

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

FORM 8-K

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

Date of Report (Date of earliest event reported) February 25, 2009

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

**Maryland**  
(State or other jurisdiction  
of incorporation)

**0-50363**  
(Commission  
File Number)

**020681276**  
(IRS Employer  
Identification No.)

**1521 Westbranch Drive, Suite 200**  
**McLean, Virginia**  
(Address of principal executive offices)

**22102**  
(Zip Code)

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

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 2.02 Results of Operations and Financial Condition.**

On February 25, 2009, Gladstone Commercial Corporation issued a press release announcing its financial results for the quarter and year ended December 31, 2008. The text of the press release is included as an exhibit to this Form 8-K. Pursuant to the rules and regulations of the Securities and Exchange Commission, such exhibit and the information set forth therein and herein are deemed to be furnished and shall not be deemed to be filed.

**Item 9.01 Financial Statements and Exhibits.**

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

| <u>Exhibit No.</u> | <u>Description</u>                    |
|--------------------|---------------------------------------|
| 99.1               | Press release dated February 25, 2009 |

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**SIGNATURES**

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

Gladstone Commercial Corporation  
(Registrant)

By: /s/ Danielle Jones  
(Danielle Jones, Chief Financial Officer)

February 25, 2009

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**EXHIBIT INDEX**

**Exhibit No.**

**Description**

99.1

Press release dated February 25, 2009

**Gladstone Commercial Corporation Reports Results for the Fourth Quarter and Year Ended December 31, 2008**

MCLEAN, Va.--(BUSINESS WIRE)--February 25, 2009--**2008 Highlights:**

- **Reported revenues for the fourth quarter and full-year 2008 of approximately \$10.7 million and \$40.9 million, respectively:**
  - **Fourth quarter revenues increased by 19.5% versus the same period last year, and**
  - **Full-year 2008 revenues increased by 24.8% versus last year.**
- **Reported funds from operations (“FFO”) for the fourth quarter and full-year 2008 of approximately \$3.4 million and \$13.5 million, respectively:**
  - **Fourth quarter FFO increased by 4.2% versus the same period last year, and**
  - **Full-year 2008 FFO increased by 8.2% versus last year.**
- **Acquired six properties in 2008 for a total investment of approximately \$53.6 million.**
- **Closed a mortgage financing of 15 properties for approximately \$48.0 million in 2008.**

Gladstone Commercial Corp. (NASDAQ:GOOD) (the “Company”) today reported financial results for the quarter and year ended December 31, 2008. A description of FFO, a relative non-GAAP (generally accepted accounting principles in the United States) financial measure, is located at the end of this news release. All per share references are to fully-diluted weighted average common shares, unless otherwise noted.

FFO for the three months ended December 31, 2008 was approximately \$3.4 million, or \$0.39 per share, compared to approximately \$3.2 million, or \$0.38 per share, for the same period one year ago, an increase to FFO of approximately 4.2%. FFO for the year ended December 31, 2008 was approximately \$13.5 million, or \$1.58 per share, compared to approximately \$12.5 million, or \$1.46 per share, for the same period one year ago, an increase to FFO of approximately 8.2%. FFO, when compared to the same period last year, was affected by the fact that the Company financed all of its acquisitions during 2008 using fixed-rate, long-term debt, which resulted in increased interest expense, as rates on the Company’s long-term debt were higher than on its short-term debt. This was partially offset by the increase in the Company’s portfolio of investments and the corresponding increase in its revenues. FFO was also affected by partial waivers of incentive fees from the Company’s external adviser, Gladstone Management Corporation (the “Adviser”), for the year ended December 31, 2008, of approximately \$2.2 million, compared to \$2.3 million for the year ended December 31, 2007. In addition, the Company incurred approximately \$1.0 million of due diligence expense during the quarter ended December 31, 2008 related to a large potential acquisition that ultimately did not close. Because of these expenses the Adviser chose to voluntarily and irrevocably waive the entire incentive fee for the fourth quarter along with a portion of the incentive fees paid during prior quarters in 2008 in order to allow the Company to maintain distributions to stockholders.

Net income available to common stockholders for the quarter ended December 31, 2008 was approximately \$0.1 million, or \$0.01 per share, compared to approximately \$0.4 million, or \$0.05 per share, for the same period one year ago. Net income available to common stockholders for the year ended December 31, 2008 was approximately \$0.8 million, or \$0.10 per share, compared to approximately \$2.0 million, or \$0.24 per share, for the same period one year ago.

