser an incentive fee with respect to our pre-incentive fee FFO in each calendar quarter as follows:

- no incentive fee in any calendar quarter in which our pre-incentive fee FFO does not exceed the hurdle rate of 1.75% (7% annualized);
- 100% of the amount of the pre-incentive fee FFO that exceeds the hurdle rate, but is less than 2.1875% in any calendar quarter (8.75% annualized); and
- 20% of the amount of our pre-incentive fee FFO that exceeds 2.1875% in any calendar quarter (8.75% annualized).

Quarterly Incentive Fee Based on FFO

Pre-incentive fee FFO
(expressed as a percentage of total common stockholders' equity)



Percentage of pre-incentive fee FFO allocated to incentive fee

The incentive fee may be reduced because of our line of credit covenant which limits distributions to our stockholders to 95% of FFO. In order to comply with this covenant, our board of directors accepted our Adviser's offer to unconditionally, irrevocably and voluntarily waive on a quarterly basis a portion of the incentive fee for the years ended December 31, 2009, 2008 and 2007, which allowed us to maintain the current level of distributions to our stockholders. These waivers were applied through December 31, 2009 and any waived fees may not be recouped by our Adviser in the future. Our Adviser has indicated that it intends to continue to waive all or a portion of the incentive fee in order to support the current level of distributions to our stockholders, however, our Adviser is not required to issue any waiver, in whole or in part.

Administration Agreement

Under the Administration Agreement, we pay separately for our allocable portion of our Administrator's overhead expenses in performing its obligations including, but not limited to, rent for employees of our Administrator, and our allocable portion of the salaries and benefits expenses of our chief financial officer, chief compliance officer, internal counsel, treasurer and their respective staffs. Our allocable portion of expenses is derived by multiplying our Administrator's total expenses by the percentage of our total assets at the beginning of each quarter in comparison to the total assets of all companies managed by our Adviser under similar agreements.

Critical Accounting Policies

The preparation of our financial statements in accordance with generally accepted accounting principles in the United States of America, or GAAP, requires management to make judgments that are subjective in nature in order to make certain estimates and assumptions. Management relies on its experience, collects historical data and current market data, and analyzes this information in order to arrive at what it believes to be reasonable estimates. Under different conditions or assumptions, materially different amounts could be reported related to the accounting policies described below. In addition, application of these accounting policies involves the exercise of judgment on the use of assumptions as to future uncertainties and, as a result, actual results could materially differ from these estimates. A summary of all of our significant accounting policies is provided in Note 1 to our consolidated financial statements included elsewhere in this report. Below is a summary of accounting polices involving estimates and assumptions that require complex, subjective or significant judgments in their application and that materially affect our results of operations.

Allocation of Purchase Price

When we acquire real estate, we allocate the purchase price to the acquired tangible assets and liabilities, consisting of land, building, tenant improvements, long-term debt and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, the value of in-place leases, the value of unamortized lease origination costs, the value of tenant relationships and the value of capital lease obligations, based in each case on their fair values.

Management's estimates of value are made using methods similar to those used by independent appraisers (e.g., discounted cash flow analysis). Factors considered by management in its analysis include an estimate of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. We also consider information obtained about each property as a result of our pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets and liabilities acquired. In estimating carrying costs, management also includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, which primarily range from 9 to 18 months, depending on specific local market conditions. Management also estimates costs to execute similar leases, including leasing commissions, legal and other related expenses to the extent that such costs are not already incurred in connection with a new lease origination as part of the transaction. Management also considers the nature and extent of our existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality and expectations of lease renewals (including those existing under the terms of the lease agreement), among other factors. A change in any of the assumptions above, which are very subjective, could have a material impact on our results of operations.

The allocation of the purchase price directly affects the following in our consolidated financial statements:

- The amount of purchase price allocated to the various tangible and intangible assets on our balance sheet;
- The amounts allocated to the value of above-market and below-market lease values are amortized to rental income over the remaining non-cancelable terms of the respective leases. The amounts allocated to all other tangible and intangible assets are amortized to depreciation or amortization expense. Thus, changes in the purchase price allocation among our assets could have a material impact on our FFO, depending on the amounts allocated between land and other depreciable assets, which is used by many REIT investors to evaluate our operating performance; and
- The period of time that tangible and intangible assets are depreciated over varies greatly and thus, changes in the amounts allocated to these assets will have a direct impact on our results of operations. Intangible assets are generally amortized over the respective life of the leases, which normally range from 10 to 15 years, we depreciate our buildings over 39 years, and land is not depreciated. These differences in timing could have a material impact on our results of operations.

Asset Impairment Evaluation

We periodically review the carrying value of each property to determine if circumstances that indicate impairment in the carrying value of the investment exist or that depreciation periods should be modified. In determining if impairment exists, management considers such factors as our tenants' payment history, the financial condition of our tenants, including calculating the current leverage ratios of tenants, the likelihood of lease renewal, business conditions in the industry in which our tenants operate and whether the carrying value of our real estate has decreased. If any of the factors above support the possibility of impairment, we prepare a projection of the undiscounted future cash flows, without interest charges, of the specific property and determine if the carrying amount in such property is recoverable. In preparing the projection of undiscounted future cash flows, we estimate the hold periods of the properties and cap rates using information we obtain from market comparability studies and other comparable sources. If impairment is indicated, the carrying value of the property would be written down to its estimated fair value based on our best estimate of the property's discounted future cash flows using assumptions or market participants. Any material changes to the estimates and assumptions used in this analysis could have a significant impact on our results of operations, as the changes would impact our determination of whether impairment is deemed to have occurred and the amount of impairment loss we would recognize.

Using the methodology discussed above and in light of the current economic conditions discussed above in "*Overview-Business Environment*," we performed an impairment analysis of our entire portfolio at December 31, 2009. We concluded that none of our properties are currently impaired, and we will continue to monitor our portfolio for any indicators that may change our conclusion.

Provision for Loan Losses

Our accounting policies require that we reflect in our financial statements an allowance for estimated credit losses with respect to mortgage loans we have made based upon our evaluation of known and inherent risks associated with our private lending assets. Management reflects provisions for loan losses based upon our assessment of general market conditions, our internal risk management policies and credit risk rating system, industry loss experience, our assessment of the likelihood of delinquencies or defaults, and the value of the collateral underlying our investments. Any material changes to the estimates and assumptions used in this analysis could have a significant impact on our results of operations. We did not make a loss allowance for our existing mortgage loan receivable as of December 31, 2009, as we believe the carrying value of the loan is fully collectible.

Recently Issued Accounting Pronouncements

Refer to Note 1 in the accompanying consolidated financial statements for a summary of all recently issued accounting pronouncements.

Results of Operations

Our weighted-average yield on the portfolio as of December 31, 2009 was approximately 9.57%. The weighted-average yield on our portfolio is calculated by taking the annualized straight-line rents, reflected as rental income on our consolidated statements of operations, or mortgage interest payments, reflected as interest income from mortgage notes receivable on our consolidated statements of operations, of each acquisition or mortgage loan as a percentage of the acquisition or loan price, as applicable. The weighted-average yield does not take into account the interest expense incurred on the financings placed on our properties.

A comparison of our operating results for the years ended December 31, 2009 and 2008 is below:

	For the year ended December 31,			
	2009	2008	$ Change	% Change
Operating revenues				
Rental income	$ 41,513,977	$ 39,572,287	$ 1,941,690	5%
Interest income from mortgage notes receivable	760,417	898,573	(138,156)	-15%
Tenant recovery revenue	334,543	336,637	(2,094)	-1%
Total operating revenues	42,608,937	40,807,497	1,801,440	4%
Operating expenses				
Depreciation and amortization	13,161,287	12,679,437	481,850	4%
Property operating expenses	915,120	875,850	39,270	4%
Due diligence expense	40,574	1,176,379	(1,135,805)	-97%
Base management fee	1,401,402	1,637,851	(236,449)	-14%
Incentive fee	3,238,634	2,831,722	406,912	14%
Administration fee	1,015,695	954,635	61,060	6%
Professional fees	649,566	521,410	128,156	25%
Insurance	203,682	173,414	30,268	17%
Directors fees	198,882	216,851	(17,969)	-8%
Stockholder related expense	236,160	298,384	(62,224)	-21%
Asset retirement obligation expense	143,089	131,472	11,617	9%
General and administrative	62,886	63,263	(377)	-1%
Total operating expenses before credit from Adviser	21,266,977	21,560,668	(293,691)	-1%
Credit to incentive fee	(726,448)	(2,196,945)	1,470,497	-67%
Total operating expenses	20,540,529	19,363,723	1,176,806	6%
Other income (expense)				
Interest income from temporary investments	20,748	21,844	(1,096)	-5%
Interest income — employee loans	192,350	202,097	(9,747)	-5%
Other income	12,978	63,993	(51,015)	-80%
Interest expense	(17,894,536)	(16,858,687)	(1,035,849)	6%
Total other expense	(17,668,460)	(16,570,753)	(1,097,707)	7%
Income from continuing operations	4,399,948	4,873,021	(473,073)	-10%
Discontinued operations				
Income from discontinued operations	43,062	39,926	3,136	8%
Gain on sale of real estate	160,038	—	160,038	100%
Total discontinued operations	203,100	39,926	163,174	409%
Net income	4,603,048	4,912,947	(309,899)	-6%
Distributions attributable to preferred stock	(4,093,750)	(4,093,750)	—	0%
Net income available to common stockholders	$ 509,298	$ 819,197	$ (309,899)	-38%

Operating Revenues

Rental income increased for the year ended December 31, 2009, as compared to the year ended December 31, 2008, primarily as a result of the properties acquired during the year ended December 31, 2008 that were held for the full year in 2009.

Interest income from mortgage notes receivable decreased for the year ended December 31, 2009, as compared to the year ended December 31, 2008, primarily because interest income on our mortgage loan is based on the London Interbank Offered Rate, or LIBOR, which has significantly decreased over the past year.

Tenant recovery revenue decreased slightly for the year ended December 31, 2009, as compared to the year ended December 31, 2008, primarily as a result of a decrease in the insurance premiums on some of our properties in which the tenants reimburse us for insurance expense, partially offset by an increase in the reimbursement of ground lease payments from a tenant.

Operating Expenses

Depreciation and amortization expenses increased during the year ended December 31, 2009, as compared to the year ended December 31, 2008, as a result of the properties acquired during the year ended December 31, 2008 that were held for the full year in 2009.

Property operating expenses consist of franchise taxes, management fees, insurance, ground lease payments and overhead expenses paid on behalf of certain of our properties. Property operating expenses increased slightly during the year ended December 31, 2009, as compared to the year ended December 31, 2008, primarily because of an increase in ground lease payments coupled with repairs and maintenance performed at certain of our properties.

Due diligence expense primarily consists of legal fees and fees incurred for third-party reports prepared during our due diligence work. Due diligence expenses decreased significantly for the year ended December 31, 2009, as compared to the year ended December 31, 2008, primarily because of over $1.0 million of fees incurred related to a large potential acquisition that did not close during 2008. However, with the adoption of Accounting Standards Codification, or ASC, 805 “Business Combinations,” on January 1, 2009, discussed in detail in Note 1 of the accompanying consolidated financial statements, which requires us to no longer capitalize due diligence costs into the price of the acquisition, we expect our due diligence expense to increase significantly once we begin to acquire properties again.

The base management fee decreased for the year ended December 31, 2009, as compared to the year ended December 31, 2008, as a result of a decrease in total common stockholders’ equity, the main component of the calculation. Total common stockholders’ equity decreased because distributions to common stockholders for the year ended December 31, 2009 exceeded net income during the period by approximately $8.2 million. The calculation of the base management fee is described in detail above under *“—Advisory and Administration Agreements.”*

The incentive fee increased for the year ended December 31, 2009, as compared to the year ended December 31, 2008, due to the increase in pre-incentive fee FFO as a result of our increased rental income discussed above, coupled with the decrease in total common stockholders’ equity. In addition, the amount that was credited to the incentive fee during the year ended December 31, 2009 decreased, because of an increase in operating income and a decrease in operating expenses. The calculation of the incentive fee is described in detail above under *“—Advisory and Administration Agreements.”*

The administration fee increased for the year ended December 31, 2009, as compared to the year ended December 31, 2008, primarily as a result of an increase in our total assets in comparison to the total assets of all companies managed by our Adviser under similar agreements, coupled with approximately $80,000 incurred by our Administrator, which was directly allocable to us, for the implementation of real estate software. The calculation of the administration fee is described in detail above under "*—Advisory and Administration Agreements.*"

Professional fees, consisting primarily of legal and accounting fees, increased during the year ended December 31, 2009, as compared to the year ended December 31, 2008, primarily as a result of an increase in legal and other professional fees relating to ongoing lease renegotiations and reviews of our legal work with our existing tenants.

Insurance expense consists of the premiums paid for directors' and officers' insurance, which is renewed annually each September. Insurance expense increased for the year ended December 31, 2009, as compared to the year ended December 31, 2008, because of an increase in the premiums for the periods from September 2008 through September 2009 and from September 2009 through September 2010.

Directors' fees decreased during the year ended December 31, 2009, as compared to the year ended December 31, 2008, primarily as a result of one of the independent directors becoming an interested director in January 2008, and thus not being paid an annual stipend during 2009.

Stockholder related expense decreased for the year ended December 31, 2009, as compared to the year ended December 31, 2008, primarily as a result of decreased costs associated with printing and filing our proxy materials.

Asset retirement obligation expense increased for the year ended December 31, 2009, as compared to the year ended December 31, 2008, because of the increase in the accretion of the expense over the term of the lease including renewal periods.

General and administrative expenses remained flat for the year ended December 31, 2009, as compared to the year ended December 31, 2008, primarily as a result of a decrease in the amount of travel for site visits to our properties, offset by an increase in dues and subscriptions.

Other Income and Expense

Interest income from temporary investments decreased during the year ended December 31, 2009, as compared to the year ended December 31, 2008, primarily because of lower interest rates earned on our money market accounts, partially offset by interest received in 2009 from funds held on deposit for a prospective real estate acquisition, coupled with interest earned on amounts held in reserve accounts with our lenders.

Interest income on employee loans decreased during the year ended December 31, 2009, as compared to the year ended December 31, 2008. This decrease was a result of loan payoffs by employees during 2008 and 2009, coupled with other partial principal repayments over the periods.

Other income decreased during the year ended December 31, 2009, as compared to the year ended December 31, 2008, primarily because we no longer receive management fees from our tenant in our Burnsville, Minnesota property.

Interest expense increased for the year ended December 31, 2009, as compared to the year ended December 31, 2008. This was primarily a result of long-term financings, which closed during 2008, that were held for the full period during 2009.

Discontinued Operations

Income from discontinued operations primarily relates to the property we sold, which was located in Norfolk, Virginia, including a gain on the sale of the property of approximately $160,000. This is partially offset by continuing expenses related to the two Canadian properties, which we sold in July 2006. The expenses for the two Canadian properties relate to legal fees associated with the dissolution of the entities, which sold the properties.

Net Income Available to Common Stockholders

Net income available to common stockholders decreased for the year ended December 31, 2009, as compared to the year ended December 31, 2008. This decrease was primarily a result of increased interest expense from the increased number of properties which have long-term financing partially offset by the gain on sale of our property in Norfolk, Virginia coupled with the growth of our portfolio of investments in the past year and the corresponding increase in our revenues and the other events described above.

A comparison of our operating results for the years ended December 31, 2008 and 2007 is below:

	For the year ended December 31,			
	2008	2007	$ Change	% Change
Operating revenues				
Rental income	$ 39,572,287	$ 31,365,796	$ 8,206,491	26%
Interest income from mortgage notes receivable	898,573	1,013,889	(115,316)	-11%
Tenant recovery revenue	336,637	310,353	26,284	8%
Total operating revenues	40,807,497	32,690,038	8,117,459	25%
Operating expenses				
Depreciation and amortization	12,679,437	10,503,258	2,176,179	21%
Property operating expenses	875,850	798,939	76,911	10%
Due diligence expense	1,176,379	20,968	1,155,411	5510%
Base management fee	1,637,851	1,858,120	(220,269)	-12%
Incentive fee	2,831,722	2,564,365	267,357	10%
Administration fee	954,635	837,898	116,737	14%
Professional fees	521,410	625,349	(103,939)	-17%
Insurance	173,414	214,141	(40,727)	-19%
Directors fees	216,851	229,000	(12,149)	-5%
Stockholder related expense	298,384	244,629	53,755	22%
Asset retirement obligation expense	131,472	114,821	16,651	15%
General and administrative	63,263	101,539	(38,276)	-38%
Total operating expenses before credit from Adviser	21,560,668	18,113,027	3,447,641	19%
Credit to incentive fee	(2,196,945)	(2,321,597)	124,652	-5%
Total operating expenses	19,363,723	15,791,430	3,572,293	23%
Other income (expense)				
Interest income from temporary investments	21,844	354,249	(332,405)	-94%
Interest income — employee loans	202,097	222,051	(19,954)	-9%
Other income	63,993	47,847	16,146	34%
Interest expense	(16,858,687)	(11,564,541)	(5,294,146)	46%
Total other expense	(16,570,753)	(10,940,394)	(5,630,359)	51%
Income from continuing operations	4,873,021	5,958,214	(1,085,193)	-18%
Discontinued operations				
Income from discontinued operations	39,926	69,989	(30,063)	-43%
Net realized income from foreign currency transactions	—	33,359	(33,359)	-100%
Taxes refunded on sale of real estate	—	78,667	(78,667)	100%
Total discontinued operations	39,926	182,015	(142,089)	-78%
Net income	4,912,947	6,140,229	(1,227,282)	-20%
Distributions attributable to preferred stock	(4,093,750)	(4,093,750)	—	0%
Net income available to common stockholders	$ 819,197	$ 2,046,479	$ (1,227,282)	-60%

Operating Revenues

Rental income increased for the year ended December 31, 2008, as compared to the year ended December 31, 2007, primarily as a result of the six properties acquired during 2008, coupled with properties acquired during 2007 that were held for the full year in 2008.

Interest income from mortgage notes receivable decreased for the year ended December 31, 2008, as compared to the year ended December 31, 2007, primarily because interest income on our mortgage loan is based on the London Interbank Offered Rate, or LIBOR, which significantly decreased during the year ended December 31, 2008.

Tenant recovery revenue increased for the year ended December 31, 2008 as compared to the year ended December 31, 2007, primarily as a result of the reimbursement of the ground lease payments on our Tulsa, Oklahoma property acquired in March 2007, which was held for the entire year in 2008, coupled with properties acquired during 2008 in which tenants reimbursed us for insurance expense.

Operating Expenses

Depreciation and amortization expenses increased during the year ended December 31, 2008, as compared to the year ended December 31, 2007, as a result of the six properties acquired during 2008, and properties acquired during 2007 that were held for the full year in 2008.

Property operating expenses consist of franchise taxes, management fees, insurance, ground lease payments and overhead expenses paid on behalf of certain of our properties. Property operating expenses increased during the year ended December 31, 2008, as compared to the year ended December 31, 2007, due to an increase in the amount of franchise taxes paid as a result of the properties acquired during 2008. In addition, property operating expenses included ground lease payments on our Tulsa, Oklahoma property acquired in March 2007, which was held for the entire year in 2008.

Due diligence expense consists of fees incurred for acquisitions that did not close. The fees primarily consist of legal fees and fees incurred for third-party reports prepared during our due diligence work. Over $1.0 million of the fees incurred were related to a large potential acquisition that did not close during 2008. The base management fee decreased for the year ended December 31, 2008, as compared to the year ended December 31, 2007, as a result of a decrease in total common stockholders' equity, the main component of the calculation. The calculation of the base management fee is described in detail above under *"Investment Advisory and Administration Agreements."*

The incentive fee increased for the year ended December 31, 2008, as compared to the year ended December 31, 2007, due to the decrease in total common stockholders' equity, coupled with the increase in FFO. The calculation of the incentive fee is described in detail above under *"Investment Advisory and Administration Agreements."*

The administration fee increased for the year ended December 31, 2008, as compared to the year ended December 31, 2007, primarily as a result of the increased number of employees of our Administrator, coupled with an increase in overhead expenses allocated by our Administrator. The calculation of the administration fee is described in detail above under "*Investment Advisory and Administration Agreements."*

Professional fees, consisting primarily of legal and accounting fees, decreased during the year ended December 31, 2008, as compared to the year ended December 31, 2007, primarily as a result of a reduction in legal fees combined with fees incurred during the year ended December 31, 2007 for state tax research and costs related to the implementation of ASC 740-10-25, "Income Taxes," which were not incurred during the year ended December 31, 2008.

Insurance expense consists of the premiums paid for directors and officers insurance, which is renewed annually each September. Insurance expense decreased for the year ended December 31, 2008, as compared to the year ended December 31, 2007, because of a decrease in the premiums for the period from September 2007 through September 2008. Premiums for directors and officers insurance increased approximately 11% for the period from September 2008 through September 2009.

Directors' fees decreased during the year ended December 31, 2008, as compared to the year ended December 31, 2007, primarily as a result of fewer committee meetings occurring in the year ended December 31, 2008 coupled with one of the independent directors becoming an interested director in January 2008, and thus the director no longer receiving fees for attending board meetings.

Stockholder related expense increased for the year ended December 31, 2008, as compared to the year ended December 31, 2007, primarily as a result of the increase in our costs associated with printing and filing the annual report, coupled with costs associated with the solicitation of the stockholder vote for the 2008 annual meeting.

Asset retirement obligation expense increased for the year ended December 31, 2008, as compared to the year ended December 31, 2007, primarily as a result of a property acquired during 2008, which was required to recognize an asset retirement liability, coupled with a property acquired where a liability was recorded during 2007 that was held for the full year in 2008.

General and administrative expenses decreased for the year ended December 31, 2008, as compared to the year ended December 31, 2007, primarily as a result of a decrease in the amount of dues and subscriptions, office expense and bank service charges incurred in 2008.

Other Income and Expense

Interest income from temporary investments decreased during the year ended December 31, 2008, as compared to the year ended December 31, 2007. The decrease was primarily a result of the decrease in our average cash balances during the year ended December 31, 2008.

Interest income on employee loans decreased during the year ended December 31, 2008, as compared to the year ended December 31, 2007. This decrease was a result of employees who paid off their loans during 2008, coupled with other partial principal repayments over the periods.

Other income increased during the year ended December 31, 2008, as compared to the year ended December 31, 2007, primarily because of a real estate tax reimbursement we received from our property located in Sterling Heights, Michigan in 2008.

Interest expense increased for the year ended December 31, 2008, as compared to the year ended December 31, 2007. This was primarily a result of the long-term financings we closed on 16 of our properties during 2008, coupled with an increased amount outstanding on our line of credit during 2008.

Discontinued Operations

The loss from discontinued operations for the year ended December 31, 2008 is the expense related to our two Canadian properties, which were sold in July 2006. The expense relates to legal fees associated with the dissolution of the entities which sold the properties. The 2006 tax returns were filed in March 2007, and we were due a refund of approximately $79,000, which is reflected on the accompanying consolidated statements of operations under taxes refunded on sale of real estate for the year ended December 31, 2007.

Net Income Available to Common Stockholders

Net income available to common stockholders decreased for the year ended December 31, 2008, as compared to the year ended December 31, 2007. This decrease was primarily a result of increased interest expense from the increased number of properties which have long-term financing, partially offset by the increase in the size of our portfolio of investments in the year ended December 31, 2008 and the corresponding increase in our revenues and the other events described above.

Liquidity and Capital Resources

Future Capital Needs

At December 31, 2009, we had approximately $3.1 million in cash and cash equivalents. We have access to our existing line of credit with an available borrowing capacity of $8.3 million, and have obtained mortgages on 55 of our properties. As of December 31, 2009 we had investments in 64 real properties for a net carrying value, including intangible assets, of approximately $384.8 million and one mortgage loan receivable for $10.0 million.

As discussed in "*Overview—Business Environment*" above, while there have been improvements in the economy, we continue to be impacted by weak economic conditions, which have affected our ability to obtain additional mortgages, as well as our ability to borrow funds and issue equity securities, our principal sources of external financing. Until economic conditions recover, we intend to fund our existing contractual obligations with our cash flows from operations and borrowing against our existing line of credit. If economic conditions continue to improve, we are hopeful that we will be able to issue additional equity securities under our effective shelf registration statement, including pursuant to out Open Market Sale Agreement, and through a private offering of senior common stock. If we are able to raise significant equity, we would intend to use the proceeds to acquire additional properties, make mortgage loans, purchase shares of our preferred stock on the open market or pay down borrowings under our line of credit.

