# 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) May 4, 2009

# **Gladstone Commercial Corporation**

(Exact name of registrant as specified in its charter)

Maryland 0-50363 020681276 (State or other jurisdiction (Commission (IRS Employer of incorporation) File Number) Identification No.) 1521 Westbranch Drive, Suite 200 22102 McLean, Virginia (Address of principal executive offices) (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:  $\hfill \Box$  Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)  $\hfill \Box$  Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12) □ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b)) □ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

# Item 2.02 Results of Operations and Financial Condition.

On May 4, 2009, Gladstone Commercial Corporation issued a press release announcing its financial results for the quarter ended March 31, 2009. The text of the press release is included as an exhibit to this Form 8-K. Pursuant to the rules and regulations of the Securities and Exchange Commission, such exhibit and the information set forth therein and herein are deemed to be furnished and shall not be deemed to be filed.

# Item 9.01 Financial Statements and Exhibits.

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

| Exhibit No. | <u>Description</u>              |
|-------------|---------------------------------|
| 99.1        | Press release dated May 4, 2009 |

# 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)

May 4, 2009

# EXHIBIT INDEX

**Exhibit No. Description** 

99.1 Press release dated May 4, 2009

#### Gladstone Commercial Corporation Reports Results for the First Quarter Ended March 31, 2009

- Reported revenues for the first quarter of approximately \$10.7 million, an increase of 12.3% versus the same period last year.
- Reported funds from operations ("FFO") for the first quarter of approximately \$3.4 million.
- All tenants and its borrower are current and paying as agreed and all properties are fully leased.

MCLEAN, Va.--(BUSINESS WIRE)--May 4, 2009--Gladstone Commercial Corp. (NASDAQ: GOOD) (the "Company") today reported financial results for the quarter ended March 31, 2009. 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 March 31, 2009 was approximately \$3.4 million, or \$0.39 per share, which remained flat as compared to the same period one year ago. Our results were affected by the increase in rental revenues as compared to the same period last year. This increase was a result of acquisitions completed during 2008 that were held for the full first quarter in 2009. This increase in revenues caused the amount of the incentive fee paid to the Company's external adviser, Gladstone Management (the "Adviser") to increase during the first quarter of 2009 through a reduction in the voluntary waiver issued by the Adviser. For the three months ended March 31, 2009 and 2008, the Company recorded an incentive fee of approximately \$786,000 and \$705,000, partially offset by a credit related to an unconditional and irrevocable voluntary waiver issued by the Adviser of approximately \$235,000 and \$562,000, for a net incentive fee for the three months ended March 31, 2009 and 2008 of approximately \$551,000 and \$143,000, respectively.

Net income available to common stockholders for the quarter ended March 31, 2009 was approximately \$66,000, or \$0.01 per share, compared to approximately \$393,000, or \$0.05 per share, for the same period one year ago.

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

|  | 1  | For the three<br>months ended<br>farch 31, 2009 | For the three<br>months ended<br>March 31, 2008 |
|--|----|---|---|
| Net income Less: Distributions attributable to preferred stock Net income available to common stockholders | \$ | 1,089,569<br>(1,023,437)<br>66,132              | \$<br>1,416,702<br>(1,023,437)<br>393,265       |
| Add: Real estate depreciation and amortization FFO available to common stockholders                        | \$ | 3,314,100<br>3,380,232                          | \$<br>2,987,760<br>3,381,025                    |
| Weighted average shares outstanding - basic & diluted  |    | 8,563,264                                       | 8,565,264                                       |
| Basic & diluted net income per weighted average common share   | \$ | 0.01  | \$<br>0.05                                      |
| Basic & diluted FFO per weighted average common share  | \$ | 0.39  | \$<br>0.39                                      |
| Distributions declared per common share  | \$ | 0.375   | \$<br>0.375                                     |
| Percentage of FFO paid per common share  |    | 95%   | <br>95%   |

The weighted average yield on the Company's portfolio as of March 31, 2009 was 9.68% as compared to 9.43% as of March 31, 2008. At March 31, 2009, 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 \$404.1 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 only mortgage that matures at that time has three annual extension options through 2013, which the Company will likely exercise. The Company's line of credit matures in December 2009 and it currently expects to exercise its option to extend the line of credit through December 2010.