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A reconciliation of net income, which the Company believes is the most directly comparable GAAP measure to FFO, is set forth below:

|  | For the three months ended<br>December 31, 2008 | For the three months ended<br>December 31, 2007 | For the year ended<br>December 31, 2008 | For the year ended<br>December 31, 2007 |
|--|---|---|---|---|
| Net income   | \$ 1,135,241                                    | \$ 1,463,113                                    | \$ 4,912,947                            | \$ 6,140,229                            |
| Less: Distributions attributable to preferred stock          | (1,023,439)                                     | (1,023,438)                                     | (4,093,750)                             | (4,093,750)                             |
| Net income available to common stockholders                  | <u>111,802</u>                                  | <u>439,675</u>                                  | <u>819,197</u>                          | <u>2,046,479</u>                        |
| Add: Real estate depreciation and amortization               | 3,268,961                                       | 2,806,109                                       | 12,704,641                              | 10,528,458                              |
| Less: Gain on sale of real estate, net of taxes paid         | -   | -   | -                                       | (78,667)                                |
| FFO available to common stockholders                         | <u>\$ 3,380,763</u>                             | <u>\$ 3,245,784</u>                             | <u>\$ 13,523,838</u>                    | <u>\$ 12,496,270</u>                    |
| <br>   |   |   |   |   |
| Weighted average shares outstanding - basic & diluted        | 8,564,807                                       | 8,565,264                                       | 8,565,149                               | 8,565,264                               |
| <br>   |   |   |   |   |
| Basic & diluted net income per weighted average common share | <u>\$ 0.01</u>                                  | <u>\$ 0.05</u>                                  | <u>\$ 0.10</u>                          | <u>\$ 0.24</u>                          |
| Basic & diluted FFO per weighted average common share        | <u>\$ 0.39</u>                                  | <u>\$ 0.38</u>                                  | <u>\$ 1.58</u>                          | <u>\$ 1.46</u>                          |

The weighted average yield on the Company's portfolio as of December 31, 2008 was 9.63% as compared to 9.55% as of December 31, 2007. At December 31, 2008, the Company owned 65 properties totaling approximately 6.3 million square feet, and had one mortgage loan outstanding for a total net investment of approximately \$407.3 million. Currently, all of the Company's properties are fully leased and all of its tenants and its borrower are paying as agreed. The Company does not have any balloon principal payments due under any of its long-term mortgages until 2010, and the \$48.0 million mortgage that matures in 2010 has three annual extension options through 2013. In addition the Company intends to repay its \$20.0 million short-term loan that matures in June 2009, with its existing availability under the line of credit. The Company's line of credit matures in December 2009 and it intends to exercise its option to extend the line of credit through December 2010.

2008 highlights:

- Purchased six fully-occupied properties comprised of approximately 756,000 square feet for approximately \$53.6 million, including \$6.5 million of assumed debt on one of the properties;
- Made capital improvements to three of its properties located in Newburyport, Massachusetts, Arlington, Texas and Duncan, South Carolina for approximately \$2.2 million;
- Extended the terms of the leases on its properties located in Snyder Township, Pennsylvania and Lexington, North Carolina until 2014, and the lease on its Newburyport, Massachusetts property until 2015; and
- Borrowed approximately \$48.0 million pursuant to a two-year mortgage note payable from GE Commercial Mortgage Financial Corporation (which may be extended to five years at the Company's option), collateralized by security interests in 15 properties.

"Our results demonstrate that we continue to grow our portfolio with new investments and add value to existing investments; however, we are disappointed by the credit market's impact on the pace of our acquisitions. We felt the effects of the tight credit markets as we were unable to close a large acquisition during the fourth quarter 2008 and had to write off the associated due diligence expense. We continue to consider new investments, but on a very selective basis, as we do not believe that sellers' pricing expectations have fully adjusted to current market realities. Despite these very challenging times, our current portfolio's strength is demonstrated by the fact that all our properties are fully leased and all of our tenants and borrower are current and paying as agreed," said Chip Stelljes, President and Chief Investment Officer.