Our existing shelf registration statement permits us to issue, through one or more transactions, up to an aggregate of $300.0 million in securities consisting of common or preferred stock, all of which was available as of December 31, 2009. On November 4, 2009, we entered into an Open Market Sale Agreement with Jefferies under which we may, from time to time, offer and sell shares of our common stock with an aggregate sales price of up to $25.0 million through or to Jefferies for resale, based upon our instructions (including any price, time or size limits or other customary parameters or conditions we may impose). Sales of our common stock through Jefferies, if any, will be executed by means of ordinary brokers' transactions on the NASDAQ Global Select Market or otherwise at market prices, in privately negotiated transactions, crosses or block transactions as may be agreed between us and Jefferies, including a combination of any of these transactions. We will pay Jefferies a commission, or allow a discount, as the case may be, in each case equal to 2.0% of the gross sales proceeds of any common stock sold through Jefferies as agent under the Open Market Sale Agreement. To date, we have not sold any shares of our common stock under the Open Market Sale Agreement and there is no guarantee that we will sell any common stock under the agreement in the future. In addition, on November 19, 2009, we entered into a dealer manager agreement with Halcyon who will act as our dealer manager in connection with a proposed continuous private offering of up to 3,333,333 shares of our newly designated senior common stock at $15.00 per share. This offering is only being made to accredited investors. To date, we have not sold any shares of senior common stock under the Dealer Manager Agreement and there can be no assurances that we will sell any senior common stock under the agreement in the future.

As banks begin lending again we intend to obtain mortgages on any additional acquired properties by collateralizing the mortgages with some or all of our real property, or by borrowing against our existing line of credit. We may also use these funds for general corporate needs. If we are unable to make any required debt payments on any borrowings, our lenders could foreclose on the properties collateralizing their loans, which could cause us to lose part or all of our investments in such properties. We have $48.0 million of balloon principal payments due under one of our long-term mortgages in 2010, however the mortgage has three annual extension options through 2013, which we currently intend to exercise. We have no other balloon principal payments due under any of our mortgages until 2013.

We also need sufficient capital to fund our distributions to stockholders, pay the debt service costs on our existing long-term mortgages, and fund our current operating costs. We may require credits to our management fees, issued from our Adviser, in order to meet these obligations, although our Adviser is under no obligation to provide such credits, in whole or in part. We routinely review our liquidity requirements, and we believe that our current cash flows from operations, coupled with our current availability on our line of credit, are sufficient to continue operations and pay distributions to our stockholders.

Operating Activities

Net cash provided by operating activities during the year ended December 31, 2009 was approximately $17.0 million, compared to net cash provided by operating activities of approximately $17.6 million for the year ended December 31, 2008. The decrease in net cash provided by operating activities was primarily a result of an increase in the amount of the net incentive fee paid to our Adviser. A majority of cash from operating activities is generated from the rental payments we receive from our tenants and the interest payments we receive from our borrower. We utilize this cash to fund our property-level operating expenses and use the excess cash primarily for debt and interest payments on our mortgage notes payable, interest payments on our line of credit, distributions to our stockholders, management fees to our Adviser, and other entity level expenses.

Investing Activities

Net cash used in investing activities during the year ended December 31, 2009 was approximately $830,000, which primarily consisted of tenant improvements performed at our property located in Maple Heights, Ohio and net payments to lenders for reserves and leasing commissions paid related to the extension of the lease for our property located in Eatontown, New Jersey, partially offset by proceeds from the sale of our property located in Norfolk, Virginia, as compared to net cash used in investing activities during the year ended December 31, 2008 of approximately $50.8 million, which primarily consisted of the purchase of six properties. We have not purchased any properties since August 2008 because of the lack of access to capital as discussed in "*Overview-Business Environment"* above, which resulted in the significant decrease in the cash used in investing activities from 2008 to 2009.

Financing Activities

Net cash used in financing activities for the year ended December 31, 2009 was approximately $17.6 million, which primarily consisted of repayment of our short-term loan, repayments on our line of credit, principal repayments on mortgage notes payable and distributions paid to our stockholders, partially offset by borrowings on our line of credit. Net cash provided by financing activities for the year ended December 31, 2008 was approximately $36.3 million, which primarily consisted of the proceeds from borrowings from mortgage notes payable and borrowings on our line of credit, partially offset by principal repayments on mortgage notes payable, repayments on our line of credit, distributions paid to our stockholders and payments for deferred financing costs.

Mortgage Notes Payable

As of December 31, 2009 we had 16 fixed-rate mortgage notes payable in the aggregate principal amount of approximately $252.8 million, collateralized by a total of 55 properties with terms at issuance ranging from 2 years to 25 years. The weighted-average interest rate on the mortgage notes payable as of December 31, 2009 was approximately 6.0%.

Line of Credit

We have a $50.0 million senior revolving credit agreement, or Credit Agreement, with a syndicate of banks led by KeyBank National Association, or KeyBank, which matures on December 29, 2010. On June 30, 2009, we amended our Credit Agreement to reduce our commitment from $95.0 million to $50.0 million, in exchange for modifications to certain terms under the Credit Agreement. The definition of FFO was modified to exclude from the calculation of FFO acquisition related costs that are required to be expensed under ASC 805. In addition, the aggregate amount we can issue under the Credit Agreement as letters of credit was reduced from $20.0 million to $10.5 million.

The interest rate charged on the advances under the facility is based on LIBOR, the prime rate or the federal funds rate, depending on market conditions, and adjusts periodically. The unused portion of the line of credit is subject to a fee of 0.15% per year. Our ability to access this funding source is subject to us continuing to meet customary lending requirements such as compliance with financial and operating covenants and meeting certain lending limits. One such covenant requires us to limit distributions to our stockholders to 95% of our FFO less those acquisition related costs that are required to be expensed under ASC 805. In addition, the maximum amount we may draw under this agreement is based on a percentage of the value of properties pledged as collateral to the banks, which must meet agreed upon eligibility standards. KeyBank requested that we obtain updated appraisals for the properties pledged \under the line of credit as borrowing base collateral in connection with the extension of the Credit Agreement. As a result, the maximum amount we may draw under the Credit Agreement was reduced to approximately $45.1 million. Furthermore, those properties that are pledged as collateral to the banks are pledged through a perfected first priority lien in the equity interest of the special purpose entity, or SPE, that owns the property. In addition, Gladstone Commercial Limited Partnership, a Delaware limited partnership that owns the SPEs, or the Operating Partnership, is precluded from transferring the SPEs or unconsolidated affiliates to us.

If and when long-term mortgages are arranged for these pledged properties, the banks will release the properties from the line of credit and reduce the availability under the line of credit by the advanced amount of the removed property. Conversely, as we purchase new properties meeting the eligibility standards, we may pledge these new properties to obtain additional advances under this agreement. The availability under the line of credit will also be reduced by letters of credit used in the ordinary course of business. We may use the advances under the line of credit for both general corporate purposes and the acquisition of new investments. As of December 31, 2009, there was $33.2 million outstanding under the line of credit at an interest rate of approximately 2.2%, and approximately $3.6 million outstanding under letters of credit at a weighted average interest rate of approximately 2.0%. At December 31, 2009, the remaining borrowing capacity available under the line of credit was approximately $8.3 million. We were in compliance with all covenants under the Credit Agreement as of December 31, 2009.

Short-Term Loan

On December 21, 2007, we entered into a $20.0 million unsecured short-term loan with KeyBank, which matured on December 20, 2008. We exercised our option to extend the term for an additional six months and, on March 31, 2009, we repaid in full the unsecured short-term loan, using proceeds from borrowings under our line of credit. The interest rate charged on the loan was based on LIBOR, the prime rate or the federal funds rate, depending on market conditions, and adjusted periodically.

Contractual Obligations

The following table reflects our significant contractual obligations as of December 31, 2009:

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Debt Obligations (1)	$ 285,961,651	$ 83,770,508	$ 5,878,841	$ 32,233,838	$ 164,078,464
Interest on Debt Obligations (2)	78,727,727	15,724,516	23,698,172	21,930,064	17,374,975
Capital Lease Obligations (3)	300,000	—	—	300,000	—
Operating Lease Obligations (4)	1,753,868	152,510	305,020	305,020	991,318
Total	$ 366,743,246	$ 99,647,534	$ 29,882,033	$ 54,768,922	$ 182,444,757

(1) Debt obligations represent borrowings under our line of credit, which represents $33.2 million of the debt obligation due in less than 1 year, and mortgage notes payable that were outstanding as of December 31, 2009. The line of credit matures in December 2010. The $48.0 million mortgage note issued in September 2008 matures in October 2010, and we expect to exercise our options to extend the term through October 2013.

(2) Interest on debt obligations includes estimated interest on our borrowings under our line of credit. The balance and interest rate on our line of credit is variable, thus the amount of interest calculated for purposes of this table was based upon rates and balances as of December 31, 2009.

(3) Capital lease obligations represent the obligation to purchase the land held under the ground lease on our property located in Fridley, Minnesota.

(4) Operating lease obligations represent the ground lease payments due on our Tulsa, Oklahoma property. The lease expires in June 2021.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of SEC Regulation S-K as of December 31, 2009.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. The primary risk that we believe we will be exposed to is interest rate risk. We currently own one variable rate loan receivable, certain of our leases contain escalations based on market interest rates, and the interest rate on our existing line of credit is variable. Although we seek to mitigate this risk by structuring such provisions of our loans and leases to contain a minimum interest rate or escalation rate, as applicable, these features do not eliminate this risk. We are also exposed to the effects of interest rate changes as a result of the holding of our cash and cash equivalents in short-term, interest-bearing investments. We have not entered into any derivative contracts to attempt to further manage our exposure to interest rate fluctuations.

To illustrate the potential impact of changes in interest rates on our net income for the years ended December 31, 2009 and 2008, we have performed the following analysis, which assumes that our balance sheet remains constant and no further actions beyond a minimum interest rate or escalation rate are taken to alter our existing interest rate sensitivity.

The following table summarizes the impact of a 1% increase and 1% decrease in the one month LIBOR for the years ended December 31, 2009 and 2008.

	For the year ended December 31, 2009	2008
1% increase in the one month LIBOR		
Rental & interest income	$ 5	$ 106,031
Interest expense	336,611	320,250
Net decrease	$ (336,606)	$ (214,219)
Net income available to common stockholders (as reported)	$ 509,298	$ 819,197
Net decrease as percentage of Net income available to common stockholders (as reported)	-66.1%	-26.1%
1% decrease in the one month LIBOR		
Rental & interest income	$ —	$ (96,882)
Interest expense	$ (336,611)	$ (320,250)
Net increase	$ 336,611	$ 223,368
Net income available to common stockholders	$ 509,298	$ 819,197
Net increase as percentage of Net income available to common stockholders	66.1%	27.3%

As of December 31, 2009, the fair value of our fixed rate debt outstanding was approximately $239.1 million. Interest rate fluctuations may affect the fair value of our fixed rate debt instruments. If interest rates on our fixed rate debt instruments, using rates at December 31, 2009, had been one percentage point higher or lower, the fair value of those debt instruments on that date would have decreased or increased by approximately $9.6 million and $10.2 million, respectively.

In the future, we may be exposed to additional effects of interest rate changes primarily as a result of our line of credit or long-term mortgage debt used to maintain liquidity and fund expansion of our real estate investment portfolio and operations. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve this objective, we will borrow primarily at fixed rates or variable rates with the lowest margins available and, in some cases, with the ability to convert variable rates to fixed rates. We may also enter into derivative financial instruments such as interest rate swaps and caps in order to mitigate the interest rate risk on a related financial instrument. We will not enter into derivative or interest rate transactions for speculative purposes.

In addition to changes in interest rates, the value of our real estate is subject to fluctuations based on changes in local and regional economic conditions and changes in the creditworthiness of lessees and borrowers, all of which may affect our ability to refinance debt if necessary.

Item 8. Financial Statements and Supplementary Data

Index to Consolidated Financial Statements

Report of Management on Internal Controls over Financial Reporting

To the Stockholders and Board of Directors of Gladstone Commercial Corporation:

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and include those policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and the dispositions of our assets, provide reasonable assurance that our transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with appropriate authorizations; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, we assessed the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations (COSO). Based on our assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2009.

The effectiveness of our internal control over financial reporting as of December 31, 2009 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

February 24, 2010

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Gladstone Commercial Corporation:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Gladstone Commercial Corporation and its subsidiaries at December 31, 2009 and December 31, 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
McLean, VA
February 24, 2010

GLADSTONE COMMERCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

	December 31, 2009	December 31, 2008
ASSETS		
Real estate, at cost	$ 390,753,892	$ 390,562,138
Less: accumulated depreciation	34,111,952	24,757,576
Total real estate, net	356,641,940	365,804,562
Lease intangibles, net	28,177,461	31,533,843
Mortgage note receivable	10,000,000	10,000,000
Cash and cash equivalents	3,096,598	4,503,578
Restricted cash	2,633,538	2,677,561
Funds held in escrow	2,487,680	2,150,919
Deferred rent receivable	8,975,196	7,228,811
Deferred financing costs, net	3,136,055	4,383,446
Due from adviser (Refer to Note 2)	—	108,898
Prepaid expenses and other assets	1,716,905	707,167
TOTAL ASSETS	$ 416,865,373	$ 429,098,785
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Mortgage notes payable	$ 252,761,651	$ 255,111,173
Short-term loan and borrowings under line of credit	33,200,000	31,500,000
Deferred rent liability	3,213,195	3,147,472
Asset retirement obligation liability	2,305,644	2,190,192
Accounts payable and accrued expenses	2,086,741	2,673,787
Due to adviser (Refer to Note 2)	1,213,640	—
Obligation under capital lease	247,686	235,378
Rent received in advance, security deposits and funds held in escrow	3,386,274	3,745,523
Total Liabilities	298,414,831	298,603,525
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	2,150	2,150
Common stock, $0.001 par value, 47,700,000 shares authorized and 8,563,264 shares issued and outstanding	8,563	8,563
Additional paid in capital	170,622,581	170,622,581
Notes receivable — employees	(2,304,999)	(2,595,886)
Distributions in excess of accumulated earnings	(49,877,753)	(37,542,148)
Total Stockholders' Equity	118,450,542	130,495,260
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 416,865,373	$ 429,098,785

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

GLADSTONE COMMERCIAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the year ended December 31, 2009	2008	2007
Operating revenues			
Rental income	$ 41,513,977	$ 39,572,287	$ 31,365,796
Interest income from mortgage note receivable	760,417	898,573	1,013,889
Tenant recovery revenue	334,543	336,637	310,353
Total operating revenues	42,608,937	40,807,497	32,690,038
Operating expenses			
Depreciation and amortization	13,161,287	12,679,437	10,503,258
Property operating expenses	915,120	875,850	798,939
Due diligence expense	40,574	1,176,379	20,968
Base management fee (Refer to Note 2)	1,401,402	1,637,851	1,858,120
Incentive fee (Refer to Note 2)	3,238,634	2,831,722	2,564,365
Administration fee (Refer to Note 2)	1,015,695	954,635	837,898
Professional fees	649,566	521,410	625,349
Insurance	203,682	173,414	214,141
Directors fees	198,882	216,851	229,000
Stockholder related expenses	236,160	298,384	244,629
Asset retirement obligation expense	143,089	131,472	114,821
General and administrative	62,886	63,263	101,539
Total operating expenses before credit from Adviser	21,266,977	21,560,668	18,113,027
Credit to incentive fee	(726,448)	(2,196,945)	(2,321,597)
Total operating expenses	20,540,529	19,363,723	15,791,430
Other income (expense)			
Interest income from temporary investments	20,748	21,844	354,249
Interest income — employee loans	192,350	202,097	222,051
Other income	12,978	63,993	47,847
Interest expense	(17,894,536)	(16,858,687)	(11,564,541)
Total other expense	(17,668,460)	(16,570,753)	(10,940,394)
Income from continuing operations	4,399,948	4,873,021	5,958,214
Discontinued operations			
Income from discontinued operations	43,062	39,926	69,989
Net realized income from foreign currency transactions	—	—	33,359
Gain on sale of real estate	160,038	—	—
Taxes refunded on sale of real estate	—	—	78,667
Total discontinued operations	203,100	39,926	182,015
Net income	4,603,048	4,912,947	6,140,229
Distributions attributable to preferred stock	(4,093,750)	(4,093,750)	(4,093,750)
Net income available to common stockholders	$ 509,298	$ 819,197	$ 2,046,479
Earnings per weighted average common share — basic & diluted			
Income from continuing operations (net of distributions attributable to preferred stock)	$ 0.04	$ 0.09	$ 0.22
Discontinued operations	0.02	0.01	0.02
Net income available to common stockholders	$ 0.06	$ 0.10	$ 0.24
Weighted average shares outstanding — basic & diluted	8,563,264	8,565,149	8,565,264

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

GLADSTONE COMMERCIAL CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred Stock	Common Stock	Capital in Excess of Par Value	Notes Receivable From Sale of Common Stock	Distributions in Excess of Accumulated Earnings	Total Stockholders' Equity
Balance at December 31, 2006	$ 2,150	$ 8,565	$ 170,640,979	$ (3,201,322)	$ (15,226,196)	$ 152,224,176
Repayment of Principal on Notes Receivable	—	—	—	431,399	—	431,399
Distributions Declared to Common and Preferred Stockholders	—	—	—	—	(16,427,736)	(16,427,736)
Net income	—	—	—	—	6,140,229	6,140,229
Balance at December 31, 2007	$ 2,150	$ 8,565	$ 170,640,979	$ (2,769,923)	$ (25,513,703)	$ 142,368,068
Forfeiture of Common Stock	—	(2)	(18,398)	—	—	(18,400)
Repayment of Principal on Notes Receivable	—	—	—	174,037	—	174,037
Distributions Declared to Common and Preferred Stockholders	—	—	—	—	(16,941,392)	(16,941,392)
Net income	—	—	—	—	4,912,947	4,912,947
Balance at December 31, 2008	$ 2,150	$ 8,563	$ 170,622,581	$ (2,595,886)	$ (37,542,148)	$ 130,495,260
Repayment of Principal on Notes Receivable	—	—	—	45,887	—	45,887
Reclassification of Loan Balance to Other Assets	—	—	—	245,000	—	245,000
Distributions Declared to Common and Preferred Stockholders	—	—	—	—	(16,938,653)	(16,938,653)
Net income	—	—	—	—	4,603,048	4,603,048
Balance at December 31, 2009	$ 2,150	$ 8,563	$ 170,622,581	$ (2,304,999)	$ (49,877,753)	$ 118,450,542

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

GLADSTONE COMMERCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31, 2009	2008	2007
Cash flows from operating activities:			
Net income	$ 4,603,048	$ 4,912,947	$ 6,140,229
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization, including discontinued operations	13,171,703	12,704,641	10,528,458
Amortization of deferred financing costs	1,491,389	1,283,956	717,195
Amortization of deferred rent asset and liability, net	(532,068)	(532,066)	(532,068)
Accretion of obligation under capital lease	12,309	10,311	—
Asset retirement obligation expense, including discontinued operations	143,550	133,244	116,478
Gain on sale of real estate	(160,038)	—	—
(Increase) decrease in prepaid expenses and other assets	(959,738)	172,096	64,990
Increase in deferred rent receivable and deferred rent liability, net	(1,177,167)	(2,387,509)	(1,741,016)
Increase in accounts payable, accrued expenses, and amount due adviser	735,492	1,001,639	625,398
(Decrease) increase in rent received in advance	(315,223)	275,916	176,145
Net cash provided by operating activities	17,013,257	17,575,175	16,095,809
Cash flows from investing activities:			
Real estate investments	(1,139,711)	(49,359,852)	(105,599,587)
Leasing commissions paid	(441,745)	—	—
Proceeds from sale of real estate	1,089,269	—	—
Receipts from lenders for reserves held in escrow	1,465,133	874,227	1,603,309
Payments to lenders for reserves held in escrow	(1,801,894)	(1,623,452)	(1,369,186)
Decrease (increase) in restricted cash	44,023	(763,494)	(688,905)
Deposits on future acquisitions	(250,000)	(1,650,000)	(2,110,000)
Deposits refunded or applied against real estate investments	200,000	1,750,000	2,110,000
Net cash used in investing activities	(834,925)	(50,772,571)	(106,054,369)
Cash flows from financing activities:			
Borrowings under mortgage notes payable	—	48,015,000	48,521,690
Principal repayments on mortgage notes payable	(2,349,522)	(1,485,901)	(895,657)
Principal repayments on employee notes receivable	290,887	155,637	431,399
Borrowings from line of credit	57,600,000	76,900,000	65,500,000
Repayments on line of credit	(35,900,000)	(69,800,000)	(41,100,000)
Repayment of short-term loan	(20,000,000)	—	—
Receipts from tenants for reserves	4,454,102	2,391,360	2,023,019
Payments to tenants from reserves	(4,526,409)	(2,159,671)	(1,710,685)
Increase in security deposits	28,282	531,806	376,572
Payments for deferred financing costs	(243,999)	(1,262,273)	(1,409,320)
Distributions paid for common and preferred	(16,938,653)	(16,941,392)	(16,427,736)
Net cash (used in) provided by financing activities	(17,585,312)	36,344,566	55,309,282
Net (decrease) increase in cash and cash equivalents	(1,406,980)	3,147,170	(34,649,278)
Cash and cash equivalents, beginning of year	4,503,578	1,356,408	36,005,686
Cash and cash equivalents, end of year	$ 3,096,598	$ 4,503,578	$ 1,356,408
Cash paid during year for interest	$ 16,558,955	$ 14,337,944	$ 10,693,440
NON-CASH OPERATING, INVESTING AND FINANCING INFORMATION			
Additions to real estate included in accounts payable, accrued expenses, and amount due adviser	$ —	$ —	$ 81,400
Increase in asset retirement obligation	$ —	$ 245,196	$ 180,458
Fixed rate debt assumed in connection with acquisitions	$ —	$ 6,461,603	$ 4,506,689
Obligation under capital lease	$ —	$ 225,068	$ —
Forfeiture of common stock in satisfaction of employee note receivable	$ —	$ 18,400	$ —
Reclassificaton of principal on employee note (Refer to Note 8)	$ 245,000	$ —	$ —

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

GLADSTONE COMMERCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Significant Accounting Policies

Gladstone Commercial Corporation (the “Company”) is a Maryland corporation that operates in a manner so as to qualify as a real estate investment trust (“REIT”) for federal income tax purposes and was incorporated on February 14, 2003 under the General Corporation Law of Maryland, primarily for the purpose of engaging in the business of investing in real estate properties net leased to creditworthy entities and making mortgage loans to creditworthy entities. Subject to certain restrictions and limitations, the business of the Company is managed by Gladstone Management Corporation, a Delaware corporation (the “Adviser”).

Subsidiaries

The Company conducts substantially all of its operations through a subsidiary, Gladstone Commercial Limited Partnership, a Delaware limited partnership (the “Operating Partnership”). As the Company currently owns all of the general and limited partnership interests of the Operating Partnership through GCLP Business Trust I and II as disclosed below, the financial position and results of operations of the Operating Partnership are consolidated with those of the Company.

Gladstone Commercial Partners, LLC, a Delaware limited liability company (“Commercial Partners”) and a subsidiary of the Company, was organized to engage in any lawful act or activity for which a limited liability company may be organized in Delaware. Commercial Partners has the power to make and perform all contracts and to engage in all activities to carry out the purposes of the Company, and all other powers available to it as a limited liability company. As the Company currently owns all of the membership interests of Commercial Partners, the financial position and results of operations of Commercial Partners are consolidated with those of the Company.

Gladstone Commercial Lending, LLC, a Delaware limited liability company (“Gladstone Commercial Lending”) and a subsidiary of the Company, was created to conduct all operations related to real estate mortgage loans of the Company. As the Operating Partnership currently owns all of the membership interests of Gladstone Commercial Lending, the financial position and results of operations of Gladstone Commercial Lending are consolidated with those of the Company.

Gladstone Commercial Advisers, Inc., a Delaware corporation (“Commercial Advisers”) and a subsidiary of the Company, is a taxable REIT subsidiary (“TRS”), which was created to collect all non-qualifying income related to the Company’s real estate portfolio. It is currently anticipated that this income will predominately consist of fees received by the Company related to the leasing of real estate. There have been no such fees earned to date. Since the Company owns 100% of the voting securities of Commercial Advisers, the financial position and results of operations of Commercial Advisers are consolidated with those of the Company.

GCLP Business Trust I and GCLP Business Trust II, subsidiaries of the Company, each are business trusts formed under the laws of the Commonwealth of Massachusetts on December 28, 2005. The Company transferred its 99% limited partnership interest in the Operating Partnership to GCLP Business Trust I in exchange for 100 trust shares. Commercial Partners transferred its 1% general partnership interest in the Operating Partnership to GCLP Business Trust II in exchange for 100 trust shares.