During the first quarter, the Company repaid its \$20.0 million short-term loan with KeyBank National Association in March 2009, which was originally set to mature in June 2009, with proceeds from borrowings under its line of credit.

"Our results demonstrate our current portfolio's strength as all of 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. "We continue to build the value of our existing portfolio of properties by reviewing and renegotiating existing leases and making capital improvements to certain of our properties. We will continue to review potential acquisitions and we intend to continue our strategy of making conservative investments in properties with existing financing that we believe will weather the current recession and that are likely to produce attractive long-term returns for our stockholders. We hope to be in a position where we can pay out the entire incentive fee and maintain our distributions to stockholders by the end of the year, which will allow us to grow our FFO."

Subsequent to quarter end, the Company maintained 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 April, May and June 2009.

The financial statements attached below are without footnotes so readers should obtain and carefully review the Company's Form 10-Q for the quarter ended March 31, 2009, including the footnotes to the financial statements contained therein. The Company has filed the Form 10-Q today with the Securities and Exchange Commission ("SEC") and the Form 10-Q can be retrieved from the SEC's website at <a href="https://www.gca.gov">www.gladstoneCommercial.com</a>.

The Company will hold a conference call on Tuesday, May 5, 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 June 5, 2009. To hear the replay, please dial (877) 660-6853, access playback account 286 and use ID code 320566

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 <a href="https://www.GladstoneCommercial.com">www.GladstoneCommercial.com</a>.

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-Q for the quarter ended March 31, 2009, as filed with the SEC today.

The statements in this press release regarding the extension of the Company's line of credit and any of its long-term mortgages, future growth in the Company's portfolio and FFO, the Company's ability to further access its line of credit and to weather the current economic environment, the Company's ability to pay out the full incentive fee and to maintain distributions to stockholders are "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. These forward-looking statements inherential 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 actual results to differ materially from these forward-looking include, among others, the results of appraisals of our properties at the time of extension of our line of credit, our ability to raise capital, the duration of, or further downturns in, the current economic environment, the performance of our tenants and borrower, and significant changes in interest rates. Additional factors that could cause actual results to differ materially from those stated or implied by the Company's forward-looking statements are disclosed 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.