Subsequent to quarter end, the Company:

- Declared monthly distributions of \$0.125 per share on the common stock, \$0.1614583 per share on the Series A Preferred Stock, and \$0.15625 per share on the Series B Preferred Stock, for each of the months of January, February and March 2009.

The financial statements attached below are without footnotes so readers should obtain and carefully review the Company's Form 10-K for the year ended December 31, 2008, including the footnotes to the financial statements contained therein. The Company has filed the Form 10-K today with the Securities and Exchange Commission ("SEC") and the Form 10-K can be retrieved from the SEC's website at [www.sec.gov](http://www.sec.gov) or the Company's website at [www.GladstoneCommercial.com](http://www.GladstoneCommercial.com).

The Company will hold a conference call on Thursday, February 26, 2009 at 8:30 a.m. ET to discuss its earnings results. Please call (877) 407-8031 to enter the conference. An operator will monitor the call and set a queue for the questions.

The conference call replay will be available two hours after the call and will be available through March 26, 2009. To hear the replay, please dial (877) 660-6853, access playback account 286 and use ID code 309394.

Gladstone Commercial Corporation is a publicly traded real estate investment trust ("REIT") that focuses on investing in and owning triple-net leased industrial and commercial real estate properties and selectively making long-term mortgage loans. Additional information can be found at [www.GladstoneCommercial.com](http://www.GladstoneCommercial.com).

For further information, contact Kerry Finnegan at 703-287-5893.

#### NON-GAAP FINANCIAL MEASURE - FFO

The National Association of Real Estate Investment Trusts ("NAREIT") developed FFO as a relative non-GAAP supplemental measure of operating performance of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. FFO, as defined by NAREIT, is net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus depreciation and amortization of real estate assets, and after adjustments for unconsolidated partnerships and joint ventures. FFO does not represent cash flows from operating activities determined in accordance with GAAP and should not be considered an alternative to net income as an indication of the Company's performance or to cash flow from operations as a measure of liquidity or ability to make distributions. The Company believes that FFO per share provides investors with a further context for evaluating the Company's financial performance and as a supplemental measure to compare the Company to other REITs; however, comparisons of the Company's FFO to the FFO of other REITs may not necessarily be meaningful due to potential differences in the application of the NAREIT definition used by such other REITs. To learn more about FFO please refer to the Form 10-K for the year ended December 31, 2008, as filed with the SEC today.

*This press release may include statements that may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements with regard to the future performance of the Company. Words such as "believes," "expects," "estimates," "estimated," "projects" and "future" or similar expressions are intended to identify forward-looking statements. These forward-looking statements inherently involve certain risks and uncertainties, although they are based on the Company's current plans that are believed to be reasonable as of the date of this press release. Factors that may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others: (1) risks associated with negotiation and consummation of pending and future transactions; and (2) those factors listed under the caption "Risk factors" of the Company's Form 10-K for the fiscal year ended December 31, 2008, as filed with the Securities and Exchange Commission ("SEC") on February 25, 2009. The Company cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

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**Gladstone Commercial Corporation**  
**Consolidated Balance Sheets**

|   | December 31, 2008 | December 31, 2007 |
|---|-------------------|-------------------|
| <b>ASSETS</b>   |                   |                   |
| Real estate, at cost  | \$ 390,562,138    | \$ 340,500,406    |
| Less: accumulated depreciation  | 24,757,576        | 15,738,634        |
| Total real estate, net  | 365,804,562       | 324,761,772       |
| Lease intangibles, net  | 31,533,843        | 28,989,556        |
| Mortgage notes receivable   | 10,000,000        | 10,000,000        |
| Cash and cash equivalents   | 4,503,578         | 1,356,408         |
| Restricted cash   | 2,677,561         | 1,914,067         |
| Funds held in escrow  | 2,150,919         | 1,401,695         |
| Deferred rent receivable  | 7,228,811         | 5,094,799         |
| Deferred financing costs, net   | 4,383,446         | 4,405,129         |
| Due from adviser  | 108,898           | -                 |
| Prepaid expenses and other assets   | 707,167           | 979,263           |
|   | \$ 429,098,785    | \$ 378,902,689    |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                   |                   |
| <b>LIABILITIES</b>  |                   |                   |
| Mortgage notes payable  | \$ 255,111,173    | \$ 202,120,471    |
| Short-term loan and borrowings under line of credit   | 31,500,000        | 24,400,000        |
| Deferred rent liability   | 3,147,472         | 3,933,035         |
| Asset retirement obligation liability   | 2,190,192         | 1,811,752         |
| Accounts payable and accrued expenses   | 2,673,787         | 778,949           |
| Due to adviser  | -                 | 784,301           |
| Obligation under capital lease  | 235,378           | -                 |
| Rent received in advance, security deposits and funds held in escrow  | 3,745,523         | 2,706,113         |
|   | 298,603,525       | 236,534,621       |
| <b>STOCKHOLDERS' EQUITY</b>   |                   |                   |
| 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 and 8,565,264 shares issued and outstanding, respectively               | 8,563             | 8,565             |
| Additional paid in capital  | 170,622,581       | 170,640,979       |
| Notes receivable - employees  | (2,595,886)       | (2,769,923)       |
| Distributions in excess of accumulated earnings   | (37,542,148)      | (25,513,703)      |
|   | 130,495,260       | 142,368,068       |
|   | \$ 429,098,785    | \$ 378,902,689    |