Investments in Real Estate

The Company records investments in real estate at cost and capitalizes improvements and replacements when they extend the useful life or improve the efficiency of the asset. The Company expenses costs of repairs and maintenance as incurred. The Company computes depreciation using the straight-line method over the estimated useful life or 39 years for buildings and improvements, five to seven years for equipment and fixtures and the shorter of the useful life or the remaining lease term for tenant improvements and leasehold interests.

The Company accounts for its acquisitions of real estate in accordance with Accounting Standards Codification ("ASC") 805, "Business Combinations," which requires the purchase price of real estate to be allocated to the acquired tangible assets and liabilities, consisting of land, building, tenant improvements, long-term debt and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, the value of in-place leases, the value of unamortized lease origination costs, the value of tenant relationships and the value of capital lease obligations, based in each case on their fair values.

Management's estimates of value are made using methods similar to those used by independent appraisers (e.g., discounted cash flow analysis). Factors considered by management in its analysis include an estimate of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets and liabilities acquired. In estimating carrying costs, management also includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, which primarily range from nine to eighteen months, depending on specific local market conditions. Management also estimates costs to execute similar leases, including leasing commissions, legal and other related expenses to the extent that such costs are not already incurred in connection with a new lease origination as part of the transaction.

The Company allocates purchase price to the fair value of the tangible assets of an acquired property by valuing the property as if it were vacant. The "as-if-vacant" value is allocated to land, building, and tenant improvements based on management's determination of the relative fair values of these assets. Real estate depreciation expense on these tangible assets, including discontinued operations, was approximately $9.4 million, $9.0 million and $7.1 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Above-market and below-market in-place lease values for owned properties are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market lease values, included in the accompanying balance sheet as part of deferred rent receivable, are amortized as a reduction of rental income over the remaining non-cancelable terms of the respective leases. Total amortization related to above-market lease values was approximately $253,000 for each of the years ended December 31, 2009, 2008 and 2007, respectively. The capitalized below-market lease values, included in the accompanying balance sheet as deferred rent liability, are amortized as an increase to rental income over the remaining non-cancelable terms of the respective leases. Total amortization related to below-market lease values was approximately $786,000 for each of the years ended December 31, 2009, 2008 and 2007, respectively.

The total amount of the remaining intangible assets acquired, which consist of in-place lease values, unamortized lease origination costs, and customer relationship intangible values, are allocated based on management's evaluation of the specific characteristics of each tenant's lease and the Company's overall relationship with that respective tenant. Characteristics to be considered by management in allocating these values include the nature and extent of our existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality and expectations of lease renewals (including those existing under the terms of the lease agreement), among other factors.

The value of in-place leases and unamortized lease origination costs are amortized to expense over the remaining term of the respective leases, which generally range from 10 to 15 years. The value of customer relationship intangibles, which is the benefit to the Company resulting from the likelihood of an existing tenant renewing its lease, are amortized to expense over the remaining term and any anticipated renewal periods in the respective leases, but in no event does the amortization period for intangible assets exceed the remaining depreciable life of the building. Should a tenant terminate its lease, the unamortized portion of the above-market and below-market lease values, in-place lease values, unamortized lease origination costs and customer relationship intangibles will be immediately charged to the related income or expense. Total amortization expense related to these intangible assets, including discontinued operations, was approximately $3.7 million, $3.7 million and $3.4 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Impairment

Investments in Real Estate

The Company accounts for the impairment of real estate in accordance with ASC 360-10-35, "Property, Plant, and Equipment," which requires that the Company periodically review the carrying value of each property to determine if circumstances indicate impairment in the carrying value of the investment exist or that depreciation periods should be modified. If circumstances support the possibility of impairment, the Company prepares a projection of the undiscounted future cash flows, without interest charges, of the specific property and determines if the investment in such property is recoverable. If impairment is indicated, the carrying value of the property would be written down to its estimated fair value based on the Company's best estimate of the property's discounted future cash flows. There have been no impairments recognized on real estate assets in the Company's history.

In light of current economic conditions, the Company performed an impairment analysis of its entire portfolio at December 31, 2009. In performing the analysis, the Company considered such factors as the tenants' payment history and financial condition, the likelihood of lease renewal, business conditions in the industry in which the tenants operate and whether the carrying value of the real estate has decreased. The Company concluded that none of its properties were impaired, and will continue to monitor its portfolio for any indicators that may change this conclusion.

Provision for Loan Losses

The Company's accounting policies require that it reflect in its financial statements an allowance for estimated credit losses with respect to mortgage loans it has made based upon its evaluation of known and inherent risks associated with its private lending assets. Management reflects provisions for loan losses based upon its assessment of general market conditions, its internal risk management policies and credit risk rating system, industry loss experience, its assessment of the likelihood of delinquencies or defaults, and the value of the collateral underlying its investments. Actual losses, if any, could ultimately differ from these estimates. There have been no provisions for loan losses in the Company's history.

Cash and Cash Equivalents

The Company considers all short-term, highly liquid investments that are both readily convertible to cash and have a maturity of three months or less at the time of purchase to be cash equivalents; except that any such investments purchased with funds held in escrow or similar accounts are classified as restricted cash. Items classified as cash equivalents include money-market deposit accounts. All of the Company's cash and cash equivalents at December 31, 2009 were held in the custody of one financial institution, and the Company's balance at times may exceed federally insurable limits.

Restricted Cash

Restricted cash consists of security deposits and funds held in escrow for certain tenants. These funds will be released to the tenants upon completion of agreed upon tasks as specified in the lease agreements, mainly consisting of maintenance and repairs on the buildings, and when evidence of insurance and tax payments has been received by the Company.

Funds Held in Escrow

Funds held in escrow consist of funds held by certain of the Company's lenders for properties held as collateral by these lenders. These funds will be released to the Company upon completion of agreed upon tasks as specified in the mortgage agreements, mainly consisting of maintenance and repairs on the buildings, and when evidence of insurance and tax payments has been submitted to the lenders.

Deferred Financing Costs

Deferred financing costs consist of costs incurred to obtain financing, including legal fees, origination fees and administrative fees. The costs are deferred and amortized using the straight-line method, which approximates the effective interest method over the term of the financing secured. The Company made payments of approximately $244,000, $1.3 million and $1.4 million for deferred financing costs during the years ended December 31, 2009, 2008 and 2007, respectively. Total amortization expense related to deferred financing costs was approximately $1.5 million, $1.3 million and $0.7 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets consist of accounts receivable, interest receivable, prepaid assets, a note receivable from a former employee and deposits on real estate.

Obligation Under Capital Lease

In conjunction with the Company's acquisition of a building in Fridley, Minnesota in February 2008, the Company acquired a ground lease on the parking lot of the building, which had a purchase obligation to acquire the land under the ground lease at the end of the term in April 2014 for $300,000. In accordance with ASC 840-10-25, "Leases," the Company accounted for the ground lease as a capital lease and recorded the corresponding present value of the obligation under the capital lease. The Company recorded total interest expense related to the accretion of the capital lease obligation of approximately $12,000 and $10,000 for the years ended December 31, 2009 and 2008, respectively.

Revenue Recognition

Rental revenue includes rents that each tenant pays in accordance with the terms of its respective lease reported evenly over the non-cancelable term of the lease. Most of the Company's leases contain rental increases at specified intervals. The Company recognizes such revenues on a straight-line basis by averaging the non-cancelable rental revenues over the lease terms. Deferred rent receivable in the accompanying balance sheet includes the cumulative difference between rental revenue as recorded on a straight line basis and rents received from the tenants in accordance with the lease terms, along with the capitalized above-market lease values of certain acquired properties. Accordingly, the Company determines, in its judgment, to what extent the deferred rent receivable applicable to each specific tenant is collectible. The Company reviews deferred rent receivable, as it relates to straight line rents, on a quarterly basis and takes into consideration the tenant's payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates and economic conditions in the area in which the property is located. In the event that the collectability of deferred rent with respect to any given tenant is in doubt, the Company records an allowance for uncollectible accounts or records a direct write-off of the specific rent receivable. No such reserves have been recorded as of December 31, 2009.

Management considers its loans and other lending investments to be held-for-investment. The Company reflects loans classified as long-term investments at amortized cost, less allowance for loan losses, acquisition premiums or discounts, and deferred loan fees. On occasion, the Company may acquire loans at small premiums or discounts based on the credit characteristics of such loans. These premiums or discounts are recognized as yield adjustments over the lives of the related loans. Loan origination fees, as well as direct loan origination costs, are also deferred and recognized over the lives of the related loans as yield adjustments. If loans with premiums, discounts, or loan origination fees are prepaid, the Company immediately recognizes the unamortized portion as a decrease or increase in the prepayment gain or loss. Interest income is recognized using the effective interest method applied on a loan-by-loan basis. Prepayment penalties or yield maintenance payments from borrowers are recognized as additional income when received.

Tenant recovery revenue includes payments from tenants as reimbursements for franchises taxes, management fees, insurance, and ground lease payments. The Company recognizes tenant recovery revenue in the same periods that it incurs the related expenses.

Income Taxes

The Company has operated and intends to continue to operate in a manner that will allow it to qualify as a REIT under the Internal Revenue Code of 1986, as amended, and accordingly will not be subject to federal income taxes on amounts distributed to stockholders (except income from foreclosure property), provided it distributes at least 90% of its REIT taxable income to its stockholders and meets certain other conditions. To the extent that the Company satisfies the distribution requirement but distributes less than 100% of its taxable income, the Company will be subject to federal corporate income tax on its undistributed income.

Commercial Advisers is a wholly-owned TRS that is subject to federal and state income taxes. Though Commercial Advisers has had no activity to date, the Company would account for any future income taxes in accordance with the provisions of ASC 740, “Income Taxes.” Under ASC 740-10-25, the Company accounts for income taxes using the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Segment Information

ASC 280, “Segment Reporting,” provides standards for public companies relating to the reporting of financial and descriptive information about their operating segments in financial statements. Operating segments are defined as components of an enterprise for which separate financial information is available and is evaluated regularly by the chief operating decision maker or decision making group in determining how to allocate resources and in assessing performance. Company management is the chief decision making group. As discussed in Note 9, the Company’s operations are derived from two operating segments, one segment purchases real estate (land, buildings and other improvements), which is simultaneously leased to existing users, and the other segment originates mortgage loans and collects principal and interest payments.

Asset Retirement Obligations

ASC 410, “Asset Retirement and Environmental Obligation,” requires an entity to recognize a liability for a conditional asset retirement obligation when incurred if the liability can be reasonably estimated. ASC 410-20-20 clarifies that the term “Conditional Asset Retirement Obligation” refers to a legal obligation (pursuant to existing laws or by contract) to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. ASC 410-20-25-6 clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The Company has accrued a liability and corresponding increase to the cost of the related properties for disposal related to all properties constructed prior to 1985 that have, or may have, asbestos present in the building. The Company accrued a liability during the year ended December 31, 2008 of approximately $245,000 related to properties acquired during the period, which reflected the present value of the future obligation. There was no liability accrued during the year ended December 31, 2009. The Company also recorded expense, including discontinued operations, of approximately $144,000, $133,000 and $116,000 during the years ended December 31, 2009, 2008 and 2007, respectively, related to the cumulative accretion of the obligation.

Real Estate Held for Sale and Discontinued Operations

ASC 360-10, “Property, Plant, and Equipment,” requires that the results of operations of any properties which have been sold, or are held for sale, be presented as discontinued operations in the Company’s consolidated financial statements in both current and prior periods presented. Income items related to held for sale properties are listed separately on the Company’s consolidated income statement. Real estate assets held for sale are measured at the lower of the carrying amount or the fair value, less the cost to sell, and are listed separately on the Company’s consolidated balance sheet. Once properties are listed as held for sale, no further depreciation is recorded.

Recently Issued Accounting Pronouncements

On July 1, 2009, the Financial Accounting Standards Board (“FASB”) issued FASB Statement No. 168, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles” (the “Codification”) also known as ASC 105, “Generally Accepted Accounting Principles.” ASC 105 establishes the FASB Accounting Standards Codification and identifies it as the single source of accounting principles and the framework for selecting the principles used in the preparation of financial statements of non-governmental entities that are presented in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (“SEC”) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification supersedes all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification will become nonauthoritative. Following the Codification, the Board will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates, which will update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification. GAAP was not intended to be changed as a result of the FASB’s Codification project, but it will change the way the guidance is organized and presented. ASC 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company adopted this pronouncement during the quarter ended September 30, 2009, and the adoption had no material impact on the Company’s results of operations.

ASC 805, “Business Combinations,” requires that the assets and liabilities of all business combinations be recorded at fair value, with limited exceptions. ASC 805-10-25-23 requires that all expenses related to an acquisition be expensed as incurred, rather than capitalized into the cost of the acquisition as had been the previous accounting. ASC 805 is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008. The Company adopted this pronouncement effective for the fiscal year beginning January 1, 2009, and the adoption could have a significant impact on its results of operations because of the requirement to expense costs associated with acquisitions rather than capitalize the costs as the Company has done in the past. There was no significant impact from the adoption of this pronouncement during the year ended December 31, 2009, because there was limited activity during the period related to potential acquisitions.

ASC 820, “Fair Value Measurements and Disclosures,” defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. ASC 820-10 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company’s adoption of ASC 820-10 had no impact on the Company’s results of operations.

ASC 820-10-35-15A, “Fair Value Measurements and Disclosures,” further clarifies the application of ASC 820-1- in a market that is not active. More specifically, ASC 820-10-35-51E states that significant judgment should be applied to determine if observable data in a dislocated market represents forced liquidations or distressed sales and are not representative of fair value in an orderly transaction. ASC 820-10-35-55A provides further guidance that the use of a reporting entity's own assumptions about future cash flows and appropriately risk-adjusted discount rates is acceptable when relevant observable inputs are not available. In addition, ASC 820-10-35-55B provides guidance on the level of reliance of broker quotes or pricing services when measuring fair value in a non active market stating that less reliance should be placed on a quote that does not reflect actual market transactions and a quote that is not a binding offer. The guidance is effective upon issuance for all financial statements that have not been issued and any changes in valuation techniques as a result of applying the guidance are accounted for as a change in accounting estimate. The Company adopted these pronouncements during the quarter ended December 31, 2008, and the adoption had no material impact on the Company's results of operations.

ASC 820-10-35-51A, "Fair Value Measurements and Disclosures," provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased when compared with normal market activity for the asset or liability. ASC 820-10-35-51E provides guidance on identifying circumstances that indicate when a transaction is not orderly. ASC 820-10-35-51D emphasizes that the fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The guidance is effective for interim and annual periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. The Company adopted this pronouncement during the quarter ended March 31, 2009, and the adoption had no material impact on the Company's results of operations.

ASC 825-10-50, "Financial Instruments," requires disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements, whether recognized or not recognized in the statement of financial position. The guidance in ASC 825-10-50 is effective for interim periods ending after June 15, 2009. Early adoption is permitted for periods ending after March 15, 2009. The Company adopted this pronouncement during the quarter ended March 31, 2009, and the adoption had no material impact on the Company's results of operations.

ASC 855-10-50, "Subsequent Events," requires disclosure of the date through which an entity has evaluated subsequent events and defines the types of subsequent events that should be recognized or nonrecognized. ASC 855-10-50 is effective for interim or annual periods ending after June 15, 2009. The Company adopted this pronouncement during the quarter ended June 30, 2009, and the adoption had no material impact on the reporting of the Company's subsequent events.

ASC 860, "Transfers and Servicing," removes the concept of a qualifying special-purpose entity ("QSPE") and removes the exception from applying to variable interest entities that are QSPEs. This statement also clarifies the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. This statement is effective for fiscal years beginning after November 15, 2009, and is effective for the Company's fiscal year beginning January 1, 2010. The Company does not expect there to be an impact from adopting this standard on the Company's results of operations.

ASC 810-10-25-38, "Consolidation," amends the consolidation guidance for variable-interest entities ("VIE") and requires an enterprise to qualitatively assess the determination of the primary beneficiary (the "consolidator") of a VIE based on whether the entity has the power to direct matters that most significantly impact the activities of the VIE, and had the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. ASC 810 is effective for the Company's fiscal year beginning January 1, 2010. The Company is currently evaluating the impact from adopting this standard on the Company's results of operations.

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 period. Actual results could materially differ from those estimates.

Reclassifications

Certain amounts from prior years' financial statements have been reclassified to conform to the current year presentation. The Company's property located in Norfolk, Virginia was classified as held for sale during the quarter ended June 30, 2009 and, as a result, the results of operations related to this property for all years presented were reclassified from continuing operations to discontinued operations. These reclassifications had no effect on previously reported net income or stockholders' equity.

2. Related Party Transactions

The Company is externally managed pursuant to contractual arrangements with its Adviser and Gladstone Administration, LLC (the "Administrator"), under which its Adviser and Administrator employ all of the Company's personnel and pays their payroll, benefits, and general expenses directly. The Company has an advisory agreement with its Adviser (the "Advisory Agreement") and an administration agreement (the "Administration Agreement") with its Administrator. The management services and fees under the Advisory and Administration Agreements are described below. As of December 31, 2009, approximately $1.2 million was due to the Adviser, and as of December 31, 2008, approximately $0.1 was due from the Adviser.

Advisory Agreement

The Advisory Agreement provides for an annual base management fee equal to 2% of the Company's total stockholders' equity, less the recorded value of any preferred stock, and an incentive fee based on funds from operations ("FFO"). For the years ended December 31, 2009, 2008 and 2007, the Company recorded a base management fee of approximately $1.4 million, $1.6 million and $1.9 million, respectively. For purposes of calculating the incentive fee, FFO includes any realized capital gains and capital losses, less any distributions paid on preferred stock, but FFO does not include any unrealized capital gains or losses. The incentive fee rewards the Adviser if the Company's quarterly FFO, before giving effect to any incentive fee ("pre-incentive fee FFO"), exceeds 1.75%, or 7% annualized, (the "hurdle rate") of total stockholders' equity, less the recorded value of any preferred stock. The Adviser receives 100% of the amount of the pre-incentive fee FFO that exceeds the hurdle rate, but is less than 2.1875% of the Company's pre-incentive fee FFO. The Adviser also receives an incentive fee of 20% of the amount of the Company's pre-incentive fee FFO that exceeds 2.1875%.

For the years ended December 31, 2009, 2008 and 2007, the Company recorded an incentive fee of approximately $3.2 million, $2.8 million and $2.6 million, respectively, offset by a credit related to an unconditional and irrevocable voluntary waiver issued by the Adviser of approximately $0.7 million, $2.2 million and $2.3 million, respectively, for a net incentive fee for the years ended December 31, 2009, 2008 and 2007, of approximately $2.5 million, $0.6 million and $0.3 million, respectively. The board of directors of the Company accepted the Adviser's offer to waive on a quarterly basis a portion of the incentive fee for the years ended December 31, 2009, 2008 and 2007 in order to support the current level of distributions to the Company's stockholders. These waivers were applied through December 31, 2009 and any waived fees may not be recouped by the Adviser in the future.

Administration Agreement

Under the Administration Agreement, the Company pays separately for its allocable portion of the Administrator's overhead expenses in performing its obligations including, but not limited to, rent for employees of the Administrator, and its allocable portion of the salaries and benefits expenses of its chief financial officer, chief compliance officer, internal counsel, treasurer and their respective staffs. The Company's allocable portion of expenses is derived by multiplying the Administrator's total allocable expenses by the percentage of the Company's total assets at the beginning of each quarter in comparison to the total assets of all companies managed by the Adviser under similar agreements. For the years ended

December 31, 2009, 2008 and 2007 the Company recorded an administration fee of approximately $1.0 million, $1.0 million and $0.8 million, respectively.

3. Earnings per Common Share

The following tables set forth the computation of basic and diluted earnings per common share for the years ended December 31, 2009, 2008 and 2007:

	For the year ended December 31, 2009	2008	2007
Net income available to common stockholders	$ 509,298	$ 819,197	$ 2,046,479
Denominator for basic & diluted weighted average shares	8,563,264	8,565,149	8,565,264
Basic & diluted earnings per common share	$ 0.06	$ 0.10	$ 0.24

4. Real Estate and Intangible Assets

Real Estate

The following table sets forth the components of the Company's investments in real estate, including capitalized leases, as of December 31, 2009 and 2008:

	December 31, 2009	December 31, 2008
Real estate:		
Land	$ 55,025,707(1)	$ 55,226,042(1)
Building and improvements	325,907,479	325,515,390
Tenant improvements	9,820,706	9,820,706
Accumulated depreciation	(34,111,952)	(24,757,576)
Real estate, net	$ 356,641,940	$ 365,804,562

(1) Includes land held under a capital lease carried at approximately $1.1 million.

On May 19, 2009, the Company extended the lease with one of its tenants in its property located in Eatontown, New Jersey for a period of 15 years, and the tenant has two options to extend the lease for additional periods of 5 years each. The lease was originally set to expire in August 2011, and will now expire in April 2024. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately $540,000.

On November 18, 2009, the Company extended the lease with one of its tenants in its property located in Akron, Ohio for a period of five years. The lease was originally set to expire in February 2010, and will now expire in March 2015. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately $160,000.

Future operating lease payments from tenants under non-cancelable leases, excluding tenant reimbursement of expenses and future operating lease payments for discontinued operations, in effect at December 31, 2009, were as follows:

Year	Tenant Lease Payments
2010	$ 38,922,256
2011	38,657,936
2012	38,751,645
2013	33,402,994
2014	29,172,473
Thereafter	160,527,477

In accordance with the lease terms, substantially all tenant expenses are required to be paid by the tenant; however, the Company would be required to pay property taxes on the respective properties, and ground lease payments on the property located in Tulsa, Oklahoma, in the event the tenant fails to pay them. The total annualized property taxes for all properties held by the Company at December 31, 2009 was approximately $6.0 million, and the total annual ground lease payments on the Tulsa, Oklahoma property was approximately $153,000.

Intangible Assets

The following table summarizes the net value of other intangible assets and the accumulated amortization for each intangible asset class:

	December 31, 2009		December 31, 2008	
	Lease Intangibles	Accumulated Amortization	Lease Intangibles	Accumulated Amortization
In-place leases	$ 15,935,445	$ (6,741,817)	$ 15,981,245	$ (5,079,343)
Leasing costs	10,053,004	(3,832,623)	9,662,731	(2,987,360)
Customer relationships	17,136,501	(4,373,049)	17,136,501	(3,179,931)
	$ 43,124,950	$ (14,947,489)	$ 42,780,477	$ (11,246,634)

The estimated aggregate amortization expense for each of the five succeeding fiscal years is as follows:

Year	Estimated Amortization Expense
2010	5,610,770
2011	5,047,473
2012	4,309,990
2013	2,310,995
2014	2,051,524
Thereafter	$ 8,846,709

5. Real Estate Held for Sale and Discontinued Operations

As of June 30, 2009, the Company classified its property located in Norfolk, Virginia as held for sale under the provisions of ASC 360-10, which requires that the results of operations of any properties which have been sold, or are held for sale, be presented as discontinued operations in the Company's consolidated financial statements in both current and prior periods presented. The Company received an unsolicited offer from a buyer for this property. On July 17, 2009, the Company sold this property for $1.15 million, for a gain on the sale of approximately $160,000.

In addition, on July 21, 2006, the Company sold its two Canadian properties and the Company continues to incur legal fees related to the dissolution of the remaining Canadian entities. The table below summarizes the components of income from discontinued operations:

	For the year ended December 31,		
	2009	2008	2007
Operating revenue	$ 56,202	$ 103,501	$ 103,501
Operating expense	(13,140)	(63,575)	(33,512)
Net realized income from foreign currency transactions	—	—	33,359
Taxes refunded on sale of real estate	—	—	78,667
Gain on sale of real estate	160,038	—	—
Income from discontinued operations	$ 203,100	$ 39,926	$ 182,015

6. Mortgage Note Receivable

On April 15, 2005, the Company originated a mortgage loan in the amount of $10.0 million, collateralized by an office building in McLean, Virginia, where the Company's Adviser and Administrator are subtenants in the building. This 12 year mortgage loan accrues interest at the greater of 7.5% per year or the one month London Interbank Offered Rate ("LIBOR") rate plus 6.0% per year, with a ceiling of 10.0%. The mortgage loan is interest only for the first nine years of the term, with payments of principal commencing after the initial period. The balance of the principal and all interest remaining is due at the end of the 12 year term. At December 31, 2009, the interest rate was 7.5%.

The fair market value of the mortgage note receivable as of December 31, 2009 was approximately $9.5 million, as compared to the carrying value stated above of approximately $10.0 million. The fair market value is calculated based on a discounted cash flow analysis, using an interest rate based on management's estimate of the interest rate on a mortgage note receivable with comparable terms.