## Gladstone Commercial Corporation Consolidated Balance Sheets (unaudited)

| ASSETS         Calcular citors         \$ 10,000 (a)         \$ 10,000 (a) <th></th> <th>March 31, 2009</th> <th>December 31, 2008</th>   |   | March 31, 2009 | December 31, 2008 |
|---|---|----------------|-------------------|
| Real state, a coof         \$ 9,0 16,18 kg         \$ 2,00 16,0   | ACCETC  |                |                   |
| Ices canwalled depeciation         27,127.8d         24,787.5d           Toll related, rel.         63,688.58         36,580.5d           Less intangibles, red.         30,500.02         31,030.02           Koringage once special relation         2,470.58         40,000.00           Cash description         2,740.58         40,000.00           Restricted cash         2,300.69         21,500.91           Before definitioning costs, not         40,618.13         48,384.46           Deferred relationing costs, not         50,400.00         40,018.13         48,384.46           Deferred relationship costs, not         2,400.00         2,400.00         70,700.   |   | \$ 390.616.450 | \$ 390 562 138    |
| Total real estate, net         363,488,589         365,804,562           Lese intangibles, net         30,590,024         31,533,843           Mortgage notes receivable         10,000,000         10,000,000           Cash and exist quivalents         2,473,850         45,075,761           Restrict desh         3,780,463         2,775,617           Flunds held in esertow         2,349,465         2,150,919           Deferred framer goots, net         40,818         4,838,44           Due from adviser         52,438         707,78,226           Prepaid expense and other assets         524,395         707,78           TOTAL ASSETS         \$24,996,809         \$249,988,80           TOTAL ASSETS         \$24,996,809         \$25,5111,73           Mortgage notes payable         \$22,520,202         \$25,5111,73           Short-term loan and borrowings under line of credit         30,300,000         31,500,000           Deferred frametholigation liability         22,951,80         25,171,173           Accent payable and accred expenses         1,528,245         26,738           Accide in tapatil absent capital less         22,845,50         23,845           Total Liabilitie         22,845,50         23,845,50           Total Liabilities         22,845,50 <td></td> <td></td> <td></td>  |   |                |                   |
| Rese intangibles, net   30,500,024   31,533,843   Mortgage notes receivable   10,000,000,000   10,000,000  | •   |                |                   |
| Mortgage notes receivable         10,000,000           Cash and cash equivalents         2,473,858           Extricted cash         3,780,46           Funds held in escrow         2,439,458           Deferred receivable         4,061,81           Deferred financing costs, net         4,061,81           Incerpose the persons and other assets         524,388           Torol LASSETS         2,439,800           TOTAL ASSETS         524,388           Mortgage notes payable         524,500,200           Mortgage notes payable         524,500,200           Mortgage notes payable         9,295,100           Mortgage notes payable         9,295,100           Secretic men and borrowings under line of credit         9,295,100           Deferred rectil indivities         2,295,108           Accounts payable         2,295,108           Secretic men to bilgation liability         2,295,108           Objectived rectil indivision         1,238,245           Cocounts payable and accrued expense         2,295,108           Disgistion under capital lease         2,295,108           Accent received in advance, security deposits and funds held in escrow         2,295,40           Disgistion under capital lease         2,295,40           Correction in advan   | Total feat estate, net  | 303,466,367    | 303,804,302       |
| Cash acash equivalents         2,43,558         4,50,578           Restricted cash         3,78,046         2,677,561           Tunk sheld in escrivs         2,249,456         2,110,000           Deferred france (creivable         4,061,813         4,383,481           Deferred france (creivable)         4,061,813         4,383,481           Deferred france (creivable)         5,24,908         108,898           Prepaid expenses and other assets         224,398         707,167           CASTALLASSETS         2,24,906,808         \$ 24,906,808         \$ 24,906,808           CASTALLASSETS         \$ 2,24,500         \$ 2,500         \$   | Lease intangibles, net  | 30,590,024     | 31,533,843        |
| Restricted cash         3,880,465         2,677,561           Flunds held in escrow         2,349,455         2,150,81           Deferred ret receivable         4,061,813         4,383,461           Defer for dinancing costs, and         6         4,061,813         4,383,461           De from advisor         524,986.80         707,167           TOTAL ASSETS         \$ 249,986.80         \$ 249,988.80           CHARLITIES AND STOCKHOLDERS' EQUITY           LISHILITIES AND STOCKHOLDERS' EQUITY           Morgage notes payable         \$ 245,500.20         \$ 255,111,173           Stort-term loan and borrowings under line of credit         30,300.00         31,000,000           Stort-term loan and borrowings under line of credit         2,555,50         2,100,102           Stort-term loan dispansion linability         2,555,50         2,100,102           Stort-term loan grade cred expense         1,158,25         2,159,109           De la doviser         1,158,25         2,159,109           Colligation under capital lease         2,255,59         2,190,102           De la doviser         1,158,25         2,35,378           Colligation under capital lease         2,255,25         2,35,3  | Mortgage notes receivable   | 10,000,000     | 10,000,000        |