**Gladstone Commercial Corporation**  
**Consolidated Statements of Operations**

|  | For the three months ended<br>December 31, 2008 | For the three months ended<br>September 30, 2008 | For the three months<br>ended June 30, 2008 | For the three months<br>ended March 31, 2008 |
|--|---|--|---|--|
| <b>Operating revenues</b>  |   |  |   |  |
| Rental income  | \$ 10,406,752                                   | \$ 10,157,553                                    | \$ 9,922,018                                | \$ 9,189,465                                 |
| Interest income from mortgage notes receivable   | 225,025   | 216,446  | 218,805                                     | 238,297                                      |
| Tenant recovery revenue  | 83,139  | 83,144   | 84,635                                      | 85,719                                       |
| Total operating revenues   | <u>10,714,916</u>                               | <u>10,457,143</u>                                | <u>10,225,458</u>                           | <u>9,513,481</u>                             |
| <b>Operating expenses</b>  |   |  |   |  |
| Depreciation and amortization  | 3,268,961                                       | 3,262,903  | 3,185,017                                   | 2,987,760                                    |
| Property operating expenses  | 210,910   | 222,862  | 203,818                                     | 239,483                                      |
| Due diligence expense  | 1,172,096                                       | 2,158  | 40  | 2,085  |
| Base management fee  | 382,018   | 404,108  | 419,857                                     | 431,868                                      |
| Incentive fee  | 531,436   | 793,787  | 801,832                                     | 704,667                                      |
| Administration fee   | 229,657   | 238,241  | 274,541                                     | 212,196                                      |
| Professional fees  | 158,826   | 117,857  | 147,065                                     | 97,662                                       |
| Insurance  | 46,466  | 43,354   | 41,797                                      | 41,797                                       |
| Directors fees   | 55,648  | 54,702   | 52,251                                      | 54,250                                       |
| Stockholder related expenses   | 26,954  | 42,232   | 102,775                                     | 126,423                                      |
| Asset retirement obligation expense  | 34,855  | 35,157   | 32,764                                      | 30,468                                       |
| General and administrative   | 22,670  | 10,079   | 18,332                                      | 12,182                                       |
| Total operating expenses before credit from Adviser                                      | <u>6,140,497</u>                                | <u>5,227,440</u>                                 | <u>5,280,089</u>                            | <u>4,940,841</u>                             |
| Credit to incentive fee  | (1,255,017)                                     | (205,876)  | (173,697)                                   | (562,355)                                    |
| Total operating expenses   | <u>4,885,480</u>                                | <u>5,021,564</u>                                 | <u>5,106,392</u>                            | <u>4,378,486</u>                             |
| <b>Other expense</b>   |   |  |   |  |
| Interest income from temporary investments   | 1,048   | 4,559  | 6,689                                       | 9,548  |
| Interest income - employee loans   | 49,477  | 49,624   | 50,852                                      | 52,144                                       |
| Other income   | 7,500   | 7,500  | 39,697                                      | 9,296  |
| Interest expense   | (4,751,800)                                     | (4,354,381)                                      | (3,996,453)                                 | (3,756,053)                                  |
| Total other expense  | <u>(4,693,775)</u>                              | <u>(4,292,698)</u>                               | <u>(3,899,215)</u>                          | <u>(3,685,065)</u>                           |
| Income from continuing operations  | <u>1,135,661</u>                                | <u>1,142,881</u>                                 | <u>1,219,851</u>                            | <u>1,449,930</u>                             |
| Loss from discontinued operations  | <u>(420)</u>                                    | <u>(1,322)</u>                                   | <u>(406)</u>                                | <u>(33,228)</u>                              |
| Net income   | <u>1,135,241</u>                                | <u>1,141,559</u>                                 | <u>1,219,445</u>                            | <u>1,416,702</u>                             |
| Distributions attributable to preferred stock  | <u>(1,023,439)</u>                              | <u>(1,023,437)</u>                               | <u>(1,023,437)</u>                          | <u>(1,023,437)</u>                           |
| Net income available to common stockholders  | <u>\$ 111,802</u>                               | <u>\$ 118,122</u>                                | <u>\$ 196,008</u>                           | <u>\$ 393,265</u>                            |
| <b>Earnings per weighted average common share - basic &amp; diluted</b>                  |   |  |   |  |
| Income from continuing operations (net of distributions attributable to preferred stock) | \$ 0.01   | \$ 0.01  | \$ 0.02                                     | \$ 0.05                                      |
| Discontinued operations  | 0.00  | 0.00   | 0.00  | 0.00   |
| Net income available to common stockholders  | <u>\$ 0.01</u>                                  | <u>\$ 0.01</u>                                   | <u>\$ 0.02</u>                              | <u>\$ 0.05</u>                               |
| <b>Weighted average shares outstanding</b>   |   |  |   |  |
| Basic & Diluted  | <u>8,564,807</u>                                | <u>8,565,264</u>                                 | <u>8,565,264</u>                            | <u>8,565,264</u>                             |