7. Mortgage Notes Payable, Line of Credit and Short-Term Loan

The Company's mortgage notes payable, line of credit and short-term loan as of December 31, 2009 and December 31, 2008 are summarized below:

	Date of Issuance/ Assumption	Principal Maturity Date	Stated Interest Rate at December 31, 2009 (1)	Principal Balance Outstanding December 31, 2009	Principal Balance Outstanding December 31, 2008
Fixed-Rate Mortgage Notes Payable:					
	03/16/05	04/01/30	6.33%	$ 2,884,908	$ 2,948,753
	08/25/05	09/01/15	5.33%	21,093,917	21,399,644
	09/12/05	09/01/15	5.21%	12,389,647	12,560,673
	12/21/05	12/08/15	5.71%	18,991,934	19,241,117
	02/21/06	12/01/13	5.91%	9,188,044	9,344,908
	02/21/06	06/30/14	5.20%	19,116,277	19,472,740
	03/29/06	04/01/16	5.92%	17,000,000	17,000,000
	04/27/06	05/05/16	6.58%	14,009,918	14,281,616
	11/22/06	12/01/16	5.76%	14,136,921	14,309,000
	12/22/06	01/01/17	5.79%	21,605,106	21,846,000
	02/08/07	03/01/17	6.00%	13,775,000	13,775,000
	06/05/07	06/08/17	6.11%	14,240,000	14,240,000
	09/06/07	12/11/15	5.81%	4,361,144	4,426,393
	10/15/07	11/08/17	6.63%	15,657,330	15,828,612
	08/29/08	06/01/16	6.80%	6,296,505	6,421,717
	09/15/08	10/01/10 (2)	6.85%	48,015,000	48,015,000
Total Fixed-Rate Mortgage Notes Payable:				252,761,651	255,111,173
Variable-Rate Line of Credit:	12/29/06	12/29/10 (3)	LIBOR + 1.9%	33,200,000	11,500,000
Variable-Rate Short-Term Loan:	12/21/07	06/20/09 (4)	LIBOR + 2.75%	—	20,000,000
Total Mortgage Notes Payable, Line of Credit and Short-Term Loan				$ 285,961,651	$ 286,611,173

(1) The weighted average interest rate on all debt outstanding at December 31, 2009 was approximately 5.59%.

(2) This note has three annual extension options, which extends the term of the note until October 1, 2013.

(3) The line of credit was extended for a one-year period through December 29, 2010.

(4) The short-term loan was repaid in full on March 31, 2009.

Mortgage Notes Payable

As of December 31, 2009, the Company had 16 fixed-rate mortgage notes payable, collateralized by a total of 55 properties. The obligors under each of these notes are wholly-owned separate borrowing entities, which own the real estate collateral. The Company is not a co-borrower but has limited recourse liabilities that could result from: a borrower voluntarily filing for bankruptcy, improper conveyance of a property, fraud or material misrepresentation, misapplication or misappropriation of rents, security deposits, insurance proceeds or condemnation proceeds, and physical waste or damage to the property, resulting from a borrower's gross negligence or willful misconduct. The Company also indemnifies lenders against claims resulting from the presence of hazardous substances or activity involving hazardous substances in violation of environmental laws on a property. The weighted-average interest rate on the mortgage notes payable as of December 31, 2009 was approximately 6.0%.

The fair market value of all fixed-rate mortgage notes payable outstanding as of December 31, 2009 was approximately $239.1 million, as compared to the carrying value stated above of approximately $252.8 million. The fair market value is calculated based on a discounted cash flow analysis, using interest rates based on management's estimate of interest rates on long-term debt with comparable terms.

Scheduled principal payments of mortgage notes payable are as follows:

Year	Scheduled principal payments
2010	$ 50,570,506(1)
2011	2,795,411
2012	3,083,429
2013	11,840,020
2014	20,401,572
Thereafter	164,070,713
	$ 252,761,651

(1) The $48.0 million mortgage note issued in September 2008 matures in October 2010, and we expect to exercise our options to extend through October 2013.

Line of Credit

The Company has a $50.0 million senior revolving credit agreement (the "Credit Agreement") with a syndicate of banks led by KeyBank National Association ("KeyBank"), which matures on December 29, 2010. On June 30, 2009, the Company amended its Credit Agreement to reduce its commitment from $95.0 million to $50.0 million, in exchange for modifications to certain terms under the Credit Agreement. The definition of FFO was modified to exclude from the calculation of FFO acquisition related costs that are required to be expensed under ASC 805. In addition, the aggregate amount the Company can issue under the Credit Agreement as letters of credit was reduced from $20.0 million to $10.5 million.

The interest rate charged on the advances under the facility is based on the LIBOR, the prime rate or the federal funds rate, depending on market conditions, and adjusts periodically. The unused portion of the line of credit is subject to a fee of 0.15% per year. The Company's ability to access this funding source is subject to the Company continuing to meet customary lending requirements such as compliance with financial and operating covenants and meeting certain lending limits. One such covenant requires the Company to limit its distributions to stockholders to 95% of its FFO less those acquisition related costs that are required to be expensed under ASC 805. In addition, the maximum amount the Company may draw under this agreement is based on a percentage of the value of properties pledged as collateral to the banks, which must meet agreed upon eligibility standards. KeyBank requested that the Company obtain updated appraisals for the properties pledged under the line of credit as borrowing base collateral in connection with the extension of the Credit Agreement. As a result, the maximum amount that the Company may draw under the Credit Agreement was reduced to approximately $45.1 million. Furthermore, those properties that are pledged as collateral to the banks are pledged through a perfected first priority lien in the equity interest of the special purpose entity ("SPE") that owns the property. In addition the Operating Partnership, which is the entity that owns the SPEs, is precluded from transferring the SPEs or unconsolidated affiliates to the Company.

If and when long-term mortgages are arranged for these pledged properties, the banks will release the properties from the line of credit and reduce the availability under the Credit Agreement by the advanced amount of the removed property. Conversely, as the Company purchases new properties meeting the eligibility standards, the Company may pledge such properties to obtain additional advances under this agreement. The availability under the line of credit may also be reduced by letters of credit used in the ordinary course of business. The Company may use the advances under the line of credit for both general corporate purposes and the acquisition of new investments. As of December 31, 2009, there was $33.2 million outstanding under the line of credit at an interest rate of approximately 2.2%, and approximately $3.6 million outstanding pursuant to letters of credit at a weighted average interest rate of approximately 2.0%. At December 31, 2009, the remaining borrowing capacity available under the line of credit was approximately $8.3 million. The Company was in compliance with all covenants under the Credit

Agreement as of December 31, 2009. The amount outstanding on the line of credit as of December 31, 2009 approximates fair market value, because the debt is short-term and variable rate.

Short-Term Loan

On December 21, 2007, the Company entered into a $20.0 million unsecured short-term loan with KeyBank, which matured on December 21, 2008. The Company exercised its option to extend the term for an additional six months and, on March 31, 2009, the Company repaid in full the unsecured short-term loan, using proceeds from borrowings under its line of credit. The interest rate charged on the loan was based on the LIBOR, the prime rate or the federal funds rate, depending on market conditions, and adjusted periodically.

8. Stockholders' Equity

Distributions paid per common share for the years ended December 31, 2009, 2008 and 2007 were $1.50, $1.50 and $1.44 per share, respectively. Distributions paid per share of Series A Preferred Stock for each of the years ended December 31, 2009, 2008 and 2007 were approximately $1.94 per share. Distributions paid per share of Series B Preferred Stock for each of the years ended December 31, 2009, 2008 and 2007 were approximately $1.88 per share. For Federal income tax purposes, distributions paid to stockholders may be characterized as ordinary income, capital gains or return of capital. The characterization of distributions during each of the last three years is reflected in the table below:

	Ordinary Income	Return of Capital	Long-Term Capital Gains
Common Stock			
For the year ended December 31, 2007	25.86040%	74.13960%	0.00000%
For the year ended December 31, 2008	9.26770%	90.73230%	0.00000%
For the year ended December 31, 2009	6.04080%	93.95920%	0.00000%
Series A Preferred Stock			
For the year ended December 31, 2007	100.00000%	0.00000%	0.00000%
For the year ended December 31, 2008	100.00000%	0.00000%	0.00000%
For the year ended December 31, 2009	100.00000%	0.00000%	0.00000%
Series B Preferred Stock			
For the year ended December 31, 2007	100.00000%	0.00000%	0.00000%
For the year ended December 31, 2008	100.00000%	0.00000%	0.00000%
For the year ended December 31, 2009	100.00000%	0.00000%	0.00000%

The following table is a summary of all outstanding notes issued to employees of the Adviser for the exercise of stock options:

Date Issued	Number of Options Exercised	Strike Price of Options Exercised	Amount of Promissory Note Issued to Employees	Outstanding Balance of Employee Loans at 12/31/09	Outstanding Balance of Employee Loans at 12/31/08	Maturity Date of Note	Interest Rate on Note
Sep 2004	25,000	$ 15.00	$ 375,000	$ 358,405	$ 365,927	Sep 2013	5.00%
Apr 2006	12,422	16.10	199,994	199,994	199,994	Apr 2015	7.77%
May 2006	50,000	16.85	842,500	842,500	842,500	May 2016	7.87%
May 2006	15,000	16.10	241,500	241,500	241,500	May 2016	7.87%
May 2006	2,500	16.01	40,000	—(1)	38,365	May 2016	7.87%
May 2006	2,000	16.10	32,200	32,200	32,200	May 2016	7.87%
May 2006	2,000	16.10	32,200	32,200	32,200	May 2016	7.87%
May 2006	2,000	15.00	30,000	30,000	30,000	May 2016	7.87%
Oct 2006	12,000	16.10	193,200	193,200	193,200	Oct 2015	8.17%
Nov 2006	25,000	15.00	375,000	—(2)	245,000	Dec 2016	8.15%
Nov 2006	25,000	15.00	375,000	375,000	375,000	Nov 2015	8.15%
	172,922		$ 2,736,594	$ 2,304,999	$ 2,595,886		

(1) This loan was paid in full on July 1, 2009.

(2) This loan was to a former employee of the Adviser and accordingly was transferred from notes receivable — employees to other assets in connection with the that employee's termination of employment with the Adviser and the later amendment of the loan. The interest on the loan from the date the employee stopped working for the Adviser is included in other income on the consolidated statement of operations.

In accordance with ASC 505-10-45-2, "Equity," receivables from employees for the issuance of capital stock to employees prior to the receipt of cash payment should be reflected in the balance sheet as a reduction to stockholders' equity. Therefore, these notes were recorded as loans to employees and are included in the equity section of the accompanying consolidated balance sheets.

On November 4, 2009, the Company entered into an open market sale agreement, or the Open Market Sale Agreement, with Jefferies & Company, Inc., or Jefferies, under which it may, from time to time, offer and sell shares of its common stock with an aggregate sales price of up to $25.0 million through or to Jefferies, for resale. To date, the Company has not sold any common stock under the Open Market Sale Agreement.

On November 19, 2009, the Company entered into a dealer manager agreement, or the Dealer Manager Agreement, with Halcyon Capital Markets, LLC, or Halcyon, pursuant to which Halcyon will act as its dealer manager in connection with a proposed continuous private offering of up to 3,333,333 shares of its newly designated senior common stock at $15.00 per share. To date, the Company has not sold any senior common stock under the Dealer Manager Agreement.

9. Segment Information

As of December 31, 2009, the Company's operations were derived from two operating segments. One segment purchases real estate (land, buildings and other improvements), which is simultaneously leased to existing users and the other segment extends mortgage loans and collects principal and interest payments. The amounts included under the "other" column in the tables below include other income, which consists of interest income from temporary investments and employee loans and any other miscellaneous income earned, and operating and other expenses that were not specifically derived from either operating segment.

The following table summarizes the Company's consolidated operating results and total assets by segment as of and for the years ended December 31, 2009, 2008 and 2007:

	As of and for the year ended December 31, 2009			
	Real Estate Leasing	Real Estate Lending	Other	Total
Operating revenues	$ 41,848,520	$ 760,417	$ —	$ 42,608,937
Operating expenses	(14,260,070)	—	(6,280,459)(1)	(20,540,529)
Other expense	(16,480,535)	—	(1,187,925)(2)	(17,668,460)
Discontinued operations	203,100	—	—	203,100
Net income	$ 11,311,015	$ 760,417	$ (7,468,384)	$ 4,603,048
Total Assets	$ 399,867,563	$ 10,000,000	$ 6,997,810	$ 416,865,373

	As of and for the year ended December 31, 2008			
	Real Estate Leasing	Real Estate Lending	Other	Total
Operating revenues	$ 39,908,924	$ 898,573	$ —	$ 40,807,497
Operating expenses	(14,863,138)	—	(4,500,585)(1)	(19,363,723)
Other expense	(13,769,417)	—	(2,801,336)(2)	(16,570,753)
Discontinued operations	39,926	—	—	39,926
Net income	$ 11,316,295	$ 898,573	$ (7,301,921)	$ 4,912,947
Total Assets	$ 413,760,683	$ 10,000,000	$ 5,338,102	$ 429,098,785

	As of and for the year ended December 31, 2007			
	Real Estate Leasing	Real Estate Lending	Other	Total
Operating revenues	$ 31,676,149	$ 1,013,889	$ —	$ 32,690,038
Operating expenses	(11,437,986)	—	(4,353,444)(1)	(15,791,430)
Other expense	(10,860,826)	—	(79,568)(2)	(10,940,394)
Discontinued operations	182,015	—	—	182,015
Net income	$ 9,559,352	$ 1,013,889	$ (4,433,012)	$ 6,140,229
Total Assets	$ 366,231,132	$ 10,086,111	$ 2,585,446	$ 378,902,689

(1) Operating expenses includes base management fees, incentive fees, adminstration fees, professional fees, insurance expense, directors fees, stockholder related expenses and general and administrative expenses that are not practicable to allocate to either operating segment, thus it is included in the "other" column.

(2) Other expense includes interest expense on the Company's line of credit and short-term loan of $1,414,001, $3,089,270 and $703,715 for the years ended December 31, 2009, 2008 and 2007, respectively. It is not practicable to allocate the interest from the line of credit or short-term loan to either operating segment, thus it is included in the "other" column.

10. Quarterly Financial Information (unaudited)

The following table reflects the quarterly results of operations for the years ended December 31, 2009 and 2008, certain amounts from prior quarters' financial statements have been reclassified to conform to the current quarter's presentation. These reclassifications had no effect on previously reported net income or stockholders' equity.

	Year ended December 31, 2009			
	Quarter ended March 31, 2009	Quarter ended June 30, 2009	Quarter ended September 30, 2009	Quarter ended December 31, 2009
Operating revenues	$ 10,658,176	$ 10,651,489	$ 10,657,094	$ 10,642,178
Operating expenses	5,165,052	5,181,837	5,069,018	5,124,622
Other expense	(4,421,393)	(4,373,632)	(4,473,194)	(4,400,241)
Income from continuing operations	1,071,731	1,096,020	1,114,882	1,117,315
Discontinued operations	17,838	20,916	164,108	238
Net income	1,089,569	1,116,936	1,278,990	1,117,553
Dividends attributable to preferred stock	(1,023,437)	(1,023,437)	(1,023,437)	(1,023,439)
Net income available to common stockholders	66,132	93,499	255,553	94,114
Net income available to common stockholders — basic & diluted	$ 0.01	$ 0.01	$ 0.03	$ 0.01
Weighted average shares outstanding — basic & diluted	8,563,264	8,563,264	8,563,264	8,563,264

	Year ended December 31, 2008			
	Quarter ended March 31, 2008	Quarter ended June 30, 2008	Quarter ended September 30, 2008	Quarter ended December 31, 2008
Operating revenues	$ 9,487,601	$ 10,199,583	$ 10,431,268	$ 10,689,045
Operating expenses	4,371,325	5,099,235	5,014,602	4,878,561
Other expense	(3,685,063)	(3,899,215)	(4,292,698)	(4,693,777)
Income from continuing operations	1,431,213	1,201,133	1,123,968	1,116,707
Discontinued operations	(14,511)	18,312	17,591	18,534
Net income	1,416,702	1,219,445	1,141,559	1,135,241
Distributions attributable to preferred stock	(1,023,437)	(1,023,437)	(1,023,437)	(1,023,439)
Net income available to common stockholders	393,265	196,008	118,122	111,802
Net income available to common stockholders — basic & diluted	$ 0.05	$ 0.02	$ 0.02	$ 0.01
Weighted average shares outstanding — basic & diluted	8,565,264	8,565,264	8,565,264	8,564,807

11. Subsequent Events

The Company evaluated all events that have occurred subsequent to December 31, 2009 through February 24, 2010, the date of the filing of this Form 10-K.

On January 12, 2010, the Company's Board of Directors declared a cash distribution of $0.125 per common share, $0.1614583 per share of the Series A Preferred Stock, and $0.15625 per share of the Series B Preferred Stock for each of the months of January, February and March of 2010. Monthly distributions will be payable on January 29, 2010, February 26, 2010 and March 31, 2010, to those stockholders of record as of the close of business on January 21, 2010, February 18, 2010 and March 23, 2010, respectively.

On February 1, 2010, the maturity date for a $245,000 employee stock option loan to a former employee of the Adviser was extended from February 2010 to August 2010. The former employee was also granted the option to either repay the principal and interest in full or return the pledged shares to the Company in full satisfaction of the loan. If the employee returns the pledged shares in satisfaction of the loan, the Company would be required to record compensation expense if the market value of the pledged shares on the date of repayment is less than the outstanding principal balance of the loan. As of February 18, 2010, the market value of the pledged shares was in excess of the outstanding principal balance of the loan.

GLADSTONE COMMERCIAL CORPORATION
SCHEDULE III — REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2009

		Initial Cost		Costs Capitalized	Total Cost					
Location of Property	Encumbrances	Land	Buildings & Improvements	Subsequent to Acquisition	Land	Buildings & Improvements	Total(1)	Accumulated Depreciation(2)	Net Real Estate	Date Acquired
Raleigh, North Carolina Office Building	$ 4,939,999	$ 960,000	$ 4,480,772	$ —	$ 960,000	$ 4,480,772	$ 5,440,772	$ 1,086,838	$ 4,353,934	12/23/2003
Canton, Ohio Office & Warehouse Building	2,903,516	186,739	3,082,007	—	186,739	3,082,007	3,268,746	520,837	2,747,909	1/30/2004
Akron, Ohio Office & Laboratory Building	7,440,875	1,974,000	6,769,565	34,926	1,974,000	6,804,491	8,778,491	1,009,627	7,768,864	4/29/2004
Charlotte, North Carolina Office Building	6,907,853	741,296	8,423,389	59,190	741,296	8,482,579	9,223,875	1,213,977	8,009,898	6/30/2004
Canton, North Carolina Commercial & Manufacturing Building	2,884,908	150,000	5,050,000	—	150,000	5,050,000	5,200,000	709,395	4,490,605	7/6/2004
Snyder Township, Pennsylvania Commercial & Warehouse Building	5,622,612	100,000	6,573,902	135,175	100,000	6,709,077	6,809,077	917,082	5,891,995	8/5/2004
Lexington, North Carolina Commercial & Warehouse Building	2,846,353	819,760	2,106,845	6,637	819,760	2,113,482	2,933,242	293,485	2,639,757	8/5/2004
Austin, Texas Office Building	6,500,000	1,000,000	6,295,794	46,095	1,000,000	6,341,889	7,341,889	877,479	6,464,410	9/16/2004
Mt. Pocono, Pennsylvania Commercial & Manufacturing Building	5,240,313	350,000	5,818,703	18,430	350,000	5,837,133	6,187,133	791,067	5,396,066	10/15/2004
San Antonio, Texas Flexible Office Building	7,172,691	843,000	7,513,750	22,673	843,000	7,536,423	8,379,423	1,249,219	7,130,204	2/10/2005
Columbus, Ohio Industrial Building	2,733,214	410,000	2,385,108	—	410,000	2,385,108	2,795,108	302,401	2,492,707	2/10/2005
Big Flats, New York Industrial Building	5,630,000	275,000	6,459,318	33,666	275,000	6,492,984	6,767,984	790,812	5,977,172	4/15/2005
Wichita, Kansas Office Building	8,492,719	1,525,000	9,702,731	67,611	1,525,000	9,770,342	11,295,342	1,228,451	10,066,891	5/18/2005
Arlington, Texas Warehouse & Bakery Building	4,117,875	635,964	3,694,876	45,003	635,964	3,739,879	4,375,843	451,104	3,924,739	5/26/2005
Dayton, Ohio Office Building	2,045,256	525,000	1,876,992	119,736	525,000	1,996,728	2,521,728	329,244	2,192,484	6/30/2005
Eatontown, New Jersey Office Building	4,580,000	1,350,630	3,520,062	6,681	1,350,630	3,526,743	4,877,373	473,882	4,403,491	7/7/2005
Frankling Township, New Jersey Office & Warehouse Building	6,790,000	1,631,534	6,199,849	—	1,631,534	6,199,849	7,831,383	712,307	7,119,076	7/11/2005
Duncan, South Carolina Office & Warehouse Building	11,361,811	783,212	10,790,451	2,033,148	783,212	12,823,599	13,606,811	1,386,290	12,220,521	7/14/2005
Duncan, South Carolina Manufacturing Building	2,824,252	194,686	2,682,227	—	194,686	2,682,227	2,876,913	344,596	2,532,317	7/14/2005
Hazelwood, Missouri Office & Warehouse Building	2,360,000	763,178	2,309,058	29,962	763,178	2,339,020	3,102,198	276,829	2,825,369	8/5/2005

GLADSTONE COMMERCIAL CORPORATION
SCHEDULE III — REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)
DECEMBER 31, 2009

Location of Property	Encumbrances	Initial Cost: Land	Initial Cost: Buildings & Improvements	Costs Capitalized Subsequent to Acquisition	Total Cost: Land	Total Cost: Buildings & Improvements	Total(1)	Accumulated Depreciation(2)	Net Real Estate	Date Acquired
Angola, Indiana Industrial Building	$ 596,577	$ 65,780	$ 1,074,758	$ —	$ 65,780	$ 1,074,758	$ 1,140,538	$ 105,517	$ 1,035,021	9/2/2005
Angola, Indiana Industrial Building	1,193,145	131,559	1,129,874	—	131,559	1,129,874	1,261,433	211,032	1,050,401	9/2/2005
Rock Falls, Illinois Industrial Building	318,168	35,082	1,113,340	—	35,082	1,113,340	1,148,422	56,275	1,092,147	9/2/2005
Newburyport, Massachusetts Industrial Building	6,770,510	628,690	6,504,056	1,846,895	628,690	8,350,951	8,979,641	783,828	8,195,813	10/17/2005
Clintonville, Wisconsin Industrial Manufacturing Building	3,409,309	54,674	4,717,090	—	54,674	4,717,090	4,771,764	518,701	4,253,063	10/31/2005
Maple Heights, Ohio Industrial Building	10,636,109	1,608,976	10,065,475	987,265	1,608,976	11,052,740	12,661,716	1,202,647	11,459,069	12/21/2005
Richmond, Virginia Industrial Building	5,275,000	735,820	5,335,863	36,437	735,820	5,372,300	6,108,120	598,251	5,509,869	12/30/2005
Toledo, Oho Industrial Building	2,966,919	263,068	2,811,801	39,916	263,068	2,851,717	3,114,785	351,654	2,763,131	12/30/2005
South Hadley, Massachusetts Industrial Building	2,418,750	470,636	2,765,376	10,000	470,636	2,775,376	3,246,012	275,004	2,971,008	2/15/2006
Champaign, Illinois Office Building	1,731,319	686,979	2,035,784	10,546	686,979	2,046,330	2,733,309	227,832	2,505,477	2/21/2006
Champaign, Illinois Office Building	3,394,744	1,347,017	3,991,733	—	1,347,017	3,991,733	5,338,750	446,730	4,892,020	2/21/2006
Champaign, Illinois Office Building	2,121,715	841,886	2,494,833	—	841,886	2,494,833	3,336,719	279,206	3,057,513	2/21/2006
Champaign, Illinois Office Building	1,940,266	769,888	2,281,475	—	769,888	2,281,475	3,051,363	255,329	2,796,034	2/21/2006
Roseville, Minnesota Office Building	19,116,278	2,587,757	25,290,127	—	2,587,757	25,290,127	27,877,884	3,051,186	24,826,698	2/21/2006
Burnsville, Minnesota Office Building	11,867,677	3,510,711	8,746,407	—	3,510,711	8,746,407	12,257,118	1,083,501	11,173,617	5/10/2006
Menomonee Falls, Wisconsin Industrial Building	6,940,000	624,700	6,910,616	—	624,700	6,910,616	7,535,316	630,547	6,904,769	6/30/2006
Baytown, Texas Office Building	2,000,000	221,314	2,443,469	—	221,314	2,443,469	2,664,783	251,080	2,413,703	7/11/2006
Sterling Heights, Michigan Industrial Building	—	2,734,887	8,606,190	12,676	2,734,887	8,618,866	11,353,753	723,554	10,630,199	9/22/2006
Birmingham, Alabama Industrial Building	—	611,597	2,325,761	—	611,597	2,325,761	2,937,358	198,766	2,738,592	9/29/2006
Montgomery, Alabama Industrial Building	—	221,965	844,081	—	221,965	844,081	1,066,046	72,137	993,909	9/29/2006
Columbia, Missouri Industrial Building	—	145,988	555,157	—	145,988	555,157	701,145	47,445	653,700	9/29/2006