| Bush held in scrow         2,349,45         2,150,919           Deferred fractive ceivable         7,728,26         7,288,26           Deferred fracting costs, not         4,661,813         4,818,48           De from adviser         52,438,58         108,898           Pepal expense and other assets         524,950,80         \$ 2,409,808           TOTAL ASSETS         \$2,409,808         \$ 2,409,808         \$ 2,409,808           LABILITIES AND STOCKHOLDERS' EQUITY           Workgap notes payable         \$2,550,200         \$ 2,551,111,73           Borte-frend inability         30,300,00         31,900,00           Deferred rent liability         2,205,55         2,218,103           Accounts payable and accrued expenses         11,926,22         2,237,378           Die dau divier         2,205,55         2,237,378           Die liabilities         2,205,55         2,337,378           De liabilities         2,300,00         3,345,20           Total Liabilities         2,300,00         3,345,20           Total Liabilities         2,300,00         3,345,20           Total Liabilities         2,500,00         3,345,20           Total Liabilities         2,500,00         3,000,00         3,000,00  | Cash and cash equivalents   | 2,473,850      | 4,503,578         |
| Deferred rent receivable         7.78,26 (2)         7.28,21 (3)         4.06,18 (3)         4.38,34 (4)         4.08,18 (3)         4.38,34 (4)         4.08,18 (3)         4.08,28 (3)         10,8,28 (3)         10,8,28 (3)         7.07,10 (7)         10,8,28 (3)         7.07,10 (7)         7.07,10 (  | Restricted cash   | 3,780,463      | 2,677,561         |
| Defered financing costs, net         4,061,813         4,383,446           Due from adviser         524,385         707,167           Prepaid expess and other assets         \$ 24,996,00         \$ 24,996,00         \$ 24,998,785           TOTAL ASSETS         \$ 24,996,00         \$ 24,996,80         \$ 24,998,785           LIABILITIES           Mortages notes payable         \$ 254,520,229         \$ 255,111,173           Mortage notes payable         9,000,000         31,500,000           Deferred real liability         2,951,081         3,147,472           Asset retriement obligation liability         2,951,081         3,147,472           Due to adviser         1,128,245         2,673,787           Due to adviser         1,128,245         2,673,787           Deligation under capital lease         23,845         235,378           Ret received in advance, security deposits and funds held in escrow         27,640,971         298,603,525           TOCKHOLDERS' EQUITY         2,150         2,150         2,150           Redeemable preferred stock, 50,001 par value; \$25 liquidation preference; 2,300,008 shares authorized and 2,150,008 shares issued and outstanding         8,563         8,563           Ocument stock, 60,001 par value, 47,700,0008 shares authorized and 8,563,264 shares issued and outstanding   | Funds held in escrow  | 2,349,456      | 2,150,919         |
| Due from adviser         108,898           Pepal de xpenses and other assets         254,355         707,167           TOTAL ASSETS         \$ 24,996,000         \$ 24,909,808         \$ 29,098,785           LABILITIES AND STOCKHOLDERS' EQUITY           LABILITIES           Mortgage notes payable         \$ 254,520,220         \$ 255,111,173           Short-term loan and borrowings under line of credit         9,300,000         31,500,000           Deferred rent liability         9,391,801         31,417,472           Accounts payable and accrued expenses         1,528,25         2,190,102           Due to adviser         1,19,672         2,257,378           Due to adviser, excertify deposits and funds held in escrow         238,455         235,378           Rent received in advance, security deposits and funds held in escrow         3,745,253         235,378           TOCKHOLDERS' EQUITY         201,100         2,100         2,100           Receivable referred stock, \$0,000 par value, 47,700,000 shares authorized and 2,150,000 shares issued and outstanding         2,10         2,15           Otoms an stock, \$0,000 par value, 47,700,000 shares authorized and 2,150,000 shares issued and outstanding         1,002,258,11         3,002,588,10           Otoms an stock, \$0,000 par value, 47,700,000 shares authorized and 2,150,000 shares issued and outstan  | Deferred rent receivable  | 7,728,226      | 7,228,811         |