**Gladstone Commercial Corporation**  
**Consolidated Statements of Operations**

|  | For the year ended December 31, |                     |                     |
|--|---------------------------------|---------------------|---------------------|
|  | 2008                            | 2007                | 2006                |
| Operating revenues   |                                 |                     |                     |
| Rental income  | \$ 39,675,788                   | \$ 31,469,297       | \$ 23,964,035       |
| Interest income from mortgage notes receivable   | 898,573                         | 1,013,889           | 1,845,231           |
| Tenant recovery revenue  | 336,637                         | 310,353             | 136,280             |
| Total operating revenues   | <u>40,910,998</u>               | <u>32,793,539</u>   | <u>25,945,546</u>   |
| Operating expenses   |                                 |                     |                     |
| Depreciation and amortization  | 12,704,641                      | 10,528,458          | 8,297,174           |
| Property operating expense   | 877,073                         | 800,822             | 636,427             |
| Due diligence expense  | 1,176,379                       | 20,968              | 9,365               |
| Base management fee  | 1,637,851                       | 1,858,120           | 2,902,053           |
| Incentive fee  | 2,831,722                       | 2,564,365           | -                   |
| Administration fee   | 954,635                         | 837,898             | -                   |
| Professional fees  | 521,410                         | 625,349             | 953,066             |
| Insurance  | 173,414                         | 214,141             | 211,562             |
| Directors fees   | 216,851                         | 229,000             | 140,000             |
| Stockholder related expenses   | 298,384                         | 244,629             | 311,049             |
| Asset retirement obligation expense  | 133,244                         | 116,478             | 129,142             |
| General and administrative   | 63,263                          | 102,999             | 82,847              |
| Stock option compensation expense  | -                               | -                   | 394,411             |
| Total operating expenses before credit from Adviser                                      | <u>21,588,867</u>               | <u>18,143,227</u>   | <u>14,067,096</u>   |
| Credit to incentive fee  | <u>(2,196,945)</u>              | <u>(2,321,597)</u>  | <u>-</u>            |
| Total operating expenses   | <u>19,391,922</u>               | <u>15,821,630</u>   | <u>14,067,096</u>   |
| Other income (expense)   |                                 |                     |                     |
| Interest income from temporary investments   | 21,844                          | 354,249             | 76,772              |
| Interest income - employee loans   | 202,097                         | 222,051             | 125,788             |
| Other income   | 63,993                          | 47,847              | 380,915             |
| Interest expense   | (16,858,687)                    | (11,564,541)        | (9,104,894)         |
| Total other expense  | <u>(16,570,753)</u>             | <u>(10,940,394)</u> | <u>(8,521,419)</u>  |
| Income from continuing operations  | <u>4,948,323</u>                | <u>6,031,515</u>    | <u>3,357,031</u>    |
| Discontinued operations  |                                 |                     |                     |
| (Loss) income from discontinued operations   | (35,376)                        | (3,312)             | 112,145             |
| Net realized income (loss) from foreign currency transactions                            | -                               | 33,359              | (202,938)           |
| Gain on sale of real estate  | -                               | -                   | 1,422,026           |
| Taxes refunded (paid) on sale of real estate   | -                               | 78,667              | (315,436)           |
| Total discontinued operations  | <u>(35,376)</u>                 | <u>108,714</u>      | <u>1,015,797</u>    |
| Net income   | <u>4,912,947</u>                | <u>6,140,229</u>    | <u>4,372,828</u>    |
| Distributions attributable to preferred stock  | <u>(4,093,750)</u>              | <u>(4,093,750)</u>  | <u>(2,186,890)</u>  |
| Net income available to common stockholders  | <u>\$ 819,197</u>               | <u>\$ 2,046,479</u> | <u>\$ 2,185,938</u> |
| Earnings per weighted average common share - basic                                       |                                 |                     |                     |
| Income from continuing operations (net of distributions attributable to preferred stock) | \$ 0.10                         | \$ 0.23             | \$ 0.15             |
| Discontinued operations  | 0.00                            | 0.01                | 0.13                |
| Net income available to common stockholders  | <u>\$ 0.10</u>                  | <u>\$ 0.24</u>      | <u>\$ 0.28</u>      |
| Earnings per weighted average common share - diluted                                     |                                 |                     |                     |
| Income from continuing operations (net of distributions attributable to preferred stock) | \$ 0.10                         | \$ 0.23             | \$ 0.14             |
| Discontinued operations  | 0.00                            | 0.01                | 0.13                |
| Net income available to common stockholders  | <u>\$ 0.10</u>                  | <u>\$ 0.24</u>      | <u>\$ 0.27</u>      |
| Weighted average shares outstanding  |                                 |                     |                     |
| Basic  | <u>8,565,149</u>                | <u>8,565,264</u>    | <u>7,827,781</u>    |
| Diluted  | <u>8,565,149</u>                | <u>8,565,264</u>    | <u>7,986,690</u>    |