GLADSTONE COMMERCIAL CORPORATION
SCHEDULE III — REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)
DECEMBER 31, 2009

		Initial Cost		Costs Capitalized	Total Cost					
Location of Property	**Encumbrances**	**Land**	**Buildings & Improvements**	**Subsequent to Acquisition**	**Land**	**Buildings & Improvements**	**Total(1)**	**Accumulated Depreciation(2)**	**Net Real Estate**	**Date Acquired**
Mason, Ohio Office Building	$ 5,400,000	$ 797,274	$ 6,258,344	$ 47,471	$ 797,274	$ 6,305,815	$ 7,103,089	$ 607,885	$ 6,495,204	1/5/2007
Raleigh, North Carolina Industrial Building	5,534,866	1,605,551	5,513,353	—	1,605,551	5,513,353	7,118,904	415,958	6,702,946	2/16/2007
Tulsa, Oklahoma Manufacturing Building	—	—	14,057,227	—	—	14,057,227	14,057,227	1,196,825	12,860,402	3/1/2007
Hialeah, Florida Industrial Building	—	3,562,452	6,671,600	—	3,562,452	6,671,600	10,234,052	484,367	9,749,685	3/9/2007
Tewksbury, Massachusetts Industrial Building	—	1,394,902	8,893,243	—	1,394,822	8,893,243	10,288,065	647,665	9,640,400	5/17/2007
Mason, Ohio Retail Building	4,882,152	1,201,338	4,960,987	—	1,201,338	4,960,987	6,162,325	320,260	5,842,065	7/1/2007
Cicero, New York Industrial Building	4,361,144	299,066	5,018,628	—	299,066	5,018,628	5,317,694	298,472	5,019,222	9/6/2007
Grand Rapids, Michigan Office Building	9,225,000	1,629,270	10,500,066	—	1,629,270	10,500,066	12,129,336	668,003	11,461,333	9/28/2007
Bollingbrook, Illinois Industrial Building	4,968,750	1,271,543	5,003,124	—	1,271,543	5,003,124	6,274,667	308,974	5,965,693	9/28/2007
Decatur, Georgia Office Building	—	784,188	3,245,281	—	784,188	3,245,281	4,029,469	179,411	3,850,058	12/13/2007
Decatur, Georgia Office Building	1,117,698	204,807	847,573	—	204,807	847,573	1,052,380	46,857	1,005,523	12/13/2007
Decatur, Georgia Office Building	1,403,002	257,086	1,063,925	—	257,086	1,063,925	1,321,011	58,818	1,262,193	12/13/2007
Lawrenceville, Georgia Office Building	3,704,723	678,854	2,809,365	—	678,854	2,809,365	3,488,219	155,312	3,332,907	12/13/2007
Snellville, Georgia Office Building	961,622	176,208	729,217	—	176,208	729,217	905,425	40,314	865,111	12/13/2007
Covington, Georgia Office Building	1,265,292	231,852	959,496	—	231,852	959,496	1,191,348	53,045	1,138,303	12/13/2007
Cumming, Georgia Office Building	4,028,089	738,107	3,054,580	—	738,107	3,054,580	3,792,687	168,869	3,623,818	12/13/2007
Conyers, Georgia Office Building	1,619,574	296,771	1,228,155	—	296,771	1,228,155	1,524,926	67,897	1,457,029	12/13/2007

GLADSTONE COMMERCIAL CORPORATION
SCHEDULE III — REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2009

		Initial Cost		Costs Capitalized	Total Cost					
Location of Property	**Encumbrances**	**Land**	**Buildings & Improvements**	**Subsequent to Acquisition**	**Land**	**Buildings & Improvements**	**Total(1)**	**Accumulated Depreciation(2)**	**Net Real Estate**	**Date Acquired**
Reading, Pennsylvania Industrial Building	$ 5,257,500	$ 490,646	$ 6,202,376	$ —	$ 490,646	$ 6,202,376	$ 6,693,022	$ 306,759	$ 6,386,263	1/29/2008
Fridley, Minnesota Office Building	—	1,354,233	8,073,526	—	1,354,233	8,073,526	9,427,759	584,131	8,843,628	2/26/2008
Concord Township, Ohio Industrial Building	—	1,796,467	11,154,123	—	1,786,212	11,154,123	12,940,335	538,336	12,401,999	3/31/2008
Pineville, North Carolina Industrial Building	2,145,000	669,025	3,028,320	—	669,025	3,028,320	3,697,345	133,612	3,563,733	4/30/2008
Marietta, Ohio Industrial Building	4,500,000	829,014	6,607,265	—	829,014	6,607,265	7,436,279	229,063	7,207,216	8/29/2008
Chalfont, Pennsylvania Industrial Building	6,296,506	1,249,415	6,419,607	—	1,249,415	6,419,607	7,669,022	265,975	7,403,047	8/29/2008
	$ 252,761,651	$ 55,036,042	$ 330,078,046	$ 5,650,139	$ 55,025,707	$ 335,728,185	$ 390,753,892	$ 34,111,952	$ 356,641,940	

(1) The aggregate cost for land and building improvements for federal income tax purposes is the same as the total gross cost of land and building improvements.

(2) Depreciable life of all buildings is 39 years. Depreciable life of all improvements is the shorter of the useful life of the assets or the life of the respective leases on each building, which range from 5-20 years.

The following table reconciles the change in the balance of real estate during the years ended December 31, 2009, 2008 and 2007, respectively:

	2009	2008	2007
Balance at beginning of period	$ 390,562,138	$ 340,500,406	$ 243,713,542
Acquisitions during period	—	47,874,020	95,396,039
Improvements or other additions	1,139,711	2,187,712	1,390,825
Dispositions during period	(947,957)	—	—
Balance at end of period	$ 390,753,892	$ 390,562,138	$ 340,500,406

The following table reconciles the change in the balance of accumulated depreciation during the years ended December 31, 2009, 2008 and 2007, respectively:

	2009	2008	2007
Balance at beginning of period	$ 24,757,576	$ 15,738,634	$ 8,595,419
Additions during period	9,445,768	9,018,942	7,143,215
Dispositions during period	(91,392)	—	—
Balance at end of period	$ 34,111,952	$ 24,757,576	$ 15,738,634

GLADSTONE COMMERCIAL CORPORATION
SCHEDULE IV — MORTGAGE LOANS ON REAL ESTATE
DECEMBER 31, 2009

Location and Type of Real Estate	Type of Loan	Interest Rate	Final Maturity Date	Periodic Payment Term	Prior Lien	Face Amount of Mortgage	Carrying Amount of Mortgage (1)	Principal Amount of Loans Subject to Delinquent Principal or Interest
McLean, Virginia; Office Property	First Mortgage	1 month LIBOR +6%; Floor of 7.5%, Ceiling of 10%	5/30/2017	Monthly payment based upon a 24 year amortization term, which changes based on LIBOR, with a floor of 7.5% and a ceiling of 10%. Payments are interest only until June 2011. Balloon payment at maturity is $8,221,344.	—	$ 10,000,000	$ 10,000,000	$ —
						$ 10,000,000	$ 10,000,000	

(1) The aggregate cost for federal income tax purposes is the same as the total gross cost.

The following table reconciles the change in the balance of mortgage loans on real estate during the years ended December 31, 2009, 2008 and 2007, respectively:

	2009	2008	2007
Balance at beginning of period	$ 10,000,000	$ 10,000,000	$ 10,000,000
Collections of principal	—	—	—
Balance at end of period	$ 10,000,000	$ 10,000,000	$ 10,000,000

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures

a) Evaluation of Disclosure Controls and Procedures

As of December 31, 2009, our management, including our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, management, including the chief executive officer and chief financial officer, concluded that our disclosure controls and procedures were effective as of December 31, 2009 in providing a reasonable level of assurance that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in applicable SEC rules and forms, including providing a reasonable level of assurance that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of necessarily achieving the desired control objectives, and management was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

b) Management's Annual Report on Internal Control Over Financial Reporting

Refer to Management's Report on Internal Controls over Financial Reporting located in Item 8 of this Form 10-K.

c) Attestation Report of the Registered Public Accounting Firm

Refer to the Report of Independent Registered Public Accounting Firm located in Item 8 of this Form 10-K.

d) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Not applicable.

PART III

We will file a definitive Proxy Statement for our 2010 Annual Meeting of Stockholders (the "2010 Proxy Statement") with the Securities and Exchange Commission, pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only those sections of the 2010 Proxy Statement that specifically address the items set forth herein are incorporated by reference.

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 is hereby incorporated by reference from our 2010 Proxy Statement under the captions "Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Code of Ethics."

Item 11. Executive Compensation

The information required by Item 11 is hereby incorporated by reference from our 2010 Proxy Statement under the captions "Executive Compensation" and "Director Compensation."

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 is hereby incorporated by reference from our 2010 Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management."

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is hereby incorporated by reference from our 2010 Proxy Statement under the captions "Transactions with Related Persons" and "Information Regarding the Board of Directors and Corporate Governance."

Item 14. Principal Accountant Fees and Services

The information required by Item 14 is hereby incorporated by reference from our 2010 Proxy Statement under the captions "Independent Registered Public Accounting Firm Fees" and "Pre-Approval Policy and Procedures."

PART IV

Item 15. Exhibits and Financial Statement Schedules

a. DOCUMENTS FILED AS PART OF THIS REPORT

1. The following financial statements are filed herewith:

Report of Management on Internal Controls over Financial Reporting
Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets as of December 31, 2009 and December 31, 2008
Consolidated Statements of Operations for the years ended December 31, 2009, 2008 and 2007
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2009, 2008 and 2007
Consolidated Statements of Cash Flows for the years ended December 31, 2009, 2008 and 2007
Notes to Financial Statements

2. Financial statement schedules

Schedule III — Real Estate and Accumulated Depreciation is filed herewith.
Schedule IV — Mortgage Loans on Real Estate is filed herewith.
All other schedules are omitted because they are not applicable, or because the required information is included in the financial statements or notes thereto.

3. Exhibits

The following exhibits are filed as part of this report or hereby incorporated by reference to exhibits previously filed with the Securities and Exchange Commission:

Exhibit Index

Exhibit	Description of Document
3.1	Amended and Restated Articles of Incorporation, incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-11 (File No. 333-106024), filed September 11, 2003.
3.1.1	Articles of Amendment to Articles of Amended and Restated Articles of Incorporation, incorporated by reference to Exhibit 3.1.1 to the Form 10-Q (File No. 001-33097), filed July 30, 2009.
3.2	Bylaws, incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-11 (File No. 333-106024), filed September 11, 2003.
3.2.1	First Amendment to Bylaws, incorporated by reference to Exhibit 99.1 of the Current Report on Form 8-K (File No. 000-50363), filed July 10, 2007.
4.1	Articles Supplementary Establishing and Fixing the Rights and Preferences of the 7.75% Series A Cumulative Redeemable Preferred Stock, incorporated by reference to Exhibit 3.3 of Form 8-A (File No. 000-50363), filed January 19, 2006.
4.2	Articles Supplementary Establishing and Fixing the Rights and Preferences of the 7.5% Series B Cumulative Redeemable Preferred Stock, incorporated by reference to Exhibit 3.4 of Form 8-A (File No. 000-50363), filed October 19, 2006.
4.3	Form of Certificate for 7.75% Series A Cumulative Redeemable Preferred Stock of Gladstone Commercial Corporation, incorporated by reference to Exhibit 4.1 of Form 8-A (File No. 000-50363), filed January 19, 2006.
4.4	Form of Certificate for 7.5% Series B Cumulative Redeemable Preferred Stock of Gladstone Commercial Corporation, incorporated by reference to Exhibit 4.2 of Form 8-A (File No. 000-50363), filed October 19, 2006.
10.1	Real Property Purchase and Sale Agreement between 3058348 Nova Scotia Company, 3058349 Nova Scotia Company and Gladstone Commercial Limited Partnership, dated August 11, 2004, incorporated by reference to Exhibit 10.4 to the Form 10-K (File No. 000-50363), filed March 8, 2005.
10.2	Real Property Purchase and Sale Agreement between PBC— Pocono, L.L.C., PBC— Norfolk, L.L.C. and Gladstone Commercial Limited Partnership, dated August 11, 2004, incorporated by reference to Exhibit 10.5 to the Form 10-K (File No. 000-50363), filed March 8, 2005.
10.3	Promissory Note between Key Bank National Association and CMI04 Canton NC LLC, dated March 14, 2005, incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 (File No. 000-50363), filed May 4, 2005.
10.4	Loan Agreement between AFL05 Duncan SC LLC and Little Arch Charlotte NC LLC and Bank of America, N.A., dated as of August 25, 2005, incorporated by reference to Exhibit 10.4 of the Current Report on Form 8-K (File No. 000-50363), filed August 29, 2005.
10.5	Promissory Note between AFL05 Duncan SC LLC and Little Arch Charlotte NC LLC and Bank of America, N.A., dated as of August 25, 2005, incorporated by reference to Exhibit 10.5 of the Current Report on Form 8-K (File No. 000-50363), filed August 29, 2005.
10.6	Mortgage and Security Agreement between 260 Springside Drive, Akron OH LLC and JP Morgan Chase Bank, N.A., dated as of September 12, 2005, incorporated by reference to

Exhibit	Description of Document
	Exhibit 10.6 of the Current Report on Form 8-K (File No. 000-50363), filed September 13, 2005.
10.7	Fixed Rate Note between 260 Springside Drive, Akron OH LLC and JP Morgan Chase Bank, N.A., dated as of September 12, 2005, incorporated by reference to Exhibit 10.7 of the Current Report on Form 8-K (File No. 000-50363), filed September 13, 2005.
10.8	Loan Agreement between PZ05 Maple Heights OH LLC, WMI05 Columbus OH LLC, and OB Crenshaw GCC, LP, and Countrywide Commercial Real Estate Finance, Inc., dated as of December 21, 2005, incorporated by reference to Exhibit 10.8 of the Current Report on Form 8-K (File No. 000-50363), filed December 22, 2005.
10.9	Promissory Note between PZ05 Maple Heights OH LLC, WMI05 Columbus OH LLC, and OB Crenshaw GCC, LP, and Countrywide Commercial Real Estate Finance, Inc., dated as of December 21, 2005, incorporated by reference to Exhibit 10.9 of the Current Report on Form 8-K (File No. 000-50363), filed December 22, 2005.
10.10	First Amended and Restated Agreement of Limited Partnership of Gladstone Commercial Limited Partnership, incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K (File No. 000-50363), filed February 1, 2006.
10.11	Loan agreement between Stonewater Dox Funding LLC and Wells Fargo Bank, National Association, dated as of November 21, 2003, incorporated by reference to Exhibit 10.20 of the Current Report on Form 8-K (File No. 000-50363), filed February 24, 2006.
10.12	Assumption agreement between Stonewater Dox Funding LLC, ACI06 Champaign IL LLC, Gladstone Commercial Corporation and LaSalle Bank National Association, dated as of February 21, 2006, incorporated by reference to Exhibit 10.21 of the Current Report on Form 8-K (File No. 000-50363), filed February 24, 2006.
10.13	Promissory note between Stonewater Dox Funding LLC and Wells Fargo Bank, National Association, dated as of November 21, 2003, incorporated by reference to Exhibit 10.22 of the Current Report on Form 8-K (File No. 000-50363), filed February 24, 2006.
10.14	Purchase agreement between Stonewater UIS Funding LLC and Gladstone Commercial Limited Partnership, dated as of November 23, 2005, as the same has been modified by that certain Amendment to Purchase Agreement dated December 22, 2005, that certain Amendment to Purchase Agreement dated December 30, 2005, that certain Amendment to Purchase Agreement dated January 6, 2006, that certain Amendment to Purchase Agreement dated January 13, 2006, that certain Amendment to Purchase Agreement dated January 17, 2006 and that certain Amendment to Purchase Agreement dated January 20, 2006., incorporated by reference to Exhibit 10.23 of the Current Report on Form 8-K (File No. 000-50363), filed February 24, 2006.
10.15	Loan agreement between Stonewater Dox Funding LLC and Greenwich Capital Financial Products, Inc, dated as of May 12, 2004, incorporated by reference to Exhibit 10.24 of the Current Report on Form 8-K (File No. 000-50363), filed February 24, 2006.
10.16	Loan assumption agreement between Stonewater UIS Funding LLC, and UC06 Roseville MN LLC, Gladstone Commercial Corporation and LaSalle Bank National Association, dated as of February 21, 2006, incorporated by reference to Exhibit 10.25 of the Current Report on Form 8-K (File No. 000-50363), filed February 24, 2006.
10.17	Promissory note between Stonewater UIS Funding LLC and Greenwich Capital Financial Products, Inc, dated as of May 12, 2004, incorporated by reference to Exhibit 10.26 of the Current Report on Form 8-K (File No. 000-50363), filed February 24, 2006.

Exhibit	Description of Document
10.18	Purchase agreement between Stonewater UIS Funding LLC and Gladstone Commercial Limited Partnership, dated as of November 23, 2005, as the same has been modified by that certain Amendment to Purchase Agreement dated December 22, 2005, that certain Amendment to Purchase Agreement dated December 30, 2005, that certain Amendment to Purchase Agreement dated January 6, 2006, that certain Amendment to Purchase Agreement dated January 13, 2006, that certain Amendment to Purchase Agreement dated January 17, 2006 and that certain Amendment to Purchase Agreement dated January 20, 2006, incorporated by reference to Exhibit 10.27 of the Current Report on Form 8-K (File No. 000-50363), filed February 24, 2006.
10.19	Loan agreement between IXIS Real Estate Capital Inc. and 2525 N Woodlawn Vstrm Wichita KS, LLC, CI05 Clintonville WI LLC and MSI05-3 LLC, dated as of April 27, 2006, incorporated by reference to Exhibit 10.29 of the Quarterly Report on Form 10-Q (File No. 000-50363), filed May 2, 2006.
10.20	Promissory note between IXIS Real Estate Capital Inc. and 2525 N Woodlawn Vstrm Wichita KS, LLC, CI05 Clintonville WI LLC and MSI05-3 LLC, dated as of April 27, 2006, incorporated by reference to Exhibit 10.30 of the Quarterly Report on Form 10-Q (File No. 000-50363), filed May 2, 2006.
10.21	Custodial Agreement between Branch Banking and Trust Company of Virginia, as Custodian, and Gladstone Commercial Company, dated as of May 1, 2006, incorporated by reference to Exhibit 10.33 of the Quarterly Report on Form 10-Q (File No. 000-50363), filed May 2, 2006.
10.22	Gladstone Commercial Limited Partnership Schedule 4.2(A)(2) to First Amended and Restated Agreement of Limited Partnership; Designation of 7.50% Series B Cumulative Redeemable Preferred Units, incorporated by reference to Exhibit 10.1 of the Form 8-K (File No. 000-50363), filed October 25, 2006.
10. 23	Deed of Trust, Assignment of Leases and Rents and Security Agreement between First Park Ten COCO San Antonio, L.P. and CIBC Inc., dated as of November 22, 2006, incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K (File No. 001-33097), filed November 28, 2006.
10.24	Deed of Trust, Assignment of Leases and Rents and Security Agreement between SLEE Grand Prairie, L.P. and CIBC Inc., dated as of November 22, 2006, incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K (File No. 001-33097), filed November 28, 2006.
10.25	Deed of Trust, Assignment of Leases and Rents and Security Agreement between OB Midway NC Gladstone Commercial LLC, and CIBC Inc., dated as of November 22, 2006, incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K (File No. 001-33097), filed November 28, 2006.
10.26	Promissory Note First Park Ten COCO San Antonio, L.P., SLEE Grand Prairie, L.P. and OB Midway NC Gladstone Commercial LLC and CIBC Inc., N.A., dated as of November 22, 2006, incorporated by reference to Exhibit 10.4 of the Current Report on Form 8-K (File No. 001-33097), filed November 28, 2006.
10.27	Mortgage, Assignment of Leases and Rents and Security Agreement between HMBF05 Newburyport MA LLC and CIBC Inc., dated as of December 22, 2006, incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K (File No. 001-33097), filed December 28, 2006.

Exhibit	Description of Document
10.28	Open-end Mortgage, Assignment of Leases and Rents and Security Agreement between SVMMC05 Toledo OH LLC and CIBC Inc., dated as of December 22, 2006, incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K (File No. 001-33097), filed December 28, 2006.
10.29	Mortgage, Assignment of Leases and Rents and Security Agreement between TCI06 Burnsville MC LLC and CIBC Inc., dated as of December 22, 2006, incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K (File No. 001-33097), filed December 28, 2006.
10.30	Promissory Note between HMBF05 Newburyport MA LLC, SVMMC05 Toledo OH LLC and TCI06 Burnsville MC LLC and CIBC Inc., dated as of December 22, 2006, incorporated by reference to Exhibit 10.4 of the Current Report on Form 8-K (File No. 001-33097), filed December 28, 2006.
10.31	Credit Agreement dated as of December 29, 2006 among Gladstone Commercial Limited Partnership as Borrower and Gladstone Commercial Corporation as Guarantor, the Initial Guarantors Listed Therein, the Banks Listed Therein and KeyBank National Association, as Administrative Agent, incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K (File No. 001-33097), filed January 3, 2007.
10.32	Amended and Restated Investment Advisory Agreement between Gladstone Commercial Corporation and Gladstone Management Corporation, dated January 1, 2007 incorporated by reference to Exhibit 99.1 of the Current Report on Form 8-K (File No. 001-33097), filed January 3, 2007 (renewed on July 8, 2009).
10.33	Administration Agreement between Gladstone Commercial Corporation and Gladstone Administration, LLC, dated January 1, 2007 incorporated by reference to Exhibit 99.2 of the Current Report on Form 8-K (File No. 001-33097), filed January 3, 2007 (renewed on July 8, 2009).
10.34	Accordian Agreement between Gladstone Commercial Limited Partnership and KeyBank National Association, dated November 13, 2007 incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K (File No. 001-33097), filed November 16, 2007.
10.35	Note Agreement between Gladstone Commercial Limited Partnership and KeyBank National Association, dated December 21, 2007 incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K (File No. 001-33097), filed December 27, 2007.
10.36	Second Amendment to Credit Agreement by and among Gladstone Commercial Limited Partnership and KeyBank National Association, dated as of June 30, 2009 incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K (File No. 001-33097), filed July 1, 2009.
10.37	Open Market Sale Agreement by and among Gladstone Commercial Corporation, Gladstone Commercial Limited Partnership and Jefferies & Company, Inc., incorporated by reference to Exhibit 1.1 of the Form 8-K (File No. 001-33097), filed November 4, 2009.
10.38	First Amendment to Credit Agreement by and among Gladstone Commercial Limited Partnership and KeyBank National Association, dated as of November 20, 2007, incorporated by reference to Exhibit 10.2 of the Form 8-K (File No. 001-33097), filed November 30, 2009.
10.39	Amended and Restated Dealer Manager Agreement, dated December 22, 2009, by and between Gladstone Commercial Corporation and Halcyon Capital Markets, LLC.
10.40	Amended and Restated Dealer Manager Operating Agreement, dated December 22, 2009, by and between Gladstone Commercial Corporation and Halcyon Capital Markets, LLC.

Exhibit	Description of Document
11	Computation of Per Share Earnings from Operations (included in the notes to the audited financial statements contained in this report).
12	Statements re: computation of ratios (included in Selected Financial Data contained in this report).
14	Gladstone Commercial Corporation Code of Business Conduct and Ethics, dated October 11, 2005, incorporated by reference to Exhibit 14.1 to Current Report on Form 8-K (File No. 000-50363), filed October 12, 2005.
21	Subsidiaries of Gladstone Commercial Corporation.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Gladstone Commercial Corporation

Date: February 24, 2010

By: /s/ Danielle Jones
Danielle Jones
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacity and on the dates indicated.