| Prepaid expense and other assers         524,385         707,167           TOTAL ASSETS         \$ 249,998,785         \$ 249,998,785           LABILITIES AND STOCKHOLDERS' EQUITY           LABILITIES           Morgae notes payable         \$ 254,512,222         \$ 255,111,173           Morter motion and oborrowings under line of credit         30,300,000         \$ 31,500,000           Deferred rent liability         2,951,081         3,147,472           Accounts payable and accrued expenses         1,528,245         2,673,787           Due to adviser         1,158,245         2,673,787           Due to adviser         1,149,672         3,745,523           Obligation under capital lease         237,649,72         25,745,523           Reat received in advance, security deposits and funds held in escrow         2,776,07         3,745,523           Total Liabilities         257,649,77         2,745,523         2,745,523           Common stock, \$0,001 par value; \$25 liquidation preference; 2300,000 shares authorized and 215,000 shares issued and outstanding         2,150         2,150           Colscording paid         170,622,581         3,636         3,636           Additional paid in capital         170,622,581         2,508,025           Colscretical section of preferred stocks, \$0,001 par value;   | Deferred financing costs, net   | 4,061,813      | 4,383,446         |
| TOTAL ASSETS   \$ 424,996,806   \$ 429,098,785                   | Due from adviser  | -              |                   |
| Californ   | Prepaid expenses and other assets   | 524,385        | 707,167           |
| Mortgage notes payable   \$254,520,292   \$255,111,173   \$250,000   \$31,500,000   \$31, | TOTAL ASSETS  | \$ 424,996,806 | \$ 429,098,785    |
| Morgage notes payable         \$ 254,520,292         \$ 255,111,173           Short-term loan and borrowings under line of credit         30,30,000         31,500,000           Deferred rent liability         2,951,081         3,147,472           Asset retirement obligation liability         2,225,559         2,190,192           Accounts payable and accrued expenses         1,528,245         2,673,787           Due to adviser         1,149,672         -           Obligation under capital lease         238,455         235,385           Rent received in advance, security deposits and funds held in escrow         297,640,971         298,603,525           STOCKHOLDERS' EQUITY         2         2,150         2,150           Redeemable preferred stock, 50,001 par value; \$25 liquidation preference; 2,300,000 shares authorized and 2,150,000 shares issued and outstanding         2,150         2,150           Common stock, 50,001 par value, 47,700,000 shares authorized and 8,563,264 shares issued and outstanding         170,622,581         170,622,581           Notes receivable - employees         (2,590,215)         (2,595,886)           Distributions in excess of accumulated earnings         127,355,835         130,495,204   | LIABILITIES AND STOCKHOLDERS' EQUITY  |                |                   |
| Short-term loan and borrowings under line of credit         30,300,000         31,500,000           Deferred rent liability         2,951,081         3,147,472           Asset retirement obligation liability         2,225,559         2,190,192           Accounts payable and accrued expenses         1,528,245         2,673,787           Due to adviser         1,149,672         -           Obligation under capital lease         238,455         235,378           Rent received in advance, security deposits and funds held in escrow         4,727,667         3,745,523           Total Liabilities         297,640,971         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         (2,590,215)         (2,595,886)           Distributions in excess of accumulated earnings         40,687,244         (37,542,148)   | LIABILITIES   |                |                   |
| Short-term loan and borrowings under line of credit         30,300,000         31,500,000           Deferred rent liability         2,951,081         3,147,472           Asser tertiement obligation liability         2,225,559         2,190,192           Accounts payable and accrued expenses         1,528,245         2,673,787           Due to adviser         1,149,672         25,378           Rent received in advance, security deposits and funds held in escrow         238,455         255,378           Rent received in advance, security deposits and funds held in escrow         297,640,971         298,603,525           Total Liabilities         297,640,971         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         (2,590,215)         (2,595,886)           Distributions in excess of accumulated earnings         127,355,835         130,495,260  | Mortgage notes payable  | \$ 254,520,292 | \$ 255,111,173    |
| Asset retirement obligation liability         2,225,559         2,190,192           Accounts payable and accrued expenses         1,528,245         2,673,787           Due to adviser         1,149,672         -           Obligation under capital lease         238,455         235,378           Rent received in advance, security deposits and funds held in escrow         4,727,667         3,745,523           Total Liabilities         297,640,971         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         (2,590,215)         (2,590,258)           Distributions in excess of accumulated earnings         40,687,244         (37,542,148)           Total Stockholders' Equity         127,355,835         130,495,260  |   | 30,300,000     | 31,500,000        |
| Accounts payable and accrued expenses         1,528,245         2,673,787           Due to adviser         1,149,672         -           Obligation under capital lease         238,455         235,378           Rent received in advance, security deposits and funds held in escrow         4,727,667         3,745,523           Total Liabilities         297,640,971         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         (2,590,215)         (2,595,886)           Distributions in excess of accumulated earnings         4(40,687,244)         (37,542,148)           Total Stockholders' Equity         127,355,835         130,495,260   | Deferred rent liability   | 2,951,081      | 3,147,472         |