**Gladstone Commercial Corporation**  
**Consolidated Statements of Cash Flows**

|   | For the year ended December 31, |                      |                      |
|---|---------------------------------|----------------------|----------------------|
|   | 2008                            | 2007                 | 2006                 |
| <b>Cash flows from operating activities:</b>  |                                 |                      |                      |
| Net income  | \$ 4,912,947                    | \$ 6,140,229         | \$ 4,372,828         |
| Adjustments to reconcile net income to net cash provided by operating activities:                           |                                 |                      |                      |
| Depreciation and amortization, including discontinued operations  | 12,704,641                      | 10,528,458           | 8,349,474            |
| Amortization of deferred financing costs, including discontinued operations                                 | 1,283,956                       | 717,195              | 1,207,198            |
| Amortization of deferred rent asset and liability   | (532,066)                       | (532,068)            | (442,765)            |
| Accretion of obligation under capital lease   | 10,311                          | -                    | -                    |
| Asset retirement obligation expense, including discontinued operations                                      | 133,244                         | 116,478              | 139,074              |
| Stock compensation  | -                               | -                    | 394,411              |
| Increase in mortgage notes payable due to change in value of foreign currency                               | -                               | -                    | 202,066              |
| Value of building acquired in excess of mortgage note satisfied, applied to interest income                 | -                               | -                    | (335,701)            |
| Gain on sale of real estate   | -                               | -                    | (1,422,026)          |
| Decrease (increase) in prepaid expenses and other assets  | 172,096                         | 64,990               | (62,880)             |
| Increase in deferred rent receivable  | (2,387,509)                     | (1,741,016)          | (1,270,159)          |
| Increase in accounts payable, accrued expenses, and amount due adviser, net                                 | 1,001,639                       | 625,398              | 196,294              |
| Increase in rent received in advance  | 275,916                         | 176,145              | 268,037              |
| Net cash provided by operating activities   | <u>17,575,175</u>               | <u>16,095,809</u>    | <u>11,595,851</u>    |
| <b>Cash flows from investing activities:</b>  |                                 |                      |                      |
| Real estate investments   | (49,359,852)                    | (105,599,587)        | (48,339,307)         |
| Proceeds from sales of real estate  | -                               | -                    | 2,102,567            |
| Principal repayments on mortgage notes receivable   | -                               | -                    | 44,742               |
| Receipts from lenders for reserves held in escrow   | 874,227                         | 1,603,309            | 1,127,753            |
| Payments to lenders for reserves held in escrow   | (1,623,452)                     | (1,369,186)          | (1,722,280)          |
| (Increase) decrease in restricted cash  | (763,494)                       | (688,905)            | 749,274              |
| Deposits on future acquisitions   | (1,650,000)                     | (2,110,000)          | (900,000)            |