Date: February 24, 2010

By: /s/ David Gladstone
David Gladstone
Chief Executive Officer and Chairman of the Board of Directors
(principal executive officer)

Date: February 24, 2010

By: /s/ Terry Lee Brubaker
Terry Lee Brubaker
Vice Chairman, Chief Operating Officer and Director

Date: February 24, 2010

By: /s/ George Stelljes III
George Stelljes III
President, Chief Investment Officer and Director

Date: February 24, 2010

By: /s/ Danielle Jones
Danielle Jones
Chief Financial Officer
(principal financial and accounting officer)

Date: February 24, 2010

By: /s/ David A.R. Dullum
David A.R. Dullum
Director

Date: February 24, 2010

By: /s/ Anthony W. Parker
Anthony W. Parker
Director

Date: February 24, 2010

By: /s/ Michela A. English
Michela A. English
Director

Date: February 24, 2010	By: /s/ Paul Adelgren Paul Adelgren Director
Date: February 24, 2010	By: /s/ Maurice Coulon Maurice Coulon Director
Date: February 24, 2010	By: /s/ John Outland John Outland Director
Date: February 24, 2010	By: /s/ Gerard Mead Gerard Mead Director

Exhibit 10.39

GLADSTONE COMMERCIAL CORPORATION

AMENDED AND RESTATED

DEALER MANAGER AGREEMENT

Senior Common Stock

December 22, 2009

Halcyon Capital Markets, LLC
5775 Wayzata Boulevard, Suite 960
Minneapolis, MN 55416
Fax: (952) 543-1145

Re: *Amended and Restated Dealer Manager Agreement for Shares of Senior Common Stock Offered by Halcyon Capital Markets, LLC*

Ladies and Gentlemen:

Gladstone Commercial Corporation, a Maryland corporation (the "Company"), and Halcyon Capital Markets, LLC (the "Dealer Manager"), entered into that certain Dealer Manager Agreement dated November 19, 2009 (the "Original Agreement"), in connection with a private placement offering (the "Offering") by the Company. After the execution of the Original Agreement and prior to the commencement of the Offering, for various reasons certain terms and conditions of the Offering were required to be updated or otherwise modified. Therefore, the parties have agreed to execute this Amended and Restated Dealer Manager Agreement (the "Dealer Manager Agreement") to clarify and affirm their respective rights and obligations hereunder and thereunder.

The Company is offering for sale in the Offering up to 3,333,333 shares of the Company's Senior Common Stock in the primary offering and 500,000 shares of the Company's Senior Common Stock pursuant to the Company's distribution reinvestment plan (the "Shares") pursuant to a Confidential Private Placement Memorandum of the Company dated December 22, 2009 (with all exhibits and supplements thereto, the "Memorandum"). The Shares will be offered at a purchase price of $15.00 per share. The minimum initial purchase by any one person shall be $30,000 in Shares except as otherwise indicated in the Memorandum or in any letter or memorandum from the Company to the Dealer Manager. It is anticipated that the Dealer Manager will enter into Participating Dealer Agreements in the form attached to this Dealer Manager Agreement as Exhibit "A" with other broker-dealers participating in the Offering (each dealer being referred to herein as a "Dealer" and said dealers being collectively referred to herein as the "Dealers"). The Company shall have the right to approve any material modifications or addendums to the form of the Participating Dealer Agreement. Terms not defined herein shall have the same meaning as in the Memorandum. In connection therewith, the Company hereby agrees with the Dealer Manager, as follows:

1. Representations and Warranties of the Company

The Company represents and warrants to the Dealer Manager and each Dealer with whom the Dealer Manager enters into a Participating Dealer Agreement that:

1.1 The Company has been duly organized and is validly existing as a corporation under the laws of the State of Maryland and has the power and authority to conduct its business as described in the Memorandum.

1.2 Subject to the Dealer Manager's and Dealers' compliance with their respective representations, warranties and covenants hereunder and under the Participating Dealer Agreements, the Offering is exempt from registration pursuant to Rule 506 of Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act"), and applicable state securities law exemptions.

1.3 The Memorandum does not include any untrue statement of material fact, nor does the Memorandum omit to state a material fact required to be stated therein, or necessary to make the statements therein not misleading; provided, however, that the foregoing provisions of this Section 1.3 will not extend to such statements contained in or omitted from the Memorandum as are primarily within the knowledge of the Dealer Manager or any of the Dealers and are based upon information either (a) furnished by a Dealer in writing to the Dealer Manager or the Company, or (b) furnished by the Dealer Manager in writing to the Company specifically for inclusion therein.

1.4 All authorized printed sales literature or other sales materials prepared and authorized by the Company for use with potential investors in connection with the Offering ("Authorized Sales Materials"), when used in conjunction with the Memorandum, do not contain any untrue statements of material facts or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading; provided, however, that the foregoing provisions of this Section 1.4 will not extend to such statements contained in or omitted from the Memorandum or Authorized Sales Materials as are primarily within the knowledge of the Dealer Manager or any of the Dealers and are based upon information either (a) furnished by a Dealer in writing to the Dealer Manager or the Company, or (b) furnished by the Dealer Manager in writing to the Company specifically for inclusion therein.

1.5 The Company intends to use the funds received from the sale of the Shares as set forth in the Memorandum.

1.6 No consent, approval, authorization or other order of any governmental authority is required in connection with the execution or delivery by the Company of this Dealer Manager Agreement or the issuance and sale by the Company of the Shares, except as may be required under the Securities Act or applicable state securities laws.

1.7 There are no actions, suits or proceedings pending or to the knowledge of the Company, threatened against the Company at law or in equity or before or by any federal or state commission, regulatory body or administrative agency or other governmental body, domestic or foreign, which would reasonably be expected to have a material adverse effect on the business or property of the Company.

1.8 The execution and delivery of this Dealer Manager Agreement, the consummation of the transactions herein contemplated and compliance with the terms of this Dealer Manager Agreement by the Company will not conflict with or constitute a default under any charter, bylaw, indenture, mortgage, deed of trust, lease, rule, regulation, writ, injunction or decree of any government, governmental instrumentality or court, domestic or foreign, having jurisdiction over the

Company, except (a) to the extent that the enforceability of the indemnity and/or contribution provisions contained in Section 4 of this Dealer Manager Agreement may be limited under applicable securities laws; and (b) for such conflicts or defaults that would not reasonably be expected to have a material adverse effect on the business or property of the Company.

1.9 The Company has full legal right, power and authority to enter into this Dealer Manager Agreement and to perform the transactions contemplated hereby, except to the extent that the enforceability of the indemnity and/or contribution provisions contained in Section 4 of this Dealer Manager Agreement may be limited under applicable securities laws.

1.10 The Shares, when subscribed for, paid for and issued, will be duly and validly issued, fully paid and non-assessable and will conform to the description thereof contained in the Memorandum; no holder thereof will be subject to personal liability for the obligations of the Company solely by reason of being such a holder; such Shares are not subject to the preemptive rights of any stockholder of the Company; and all corporate action required to be taken for the authorization, issuance and sale of such Shares shall have been validly and sufficiently taken.

1.11 The Company is not in violation of its charter or its bylaws.

1.12 The Company does not intend to conduct its business so as to be an "investment company" as that term is defined in the Investment Company Act of 1940, as amended, and the rules and regulation thereunder, and it will exercise reasonable diligence to ensure that it does not become an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

2. Covenants of the Company

The Company covenants and agrees with the Dealer Manager that:

2.1 It will deliver to the Dealer Manager such numbers of copies of the Memorandum, and any amendment or supplement thereto, as the Dealer Manager may reasonably request for the purposes contemplated by this Dealer Manager Agreement and the federal and state securities laws.

2.2 It will comply with all requirements imposed upon it by the rules and regulations of the Securities and Exchange Commission (the "SEC") and by all applicable state securities laws and regulations to permit the continuance of offers and sales of the Shares in accordance with the provisions hereof and as set forth in the Memorandum, and will amend or supplement the Memorandum in order to make the Memorandum comply with the requirements of federal and other state securities laws and regulations, as may be necessary for the Offering.

2.3 It will timely file a Form D relating to the Offering with the SEC under Regulation D of the Securities Act and with each applicable state securities regulatory agency in accordance with applicable state securities laws and regulations.

2.4 It will comply with all provisions of Rule 506, Regulation D, the Securities Act, the Securities Exchange Act of 1934 and state securities laws and regulations applicable to the Offering; provided that, except for items expressly required to be performed by it under this Dealer Manager Agreement, it shall not be responsible for the compliance by the Dealer Manager and its Dealers with such applicable laws and regulations.

2.5 If at any time during this Offering any event occurs as a result of which, in the opinion of either the Company or the Dealer Manager, the Memorandum or any supplement then in effect would include an untrue statement of a material fact or, in view of the circumstances under which they were made, omit to state any material fact necessary to make the statements therein not misleading, the Company will promptly notify the Dealer Manager thereof (unless the information shall have been received from the Dealer Manager) and will effect the preparation of a supplement to the Memorandum which will correct such statement or omission.

2.7 It will be duly qualified to do business as a foreign corporation in each jurisdiction in which it will own or lease property of a nature, or transact business of a type that will make such qualification necessary, except such failures to qualify which would not reasonably be expected to have a material adverse effect on the Company.

2.8 The Company will direct the investment of the proceeds of the offering of the Shares in such a manner, and will exercise reasonable diligence to continue to operate the business of the Company, so as to comply with the REIT requirements under the Internal Revenue Code of 1986, as amended.

3. Representations, Obligations and Compensation of Dealer Manager

3.1 Dealer Manager is hereby appointed and agrees to solicit offers to purchase the Shares on a "best efforts" basis through a private placement offering exempt from registration pursuant to Rule 506 ("Rule 506") of Regulation D ("Regulation D") promulgated under the Securities Act, and applicable state securities law exemptions. The Company will sell for cash up to a maximum of 3,333,333 Shares (plus the 500,000 Shares to be sold pursuant to the Company's distribution reinvestment plan) through the Dealers, all of whom shall be members of the Financial Industry Regulatory Authority ("FINRA"). The Dealer Manager may also sell Shares for cash directly to its own clients and customers at the Offering price and subject to the terms and conditions stated in the Memorandum. The Dealer Manager hereby accepts such agency and distributorship and agrees to use its best efforts to sell the Shares on said terms and conditions. The Dealer Manager represents to the Company that it is a member of FINRA and that it and its employees and representatives have all required licenses and registrations to act under this Dealer Manager Agreement.

3.2 Promptly after the date of the Memorandum, the Dealer Manager and the Dealers shall commence the offering of the Shares for cash in jurisdictions in which the Shares are qualified for sale pursuant to an applicable exemption or otherwise permitted. Shares shall not be sold in any state in which the Dealer Manager is not registered. The Dealer Manager and the Dealers will suspend or terminate the offering of the Shares upon request of the Company at any time and will resume offering the Shares upon subsequent request of the Company.

3.3 The Dealer Manager will provide each investor with a copy of the Memorandum and any supplements thereto during the course of the Offering and prior to the sale, and advise each such investor at the time of the initial offering to him or her that the Company and/or its agents and consultants will during the course of the Offering and prior to any sale, accord said investor and his/her purchaser representative, if any, including the Dealer Manager, the opportunity to ask questions of and to receive answers from the Company and/or its agents and consultants, concerning the Offering and to obtain any additional information, which information is possessed by the Company, or may be obtained by it without unreasonable effort or expense which is necessary to verify the accuracy of the information contained in the Memorandum. The Dealer Manager shall not deliver to any investor any written documents pertaining to the Company or the Shares, other than the Memorandum or any supplemental materials specifically designated as sales information that are supplied to the Dealer Manager by the Company. At the conclusion of the Offering, the Dealer Manager and Dealers shall return all unused copies of the Memorandum and other Offering materials to the Company.

3.4 The Dealer Manager will comply in all respects with the subscription procedures and plan of distribution set forth in the Memorandum. Except as otherwise provided in the "Plan of Distribution" section of the Memorandum, as compensation for the services rendered by the Dealer Manager, the Company agrees that it will pay to the Dealer Manager sales commissions in the amount of 7.0% of the gross proceeds of the Shares sold plus a dealer manager fee in the amount of 3.75% of the gross proceeds of the Shares sold. In addition, the Company may pay an additional amount of up to 0.5% of gross proceeds as reimbursements to the Dealer Manager and Dealers for bona fide due diligence expenses incurred by the Dealer Manager and such Dealers in discharging their responsibility to ensure that all material facts pertaining to this Offering are adequately and accurately disclosed in the Memorandum. No selling commissions or dealer manager fee shall be paid with respect to Shares sold pursuant to the Company's distribution reinvestment plan. The Company will not be liable or responsible to any Dealer for direct payment of commissions to any Dealer, it being the sole and exclusive responsibility of the Dealer Manager for payment of commissions to Dealers. Notwithstanding the above, at the discretion of the Company, the Company may act as agent of the Dealer Manager by making direct payment of commissions to Dealers on behalf of the Dealer Manager without incurring any liability. To the extent that the Company advances funds to the Dealer Manager in advance of sales made hereunder, the Company may deduct the amount of such funds previously advanced from the payment of the dealer manager fee. The Company will not pay any commissions to the Dealer Manager for sales of Shares to any Institution except those specifically approved in writing by the Company. For this purpose, "Institution" means pension funds, insurance companies, hedge funds, mutual funds and similar institutions that have assets in excess of $50 million.

3.5 The Dealer Manager represents and warrants to the Company that the information under the caption "Plan of Distribution" in the Memorandum and all other information furnished to the Company by the Dealer Manager in writing expressly for use in the Memorandum, or any supplement thereto, does not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading.

3.6 The Dealer Manager represents and warrants to the Company that it will not: (a) use any sales literature not authorized and approved by the Company, (b) use any "broker-dealer use only" materials with potential investors, or (c) make any unauthorized verbal representations in connection with offers or sales of the Shares. For purposes of clauses (a) and (c) above, sales literature and verbal representations will be deemed authorized if advance written approval is obtained from an officer of the Company.

3.7 The Dealer Manager shall complete all steps necessary to permit the Dealer Manager to solicit offers to purchase the Shares pursuant to exemptions available under applicable federal law and other applicable state laws, and shall conduct all of its solicitation and sales efforts in conformity with Rule 506 and Regulation D and related exemptions available under applicable state securities laws. The Dealer Manager shall not solicit such offers by means of any form of general advertising or solicitation, including, but not limited to, the following: (i) any advertisement, article, notice or other communication published in any newspaper, magazine or similar medium or broadcast over television, radio, the world wide web or otherwise; and (ii) any seminar or meeting whose attendees have been invited by any general solicitation or general advertising. The Dealer Manager shall not conduct or participate in any meeting in which the Offering is discussed unless such meeting is attended exclusively by the Dealer Manager's representatives or those of the Company, registered representatives or registered principals of Dealers and/or qualified offerees (together with any counsel or other adviser of the offeree) meeting the suitability requirements referred to herein.

3.8 The Dealer Manager will furnish to the Company upon request a complete list of all persons and entities to whom offers to purchase Shares have been solicited by the Dealer Manager and the Dealers and such parties' addresses; provided, that the Company shall maintain any such list confidential and use such information only for the purpose of conducting and monitoring the Offering.

3.9 The Dealer Manager is a duly organized and validly existing limited liability company under the laws of the State of Massachusetts.

3.10 No consent, approval, authorization or other order of any governmental authority is required in connection with the execution or delivery by the Dealer Manager of this Dealer Manager Agreement, except such as may be required under the Securities Act or applicable state securities laws.

3.11 There are no actions, suits or proceedings pending or to the knowledge of the Dealer Manager, threatened against the Dealer Manager at law or in equity or before or by any federal or state commission, regulatory body or administrative agency or other governmental body, domestic or foreign, which could reasonably be expected to have a material adverse effect on the Dealer Manager or the ability of the Dealer Manager to perform its obligations under this Dealer Manager Agreement or to participate in the Offering as contemplated by the Memorandum.

3.12 The execution and delivery of this Dealer Manager Agreement, the consummation of the transactions herein contemplated and compliance with the terms of this Dealer Manager Agreement by the Dealer Manager will not conflict with or constitute a default under any operating agreement or other similar agreement, indenture, mortgage, deed of trust, lease, rule, regulation, writ, injunction or decree of any government, governmental instrumentality or court, domestic or foreign, having jurisdiction over the Dealer Manager, except to the extent that the enforceability of the indemnity and/or contribution provisions contained in Section 4 of this Dealer Manager Agreement may be limited under applicable securities laws.

3.13 The Dealer Manager has full legal right, power and authority to enter into this Dealer Manager Agreement and to perform the transactions contemplated hereby, except to the extent that the enforceability of the indemnity and/or contribution provisions contained in Section 4 of this Dealer Manager Agreement may be limited under applicable securities laws.

3.14 The Dealer Manager is, and during the term of this Dealer Manager Agreement will be, (a) duly registered as a broker-dealer pursuant to the provisions of the Exchange Act, (b) prior to selling in any state or jurisdiction, a broker or dealer duly registered as such if the Dealer Manager's activities in such state or jurisdiction require such registration or licensing, (c) a member of FINRA in good standing, and (d) otherwise duly registered or qualified as required by any applicable law in any and all other states where solicitation of offers to purchase the Shares are made by the Dealer Manager. Subject to the Company's compliance with its obligations hereunder, the Dealer Manager will comply with all applicable material laws, regulations and requirements of the Securities Act, the Exchange Act, applicable state securities and other laws and applicable rules and regulations of the FINRA. The Dealer Manager agrees to notify the Company immediately in writing if (i) it ceases to be a member in good standing with FINRA or it is notified by FINRA that it is being investigated for any impropriety, (ii) it is subject to a FINRA suspension, (iii) any state investigates it for any impropriety, or (iv) its registration as a broker-dealer under the Exchange Act is terminated or suspended.

3.15 Except for Participating Dealer Agreements, no agreement will be made by the Dealer Manager with any person permitting the resale, repurchase or distribution of any Shares purchased by such person. Each Dealer Agreement must be submitted to the Company and approved by the Company in writing before any sale by a Dealer is permitted by the Dealer Manager.

3.16 Dealer Manager will timely assist the Company with the preparation of the notice on Form D, and all required amendments thereto, relating to the Shares by timely providing certain information relating to the Offering and the investors and Dealers as reasonably requested by the Company.

3.17 The commission and fees payable to Dealer Manager as set forth in this Dealer Manager Agreement are fair, reasonable and not in excess or violation of applicable rules, regulations and other requirements of the SEC, FINRA, the Securities Act, the Exchange Act, and all applicable state securities authorities and self-regulatory organizations.

3.18 The Dealer Manager shall maintain during the entire term of this Dealer Manager Agreement and for five years after termination of the Dealer Manager Agreement, appropriate errors and omissions liability insurance policies in an amount equal to or exceeding $3 million with respect to matters occurring during the term of this Dealer Manager Agreement.

3.19. The Dealer Manager agrees that if it learns of any prospective investor attempting to purchase Shares as a direct result of reading reports ("Reports") filed under the Securities Exchange Act of 1934 (e.g., a prospective investor learns of the Offering by reading the Reports and such prospective investor does not have a pre-existing substantive relationship with the Company or the Adviser or is not, at the time of learning about the Offering, a customer of a Dealer), the Dealer Manager shall refuse to accept the subscription for such purchase.

4. Indemnification

4.1 The Company will indemnify and hold harmless the Dealer Manager, its members and managers and each person, if any, who controls Dealer Manager from and against any losses, claims, damages or liabilities, joint or several, to which Dealer Manager, its members and managers, or such controlling person may become subject, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (a) any untrue statement or alleged untrue statement of a material fact contained in any (i) Memorandum, or supplement thereto, (ii) Authorized Sales Material, or (iii) Form D filing under Regulation D or other document executed by the Company or on its behalf specifically for the purpose of qualifying for exemption any or all of the Shares for sale under the securities laws of any jurisdiction or based upon written information furnished by the Company under the securities laws thereof ("Regulation D Filing"), or (b) the omission or alleged omission to state in the Memorandum, or supplement thereto, any Authorized Sales Material or any Regulation D Filing a material fact required to be stated therein or necessary to make the statements therein not misleading. The Company will reimburse the Dealer Manager, as appropriate, and its members and managers and controlling persons, for any reasonable legal or other expenses reasonably incurred by the Dealer Manager, and their members and managers and controlling persons, in connection with investigating or defending such loss, claim, damage, liability or action; provided that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of, or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in reliance upon and in conformity with written information furnished (x) to the Company by the Dealer Manager or (y) to the Company or the Dealer Manager by or on behalf of any Dealer specifically for use in the preparation of the Memorandum, or supplement thereto, any such Authorized Sales Materials, or any such Regulation D Filing; and further provided that the Company will not be liable in any such case if it is determined that the Dealer Manager had knowledge of the matter or event giving rise to or resulting in such loss, claim, damage, liability or action.

4.2 The Dealer Manager will indemnify and hold harmless the Company, its officers and directors, and each person, if any, who controls the Company from and against any losses, claims, damages or liabilities to which any of the aforesaid parties may become subject, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (a) any untrue statement of a material fact contained (i) in the Memorandum, or any supplement thereto, or (ii) in any Authorized Sales Materials, or (iii) in any Regulation D Filing, or (b) the omission to state in the Memorandum, or any supplement thereto or in any Authorized Sales Materials or in any Regulation D Filing a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case described in clauses (a) and (b) to the extent, but only to the extent, that such untrue statement or omission was made in reliance upon and in conformity with written information furnished to the Company by or on behalf of the Dealer Manager specifically for use with reference to the Dealer Manager in the preparation of the Memorandum, or any supplement thereto, or any Authorized Sales Materials or any such Regulation D Filing, or (c) any use of sales literature not authorized or approved by the Company or any use of “broker-dealer use only” materials with potential investors or unauthorized verbal representations concerning the Shares by the Dealer Manager, or (d) any untrue statement made by the Dealer Manager or its representatives or agents or omission to state a fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading in connection with the offer and sale of the Shares, or (e) any material violation of this Dealer Manager Agreement, or (f) any failure to comply with applicable laws governing money laundry abatement and anti-terrorist financing efforts, including applicable FINRA Rules, SEC Rules and the USA PATRIOT Act of 2001, or (g) any other failure to comply with applicable FINRA Rules or SEC Rules, including Regulation D promulgated under the Securities Act (including without limitation the restrictions on the use of general solicitation in connection with the Offering). The Dealer Manager will reimburse the aforesaid parties, in connection with investigation or defending such loss, claim, damage, liability or action. This indemnity agreement will be in addition to any liability which the Dealer Manager may otherwise have.

4.3 The Company and the Dealer Manager will indemnify and hold harmless each Dealer, its officers and directors and each person, if any, who controls such Dealer from and against any losses, claims, damages or liabilities, joint or several, to which such Dealer, its officers and directors, or any such controlling person may become subject, under the Securities Act or the Exchange Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (a) any untrue statement or alleged untrue statement of a material fact contained in the Memorandum, or any supplement thereto, Authorized Sales Materials (when read in conjunction with the Memorandum) or any Regulation D Filing, or (b) the omission or alleged omission to state in the Memorandum, or any supplement thereto, Authorized Sales Materials (when read in conjunction with the Memorandum) or in any Regulation D Filing a material fact required to be stated therein or necessary to make the statements therein not misleading. The Company and the Dealer Manager will reimburse Dealers and their officers and directors and controlling persons, for any reasonable legal or other expenses reasonably incurred by such Dealers and their officers and directors and controlling persons, in connection with investigating or defending such loss, claim, damage, liability or action; provided that the Company and the Dealer Manager will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of, or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in reliance upon and in conformity with written information furnished to the Company or the Dealer Manager by or on behalf of the Dealers specifically for use in the preparation of the Memorandum, or any supplement thereto, such Authorized Sales Materials or any such Regulation D Filing; and further provided that neither the Company nor the Dealer Manager will be liable in any such case if it is determined in a legal proceeding that the Dealers had knowledge of the matter or event giving rise to or resulting in such loss, claim, damage, liability or action.

4.4 Each Dealer severally will indemnify and hold harmless the Company, the Dealer Manager and each of their officers, directors, members and managers, and each person, if any, who controls the Company and the Dealer Manager from and against any losses, claims, damages or liabilities to which the Company, the Dealer Manager, any such director, officer, member or manager, or controlling person may become subject, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (a) any untrue statement or alleged untrue statement of a material fact contained (i) in the Memorandum, or any supplement thereto, or (ii) in any Authorized Sales Materials, or (iii) in any Regulation D Filing, or (b) the omission or alleged omission to state in the Memorandum, or any supplement thereto, or in any Authorized Sales Materials or in any Regulation D Filing a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case described in clauses (a) and (b) to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company or the Dealer Manager by or on behalf of such Dealer specifically for use with reference to such Dealer in the preparation of the Memorandum, or any supplement thereto, or any such Authorized Sales Materials or any such Regulation D Filing, or (c) any use of sales literature not authorized or approved by the Company or use of "broker-dealer use only" materials with potential investors or unauthorized verbal representations concerning the Shares by such Dealer or Dealer's representatives or agents, or (d) any untrue statement made by such Dealer or its representatives or agents or omission to state a fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading in connection with the offer and sale of the Shares, or (e) any failure to comply with Section IX or Section XII or any other material violation of the Participating Dealer Agreement, or (f) any failure to comply with applicable laws governing money laundry abatement and anti-terrorist financing efforts, including applicable FINRA Rules, SEC Rules and the USA PATRIOT Act of 2001, or (g) any other failure to comply with applicable FINRA Rules or SEC Rules, including of Regulation D promulgated under the Securities Act (including without limitation the restrictions on the use of general solicitation in connection with the Offering). Each such Dealer will reimburse the Company and the Dealer Manager and any such directors, officers, members or managers, or controlling person, in connection with investigating or defending any such loss, claim, damage, liability or action. This indemnity agreement will be in addition to any liability which such Dealer may otherwise have.