| Due to adviser         1,149,672         -           Obligation under capital lease         238,455         235,378           Rent received in advance, security deposits and funds held in escrow         4,727,667         3,745,523           Total Liabilities         297,640,971         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         (2,590,215)         (2,595,886)           Distributions in excess of accumulated earnings         (40,687,244)         (37,542,148)           Total Stockholders' Equity         127,355,835         130,495,260  | Asset retirement obligation liability   | 2,225,559      | 2,190,192         |
| Obligation under capital lease         238,455         235,378           Rent received in advance, security deposits and funds held in escrow         4,727,667         3,745,523           Total Liabilities         297,640,971         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         (2,590,215)         (2,599,886)           Distributions in excess of accumulated earnings         (40,687,244)         (37,542,148)           Total Stockholders' Equity         127,355,835         130,495,260   | Accounts payable and accrued expenses   | 1,528,245      | 2,673,787         |
| Rent received in advance, security deposits and funds held in escrow         4,727,667         3,745,523           Total Liabilities         297,640,971         298,603,525           STOCKHOLDERS' EQUITY         8         8           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         170,622,581           Notes receivable - employees         (2,590,215)         (2,595,886)           Distributions in excess of accumulated earnings         (40,687,244)         (37,542,148)           Total Stockholders' Equity         127,355,835         130,495,260  | Due to adviser  | 1,149,672      | -                 |
| Total Liabilities         297,640,971         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         (2,590,215)         (2,595,886)           Distributions in excess of accumulated earnings         (40,687,244)         (37,542,148)           Total Stockholders' Equity         127,355,835         130,495,260   | Obligation under capital lease  | 238,455        | 235,378           |
| 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         (2,590,215)         (2,595,886)           Distributions in excess of accumulated earnings         (40,687,244)         (37,542,148)           Total Stockholders' Equity         127,355,835         130,495,260   | Rent received in advance, security deposits and funds held in escrow  | 4,727,667      | 3,745,523         |
| 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           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         (2,590,215)         (2,595,886)           Distributions in excess of accumulated earnings         (40,687,244)         (37,542,148)           Total Stockholders' Equity         127,355,835         130,495,260  | Total Liabilities   | 297,640,971    | 298,603,525       |
| 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           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         (2,590,215)         (2,595,886)           Distributions in excess of accumulated earnings         (40,687,244)         (37,542,148)           Total Stockholders' Equity         127,355,835         130,495,260  |   |                | · · ·             |
| 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         (2,590,215)         (2,595,886)           Distributions in excess of accumulated earnings         (40,687,244)         (37,542,148)           Total Stockholders' Equity         127,355,835         130,495,260  | · · · · · · · · · · · · · · · · · · ·   |                |                   |
| Additional paid in capital       170,622,581       170,622,581         Notes receivable - employees       (2,590,215)       (2,595,886)         Distributions in excess of accumulated earnings       (40,687,244)       (37,542,148)         Total Stockholders' Equity       127,355,835       130,495,260  | 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             |
| Notes receivable - employees         (2,590,215)         (2,595,886)           Distributions in excess of accumulated earnings         (40,687,244)         (37,542,148)           Total Stockholders' Equity         127,355,835         130,495,260   | Common stock, \$0.001 par value, 47,700,000 shares authorized and 8,563,264 shares issued and outstanding   |                |                   |
| Distributions in excess of accumulated earnings         (40,687,244)         (37,542,148)           Total Stockholders' Equity         127,355,835         130,495,260  |   | 170,622,581    | 170,622,581       |
| Total Stockholders' Equity 127,355,835 130,495,260  |   | (2,590,215)    | (2,595,886)       |
|   | Distributions in excess of accumulated earnings   | (40,687,244)   | (37,542,148)      |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$ 424,996,806 \$ 429,098,785  | Total Stockholders' Equity  | 127,355,835    | 130,495,260       |
|   | TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY  | \$ 424,996,806 | \$ 429,098,785    |