| Deposits applied against real estate investments  | 1,750,000                       | 2,110,000            | 1,200,000            |
| Net cash used in investing activities   | <u>(50,772,571)</u>             | <u>(106,054,369)</u> | <u>(45,737,251)</u>  |
| <b>Cash flows from financing activities:</b>  |                                 |                      |                      |
| Proceeds from share issuance  | -                               | -                    | 65,089,026           |
| Redemption of shares for payment of taxes   | -                               | -                    | (457,634)            |
| Offering costs  | -                               | -                    | (2,654,279)          |
| Borrowings under mortgage notes payable   | 48,015,000                      | 48,521,690           | 68,055,000           |
| Principal repayments on mortgage notes payable  | (1,485,901)                     | (895,657)            | (604,318)            |
| Principal repayments on employee notes receivable   | 155,637                         | 431,399              | 914                  |
| Borrowings from short-term loan and line of credit  | 76,900,000                      | 65,500,000           | 71,400,400           |
| Repayments on line of credit  | (69,800,000)                    | (41,100,000)         | (114,960,400)        |
| Receipts from tenants for reserves  | 2,391,360                       | 2,023,019            | 2,099,506            |
| Payments to tenants from reserves   | (2,159,671)                     | (1,710,685)          | (3,276,731)          |
| Increase in security deposits   | 531,806                         | 376,572              | 427,951              |
| Payments for deferred financing costs   | (1,262,273)                     | (1,409,320)          | (3,242,881)          |
| Distributions paid for common and preferred   | (16,941,392)                    | (16,427,736)         | (13,469,627)         |
| Net cash provided by financing activities   | <u>36,344,566</u>               | <u>55,309,282</u>    | <u>68,406,927</u>    |
| Net increase (decrease) in cash and cash equivalents  | 3,147,170                       | (34,649,278)         | 34,265,527           |
| Cash and cash equivalents, beginning of year  | 1,356,408                       | 36,005,686           | 1,740,159            |
| Cash and cash equivalents, end of year  | <u>\$ 4,503,578</u>             | <u>\$ 1,356,408</u>  | <u>\$ 36,005,686</u> |
| Cash paid during period for interest  | <u>\$ 14,337,944</u>            | <u>\$ 10,693,440</u> | <u>\$ 8,045,342</u>  |
| <b>NON-CASH OPERATING, INVESTING AND FINANCING INFORMATION</b>  |                                 |                      |                      |
| 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           | \$ 1,631,294         |
| Fixed rate debt assumed in connection with acquisitions   | \$ 6,461,603                    | \$ 4,506,689         | \$ 30,129,654        |
| Obligation under capital lease  | \$ 225,068                      | \$ -                 | \$ -                 |
| Assumption of mortgage notes payable by buyer   | \$ -                            | \$ -                 | \$ 4,846,925         |
| Acquisition of building in satisfaction of mortgage note receivable   | \$ -                            | \$ -                 | \$ 11,316,774        |
| Notes receivable issued in exchange for common stock associated with the exercise of employee stock options | \$ -                            | \$ -                 | \$ 2,769,954         |
| Forfeiture of common stock in satisfaction of employee note receivable                                      | \$ 18,400                       | \$ -                 | \$ -                 |

CONTACT:  
Gladstone Commercial Corp.  
Kerry Finnegan, 703-287-5893