4.5 Promptly after receipt by an indemnified party under this Section 4 of notice of the commencement of any action (but in no event in excess of 30 days after receipt of actual notice), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 4, notify in writing the indemnifying party of the commencement thereof and the omission so to notify the indemnifying party will relieve it from any liability under this Section 4 as to the particular item for which indemnification is then being sought, but not from any other liability which it may have to any indemnified party. In case any such action is brought against any indemnified party, and it notifies an indemnifying party of the commencement thereof, the indemnifying party will be entitled, to the extent it may wish, jointly with any other indemnifying party similarly notified, to participate in the defense thereof, with separate counsel. Such participation shall not relieve such indemnifying party of the obligation to reimburse the indemnified party for reasonable legal and other expenses (subject to Section 4.6) incurred by such indemnified party in defending itself, except for such expenses incurred after the indemnifying party has deposited funds sufficient to effect the settlement, with prejudice, of the claim in respect of which indemnity is sought. Any such indemnifying party shall not be liable to any such indemnified party on account of any settlement of any claim or action effected without the consent of such indemnifying party.

4.6 The indemnifying party shall pay all reasonable legal fees and expenses of the indemnified party in the defense of such claims or actions; provided, however, that the indemnifying party shall not be obliged to pay legal expenses and fees to more than one law firm in connection with the defense of similar claims arising out of the same alleged acts or omissions giving rise to such claims notwithstanding that such actions or claims are alleged or brought by one or more parties against more than one indemnified party. If such claims or actions are alleged or brought against more than one indemnified party, then the indemnifying party shall only be obliged to reimburse the expenses and fees of the one law firm that has been selected by a majority of the indemnified parties against which such action is finally brought; and in the event a majority of such indemnified parties is unable to agree on which law firm for which expenses or fees will be reimbursable by the indemnifying party, then payment shall be made to the first law firm of record representing an indemnified party against the action or claim. Such law firm shall be paid only to the extent of services performed by such law firm and no reimbursement shall be payable to such law firm on account of legal services performed by another law firm.

4.7 The indemnity agreements contained in this Section 4 shall remain operative and in full force and effect regardless of (a) any investigation made by or on behalf of any Dealer, or any person controlling any Dealer or by or on behalf of the Company, the Dealer Manager or any officer, director, member or manager thereof, or by or on behalf of the Company or the Dealer Manager, (b) delivery of any Shares and payment therefor, and (c) any termination of this Dealer Manager Agreement or any Participating Dealer Agreement. A successor of any Dealer or of any of the parties to this Dealer Manager Agreement, as the case may be, shall be entitled to the benefits of the indemnity agreements contained in this Section 4.

5. <u>Survival of Provisions</u>

The respective agreements, representations and warranties of the Company and the Dealer Manager set forth in this Dealer Manager Agreement shall remain operative and in full force and effect regardless of (a) any termination of this Dealer Manager Agreement, (b) any investigation made by or on behalf of the Dealer Manager or any Dealer or any person controlling the Dealer Manager or any Dealer or by or on behalf of the Company or any person controlling the Company, and (c) the acceptance of any payment for the Shares.

6. <u>Applicable Law and Venue</u>

This Dealer Manager Agreement was executed and delivered in, and its validity, interpretation and construction shall be governed by, the laws of the State of Virginia; provided however, that causes of action for violations of federal or state securities laws shall not be governed by this Section. The Company, the Dealer Manager and each Dealer hereby agree that venue for any action brought in connection with this Dealer Manager Agreement shall lie exclusively in McLean, Virginia.

7. <u>Counterparts</u>

This Dealer Manager Agreement may be executed in any number of counterparts. Each counterpart, when executed and delivered, shall be an original contract, but all counterparts, when taken together, shall constitute one and the same agreement.

8. <u>Successors and Amendment</u>

8.1 This Dealer Manager Agreement shall inure to the benefit of and be binding upon the Dealer Manager and the Company and their respective successors, and to the benefit of the Dealers to the extent set forth in Sections 1 and 4 hereof. Nothing in this Dealer Manager Agreement is intended or shall be construed to give to any other person any right, remedy or claim, except as otherwise specifically provided herein.

8.2 This Dealer Manager Agreement may be amended by the written agreement of the Dealer Manager and the Company.

9. Term

This Dealer Manager Agreement may be terminated by either party: (a) immediately upon notice to the other party in the event that the other party shall have materially failed to comply with any of the material provisions of this Dealer Manager Agreement on its part to be performed during the term of this Dealer Manager Agreement or if any of the representations, warranties, covenants or agreements of such party contained herein shall not have been materially complied with or satisfied within the times specified; or (b) by either party on 30 days' written notice, unless Section 7 of the Dealer Manager Operating Agreement between the Company and the Dealer Manager requires a longer time period before termination.

In any case, this Dealer Manager Agreement shall expire at the close of business on the effective date that the Offering is terminated. The provisions of Sections 4 and 6 hereof shall survive such termination. In addition, the Dealer Manager, upon the expiration or termination of this Dealer Manager Agreement, shall (i) promptly deposit any and all funds in its possession which were received from investors for the sale of Shares into such account as the Company may designate; and (ii) promptly deliver to the Company all records and documents in its possession which relate to the Offering which are not designated as dealer copies. The Dealer Manager, at its sole expense, may make and retain copies of all such records and documents, but shall keep all such information confidential. The Dealer Manager shall use its best efforts to cooperate with the Company to accomplish any orderly transfer of management of the Offering to a party designated by the Company. Upon expiration or termination of this Dealer Manager Agreement, the Company shall pay to the Dealer Manager all commissions to which the Dealer Manager is or becomes entitled under Section 3 at such time as such commissions become payable.

10. Confirmations

The Company hereby agrees to prepare and send confirmations to all purchasers of Shares whose subscriptions for the purchase of Shares are accepted by the Company.

11. Suitability of Investors

The Dealer Manager will offer Shares, and in its agreements with Dealers will require that the Dealers offer Shares, only to persons who meet the "accredited investor" standard set forth in the Memorandum or in any suitability letter or memorandum sent to it by the Company and will only make offers to persons in the states in which it is advised in writing that the Shares are qualified for sale or that such qualification is not required. In offering Shares, the Dealer Manager will, and in its agreements with Dealers, the Dealer Manager will, require that the Dealer comply with the provisions of all applicable rules and regulations relating to suitability of investors.

12. Submission of Orders

12.1 Those persons who purchase Shares will be instructed by the Dealer Manager or the Dealer to make their checks payable to the Company. The Dealer Manager and any Dealer receiving a check not conforming to the foregoing instructions shall return such check directly to such subscriber not later than noon Eastern time of the next business day following its receipt. Checks received by the Dealer Manager or Dealer which conform to the foregoing instructions shall be transmitted for deposit pursuant to one of the methods described in this Section 12. Transmittal of received investor funds will be made in accordance with the following procedures.

12.2 Where, pursuant to a Dealer's internal supervisory procedures, internal supervisory review is conducted at the same location at which subscription documents and checks are received from subscribers, checks will be transmitted by noon Eastern time of the next business day following receipt by the Dealer to the Company for deposit directly with the Company in accordance with the procedures set forth in the Memorandum.

12.3 Where, pursuant to a Dealer's internal supervisory procedures, final internal supervisory review is conducted at a different location, checks will be transmitted by 5:00 p.m. Eastern time of the next business day following receipt by the Dealer to the office of the Dealer conducting such final internal supervisory review (the "Final Review Office"). The Final Review Office will in turn transmit by noon Eastern time of the next business day following receipt at a different location by the Final Review Office such checks to the Company for deposit directly with the Company in accordance with the procedures set forth in the Memorandum.

13. Notice

Any notice in this Dealer Manager Agreement permitted to be given, made or accepted by either party to the other, must be in writing and may be given or served by (i) overnight courier, (ii) depositing the same in the United States mail, postpaid, certified, return receipt requested, or (iii) facsimile transfer. Notice deposited in the United States mail shall be deemed given when mailed. Notice given in any other manner shall be effective when received at the address of the addressee. For purposes hereof the addresses of the parties, until changed as hereafter provided, shall be as follows:

To Company:	Gladstone Commercial Corporation Attention: David Gladstone, Chief Executive Officer Attention: Chip Stelljes, President 1521 Westbranch Drive, Suite 200 McLean, Virginia 22102 Fax: (703) 287-5801
To Dealer Manager:	Halcyon Capital Markets, LLC Attention: Dan Werry, Managing Director 5775 Wayzata Boulevard, Suite 960 Minneapolis, MN 55416 Fax: (952) 346-3979

14. Severability

In the event that any court of competent jurisdiction declares any provision of this Dealer Manager Agreement invalid, such invalidity shall have no effect on the other provisions hereof, which shall remain valid and binding and in full force and effect, and to that end the provisions of this Dealer Manager Agreement shall be considered severable.

15. No Waiver

Failure by either party to promptly insist upon strict compliance with any of the obligations of the other party under this Dealer Manager Agreement shall not be deemed to constitute a waiver of the right to enforce strict compliance with respect to any obligation hereunder.

16. Assignment

This Dealer Manager Agreement may not be assigned by either party, except with the prior written consent of the other party. This Dealer Manager Agreement shall be binding upon the parties hereto, their heirs, legal representatives, successors and permitted assigns.

17. Entire Agreement

This Dealer Manager Agreement constitutes the complete and exclusive statement of the agreement between the parties relating to the subject matter hereof and supersedes all prior written and oral statements or agreements with respect to such subject matter, including without limitation the Original Agreement.

If the foregoing correctly sets forth our understanding, please indicate your acceptance thereof in the space provided below for that purpose, whereupon this letter and your acceptance shall constitute a binding agreement between us as of the date first above written.

Very truly yours,

GLADSTONE COMMERCIAL CORPORATION

By: ______________________________
Name: ______________________________
Title: ______________________________

Accepted and agreed as of the
date first above written.

HALCYON CAPITAL MARKETS, LLC

By: ______________________________
Name: ______________________________
Title: ______________________________

Exhibit A
To
Dealer Manager Agreement

GLADSTONE COMMERCIAL CORPORATION

PARTICIPATING DEALER AGREEMENT

Up to 3,333,333 Shares of Senior Common Stock — Primary Offering — $50,000,000
Up to 500,000 Shares of Senior Common Stock — Distribution Reinvestment Plan — $7,500,000

Ladies and Gentlemen:

Halcyon Capital Markets, LLC, as the dealer manager ("Dealer Manager") for Gladstone Commercial Corporation (the "Company"), a Maryland corporation, invites you (the "Dealer") to participate in the distribution of shares of Senior Common Stock ("Shares") of the Company subject to the following terms:

I. Amended and Restated Dealer Manager Agreement

The Dealer Manager and the Company have entered into that certain Amended and Restated Dealer Manager Agreement dated December 22, 2009 (the "Dealer Manager Agreement"), in the form attached hereto as Exhibit "A." By your acceptance of this Participating Dealer Agreement, you will become one of the Dealers referred to in such Dealer Manager Agreement between the Company and the Dealer Manager and will be entitled and subject to the indemnification provisions contained in such Dealer Manager Agreement, including specifically the provisions of Section 4.4 of such Dealer Manager Agreement wherein each Dealer severally agrees to indemnify and hold harmless the Company, the Dealer Manager and each officer, director, member and manager thereof, and each person, if any, who controls the Company and the Dealer Manager for the matters set forth in Section 4.4 of the Dealer Manager Agreement. Such indemnification obligations shall survive the termination of this Participating Dealer Agreement. Except as otherwise specifically stated herein, all terms used in this Participating Dealer Agreement have the meanings provided in the Dealer Manager Agreement. The Shares are offered solely through broker-dealers which are members of the Financial Industry Regulatory Authority ("FINRA").

Dealer hereby agrees to use its best efforts to sell the Shares for cash on the terms and conditions stated in the Memorandum. The Shares will be offered pursuant to an exemption from Registration pursuant to Rule 506 of Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act"). Nothing in this Participating Dealer Agreement shall be deemed or construed to make Dealer an employee, agent, representative or partner of the Dealer Manager or of the Company, and Dealer is not authorized to act for the Dealer Manager or the Company or to make any representations except as set forth in the Memorandum and Authorized Sales Materials.

II. Submission of Orders

Those persons who purchase Shares will be instructed by the Dealer to make their checks payable to "Gladstone Commercial Corporation." Any Dealer receiving a check not conforming to the foregoing instructions shall return such check directly to such subscriber not later than the end of the next business day following its receipt. Checks received by the Dealer which conform to the foregoing instructions shall be transmitted for deposit pursuant to one of the methods in this Article II. Transmittal of received investor funds will be made in accordance with the following procedures:

Where, pursuant to the Dealer's internal supervisory procedures, internal supervisory review is conducted at the same location at which subscription documents and checks are received from subscribers, checks will be transmitted by noon Eastern time of the next business day following receipt by the Dealer to the Company for deposit directly with the Company in accordance with the procedures set forth in the Memorandum.

Where, pursuant to the Dealer's internal supervisory procedures, final and internal supervisory review is conducted at a different location, checks will be transmitted by 5:00 p.m. Eastern time of the next business day following receipt by the Dealer to the office of the Dealer conducting such final internal supervisory review (the "Final Review Office"). The Final Review Office will in turn transmit by noon Eastern time of the next business day following receipt at a different location by the Final Review Office such checks to the Company for deposit with the Company in accordance with the procedures set forth in the Memorandum.

III. Pricing

Except as may be otherwise provided for in the "Plan of Distribution" section of the Memorandum, Shares shall be offered at the Offering price of $15.00 per Share. Except as otherwise indicated in the Memorandum or in any letter or memorandum sent to the Dealer by the Company or Dealer Manager, a minimum initial purchase of $30,000 in Shares is required. The Shares are nonassessable.

IV. Representations and Warranties of Dealer

Dealer represents and warrants to the Company and the Dealer Manager and agrees that:

A. Dealer will not solicit offers to purchase the Shares by means of any form of general advertising or general solicitation or from any person with whom Dealer or its representatives do not have a pre-existing substantive relationship. Specifically, Dealer will not solicit offers by: (i) any advertisement, article, notice or other communication published in any newspaper, magazine or similar medium or broadcast over television, radio, the world wide web or otherwise; and (ii) any seminar or meeting whose attendees have been invited by any general solicitation or general advertising.

In addition, Dealer shall not conduct or participate in any meeting in which the Offering is discussed unless such meeting is attended exclusively by Dealer's representatives, registered representatives of other Dealers and/or qualified offerees (together with any counsel or other adviser of the offeree) meeting the suitability requirements referred to herein.

B. Dealer will undertake all reasonable investigation, review, and inquiry to ensure, to the best of its reasonable knowledge and belief, that (i) each potential investor from whom Dealer has solicited an offer to purchase is an "accredited investor" as such term is defined in Rule 501 of Regulation D and otherwise satisfies applicable investor qualification requirements under federal and any applicable state securities laws and the requirements set forth in the Memorandum, and (ii) the investment is suitable for such potential investor upon the basis of the information known to Dealer or disclosed by such potential investor as to his other security holdings and as to his financial situation and needs. Dealer shall keep written records supporting this representation and warranty and such records shall be made available to the Company or Dealer Manager promptly upon request.

C. Dealer shall deliver to each prospective investor, prior to any submission by such prospective investor, a written offer to buy any Shares, a copy of the Memorandum, and shall keep record of to whom, by what manner and on what date it delivered each such copy.

D. Dealer will not deliver to any offeree any written documents pertaining to the Company or the Shares, other than the Memorandum, and any other materials specifically designated for distribution to prospective investors that are supplied to Dealer by the Company or its affiliates. Without intending to limit the generality of the foregoing, Dealer shall not deliver to any prospective investor any material pertaining to the Company or any of its affiliates that has been furnished as “broker/dealer information only.”

E. Dealer will make reasonable inquiry to determine whether a prospective investor is acquiring Shares for his own account or on behalf of other persons and not for the purpose of resale or other distribution thereof.

F. Dealer will not give any information or make any representation or warranty in connection with the Offering, the Company or the Shares other than those contained in the Memorandum and any Authorized Sales Materials.

G. Dealer will abide by, and will take reasonable precautions to ensure compliance by prospective investors from whom Dealer has solicited an offer to purchase, all provisions contained in the Memorandum regulating the terms and manner of the Offering.

H. In its solicitation of offers for the Shares, Dealer will comply with all applicable requirements of the Securities Act, the Exchange Act, as well as the published rules and regulations thereunder, and the rules and regulations of all state securities authorities, as applicable, to the best of its knowledge, after due inquiry and investigation and to the extent within its direct control.

I. Dealer is (and will continue to be) a member in good standing with FINRA, will abide by the rules and regulations of FINRA, is in full compliance with all applicable requirements under the Exchange Act, and is registered as a broker-dealer in all of the jurisdictions in which Dealer solicits offers to purchase the Shares.

J. Dealer will not take any action in conflict with, or omit to take any action the omission of which would cause Dealer to be in conflict with, the conditions and requirements of the Securities Act, the Exchange Act, Regulation D (or other applicable rule), or applicable state securities or blue sky laws that would make exemptions unavailable with respect to the Offering.

K. Dealer will use reasonable efforts to ensure that all investors who are acquiring Shares have and will satisfy all conditions described in the Memorandum and the Purchaser Questionnaire and Subscription Agreement.

L. Each of the representations and warranties made by each prospective investor to the Company under the Purchaser Questionnaire and Subscription Agreement, attached as an exhibit to the Memorandum, is, to the Dealer’s best knowledge, information, and belief, after due inquiry, true and correct as of the date thereof and as of the date of purchase of the Shares by such investor.

M. Dealer will furnish to the Dealer Manager or the Company promptly upon request a complete list of all persons and entities to whom offers to purchase Shares have been solicited by Dealer and such parties’ addresses.

N. If Dealer learns of any prospective investor attempting to purchase Shares as a direct result of reading reports (“Reports”) filed under the Securities Exchange Act of 1934 (e.g., a prospective investor learns of the Offering by reading the Reports and such prospective investor does not have a pre-existing substantive relationship with the Company or the Adviser or is not, at the time of learning about the Offering, a customer of Dealer), Dealer shall refuse to accept the subscription for such purchase.

V. Dealers' Commissions

Except as otherwise provided in the "Plan of Distribution" section of the Memorandum, the Dealer's sales commission applicable to the Shares sold by Dealer which it is authorized to sell hereunder is 7.0% of the gross proceeds of Shares sold by it and accepted and confirmed by the Company, which commission will be payable by the Dealer Manager. No sales commissions shall be paid with respect to Shares issued and sold pursuant to the Company's distribution reinvestment plan. For these purposes, shares shall be deemed to be "sold" if and only if a transaction has closed with a subscriber for Shares pursuant to all applicable Offering and subscription documents, the Company has accepted the subscription agreement of such subscriber, and such Shares have been fully paid for. Subscriptions will be accepted or rejected on closing dates twice per month (once between the 1st and 15th and once between the 16th and last day of each month). The Dealer affirms that the Dealer Manager's liability for commissions payable is limited solely to the proceeds of commissions receivable from the Company, and the Dealer hereby waives any and all rights to receive payment of commissions due until such time as the Dealer Manager is in receipt of the commission from the Company. In addition, as set forth in the Memorandum, the Dealer Manager may, in its sole discretion, reallow a portion of its dealer manager fee to Dealers participating in the Offering of Shares as marketing fees, reimbursement of costs and expenses of attending educational conferences or to defray other distribution-related expenses.

The parties hereby agree that the foregoing commission is not in excess of the usual and customary distributors' or sellers' commission received in the sale of securities similar to the Shares, that Dealer's interest in the Offering is limited to such commission from the Dealer Manager and Dealer's indemnity referred to in Section 4 of the Dealer Manager Agreement, and that the Company is not liable or responsible for the direct payment of such commission to the Dealer. In addition, as set forth in the Memorandum, the Dealer Manager may reimburse Dealer for bona fide due diligence expenses incurred by such Dealer. The Dealer Manager shall have the right to require the Dealer to provide a detailed and itemized invoice as a condition to the reimbursement of any such due diligence expenses.

VI. Applicability of Indemnification

Each of the Dealer and Dealer Manager hereby acknowledges and agrees that it will be subject to the obligations set forth in, and entitled to the benefits of all the provisions of, the Dealer Manager Agreement, including but not limited to, the representations and warranties and the indemnification obligations contained in such Dealer Manager Agreement, including specifically the provisions of Sections 4.3 and 4.4 of the Dealer Manager Agreement. Such indemnification obligations shall survive the termination of this Participating Dealer Agreement and the Dealer Manager Agreement.

VII. Payment

Payments of sales commissions will be made by the Dealer Manager (or by the Company as provided in the Dealer Manager Agreement) to Dealer within 14 days of the receipt by the Dealer Manager of the gross commission payments from the Company.

VIII. Right to Reject Orders or Cancel Sales

All orders, whether initial or additional, are subject to acceptance by and shall only become effective upon confirmation by the Company, which reserves the right to reject any order. Orders not accompanied by a Subscription Agreement Signature Page and the required check in payment for the Shares may be rejected. Issuance of the Shares will be made only after actual receipt of payment. If any check is not paid upon presentment, or if the Company is not in actual receipt of clearinghouse funds or cash, certified or cashier's check or the equivalent in payment for the Shares within 15 days of sale, the Company reserves the right to cancel the sale without notice. In the event an order is rejected, canceled or rescinded for any reason, Dealer agrees to return to the Dealer Manager any commission theretofore paid with respect to such order within 30 days thereafter and, failing to do so, the Dealer Manager shall have the right to offset amounts owed against future commissions due and otherwise payable to Dealer.

IX. Memorandum and Authorized Sales Materials

Dealer is not authorized or permitted to give, and will not give, any information or make any representation (written or oral) concerning the Shares, except as set forth in the Memorandum and any Authorized Sales Materials. The Dealer Manager will supply Dealer with reasonable quantities of the Memorandum, any supplements thereto and any amended Memorandum, as well as any Authorized Sales Materials, for delivery to investors, and Dealer will deliver a copy of the Memorandum and all supplements thereto and any amended Memorandum to each investor to whom an offer is made prior to or simultaneously with the first solicitation of an offer to sell the Shares to an investor. Dealer agrees that it will not send or give any Authorized Sales Materials to an investor unless it has previously sent or given a Memorandum to that investor or has simultaneously sent or given a Memorandum with such Authorized Sales Materials. Dealer agrees that it will not show or give to any investor or prospective investor or reproduce any material or writing which is supplied to it by the Dealer Manager and marked "broker-dealer use only" or otherwise bearing a legend denoting that it is not to be used in connection with the sale of Shares to potential investors. Dealer agrees that it will not use in connection with the offer or sale of Shares any material or writing supplied to it by the Company or the Dealer Manager bearing a legend which states that such material may not be used in connection with the offer or sale of the Shares or any other securities. Dealer further agrees that it will not use in connection with the offer or sale of Shares any materials or writings which have not been previously authorized or approved by the Dealer Manager. Dealer agrees to furnish a copy of any supplement to a Memorandum to each person to whom it has furnished a copy of the Memorandum. On becoming a Dealer, and in offering and selling Shares, Dealer agrees to comply with all the applicable requirements under the Securities Act, the Exchange Act and all other applicable securities laws.

X. License and Association Membership

Dealer's acceptance of this Participating Dealer Agreement constitutes a representation to the Company and the Dealer Manager that Dealer is a properly registered broker-dealer under the Exchange Act, is duly licensed as a broker-dealer and authorized to sell Shares under Federal and state securities laws and regulations and in all states where it offers or sells Shares, and that it is a member in good standing of FINRA. Dealer agrees to notify the Dealer Manager immediately in writing and this Participating Dealer Agreement shall automatically terminate if Dealer ceases to be a member in good standing of FINRA, is subject to a FINRA suspension, or its registration as a broker-dealer under the Exchange Act is terminated or suspended. Dealer hereby agrees to abide by all applicable FINRA Rules.