## Gladstone Commercial Corporation Consolidated Statements of Operations (unaudited)

|  | ****          |              |
|--|---------------|--------------|
|  | 2009          | 2008         |
| Operating revenues   |               |              |
| Rental income  | \$ 10,414,120 | \$ 9,189,465 |
| Interest income from mortgage notes receivable   | 187,500       | 238,297      |
| Tenant recovery revenue  | 82,434        | 85,719       |
| Total operating revenues   | 10,684,054    | 9,513,481    |
| Operating expenses   |               |              |
| Depreciation and amortization  | 3,314,100     | 2,987,760    |
| Property operating expenses  | 237,156       | 239,483      |
| Due diligence expense  | 9,547         | 2,085        |
| Base management fee  | 372,648       | 431,868      |
| Incentive fee  | 786,289       | 704,667      |
| Administration fee   | 224,354       | 212,196      |
| Professional fees  | 235,198       | 97,662       |
| Insurance  | 48,678        | 41,797       |
| Directors fees   | 49,702        | 54,250       |
| Stockholder related expenses   | 83,647        | 126,423      |
| Asset retirement obligation expense  | 35,367        | 30,468       |
| General and administrative   | 11,487        | 14,631       |
| Total operating expenses before credit from Adviser                                      | 5,408,173     | 4,943,290    |
| Credit to incentive fee  | (235,081)     | (562,355)    |
|  | 5,173,092     | 4,380,935    |
| Total operating expenses   | 5,175,092     | 4,380,933    |
| Other income (expense)   |               |              |
| Interest income from temporary investments   | 17,281        | 9,548        |
| Interest income - employee loans   | 48,886        | 52,144       |
| Other income   | -             | 9,296        |
| Interest expense   | (4,487,560)   | (3,753,604)  |
| Total other expense  | (4,421,393)   | (3,682,616)  |
| Income from continuing operations  | 1,089,569     | 1,449,930    |
| Discontinued operations  |               |              |
| Loss from discontinued operations  | -             | (33,228)     |
| Total discontinued operations  |               | (33,228)     |
| Net income   | 1,089,569     | 1,416,702    |
| Distributions attributable to preferred stock  | (1,023,437)   | (1,023,437)  |
| Net income available to common stockholders  | \$ 66,132     | \$ 393,265   |
|  | <u> </u>      |              |
| Earnings per weighted average common share - basic & diluted                             |               |              |
| Income from continuing operations (net of distributions attributable to preferred stock) | \$ 0.01       | \$ 0.05      |
| Discontinued operations  | 0.00          | 0.00         |
| Net income available to common stockholders  | \$ 0.01       | \$ 0.05      |
| Weighted average shares outstanding- basic & diluted                                     | 8,563,264     | 8,565,264    |

# Gladstone Commercial Corporation Consolidated Statements of Cash Flows (unaudited)

|   | For the three month                   | For the three months ended March 31, |  |
|---|---------------------------------------|--------------------------------------|--|
|   | 2009                                  | 2008                                 |  |
| Cash flows from operating activities:   |                                       |                                      |  |
| Net income  | \$ 1,089,569                          | \$ 1,416,702                         |  |
| Adjustments to reconcile net income to net cash provided by operating activities:             | -,,                                   | -,,                                  |  |
| Depreciation and amortization   | 3,314,100                             | 2,987,760                            |  |
| Amortization of deferred financing costs  | 375,194                               | 249,323                              |  |
| Amortization of deferred maneing costs  Amortization of deferred rent asset and liability     | (133,017)                             | (133,017)                            |  |
| Accretion of obligation under capital lease   | 3,077                                 | (155,017)                            |  |
| · ·   | *                                     | 30,468                               |  |
| Asset retirement obligation expense   | 35,367                                |                                      |  |
| Increase in prepaid expenses and other assets   | (17,218)                              | (76,011)                             |  |
| Increase in deferred rent receivable  | (562,789)                             | (543,943)                            |  |
| Increase (decrease) in accounts payable, accrued expenses, and amount due adviser             | 113,028                               | (81,710)                             |  |
| (Decrease) increase in rent received in advance   | (120,758)                             | 101,518                              |  |
| Net cash provided by operating activities   | 4,096,553                             | 3,951,090                            |  |
| Cash flows from investing activities:   |                                       |                                      |  |
| Real estate investments   | (54,308)                              | (33,167,003)                         |  |
| Increase in funds held in escrow related to acquisition                                       | · · · · · · · · · · · · · · · · · · · | (762,123)                            |  |
| Receipts from lenders for reserves held in escrow   | 272,818                               | 215,325                              |  |
| Payments to lenders for reserves held in escrow   | (471,355)                             | (352,180)                            |  |
| Increase in restricted cash   | (1,102,902)                           | (494,998)                            |  |
| Deposits on future acquisitions   | (1,102,702)                           | (1,300,000)                          |  |
| Deposits on ratale acquisitions  Deposits refunded or applied against real estate investments | 200,000                               | 1,400,000                            |  |
| Net cash used in investing activities   | (1,155,747)                           | (34,460,979)                         |  |
| The days about in in resulting and visites  | (1,100,111)                           | (31,100,373)                         |  |
| Cash flows from financing activities:   | (700.004)                             | (20.1.124)                           |  |
| Principal repayments on mortgage notes payable  | (590,881)                             | (384,421)                            |  |
| Principal repayments on employee notes receivable   | 5,671                                 | 132                                  |  |
| Borrowings from line of credit  | 28,000,000                            | 36,150,000                           |  |
| Repayments on line of credit  | (9,200,000)                           | (1,500,000)                          |  |
| Repayment of short-term loan  | (20,000,000)                          | -                                    |  |
| Receipts from tenants for reserves  | 1,471,309                             | 573,189                              |  |
| Payments to tenants from reserves   | (378,940)                             | (435,102)                            |  |
| Increase in security deposits   | 10,533                                | 356,910                              |  |
| Payments for deferred financing costs   | (53,561)                              | (35,934)                             |  |
| Distributions paid for common and preferred   | (4,234,665)                           | (4,235,409)                          |  |
| Net cash (used in) provided by financing activities   | (4,970,534)                           | 30,489,365                           |  |
| Net decrease in cash and cash equivalents   | (2,029,728)                           | (20,524)                             |  |
| Cash and cash equivalents, beginning of period  | 4,503,578                             | 1,356,408                            |  |
| Cash and cash equivalents, end of period  | \$ 2,473,850                          | \$ 1,335,884                         |  |
| NON-CASH INVESTING ACTIVITIES   |                                       |                                      |  |
| Increase in asset retirement obligation   | \$ -                                  | \$ 259,435                           |  |

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