Dealer Manager represents and warrants that it is currently, and at all times while performing its functions under this Participating Dealer Agreement will be, a properly registered broker-dealer under the Exchange Act and under state securities laws to the extent necessary to perform the duties described in this Participating Dealer Agreement, and that it is a member in good standing of FINRA. The Dealer Manager agrees to notify Dealer immediately in writing if it ceases to be a member in good standing with FINRA, is subject to a FINRA suspension, or its registration as a broker-dealer under the Exchange Act is terminated or suspended. The Dealer Manager hereby agrees to abide by all applicable FINRA Rules.

XI. Anti-Money Laundering Compliance Programs

Dealer's acceptance of this Participating Dealer Agreement constitutes a representation to the Company and the Dealer Manager that Dealer has established and implemented an anti-money laundering compliance program ("AML Program") in accordance with applicable law, including applicable FINRA Rules, SEC Rules and Section 352 of the Money Laundering Abatement Act, reasonably expected to detect and cause the reporting of suspicious transactions in connection with the sale of Shares of the Company. Dealer hereby agrees to furnish, upon request, a copy of its AML Program to the Dealer Manager for review and to promptly notify the Dealer Manager of any material changes to its AML Program.

XII. Limitation of Offer and Suitability

Dealer will offer Shares only to persons who meet the "accredited investor" standards set forth in the Memorandum or in any suitability letter or memorandum sent to it by the Company or the Dealer Manager and will only make offers to persons in the states in which it is advised in writing that the Shares are qualified for sale or that such qualification is not required.

In offering Shares, Dealer will comply with the provisions of the Rules of Fair Practice set forth under FINRA, as well as all other applicable rules and regulations relating to suitability of investors. Nothing contained in this Participating Dealer Agreement shall be construed to impose upon the Company or the Dealer Manager the responsibility of assuring that prospective investors meet the "accredited investor" standards set forth in the Memorandum, or to relieve Dealer from the responsibility of assuring that prospective investors meet the "accredited investor" standards in accordance with the terms and provisions of the Memorandum.

Dealer further represents, warrants and covenants that no Dealer, or person associated with Dealer, shall offer or sell Shares in any jurisdiction except to investors who satisfy the "accredited investor" standards and minimum investment requirements under the applicable provisions of the Memorandum. Dealer shall not purchase any Shares for a discretionary account without obtaining the prior written approval of Dealer's customer and his or her signature on a Purchaser Questionnaire and Subscription Agreement.

XIII. Due Diligence and Adequate Disclosure

Prior to offering the Shares for sale, Dealer shall have conducted an inquiry such that Dealer has reasonable grounds to believe, based on information made available to Dealer by the Company or the Dealer Manager through the Memorandum or other materials, that all material facts are adequately and accurately disclosed and provide a basis for evaluating a purchase of Shares. In determining the adequacy of disclosed facts pursuant to the foregoing, each Dealer may obtain, upon request, information on material facts relating at a minimum to the following: (1) items of compensation; (2) physical properties; (3) tax aspects; (4) financial stability and experience of the Company and its advisor; (5) conflicts and risk factors; and (6) appraisals and other pertinent reports.

Notwithstanding the foregoing, each Dealer may rely upon the results of an inquiry conducted by an independent third party retained for that purpose or another Dealer, provided that: (1) such Dealer has reasonable grounds to believe that such inquiry was conducted with due care by said independent third party or such other Dealer; (2) the results of the inquiry were provided to Dealer with the consent of the other Dealer conducting or directing the inquiry; and (3) no Dealer that participated in the inquiry is an affiliate of the Company.

Prior to the sale of the Shares, each Dealer shall inform each prospective purchaser of Shares of pertinent facts relating to the Shares including specifically the lack of liquidity and lack of marketability of the Shares during the term of the investment.

XIV. Compliance with Record Keeping Requirements

Dealer agrees to comply with the record keeping requirements of the Exchange Act, including but not limited to, Rules 17a-3 and 17a-4 promulgated under the Exchange Act. Dealer further agrees to keep such records with respect to each customer who purchases Shares, his suitability and the amount of Shares sold and to retain such records for such period of time as may be required by the SEC, any state securities commission, FINRA or the Company.

XV. Customer Complaints

Each party hereby agrees to promptly provide to the other party copies of any written or otherwise documented complaints from customers of Dealer received by such party relating in any way to the Offering (including, but not limited to, the manner in which the Shares are offered by the Dealer Manager or Dealer), the Shares or the Company.

XVI. Termination and Amendments

This Participating Dealer Agreement shall become effective upon the execution hereof by Dealer and receipt of such executed Participating Dealer Agreement by the Dealer Manager; provided, however, that in the event of the execution of this Participating Dealer Agreement prior to the date of the Memorandum, as defined in the Dealer Manager Agreement, this Participating Dealer Agreement shall not become effective prior to the date of the Memorandum and shall instead become effective on the date of the Memorandum.

Dealer will immediately suspend or terminate its offer and sale of Shares upon the request of the Company or the Dealer Manager at any time and will resume its offer and sale of Shares hereunder upon subsequent request of the Company or the Dealer Manager. Any party may terminate this Participating Dealer Agreement by written notice. Such termination shall be effective 48 hours after the mailing of such notice. This Participating Dealer Agreement and the exhibits hereto are the entire agreement of the parties and supersedes all prior agreements, if any, between the parties hereto.

This Participating Dealer Agreement may be amended at any time by the Dealer Manager by written notice to the Dealer, and any such amendment shall be deemed accepted and agreed to by Dealer upon placing an order for sale of Shares after he has received such notice.

XVII. Privacy Laws

The Dealer Manager and Dealer (each referred to individually in this section as “party”) agree as follows:

A. Each party agrees to abide by and comply with (1) the privacy standards and requirements of the Gramm-Leach-Bliley Act of 1999 (“GLB Act”), (2) the privacy standards and requirements of any other applicable Federal or state law, and (3) its own internal privacy policies and procedures, each as may be amended from time to time.

B. Dealer agrees to provide privacy policy notices required under the GLB Act resulting from purchases of Shares made by its customers pursuant to this Participating Dealer Agreement.

C. Each party agrees to refrain from the use or disclosure of nonpublic personal information (as defined under the GLB Act) of all customers who have opted out of such disclosures except as necessary to service the customers or as otherwise necessary or required by applicable law; and

D. Each party shall be responsible for determining which customers have opted out of the disclosure of nonpublic personal information by periodically reviewing and, if necessary, retrieving a list of such customers (the “List”) to identify customers that have exercised their opt-out rights. In the event either party uses or discloses nonpublic personal information of any customer for purposes other than servicing the customer, or as otherwise required by applicable law, that party will consult the List to determine whether the affected customer has exercised his or her opt-out rights. Each party understands that each is prohibited from using or disclosing any nonpublic personal information of any customer that is identified on the List as having opted out of such disclosures.

XVIII. Notice

Any notice in this Participating Dealer Agreement permitted to be given, made or accepted by either party to the other, must be in writing and may be given or served by (1) overnight courier, (2) depositing the same in the United States mail, postpaid, certified, return receipt requested, or (3) facsimile transfer. Notice deposited in the United States mail shall be deemed given when mailed. Notice given in any other manner shall be effective when received at the address of the addressee. For purposes hereof the addresses of the parties, until changed as hereafter provided, shall be as follows:

To Dealer Manager:	Halcyon Capital Markets, LLC Attention: Dan Werry, Managing Director 5775 Wayzata Boulevard, Suite 960 Minneapolis, MN 55416 Fax: (952) 346-3979
To Dealer:	Address Specified By Dealer on Dealer Signature Page

XIX. Attorney’s Fees, Applicable Law and Venue

In any action to enforce the provisions of this Participating Dealer Agreement or to secure damages for its breach, the prevailing party shall recover its costs and reasonable attorney’s fees. This Participating Dealer Agreement shall be construed under the laws of the State of Maryland and shall take effect when signed by Dealer and countersigned by the Dealer Manager. Dealer and Dealer Manager hereby acknowledge and agree that venue for any action brought hereunder shall lie exclusively in McLean, Virginia.

XX. Severability

In the event that any court of competent jurisdiction declares any provision of this Participating Dealer Agreement invalid, such invalidity shall have no effect on the other provisions hereof, which shall remain valid and binding and in full force and effect, and to that end the provisions of this Participating Dealer Agreement shall be considered severable.

XXI. No Waiver

Failure by either party to promptly insist upon strict compliance with any of the obligations of the other party under this Participating Dealer Agreement shall not be deemed to constitute a waiver of the right to enforce strict compliance with respect to any obligation hereunder.

XXII. Assignment

This Participating Dealer Agreement may not be assigned by either party, except with the prior written consent of the other party. This Participating Dealer Agreement shall be binding upon the parties hereto, their heirs, legal representatives, successors and permitted assigns.

XXIII. Authorization

Each party represents to the other that all requisite corporate proceedings have been undertaken to authorize it to enter into and perform under this Participating Dealer Agreement as contemplated herein, and that the individual who has signed this Participating Dealer Agreement below on its behalf is a duly elected officer that has been empowered to act for and on behalf of such party with respect to the execution of this Participating Dealer Agreement.

THE DEALER MANAGER:

Halcyon Capital Markets, LLC

By: ______________________________

Name: ______________________________

Title: ______________________________

We have read the foregoing Participating Dealer Agreement and we hereby accept and agree to the terms and conditions therein set forth. We hereby represent that the list below of jurisdictions in which we are registered or licensed as a broker or dealer and are fully authorized to sell securities is true and correct, and we agree to advise you of any changes to the information listed on this signature page during the term of this Participating Dealer Agreement.

1. Identity of Dealer:

Name: ______________________________

Type of entity: ______________________________
(to be completed by Dealer) (corporation, partnership or proprietorship)

Organized in the State of: ______________________________
(to be completed by Dealer) (State)

Licensed as broker-dealer in the following States: ______________________________

____
(to be completed by Dealer)

Tax I.D. #: ______________________________

2. Person to receive notice pursuant to Section XVIII.

Name: ______________________________

Company: ______________________________

Address: ______________________________

City, State and Zip Code: ______________________________

Telephone No.: (___) ______________________________

Fax No.: (___) ______________________________

AGREED TO AND ACCEPTED BY THE DEALER:

____
(Dealer's Firm Name)

By: ______________________________
Signature ______________________________
Title: ______________________________
Date: ______________________________

EXHIBIT 10.40

AMENDED AND RESTATED
DEALER MANAGER OPERATING AGREEMENT

THIS AMENDED AND RESTATED DEALER MANAGER OPERATING AGREEMENT (the "Agreement") is entered into and effective as of December 22, 2009 (the "Effective Date"), by and between Gladstone Commercial Corporation, a Maryland corporation (the "Company"), and Halcyon Capital Markets, LLC, a Massachusetts limited liability company (the "Dealer Manager").

WHEREAS, the parties entered into that certain Dealer Manager Agreement and Dealer Manager Operating Agreement, each dated November 19, 2009 (the "Original Agreements"), in connection with a private placement offering (the "Offering") by the Company; and

WHEREAS, after the execution of the Original Agreements and prior to the commencement of the Offering, for various reasons certain terms and conditions of the Offering were required to be updated or otherwise modified; and

WHEREAS, the parties have agreed to execute an Amended and Restated Dealer Manager Agreement and this Agreement to clarify and affirm their respective rights and obligations hereunder and thereunder; and

WHEREAS, the Company is offering for sale in the Offering up to 3,333,333 shares of the Company's Senior Common Stock (the "SCS Shares") pursuant to a Confidential Private Placement Memorandum of the Company dated December 22, 2009; and

WHEREAS, pursuant to that certain Amended and Restated Dealer Manager Agreement dated December 22, 2009 (the "Dealer Manager Agreement"), the Dealer Manager has agreed to act as the dealer manager for the Offering and the Company has agreed to pay certain commissions and fees to the Dealer Manager for such services; and

WHEREAS, the Company has agreed to advance funds to cover certain expenses to enable the Dealer Manager to commence sales efforts in connection with the Offering; and

WHEREAS, the parties hereto desire to set forth their understanding of the advancement of these expenses pursuant to the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the premises and mutual covenants and conditions contained in this Agreement and other good and valuable consideration, the receipt, adequacy and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. **Budget**. Attached as Exhibit A hereto is the initial budget of revenues and expenses associated with the Offering (the "Budget") agreed upon by the Company and the Dealer Manager. The Dealer Manager agrees to use its best efforts to utilize funds advanced by the Company pursuant to this Agreement in accordance with the Budget. Material exceptions to the Budget must be approved by the Company in advance. The Budget may be revised to adapt to changes in market conditions or marketing plans upon the mutual agreement of the parties.

2. **Expense Advances**. Subject to the terms and conditions below, the Company hereby agrees to advance to the Dealer Manager a Mutually Agreed upon amount each month based upon the budgeted "Projected Dealer Manager Cash Flow" line item contained in the Budget. "Mutually Agreed" means that the Dealer Manager and the Company must agree on the amount to be disbursed before the

end of each month and in order to do that the Dealer Manager will submit a projected use of money from the prior disbursement by the 23rd day of the month based on the actual spending and the projected spending. The Mutually Agreed upon amount to be advanced by the Company for each calendar month shall be paid to the Dealer Manager by wire transfer or other immediately available funds at least three (3) days prior to the first day of such month; provided, that the amount advanced for the first calendar month shall be payable after the Dealer Manager furnishes satisfactory evidence to the Company of the admission of Dan Werry as a member of the Dealer Manager. Expense advances advanced to the Dealer Manager will be used only for the items set out in the Budget and for the amounts set out in the Budget.

3. **Reimbursement of Advances**. The Company may apply the portion of the dealer manager fee (the "Halcyon DM Fee") attributable to the Dealer Manager (i.e., net of any marketing or other similar fees required to be paid to participating broker-dealers) against funds previously advanced by the Company to the Dealer Manager in any given month. The Halcyon DM Fee shall not be paid by the Company to the Dealer Manager until the Projected Dealer Manager Cash Flow—Total Cumulative on the Budget has reached positive and remains positive for two consecutive months. The maximum total amount to be paid by the Company to the Dealer Manager from all sources (not including the 7% commissions) shall not exceed 3.75% (including the 1% that may be paid to participating broker-dealers as marketing fees) of the Gross Offering Proceeds, meaning all SCS Shares sold by the Dealer Manager multiplied by $15, except for SCS Shares sold to an Institution without the Company's prior written approval in accordance with the Dealer Manager Agreement. To the extent that the maximum total amount paid to the Dealer Manager combined with expenses advanced by the Company under this Agreement exceeds 3.75% (including any amounts paid to broker-dealers by the Company) of the Gross Offering Proceeds, the Dealer Manager shall reimburse the Company for such excess within five (5) days of the ending of the Offering per Section 7 below.

4. **Monthly Reports**. The Dealer Manager shall provide to the Company for each calendar month, no later than the fifth day of the subsequent calendar month, a report of actual expenses and sales pursuant to the Offering, in sufficient detail to permit the Company to evaluate the performance of the Dealer Manager in relation to the Budget. In addition the Dealer Manager shall provide the following reports:

(a) Weekly or daily on key accounts regarding the signing of the sales agreement.

(b) Weekly or daily on wholesalers regarding the sale of SCS Shares.

(c) Any and all other reasonable documentation requested by the Company.

5. **New Sponsor Approval**. The Dealer Manager agrees that it shall not act as dealer manager or provide similar services for any new sponsor of any private or public offering without the prior written approval of the Company, which approval shall not be unreasonably withheld. When determining whether to grant such approval, the Company shall primarily consider the following factors: (a) whether the proposed new sponsor will be offering directly competing products (e.g., single-tenant, net lease properties); (b) whether there is a reasonable probability that the credibility or reputation of the proposed new sponsor could be detrimental to the goodwill of the Company and its affiliates, and (c) if adding another offering would adversely distract the employees of the broker-dealers from the sale of the SCS Shares.

6. **State Registrations**. The Dealer Manager shall be registered as a broker-dealer in every state that it intends to sell in within thirty (30) days after the Effective Date, and shall not make any sales of SCS Shares unless and until all such registrations are completed.

7. **Term and Termination**.

(a) Term. Unless earlier terminated as provided below, the term of this Agreement (the "Term") shall commence on the Effective Date and shall terminate on the earlier to occur of (i) the effective date of the termination of the Offering, (ii) the effective date of the termination of the Dealer Manager Agreement, or (iii) a default under this Agreement.

(b) Termination by the Company. Notwithstanding anything in this Agreement or the Dealer Manager Agreement to the contrary, the Company may terminate this Agreement in any of the following circumstances: (i) after the earlier to occur of 120 days following the receipt by the Dealer Manager of the Offering's third-party due diligence report and FINRA-compliant marketing support materials or the date on which the Company has advanced $500,000 to the Dealer Manager under this Agreement; (ii) in the event that the Dealer Manager has not fully complied with its registration obligations pursuant to Section 6 above; (iii) if the Investment Committee of the Company determines, in its sole and absolute discretion, that market conditions or the business of the Company may be adversely affected by continuing to offer the SCS Shares in the Offering; or (iv) if the Dealer Manager does not furnish satisfactory evidence of the admission of Dan Werry as a member of the Dealer Manager within five (5) business days after the Effective Date.

(c) Termination by the Dealer Manager. Notwithstanding anything in this Agreement or the Dealer Manager Agreement to the contrary, the Dealer Manager may terminate this Agreement in any of the following circumstances: (i) the Company fails to make any payment to the Dealer Manager pursuant to this Agreement within fifteen (15) days after such payment is due; (ii) the Company or its representatives frustrate sales and marketing activities by (A) refusing to participate in a sales or marketing event as reasonably requested by the Dealer Manager or (B) unreasonably delaying the approval or production of necessary support materials, third-party due diligence reports, or the execution and maintenance of broker-dealer selling agreements; or (iii) the Company sustains significant material damage to Company goodwill such that it becomes highly unlikely that the Dealer Manager can sell the Company's shares.

(d) Effect of Termination. Upon a termination by the Company or the Dealer Manager pursuant to subsection (b) or (c): (i) neither party shall have any further obligations other than as specified under this Agreement; and (ii) the parties shall reasonably cooperate to preserve and minimize any disruption to relationships developed by the Dealer Manager with the participating broker-dealers listed on Exhibit B in connection with the Offering.

8. **Potential Future Additional Affiliated Dealer Manager.** The Dealer Manager understands, acknowledges and agrees that the Dealer Manager has been appointed as dealer manager of the Offering of the SCS Shares on a non-exclusive basis and that the Company may, in the future, enter into a separate dealer manager agreement with Circadian Partners, LLC, an affiliate of the Company's adviser and a member firm of FINRA, for the sale of the SCS Shares on the same or similar terms set forth in the Dealer Manager Agreement.

9. **Miscellaneous**.

(a) Assignment. This Agreement may not be assigned by either party, except with the prior written consent of the other party. This Agreement shall be binding upon the parties hereto, their heirs, legal representatives, successors and permitted assigns.

(b) Entire Agreement; Amendment. Other than the Dealer Manager Agreement, which governs the relationship of the Dealer Manager and the Company in connection with the Offering, this Agreement constitutes the complete and exclusive statement of the agreement between the parties relating to the subject matter hereof and supersedes all prior written and oral statements or agreements with respect to such subject matter, including without limitation the Original Agreements. This Agreement may be amended or modified only in a writing signed by the parties.

(c) Applicable Law and Venue. This Agreement was executed and delivered in, and its validity, interpretation and construction shall be governed by, the laws of the State of Virginia. The parties hereby agree that venue for any action brought in connection with this Agreement shall lie exclusively in McLean, Virginia.

(d) Counterparts. This Agreement may be executed in any number of counterparts. Each counterpart, when executed and delivered, shall be an original contract, but all counterparts, when taken together, shall constitute one and the same agreement. Facsimile and electronic executions and deliveries shall have the full force and effect of original signatures.

IN WITNESS WHEREOF, the undersigned have executed this Agreement, effective as of the date first written above.

COMPANY:

Gladstone Commercial Corporation

By: ______________________________
Name: ______________________________
Title: ______________________________

DEALER MANAGER:

Halcyon Capital Markets, LLC

By: ______________________________
Name: ______________________________
Title: ______________________________

<u>Exhibit A</u>

Budget

[See attached]

Exhibit B

Participating Broker-Dealers

[See attached]

Exhibit 21

SUBSIDIARIES OF GLADSTONE COMMERCIAL CORPORATION

Delaware

2525 N Woodlawn Vstrm Wichita KS, LLC
260 Springside Drive, Akron OH LLC
ACI06 Champaign IL LLC
AC07 Lawrenceville GA LLC
AFL05 Duncan SC LLC
AFL05 Duncan SC Member LLC
APML07 Hialeah FL LLC
C08 Fridley MN LLC
CDLCI07 Mason OH LLC
CI05 Clintonville WI LLC
CMI04 Canton NC LLC
CMS06-3 LLC
COCO04 Austin TX, L.P.
COCO04 Austin TX GP LLC
Corning Big Flats LLC
D08 Marietta OH LLC
DBPI07 Bolingbrook IL LLC
Dorval Property Trust
EE 208 South Rogers Lane, Raleigh NC LLC
EE07 Raleigh NC, L.P.
EE07 Raleigh NC GP LLC
EI07 Tewksbury MA LLC
ELF08 Florida LLC
First Park Ten COCO San Antonio, L.P.
First Park Ten COCO San Antonio GP LLC
FMCT08 Chalfont PA GP LLC
FMCT08 Chalfont PA LP
FTCHI07 Grand Rapids MI LLC
GBI07 Syracuse NY LLC
GCC Acquisition Holding, LLC
GCC Chicago Holdings LLC
GCC Dorval LLC
GCC Granby LLC
GCC Norfolk LLC
Gladstone Commercial Advisers, Inc.
Gladstone Commercial Limited Partnership
Gladstone Commercial Partners LLC
Gladstone Lending LLC
Granby Property Trust
HMBF05 Newburyport MA LLC
Little Arch 04 Charlotte NC Member LLC
Little Arch Charlotte NC LLC
MPI06 Mason OH LLC
MSI05-3 LLC
NJT06 Sterling Heights MI LLC
NW05 Richmond VA LLC
OB Crenshaw GCC, L.P.

OB Crenshaw SPE GP LLC
OB Midway NC Gladstone Commercial LLC
OS08 Winchester VA LLC
Pocono PA GCC GP LLC
Pocono PA GCC, L.P.
PZ05 Maple Heights OH LLC
RB08 Concord OH LLC
RC06 Menomonee Falls WI LLC
RCOG07 Georgia LLC
RPT08 Pineville NC GP LLC
RPT08 Pineville NC LP
SJMH06 Baytown TX GP LLC
SJMH06 Baytown TX L.P.
SLEE Grand Prairie, L.P.
SRFF08 Reading PA GP LLC
SRFF08 Reading PA LP
STI05 Franklin NJ LLC
SVMMC05 Toledo OH LLC
TCI06 Burnsville MN LLC
UC06 Roseville MN LLC
WMI05 Columbus OH LLC
WMI05 Hazelwood MO LLC
WPI07 Tulsa OK LLC
YCC06 South Hadley MA LLC
YorkTC05 Eatontown NJ LLC

Massachusetts

GCLP Business Trust I
GCLP Business Trust II

Nova Scotia

3094174 Nova Scotia Company
3094175 Nova Scotia Company

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333- 147856) of Gladstone Commercial Corporation of our report dated February 24, 2010 relating to the financial statements, financial statement schedules and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

PricewaterhouseCoopers LLP
McLean, VA
February 24, 2010

Exhibit 31.1

CERTIFICATION
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David Gladstone, certify that:

1. I have reviewed this annual report on Form 10-K of Gladstone Commercial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a—15(f) and 15d—15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2010

/s/ David Gladstone
David Gladstone
Chief Executive Officer and
Chairman of the Board of Directors

Exhibit 31.2

CERTIFICATION
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Danielle Jones, certify that:

1. I have reviewed this annual report on Form 10-K of Gladstone Commercial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a—15(f) and 15d—15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2010

/s/ Danielle Jones
Danielle Jones
Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, the Chief Executive Officer of Gladstone Commercial Corporation (the “Company”), hereby certifies on the date hereof, pursuant to 18 U.S.C. §1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K for the year ended December 31, 2009 (“Form 10-K”), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: February 24, 2010

/s/ David Gladstone
David Gladstone
Chief Executive Officer

Exhibit 32.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, the Chief Financial Officer of Gladstone Commercial Corporation (the “Company”), hereby certifies on the date hereof, pursuant to 18 U.S.C. §1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K for the year ended December 31, 2009 (“Form 10-K”), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: February 24, 2010

/s/ Danielle Jones
Danielle Jones
Chief Financial Officer